

# Advances In Global Business Research **Part 2**

**Vol. 6 No.1**

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***Part 2***

***Dec, 2009***

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*A List of Sessions, Locations, Dates, and Chairs will be distributed at the Conference*

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# **Advances in Global Business Research**

## **Vol. 6 No 1**

### **ISSN 1549 - 9332**

Proceedings of the 2009 Academy for Global Business Advancement Sixth World Congress,  
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## ***Welcome to 6<sup>th</sup> AGBA World Congress!***

*We would like to take this opportunity to welcome all delegates to the 2009 AGBA's 6<sup>th</sup> World Congress in Malaysia! You are taking part in a wonderful program! The main theme of our conference is "Business and Entrepreneurship Development in a Globalized Era". Our conference will feature competitive papers and special sessions. We are surely going to offer something for everybody!*

*Our conference's primary goal is to provide a unique global platform and forum to facilitate the exchange of leading-edge ideas for effective advancement of knowledge in business and entrepreneurship. This will be achieved through multidisciplinary presentations and discussions of current business and development issues in emerging and developed countries. Your participation is helping us achieve these goals:*

*Thank you for coming to Malaysia!*

Mary B. Teagarden  
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Abdul Razak Chik  
Universiti Utara Malaysia, Malaysia  
2009 AGBA Conference Co-Chairs

## ***AGBA Brief***

Established in the American State of Texas as a "Not-for-Profit" organization in 2000, AGBA is proud to boast today a membership of more than 1000 members based in more than 50 countries, that include scholars from reputed academic institutions, corporate leaders, consultants, governmental officials and entrepreneurs based in western and developing countries. AGBA, as a global organization, aims to help academics and scholars at business schools across the developing countries to connect with the western/developed world for mutual benefit. Such collaboration would accelerate the process of globalization by furnishing ample opportunities to scholars in emerging countries to get recognition, disseminate new knowledge and assert themselves on the global stage.

### *AGBA's Vision*

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

### *AGBA's Mission*

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

### *AGBA's Core Business:*

- Nurture globally competitive talents; expertise and skills across the developing world;
- Arrange apprenticeship for academics, scholars, professionals, officials, consultants, and entrepreneurs on the global stage;
- Provide advisory services in the fields of commerce, trade, industry;
- Offer customized training worldwide;
- Offer professional development programs;
- Provide knowledge management services; and
- Provide industry development services.

### *Environment:*

AGBA believes in promoting strategic alliances among business schools across the emerging countries in order to assist them for upgrading their teaching pedagogy, research and professional services to global standards of excellence as mandated by AACSB.

### *Sustainability*

AGBA's power of sustainability comes from the following sources:

- Its tax-exempt status as an "Not-for-Profit" entity incorporated in the American State of Texas to support its endeavors and pursuits across the world;
- AGBA's affiliation with prominent business schools across the developing world provides flexibility and a springboard for professional programs, projects and pursuits;
- AGBA's global platform where West meets with the East, and the North meets with the South; and
- Variegated, rich, and vast expertise, skills and competencies of its more than 1000 members significantly contribute to sustainability on the global stage.

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## ***AGBA Membership***

*Regular Annual Membership Fee: \$ 100*

*Regular Annual Membership Fee for Students: \$ 50*

*Regular Annual Membership Fee for Least Developed Countries (LDCs): \$50*

*Regular Annual Membership Fee for Least Developed Countries (Students): \$25*

Regular Annual Institutional or Corporate Membership Fee: \$1000

Regular Institutional or Corporate Membership Fee (LDCs): \$500

AGBA Regional Chapter Annual Fee: \$1,000

AGBA Regional Chapter (LDCs) Annual Fee: \$500

AGBA Sponsor and/or Partner: \$1000 (Annual Fee)

AGBA Sponsor and/Partner: \$500 (Annual Fee for LDCs)

AGBA Fellow: Complimentary

AGBA Patron: Complimentary



## ***AGBA Chapters***

- (1) *"AGBA -- ASEAN Chapter"* is Based at the "Management and Science University of Malaysia". Please visit <http://www.msu.edu.my> for details.
- (2) *"AGBA -- Middle East Chapter"* is Based at the "Al-Waha Academy, Riyadh, Saudi Arabia". Please visit <http://alwahaedu.net/english/> for details.
- (3) *"AGBA – South Asia Chapter"* is Based at the "COMSAT Institute of Information Technology, Islamabad, Pakistan". Please visit <http://www.agba.org.pk> for details.

## ***AGBA Projects***

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

- (1) Launch of an "AGBA Journal" by the Emerald Publishers of UK in 2010;
- (2) Publication of an annual monograph consisting of best papers out of our conference proceedings by a reputed global publisher;
- (3) Upgrading a business school to the global standards in an emerging country;
- (4) Launch of a "Global Doctoral Program in Global Management" jointly by 3 different universities based in 3 different continents (North America, Europe and Asia);
- (5) Establishment of a "Global Consulting Wing" within AGBA framework; and
- (6) Establishment of additional "AGBA Chapters" across Brazil, Russia, India, China and Africa etc.

## ***Consulting***

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

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

## **AGBA Career Center**

AGBA offers assistance to its members seeking information about career development as well as job placement.

Delegates attending our annual global conferences are assisted in career counseling and job placement. Many universities have interviewed candidates at our precious conferences.

AGBA members are encouraged to browse through the following websites for career development:

[http://bizschooljobs.aacsb.edu/home/index.cfm?site\\_id=2849](http://bizschooljobs.aacsb.edu/home/index.cfm?site_id=2849)

<http://www.academiccareers.com/>

<http://www.academic360.com/faculty/listings.cfm?DiscID=90>

<http://aib.msu.edu/careercenter/jobpost.asp?sort=1>

<http://chronicle.com/section/Jobs/61>

<http://www.jobs.ac.uk/jobtype/academic/>

<http://www.universityjobs.com/jobs/jobs1.php?catid=27>

## ***2009 AGBA News***

- (1) AGBA is inviting global citizens, and internationalists to join the organization by attending its upcoming global conference in Malaysia on Dec. 27-28-29-30-31, 2009.
- (2) AGBA is inviting proposals from Turkish academic institutions, organizations and agencies to host its 2010 conference in Istanbul around July - August 2010 time-frame.
- (3) AGBA is inviting proposals from academic institutions, professional organizations and governmental agencies to establish its regional chapters across Brazil, Russia, India, China, and Africa.
- (4) AGBA is inviting nominations to designate additional "AGBA Fellows" based in different regions across the world. "AGBA Fellow" is the highest honorary title conferred on a "world-class academic, or scholar, or entrepreneur, or professional, or consultant" for his/her outstanding contribution to the field of global business and entrepreneurship. This honor is conferred at its global conferences.
- (5) AGBA is inviting governmental officials, policy makers, business persons, and professionals from emerging countries to attend Malaysian government sponsored one week professional development program on "Malaysian Economic Miracle: A Model for Developing Countries" to be held in Kuala Lumpur, Malaysia from April 19—23, 2010.
- (6) AGBA is inviting proposals from any business school based in an emerging country to seek its assistance for upgrading to the world-class standards.

## ***AGBA Online Resources***

AGBA is pleased to offer following online resources to assist its members to augment their professional endeavors to world-class standards.

*(1) World Bank Resources:*

<http://web.worldbank.org/WBSITE/EXTERNAL/WBI/0,,contentMDK:20279028~menuPK:556285~pagePK:209023~piPK:207535~theSitePK:213799,00.html>

*(2) BBC Resources:*

[http://www.bbc.co.uk/worldservice/business/review\\_globbus.shtml](http://www.bbc.co.uk/worldservice/business/review_globbus.shtml)

*(3) Governmental Resources:*

<http://www.ed.gov/programs/iegpsgpa/index.html>

*(4) Cultural Information:*

<http://interculturalpress.com/store/pc/viewcategories.asp?idCategory=79&pageStyle=P>

*(5) Global Videos:*

<http://www.aperianglobal.com>

*(6) Videos, DVDs and CDs*

<http://www.bigworldmedia.com/>

*(7) Films*

[http://ffh.films.com/Films\\_Home/Index.cfm](http://ffh.films.com/Films_Home/Index.cfm)

*(8) International Trade Webcasts*

<http://www.fita.org/webcasts.html>

*(9) TV Archives and Film Library*

<http://www.footage.net/>

*(10) Interviews With Leaders:*

<http://www.globalization101.org/ask>

*(11) Educational Media:*

<http://www.insight-media.com/IMHome.asp>

*(12) Popular News:*

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

*(13) American Chamber of Commerce:*

<http://www.uschamber.com/webcasts/default>

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

*(15) TV News Archives:*  
<http://tvnews.vanderbilt.edu/>

*(16) Global Business Cases:*  
<http://hbsp.harvard.edu/product/cases>  
[http://www.thunderbird.edu/knowledge\\_network/case\\_series/index.htm](http://www.thunderbird.edu/knowledge_network/case_series/index.htm)  
[http://www.acrc.org.hk/case/case\\_showlist.asp?ct=popular](http://www.acrc.org.hk/case/case_showlist.asp?ct=popular)  
<http://www.ksgcase.harvard.edu/>  
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<http://www.caseplace.org>  
[http://www.kellogg.northwestern.edu/Faculty/Kellogg\\_Case\\_Collection.aspx](http://www.kellogg.northwestern.edu/Faculty/Kellogg_Case_Collection.aspx)  
[http://casenet.thomsonlearning.com/casenet\\_global\\_fr.html](http://casenet.thomsonlearning.com/casenet_global_fr.html)  
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<http://www.fasid.or.jp/english/training/case/casebook.htm>  
<http://gsbapps.stanford.edu/cases>

(17) global strategy simulation  
<http://www.bpg-businesspolicygame.com>

(18) Global Business Simulation Game  
<http://home.att.net/~simulations/corpweb.htm>

(19) Bridging Culture Assessment Program  
<http://parkligroup.com/ELearning/BridgingCultures>

(20) A Foreign Language Simulation Game  
<http://www.nipporica.com/prod.htm#Redundancia>

(21) A Multinational Management Game  
<http://microbuspub.com/mmg.htm>

(22) Global Business Strategy Game  
<http://www.bsg-online.com>

(23) Online Exercise for Students  
<http://www.glo-bus.com>

(24) Online Global Marketing Management System  
<http://www.gmmso2.com>

(25) Online Global Marketing Potential System  
<http://www.globalmarketpotential.com>

(26) Online Export and Import Management System  
<http://www.eimso.com>

(27) International Operations Simulation  
<http://www.intopiainc.com/>

(28) Interpretive Simulation  
<http://www.interpretive.com/rd5/index.php?pg=cm2>

(29) *MIT Resources:*  
<http://web.mit.edu/newsoffice/2009/sloan-mstir-0126.html>

(30) *Miscellaneous Other Relevant Resources:*  
<http://www.fita.org/webcasts.html>  
<http://www.academic360.com/general/US.cfm>  
<http://www.nacra.net/nacra/>  
<http://www.xanedu.com>  
[http://www.globalview.org/default\\_files/capstone.htm](http://www.globalview.org/default_files/capstone.htm)  
[http://www.bized.co.uk/virtual/vla/the\\_trade\\_balance/index.htm](http://www.bized.co.uk/virtual/vla/the_trade_balance/index.htm)  
<http://globalchallenge.cesim.com>  
<http://www.marietta.edu/~delemeeg/expnom/Fall2001/mason1.html>  
<http://www.culturaldetective.com>  
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***Journal for International Business and Entrepreneurship Development (JIBED)***  
***ISSN (Online): 1747-6763 - ISSN (Print): 1549-9324***

<http://www.inderscience.com/browse/index.php?journalCODE=jibed>



## ***Journal for Global Business Advancement (JGBA)***

**ISSN (Online): 1746-9678 - ISSN (Print): 1746-966X**

*Journal for Global Business Advancement is the official organ of the Academy for Global Business Advancement and is published two times in a year by the Inderscience Publishing Company of Switzerland and UK.*

*The aim of JGBA is the advancement of contemporary research in the field of global business from the standpoint of both western and emerging countries vigorously participating in the globalized world. JGBA is an international refereed journal dedicated to the advancement of the theory and practice of global business with an emphasis on developing countries attempting to assert themselves on the global stage.*

*Firms, institutions, governments, organizations, agencies, and individuals are participating in the globalization of world economy through a variety of forms, shapes, and styles, necessitating the initiation of an innovative dialogue between them with the goal of resolving conflicts, promoting world peace and harmonizing relations. JGBA wishes to act as a global platform for the pursuance of dialogue between different countries at dissimilar stages of economic development.*

*JGBA aims to inspire both new and expert researchers to submit their empirical, conceptual and applied papers and case studies for publication. Preference will be given to papers examining conflicts between western firms and developing countries' institutions, communities and firms, papers examining struggles confronted by new multinational firms emanating from developing countries and new scholars from emerging countries, as reflected by the accreditation of business programs across the world by the AACSB–International.*

*Appropriate topics for manuscripts include challenges being encountered by western firms in newly emerging countries, firms from developing countries trying to penetrate world markets and attempting to build their own brands, non-western scholars attempting to examine the applicability of western models in eastern, socialist and southern hemisphere countries. Collaborative manuscripts between scholars and entrepreneurs, between western and non-western scholars, and between scholars and professionals, are particularly favored.*

*JGBA invites and welcomes research papers encompassing all areas of global business studies, such as marketing, management, organizational behavior, finance, accounting, MIS, economics, and cultural anthropology. JGBA also welcomes research papers that transcend single countries, and single discipline. Accordingly, it has a special interest in the publication of multidisciplinary and multinational research emanating from innovative scholars and business schools accredited by the AACSB around the world.*

*You are invited to submit your manuscript to:*

***Editor-in-Chief  
IEL Editorial Office  
PO Box 735  
Olney, Bucks MK46 5WB  
UK  
E-mail: [jgba@inderscience.com](mailto:jgba@inderscience.com)***

## ***Journal for International Business and Entrepreneurship Development (JIBED)***

ISSN (Online): 1747-6763 - ISSN (Print): 1549-9324

*Journal for International Business and Entrepreneurship Development* is sponsored by the Academy for Global Business Advancement and is published two times in a year by the Inderscience Publishing Company of Switzerland and UK.

*The JIBED addresses the advancement of contemporary research in the field of international business and international entrepreneurship. JIBED is an internationally-competitive, peer-reviewed journal dedicated to the advancement of practice and theory of international business, international entrepreneurship and international franchising with an emphasis on developing countries attempting to assert themselves on the global stage.*

*Firms, institutions, governments, organizations, agencies and individuals are participating in the globalization of world economy through variety of forms, shapes, and styles, necessitating the initiation of new dialogue between them with the goal of resolving conflicts, promoting world peace and harmonizing relations. As a result, JIBED wishes to act as a global platform for the pursuance of dialogue between different countries at dissimilar stages of international development, entrepreneurship development, and franchising development.*

*JIBED aims to inspire the full range of scholars to submit their empirical, conceptual and applied papers and case studies for publication. Preference will be given to papers examining conflicts between western firms and host countries and between western institutions and host communities and firms, challenges being confronted by firms emanating from developing countries and penetrating other developing countries and by new scholars from newly emerging countries as reflected by the accreditation of business programs across the world by AACSB–International.*

*Appropriate topics for manuscripts include challenges being encountered by international entrepreneurs in newly emerging countries, international entrepreneurs from developing countries trying to penetrate world markets and attempting to build their own brands, non-western scholars attempting to examine the applicability of western models of entrepreneurship across Asian, African, East European, Middle Eastern, and South American countries. Collaborative manuscripts between scholars and entrepreneurs, between western and non-western scholars, and between scholars and professionals are particularly encouraged.*

*JIBED invites and welcomes research papers encompassing different areas of international business studies, such as marketing, management, organizational behavior, finance, accounting, MIS, economics, and different dimensions of international entrepreneurship, such as venture capital formation, franchising, small business management, family business management, and technopreneurship. JIBED particularly welcomes research papers that transcend single countries and single disciplines. JIBED also has a special interest in research emanating from business schools accredited by the AACSB across the world.*

*Submit your manuscript to:*

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**IEL Editorial Office**  
**PO Box 735**  
**Olney, Bucks MK46 5WB**  
**UK E-mail: [jibed@inderscience.com](mailto:jibed@inderscience.com)**

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*\* AGBA's Executive Board wishes to express its thanks to all the reviewers who participated in refereeing these proceedings.*

# **Conference Program**

## **University Hotel(EDC), Universiti Utara Malaysia**

### **Sunday, Dec. 27:**

6 p.m. -- 8 p.m.:

*Pre-Conference Reception  
Conference Registration  
Networking*

### **Monday, Dec. 28:**

8 to 9 a.m.:

9 to 10:30 a.m.:

10:30 a.m. to 11 a.m.:

11: to 12 Noon:

12 Noon to 1 p.m.:

1 to 3 p.m.:

*Conference Registration  
Conference Inauguration and AGBA Welcome  
Coffee/Tea Break  
Conference Inauguration and Speeches  
Lunch  
Research Workshop on "Global Mindset" by Mary B. Teagarden,  
Conference Chair  
Coffee/Tea Break  
Workshop on "Business Case Development" by Zainal Abidin  
Mohamed, Deputy Dean, Graduate School of Management,  
Universiti Putra Malaysia  
Free -- Please Explore the Area on Your Own.*

5 p.m. onward:

### **Tuesday, Dec. 29**

8 to 9 a.m.:

9 to 10:30 a.m.:

10:30 to 11 a.m.:

11 a.m. to 12:30 p.m.:

12: 30 to 1:30 p.m.:

1:30 p.m. to 3:00 p.m.:

3:00 p.m. to 3:30 p.m.:

3:30 p.m. to 5:00 p.m.:

5: 00 to 7 p.m.:

7 p.m. to 10 p.m.:

*Conference Registration  
Sessions 1 – 4  
Coffee/ Tea Break  
Sessions 5 – 8  
Lunch  
Sessions 9 – 12  
Coffee/Tea Break  
Sessions 13 – 16  
Break  
Cultural Show, Dinner and Award Banquet*

### **Wednesday, Dec. 30**

8 to 9 a.m.:

9 to 10:30 a.m.:

10:30 to 11 a.m.:

11 a.m. to 12:30 p.m.:

12: 30 to 1:30 p.m.:

1:30 p.m. to 5 p.m.:

*Conference Registration  
Sessions 17 – 20  
Coffee/ Tea Break  
Sessions 20 – 24  
Lunch  
Site Visits, Special Workshops and Networking (provided by the  
local hosting organization)  
Free -- Please Explore the Area on Your Own.*

5 p.m. onward:

### **Thursday, Dec. 31**

8 to 9 a.m.:

9 a.m. to 5 p.m.

5 p.m. onward:

*Conference Registration  
Site Visits, Special Workshops and Networking (to be added by the  
local host)  
Free -- Please Explore the Area on Your Own.*



# AGBA

Academy for Global Business Advancement

<http://agba.us>

**SIXTH ANNUAL WORLD CONGRESS**

**Universiti Utara Malaysia**

**December 27-31, 2009**

**CALL FOR PAPERS**

*"Business and Entrepreneurship Development in a Globalized Era"*

Incoming AGBA Chair	Outgoing AGBA Chair
Prof. Klaus-Peter Wiedmann Leibniz University Hannover Germany	Prof. C. P. R. ... Kuwait University Kuwait
Keynote Speaker	Distinguished Guest
To be Announced	Prof. Lars Hassel



## AGBA's Profile:

AGBA — the Academy for Global Business Advancement — (a not-for-profit organization, registered in the US) is a worldwide network of professionals committed to facilitating dissemination of scholarly research findings in the field of business and entrepreneurship development. The main purpose of AGBA is to provide ongoing open forum to discuss and analyze business and entrepreneurship development from different perspectives and viewpoints, in order to improve understanding of underlying forces that (1) have an impact on global developments and (2) shape the destiny of developing countries such as Malaysia in the contemporary globalized economy. AGBA bridges geographic, cultural, disciplinary, and professional gaps by integrating the business disciplines while actively enhancing practitioner-academician interaction on a regional and global basis. AGBA is sponsored by numerous universities, organizations, and agencies and across US, EU, Asia and Africa.

Speaker

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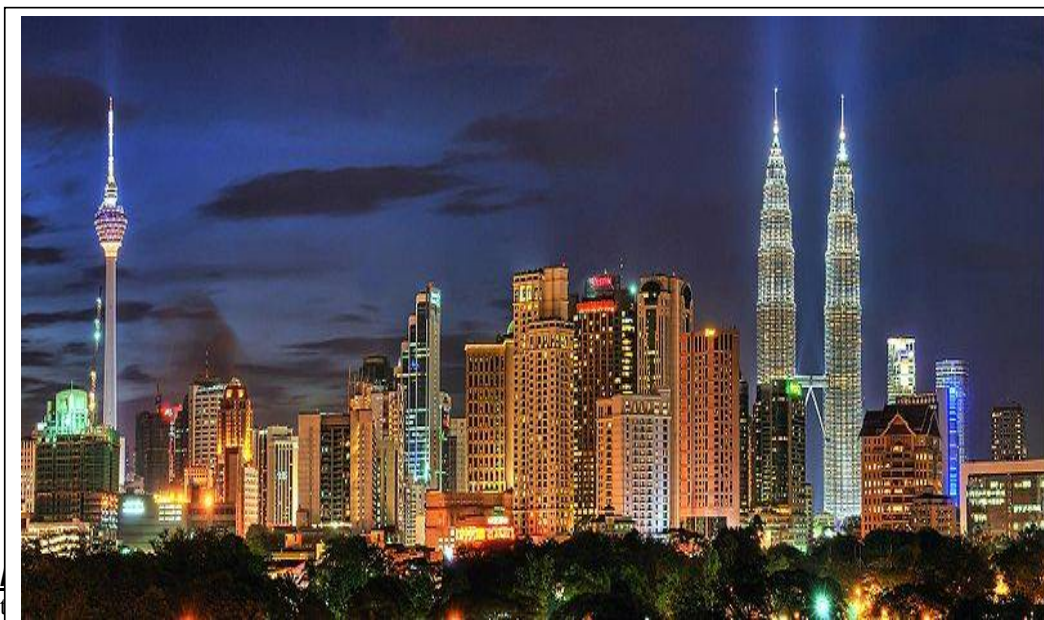
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**Conference Focus:**

The main theme of AGBA's Sixth Annual World Congress is "Business and Entrepreneurship Development in a Globalized Era". The conference will feature competitive papers, work in progress papers, doctoral colloquium papers and special panel sessions. Submissions will be subjected to a double-blind review process and will be published in the refereed conference proceedings (*Advances in Global Business Research*, ISSN 1549-9332). The primary goal of the conference is to provide a unique global platform and a forum to facilitate the exchange of leading edge ideas for effective advancement of knowledge in business and entrepreneurship development. This will be achieved through multi-disciplinary presentations and discussions of current

**AGBA's Profile:**

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#### **AGBA OBJECTIVES**

The objectives of AGBA are to

advance professional knowledge and standards in various areas of business and entrepreneurship development by: (1) facilitating the exchange of information and ideas among educators and professionals, entrepreneurs, and bureaucrats, and between the business and academic fields; (2) encouraging and assisting basic and applied research activities that advance knowledge of global business and entrepreneurship development and operations, and increase the available body of teaching materials; (3) facilitating the interdisciplinary dialogue concerning business and entrepreneurship issues as they relate to academic, business and government sectors. We envision AGBA to be growing into one of the leading academic organizations on the global stage investigating and analyzing contemporary global business and global entrepreneurship challenges being confronted by emerging countries, who wish to participate in the global economy. Please visit AGBA website for details at:





**Conference Program:**

First Day, Dec. 27, 2009

- Inauguration Session
- Conference Registration
- Academic Sessions

Second Day, Dec. 28, 2009

- Academic Sessions
- Professional Sessions

Third Day, Dec. 29, 2009

- Academic Sessions
- Professional Sessions

Fourth Day, Dec. 30, 2009

- Academic Sessions
- Professional Sessions

Fifth Day, Dec. 31, 2009

- Academic Sessions
- Award Ceremony
- Closing Session
- Networking

**Global Conference Registration Fee:**

**USD\$400 Includes:**

- Luncheons, Coffee/Tea
- Conference Banquet
- Conference Proceedings
- Recognition Awards

**Special Rate for Malaysian Delegates: MR 750**

**Special Rate for LDC Delegates:**

**Special Rate for Delegates Emanating From Least Developed Countries (LDCs) is: USD\$200**

**Special Note:**

- Conference registration fee does not include accommodation and sightseeing.
- Conference Host is: Universiti Utara Malaysia (UUM)
- Conference Venue is: UUM Campus Hotel

**Subject Areas of Interest:**

We welcome the submission of papers that address the conference theme as well as all functional areas of business and entrepreneurship. While the general focus is global perspective, papers with a national and/or regional focus are also welcomed. Authors may consider any of the subject areas listed below, but



need not limit their options to these areas. If you are uncertain whether your paper fits the conference theme or not, please contact 2009 AGBA Conference Director and Program Chair, Dr. Valentin H. Pashtenko at: [valentinpashtenko@gmail.com](mailto:valentinpashtenko@gmail.com)

Economic Development	Global Business Environment	Offshoring and Outsourcing
Entrepreneurship	International Law	Marketing
Human Resource Management	2009 Global Economic Meltdown	Regional Issues
Impact of Technologies	E-Commerce and E-Business	International Supply Chain
International Strategy	Cross-Cultural Management	Organizational Development
Multinational Corporations	Ethics and Social Responsibility	Tourism and Hospitality
Accounting and Auditing	Finance and Banking	Islamic Banking and Finance

**Submission Guidelines: Submission Deadline is Nov. 15, 2009**

1. Authors may submit four types of papers: (a) competitive papers, (b) working papers (research-in-progress), (c) doctoral colloquium papers and (d) proposals for special sessions on topics of significant research interest. When submitting, kindly mention the type of your paper.
2. All submissions will be double-blind reviewed. Accepted papers will be published in the refereed conference proceedings, if at least one author of the paper pre-registers for the conference. By submitting a paper to be reviewed, the author(s) are assuring us that at least one of the authors will attend the conference and present the paper.
3. Best Paper Award in each category will be presented at the conference.
4. Publication of your paper in our referred conference proceedings (*Advances in Global Business Research*, ISSN 1549-9332) does not preclude subsequent publication in other journals when proper acknowledgments are made.
5. AGBA is proud to announce its first ever Doctoral Colloquium. The Colloquium will provide doctoral students with the opportunity to gain guidance and advice from a team of experienced global scholars. Doctoral candidates at any stage of research are encouraged to apply. When submitting your paper, please indicate the status of your PhD research.
6. We also invite participation from entrepreneurs, government officials, business executives, and heads of major government-owned and private enterprises from across the world.
7. **Competitive papers** must be original and should not exceed 10 single-spaced pages; **Working Papers, Doctoral Colloquium papers and Proposals for Special Sessions** should be submitted in long abstract form to a maximum of 5 single spaced pages; Irrespective of the type of paper submitted, all papers ought to use 12 point Times Roman font; A4 format with 2.5 cm margin on all sides; the word count excludes abstract (approximately 150 words), references and any of the appendices. A cover page should indicate the title of the paper, the name(s) of the author(s), and their affiliation(s). The first page should start with the title of the paper only, followed by an abstract not exceeding 150 words. The main body of the paper should follow the abstract. For additional guidelines, please refer to our website: (<http://agba.us>).
8. Paper submissions should follow the style guidelines of the Journal of International Business Studies (JIBS) and must include a full list of all references cited in the paper.
9. Proposals for panels should include the purpose of the panel, the names and affiliations of participants, a summary of contributions, and the justification for the proposal.
10. The best competitive papers will be published in a special issue of the ***Journal for Global Business Advancement*** (ISSN: 1746—966X), ([www.inderscience.com/jgba](http://www.inderscience.com/jgba)).
11. Please submit your paper or proposal directly to the Program Chair and Conference Director, via email in Microsoft Word format only. Please indicate in the cover letter the general subject area, highlighted above.
12. For all inquiries, or if you wish to serve as a session chair, discussant, and/or reviewer, please contact the Program Chair and Conference Director, Dr Valentin H. Pashtenko.
13. The decision of the Program Chair and Conference Director in relation to the acceptance of the papers will be treated as final.
14. Author(s) will be notified of acceptance, rejection and/or suggested modifications as soon as the review process has been completed. Author(s) should act on feedback and comments provided by the reviewers in order to ensure good quality conference proceedings. Please keep an exact copy of the final paper for future reference.
15. Though all type of papers should be submitted in English, we are open to papers written in Bahasa Malaysia, the national language of Malaysia

**Conference Registration Form:**

All registrations must be accompanied by payment to facilitate registration by Nov. 15, 2009.



# AGBA

Academy for Global Business Advancement

<http://aqba.us>

**ACADEMY FOR GLOBAL BUSINESS ADVANCEMENT  
SIXTH ANNUAL WORLD CONGRESS**

**Universiti Utara Malaysia**  
**December 27-31, 2009**

## Registration Form

Title: ☐ Prof. ☐ Dr. ☐ Mr. ☐ Ms.

Name: \_\_\_\_\_

University/College/School: \_\_\_\_\_

Business Corporation or Governmental Organization: \_\_\_\_\_

City: \_\_\_\_\_ State or Country: \_\_\_\_\_ Zip or Postal Code: \_\_\_\_\_

Email Address: \_\_\_\_\_

**Special Note:**

- Spouse fee is 50% of the registration fee and includes all conference activities (NO proceedings).
- Spouses participating in the conference do not qualify for this rate.
- International delegates are requested to arrive in Malaysia on Dec. 26, 2009.
- Delegates holding US, EU, Canadian, Japanese, South Korean, Australian, New Zealander, Singaporean, Hong Kong, GCC-6, Iranian, and Turkish passports **do not need any visa** to enter Malaysia.
- Conference Host is: Universiti Utara Malaysia
- Conference Venue is: UUM Campus Hotel
- 

***Registration Deadline is Nov. 15, 2009***

**2009 AGBA Conference Director and Program Chair:**

**Dr. Valentin H. Pashtenko**

**Christopher Newport University**

**Newport News, Virginia, USA**

**Email: valentinpashtenko@gmail.com**

Jointly Organized By



Academy for Global Business  
Advancement Inc.

## One Week Professional Development Program in

### "Malaysian Economic Advancement: A Model for Developing Countries"

An Immersion Program in  
Country Development

19 – 23 April 2010 | Kuala Lumpur, Malaysia

#### Malaysia

Malaysia located in the South East Asia region (in-between Singapore, Indonesia, and Thailand) covers an area of about 329,845 square kilometers. Its multi-racial population of about 26 million as per 2005 census consists of roughly 54% Malays, 25% Chinese, 7.5% Indians and 11.7% aborigines and 1.8% others. Malaysia practices parliamentary democracy and is ruled as a Constitutional Monarchy.

Malaysia has progressed from being mainly a producer of raw materials into one of the most progressive and fastest growing countries across Asia Pacific with a modern and diversified economy where agriculture, manufacturing, mining and the service sectors assume significant roles in economic development. For instance, Malaysia is a leading producer

of tropical hardwoods, cocoa, paper, and is also one of the world's largest producers of palm oil, natural rubber, and tin. It is also produces significant quantities of petroleum, natural and manufactured goods.

The nature of exports has changed accordingly and today manufactured goods form almost 80% of its exports as compared to the dawn of independence when 80% of its exports were commodities and agricultural products. Multinational corporations have invested heavily in Malaysia's economic development. For instance, Dell's (one of the top multinational corporations in the computer industry) largest plant producing and exporting personal computers (PCs) is located in Malaysia.

#### Malaysia's Economic Advancement

In 1980, the year before Tun Dr. Mahathir Mohamad became Prime Minister, Malaysia's gross domestic product was just \$12 billion. By 2008, it had grown to \$210 billion, and per capita income stood at \$3,540, the third-highest in Southeast Asia.

Malaysia has been one of the most successful economies across the "Developing World". There are fairly straightforward reasons for this unprecedented development. It's one of the most open economies in the world. There are a few trade barriers but not many. It's open to foreign direct investment (FDI). Of course, after the 1997-98 Asian crisis there were capital controls placed on short-term flows. But that didn't affect inflow of the FDI because of the confidence of world business community in the strength of the Malaysian economy.

Second, Malaysia has been relatively good on macroeconomic management. It consistently has very low inflation. It has never had a balance-of-payments crisis in its history, which is a very important achievement.

Third, Malaysia has always had excellent physical infrastructure -- great roads, excellent airport, harbors, and telecoms.

Fourth, Malaysian institutions have been fairly high quality and reasonably independent. It inherited a British-style civil service, which has been successfully maintained.

[www.ibfim.com](http://www.ibfim.com) | [www.agba.us](http://www.agba.us)

**REGISTER  
NOW!**

## Registration Form

All registrations must be accompanied by payment to facilitate registration. Please return the registration form with a check payable to "IBFIM" Drawn on any Bank based in Malaysia by April 2, 2010.



**AGBA**

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Title : ☐ Dr. ☐ Prof. ☐ Mr. ☐ Ms.

Name: \_\_\_\_\_

Business Firm or Corporation or Agency: \_\_\_\_\_

Other: \_\_\_\_\_

City: \_\_\_\_\_ State or Country: \_\_\_\_\_ Zip or Postal Code: \_\_\_\_\_

Telegraphic/ Wire transfer to:

Bank : Bank Islam Malaysia Berhad  
A/C no. : 14-014-01-013630-1  
Branch : BIMB, Jalan Raja Laut branch  
Add. : Ground floor, Menara Tun Razak, Jln Raja Laut, P.O. Box 11080, 50134 Kuala Lumpur  
Swift code : BIBM MYKL

### Special Note:

- Delegates are requested to arrive in Malaysia on Sunday, April 18, 2010.
  - Delegates holding US, EU, Saudi, Turkish, Iranian, and Other GCC-6 passports DO NOT need any visa to visit Malaysia.
  - Program Host : Islamic Banking and Finance Institute of Malaysia (IBFIM)
  - Program Venue : Hotel Nikko, Kuala Lumpur
  - Program Management Organization : Academy for Global Business Advancement (AGBA)
  - A non-refundable security deposit of USD\$1000 is required to secure a place in the program
- Registration Deadline is April 2, 2010.  
Please Make Check Payable to IBFIM on Any Bank Based in Malaysia.



### Program Fee

Program fee is **\$4000** (Four Thousand US Dollars) per delegate that covers:

- 15 hour presentations for 5 days;
- Lunch Every Day for 5 days;
- Two Coffees/Tea Breaks Every Day;
- 4 Site Visits;
- 1 hi-tea cruise at Putrajaya lake
- Meeting with Tun Dr. Mahathir Mohamad
- Award of the Certificate by IBFIM and AGBA

Item	Price	Please tick one [✓]
Course fee ONLY	USD4,000.00	<input type="checkbox"/>
Course fee + 7 days accommodation, deluxe room	USD5,000.00	<input type="checkbox"/>
Course fee + 7 days accommodation, executive room	USD5,400.00	<input type="checkbox"/>


### Payment Mode

Deadline for the payment of non refundable fee is April 2, 2010 to ensure guaranteed registration. Only guaranteed bank drafts would be accepted. Bank drafts should be made payable to "IBFIM" in US dollars.

Program fee does NOT cover accommodation, air travel and local vacation. We have negotiated a special rate for all our delegates at the Nikko Hotel Kuala Lumpur. The rate for deluxe room is USD150 while the executive room is at USD200, breakfast included. Should you require further information, please contact Mr. Azman Ali, Sales Assistant Director quoting "Malaysian Economic Advancement Programme" at tel. +603 2161 1111; fax. +603 2161 1122 and e-mail at [azman.ali@hotelnikko.com.my](mailto:azman.ali@hotelnikko.com.my)

**[www.ibfim.com](http://www.ibfim.com) | [www.agba.us](http://www.agba.us)**





## One Week Professional Development Program

### "Malaysian Economic Advancement Program" A Model for Developing Countries An Immersion Program

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#### Purpose

The purpose of this professional development program is to upgrade participants' levels of understanding and skills on the theory and practice of country development embedded in resilient national leadership, prudent policies, programs and strategies needed for economic development, trade and investment liberalization and socio-cultural harmony.

#### Participants

The main participants are senior policy-makers and middle management officials from the private and public sector organizations, agencies, foundations and institutions (both for profit and non-profit) of developing countries across the world. (max 50 pax).

#### Rationale for this Unique Training Program

This training program presents a unique prescription on how developing countries can accomplish tremendous economic growth by participating and benefiting from global economy via international trade and foreign direct investment. For this reason, a particular nation have to conduct a systematic methodology on its SWOT analysis to participate in the world economy.

This training program differs from other courses in the following ways:

- It is built on the foundation of effective national leadership;
- It is focused on the premise of socio-cultural harmony;
- It aims to clarify the interface between trade, investment, income disparity, and poverty;
- It integrates the development of a nation's trading regime with the broad policies, programs and strategies of economic development; and
- It will present Malaysia as a model of trade liberalization and foreign direct investment.

#### Malaysian Lessons

The course will highlight an assessment of how Malaysia's prudent socio-cultural and economic policies have transformed it as a socially healthy, politically stable and economically vibrant country. Malaysia has demonstrated how sound socio-cultural policies, prudent economic management, continued liberalization and bold regulatory reforms helped sustain growth for years, and has assisted recovery in the aftermath of the Asian economic crisis, that hit the Asian region in 1997.

The sustained trade and investment based country development of Malaysia over the past six decades is readily acknowledged as a potential model for emulation by developing countries. Malaysia has many lessons to impart, the most critical of which is undoubtedly the overriding importance of sound management and its application to problem solving in socio-cultural relations, economic development and trade and investment liberalization.


Malaysia's success stories in (1) thriving Islamic Finance and Banking sector, (2) vibrant Tourism and Hospitality Sector and (3) development of pragmatic National Leadership for effective governance are models for emulation by other developing countries.

Malaysia's swift and flexible response to the Asian economic crisis in 1997 deserves admiration. Malaysia today is one of the most globalized nations and one of the most open economies in the world with minimum tariffs for most lines, a liberal foreign investment regime and on-going reform program in the services sector that went beyond its GATS commitments. Malaysia's steadfast faith in the multilateral trading system has been appreciated worldwide, as was its prompt implementation of World Trade Organization (WTO) Agreements including those for which it has a transition period. Malaysia's active involvement in regional arrangements under a policy of open regionalism has been admired worldwide.

One crucial factor responsible for the rapid progress in the development ladder of Malaysia was the invaluable help it received from Islamic countries, developed countries and international organizations during its initial years of industrialization. Based on its development experience, Malaysia hopes to offer similar help to developing countries by providing technical assistance to them. Through this training course provided under the auspices of IBFIM and AGBA, participants would be able to return home with upgraded skills and ready to assume more active roles in the developmental efforts for their respective developing countries.

**For Further Information and  
Registration, Kindly Contact:**

**Mr. Khairul Sabudin,**  
Manager, "Malaysian Economic Advancement Program"  
Islamic Banking and Finance Institute of Malaysia (IBFIM)  
3rd Floor, Dataran Kewangan Darul Takaful  
Jalan Sultan Sulaiman, 50000 Kuala Lumpur, Malaysia  
Tel: +603-2031-1010 Fax: +603-2078-5250  
Mobile/Cell: +601-2303-4808  
Email: khairul.sabudin@ibfim.com





ram in

## nic Advancement: ping Countries" in Country Development

### WHY THIS PROGRAM???

#### LEARN HOW MALAYSIA REACHED WHERE IT IS TODAY!

##### Learn:

- How effective national leadership makes a difference (Leadership Style of the Architect of Malaysian Success Story: Tun Dr. Mahathir Mohamad's leadership style as a Case Study);
- How socio-cultural harmony has been ensured;
- How wealth has been distributed fairly among different sections of the society (Malays, Chinese and Indians);
- How New Economic Policy (NEP, an affirmative-action program for "Bumiputras", a term that generally refers to ethnic Malay Muslims) was carefully orchestrated, fairly executed and how it yielded desirable dividends;
- How its natural resources have been managed prudently;
- How "Malaysia One Policy" is being executed by current administration to inject socio-economic harmony amongst 3 diverse ethnic groups;

### Major Highlights Of The Program

#### Vibrant Economic Environment:

Prudent management of its natural and human resources with a focus on developing close relationship with prominent Multinational corporations (MNCs) has been used by Malaysia to develop a vibrant export sector.

#### Leading Islamic Finance Sector:

Malaysia International Islamic Financial Centre (MIFC) is recognized as the leading sector for Islamic finance. What contributed to the emergence of Malaysia as the leader of Islamic Finance would be presented by a prominent authority on the subject.

#### Envious Malaysian Tourism and Hospitality Sector:

"Malaysia Truly Asia" a globally acclaimed promotion slogan telecast worldwide on CNN, and BBC and Al-Jazeera -- TV channels describes in 3 words what Malaysia is all about. Officials and professionals from developing countries would learn why its touristic attractions are admired by both Islamists and contemporary western tourists.

#### Malaysia and ASEAN:

How Malaysia emerged as a major player within the community of Association of South East Asian Nations (ASEAN) and how its regimes of economic integration, free trade agreement, and foreign direct investment are handled by ASEAN countries would be the highlights of this program. Officials and professionals from across the developing world would learn from the ASEAN experience to integrate their own economies.

#### Tun Dr. Mahathir Mohamad Leadership Style:

An icon of "Country Leadership", participants will learn how effective national leadership style of a great living icon of contemporary leaders (Tun Dr. Mahathir Mohamad) has contributed to the emergence of Malaysia as a "Model Developing Country" for emulation by other leaders across the developing world. A visit is being planned to meet with former Prime Minister Tun Dr. Mahathir Mohamad

### Program Schedule

TIME	DAY 1 --Monday April 19, 2010	DAY 2 --Tuesday April 20, 2010	DAY 3 -- Wednesday April 21, 2010	DAY 4 -- Thursday April 22, 2010	DAY 5 -- Friday April 23, 2010
SESSION 1 09:00 -- 10:30	Overview of Malaysia's Planning and Industrial Development Tan Sri Saliman Mahbob, Chairman, Malaysian Industrial Development Authority (MIDA)	Way Forward for Islamic Finance Leadership Dato' Mohd Razif Abdul Kadir, Deputy Governor, Bank Negara Malaysia	Women's Contributions in Nation Building Y.B. Senator Datin Paduka Chew Mei Fun, Deputy Minister, Ministry of Women, Family & Community Development	Malaysia's Truly Asia Datuk Dr. Victor Wee, Chairman, Tourism Malaysia	Mahathir's Reflection on Leadership Tun Dr. Mahathir Mohamad, Former Prime Minister of Malaysia <i>Photo session with Tun Dr. Mahathir Mohamad</i>
	10:30 -- 11:00   COFFEE & TEA BREAK				
SESSION 2 11:00 -- 12:30	Dynamics of Malaysia's International Trade Y.B. Dato' Mukhriz Tun Mahathir, Deputy Minister (Trade), Ministry of International Trade and Industry	Past and Current Financial Crisis: Malaysia's Experience Dato' Dr. Mahani Zainal Abidin, Director General, Institute of Strategic and International Studies, Malaysia	FELDA: From Rural Development to Global Player Dato' Mohd Bakke Salleh, Group Managing Director FELDA Holdings Berhad	Innovative Entrepreneurship - AirAsia's Experience Datuk Tony Fernandes, Group Chief Executive Officer, AirAsia Berhad	The 1 Malaysia Concept: People First, Performance Now Y.B. Dato' Seri Utama Dr. Rais Yatim, Minister, Ministry of Information, Communications and Culture <i>Closing Ceremony &amp; Certificate Presentation</i>
	12:30 -- 14:00   LUNCH & SOLAT				
SESSION 3 14:00 -- 17:00	An afternoon session with the CEO and site visit to PROTON	An afternoon session with the CEO of Tabung Haji (Pilgrims Fund Board) at Tabung Haji	An afternoon session with the CEO of Petronas at Petronas	An afternoon session with the CEO and site visit to Westport, Port Klang	Hi-Tea Cruise Lake Putrajaya

**For additional information about the contents of the program, kindly contact**

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# REPLICATION OF SERVQUAL MODEL IN MEASURING SERVICE QUALITY IN BANGLADESHI BANKS

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## Abstract

It is strongly argued in the extant literature that perceived service quality and loyalty can be significant determinants for the success of modern banking business. Although a large number of studies have been conducted in different contexts to measure the service quality, but there is no evidence in regards to the impact of service quality dimensions on customer satisfaction and customer's loyalty. After integrating and analyzing around forty conceptual and empirical studies on service quality, a model is proposed and tested empirically to establish an inter-linkage among service quality, satisfaction and loyalty. A sample of 222 bank clients was drawn randomly from private and public sector banks in Bangladesh. The research findings of SEM analysis suggest that there is a strong influence of service quality dimensions on satisfaction. It is also found that the customer satisfaction and reputation of the bank lead to greater loyalty.

Key words: Service quality, Satisfaction, and Loyalty.

## Introduction

During the last two decades, the service-oriented industry has gained the booming position (Hoffman and Bateson, 2002) in the world economy. Service has become the integral part of the modern business. Now-a-days, even the physical product producers are paying greater attention in adding service features with the product. They believe product competition is saturated, now the age of service competition. So, standardized and quality service is inevitable for the customer satisfaction and thus, greater profit.

To address the difficulty of measuring service quality, innumerable researchers and scholars have been working to develop a standard procedure. A significant development is found in the study of Parasuraman et al., (1985) which identifies five service quality dimensions. Different researchers and scholars have defined service quality differently. Zeithaml (1987) defined as: "Service quality is the consumer's judgment about an entity's overall excellence or superiority. It is a form of attitude, and results from a comparison of expectations to perceptions of performance received". Lewis and Booms (1983) define, "Service quality is a measure of how well the service level delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis".

From the above discussion it is clear that service quality addresses a match or trade off between customers' expectations and actual performance of the product. Like other sectors, service quality dimensions are also significant in banking sector. Banking service is now an integral part of our personal as well as business life, so it has become major attention of the customers and thus banking service providers should be more concerned about their service quality.

Service quality model (SERVQUAL) is extensively used to evaluate the quality of service in different business areas. In the banking sector, it is also widely adopted to measure and evaluate the service quality. Private and public banks service can also be compared (Kangis and Voukelatos, 1997) on the basis of service quality.

Customer's opinion about the service quality of the bank is also analyzed in the work of Allred and Addams (2000). Service quality dimensions of the banking industry in the developing economy (Angur et al., 1999) are also widely discussed. Jham and Khan (2008) measure relationship between banks performance and customer satisfaction. But there was no such study available to link service quality dimensions with satisfaction.

On the other hand, customer loyalty is considered as strong determinant for successful banking business. Customer loyalty is critical to the conduct of business in today's competitive marketplace and banks are no exception (Ehigie, 2006). Thus banks need to have different management strategies as ways to promote customer loyalty. Though a lot of studies have been conducted on service quality, satisfaction and customer loyalty scatteredly, but no study yet has been identified to draw an inter link among service quality dimensions, satisfaction and customer loyalty. Therefore, the research question addressed in this study is: what are the different service quality dimensions and how do they impact on customer satisfaction and customer loyalty in banks? The main objective of this study is to develop a model and test it through data collected from a developing country banking sector, Bangladesh to generalize the findings.

## Literature Review

An extensive effort has been made to explore banking services in different developed country context. The review of relevant literature revealed that very limited effort has been made in terms of building correlation among the service quality dimensions, satisfaction and loyalty in the banking sector. This study integrates a

broad review of relevant literature, which helps to synthesize the variables and research context regarding service outcome of both public and private bank.

Service quality is one of the important determinants for the success of a bank. It is difficult to measure quality of service due to its distinct characters. On the other hand, goods and commodities are tangible and thus; can be readily measured by objective indicators such as performance, physical attributes and durability (Hoffman and Bateson, 2002). But service quality is intangible and cannot readily be measured. In fact, service quality is understood by attitude, perception and feelings of customers who are experienced with particular service received. Now a day's service quality dimension is an area of great interest for the researchers and service provider. Service quality is a vital antecedent of customer satisfaction.

A conceptual model concerning perceived service quality was first proposed by Parasuraman et al., (1985). They identify TEN dimensions (tangible, reliability, responsiveness, competence, courtesy, credibility, security, access, communication, and understanding the customer) of measuring service quality. The study proposed that the differences between perceived performance and expected performance of these ten dimensions determine overall perceived service quality. However, this conception doesn't examine in any particular service industry. Later, Parasuraman et al., (1988) revised their earlier conceptual model and conceptualized perceived service quality as "a global judgment, or attitude, relating to the superiority of the service" and also developed a 22-item instrument, recognized as SERVQUAL, which has become widely used as a generic instrument for measuring service quality. The instrument items represent the five dimensions such as reliability, responsiveness, tangibles, assurance and empathy. The conceptual model of Parasuraman et al., (1988) can serve as the basis or foundation for understanding customer expectations and service performance. Lee et al., (2000) have made substantial contribution to the service quality literature. They used SERVQUAL model and gave effort to identify determinants of perceived service quality. Furthermore, they tried to build a relationship of these service quality determinants with satisfaction for the service-oriented firm. They have found that perceived service quality is an antecedent of satisfaction. They did not pay attention whether loyalty can be the final outcome from service quality and satisfaction. Further, researchers identified various service quality dimensions and these dimensions are used as independent variable in several service quality studies. For example; Kangis and Voukelatos (1997) have followed Parasuraman et al., (1988) and compared service quality of public and private bank in a conceptual study. They found private bank providing better service than the public bank. However, no model was proposed and client's satisfaction and loyalty were not measured in their study. Joseph et al., (1999) used service quality indicators in banking sector. They measured the impact of technology on service delivery. However, the study did not develop any model for service quality dimensions.

Jabnoun and Al-Tamimi (2002) conducted a study to measure perceived service quality of commercial banks in the context of United Arab Emirates and for this purpose they modified SERVQUAL model. In the study, they investigated the relative importance of the each dimensions of service quality. Further, Al-Tamimi and Al-Amiri (2003) conducted another study to measure and analyze service quality only for Islamic banks in the UAE. Both of the study only considered the service quality dimensions but they did not relate these dimensions with customer satisfaction and loyalty.

Most of the literature ignored loyalty as a vital antecedent of the banking services except Ehigie (2006). This research paper examined how customer expectations, perceived service quality, and satisfaction predict loyalty among bank customers. It is found that satisfaction and service quality are significant predictors of customer loyalty. The study is conducted in African context and thus different from Asian cultures. Our study is somehow similar to the study of Ehigie (2006) but proposed model is quite different and the cultural context is also different.

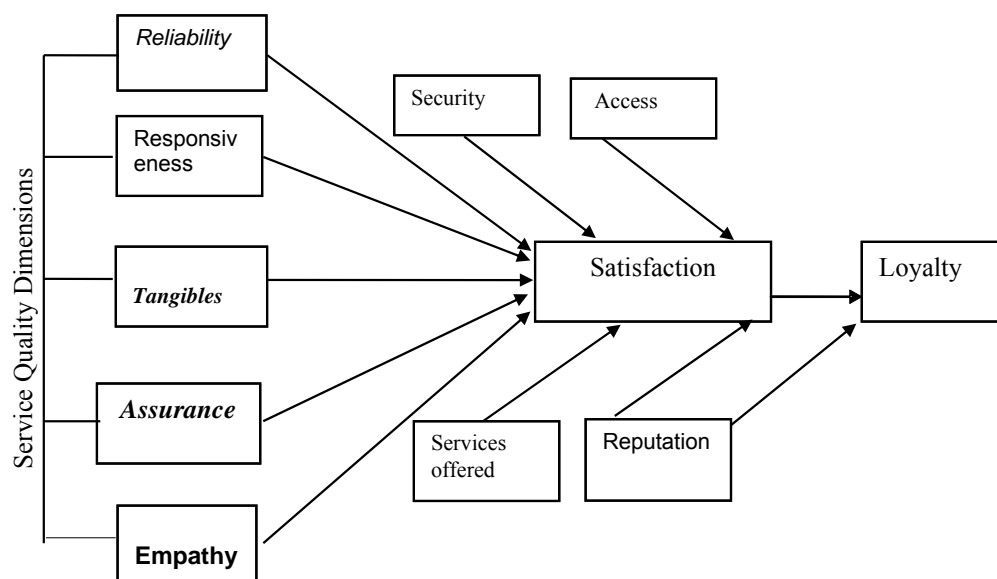
#### *Development of Conceptual Model and Hypotheses*

From the review of relevant literature, it is clear that most of the scholars considered five factors for measuring service quality. Those factors seem to be most appropriate to identify a firm's service quality. In addition to the major factors developed by Parasuraman et al., (1988), some researchers found other factors significant to be included in such model.

Flavian et al., (2004) identified factors like access to service, service offered, security, and reputation for measuring service quality. Nonetheless, Ahmed and Hassan (2002), Jham and Khan (2008) and Lee et al., (2000) found that all of these factors can lead to greater satisfaction. Customer satisfaction is considered as one of the influential determinants of customer loyalty. Once a firm makes its customers satisfied then they become loyal to the firm (Ehigie, 2006).

These determinant factors have theoretical importance as well as conceptual and empirical support that are included in the comprehensive model below. The model presented in the Figure 1 describes direct and indirect links among the variables.

Figure 1: Conceptual Framework of Service Quality Dimension and Its Relationships with Client's Satisfaction and Loyalty



#### Theorization of the Hypotheses:

Service quality: As Zeithaml (1987) defined service quality as: “The consumer’s judgment about an entity’s overall excellence or superiority. It is a form of attitude, and results from a comparison of expectations to perceptions of performance received”. This attitude and judgment of the clients are formed by all five dimensions of service quality. Positive score of each of the five forces (reliability, responsiveness, assurance, empathy and tangibles) make the service quality score greater. Another important issue is the direction of causality between service quality and satisfaction. The literature support that there is a causal relationship between service quality and satisfaction. It is also found that perceived service quality is an antecedent of customer satisfaction (Lee *et al.*, 2000).

**Reliability:** The literature has supported reliability as the most important service quality dimension. It refers mainly to dependability and accuracy of performing service function. It includes accuracy in billing, keeping records, performing the service at the right time and maintaining consistency of service (Parasuraman *et al.*, 1985). To evaluate service quality of a bank, the clients determine whether they can rely on the bank’s service or not since it leads to greater satisfaction. Therefore the following hypothesis can be drawn.

*Hypothesis 1: The greater the clients reliability on banks, the greater will be the customer satisfaction to the bank.*

**Responsiveness:** It emphasizes on the willingness and readiness of the bank employees. It includes providing prompt and quick service, willing to help customer, less waiting time in queue, always keeping customer informed and immediate response in transaction (Parasuraman *et al.*, 1985, 1988). A bank service can also be measured by the willingness and readiness of service availability. The factor (responsiveness) affects the customer satisfaction greatly and can be hypothesized as -

*Hypothesis 2: The greater the bank employees responsiveness, the greater will be satisfaction.*

**Tangibles:** This dimension refers to the physical facilities, equipment, and appearance of personnel. Employees are to be well dressed and should have professional appearance. Office environment and its decoration should be attractive. This dimension refers the visible elements of the bank and its surroundings (Parasuraman *et al.*, 1985, 1988). Although tangible elements do not directly influences satisfaction of a bank, however, a well-decorated office can affect the perception of the clients. Thus the hypothesis can be as-

*Hypothesis 3: The more banks’ tangible elements attractiveness, the greater will be satisfaction.*

**Assurance:** Assurance denotes the ability to make the clients assured of their deposit and transaction. It includes employee’s knowledge, courtesy and ability to convey trust and confidence to the clients and all concerned parties. Employees should be courteous and friendly and client’s information should be kept confidential (Parasuraman *et al.*, 1985, 1988).

Whenever a bank can deliver its clients the message of assurance the customer satisfaction will obviously be boosted up. Thus, another hypothesis can be drawn in this regard as follows-

*Hypothesis 4: The greater the banks’ provided assurance to the clients, the greater will be the customer satisfaction to the bank.*

**Empathy:** This dimension refers to the level of caring and individual attention to special customers’ concerns, understanding the need of customer, having problem solving attitude directed towards the client group (Parasuraman *et al.*, 1985, 1988). Dealing with care and giving special attention make customer bonded with the bank hence, become satisfied. So hypothesis is:

Hypothesis 5: The greater the banks' empathy to the customer, the greater will be the customer satisfaction to the bank.

Security: It is the freedom from danger, risk or doubt. It includes physical safety, financial security and confidentiality of the client's personal and financial information. It includes security in transactions, security of deposits, and security of data. It is found that secured and safe environment is preferred by the clients. (Flavian et al., 2004; and Parasuraman et al, 1985). Thus the following hypothesis is interesting.

Hypothesis 6: The more the perceived security of bank transaction, the greater will be the customer satisfaction.

Access to service: It is described as how conveniently a customer can get access to the bank's service. It means approachability and ease of contact. Convenient hour of operation and scheduling are also considered in this context. Greater accessibility increases the satisfaction of the clients. (Flavian et al., 2004). The hypothesis in this regard is-

Hypothesis 7: The easier the customer access to the bank services, the greater the customer satisfaction to the bank.

Services offered: Service offered by the bank must be attractive in the eyes of its clients. It comprises interest given on savings, commission taken for services, interest charged for loans etc. Varieties of service package make the customer satisfied. The following hypothesis is developed here.

Hypothesis 8: The more attractive the banks' offered services, the greater will be the customer satisfaction.

Reputation: Reputation offers a strong organizational image and goodwill in the banking industry. The bank must be well known to the mass people and should be well reputed for keeping promises to the clients. Customer perceives the reputation of bank based on the goodwill in dealings, which leads to increase satisfaction in bank-client relationship. The hypothesis here drawn as such-

Hypothesis 9: The greater the reputation of the bank, the greater will be the customer satisfaction.

Again the banks clients tend to be more loyal to the reputed and well-established bank. They perceive that reputed banks are able to provide more advanced services. The clients then create a stronger bondage and closer relationship with the bank. Further hypothesis is drawn as under.

Hypothesis 10: The greater the reputation of the bank, the greater will be the customer loyalty.

Satisfaction: Satisfaction refers to a overall feelings of pleasure or displeasure experienced by the customer during the process of getting services from the bank. Satisfaction can be measured by cooperation of the bank employees, performance of the bank, etc. When a customer feels that the particular bank is his appropriate choice and having no complain, it indicates that he is satisfied (Ahmed, 2002; Jham & Khan, 2008 and Lee et al., 2000). Customer satisfaction and service quality are the significant predictors of customer loyalty (Ehigie, 2006). Thus it can be hypothesized that -

Hypothesis 11: The greater the clients satisfaction to the bank services, the greater will be the customer loyalty.

Loyalty: In this study, Loyalty is the ultimate dependent variable which is derived from satisfaction and reputation. All FIVE service quality dimensions and other FOUR variables lead to satisfaction. So all TEN variables are used in this study to determine the loyalty of the clients to their respective bank. Loyalty is defined as the depth of the bank-clients relationship. It's a bondage between clients and the bank. The more loyal customer for the bank, the more possibility to be successful in banking business.

#### Research Methodology

Research setting: An empirical research approach has been applied to select the research field. The service quality model has gained much importance over the last three decades to measure the overall service standard of the firms. Several scholars have conducted a lot of research works related to SERVQUAL model however; this study extended and added some new dimension for this model those are the contributory aspects in this study.

Unit of analysis: The unit of analysis of this study is the bank customers' perception on service quality outcome of private and public banks in Bangladesh. For this purpose, respondents were selected randomly to complete the questionnaire with respect to their evaluation for each statement of measures.

#### Sample and Research Design:

On the basis of research title, all the clients of both public and private bank could be included to define the population. The database of ten banks including private and public banks is considered as sampling frame of the study. Around 1000 clients were primarily drawn from their databases. A random telephone contact to 700 respondents identified 500 knowledgeable respondents those who agreed to participate in the survey. Finally the questionnaires were sent to them through postal mail and personally. A follow up telephone call and personal contact with the respondents yielded 258 responses in four weeks time. From the collected questionnaire, 36 questionnaires were dropped due to respondent's inability to fulfill, unconscious responses and excessive missing data. So finally the size of the sample stands to 222 with a response rate of 44%.

#### Measurement Development:

Measures of all constructs in the questionnaire were developed based on extant literature. Multi-item scales (seven point Likert scale) response formats were used to operationalize all variables. The measurements for each theoretical construct are described below.

**Reliability:** Reliability was operationalised using five indicators such as promised, dependable, consistent service, and accurate and error free transactions. The items promised and dependable service, accurate and error free transaction were borrowed from Parasuraman *et al.*, (1994), Kangis and Voukelatos, (1999). The item 'consistent service' was adopted from Allred and Addams, (2000).

**Responsiveness:** It's also includes five indicators such as prompt and quick service, helping customer, quick response, keeping clients informed and reduced waiting time. The study borrowed four items for this measure from Parasuraman *et al.*, (1994), one item from Kangis and Voukelatos, (1999).

**Tangibles:** This construct includes five item measures such as modern equipment, appealing decoration, employee tables and professional, well-dressed employees. Here two items were borrowed from Kangis and Voukelatos, (1999) and other three items were taken from Parasuraman *et al.*, (1994).

**Assurance:** This dimension refers to employee's knowledge, courtesy, ability to convey trust, confidence, confidentiality and safety. For this construct the measures were adopted from Kangis and Voukelatos, (1999) and Parasuraman *et al.*, (1994).

**Empathy:** This construct refers to the level of caring and individual attention provided to, understand the need of, problem solving attitude to, convenient branch for the customers. For this construct all the items were borrowed from Parasuraman *et al.*, (1994).

**Security:** It denotes five measures such as, security in transactions, of deposits, at entrance and exit and secured financial data and employee desk and table. For this construct indicators were borrowed from Allred and Addams, (2000) and Flavian *et al.*, (2004)

**Access:** It means whether service is convenient, easy to access, and eases of contact. It includes convenient office time and available time for transaction. Four measurement items for this construct were taken from Flavian *et al.*, (2004). One item was developed based on field study feedback.

**Service offered:** This includes all the service packages including interest given, charged, commission charges and banking services, attractive offers. All the measurement items for this construct were borrowed from Flavian *et al.*, (2004).

**Reputation:** The measures of this construct include reputation for keeping promises, goodwill, image, mass popularity and reputation for transaction with beneficiaries. For this construct, all indicators were adopted from Flavian *et al.*, (2004).

**Satisfaction:** It refers that customers are satisfied with performance, employee cooperation, and office decoration and have no complain against the bank and the bank can meet expectations better. Measures for this construct were incorporated from Ehigie, (2006).

**Loyalty:** Loyalty is the ultimate dependent variable of the study. This measure has five indicators such as customers are happy with service, will use the bank continuously, will introduce and influence others to use the bank, and they think services are of high standard. All of the measurement indicators were taken from Ehigie (2006).

#### Questionnaire development and pre-testing

A pilot questionnaire was designed to test the applicability of the measures. This research instrument has redefined several times for perfection. Before conducting the final survey, the study has gone through with pre-testing the questionnaire for relevance, appropriateness and clarity. In the questionnaire format, the study followed seven point Likert's scale (1= Strongly disagree to 7= strongly agree).

**Method of data collection:**

Both mail survey and personal contact were used to collect data. Initially 300 questionnaires were mailed to the respondents in different regions of the country and 200 questionnaires were personally supplied to the respondents in a big metropolitan city. 95 reply mails questionnaires) were received. In four weeks time, out of 200 personally distributed questionnaires 163 were collected from the respondents.

#### **Data analysis and results**

**Demographic and personal information:**

In the questionnaire, there were seven questions related to demographic and personal information. These respondents' characteristics are accordingly analyzed as follows:

Of 222 respondents 194 were male and 28 were female and their respective percentage was 87.4% and 12.6%. Most of the respondents were between the age of 22 to 29. The highest frequencies were found at the age of 25 years appearing 23 respondents. The findings suggest that most of the respondents were young. It was also found that 56.3% respondents were married and 43.7% were unmarried. Most of the respondents found (45.9%) master's degree holder. Majority of the respondents (120) have an account in private bank whereas 102 respondents were the clients of public bank bearing the respective percentage 54.1 % ( private) and 45.9 % ( public).

## Analysis and findings

### Measurement model:

For each construct, the measures were purified using item-to-item total correlations, single measurement models, and CFA (confirmatory Factor Analysis). Based on the analyses and suggested modifications, four measurement indicators from the eleven constructs were dropped. Using common SEM (structural equation model) procedures, all refined measures in the CFA were used to test the proposed SEM model. The correlations for the construct measures are shown in Table 1 below.

Table 1: Correlation Matrix

Constructs	1	2	3	4	5	6	7	8	9	10
1. Repu	1.000									
2. Serv	.768	1.000								
3. Acces	.771	.736	1.000							
4. Secu	.769	.647	.742	1.000						
5. Tang	.616	.754	.610	.575	1.000					
6. Empt	.756	.827	.693	.597	.831	1.000				
7. Assu	.824	.783	.767	.783	.682	.822	1.000			
8. Resp	.670	.811	.715	.562	.873	.928	.770	1.000		
9. Reli	.761	.738	.766	.692	.750	.870	.834	.884	1.000	
10. Sats	.750	.831	.703	.637	.873	.927	.758	.938	.835	1.000
11. Loyal	.811	.805	.714	.666	.793	.870	.768	.854	.806	.921

### Confirmatory Factor Analysis

The result of the CFA indicates a reasonable model fit (CMIN= 2317.713; DF= 1169, CMIN/DF= 1.983, RMSEA= .068, IFI= .902, TLI= .892, and CFI= .901 where CMIN= Chi-square value, DF= Degrees of freedom, RMSEA= Root mean square error approximation, IFI= Incremental fit index, TLI= Tucker Lewis index and CFI= comparative fit index). This result also shows that the constructs provided parsimonious fit to the data. The detailed CFA results with standardized loading scores for each construct measure are displayed in Table 2.

Table 2: Results of CFA Analysis

Constructs		Measures	Factor loading
Reliability	re1	This bank provides service as promised	.833
	re2	Dependable in solving customer problem	.792
	re3	This bank maintain consistency of performance	.795
	re5	Accuracy in transactions	.767
Responsiveness	res1	Provides prompt and quick service	.862
	res2	Willing to help customer	.878
	res3	Ready to response quickly	.886
	res4	Always keep customer informed	.830
	res5	Reduced waiting time in queue	.878
Assurance	ass1	I feel safe in transaction with this bank	.775
	ass2	Employees give confidence to customer	.807
	Ass3	Employees are knowledgeable and efficient	.760
	ass5	Keep confidentiality of clients information	.777
Empathy	emp1	Give individual attention to customer	.862
	emp2	Deal customer with care	.853
	emp3	Understand the need of customer	.853
	emp4	Having problem solving attitude	.879
	emp5	Have branches in convenient location	.702
Tangibles	tan1	Modern equipment are used in this bank	.880
	tan2	Employees have professional appearance	.889
	tan3	Visually appealing decoration	.912
	tan4	Employees are well dressed	.903
Security	sec1	This bank is secured in transactions	.779
	sec2	This bank provides security of deposits	.801

Constructs		Measures	Factor loading
	sec3	Personal and financial data is secured in this bank	.816
	sec4	Provides security at entrance and exit	.762
	sec5	Employees desk and table is secured for the clients	.717
Access	acc1	This banks service is Convenient to me	.855
	acc2	Required time available for transactions	.869
	acc3	This banks service is easy to access	.813
	acc4	Bank's office time is convenient to me	.758
	acc5	Ease of contact	.741
Service Offered	ser1	Interest given on savings are satisfactory	.845
	ser2	Commission charges for services is logical	.903
	ser3	Offered services are Attractive of this bank	.885
	ser4	Interest charged on loans is rational	.845
	ser5	Maximum Banking services available	.855
Reputation	rep1	This bank is reputed to keep promises for clients	.835
	rep2	This bank has goodwill in the banking industry	.860
	rep3	It has a positive image among clients and public	.851
	rep4	The bank is well known to mass people	.721
Satisfaction	sat5	I am satisfied with office decoration	.844
	sat4	I am satisfied with the employees cooperation	.865
	sat3	This bank can meet my expectations better	.920
	sat2	I am satisfied with the performance of this bank	.933
	sat1	I have no complain against this bank	.872
Loyalty	loy1	I will continuously use this bank	.848
	loy2	I will introduce this bank to others	.911
	loy3	This bank's services are of high standard	.905
	loy4	I am happy with the services of this bank	.896
	loy5	I will influence others to use this bank	.897

#### Structural model:

For this study, the researchers used SEM (structural equation model) to test the proposed model and its hypothesized paths. The SEM analysis shows good model fit (CMIN/DF= 1.994, IFI= .900, TLI= .891, CFI= .900 and RMSEA= .068). Further, hypotheses testing (illustrated in Table 3) show that seven of eleven hypotheses are supported. This specifically indicates that the indirect effects of empathy, responsiveness, assurance, and reputation on customer satisfaction are significant and effects of reputation and satisfaction on loyalty are also significant.

Table 3: Results of Hypotheses Testing

	Path direction			Estimate	C.R.	P	Sup/not
H <sub>1</sub>	Reli	→	Sats	-.240	-1.292	.196	Not support
H <sub>2</sub>	Resp	→	Sats	.682	3.387	***	Support
H <sub>3</sub>	Tang	→	Sats	.090	1.109	.268	Not support
H <sub>4</sub>	Assu	→	Sats	-.367	-2.209	.027	Support
H <sub>5</sub>	Empt	→	Sats	.341	2.293	.022	Support
H <sub>6</sub>	Secu	→	Sats	.300	2.315	.021	Support
H <sub>7</sub>	Acces	→	Sats	-.084	-.936	.349	Not support
H <sub>8</sub>	ServOff	→	Sats	.032	.399	.690	Not support
H <sub>9</sub>	Repu	→	Sats	.274	2.374	.018	Support
H <sub>10</sub>	Repu	→	Loyal	.313	5.047	***	Support
H <sub>11</sub>	Sats	→	Loyal	.612	10.869	***	Support



The result of *Hypothesis 1* indicates that reliability ( $\beta = -.24, p < .196$ ) is not significant related to satisfaction. Therefore, Hypothesis 1 is not supported. The result of *Hypothesis 2* indicates that responsiveness ( $\beta = .682, p < .001$ ) is significantly positive to satisfaction. So Hypothesis 2 is supported. Regarding *Hypothesis 3*, result suggests that tangibles ( $\beta = .09, p < .268$ ) don't positively affect customer satisfaction; therefore, Hypothesis 3 is rejected. *Hypothesis 4*, *Hypotheses 5* and *Hypotheses 6* indicate that assurance, empathy and security are significantly related to satisfaction as they have respective values ( $\beta = -.367, p < .027$ ), ( $\beta = .341, p < .022$ ) and ( $\beta = .30, p < .021$ ). Hence, Hypothesis 4, Hypothesis 5 and Hypothesis 6 are supported. The results of *Hypothesis 7* and *Hypothesis 8* suggest that access and service offered are not significantly related to satisfaction respectively ( $\beta = -.084, p < .349$ ), ( $\beta = .032, p < .690$ ). Thus, Hypothesis 7 and Hypothesis 8 are rejected. According to the *Hypothesis 9*, satisfaction is strongly affected by reputation ( $\beta = .274, p < .018$ ). *Hypothesis 10* suggests that reputation is significantly related to clients' loyalty ( $\beta = .313, p < .001$ ). And finally *Hypothesis 11* indicates that satisfaction can lead to greater customers loyalty ( $\beta = .612, p < .001$ ). Hence, these results suggest that Hypothesis 9, Hypothesis 10 and Hypothesis 11 are supported.

## Discussion and Conclusion

Service quality and its dimension are extensively studied across developed and developing countries. Service quality concept is obviously important in the modern banking business. Quality of service is the main determinant factor when clients consider a bank's standard. Although a lot of studies have been conducted regarding this issue but an interrelationship among service quality, satisfaction and customers loyalty has not yet been studied. In this study, this interrelationship is drawn with identifying and measuring the variables included to it. Primarily nine variables were identified that lead to greater satisfaction of the customers. Among these, five are service quality dimensions such as; reliability, responsiveness, tangibles, assurance and empathy and other four are related to the customer satisfaction such as; security, access to services, service offered and reputation. Here nine hypotheses are also drawn. Five of these nine hypotheses are accepted. It refers that responsiveness, assurance, empathy; security and reputation have a strong impact on client's satisfaction. This also provided lent support to Lee *et al.*, (2000). The banks with highly responsive employees facilitate to create strong customer bondage. The banks that provide assurance, empathy and offer secured atmosphere for their customers can make customer satisfied. The result shows, banks' reputation has also strong impact on customer satisfaction. It can be strongly recommended that these above five variables are the key to customer satisfaction. However, four hypotheses of the study were rejected (reliability, tangibles, access to services and services offered) indicating that they have no significant impact on customer satisfaction to banks. This finding indicates that there is a variation on the perception of bank customers in terms of different geographical location and cultures. To reach the concrete argument in this regard, the above four variables demand further investigation. To evaluate whether satisfaction and reputation have any impact on customer's loyalty or not the result of other two hypotheses ( $H_{10}$  and  $H_{11}$ ) indicate that satisfaction and reputation both have strong influence on client's loyalty. In the study of Ehigie, (2006), it is also found that satisfaction have a strong influence on customer loyalty. And thus, Both hypotheses were accepted by the results. Hence, result of the study shows that the proposed structural and measurement model is good model fit.

## Limitations and Future Research Implications

Data were collected from the respondents only for once. There was no scope to cross sectional data collection due to scattered distribution of respondents that is the main limitation of the study. The study also focused on educated and conscious clients of the banks both private and public sectors; the study become narrow down since it cannot incorporate respondents from all spheres of the society. Since data were collected from the clients of both private and public banks; a comparative study would be interesting to measure service quality, customer satisfaction and customer loyalty of above two categories of banks. This can lead to a new indication for the future researchers with the help of the model proposed in this study. However, this research provides guidance for both public and private bank. The research findings also contribute in developing new insights and understanding for service outcomes of banks.

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## FACTORS INFLUENCING ONLINE SHOPPING BEHAVIOUR

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### Abstract

Purchase intention is an important determinant of online shopping behavior and represents the best estimates of future behavior available to market researchers. From an e-commerce perspective, understanding of the Theories of Reasoned Action, Planned Behavior, and Technology Acceptance Model could provide a valid basis for explaining and predicting consumers' intentions towards adopting online shopping behavior. This study sets out to examine the factors influencing consumers' online shopping attitudes and intentions through a five-point Likert scale self-administered questionnaire. Path analysis was employed to achieve the objective of the study. The results of the study showed that the level of online shopping intention was relatively high and direction of attitude towards online shopping was positive. Moreover, the finding identified that the trust and attitude had higher direct effect on online shopping intention whereas utilitarian orientation, convenience, prices and wider selection, and income had higher indirect effect on the online shopping intention through the attitude toward online shopping.

### INTRODUCTION

Nowadays, Internet is not only a networking media, but it is also used as a means of transaction for consumers at global market. The usage of Internet has grown rapidly over the past years and it has become a common means for delivering and trading information, services and goods (Albarq, 2006).

According to the survey by A.C.Nielsen (2007), more than 627 million people in the world have done online shopping. A research by Forrester (2006) reported that e-commerce market would grow from \$228 billion in 2007 to \$288 billion in 2009. As reported by Jupiter Media Metrix (2005), the online retail sales in US amounted to USD65 billion in 2004, and this would likely reach USD117 billion in 2008. As a result of the survey, 61 percent of the online users in the US will make their purchases via the Internet in 2010, as compared to merely 46 percent in 2004.

Considering that Internet shopping is still at the early stage of development in Malaysia, little is known about consumers' behaviour adopting this new shopping channel and the factors which influence this behaviour (Haque, Sadeghzadeh & Khatibi, 2006). According to Shwu-Ing (2003), a person's shopping behaviour is influenced by four major psychological factors, such as motivation, perception, belief and attitude. The roles of a shopper's personal attitudes have been widely acknowledged in consumer decision-making and behavioural intentions (Shwu-Ing, 2003). In particular, attitude serves as the bridge between consumers' characteristics and the consumption that satisfies their needs (Armstrong & Kotler, 2000; Shwu-Ing, 2003). Moreover, consumers' characteristics, such as personality, as well as demographic and perception on online shopping benefits, have also been found to influence their online shopping behaviour (Cheung & Lee, 2003; Goldsmith & Flynn, 2004; Shwu-Ing, 2003; Wolfinbarger & Gilly, 2001). According to Ajzen (1985), perceived behavioural control has been argued to have an impact on the occurrence of such behaviour and thus, a predictor of behavioural intentions. Such intentions are important as they represent the best estimates of the future behaviour available to market researchers (Wright, Sharp and Sharp, 2002).

Meanwhile, behavioural intention is determined by an individual's attitude towards performing the behaviour. Yu and Wu, (2007) showed when the consumers have a positive attitude towards online shopping, they have greater intention to shop products and /or services via the Internet. An individual's perception of the benefits of the behaviour, as well as the individual's self efficacy and ability to control both internal and external resources on the behaviour in performing the intended behaviour, led to the development of the Theory of Reasoned Action (TRA), Theory of Planned Behaviour (TPB) and Technology Acceptance Model (TAM). From an e-business perspective, understanding these TRA, TPB, and TAM could provide a valid basis for explaining and predicting consumers' intention towards adopting online shopping behaviour (Bobbitt and Dabholkar, 2001; Choi and Geistfeld, 2003; Pavlou and Chai, 2002; Salisbury, Pearson and Miller, 2001). The main aim of this study is to investigate purchasing intention of consumers at Malaysian, with a particular emphasis on

understanding and evaluating the factors which directly or indirectly influence their purchasing intention by measuring the attitude towards online shopping.

## **LITRETURE REVIEW**

Factors influencing online shopping intention and attitude toward online shopping have been researched and documented in the context of traditional consumer literature.

### **Utilitarian and hedonic shopping orientations**

Moe (2003) argues that consumers' underlying objectives of visiting a website will play a significant role in their purchase attitude towards that website. Hedonic and utilitarian consumers handle and interact with websites differently because of their different personalities and motivations. Previous studies have found that consumers' goals, such as goal-oriented (utilitarian) and experiential-oriented (hedonic), influence their online shopping behaviors (Ha & Stoel, 2004; Schlosser, 2003).

Consumers who are utilitarian have goal-oriented shopping behaviors. Utilitarian shoppers shop online based on a rational necessity that is related to a specific goal (Kim & Shim, 2002). They look for task-oriented, efficient, rational, and deliberate online shopping rather than an entertaining experience (Wolfenbarger & Gilly, 2001). In terms of the effect of utilitarian orientations, Shim, Eastlick, Lotz, & Warrington, (2001) posit that consumers who highly evaluate the utilitarian aspect of shopping will more likely use the internet for an information source. According to Ndubisi and Sinti (2006), utilitarian orientation of the website rather than hedonic orientation has a significant influence on Malaysian adoption. On the other hand, consumers who are hedonists have experiential shopping behaviors. The hedonists do not only gather information to shop online but also seek fun, fantasy, arousal, sensory stimulation, and enjoyable experiences (Monsuwe, Dellaert, & de Ruyter, 2004). In light of this, Childers *et al.* (2001) and Menon & Kahn, (2002) have confirmed that hedonic orientations for online shopping are important predictors of attitudes toward online shopping.

### **Perceived behavioral control**

Perceived behavioral control refers to one's perception of the availability of skills, resources and opportunities that may either be inhibiting for, or facilitating of behavior. It addresses both internal control (e.g. a person's skills and abilities or self-efficacy) and external constraints (e.g. opportunities and facilities) needed to perform behavior. It is a function of intention and perceived behavioral control (Barnett & Presley, 2004)

In the context of online shopping, self-efficacy (Lin, 2007; Wang, Lin, & Luarn, 2006), trust (Claire, 2005; Zhang & Tang, 2006), security (Zailani, Kheng, & Fernando, 2008), user's experiences, cost (Nysveen, Pedersen, & Thorbjørnsen, 2005; Karami, 2006), computer access and internet access (Shim *et al.*, 2001), and site accessibility (Cao and Mokhtarian, 2005) are all behavioral control factors that are important in facilitating online shopping behavior.

On the whole, there is strong theoretical and empirical support for the role of behavioral control on intentions. In the context of online shopping, behavioral control would have a positive effect on intention if consumers do not have fears of opportunistic behavior of a web retailer (Pavlou, 2002/03).

### **Online shopping Perceived benefit**

The consumers' perceived benefits are the sum of online shopping advantages or satisfactions that meet their needs or wants. There are many differences between a physical store and its electronic counterpart (Mohd Suki, Mohd Ismail, Thyagarajan, & Mohd Suki, 2006). The main opportunity provided by online shopping is that consumers can buy things whenever they want (7 days per week, 24 hours per day) and wherever they are (McKinney, 2004; Kim & Kim, 2004). In fact, consumers can also enjoy window shopping on the internet without the pressure to purchase, unlike the traditional shopping environment (Khatibi, Haque, & Karim, 2006). Most of the previous online shopping research has focused on identifying the attributes of online stores that promote success (Davis, 1989; Muyille, Moenaert, & Despontin, 2004; Shih, 2004). The reasons why consumers shop online comprised saves time/convenience (Kim & Kim, 2004; Khatibi, Haque, & Karim, 2006; McKinney, 2004), cheaper price (Chua, Khatibi & Ismail, 2006), wider selection (Chua *et al.*, 2006), fun (Parasuraman, Zeithaml, & Malhotra, 2005) homepage and customer service (Shergil and Chen, 2005).

## **RESEARCH METHOD**

### **Conceptual framework**

Behavioral intention is determined by an individual's attitude towards performing the behavior. The individual's perception of the benefits of the behavior, and the individual's self efficacy and ability to control internal and external resources on behavior in performing the intended behavior, led to the development of the Theory of Reasoned Action (TRA), Theory of Planned Behavior (TPB) and Technology Acceptance Model (TAM). From an e-business perspective, understanding of these TRA, TPB, and TAM could provide a valid basis for explaining and predicting consumers' intention towards adopting online shopping behavior (Choi & Geistfeld, 2003; Goldsmith, 2002; Pavlou & Chai, 2002). Such understanding would enable e-commerce managers to gain better insights into consumers' online shopping motivation and facilitate them in developing effective strategies towards increasing website traffic flow (Wysocki, 2000). The proposed model emphasizes the role of attitude toward online shopping as a mediator between online shopping intention with online shopping orientations, and consumer perceived benefits (Fig 1).

#### **Data collection**

A self-administered questionnaire was distributed to 500 respondents randomly. Among 500 questionnaires that were distributed, approximately 405 were returned and only 370 fully answered questionnaires from the respondents were utilized.

### **RESULTS**

#### **Demographic profile of respondents**

As depicted in Table 1, there were 64.3 percent females against 35.5 percent males. It should be noted that there were more females as compared to the males. The study also indicated that the majority of the respondents were in the 20-25 age group (43.8 %), followed by those aged between 26-30 years (29.2%), 31-35 years (16.5 %) and minority group (1.1 %) was in their 40's and above. With respect to the level of education, 59.5 percent of the respondents had masters' degrees, followed by those with doctoral philosophy (35.1 %), and Post-doctoral (5.4%), respectively. According to the level of income, the respondents with the monthly income ranging from RM 1000 to RM 2000 comprised the majority income group (37.3 %, n = 138), followed by those with the monthly income within the range of RM 2000 to RM 3000 (9 %). From the ethnic point of view, Malays comprised 44.6 percent of the study sample while Chinese and Indians comprised 40.5 percent and 13.2 percent, respectively.

#### **Internet usage**

As presented in Table2, more than half of the respondents (61.1 %) accessed the internet from their homes or apartments. Therefore, the mode for the most frequent source of access to the internet among respondents was home. Regarding the length of time the users spent per week on surfing the internet, 43.8 percent of respondents used it for more than 20 hours. While only a minority of respondents (5.7%) spent less than 5 hours per week on the internet. In addition, majority of respondents had wireless access to the internet. With regard to users' computer experience, 38.6 percent of respondents indicated having used the computer between seven and ten years while participants who reported have used computers for more than 10 years represented more than 45% of the sample.

#### **Product purchase behavior**

Regarding product purchasing, the current study results revealed the type of online purchases made by Malaysians (Table 3). In ranking order, respondents indicated they would mostly like to shop online for "computer/electronics/software" (36.9%), "book/DVD/CD" (31.18%), "clothing/accessory/shoes" (18.26%) and "food/beverage" (5.35%), while the smallest proportion of purchases included "toys" (4.24 %). Therefore, the current study results revealed that the types of products purchased online by Malaysians were similar to products purchased online by global internet shoppers (A.C.Nielsen, 2005).

#### **Level of online purchase intention**

As for the rating, the score of 3 to 6 was ranked as having low intention, the score of 7 to 10 was ranked as medium intention, and the total intention score of 11 to 15 was ranked as high intention. Table 4 indicates the high level of intention to purchase online fulfillment among the Malaysians. Approximately 39.7 % of the respondents showed a high intention, while only 8.6 % had a low intention.

#### **Direction Attitude towards Online Shopping**

As for the rating, the respondents were categorized into three groups. In brief, it reviewed the rating of 11-25 as Negative, 25-40 as Moderate and above 41 as Positive, as the indications of attitude towards online shopping. Table 5 shows a positive attitude to shop online fulfillment among the respondents. Approximately majority of the respondents (51.9%) revealed this as positive, while only 3.0 percent had a negative attitude toward online

shopping. Therefore, evaluating attitudes of target consumers towards online shopping is critical. Consequently, the group with the higher attitude score (positive attitude) should be the target market (Shwu-Ing, 2003).

### Result of Path analysis

To assess the significance of the relationships stated in the hypotheses, simultaneous regression equations were employed. In this case, path analysis was used in three models. As all possible relationship paths must be available in the Path analysis, researcher had deleted gender in the first model, age and homepage in the second model, and experience and accessibility in the third model of this analysis (Appendix). The path analysis for the factors on online shopping orientations, online shopping perceived benefits, and attitude towards online shopping reported (Model 1, Table 6) that the independent variables (utilitarian orientations, hedonic orientations, purchase convenience, homepage, price, wider selection, customer service, fun) together explained 74 percent of the variance in the attitude towards online shopping. The result of this structural equation yielded a significant  $R^2$  of 0.74,  $F(10, 359) = 614.264$ ,  $p < .001$ . The findings showed the significant correlation between purchase convenience, price, wider selection, utilitarian orientation, customer service, and attitude. Meanwhile, the attitude towards online shopping had no significant relationship with hedonic orientation, homepage and fun. As depicted in the coefficients table (Table 6), the estimated equation 1 is as below:

#### Equation 1:

$$\text{Attitude (Y)} = -3.818 + .258 (X_1) + .039 (X_2) + .881 (X_3) - .103 (X_4) + .951 (X_5) + 1.112 (X_6) + .083 (X_7) + .038 (X_8) - .296 (X_{10}) + .244 (X_{11})$$

The nine predictors of online shopping intention in the second model were utilitarian orientation, hedonic orientation, convenience, wider selection, price, customer service, fun, gender and income (Model 2, Table 7). The result of this structural equation yielded a significant  $R^2$  of 0.59  $F(9, 360) = 59.538$ ,  $p < .001$ . The findings showed the significant correlation between utilitarian orientation, hedonic orientation, convenience, price, wider selection, customer service, income, gender and shopping intention. Meanwhile, the shopping intention had no significant relationship with fun. As depicted in the coefficients table (Table 7), the estimated equation 2 is as below:

#### Equation 2

$$\text{Intention (Y)} = 0.315 + 0.163 (X_1) + .115 (X_2) + .171 (X_3) + .248 (X_5) + 1.035 (X_6) + .074 (X_7) - .043 (X_8) - .939 (X_9) + .249 (X_{11}) + e$$

The five predictors of online shopping intention in the third model were self-efficacy, trust, security, cost, and attitude towards online shopping. The five predictors' possibilities were considered in this part of regression modeling. As presented in Table 8, there was a significant relationship between attitude, self-efficacy, trust, security, cost and intention ( $R^2 = .668$ ,  $F(5, 364) = 146.53$ ,  $p < .000$ ). The findings showed the significant correlation between attitude, self-efficacy, trust, security and shopping intention. Meanwhile, the shopping intention had no significant correlation with cost.

As depicted in the coefficients table (Table 8), the estimated equation 3 is as below:

#### Equation 3

$$\text{Intention (Y)} = -4.531 + .131 (X_{12}) + .665 (X_{13}) + .157 (X_{14}) - .023 (X_{15}) + .130 (X_{18}) + e$$

Figure 2 and Table 9 illustrates the results summarized from the path analysis. When an independent variable gives out a high beta coefficient, it indicates that the variable is highly important in contributing to the prediction of the criterion variable.

### DISCUSSION AND CONCLUSION

In summary, the finding showed to gauge intention to purchase online and identified a clear fact that they possessed relatively high level online purchase intention with positive attitude towards online shopping. Prior research indicated that the more positive consumers' attitude towards their intended behaviour, the higher behaviour intention they had; the more negative the attitude towards the behaviour, the lower the behaviour intention would become (Yu & Wu, 2007). This is important because at the level of intensity of development, it is believed that attitude issues would play a significant role in the adoption of online shopping. Attributes such as fun, safety, reliable, ordered and useful are the areas on which online retailers can focus in order to improve customers' attitude towards shopping online and hence, to increase their intention to shop online. The consistency of the importance of the four factors underscores the need for retailers to place additional emphasis on improving these factors. Therefore, given the importance of attributes on online shopping for the consumers'

shopping, educating consumers about these attributes and improving or changing these attributes could change their attitude towards shopping online which, in turn, will change online shopping intention.

Moreover, the finding showed that in online shopping orientations construct, the consumers' hedonic orientation a direct effects on purchase intention while consumers' utilitarian orientation showed both direct and indirect effects on purchase intention through attitude as a mediator variable. The results are consistent with the findings in the studies by Ha and Stoel (2004), Schlosser (2003) and Ndubisi and Sinti (2006) who had found utilitarian and hedonic orientations contributed significantly to adoption intention. Besides, Ndubisi and Sinti (2006) suggested that only utilitarian orientated was more positive significantly associated with intention. Therefore, it is recommended that marketers and website designers who work with them focus on means of enhancing the utilitarian value of retail sites, providing ease of navigation, complete information availability, convenient ordering and options for delivery, so as not to put off those shoppers who visit for primary functional reasons.

As revealed by the results, in construct of perceived benefits, and this is convenience and price had both direct and indirect effects on the intention to purchase online while wider selection and customer service were other dominant factors in the construct of perceived benefits that influenced intention to purchase online indirectly through attitude towards online shopping as mediator variable. As revealed by the results, convenience, price, wider selection and customer service were the most common factor which motivated the consumers to purchase through the internet, and this is in line with the findings yielded by several researchers in line with the findings yielded by several researchers Khatibi *et al.*, 2006; Kim and Kim, 2004; McKinney, 2004; Chua *et al.* (2006). Therefore, online retailers need to ensure that the online shopping process through their websites should be making as easy, simple and convenient as possible for consumers to shop online. The websites should also be designed in such a way that they are not too confusing for potential new buyers, particularly among consumers, who may not be familiar with this new form of shopping. In addition, online retailers need to provide competitive price for products in order to attract online shoppers to their websites and encourage them to make purchase decisions. However, this will lead to intense price competition and is therefore expected to increase even further with the availability of intelligent search engines and comparative shopping agents which enable online consumers to easily compare product offerings from various online retailers. Thus, in order to avoid intense price competition, online retailers need to find other ways to differentiate themselves from their competitors.

In addition, the result showed that only self-efficacy, trust and security in perceived behavioural control construct were positively associated with intention to purchase online. The finding matched the result yielded by Lin, (2007) and Wang *et al.* (2006); Claire, 2005; Zhang & Tang, (2006); Zailani *et al.* (2008). More specifically, consumers' perception of the trust for online purchasing exhibited significant relationships with their online buying intention. If the consumers can be convinced that online purchasing is safe and reliable, the potential will be unleashed. There is a need for online retailers to develop a privacy policy for their customers on disclosure of personal information in order to lessen their concerns for privacy.

Finally, it is important to understand that the age and income were found to be significant, directly and indirectly related with intention to purchase online, while gender was only found to be the direct variable in determining the consumers' intention to purchase online. This is consistent with the findings by Monsuwe *et al.* (2004); Shwu-Ing (2003) and Wood (2002). Although, internet access rate is higher among Malaysians, it is not being used mostly for online shopping and therefore, e-marketers must concurrently execute strategies to maintain their attraction to younger consumers and it must extend sensitive orientations on ways of boosting online sales. Malaysia needs to establish great strides in education and training of IT knowledge, as well.

REFERENCES AND TABLES: Please contact authors for references and tables referenced in this article which number an additional 25 pages.

# **PREDICTING EMPLOYEE WORK ENGAGEMENT FROM LEADER MEMBER RELATIONSHIP AND ORGANIZATIONAL JUSTICE: EVIDENCE FROM AN AIRLINE INDUSTRY**

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The paper examines the role that organizational justice plays in determining employees' work engagement and the way quality of leader-subordinate relationship (LMX) mediates this association. Data was obtained from an airline company from the middle-east. Sample consisted of 218 employees from several job levels who responded to a questionnaire measuring the study variables. Results indicated that distributive and procedural justice perception promoted quality relationship between leader and subordinate and higher quality of leader-subordinate relationship contributed to employees' work engagement. Among the three organizational justice factors, only interactional justice was related to employee work engagement. The study found a full mediation effect of LMX on interactional justice and employee work engagement relationship.

## **Introduction**

The concept of employee work engagement (EWE) is relatively new but is attracting a lot of attention of researchers and management practitioners (Robbins & Judge, 2009, Hallberg & Schaufeli, 2006). It is observed that highly engaged employees have a passion for their work and feel deeply connected to their workplace. It is thus defined as a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption. Rather than a momentary and specific state, engagement refers to a more persistent and pervasive affective cognitive state that is not focused on any particular object, event, individual, or behavior. Vigor is characterized by high levels of energy and mental resilience while working, the willingness to invest effort in one's work, and persistence even in the face of difficulties. Dedication is characterized by a sense of significance, enthusiasm, inspiration, pride, and challenge. Absorption is characterized by being fully concentrated and deeply engrossed in one's work, whereby time passes quickly and one has difficulties with detaching oneself from work. (Schaufeli & Bakker, 2001; Schaufeli & Bakker, 2004).

Research studies on the organizational outcome of employee work engagement have shown very encouraging results. For example, Harter, Schmidt, and Hayes (2002) conducted a survey of approximately 8000 business units in 36 companies and reported that compared with other companies, those whose employees had high-average levels of engagement had higher levels of customer satisfaction, were more productive, had higher profits, and had lower levels of turnover and accidents. Companies like Caterpillar took initiative to increase employee engagement that resulted in an 80 percent drop in grievances and a 34 percent increase in highly satisfied customers (Lockwood, 2007). Several recent studies have confirmed that employee engagement predicts employees' performance, satisfaction, organizational success, and organization's financial performance (Bates, 2004; Baumruk, 2004; Harter *et al.*, 2002; Richman, 2006).

Robbins and Judge (2009) argue that engagement becomes a real concern for most organizations because surveys indicate that few employees—between 17 to 29 per cent—are highly engaged by their work. There is a deepening disengagement among employees worldwide today (Bates, 2004; Richman, 2006). It has even been argued that the majority of workers today, roughly half of all Americans in the workforce, are not fully engaged or are disengaged, costing US businesses \$300 billion a year in lost productivity (Bates, 2004; Johnson, 2004). In United Kingdom, estimates of the cost of disengaged workers on the British economy range between £37.2 billion and £38.9 billion (Flade, 2003). According to him, only 19% of the total British workforce is engaged while 61% and 20% are not engaged and actively disengaged respectively.

Several factors contribute to employee engagement. In his study on the psychological conditions of personal engagement and disengagement at work, Kahn (1990) found that there were three psychological conditions associated with engagement or disengagement at work, namely, meaningfulness, safety and availability. To examine Kahn Model, May *et al* (2004) conducted an empirical study and found that meaningfulness, safety and availability were significantly related to engagement. Meaningfulness refers to the "feeling that one is receiving a return on investments of one's self in a currency of physical, cognitive or emotional energy" (Kahn, 1990). It is measured by how much employees find their job has purpose, significance, and importance and how much they feel they are valued and appreciated in the organization. Safety is defined as "feeling able to show and employ one's self without fear of negative consequences to self-image, status or career" (Kahn, 1990). Availability consists of one's "sense of having the physical, emotional or psychological resources to bring the self into his/her work role" (Kahn, 1990). In the same study, it was also found that job enrichment and role fit were positive predictors of meaningfulness; rewarding co-worker and supportive supervisor relations were



positive predictors of safety while adherence to co-worker norms and self-consciousness were negative predictors; and resources available was a positive predictor of psychological availability while participation in outside activities was a negative predictor.

Gubman (1998) suggested that the five factors that impact employee engagement can be categorized as (a) shared values/sense of purpose – the alignment between employee and organizational values; (b) quality of work life – employees' satisfaction with the work environment; (c) job task – how interesting and challenging the work is; (d) relationships – employees' level of satisfaction with all work-related relationships; (e) total compensation – salary, benefits, and financial recognition; (f) opportunities for growth – learning and development opportunities and chances for advancement; and (g) leadership – the level of trust between employees and leaders.

Another model of engagement comes from the burnout literature which describes job engagement as the positive antithesis of burnout (Maslach *et al.*, 2001). In their structural model, Maslach *et al.* argued that the presence of specific demands (e.g., work overload and personal conflicts) and the absence of specific resource (e.g., social support, autonomy, and decision involvement) predicts burnout, which in turn, is expected to lead to various negative outcomes such as physical illness, turnover, absenteeism, and diminished organizational commitment.

Job demands are defined as “physical, social, or organizational aspects of the job that require sustained physical and/or mental efforts” (Demerouti *et al.*, 2001). In situations that require high effort to sustain an expected performance level, those demands may become stressors and, therefore, associated with negative outcomes, such as anxiety, depression, and exhaustion. On the other hand, resources influence job engagement through the motivational process (Schaufeli & Bakker, 2004). Resources refer to “physical, social, or organizational aspects of the job that may: (1) be functional in achieving work goals; (2) reduce job demands and the associated physiological and psychological costs; and (3) stimulate personal growth and development” (Demerouti *et al.*, 2001).

In their recent study, Bakker and Demerouti, (2007) examined the Job Demands–Resources model (JD–R) and hypothesized that job demands often lead to emotional exhaustion and health problems, whereas job resources facilitate high work engagement, as well as buffering the effects of work demands on emotional experience (Schaufeli & Bakker, 2004). As identified from previous studies, job demands include workload, time pressure, unfavorable physical environment, and difficult interactions with customers. Job resources, however, may include performance feedback, rewards, job control, and social support of colleagues and supervisors.

The last model of the antecedents and consequences of job and organization engagement was recently developed by Saks (2006). The results indicated that there is a meaningful difference between job and organizational engagement. It was found that perceived organizational support predicts both engagements while job characteristics only predicted job engagement. Furthermore, procedural justice predicted organizational engagement. Saks uses Social Exchange Theory (SET) as the basis of his theoretical rationale, that is, employees will choose to engage themselves to varying degrees and in response to the resources they receive from their organization. Engaged employees are more likely to have a high-quality relationship with their employer leading them to also have more positive attitudes, intentions, and behaviors.

Saks (2006) finding supports Leader-member exchange (LMX) theory that predicts several positive employee outcomes such as organizational citizenship behavior, job satisfaction, organizational commitment, and intention to stay from high quality of leader-subordinate relationships (Dansereau, Graen, & Haga, 1975, Liden *et al.*, 1997; Settoon *et al.*, 1997, Hassan & Chandran, 2005).

The development of LMX is theoretically rooted in the role theory and social exchange theory (Katz & Kahn, 1978; Blau, 1964). Graen & Scandura (1987) proposed a three-phase model of LMX development including role taking, role making, and role routinisation. In the initial dyadic exchange (role-taking), a leader initiates an assignment of tasks and begins to evaluate the behavior of the member and then makes a decision regarding that behavior. He also gathers important information regarding the member's potential for tasks in this phase. The exchange in the role-taking phase is based on economic transactions (Graen & Scandura, 1987).

After this stage, the role-making phase begins. Role-making is a continuation of the developmental process in which further exchanges are made (Bauer & Green, 1996). Graen and Uhl-Bien (1995) called this the acquaintance stage. During this stage, the leader and member evolve how each will behave in various situations and begin to define the nature of their dyadic relationship (Graen & Scandura, 1987). If a dyad is developing into a high quality exchange relationship, the exchange becomes more social and less economic (Graen & Uhl-Bien, 1995). Conversely, if the relationship is not evolving to the next level, the relationship will remain based

on the employment contract (Bauer & Green, 1996). Therefore, role-making is built on the mutual contribution of valued resources. Each party must offer something that the other party sees as valuable, and each party must see the exchange as reasonably fair (Graen & Scandura, 1987). This is the stage at which behavioral aspects of trust come into play. The leader is taking a risk by delegating work to the member (Bauer & Green, 1996).

After the role-making stage, the behaviors of a leader and a member are much more predictable through role routinization. The exchange is maintained over time through the process of collaborating on different tasks. The dyadic relationship involves the relational dimensions of trust, respect, loyalty, liking, support, and quality. The exchange of resources of the leader for collaboration on tasks by the member is controlled by mutual expectations (Graen and Scandura, 1987). However, due to the limited resources available to leaders for exchange and the investment of time necessary, a high quality of exchange tends to be developed and maintained in a limited number of leader-member dyads (Dienesch & Linden, 1986; Graen, 1976).

The social exchange theory, on the other hand, does not focus on the role of leader and followers as is the case in the role theory. It focuses on the exchange between them instead. Liden et al. (1997) described leader-member relationship development as a series of steps that begins with the initial interaction between the members of a dyad. This initial interaction is followed by a sequence of exchanges in which individuals test one another to determine whether they can build trust, respect and obligation necessary for high quality exchanges (Uhl-Bien et al., 2000). If reception of an exchange behavior is positive, the individuals continue the exchanges. But if the response to an exchange is not positive or if the exchange never occurs, opportunities to develop high quality exchanges are limited and relationships will likely remain at lower levels of LMX development (Dienesch & Linden, 1986; Uhl-Bien et al., 2000).

Both the job demand vs. resource model and LMX theory of leader-subordinate relationship argue that employee who receive higher economic and socio-emotional exchange of resources are more likely to bring themselves deeply in their jobs and to be more engaged as a repayment to the organization resource. It is, therefore, hypothesized that:

*H1: High quality of LMX will positively contribute to employee engagement.*

#### *Organizational Justice and Employee Engagement*

Organizational justice is defined as the employees' perception of fairness and justice in the organizations (Adams, 1965). Specifically, organizational justice is concerned with the ways in which employees determine if they have been treated fairly in their jobs and the ways in which those determinations influence other work related variables (Mooreman, 1991). There is a general consensus that organizational justice consists of at least two components, namely, distributive and procedural justice. The former is concerned with perception of fairness in distribution of reward, whereas the latter relates to the fairness of the process of allocation decisions (Adams, 1965). A number of procedural justice criteria have been outlined, such as opportunities for control of the processes and the outcomes, ability to voice one's view points (Folger & Cropanzano, 1998) consistency, lack of bias, availability of appeal mechanisms, accuracy, and following ethical and moral norms (Leventhal, 1980). Bias and Moag (1986) added another component, namely, interactional justice, which focused on the way employees were treated by decision makers in the organization and whether they show respect, sensitivity to individual differences, and explain decisions thoroughly.

Organizational justice construct has been widely used to predict employees' attitude and behavior, such as job satisfaction, turnover intention, organizational citizenship, organizational commitment, and extra-role behavior (Colquitt et al., 2001; Hassan & Mohd. Noor, 2008; Martin and Bennett, 1996; Masterson et al., 2000; Sweeney & McFarlin, 1993). However, little empirical knowledge is available on the linkages between organizational justice and employee engagement.

Drawing evidence from the organizational justice researches and job demand vs. resource model, we propose the following hypothesis.

*H2: All the three components of organizational justice, namely, distributive, procedural, and interactional, will positively contribute to employee work engagement.*

The perception of organizational justice is fostered with better quality relationship between leader and the subordinate (Lee, 2000; Lee, 2001; Tansky, 1993; Bias & Shapiro, 1987). As conceived in the LMX theory the dyadic relationship is based on trust, confidence, and support for in-group members. This may not be the case with out-group members. The nature of this relationship is expected to promote perception of organizational

justice among the in-group members but not in out-groups. Support for this hypothesis has come from few studies (Hassan & Chandaran, 2005; Tansky, 1993). Gubman (1998) identified level of trust between leader and subordinates as one of the five determinants of employee engagement. Kozlowski and Doherty (1989) reported that the nature of interactions between leaders and subordinates mediates and structures subordinates interpretations of organizational practices and events. As such, we hypothesize that:

*H3: LMX will mediate the relationship between organizational justice and employee work engagement.*

## Methods

**Sample:** The study was conducted in an airline company located in the middle-east. A sample of 218 ground staff, working at the headquarters of the company, participated in the study. Purposive random sampling technique was used as data were collected with the help of personal contacts of the second author who is employed with this company. Sample represented several job categories such as, accountants, managers, passenger handling officers, reservation agents, sales employees, and supervisors. On an average they had worked with this organization for 8.4 years (SD = 8.24). The age distribution ranged from 21 to 53 years and the mean age was 30.85 (SD = 7.26). About 66 per cent of them were below 30 years in age, 66.5% (n =145) of them were males and almost 80 per cent of them were having graduate level educational qualification.

**Instruments:** Following scales were used in the study.

- Organizational Justice Perception Scale:** Colquitt's (2001) 20-item organizational justice scale was used to measure employees' perception of procedural, distributive, and interactional justice. Examples of items for the three scale dimensions are: Were the rules and procedures adopted to make decisions in your workplace free from bias? (Procedural justice); does the outcome of these decisions reflects reflect the effort you have put into work? (Distributive justice); has the person who makes decisions at your workplace treated you in a polite manner? (Interactional justice).
- LMX Scale:** LMX was measured by a 7-item scale developed by Scandura and Graen (1984). The items measured the quality of supervisor-subordinates relationship (LMX). Sample items were: "I usually know how satisfied my supervisor is with what I do", and "I have effective relationship with my supervisor".
- Employee Work Engagement Scale:** Utrecht Work Engagement Scale (UWES; Schaufeli *et al.*, 2006a) was used to measure employee work engagement. The UWES is composed of three subscales, namely, vigor (Example: At my work, I feel bursting with energy vigor), dedication (Example = I am enthusiastic about my job) and absorption (Example = I get forget other issues and get carried away when I am working). Each dimension is measured by three items.

All the measures used 7-point Likert scale (1= "not at all" to 7= "to a great extent"). The instruments were translated into Arabic and then back translated into English to establish the accuracy.

## Results

The descriptive statistics, reliability, and Intercorrelations among the variables are displayed in Table 1.

Table 1: Means, SD, Cronbach alphas and correlation among study variables

Factor	Mean	SD	1	2	3	4	5	6	7	8
PJ	3.25	1.56	.88							
DJ	3.34	1.82	.684**	.90						
IJ	4.13	1.71	.558**	.450**	.94					
LMX	3.94	1.68	.474**	.438**	.773**	.91				
Vigor	4.76	1.90	.341**	.313**	.445**	.474**	.87			
Dedication	5.13	1.72	.377**	.316**	.449**	.446**	.758**	.86		
Absorption	5.11	1.43	.332**	.268**	.371**	.386**	.711**	.747**	.75	
EWE Total	5.00	1.47	.386**	.331**	.467**	.490**	.913**	.924**	.889**	.92

Notes: N =218; \*\*p < 0.01; diagonal entries in italics indicate coefficient alpha; Numbers in parentheses denote the number of items in the scale.

As displayed in Table 1 alpha values for all the scale and subscales were quite high and ranged from .94 for IJ to .75 for absorption facet of EWE scale. Mean scores indicated lower levels of endorsement for the three organizational justice dimensions. The lowest among them was procedural justice (Mean = 3.25 on a 7-point scale). Quality of leader-subordinate also turned out to be on the lower side with the mean score of 3.94 on the LMX dimension. However, the employees were generally positive when endorsing their level of work engagement especially when it came to dedication. Overall, the total engagement mean was 5 on a 7-point scale. Correlations among all the variables were significant.

Multiple regression analysis was employed to test the hypotheses.

#### Organizational Justice and LMX

Table 2 shows the contribution of organizational justice and demographic factors on the quality of dyadic relationship (LMX).

Table 2: Organizational justice and demographic factors as predictor of LMX

Independent Variables	Std. $\beta$
Procedural Justice	-.03
Distributive Justice	.13*
Interactional Justice	.72***
Age	.03
Gender (Male = 1)	.00
Education (Lower secondary = 1)	.03
Experience	.06
* $p < .05$ ; *** $p < .000$ Adj. $R^2 = .065$ ( $F = 43.00$ , $p < .000$ )	

The result indicated significant contribution of two factors, namely, distributive and interactional justice on LMX—the latter stronger than the former.

#### Organizational Justice and Employee Work Engagement

Table 3 presents the regression results predicting employees work engagement from organizational justice and demographic variables.

Table 3: Organizational justice and demographic factors as predictor of EWE

Independent Variables	Std. $\beta$
Procedural Justice	.14
Distributive Justice	.14
Interactional Justice	.29***
Age	.06
Gender (Male = 1)	.13*
Education (Lower secondary = 1)	.04
Experience	-.13
* $p < .05$ ; *** $p < .000$ Adj. $R^2 = .21$ ( $F = 8.62$ , $p < .000$ )	

Only interactional justice yielded significant contribution to employee work engagement. Apart from that gender EWE relationship appeared significant showing females more engaged in their work compared to males.

#### LMX and Employee Work Engagement

Table 4 displays the regression predicting EWE from LMX and demographic variables.

Table 4: LMX and demographic factors as predictor of Employee Work Engagement

Predictors	Std. $\beta$
LMX	.49***
Age	.04
Gender (Male = 1)	.11
Education (Lower secondary = 1)	.05
Experience	.12
*** $p < .000$ Adj. $R^2 = .22$ (F = 11.91, $p < .000$ )	

LMX turned out to be significantly associated with work engagement. Regression result in Table 4 shows no significant contribution of any other factor.

#### LMX as Mediator of OJ and EWE Relationship

According to by McKinnon, Warsi and Dwyer (1995) four conditions are required to test the mediating effect of a variable on the relationship between independent and dependent variable. First, the independent variable (PJ, DJ, and IJ) significantly affects the mediator (LMX). Second, the independent variable significantly affects the dependent variables (EWE). Third, the mediator (LMX) has significant unique effect on dependent variable. Fourth, the effect of the independent variable on the dependent variables will be reduced when the mediators are added to the model. According to Baron and Kenny (1986), after controlling for the mediator variables (LMX), the power of the independent variable (PJ, DJ, and IJ) to predict the dependent variables (EWE) should become smaller or not significant at all. If the significance became smaller, it explains that partial mediation exists on the dependent variable. However, full mediation exists if the contribution becomes insignificant.

Regression results indicated that only two all independent variables, namely, DJ, and IJ were significantly associated with the mediating variable i.e., LMX. Furthermore, among the three organizational justice facets (Independent variables) only one, namely, interactional justice significantly predicted EWE. However, LMX (Mediating variable) was significantly related to EWE (Dependent variable).

When only one independent variable, namely, interactional justice fulfilled all the conditions we decided to examine the mediating role of LMX only on interactional justice and employee work engagement relationship. Table 5 presents the result.

Table 5: LMX as mediator of interactional justice and Employee Work Engagement

Predictors	Std. $\beta$
LMX	.36***
Interactional Justice	.16
Age	.03
Gender (Male = 1)	.11
Education (Lower secondary = 1)	.05
Experience	-.10
* *** $p < .000$ Adj. $R^2 = .22$ (F = 10.44, $p < .000$ )	

Result entered in Table 5 shows full mediation effect of LMX on interactional justice and employee work engagement relationship.

#### Discussion

The present study draws hypothesis from other studies which have demonstrated positive contribution of LMX on employees' attitude and behavior such as job satisfaction, organizational commitment and intention to stay ((Graen, Novak, & Sommerkamp, 1982; Rosse & Kraut, 1983; Hassan and Chandaran, 2005).

Also using job demand vs. resource model (Maslach *et al.*, 2001; Bakker & Demerouti, 2007; Schaufeli & Bakker, 2004) as the theoretical basis we argue that quality of dyadic relationship between leader and subordinate is a resource that builds positive work attitude over time. The study, therefore, expected a positive

relationship between LMX and employees work engagement (H1). The results supported this hypothesis. It is in line with Saks (2006) observation that engaged employees are more likely to have a high-quality relationship with their leaders leading them to also have more positive attitudes, intentions, and behaviors (Saks, 2006).

However, hypothesis 2 was partially supported from the result as only interactional justice was found to be contributing to employees' work engagement. Procedural and distributive justice factors did not yield any significant impact on engagement. This seems to be unique findings as it goes against the results of other studies which demonstrate significant contributions of distributive and procedural factors on employees' attitude and behavior such as organizational commitment (Hassan, 2002; Lawler, 1977; Martin & Bennet, 1996). Perhaps in the Arab cultural context nothing assumes greater importance than interactional justice. Procedural and distributive aspects of organizational justice are given less importance. It was interesting to note that gender played a significant role in employees' engagement and females were found to be more engaged than males.

Hypothesis 3 had expected mediation effect of LMX on all three facets of organizational justice and engagement relationship. However, only interactional justice and engagement linkages fulfilled the conditions and yielded full mediation effect. The finding again reinforces the importance of quality of dyadic relationship between leader and subordinate in the workplace in promoting employees' work engagement. Organizational practices like treating employees with respect and dignity contribute to employees' work engagement if it is mediated by high quality of relationship that employees enjoy with their superiors.

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# OPENING THE BLACK BOX OF LEADERSHIP IN THE SUCCESSFUL DEVELOPMENT OF LOCAL E-GOVERNMENT INITIATIVE IN A DEVELOPING COUNTRY

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## Abstract

Leadership has been identified as one of the most important factor in the development of e-government especially in developing countries. Unfortunately, empirical studies on the role of leadership on e-government development are very limited. In addition these limited studies did not comprehensively discuss how leadership is exercised in implementing e-government projects that were involved in social, political, as well as technological transformation. Using the four steps of Actor- Network Theory (ANT) process, this paper presents detailed action taken by a leader in the development of a successful local e-government system. The paper argues that ANT process provides an appropriate framework to trace how leadership should be practiced in an e-government initiative.

Keywords: E-government, developing country, actor network theory, leadership.

## 1. Introduction

E-government development has never been an easy task. In many developed countries, e-government failed to meet the initial promise to promote better public participation and improve administrative efficiency (Bolgherini, 2007). But in developing countries, e-government development faced more fundamental problems that include the lack of appropriate technological infrastructure, limited financial and human resources, and its incompatibility to their political, social, as well as the cultural dimensions (Nguyen & Schauder, 2007; Imran & Gregor, 2007). These might explain why 85 % e-government initiatives in developing countries failed (Heeks, 2003). Therefore, Ciborra (2005) argues that e-government is not suitable for developing countries and even Fife and Hosman (2007) suggest instead spending money for 'bread' rather than for 'broad-band.'

However, there are some reports of successful e-government initiatives in developing countries. Gudea (2007) reported a successful cooperative approach and innovative strategy to develop home grown internet in Romania. Karanasios (2007) gave evidence how small tourism enterprise successfully copes with digital divide in Ecuador. Misra (2007) described how self reliance approach contributed to successful e-government implementation in India. Meanwhile Furuho and Wahid (2008) presented a successful municipal level e-government project in Indonesia.

By considering the differences in technological readiness and other cultural factors, the development of e-government in developing countries should not adopt fully the strategies and approaches as practiced in the developed countries (Chen et al., 2006). Some researches (Stanforth, 2006; Akhter et al., 2007; Imran & Gregor, 2007) proposed to focus more on the social and political context surrounding the project and less focus on technological domain. Among these social and political factors, leadership seems very important and crucial. Since 2001 Accenture has been reporting that leadership is the most important factor among others such as political will, commitment, and accountability. Ebrahim and Irani (2005) also argued that strong government leadership was needed to support the organizational and procedural change during the development of e-government. Meanwhile, Torres et al. (2005) and Kim et al. (2009) identified that strong leadership was considered as the most outstanding drivers to e-government. Specific to developing countries, Imran & Gregor (2007) observed that leadership vision and willingness to initiate change within the government sector as one of other important strategies in addition to the incremental approach to development and sensitivity to local and cultural needs.

Despite its vital role, there were few empirical studies that investigated the role of leadership in the development of e-government (Prybutok et al., 2008). From these limited studies, leadership was always discussed as an important and crucial factor for e-government development but was never thoroughly described on how it was practiced. Leadership as a form of social influence process was rarely discussed (Pye, 2005). Consequently, most articles on leadership and e-government development only identified some characteristics attributed to an effective or a strong leadership. To respond to this challenge, the article provides a case study on how effective leadership roles are practiced in a successful development of local e-government initiative in Indonesia.

Following this introduction, the paper presents a brief literature review on e-government development, leadership and ANT. This will be followed by research methodology, a short description of the case, four steps of ANT process, case analysis and concluding remark.



## **2. Brief Literature Review**

### **2.1. E-government development**

Although ICT is the main trigger and driver for e-government initiatives, its recognition as merely to provide technology for delivering services to citizen is not appropriate since such conceptualization lacks emphasis on the needed process of transformation (Bhatnagar, 2004). Therefore, e-government is better conceptualized as the processes which resulted in e-government end-products (Grant & Chau, 2005). Understanding these processes will help recognize its key players and the consequences of power redistribution among involved actors (Jonas, 2000). Moreover, conceptualizing e-government from process perspective will reveal many radical changes needed before a certain service is delivered to citizen. These changes include formulating new business processes, adjusting information flows, managing changed policies, mastering new kinds of data recording, and implementing new system security. These intense transformational works make leadership very critical (Dawes, 2002).

Despite being complex and difficult, many government agencies embrace e-government. Central as well as local governments all over the world are moving toward e-government. There are many reports on e-government development not only from developed countries but also from developing and less developed countries (Sahu, 2006). Though the motive varies (Helbig et al., 2009), most e-government initiatives are directed to transform into a better government in providing services to citizens. Unfortunately, the failure rate of such initiative is very high as the partial and total failures reach 85 % (Heeks, 2003). Special attention should then be directed to e-government development in developing countries to reduce the wastage of their limited resources.

Some researchers paid attention to key success factors and strategies used. Generally, the most common strategy proposed was to focus more on assuring bureaucratic reform rather than employing sophisticated technologies. Since such reform was difficult then it was carried out by significantly incorporating the social and political context (Ndou, 2004). In other words, e-government development in developing countries should consider the countries characteristic and condition (Chen et al., 2006) such as of self-reliance that had been identified very effective strategy in many successful e-government development in India (Misra, 2007). Another proposed strategy was the stakeholder participation since understanding between the roles of government agencies and its citizen created a more profound impact than technology (Akhter et al., 2007; Anthopoulos et al., 2007). However, stakeholders had different motives and even had conflicting interest (Rahul De', 2005). Using this understanding, Stanforth (2006) argued that any e-government initiative should recognize its nature as information system in which its outcome was the result of contested interest of actors linked together in complex network.

### **2.2. The role of leadership**

Executing above mentioned strategy needs a strong leadership since it concerns about changing or moving the present condition to a differently new situation. This assertion was supported by many research findings that leadership did matter along e-government development cycle. Leadership is necessary before, during and after e-government project implementation (Ndou, 2004). For example, the clearly articulated vision of the Singapore government had inspired mindset changes and enabled government agencies to understand the move toward e-government in the country (Ke & Wei, 2004). Meanwhile managerial innovativeness and managerial orientation were the most compelling determinants of municipal e-government adoption (Moon & Norris, 2005). Similarly, lack of leadership was the main constraint to e-government development (Gautam, 2006). Even, inadequate leadership was the source of failure for e-government (Gauld, 2007; Wong et al. (2007).

It has been recognized that leadership plays important role in e-government but empirical studies on them are rather limited (Prybutok et al., 2008). The few studies on e-government and leadership focused only on outlining some important features of an effective leadership related to vision provision, commitment assurance or political will and failed to describe how such features were exercised in government work setting that was much influenced by political negotiation and constrained by rules and regulations. This was because understanding the more static notion of leadership which implies some set of personal competencies was simpler compared to exploring the process of enacting, organizing, explaining, and managing collective movement/action (Pye et al., 2005). Beside, understanding how leadership is exercised in e-government development also requires employing a theoretical framework suitable for capturing its complexity as socio-technical arrangement as well as recognizing its power and political alignment. Therefore, understanding the role of political leadership would have a significant contribution to e-government development.

Morrel and Hardley (2006) argued that four main approaches of leadership theory namely trait, contingency, situational, and constitutive approaches, were not enough to understand the role of political leadership. They proposed the use of figurational sociology to develop a model for political leadership because 'figuration' (that referred to a network of interdependent actors and the actors themselves) provided a useful shorthand framework to talk about relationally complex domains that characterize the different arenas of politics. However, though this sociology pays strong emphasis on network and actor but it has no framework to understand network formation as in ANT. Meanwhile Drath et al. (2008) proposed a new ontology on leadership

which was totally different from the common tripod ontology which included entity of leaders, followers, and shared goals. They proposed instead a DAC ontology in which the essential entities were three leadership outcomes: “(a) direction: widespread agreement in a collective on overall goals, aims, and mission; (b) alignment: the organization and coordination of knowledge and work in a collective; and (c) commitment: the willingness of members of a collective to subsume their own interests and benefit within the collective interest and benefit.” While leadership model based on figurational sociology is close to ANT in general and DAC model is close to ANT process in particular but four steps of ANT process seems more comprehensive and has never been used as a model for understanding leadership in general and e-government leadership in particular. We believe that doing empirical study to comprehensively analyze the role of leadership during e-government development using ANT will not only contribute to the knowledge of e-government but will also provide useful lessons to be practiced.

### 2.3. Actor-Network Theory (ANT)

ANT, especially its concept of ‘four moment of process’ or four-step process (Callon, 1986) is chosen as the theoretical framework to understand the leadership role in e-government initiative for several reasons.

- a. ANT analysis focuses on tracing actor’s action to form and stabilize network of relationship involving human and non-human entities (Callon, 1986; Law, 1992). This kind of analysis could be used to understand the role of leadership in any innovation activity such as e-government development.
- b. Compared to leadership framework which was based on figurational sociology or DAC ontology, the four steps of ANT process provide more detailed and comprehensive framework to open up the notion of leadership that most researchers take for granted or easily considers it as a black-box.
- c. ANT has a rich vocabulary to deal especially with socio-technical reality and power redistribution that always become the main theme for e-government development and its leadership role. It is especially important as Scholl (2007) has identified that since 2002 e-government research has broadened its research perspective beyond the role of information systems and to include in the field of study the “complex socio-technical work reality” in public administration.

So far, ANT had been used to study the influence of power negotiation among involved actors in an innovation project trajectory (Law & Callon, 1992; Heeks & Stanforth, 2007). ANT then became a well known theory to understand information system development for its development always involved interest alignment. However, there were only few studies on e-government development using ANT since it was a relatively new discipline. Madon et al. (2004) employed ANT’s four steps of process concept to trace the development of taxation system in India. Heeks and Stanforth (2007) used ANT’s concept of global/local framework to understand the development of e-government by Indian Ministry of Finance. Ochara (2009) used ANT to trace inscription process in the development of e-government in Kenya and found that global actors’ interest were stronger inscribed than the local actors’ interest. They concluded that ANT helped analyze the ways in which actors formed alliances and enrolled other actors to strengthen such alliances surrounding a technology innovation.

Although ANT is an appropriate theoretical framework to understand the dynamic of power alignment and negotiation during the e-government development and at the same time leadership has been identified as the most important factor but there is no study to analyze how leadership behavior is acted upon using ANT. If ANT has been proven as a useful framework to recognize the process of forming actors’ alliance and mobilizing them in an innovation project then ANT seems also to be a suitable framework to trace how leader practice or lead an e-government initiative. Since leading is very close to the notion “of movement, of progress, of transition from one place to another, literally and metaphorically” (Pye et al., 2005 p.35) then it is also very close to the notion of ANT process for “to translate” is to move or to displace (Callon, 1986; Law, 2007).

### 3. Methodology

Data used for this interpretive study were gathered from a one stop service project located at Badan Pelayanan Terpadu /BPT (Bureau of Integrated Services) of Sragen regency Central Java Indonesia. From now on, the project will be referred as Sragen One Stop Service (SOSS). Data gathered include factual (numerical), textual, audio, and visual event. Data were collected by observing at the project site for two months, inquiring archival documents, and recording semi structured interviews. The interviews were conducted in local language and involved nine managing staffs of SOSS, three heads of offices, two citizens, and the top leader of Sragen regency referred to as ‘Bupati’. All interview sessions lasted from 30 to 90 minutes. Recorded interviews were transcribed fully before they were extracted to several themes and analyzed interpretively. Since SOSS was perceived beyond information system but by using a broader perspective as complex socio-technical reality then the topical theme (Rychards, 2005) to extract information from interviews were developed based on the four steps of ANT process framework and on some constructs from information system perspective. Due to limited space, the paper does not provide the extracted themes.

Since following the actor(s) is the basis of ANT analysis (Callon, 1986; Latour, 1996) then what will be described in the analysis section is mainly tracing the various decisions and actions taken by the Bupati of

Sragen starting from the conceptualization to the implementation of SOSS through the lens of four steps of ANT process. Of course, following him does not mean that information used for analysis solely rely on his words. The analysis will also be based on some related stipulations, publications, and video recording of SOSS as well. Since ANT analysis requires treating human and non-human actors fairly and equally then it will be based on three principles of agnosticism, generalized symmetry and free association (Callon, 1986). The analysis will be carried out consecutively from problematization to mobilization. The interpretation of each moment will be guided by some set of principles given by Alvesson & Skoldberg (2000). Though most ANT lead studies did not specify their mode of interpretation, this study used hermeneutics-like approach to guide the analysis by linking each moment with its social and political context. As suggested by Walsham (1997), ANT analysis could be enriched by supplementing it with other social theory. Moreover, using this kind of interpretation could be considered as employing simultaneously micro, mezzo and macro analysis that is typical to ANT (Law, 1992, Doolin & Lowe, 2002).

#### **4. Four Moments of ANT Framework**

ANT holds basic ontological assumption that social reality is a complex network of relationship that always involves human and non-human entities (Law, 1992). There is no purely social or purely technical world but is rather a socio-technical one (Law, 1991). ANT also holds radical assumption that neither human nor non-human should be given a privilege in determining the stability of certain social reality. ANT also rejects essentialism and instead embraces rationality point of view by stating that both human and non-human entities are just an effect or outcome of a network. In other words, actors, both individual and collective, are defined and interactively constituted in their relationships with other actors in the network (Doolin & Lowe, 2002). These ontological assumptions are the underlying basis for the three principles in ANT analysis that have been mentioned above.

In perceiving certain social reality such as an organization, an information system, or an e-government system, ANT refers all entities (human or non-human) involved in this complex network of heterogeneous element as actors. Hence, actors are defined as 'entities that do things' (Latour, 1992). Based on this minimal definition, actor not only refers to human or non-human entity but it also refers to simple as well as complex entity. Therefore, an actor could essentially be a network of other heterogeneous entities. For this reason, ANT uses term "actor-network" to refer any social element.

In understanding complex social reality, ANT allows to treat durable or stable actor-network as a black box and therefore, it does not need to pay attention on its internal complex relationship but may focus only on its inputs and outputs (May & Powel, 2008). Conversely, an established social system that mostly perceived as durable black box could be opened up and analyzed as an actor-network by tracing all its relevant actors and their relationship. In opening up a 'black box' of reality, ANT uses the notion of translation (Callon, 1986) to make sense why certain social reality finally becomes stable or unstable over time.

Translation could be described as a process in which actor(s) mobilizes resources or another actor-network to form allies that result in a stabilized actor-network. For example, in developing functional e-government system there must be actor(s) who mobilizes the needed resources (money, ICT, programmer, stipulations, et cetera) in such a way that these resources become an alliance working together and influence each other to result in a working e-government. Therefore, translation explores the ways that the networks of relations are composed, maintained, and made more durable over time. Callon (1986) outlines the translation process that involves four moments or steps.

- a. Problematisation. This is the problem identification step defined by one or more key actors who then determine their respective roles in solving the problem and through these, making themselves indispensable [the 'obligatory passage point (OPP)' to all involved actors].
- b. Interestement. This step covers a series of activities where the key actors will recruit others to participate and maintain interest in the network but at the same time making them recognize the key actors' roles.
- c. Enrolment. As a result of the third step and if successful, the roles for the new actors will be established and once agreed, they will enroll into the network of alliance.
- d. Mobilization. The main actors will have a spokesperson who will mobilize the network actors to implement the proposed solution.

If the actor-network degree of alignment and convergence is high then success could be imminent. May and Powel (2008) describe the process as a way to understand "all negotiation, intrigues, calculation, act of persuasion and violence to which an actor or force takes, or causes to be conferred itself, authority to speak or act on behalf of another actor or force."

#### **5. Case Description of Sragen One Stop Services (SOSS)**

Sragen regency is located at eastern part of Central Java Province and is one among 330 regencies in Indonesia. Sragen covers an area of 941.55 km<sup>2</sup> and has 22 kecamatan (sub-districts), 12 kelurahan (smaller areas within each sub-district), and 196 desa (villages). Its population remained quite stable over the last two years with

855,244 inhabitants and a density of 908 per square km. About 412,206 people are employed, this is 48% of the total population and 51% of them work in the agricultural sector, 19% in services, and 13% in hotel, trade and restaurants. The agricultural sector gives a quite high contribution (34.46%) to the total RGDP (Regional Gross Domestic Product) of IDR 835,005.58 million (US\$ 83,500.6 thousand). Meanwhile, per capita income is only IDR 929,230.79 or about US\$ 100.

Using the strategic planning process approach, local administration of Sragen has developed a set of guidelines for its development. These include the formulation of its vision, mission, strategy and development priorities that can be easily accessed from [www.sragen.go.id](http://www.sragen.go.id). For the year 2006 – 2011, Sragen's vision is to be a smart regency and its mission is to assist citizens to be excellent, productive and prosperous. This mission is being realized through the implementation of a set of strategies and one of them is creating an innovative entrepreneurial administration system equipped with excellent public services.

As a former businessman, the Bupati of Sragen was fully aware of how complicated and difficult to deal with government bureaucratic procedures. After being inaugurated as Bupati in 2001, Mr Untung Wiyono decided to reform his administration. One of his earlier initiative was to simplify the procedure for the issuance of various licenses for the public and investors. This would trigger more business activities that in turn would increase local government revenue. Although in 2000 Sragen already had the so-called Integrated Services Unit or one-roof services unit (unit Pelayanan Terpadu/UPT) but the performance of this unit was considered as unsatisfactory. The main drawback of this unit was due to its inability to provide transparent and simple procedure.

On June 16th, 2002 the Bupati of Sragen established an ad-hoc team comprising of nine respected government officers to study the matter. The team came up with a proposal to modify the existing one-roof service to one-door service. One-roof service unit had no authority to issue licenses but one-door service unit had. Consequently, to implement one-door service unit there need to be a delegation of authority in issuing license from the respected offices. This delegation was not simple since it brought some consequences to them starting from changing the administrative procedure to the loss of power and financial advantages. Bupati solved this problematic situation by reminding heads of all the offices involved that conceptually the ultimate license authority was himself. It was his prerogative to retract that authority and delegate it to the office of the new one-door service establishment. Bupati finally endorsed Act No. 17 / 2002 to implement this change.

The new establishment [Unit Pelayanan Terpadu or UPT] slowly establishes itself as a recognized effective unit and with an initial authority of issuing 15 licenses, it has expanded to 59 and added 10 certificates (non-license; such as birth certificate and citizen identity card). Its expanding services resulted in the unit being upgraded to an office status [Kantor Pelayanan Terpadu; Local Administration Stipulation number 15/2003], and in 2006 was further upgraded to a bureau [Badan Pelayanan Terpadu; Stipulation number 6/2006] due to its expansion.

Some indicators could be attributed to verify the success of SOSS.

- a. Citizens satisfaction: the simple, transparent, and accountable services had satisfied them.
- b. Customer satisfaction index scored 83.995 % and 84.005% respectively Based on service satisfaction survey involving 150 respondents conducted twice a year
- c. Government and non-government organization point of view, SOSS was also considered a good model of quality public service provider.
- d. Economic point of view, SOSS was able to directly and indirectly increase revenue from IDR 22.6 billion in 2002 to IDR 72.8 billion in 2005; an increase by 300 % in 3 years.
- e. An SME player also testified that SOSS had helped him finance his business by saying:  
"I could get credit from a bank within a short period because all required documents were timely provided by SOSS and saved my time. For me, SOSS is really helpful."

## **6. Leadership Role in the SOSS Project**

The ANT model will be used to illustrate the leadership role in the success of the SOSS project. The qualitative analysis will be based on ANT's process going through the four steps of P.I.E.M. the main actor being the Bupati of Sragen himself.

### **6.1. The Problematisation Step**

The central issue focused by SOSS was to serve the public better by providing simple, transparent, accountable, and one-stop license services. Its establishment was endorsed by the Indonesian central government since 1998, and also motivated by Bupati's desire to reform local government public services. His years of experience in the private sector made him believe that introducing company-like work culture was possible and ICT should be used intensively as a main driver for such initiative.

The most crucial part to establish SOSS was to get support from heads of the various offices who held the authority to issue licenses. It was common that almost all levels of staff at the head office posed 'power' and authority to manage, control, and make the process of obtaining license difficult for their own benefit. The other problem was to run the one-door service efficiently. To manage this situation Bupati conducted a series of meetings to promote, explain and solicit support involving heads of related offices including his own and other

local legislative bodies. He then problematize the establishment of SOSS by defining the roles of each of the six main actors that he was able to identify. Here are the roles and relationship of the identified actors involved in this problematization step.

a) *The heads of participating offices*

There were 10 offices directly involved in the issuance of licenses. Initially, the heads of various offices were reluctant to delegate their authority, but Bupati always reminded them that conceptually he himself was the authority to issue licenses. In reality the authority held by several offices, were delegated initially for administrative purposes to simplify Bupati's tasks. Therefore, this authority could be retracted and given to SOSS. He also clarified that they will still have the authority to monitor the operations and participate in the license decision process. More important was that fees collected would be posted as revenues for the respected office formerly holding the authority.

b) *SOSS staffs*

During the early establishment, SOSS had only 21 staff. All of them had good performance records and worked at different offices before they were recruited. But by May 2009, the staff number increased to 31 and they were managing 59 various licenses and 10 certificates. Six of the staff had masters level degree, seventeen bachelors, four with vocational degree, and four with high school qualification. Annually, SOSS staffs were given additional one month salary as incentive and thus are paid higher effectively. The amount depended on their position. They also wore different style of uniform provided by SOSS and the ladies wore long sleeve skirts and neck-tie.

c) *Technology infrastructure*

SOSS was equipped with an appropriate ICT infrastructure. Every staff in SOSS had a computer to work with that was connected to the local computer network and internet. The local computer network was part of a bigger network connecting almost all important local government offices and village offices across the regency. Although the ICT infrastructure and its related information systems operated as the most important non-human technological actors but there were also others participating in the design and the successful implementation of SOSS such as air-conditioner, CCTV, and TV set. The technology infrastructure seemed to serve well since Bupati regarded it as important actor for his government innovation initiative. His vision of Sragen as 'Being a Smart Regency' reflected how strongly he believed to the important role of technology in general and to ICT in particular to support the regency's development.

d) *Government's Stipulations*

The various government's stipulations were another important actor in the ANT model. All together there were many and though many were supportive there were some that gave rise to confusion and frustrations.

01/1995: to improve public service quality through Indonesian President Instruction;

81/1998: the same issue by Ministry of Government Officer Discipline;

25/1998: one-stop service by Ministry of Internal Affairs;

28/1999: integrated public service unit by local government; Central Java Province;

17/2002: One-door service by Sragen;

03/2003: e-government across all government agencies by Presidential Instruction;

X } : many other Sragen's own stipulations as it was dynamic and always on the

X } : move changing for the better. These were finally recognized by the central

X } : government which resulted in the 24/2006

24/2006: guidelines of the formation of one-door integrated public services by Ministry of Home Affairs

following the success of SOSS;

41/2007: confusing guidelines; one-roof was optional;

20/2008: to remedy the 41/2007: one-stop centre in the form of an office or bureau.

The various stipulations had their actor role but as far as Sragen is concern they were important network actants. Though this last stipulation resolved the conflicting regulation but the outlined structure of one-stop service was a less powerful structure compared to the one Sragen had. This condition brought a sort of disappointment to some staffs at SOSS since it might lower their echelon rank and that would decrease their salaries.

e) *Electronic Data Processing Office [KPDE: Kantor Pengolahan Data Elektronik]*

KPDE was the office responsible for managing ICT infrastructure across Sragen regency as well as developing e-government systems to support local administration. Most of the license processing systems were jointly developed by SOSS and KPDE. However, the permanent role of KPDE toward SOSS was maintaining the implemented ICT infrastructure and also assuring data and systems integrity among various e-government systems in Sragen. Kantaya, stands for 'Kantor Maya / Virtual Office', developed and maintained by KPDE, was the most frequently used systems to support SOSS. Kantaya enabled departments and village offices to easily share data in which Bupati could remotely monitor. KPDE also posed vital role in achieving Sragen's vision to be a smart government as 'smart government' was connoted with the intensive use of ICT to support regency development. The performance of SOSS had significant

impact on KPDE since it would reflect the success of KPDE to develop e-government in Sragen. Therefore the efficiency of KPDE positively support toward SOSS.

*f) Citizens of Sragen*

Although many staffs at SOSS voiced their concerns wanting to serve the public better but interestingly, none was ever directly involved in the development process. Their only direct participation was involving in survey to evaluate SOSS performance twice a year. Although SOSS had provided many communication channels such as email, SMS (Short Messaging System), and hot-lines to enable individuals articulate their concerns, so far their participation and feedbacks were very limited.

**LEADERSHIP ROLE:** After identifying all the six actors, Bupati made himself an indispensable actor and defined the obligatory passage point (OPP) as 'how to provide simple, transparent, and be accountable to various licenses processing to citizens of Sragen'. Bupati was aware that either positive or negative interest of those actors to this OPP determined the success of this initiative.

The problematization process showed how bureaucratic reform introduced by Bupati was an essential component of this e-government initiative. It also showed that the reform covered legal, procedural, organizational, managerial, as well as mental and cultural issues. Although the reform was only about providing license at regency level but it was not an easy reform as similarly reported by many research (Grant & Chau, 2005; Stanforth, 2006; Yildiz, 2007). This reform was actually harder to manage in Javanese culture context where most people did not want any conflict since their ultimate social value was living in harmony (Kartodirjo, 1984 p.187). However, Bupati successfully managed this reform. Though many interviewees acknowledged that the reform happened was mainly because of Bupati's decisive stance and a 'win-win' power sharing as described in the negotiation process with heads of offices but contextual understanding suggests instead that it was also because of the way staffs perceived the role of Bupati as their top leader. From the Javanese culture perspective, a public leader is always perceived as a 'God chosen' and is never simply part of human democratic system (Ali, 1986 p. 203). Consequently, a good leader should be strong, powerful, decisive, but also kindhearted at the same time since he/she represented God to govern people and nature at the same time. To some extent, practicing a certain level of authoritarian style of leadership, Bupati was not only accepted and understood by his staffs but was also supported. This kind of power understanding comes from an agriculture society. Although only 51% of the people in Sragen work in the agricultural sector but the majority still had very close relationship with this culture.

## 6.2. Interessement

Bupati attempted to impose and stabilize the identity of the other actors he defined in the problematization process by introducing several interessement devices. Of course these interessement devices extended and materialized the hypothesis he made concerning the success of SOSS which include:

- (a) License inquiry should be simple, fast, and transparent,
- (b) Offices involved should support by returning its authority back to Bupati,
- (c) SOSS staffs could be transformed to become professional workers,
- (d) ICT and private sector practice could be fully adopted,
- (e) Excellent license services would attract more investors.

Using these hypotheses, Bupati implemented three important interessement devices which are:

- a) Granting SOSS unit an authority to issue licenses after retracting that authority from various offices.  
Bupati reminded each office that conceptually he was the one who held the authority to issue licenses. Therefore, Bupati had legal right to transfer them to SOSS. Nevertheless, fees collected from license processing would be posted to respected office account that formerly issued the licenses before they were transferred to Local Finance Office and each related office would be represented in the technical team to review license application and to recommend its approval.
- b) Facilitating SOSS to adopt corporate work culture and management equipped with new reward system.  
All SOSS staffs should participate in a series of compulsory training programs to change their mind-set from being served to provide service, to improve their skills in serving public, and to master ICT. To get real experience on how to serve public excellently, these new staffs participated in a week internship training program at Gianyar Regency in Bali. Every week SOSS staffs should also joined in-house training given by speakers and motivators from different background but mostly from their own organization. As part of changing their work culture, SOSS staffs wore different uniform compared to other government staffs. They wore long sleeves skirts and neck tie so that their style looked like professional workers in a private company. They also got addition to their monthly salary as incentive to maintain their performance and to stop corruption practice.  
To maintain its good performance, SOSS was strictly managed and controlled. First, it adopted ISO managerial standard since 2005. Although there were only 16 (out of 62) licenses processing certified by

ISO but the standard was applied to all remaining licenses processing. Second, Bupati, heads of office, and monitoring team could easily monitor SOSS performance using many channels such as weekly as well as monthly report, site visit, or via CCTV. Third, SOSS conducted performance evaluation twice a year using 14 performance variables and involving at least 150 respondents.

c) Providing incentives to business community who wants to initiate business in Sragen.

Since the main objective of SOSS was not merely to provide excellent services for license processing but to increase business investment then Bupati also provided some incentives to business community to complement the quality services offered by SOSS. Bupati provided free business licenses for those who were classified as new business starter. He also had provided a business complex at Kalijambe located about 30 km from downtown of Sragen where land and its infrastructure had been prepared. He even reminded people in Sragen to stop asking companies to provide some community facilities since his administration should be the one responsible for such request. As a result, the number of business related license application increased significantly and resulted in fee's growth of 300 % in 2004.

Bupati elegantly managed to transfer licenses issuing authority from several offices to SOSS because of his awareness and knowledge on how power and authority can be conceptually distributed and exercised in local government systems. Uniquely, although the authority to issue non-license (certificates) was not transferable to SOSS because of some stipulations restriction from central government but in practice this authority was transferred digitally to SOSS. It happened whenever SOSS issued certificate that was digitally signed not by the head of SOSS but by the head of Registration Office. This solution could be considered as a creative decision to innovatively used ICT in this authority or power reconfiguration. In this case, ICT played an important interestment device. However, this solution should be understood as not merely as an ICT innovation but it reflected more on how Bupati exercised his leadership effectively in his relationship with the head office. From the interestment moment point of view, ICT was also then effectively used to materialize this relationship. In other words, Bupati was able not only to exercise his formal power that arised from his positions of authority (Silva, 2007) as a top leader in Sragen but he also successfully implemented some devices of interestment to create favorable balance of power (Callon, 1986) involved in his initiative.

**LEADERSHIP ROLE:** Bupati had intensively adopted corporate approach in designing and implementing SOSS. So far there was no problem and even many parties were surprised with the performance of SOSS as it got many awards and recognition nationwide. Heeks (2003) also argued that private-public gap was one problem faced by developing countries in implementing e-government in term of ICT skills, reward system and style of management. However, government was not a private company and even had some different fundamental features and orientations starting from its vision, reward system, growth pattern, and positioning its client as reminded by Ciborra (2005). Therefore, the relatively stable heterogeneous actor-network of SOSS might become unstable when the next Bupati had no idea of how private company operates.

### 6.3. Enrolment

Generally, all implemented interestment devices resulted in enrolment from respected actors. However to elaborate further, all actors that participated in the enrolments will be presented according to each interestment strategy. The interestment strategy to grant SOSS an authority to issue license finally resulted in enrolment from all involved offices. But the heads of offices did manage to request for some issues. First, license fees should be recorded in the respected office account receivable to maintain non-decreasing local revenue contribution from each office. Thus authority transfer should not transfer office revenue contribution. Second, staffs involved in the process of previous license processing still participated in the new process coordinated by SOSS. Their participation were manifested in their technical team membership and they got payment every time they finished evaluating license requirements, performing site inspection, and providing recommendation to SOSS. The authority transfer should not affect staffs additional income.

**LEADERSHIP ROLE:** Most staffs at SOSS seemed happily enrolled to the implementation of corporate work culture introduced by Bupati. Maybe the incentive was initially an important factor to their enrolment but most staffs no longer considered it as their main drive. It was because that they did not only serve citizens like the way private sector did to its customers but they also internalized their style of service deep down in their heart and mind using the notion of 'ikhlas' which simply means sincere or detachment from the contingencies of the external world so as not to be disturbed when expectations are not fulfilled. As all staffs are Javanese, their enrolment to quality public services was able to be rooted or related to their cultural value of ikhlas. It is one important character to exhibit psychological equilibrium of an ideal Javanese individual (Kartodirjo, 1984, p. 188). This deeply rooted enrolment made them not only to serve citizen excellently but even made them proud of being a good public servant. Here is one of many similar responses when they were asked about their feeling of their new work culture,

"...I am proud if I could serve public better especially now when we are recognized locally and nationally. For us it is precious. There is a sort of satisfaction if the way I serve public is nationally adopted as the best

practice. All of these are beyond our expectation since initially we just wanted to make an innovation but now it is recognized nationally and even it was referred by the stipulation No 26/2006 from the Ministry of Internal Affairs.”

Their heart-rooted work culture at SOSS contributed significantly to the successful alliance from other actors such as from ICT infrastructure and system, ISO based license processing, and some regulations. Indeed the information systems they were using were basically simple but most importantly because of their positive attitude toward this system then it made them easily accept its limitation in terms of failed connection, viruses, and frequent system modifications. Although ISO management system adopted created some administrative burden but they found it very useful since it made them easily control the license processing. In addition, despite central government introduced stipulation No. 41/2007 which did not adequately appreciate the SOSS organizational structure but they perceived it as a challenge and not merely a threat.

#### *6.4. Mobilization*

Along the project cycle of SOSS only few individuals were directly involved because certain individual played as spokesperson to represent some other individuals who tended to be silent (Callon, 1986). Some of these representations will be reviewed to understand the role of a legitimate spokesperson.

During the design stage of SOSS, Bupati represented citizen of Sragen in general and business community in particular who demanded excellent licenses processing service. Bupati was a legitimate spokesperson of Sragen's citizen since people had voted him as their top leader. Though there was no process to appoint him as representative of the business community but his long experience as a manager in a private company made him a legitimate spokesperson for them. After being inaugurated as Bupati, he was officially also a legitimate spokesperson of central as well as provincial government that had concern to improve public services quality.

Bupati represented citizens to negotiate with some offices represented by its head. Of course every head office was a legitimate spokesperson for all its staffs working at respected office. Bupati negotiated with heads of offices to provide a better licenses processing by asking them to select their qualified staff to work at SOSS. The selected staff from each office would then be a legitimate representative of the various offices respectively. For the subsequent stage of the development, the head of SOSS in turn became a legitimate spokesperson for all his staffs to negotiate with other representative.

In promoting his idea to establish SOSS, Bupati stressed that ICT would be intensively used. In many occasions Bupati unintentionally became a legitimate spokesperson of voiceless ICT especially when he himself frequently used ICT to present his ideas. One day he even removed old-fashioned media of over-head projector (OHP) from his meeting room to condition all his staffs to use laptop and projector instead. Bupati also acted as a legitimate and powerful spokesperson of ICT when he strongly encouraged KPDE to come up with a computer-based system which enabled him to digitally monitor all office performance at any time.

Bupati was also able to be the legitimate spokesman for different population at the same time in order to mobilize local legislative members to approve the expansion of SOSS from a unit in 2002 to be an office in 2003 and finally became a bureau in 2006. This expansion made SOSS able to manage more licenses and got more personnel to consolidate the organizational structure with higher echelon staffs. To negotiate with local assemblymen Bupati represented people of Sragen who demanded quality licenses processing, the staffs of SOSS who were willing to work professionally, provincial as well as central government that encouraged local government to reform public service, heads of office who supported license authority transfer, and ICT as well as KPDE that supported the operation of SOSS.

**LEADERSHIP ROLE:** The description showed how Bupati became an effective leader and was listened to because he had been 'the head' of many populations of actors. He was able to combine together citizens' demand, ICT, KPDE, SOSS staffs, rules and regulation, assemblymen, and heads offices. These chains of mediated relationship that finally resulted to an ultimate spokesperson could be referred as a progressive mobilization of actors who formed alliance to successfully deliver excellent licenses processing activities. At first, Bupati, citizen, ICT, government staffs, regulations on public services, and heads of office were dispersed and were not integrated. At the end they were made to be interrelated and physically manifested in SOSS office. All these actors were first displaced and then reassembled at a certain place at a particular time (Callon, 1986), at SOSS office from Monday to Saturday, 7.30 am to 02.30 pm.

#### **7. Concluding Remark**

The adoption of ANT has helped trace how a leader stabilizes the actor-network system by identifying all those entities that are involved, (human as well as non human) in which their dynamic participation to the network would be much influenced by their enrolment to some interestment strategies directed to achieve common goal defined in the obligatory passage point. It also helped to understand how effective leadership may take advantage of mobilization process in which a legitimate spokesperson plays important role in stabilizing the



ANT's actor-network system. Bupati became an effective leader when he was able to formulate and implement some strong and contextual interestment strategies that accommodate economical (incentive salary), managerial (ISO standard), technical (ICT infrastructure and its information systems), legal, as well as spiritual (the notion of 'ikhlas') and ideal ('coloring' Indonesia). An effective leadership in e-government development is then closely related to its capability to manage problematization process and to introduce effective interestment strategies.

Compared to DAC ontology on leadership which it claims to include tripod ontology (Darth et al., 2008), ANT provides meta theory since it covers DAC and tripod ontology by recognizing all actors whether it is human or non-human. Figure 1. provides the association of each step of ANT's process with both tripod and DAC ontology on leadership. From this association, ANT's four steps provide more comprehensive ontology in understanding leader in action such as in e-government development.

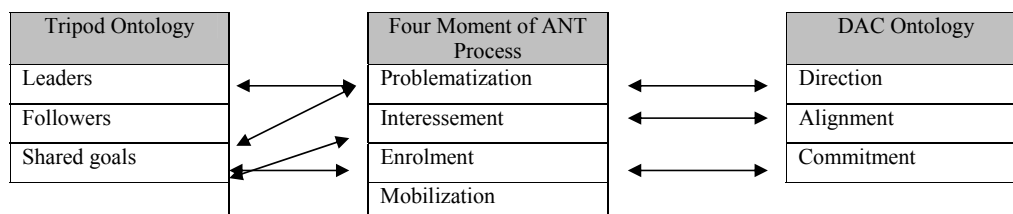


Figure 1. The association between ANT four moment of process with tripod and DAC ontology of leadership

Among the four steps in the process, the problematization step is probably the most crucial. An effective leader should be careful in proposing e-government's problematization in general and its obligatory passage point in particular since they will be referred and affect the selection of effective interestment strategies. Putting bureaucratic reform as the central issue of e-government problematization seems more appropriate and effective rather than the issue of technological innovation. Consequently, translating bureaucratic reforms requires strong leadership because it will indicate how power negotiation will be managed in certain political and social context. Although ANT has been criticized many times as providing Machiavellian ontology in understanding power (Whittle & Spicer, 2008) which is considered no longer appropriate for it lacks paying attention to the notion of emancipation and participation but Silva (2007) argues that a Machiavellian view is key for making sense of legitimate and illegitimate power. Since power is always an essential part in understanding leadership in government setting then the Machiavellian ontology of ANT become an appropriate framework to understand leadership. It is especially appropriate to understand how leadership is exercised in the design and implementation of e-government in which the social relationship is much influenced by patron-client type such as in Javanese society (Kartodirjo, 1984).

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# APPLICATION OF ETHICS IN SMALL ENTERPRISE: AN IMPIRICIAL STUDY ON DHAKA CITY IN BANGLADESH

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## ABSTRACT

This research has identified that the small organizations of Bangladesh have very little or no interest in the presence and implementation of business ethics. In some areas they are ethical and in some areas they are not. Despite this type of mixed attitude towards business ethics, it can be said from the findings that in time, ethical trend will change in small organizations as it did in larger organizations. In this study, the consideration and future trend of business ethics are studied using fifty small organizations on Dhaka city in Bangladesh. Results indicate that small organizations demonstrate little or no interest in business ethics. However, their assumptions about the future trend of business ethics are enthusiastic. The study also implies that the status of business ethics in small organizations is not very satisfactory but promising and in the near future small organizations are likely complying with business ethics in their organizational activities. This article attempts to find out the current status of ethics and ethical standards in small organizations especially on Dhaka city in Bangladesh.

Keywords: Code of Ethics, Ethical Standards, Business Ethics, Small Enterprise.

## INTRODUCTION

Ethics is the conception of what is right and fair conduct or behavior (Carroll 1991; Freeman and Gilbert 1988). The word 'ethic' comes from the Greek word 'ethos', which means character or custom (Solomon 1984). Ethics can also be equated with the concept of morals, one's ability to choose between right and wrong, good and bad, acceptable and unacceptable. Empirical research on ethics and social responsibility in marketing has been extensive (Laczniak and Inderrieden, 1987; Thompson, 1995). Many ethicists assert there is always a right thing to do based on moral principle, and others believe the right thing to do depend on the situation, ultimately it is up to the individual. Many philosophers consider ethics to be the "science of conduct". Garrett (1970) defined ethics as "the science of judging specifically human ends and the relationship of means to those ends". Ethics actually is a state of mind and heart that draws a clear line between right and wrong and that is essentially backed by the laws, culture, and human society as a whole.

### *Definition of Ethics*

Ethics is generally referred to as the set of moral principles or values that guide behavior (Sherwin, 1983). However, what constitutes ethical and unethical behavior can differ depending on the set of moral principles used as the basis for judgment (Creyer and Ross 1997). The code of ethics refers the rules and regulations of ethical practice. Many firms have initiated a number of actions that encourage employees to include ethics as a formal part of their decision making processes (Creyer and Ross 1997). For example, most companies have a written code of ethics. Ethics officers are also becoming more and more commonplace.

### *Concept of Business Ethics*

The concept of 'business ethics' has come to mean various things to various people, but generally it is coming to know what is right or wrong in the workplace and doing what is right with respect to the effects of products/services, promotions, and relationships with stakeholders. DeGeorge (1999) defined business ethics "as a field of "special" ethics, dealing specifically with ethical dilemmas arising in the context of doing business" (DeGeorge 1999). Velasquez (1999) defines business ethics as "a specialized study of moral right and wrong" (Velasquez 1999). Garrett (1970) defined business ethics as "the relationship of business goals and techniques to specifically human ends. It studies the impacts of acts on the good of the individual, the firm, the business community, and the society as a whole. This means that business ethics studies the special obligations which a man and a citizen accept when he becomes a part of the world of commerce" (Garrett 1970). As Thompson (1995) noted, knowledge about marketing ethics has increased substantially over the last several years. However, business ethics stress the concept of good and bad in all business activities. Business ethics are "concerned with the day-to-day behavior standards of individuals and organizations connected with business" (Rue and Byars 1980). According to Weihrich and Koontz (1994) "business ethics is concerned with truth and

justice and has a variety of aspects such as the expectations of society, fair competition, advertising, public relations, social responsibilities, consumer autonomy, and corporate behavior in the home country as well as abroad” (Wehrich and Koontz 1994). As in the business organizations managers are concerned with day-to-day operations so Ivancevich and others (1996) defined business ethics as “used by managers as guidelines in making decisions that affect employees, the organization, consumers, and other interested parties” (Ivancevich et al 1996). Again Glos and Baker (1972) defined business ethics as “consisting of those principles and practices that are concerned with morals and good conduct as they are applicable to business situation” (Glos and Baker 1972). Business ethics are the standards of conduct and moral values governing actions and decisions in the work environment (Boone and Kurtz 2005). Clearly, business ethics is based on broad principles of integrity and fairness and focuses on stakeholders’ issues such as product quality, customer satisfaction, employee wages and benefits and local community and environmental responsibilities. The impression of small enterprise is very critical. It covers a broad range of establishments in Bangladesh. According to the Shops and Establishments Act of 1965, “a shop, a commercial establishment, or an industrial establishment in which five or more workers are employed”. According to the same act, offices of or under the Bangladesh Railway Board, any local authority, a trust, and corporation or any other public statutory body is not treated as shops or establishments. The factories act of 1965 defines factory as “any premises including the precincts thereof whereon ten or more workers are working or were working on any day of the preceding twelve months and in any part of which a manufacturing process is being subject to the operation of the Mines Act, 1923. For our research, we have considered the commercial establishments that have number of employees ranging from five to hundred. The overall objective of this study is to find out the practice of ethical behavior in small business organization. Moreover, this paper has the following specific objectives:

a) To establish the possible contents of a cryptogram of business ethics; b) To suggest ways how to put into practice their code of ethics in the business organizations.

## LITERATURE REVIEW

The interest in business ethics, corporate governance, sustainable business practice, and integrity has grown markedly in the past decade. (Waddock et al 2002). It is not only the stakeholders who expect companies to pay greater attention to norms, values, and principles but companies themselves are also acknowledging the importance of responsible business practice (Waddock et al 2002). However, the interest in business ethics has been mounted due to the heinous ethical scandals in the past few years, especially in corporate America. It was not September 11, 2001; but the collapse of giant energy behemoth Enron in October 2001 clearly plunged the confidence stakeholders had in large corporations (Miller 2003). Enron was a global energy company. In October 2001, Enron reported a \$618 million loss for the third quarter. In December 2001 Enron entered bankruptcy proceedings, laid off 4000 employees in its Houston headquarters, and saw its share price, once as high as \$83, fall to less than \$1 (Peterson 2003). This saga of rise and fall has been contributed to the accounting forgery of the top executives at Enron. Enron simply did atop the list. The accounting falsification also expedited the image crash of giant WorldCom, and Tyco. Lately, the Metro Transport authority (MTA) of New York also stretched the list of the forgers. Had these organizations had the required degree of transparency in accounting practices, these misfortunes would not have happened. And business has the obligation to honestly report financial progress and potential to holders of company debt and equity (Laczniak 1983). Other than companies accounting or financial malpractice there are also unethical issues such as bad working conditions, lower wages, etc. Nike, for example, for many years had been practicing unfair labor forces in the overseas shoe making factories. News came that in Indonesia, Vietnam, Thailand, and in all of its third world country plants Nike paid laborers a wage as low as 40 cents a day. Additionally, the working condition was inhuman such as 14 people living in one room (Roberta 1998). Child laborers were also used in those factories. Child labor issue in Bangladeshi apparel industries also warmed up the giant apparel sellers and different humanitarian communities worldwide.

The wave of corporate scandal of business ethics did not shake America only; but did storm other parts of the world also. The scenario of the developing countries scenario is notably panicking. In one survey carried out by Transparency International (TI) in 2001 among the 91 countries, Bangladesh did atop the list of most corrupted countries (Corruption in Bangladesh; TIB, 2002). Corruption and damage of ethical standards have been multiplied in this country in recent years. In such a tumultuous ethical state worldwide, all the business organizations are increasingly expressing their interest in developing ethical standards and corporate governance. They are not only interested in formulating instrumental approaches of ethics but also struggling to maintain a proactive approach among everyone and at all organizational levels. Considerable number of research study had been conducted in the field of ethics and business ethics. Researchers meticulously elucidated the theme of corporate business ethics, codes of ethics, and their instrumentality in their studies. Velasquez (1999) defined business ethics as a specialized moral study of right and wrong. It concentrates on moral standards as they apply particularly to business policies, institutions, and behaviors. Values, ethics, and

corporate social responsibility are not mutually exclusive; rather, they are interrelated and somewhat interdependent (Carroll 1979). If an organization does not nourish ethical responsibility among its peer groups, the sense of social responsibility of that organization is out of question. Both the researchers stressed on ethics the moral judgment. But there are very few research work done on small organizations ethical standard. Small entrepreneur organizations do not have active ethical considerations because they have fewer resources entrepreneurs often assume they can do without a code of ethics (Miller 2003).

#### *Ethics and Responsibilities of Business Enterprise:*

A business code is a policy document that defines the responsibilities of the corporation towards its stakeholders and/or the conduct the corporation expects of employees (Kaptein and Wempe 2002). A large pool of companies uses code of ethics to guide their employees towards consumers, investors, society, and the natural environment. For instance, energy giant 'Exxon Mobil' has "standards of business conduct". Likewise, Nestle, Coca Cola, Shell, Hewlett Packard, Philips, BP, Fiat, Toshiba, UniLever, Beximco, and many more companies have business codes, stressing versatile areas namely, improved quality, and societal relationship, betterment of society, benefit to mankind, good corporate citizen, and environmentally conscientious (Kaptein 2004). The large organizations have code of ethics but the problem is more mushrooming with the growing small organizations. They neither have any formal business code nor do they have informal atmosphere to follow and practice ethics. However, we have taken a very timely but brief approach to understand the status of ethics in small organizations of Bangladesh.

#### *Sex Discrimination in the Workplace:*

Sex discrimination is most commonly directed against women and is based on the fact that a person is male or female (Ahmed et al 2001). Female employees are less privileged than their male colleagues with respect to wage and salary and promotion. Peek inside any corporate boardroom, or take a look at the senior managers of most top corporations, and it's hard to see women working in the top position (Businessweek 1994). In Bangladesh in any small firm you pick you would find majority of the, irrespective of the firm's nature, employees are males and the seniors and bosses are all definitely male. So, the workplaces are still male dominated. Sexually charged jokes, lewd comments and innuendos, leering, touching of private body parts gender-related insults, demands for sexual favors and many more permeates like a black cloud in workplaces across the organizations (Laabs 1995). Improper sexual conduct in the workplace-which includes lewd and suggestive comments, touching and fondling, persistent attention, and request for sexual favors – has long been a problem for women, and occasionally men. All too often, such sexual harassment has been regarded by employers as a personal matter beyond their control, or as an unavoidable part of male-female relations. In Bangladesh, women working late with their male bosses beyond office hours or women traveling with their male bosses to distant places for official purpose or business deal or the very fact that a woman's boss is a male is enough of a social harassment for her (Ahmed et al 2001).

#### *Race and Color Discrimination in the Workplace:*

Another kind of discrimination is more prevalent in the organizations is race and color. This basically is found when the organizations hire employees. In the United States, racial discrimination is generally directed against four groups: Blacks, Hispanics, American Indians, and Orientals (Ahmed et al 2001). However, in U.S.A. white employees' now-a-days say that they are more cornered as the organizations are moving toward more diverse workforce. They believe that white men are slowly becoming a workforce minority and thus are worrying about their future opportunities (Business week 1994). In Bangladesh, racial discrimination is directed against the people from the coastal areas, hill tracts and the border areas (Ahmed et al 2001). But this kind of discrimination is not so pervasive in Bangladesh. Discrimination has got its own way based on the cultures, nations and so on. Apparently, national origin discrimination may not be so widespread among many nations. But it is so powerful in some countries, irrespective of their economic conditions, that we had to dig through this issue. National origin discrimination overlaps discrimination based on race, color, and to some extent, religion. In higher corporate posts in Bangladesh, there are more Dhaka based managers or directors (unless they are family members or the company chairman or director) than those who have migrated from other districts like Rangamati, Bandarban, or Khagrachari and strive up the corporate ladder just on their own educational qualification and experience. Often many NGOs in Bangladesh and corporations prefer to pay better salary or fringe benefits to foreigners than more eligible locals (Ahmed et al 2001). By far small organizations are concerned; discrimination of such kind is not clearly evident in small organizations of Bangladesh.

In Bangladesh, the large organizations first embraced the idea of business ethics. But the idea is not enveloped in the large establishments only. Business ethics is now disseminating over the small developing organizations as well. However, the scenario pertaining with ethics is horrendous in Bangladesh, especially in the small organizations. The disgusting practices of the businessmen in Bangladesh imply that either they have totally

forgotten the business ethics or they have made it buried completely (Bhattacharjee and Rahman 1998). In their article, they have revealed some facts (death of children caused by poisonous Paracetamol Syrup, adulteration in food, proliferation of quacks). Lately an article published in the Daily Ittefaq titled “Amra ki khachchi?” (What are we eating?) from June 20, 2005 to June 25, 2005 has struck our hearts with terror to have seen the unseen and known the unknown. That article has portrayed in a factual way about what we are actually eating and drinking in fast food shops and restaurants. Dead chickens are served in almost all small restaurants and fast food shops. The bottled mineral water that we drink assuming it is fresh and germfree is accused by the daily of being filled from the public toilet water taps. Carbide is used for ripening mango and banana, other chemicals including hormone for pineapple and black color for blackberry looking black in the markets. Other chemicals are also used to make other fruits fresh. In the cultivation of vegetables, toxins are used to kill the insecticides. Most of the food items that we eat and drink that we take are full of chemicals and can cause cancer, liver disease and heart diseases at one point or the other in future. Considering all these obnoxious facts we have, in this study, endeavored to explore the situation of business ethics in small organizations of Bangladesh.

## METHODOLOGY

The original study used a structured questionnaire to get responses and insights about ethical consideration in the small organization. The sample used in this study consisted of fifty organizations selected on the basis of simple random sampling procedure. Samples were picked up from Dhaka city in three categories; Garments, fast-food stores, and clinics. Fifty organizations responded accordingly. Authors used dichotomous questions where respondents respond either in YES or NO.

## DATA ANALYSIS

When we asked the respondents that whether or not there is sex discrimination in terms of wage and salary in organizations, 68.2% said that the organizations practice wage discrimination between male and female. 70.7% employees responded that employees are sexually harassed in their workplaces. In our survey, 97% employees responded that employers do not discriminate while hiring in terms of race and color. They additionally revealed that color (fair complexion) is an issue, negligibly, in case of managerial or supervisor level hiring but for the operational level hiring it is not really an issue to be pondered on. In the survey, 56.8% employees responded that organizations do not discriminate by national origin. They also disclosed that in small organizations, employees are hired more on the basis of previous experience, ability to work hard, and willing to take low pay and less on the basis of national origin. This interesting finding has actually opened up field for further research. In our survey, 75% of the respondents responded that the employers fire them unfairly. They further added that at times they dismiss on very issues that are even wrong. Employees are terminated then and there if they talk against low payment. Absenteeism for sickness is another issue on which employees are easily fired. In the survey, the respondents also responded that ethics is indispensable for organizations 86.4% (Table 1). They revealed that small organizations do not charge different prices for different buyers (61.4%). 79.5% respondents did not agree that organizations discriminate on the basis of religion. Again respondents (54.5%) did not support our idea that small organizations use deceptive advertising. 79.5% respondents believe that organizations pay VAT accordingly. However, they agreed that small organizations do not employ and deploy handicapped and older people (63.4%).

Table 1: Percentage of Organizations Response on different factors of business ethics

Items	Yes	No	No. of Respondents
Ethics	86.4	13.6	44
Race and color	2.3	97	44
Wage	68.2	31.8	44
Sexual Harassment	70.7	29.3	41
Deceptive Advertising	45.5	54.5	44
Different price for different buyers	38.6	61.4	44
Religion	79.5	20.5	44
Discrimination by national origin	43.2	56.8	44
Handicapped and older	63.4	36.6	41
Unfair termination	75	25	44
Brand duplication	0	100	39
Vat	79.5	20.5	44
Quality and safety	87.2	12.8	39

Table 2: Correlation Matrix on different factors of business ethics

Description	Ethics in Business	RACE	WAGE	SEX HARASSMENT	DECEPTIVE ADVERTISING	PRIORITIZATION	RELIGION	DISCRIMINATION	HANDICAPPED	UNFAIR TERMINATION	VAT	QUALITY & SAFETY
Ethics in Business	1.000											
Race	-.378	1.000										
Wage	-.561	.212	1.000									
Sexual Harassment	.031	.344	-.248	1.000								
Deceptive Advertising	-.378	-.143	.482	.297	1.000							
Price	.258	-.098	.592	-.122	.163	1.000						
Religion	.258	-.098	.592	-.122	.161	.431	1.000					
National origin discrimination	-.297	.112	.529	.326	.561	.383	.383	1.000				
Older and handicapped	-.227	-.200	.212	-.439	.143	.098	.098	.173	1.000			
Unfair termination	-.800	-.076	.408	-.031	.378	-.086	-.086	.297	.378	1.000		
Vat	.775	-.293	-.724	.122	-.163	-.111	-.111	-.383	.033	-.602	1.000	
Quality & Safety	.036	-.421	-.339	-.209	.339	-.510	-.510	-.266	.312	-.036	.510	1.000

Table 2 indicated correlation analysis and it was tried to figure out the correlation of different variables with ethics. From the table, it is evident that those who are ethical, practice less discrimination in terms of race, wage, deceptive advertising, national origin, old and handicapped, unfair termination. Again the table also gives some contentious picture that ethical people are practicing unethical matters. The positive correlation gives the ironic scenario. Actually, the owners of the business said that they are ethical but when we asked the employees they said there are some sorts of sexual harassment in the organization in ways like touching on the pretext of checking the employees. Some other data are also controversial which gives us the understanding that respondents did not disclose the fact because of a losing the job fear. And to have a better analysis we have also done a rank order statistics. We have given the owners of the organizations some factors associated with day-to-day business operations and asked them to order them from 1 to 10 on an organizational priority basis. The most prioritized factor would be given the number 1 and gradually the least prioritized factor will get the number 10. As a result, the higher the number the lower the rank and the lower the number the higher the rank. Finally we have come up with very interesting findings which actually catch their tendencies to give wrong data.

Table 3: Rank of the factors on the basis of organizational priority

Description	Mean	Std. Deviation	Variance
Quality	2.74	1.50	2.248
Ethics	2.87	1.59	2.536
Profit	2.88	2.19	4.790
Safe Products	4.21	1.88	3.536
Customer Service	4.51	1.86	3.467
Satisfaction	5.51	2.00	3.993
Business Growth	6.13	1.42	2.009
Employee Safety & Motivation	8.38	1.31	1.717
Cost Reduction	8.69	1.70	2.903



Environment Protection	8.92	1.44	2.073
Valid N (listwise)			

From the table 3 it is evident that the organizations ranked ethics next to quality. Profit motto, safe products, service, consumer satisfaction, business growth, employee safety & motivation, cost reduction, and environment protection are ranked gradually. So, we can see that they are giving business ethics a better ranking. This also extends our understanding that in the future all organizations, irrespective of size, will adopt ethical policies in one way or the other.

#### CONCLUSION AND MANAGERIAL IMPLICATIONS:

In conclusion we can say that the scenario is worst in the garments sector where huge number female especially teenage girls work. They further responded that the harassment is not in the sense of extreme sexuality. In some factories, the checker is a male and he touches the female workers, which is absolutely disgraceful and obnoxious for them. Also they revealed that, they are fired if anyone of them protests against the supervisor who is asking for a sexual favor. Organizations, especially the small ones hire so easily and fire so roughly. It is indeed a greater concern of all whether or not small organizations are so harsh in terminating the employees. The small organizations fire employees, too often, on meager grounds. Of course, the alternative is not necessarily a lifetime guarantee of employment but an assurance that they will be treated fairly. It is true that the larger organizations and multinationals are practicing business ethics proactively. This is because they may have realized that being ethical in business help them develop better customer relationship and in a way better citizen in the larger society. The small organizations will also have an ethical mindset in their workplace (Table 3). This represents that proper communication of business ethics in entire organization, proper training for handling ethical dilemmas, and executive supporting would expedite the development of ethical climate in the small organizations as well. And all the organizations will consider business ethics not only instrumentally to get rid of legal pressures but also inherently in their policies and decisions. Organizations' structures are getting more complex; companies are shifting from competition obsession to customer obsession. Consequently, there will be a clear strategic shift in ethical consideration across the business community as shown in Figure 1.

#### LIMITATIONS AND FURTHER RESEARCH

Although challenge of ethical behavior is especially difficult because standards for what constitutes ethical behavior lie in a "gray zone" where clear-cut right versus wrong answers may not always exist. It can be said that the authors are not the futurists. No one can say what will be the exact future of business ethics in small organizations. But it is assumed from the findings that there would be a favorable trend in ethical consideration in the business community across all organizations regardless the size and nature of those. There were limitations in our research but that worked as a motivation for us to finish the work. However, it is suggested that future research in this area must be celebrated because this proves to be a significant and clearly an important field for continued research.

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# A STUDY ON CONSUMER PERCEPTIONS TOWARDS WEB SITE QUALITY: INDICATORS OF CUSTOMER LOYALTY INTENT

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## ABSTRACT:

In order to determine what constitutes a successful Web site, one must be able to understand how users perceive and utilize it. The purpose of this study is to explore consumer's perception of Web site quality and, therefore, to find out how we can achieve high customer retention, customer satisfaction, and profitability. This paper presents the results of a survey conducted to assess consumer perceptions and preferences for commercial Web sites. All the attributes of the Web site itself that influence consumers' perceptions of Web site quality were ranked based on the results of the survey. The attracting, informing, positioning, and delivering (AIPD) model provided the conceptual foundation for the research. This paper also aims at extending and testing the AIPD dimensions associated with four key customer loyalty indicators: satisfaction with the overall experience, likelihood of choosing again the first time, potential positive word-of-mouth, and likelihood of future purchase. Consumer loyalty behavior is discussed as outcome of this quality judgment. Managerial and research implications of the study are also discussed. Conclusions and recommendations are included at the end of the paper.

Key Words: *Consumer Perception, Commercial Web Sites, AIPD Model.*

## INTRODUCTION:

Research into perceptions of Web site quality has started to emerge in marketing journals in recent years. While several studies have been reported, none stand out as the "seminal" work in this field. Indeed, like most areas that are new, individuals have taken different approaches and focused on a variety of aspects of this question. The diversity of approaches should be considered in a positive light, given the budding nature of this research area. Nearly all of the studies exploring Web site quality have some conceptual or methodological weaknesses. For instance, some focus on single item measures, some are theory oriented in its conceptual development and not "quality" oriented. Other studies have made strides in expanding our understanding in this area from a qualitative viewpoint, but have not developed quantifiable scales for use in further research. However, despite the limitations of any one study, through their collective work, certain patterns are starting to emerge. Industry analysts' expectations of Internet commerce vary widely factors that contribute to the uncertainty are the entertainment value of in-store shopping and concerns about Internet access fees, privacy and security issues (Hoffman et al., 1999). According to Ody (2000), one of the main reasons why customers go onto the Internet is to find information or buy a product or service with an emphasis on convenience and speed.

There are a variety of approaches for measuring Web site quality. Key dimensions investigated for Web site quality in past research include: design, content, entertainment, usability, reliability, interactivity, security, and privacy. Most of the extant research has focused on developing ways to measure perceived Web site quality. Potter (1994) recommended focusing on a more limited set of Web site factors and attributes related to users' broader perceptions of Web site characteristics. Features of the user interface, such as site design (Szymanski and Hise, 2000) and ease of use (Dabholkar, 1996; Zeithaml et al., 2000), are found to affect service quality perception and satisfaction. However, technology is only mentioned in the context of dissatisfying incidents. Similarly, financial security and other assurance aspects may also affect e-satisfaction only in the case of problems (Szymanski and Hise, 2000; Zeithaml et al., 2000). Reichheld and Scheffer (2000, p.107) observed that contrary to current beliefs "price does not rule the Web; trust does". According to the authors, referrals are extremely important in e-services and may count for half of the acquired customers for some services. Furthermore, referred customers were found to ask for advice and guidance from the loyal customers who recommended the service to them, thus reducing the company's costs for providing assistance. In response to the gaps in current research as discussed earlier, this paper attempts to test the few criteria identified by previous research that influence Asia-Pacific consumers' use of Web sites, with the objective of determining the relative effects of the various Web site attributes on the loyalty behavior of on-line consumers. With this objective in mind, a study was undertaken to measure Web site preferences and on-line behaviors of young adults in

Malaysia. The conceptual foundation, methodology, findings, and implications of this work are presented in the following chapters. Recommendations for future studies are proposed from the results of the study.

#### **LITERATURE REVIEW:**

The basic intention of our literature review is to give a comprehensive review of previous works on the area of consumer behavior. We will figure out few factors lying on customer perception on web site quality and customer loyalty. Reports of attempts to evaluate and improve Web site design and features are easily found in the literature. Simeon (1999) in her research attempted an evaluation of domestic and international Web site strategies. Overall site attractiveness, Simeon's explanation is related to the presentation and arrangement of the content, graphics, and delivery mechanisms of a site and their ability to leave the user with the impression that a visit to a particular Web site resulted in an attractive and positive on-line experience and, as a result, the user may recommend the site to an acquaintance or business contact. Besides, Hall (1999), like Simeon, is interested in the attractiveness and presentation elements of Web site design. While his study is basically concerned with the design of Web sites for delivering training and instruction, the general principles and practices he identifies are not limited to this domain. Basically, Hall uses the page, which is essentially a 'textual and imaging display' as the starting point with all associative links emanating from there. His model also highlights the differentiation between the site, which the given designer contains, and controls, and the external Web where the resources that support the Web-based instruction are located. In essence, Hall's model and his work focus on five components which he suggests must be considered and combined when designing Web sites - viz., page design, hyperlinks/site organization, organizational structure, internal links, external resources, communication. Hall developed the design principles for these components by reviewing the literature surrounding all of these design features. Nel et al., (1999) focused on the implications of human interaction with the Internet. Similar to the other researchers already mentioned, this group is interested in unraveling the secrets of good Web site design, but in the commercial environment and based on the idea that good design will lead to positive business results. However, Trevino and Webster (1992) suggest that, there are four dimensions to flow: control, attention focus, curiosity and intrinsic interest. Allard, Veronica and Petra (2001) investigated the way consumers evaluate an Internet portal site and identified the major components of the on-line services offer. They then explored how satisfaction with these components affects value perception, customer satisfaction and loyalty. In their study, three service components, the core service, supplementary services and the user interface, were identified. Satisfaction with each of the elements was found to influence consumers' overall satisfaction with the portal. Noteworthy was also the prevalence of the effect of supplementary services over the core service on perceived value. Furthermore, the added value of supplementary services could be an important driver of intentions to continue using the portal. It is also interesting to find that satisfaction with the user interface had no direct effect on perceived value. However, it remains possible that the effects of the other service elements are mediated by the perceived quality of the user interface. Clearly, as in other service categories, it is no deny that e-loyalty is strongly influenced by customers' overall satisfaction with the portal. Curasi and Kennedy (2002) focused on customer retention and loyalty in an effort to understand better these variables in the context of service organizations. In their interpretive investigation, they review the rise of managerial concern for customer retention and loyalty and examine the definitions and relationships of these constructs. Curasi and Kennedy propose five types or levels of repeat buyers and loyal customers; prisoners, detached loyalists, purchased loyalists, satisfied loyalists and apostles. According to the researchers, repeat buyers are narrowly defined as customers who exhibit repurchase behavior. Customer loyalty, in contrast, is defined more broadly by the behavioral element of customers' repeat purchasing, an attitudinal component of customer satisfaction and commitment, and the availability of choices to customers. This takes account of the fact that some repeat customers cannot be classified as loyal. They keep returning to the same provider only because they have no easily available alternative.

#### **METHODOLOGY AND ANALYSIS:**

The principal research objective is to test and extend the AIPD model. This study focuses primarily on final consumers, not on corporate purchasers. The objective is to identify the criteria that influence consumers' use of a Web site, rank the criteria and assess the implications of the rankings in the operationalization of the 4 AIPD dimensions on the effectiveness of a Web site in the Malaysia setting, which we believe would be more representative of the Asia Pacific region than research based on consumer samples drawn from Western countries.

#### **Measurement: List of critical variables**

The first part of this study sought to re-test the list of critical variables that were identified to influence consumers' use of a Web site by a group of researchers. By adopting the few critical variables adapted to the AIPD model by Xia, Zafar, Morry, Goh, Tham and Kim in their recent empirical study on consumer preferences for commercial Web site design in Asia Pacific region, these 18 variables were selected for use in the

questionnaire for the first part of the research with the aim of quantifying the 4 dimensions of the AIPD model. The variables that were adapted to the AIPD model are shown in Figure 1.1 below.

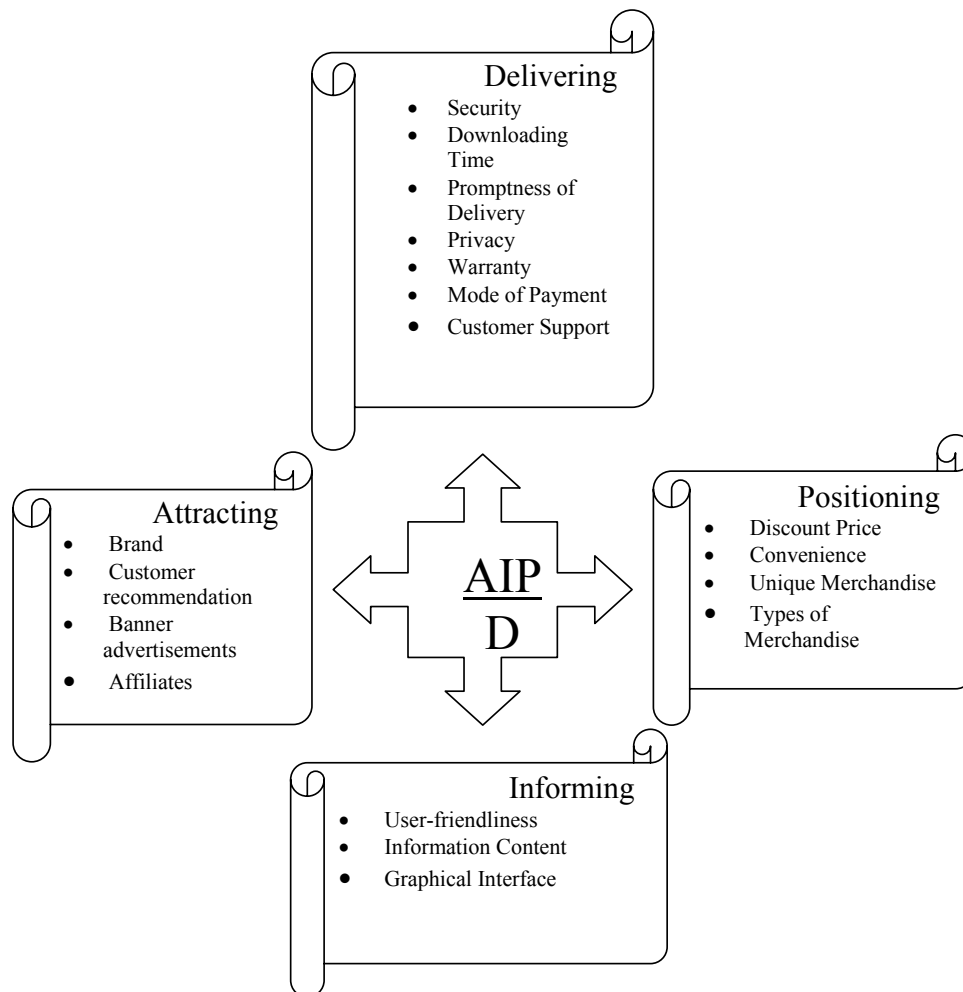


Figure 1: Simeon's AIPD with respective Web site attributes

## *HYPOTHESES*

The second part of this study aims at assessing the nomological validity of the AIPD scale. To accomplish this, four outcome measures were included in the study as tools. These measures were adapted from Satmetrix Systems' Customer Loyalty Index (CLI). The CLI is based on four key indicators of customer loyalty, including:

- Satisfaction with Overall Performance
- Likelihood of Choosing Again the First Time
- Recommendation to Others (positive word-of-mouth)
- Likelihood of Future Purchase Behavior

All of these measures employed a seven-point scale with "1" corresponding to "Not likely at all" and "7" corresponding to "Highly likely." These indicators address both the perceptual and transactional components of customer loyalty. In particular, the indicators regarding the customer's overall level of satisfaction, likelihood to recommend, and likelihood to choose again as if for the first time, all measure the perceptual component of loyalty. They help address the customer's evaluative process that underlies observed satisfaction levels. Furthermore, the indicator about repeat purchase or propensity to continue to buy factors in the transactional component of customer loyalty indirectly addresses both the customer's level of satisfaction and any potential barriers to switching. Therefore, to test our variables we construct the following hypothesis-

*H1:* Perceptions of quality in the AIPD dimensions are positively related to customer's satisfaction with the overall on-line experience.

*H2:* Perceptions of quality in the AIPD dimensions are positively related to customer's likelihood of choosing the site again the first time.

*H3:* Perceptions of quality in the AIPD dimensions are positively related to word-of-mouth behaviors.

*H4:* Perceptions of quality in the AIPD dimensions are positively related to future purchase behaviors.

## *INSTRUMENT: SELF-ADMINISTERED SURVEY*

A survey was then conducted to assess the reliability and validity of the measure. Prior to the implementation of the survey, the instrument was actually put to test and validation. It was administered to 10 people comprising college students with the purpose of gaining feedback regarding the understanding of the scoring process and the clarity of the factors statements. The survey was then revised accordingly to ensure that the questions were clear and easily understood by the respondents. The final version of the survey instrument was separated into two sections. Section A was comprised of general questions to investigate respondents' purpose and frequency when using the Internet. The frequency of purchasing on-line was also examined. For each of the remaining questions, respondents were instructed to indicate how important each item was in contributing to the effectiveness of a Web site using a seven-point Likert scale, anchored by "least important" (1) and "most important" (7). The type of data collected was categorized mostly quantitative questions for internal validity and to highlight any further research that might be needed. The questions were mostly interval data, or metric illustrating relationships by order and magnitude, while making statistical analysis possible through calculations such as the mean, standard deviation, and variance between variables. However, categorical and nominal questions were also included. Also captured were general, socio-economic demographics of respondents.

## *SAMPLE*

A sample size of around 100 participants was required, due to the level of usefulness and interpretability desired by this research. A relatively large sample size was necessary when evaluating precise estimates of numeric value and when a high degree of confidence is expected. An additional desired expectation of the study was to focus on analysis and significance of individual survey items rather than mere patterns of response among many survey items. Sampling consisted of mostly of volunteers due to the nature of data collection. The benefit of a volunteer sample is that participants are active and willing to participate. A volunteer sample works best when studying attitudinal and behavioral components—as for the purpose of this study. The intended demographic segments targeted for this sampling were the middle demographic age segments ranging from 25-45 due to familiarity with the on-line technologies and amount of monetary purchasing power. Realistically, a large segment of the 25-35-year-old demographic group was represented due to ease of accessibility. It was assumed that information regarding the key indicators used to evaluate customer loyalty, the data collection methods, and the methods used to report findings contained in the review of related literature would be valid and provide the writer with the necessary expertise to develop, direct, and implement the study, and effectively report the findings. Additionally, it was assumed that the information collected from secondary research sources would be valid and representative of community interests. It was further assumed that the respondents would answer the survey questions in an honest manner and to the best of their ability.

## DATA COLLECTION PROCEDURES

### *QUESTIONNAIRES DISTRIBUTED ACROSS CITY-STATE OF MALAYSIA*

A total of 100 self-administered survey questionnaires were distributed either in person or via mails across the city-state of Malaysia. These questionnaires were distributed randomly to the employees of a MSC-status company in Kuala Lumpur with offices in all major towns in Malaysia. Respondents were asked to consider a specific, recent purchase when responding to the items. Study participants provided the name of the product, purchase price, and Web site from which the product was purchased. Each questionnaire required approximately ten minutes to complete.

### *DEMOGRAPHIC CHARACTERISTICS*

This data collection procedure yielded 98 responses. Three surveys were eliminated from the sample due to incomplete responses, for a usable sample of 95. The largely non-student sample consisted of 58 percent males and 42 percent females, with a mean age of 27 years. Educational levels ranged from secondary school to doctorate. Average annual household income was \$26,000. Of the respondents, 82 percent had been using the Internet for at least three years.

## ANALYSIS OF RESULTS

All coding occurred after the surveys were collected and organized using SPSS, the statistical software. The collected data provides descriptive statistics, frequencies and general statistical averages.

### *RANKING OF THE CRITICAL VARIABLES*

Respondents were asked to indicate how important they felt various factors were in determining the effectiveness of a Web site, using the 18 items. The resulting means of the variables used to assess Web site effectiveness were taken and the variables are presented in rank order in Table 1 below.

Table 1: Ranking of variables

Components	Rank
Security	1
Downloading Time	2
Promptness of delivery	3
Brand	4
Customer recommendation	5
User-friendliness	6
Privacy	7
Warranty	8
Discount price	9
Information content	10
Mode of payment	11
Convenience	12
Graphical interface	13
Unique merchandise	14
Customer support	15
Types of merchandise	16
Banner advertisements	17
Affiliates	18

Security is the highest rated component

As anticipated, the component that is rated highest in importance among our respondents is security (mean rating 4.56). This matches the earlier result obtained by the group of Singaporean researchers. Security refers to freedom from danger, risk, or doubt (including financial insecurity) during the service process. Security was also noted as an on-line service-quality determinant by Yang (Szymanski and Hise, 2000; Zeithaml *et al.*, 2000). Lack of security whilst making transactions on-line is often reported to be the main barrier to customers shopping on-line. It is crucial that any Web site has a security policy accessible on every page or offers a secure payment method on-line (see Vernon, 2000). The risk of fraud on-line is proposed to be the same as paying by credit card in a restaurant; however, customers are far more reluctant to give out card details on-line and new ways of paying for goods over the Internet are being rapidly developed. Some e-businesses have their security managed by a third party, as described by Vernon (2000). The privacy factor, however, is not rated as one of the top 3 components, which is somewhat surprising. Privacy, defined as "the individual's ability to control information about himself/herself and an ability to isolate himself/herself from unwanted auditory input," (Stone

and Stone, 1990) is often found to be a key barrier to shopping on-line ( Clicksure, 1999; Vernon, 2000; Holt, 2000; Ody, 2000). The result of this study clearly indicates that people in this part of the region might not value on-line privacy as much as we would expect from a western society. Thus, it can be concluded that, although on-line security risk is still perceived as the major obstacle for e-commerce, consumer confidence can be increased and managed using encryption, digital signatures, and on-line card guarantees. The second most important factor to consumers when evaluating a Web site is the speed of downloading, search, and navigation. Holt (2000) also stresses the importance of a fast downloading home page.

#### *Discounted price*

An important result to note is the fact that discounted price is rated as one of the most important factors by the respondents. This goes in-line with the general purchasing behavior of the consumers in this part of the world who value low pricing more than anything. People tolerate slightly low product quality if they can get it for a cheaper price. This is likely to be different from western consumers who cherish product quality more than prices. Furthermore, because the WWW is a highly competitive environment, the offer of incentives in the form of discounted price is believed to encourage Web users to try out the Web site and engage in on-line purchasing. It also increases retention and word-of-mouth communication.

#### *Brand*

Virtual branding is defined as “the ability of a Web site to gain recognition and establish its presence in the minds of customers and the public at large” (Simeon, 1999). Thus, a strong brand name gives confidence as it affects consumers’ perception of risk – the fears of being cheated, disclosing credit card numbers, or non-delivery of goods purchased on the Net. It is developed by creating positive images about a company and its product attributes and by delivering satisfying buying experiences to consumers. When this is accomplished, the brand name becomes a symbolic representation of assurance for the consumer. Hence, it is no surprise that the respondents ranked brand name as a key factor when choosing a Web site.

#### *Lowest ranking: Banner advertisements*

The two attributes ranked the lowest are banner advertisements and affiliates. It is believed that the reason for this low ranking is attributed to the fact that most people who surf the Web do not pay much attention to the presence of affiliates’ presence. Also, surfers often disregard banner advertisements as it is found to be both disturbing and annoying.

#### *RANKING OF THE AIPD DIMENSIONS*

In order to investigate which of the AIPD framework factors have the most influence over a person when evaluating a Web site, the individual components in each of the factor are summed and the weighted average is obtained. The means of the individual factors in order of importance are as follow (refer to Table 2):

- Delivering (4.15);
- Informing (4.09);
- Positioning (3.56);
- Attracting (3.33).

The results confirm the fact that on-line consumers in this part of the region value highly the Delivering and Informing of the AIPD dimensions more than the dimensions of positioning and attracting.

Table 2: Correlations, means and standard deviations of the AIPD dimensions

AIPD Dimension	No. of items	Mean	Std dev.	1	2	3
Attracting	4	3.33	1.98			
Informing	3	4.09	1.38	0.34		
Positioning	4	3.56	1.23	0.42	0.16	
Delivering	7	4.15	1.55	0.56	0.09	0.29

It appears that on-line consumers are most concerned with such factors as the on-line retailer’s ability to assure the customer of financial and personal security, efficient downloading time and timely delivery of product purchased. The informing dimension is the second most highly valued (mean importance 4.09). This dimension refers to what a Web site actually offers in terms of information and is as important as the design aspect. It provides not only what types of products or services a Web site is offering but also what policies the e-business has on the use of customer information or on returning goods. The ability for customers to navigate a particular e-business’s site easily and pleasantly is thus essential. Positioning obtained a considerably low rating (3.52).



Other than the attribute of discounted price, it seems that on-line consumers do not see the types of product offering and product uniqueness to be really important. This is probably due to the fact that most people already know what they are looking for when they decide to go to a particular site. The attracting dimension gets the lowest scores (3.33). Although brand name is an important factor when it comes to Web site selection, people generally do not view pop-up banner advertisements and links from affiliates to be affecting their perceptions on a particular Web site.

#### ESTABLISHING NOMOLOGICAL VALIDITY OF THE AIPD SCALE

Furthermore, in order to establish nomological validity of the 22-item Web site retail quality scale, the scale was then summed and used as a predictor variable in a regression equation. As mentioned earlier, the criterion variables used were based on the four key indicators of customer loyalty which included satisfaction with the overall Web experience, positive word-of-mouth about the Web site, likelihood of choosing the site again for the first time, and likelihood of future purchases from the on-line merchant. Regression results indicate that the summated Web site quality measure predicts satisfaction with the overall on-line experience ( $F=83.11$ ,  $p<0.001$ ,  $R^2=0.18$ ), likelihood of recommending the on-line store to others ( $F=77.54$ ,  $p<0.001$ ,  $R^2=0.17$ ), and likelihood of making future purchases from the on-line store ( $F=62.06$ ,  $p<0.001$ ,  $R^2=0.14$ ). The link between the AIPD scale and likelihood of choosing the site again the first time, was not as strong though ( $F=4.97$ ,  $p=0.02$ ,  $R^2=0.02$ ) (see Table 3).

Table 3: Regression results for overall Web site quality scale

Path	Std coefficient	t-val	R (square)
AIPD → satisfaction	0.418	9.07	0.176
AIPD → likelihood of choosing again the first time	0.109	2.16	0.011
AIPD → likelihood of recommending to others	0.407	8.82	0.167
AIPD → likelihood of future purchase	0.356	7.73	0.138

Note:  $p < 0.01$

Further analyses using the four dimensions of AIPD as separate independent variables in multiple regression revealed that delivering and informing dimensions are strong predictors of satisfaction, word-of-mouth, and likelihood of future purchases. The positioning dimension predicts word-of-mouth and satisfaction. The attracting dimension was associated with the likelihood of choosing again as if for the first time (see Table 4).

Table 4: Regression results for sub-dimensions of Web site quality scale

Path	Std coeff	t-val	R (square)
Attracting → satisfaction	-0.046	-0.915	0.365
Informing → satisfaction	0.216	4.49	
Positioning → satisfaction	0.087	1.92	
Delivering → satisfaction	0.434	9.12	
Attracting → likelihood of choosing again the 1 <sup>st</sup> time	0.109	1.81	0.021
Informing → likelihood of choosing again the 1 <sup>st</sup> time	-0.056	-0.95	
Positioning → likelihood of choosing again the 1 <sup>st</sup> time	0.037	0.69	
Delivering → likelihood of choosing again the 1 <sup>st</sup> time	0.087	1.46	
Attracting → likelihood of recommending to others	-0.039	-0.77	0.332
Informing → likelihood of recommending to others	0.233	4.73	
Positioning → likelihood of recommending to others	0.086	1.86	
Delivering → likelihood of recommending to others	0.390	8.05	
Attracting → likelihood of future purchase	-0.019	-0.35	0.247
Informing → likelihood of future purchase	0.195	3.62	
Positioning → likelihood of future purchase	0.067	1.36	
Delivering → likelihood of future purchase	0.365	7.09	

Note:  $p < 0.01$

The results provide empirical evidence that the four AIPD components developed by Simeon are of distinct constructs. While the reliability of some of the dimensions can be improved, the operationalization of the four constructs allows for a good initial test of the efficacy of these dimensions for predicting consumer reactions important to e-retailers.

#### **HYPOTHESES EVIDENCE**

Hypothesis 1: Perceptions of quality in the AIPD dimensions are positively related to customer's satisfaction with the overall on-line experience.

Positive perceptions of Web site quality have the highest correlation with the components of customer satisfaction and the highest reliability of the four loyalty dimensions. The regression results ( $F=83.11$ ,  $p<0.001$ ,  $R^2=0.18$ ) clearly indicate that consumer's perceptions of the Web site quality are a significant predictor of customer satisfaction with the on-line experience. This finding supports the general belief that perceived Web quality contributes to positive business outcomes such as greater levels of customer satisfaction. Therefore, hypothesis one is supported and verified.

Hypothesis 2: Perceptions of quality in the AIPD dimensions are positively related to customer's likelihood of choosing the site again the first time.

The link between the AIPD scale and likelihood of choosing the site again the first time was not as strong though. This is clear from the regression findings of ( $F=4.97$ ,  $p=0.02$ ,  $R^2=0.02$ ). As a result, the hypothesis is rejected on the basis of lack of solid and ample data correlation. The fact that perceptions were not found to exhibit high correlation with the likelihood of choosing a particular site again the first time is thought to be rather interesting as it contraries to the common assumption that consumers always make the same choice even when they are given the opportunity to choose again. I believe the results were contributed by the fact that the user-interface component of the Web site is not a significant factor that drives on-line users to patronage a site in the first place.

Hypothesis 3: Perceptions of quality in the AIPD dimensions are positively related to word-of-mouth behaviors.

The results of ( $F=77.54$ ,  $p<0.001$ ,  $R^2=0.17$ ) strongly suggest that consumers will most likely engage in favorable marketing behaviors such as positive word-of-mouth activities when they have positive perceptions of the quality of the on-line store. Thus, the third hypothesis is supported.

Hypothesis 4: Perceptions of quality in the AIPD dimensions are positively related to future purchase behaviors.

Based on the regression results of ( $F=62.06$ ,  $p<0.001$ ,  $R^2=0.14$ ), it is also proven that consumers' perceived Web site quality is positively related to favorable marketing initiatives such as repurchase behaviors. In other words, when an on-line user perceives a Web site to have met certain quality criterion, the likelihood for the person to make another purchase from the same store again will increase. Hence, the last hypothesis is also supported and verified. Further, the study's findings demonstrate support for the strong predictive power of the overall scale for estimating satisfaction with the experience, likelihood to recommend, future purchase intentions and, to a lesser extent, likelihood of choosing again the first time. In particular, it appears that on-line consumers may be most concerned with factors such as the retailer's ability to reduce the consumer's perception of risk related to transacting on-line, provide efficient downloading speed, deliver the correct product to the consumer in a timely fashion (delivering), furnish a highly informative user-friendly interface (informing), and, to a slightly lesser extent, assure the customer of discounted price and unique merchandise (positioning). The attracting dimension is relatively unique of the four dimensions studied. Although the study indicates that the common on-line marketing approaches through the use of banner advertisements and links from affiliates are not really effective in pulling in the crowd or in ensuring reference through positive word-of-mouth, the data however, shows it as a marginally significant predictor of likelihood of choosing again the first time. I believe this was contributed by the branding component of the dimension. As a result, e-marketers are encouraged to work on building their brand names and values. This would explain why many e-retailers are investing vast amounts of money in traditional advertising campaigns. This creates brand recognition. In other words, it is felt that the use of traditional marketing approaches may eventually alleviate the importance of this dimension.

#### **CONCLUSION AND MANAGERIAL IMPLICATIONS**

The results of the current research study provide several implications for individuals managing e-retail operations. As expected, the delivery dimension assessed in the current study proved to be an excellent predictor of satisfaction, along with word-of-mouth and future buying intentions. Such results support the criticality of an Internet retailer's delivery dimension as a key component to its overall effectiveness; on-line retailers must hence be especially concerned with the security in on-line transactions and the protection of private and sensitive information. Such results proved that the perception of protection involving one's financial and non-financial information plays a major role in determining on-line consumers' attitudes and behaviors. Additionally, e-retailers will also be evaluated by fast Web page loading times, the prompt and accurate delivery of products and customer support policies that deliver. Consumers' risk perceptions are likely to diminish if the retailer offers a credible guarantee of satisfaction (Ostrom and Iacobucci, 1998). Not surprisingly, the informing dimension also emerged as a strong predictor of customer satisfaction with the overall on-line retail experience

and one's likelihood of engaging in positive word-of-mouth communication with others. In other studies, information was also found to be a relatively effective predictor of attitude toward the site and e-satisfaction (Szymanski and Hise, 2000). The informing dimension used in this study was also found to predict one's inclination to make future purchases from the same e-retailer. These findings emphasize the importance of supplying reliable product information through a user-friendly interface. The positioning dimension of the AIPD was found to influence neither satisfaction with the Web site nor likelihood of choosing again the first time. It only marginally influences future purchase intentions and word-of-mouth communication. Discounted pricing is the component that largely contributed to the result. While we do not suggest that on-line retailers ignore the aspect of perceived convenience of on-line shopping, the data provides strong indication that on-line consumers in this region have greater interest in competitive price offers and incentives from on-line retailers. In the face of highly competitive markets with increasing unpredictability and reducing product differentiation, perhaps, to enjoy the substantial competitive and economic advantages provided by a loyal customer base, such as price tolerance, companies should complement their satisfaction programs with other activities focused on the building of brand trust. The fundamentals that drive a consumer's needs and patronage behaviors in the brick-and-mortar world do not change simply because the consumer is doing it on-line!

#### **LIMITATIONS AND FUTURE RESEARCH DIRECTIONS**

Due to the exploratory nature of this research, and the limited literature in this field, there are limitations to the present study. Hence, opportunities for further research are promising. However, much still remains to be done in this area, such as refining the measures and constructs used here. As this paper only considers Web site quality in a B2C situation, the results of the study might not be appropriate to explain B2B transactions. Thus, the study should not be generalized to explain user perceptions in the B2B environment. While the questionnaire approach appears suitable for the purposes of this study, expectations of such behaviors as future purchase loyalty and potential for generating word-of-mouth may not readily transform into actions. In the future, researchers could work with on-line retailers to track actual behaviors, such as repeat purchase and likelihood of recommending to others.

Furthermore, since the sample was composed of young working adults, it is possible that their perceptions of Web site quality are different from other demographic groups such as students. More future research hence needs to be carried out to study the differences between the categories of on-line consumers (age, culture, occupation etc) with respect to the four AIPD dimensions to allow more accurate on-line retailing strategies for specific target market segments. The limited number of respondents in the survey is another concern. Study findings should again be verified with a larger sample to confirm on the generalizability. Also, because participants selected their own Web sites during the survey, a variety of businesses were chosen. However, the nature of the on-line business was not a dependent variable in this study. Thus, another fruitful area for future research involves examining different types of Web sites (perhaps to be determined by business nature, sector, and quality of merchandise offered) that would be most influenced by particular on-line quality dimensions. Such information could then provide guidance for different types of on-line retailers to emphasize the strategic quality improvement with respect to the particular target market. Also, we need to investigate the interactions of product and brand type with consumer characteristics such as personality, values and lifestyles that will result in some using the Web for certain product and brand purchases and others (users) not. Also requiring research is how consumers feel when they are shopping in the traditional mall environment versus the virtual mall environment.

The study could also be extended to examine other Internet Service Providers' users and to look at the frequency of Web purchase behavior and the types of products purchased. These are some of the many questions and avenues for future research. It is hoped that this study sheds light on Web retail usage and encourages others to do work on this interesting and rewarding area. Future research should continue on this track of examining the characteristics of those currently using the Web, and also examine differences between users and non-users. Such a focus could include consumers' personality and values as key drivers of Web retail adoption. Future research could be extended from those Internet users who have and have not adopted the Web for retailing, to examine those who have adopted the Web and those who have neither taken up the Internet nor see any future likelihood of doing so. This would allow an overall focus on adopters and non-adopters to better understand marketing related issues to better and more fully appreciate Web base retail usage potential.

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# **AN EMPIRICAL STUDY TOWARDS CONSUMER PERCEPTION IN SELECTING MOBILE TELECOM SERVICE PROVIDERS IN MALAYSIA**

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## **Abstract**

The growth rate in the Malaysian telecommunication sector was adversely affected over the last decade by Asian economic crisis of the late 1990's. Thereafter, the growth began in befitting manner to a point of excellence. The potential for exponential market growth attracted new players to these businesses soaring dramatic business competition. Nowadays they are trying to attract customers by offering aggressive price promotion. As competition is looming among the companies, it deems a necessity for them to learn the consumers' inherent perceptions about the price, promotion, product and other important commercial factors that may play a pivotal role to choose the tele-service providers. The aim of this study was to find out what were the critical factors that may have played significant role to select the telecommunication service providers. Affirmative result opens a gateway for a comprehensive analysis of such factors which could, in turn, assist the competitors to make uniform decisions on their products and customers. Statistical finding confirms the significant positive relationships among price, service quality, product quality and availability, and promotional offers for consumer perception. Practitioners therefore, can gain a better understanding on these factors in order to satisfy customers and avail market niche.

**Keywords:** Consumer perception, Mobile telecom service provider, Empirical study, Malaysia

## **Introduction**

The advents of computer-based communication technologies and communication networks in the last few decades have become an alluring attention of the global citizen and an indigenously important factor in global interaction. Telephone, for example, provides ubiquitous social interactions between and among individuals, groups, organizations, and the governments alike and that subsequently makes and operates a broadly networked international environment tying nations, cultures, casts, creeds, national identities and businesses. Deutsch (1953) states this trend as "a web of nations". Today's development of communication technology ignores the global border and makes the world as "global village" (McLuhan, 1964). This reform of the communication technology since been expanded to include the transformation of the traditional voice telecom network into an expanded and enhanced information infrastructure, which is capable of communicating all forms of information content (Melody, 2003).

The telecommunication system routinely progressed through an enviable electronic infrastructure environment that effectively transmits all kinds of information, for instant, voice, data, graphics, video, pictures, and music etc. It has been a fastest growing medium of communication rejuvenating global interface interactions. Since, currently telecommunication sector is experiencing phenomenal global change with the liberalization and privatization of the sector (Beard and Hartmann, 1999), which in turn, widens a fierce competition. The system has opened an ocean of opportunities for the potential consumers to enjoy versatile choices among the service providers. Now days, due to breathtaking competition, the telecommunication service providers tend to offer innovative services as well as competitive prices just to attract handful magnitude of customers. The nature of the competition today in the global telecommunications industry seems to centre on market activities that aim at gaining competitive advantages through strategic combinations of resources and presences in multiple products and geographical areas. (Chan-Olmsted and Jamison, 2001)

The success of telecommunication industry depends on prudent efforts and feasible investments. In a competitive market, service providers are expected to compete on both price and quality of services and also it is necessary for the service providers to meet the consumers' requirements and expectations in price and service quality (Melody, 2001).

Worth noting is that the telecommunication industry in Malaysia has also been a fastest growing sector keeping appropriate pace with global advancements, especially the mobile telecom market. This development has become a catalyst for the growth of the nation's commercial and industrial sectors. This telecommunication sector contributed much to the nation's economic growth and development which is consistent with the national vision 2020. The growth rate in the use of telecommunication facilities has increased dramatically, especially in the rank of increasing number of telephone subscribers. The number of telephones for every 100 persons increased from 6.5 in 1985 to 12 in 1993 (Government Report, 1995). The fixed line penetration ratio had risen to 16.6 per 100 population and 21.0 per 100 populations respectively by 1995 and 2000 (Lee, 2001). Now

Government of Malaysia plans to have a telephony penetration rate of 50% for the whole country and 25% for the rural areas by year 2020 (State of Hawaii Government, 2002).

Scrutinizing the background of Malaysian telecommunication sector, competition can be seen as main factor by the telecommunication service provider companies. Companies like Sapura Digital Sdn. Bhd., Celcom and Mobikom Berhad have gone through a market evaluation stating the fact that their companies either should be merged with giant and more competitive companies or to be gone through potential bankruptcies. This reflects a fact as how the market is being penetrated and flooded by the competitors. Only Telekom Malaysia (TM) Sdn. Bhd., with its TM Touch services has managed to maintain its credible presence in the industry. TM has been ranked as one of the leading telecommunication service providers in the entire Asia with significant investments in overseas. Beside TM, three other major companies have been operating in Malaysia namely Celcom, Digi and Maxis. These three service providers usually cover the following segments of the Malaysian telecommunication market traditional telecommunications, IP services, wireless and mobile markets and technologies, broadband markets and technologies. They also provide most sophisticated mobile services with an expanding number of value added services such as Short Message Service (SMS), Wireless Application Protocol (WAP), subscription services (SS), General Packet Radio Services, and Third Generation services. To modernize and to enhance telecommunications service growth rate, a competitive element was introduced in stages. The first step involved the incorporation of Telekom Malaysia (TM) in 1987 as a government-owned company. Later, new companies were licensed to provide certain services such as mobile cellular telephones, pagers, trunked radio, two-way radio system and other value-added services (Government Report, 1995).

Malaysian population, which is our group of consumers in this study, generally seeks some fundamental information about the mobile telecommunication service providers. Thus, it seems extremely important that a company competing in the sector must recognize the needs, wants, tastes, fashion criteria and the perceptions of their consumers in the first place. As competition has been escalating among the corporations, it is ardently necessary for them to learn about the consumers' perception about the price, promotion, product, service quality and other important factors that may have been playing a vital role in selecting the telecommunication service providers. Therefore, the major objective of this study is to cautiously examine the factors that have been affecting the consumers' perception to select mobile telecommunication service, particularly in the context of Malaysian.

Malaysia has been among the most modern telecommunications networks in the region with fiber optic trunks in Peninsular Malaysia, satellite, VSAT (Very Small Aperture Terminal) and ISDN (Integrated Subscriber Digital Network) services. The digitization of the network is far advanced covering about 80 percent of the transmission lines with over 96 percent of the main lines connected to the digital exchanges (Sectoral Studies Report, 1999). This physical and structural transformation has gone through during the past fifteen years. The penetration rate of telephone in Malaysia rose up to 540 percent between 1985 and 2000 (Lee, 2001). Particularly, privatization and liberalization of the sector greatly helped the nation to reform the telecommunication and ancillary sectors and also admirably increased its competition among the service providers. The market structure as well as the regulatory framework and institutions for the telecommunications sector continue to evolve. Especially, in today's market, the mobile technology has been extremely competitive and service providers are moving aggressively to attract versatile customers by offering some meaningfully attractive promotions and services. In this turnaround situation, it is therefore, notably important to know the consumers' overall perceptions about the service providers on which future service delivery would largely depend. In this study we have tried to pin down the consumers' perceptions and their rejuvenating ideologies about the mobile telecommunication service providers and their services. The outcome of the study would deliberately assist the future service providers to take passionate actions towards enriching customers' service experience.

#### Literature Review

##### Service Quality

The telecommunication has been part of a larger class of industries, public utilities, with similar technological, economic and public service characteristics by tradition. According to Melody (2001) public utilities is derived from the law in any country. Where the demand for a good or service is considered a common necessity for the public at large and the supply conditions are such that the public may not be provided with reasonable service at reasonable prices. This is a condition that a government takes state initiative to make smooth supply and delivery of utilities under the public overhead expenditure schemes just to provide an example of government's sympathy toward common citizen.

Service is a form of attitude which is related to satisfaction and also leads to consumer loyalty (Johnson and Sirikit, 2002) and future purchase. In particular consumers prefer service quality when the price and other cost elements are held constant (Boyer and Hult, 2005). It has become a distinct and important aspect of the product and service offering (Wal et al., 2002). According to Leisen and Vance (2001) service quality helps to create the necessary competitive advantage by being an effective differentiating factor. Service quality was initiated in the 1980s as the worldwide trend when marketers realized that only a quality product could not be guaranteed to maintain competitive advantage (Wal et al., 2002). Competitive advantage is a value-creating strategy,

simultaneously which is not implemented by any existing or potential competitors (Barney, 1991). Moreover, according to them, a competitive advantage also sustained when other companies are unable to duplicate the benefits of this strategy.

Service quality is essential and important for a telecommunication service provider company to ensure the quality service for establishing and maintaining loyal and profitable customer (Zeithaml, 2000; Leisen and Vance, 2001). Conversely, Johnson and Sirikit (2002) state as service delivery systems have the ability to allow managers of company to identify the real customer feedback and satisfaction on their telecommunication service. Since, quality reflects the customers' expectations about a product or service. Lovelock (1996) stated that this customer driven quality replaced the traditional marketing philosophies which was based on products and process.

Service quality is different from the quality of goods. Since, services are intangible, perishable, produced and consumed simultaneously and heterogeneously (Zeithaml and Bitner, 2000). So, it sounds a major problem for the telecommunication service providers, especially for the mobile telecommunication service providers to deliver quality service consistently as changes in market compositions and competing characteristics have been surfacing incessantly. According to Wang and Lo (2002), marketing and economics quality often depends on the level of product attributes. They also state that there are two primary dimensions for quality in operations management. At first, fitness of use, which refers to product or services that is supposed to do and possess features to meet the customer needs. The other one is reliability, which represents the product that is free from deficiencies. Accordingly, it is important for a company to understand how customers perceive their service quality. Consequently, Rust and Oliver (1994) pointed out that companies need to measure consumers' satisfaction with their products and services. Generally, service and product quality always lies in the minds of the consumers depending on individual buying capacity, buying behavior, demand, taste, and fashion criteria and obviously the competitive markets that provide significant differentiation strategies. Therefore, it seems a downright necessity for the mobile telecommunication service provider to communicate directly with the potential consumers for measuring possible quality attributes. According to Wal et al., (2002), quality reflects the extent to which a product or service meets or exceeds consumers' expectations.

Wang and Lo (2002) studied on comprehensive integrated framework for service quality, customer value, and customer satisfaction and behavioral intentions of customers in China's mobile phone sector. They conceptualized factors with service quality as antecedents to customers' overall evaluation of service quality rather than dimensions or components of the construct. Herein, they found that the competition between two mobile phone service providers is more intense than ever. This competition is not only in ensuring network quality by a large amount of investment in network extension and upgrading but also in customer acquisition and retention by direct and indirect price reduction efforts.

H<sub>1</sub>: Service quality has a significant influence on consumer perception in selecting mobile telecommunication service provider.

#### Price

In this era of information age, price competition has become cutthroat in mobile telecommunication industry. Trebing (2001) mentioned that there are three sets of strategies for pricing behavior. The first is limit entry pricing, which is used for protection of the market position of the firm; second is the high access charges for new entrants, and the third one is tie-in sales to write off old plant or standard investment against captive customers. According to the author, limit entry pricing involves setting low prices in highly elastic markets to attract or retain large customers with monopsonistic buying power, while maintaining high prices in inelastic markets.

Price plays a vital role in telecommunication market especially for the mobile telecommunication service providers (Kollmann, 2000). It includes not only the buying price but also the call and rental charges. Generally, a price-dominated mass market leads to customers having more choices and opportunities to compare the pricing structures of diverse service providers. A company that offers lower charges would be able to attract more customers committing themselves to the telephone networks, and hence, significant number of "call minutes" might be achieved. According to Kollmann (2000), income from the number of call minutes determine the basic commercial success for the network providers. He also added that the success of the telecommunication sector in a market place largely depends on continuing usage and pricing policies, which need to be considered on several levels. Draganska and Jain, 2003 states that a common strategy for a company extending their product or service is to differentiate their offerings vertically.

H<sub>2</sub>: Price has a significant influence on consumer perception in selecting mobile telecommunication service provider.

#### Product Quality and Availability

Consumer's perception of product quality is always an important aspect of a purchasing decision and market behavior. Consumers regularly face the task of estimating product quality under conditions of imperfect knowledge about the underlying attributes of the various product offers with the aid of personal, self-perceived quality criteria (Bedeian, 1971 adapted by Sjolander, 1992). According to Sjolander (1992) the consumer

behavior in modern market is different from the theoretical case of consumer decision making in free markets. Generally, free and competitive markets are composed of buyers and sellers each of whom must possess the following:

- Perfect information about all possible products and their respective utilities;
- A well defined and explicit set of performances;
- The ability to determine optimal combination of various products given their budget constraints;
- A knowledge of prices, which does not affect the subjective wants or satisfaction of the consumer. (Monroe and Petroschius, 1973 adapted by Sjolander, 1992)

Notwithstanding the facts, it is necessary to define quality in the first place before it can be measured. Although, there is no global definition of quality exists (Sebastianelli and Tamimi, 2002), it can be defined in a varieties of ways. Yoon and Kijewski (1997) pointed out that quality can be categorized into two perspectives. One is the marketer's perspective, which is typically product-based or manufacturing-based and the other one is consumer's perspective, which is typically user-based or value-based. Generally, product quality from the marketer's perspective is associated with specific feature, function or performance of a product. On the other hand, product quality from the consumer's perspective is associated with the capacity of a product to satisfy consumer needs (Archibald et al., 1983). According to Lambert (1980), consumers often attribute quality to branded products on the basis of price, brand reputation, store image, market share, product features and country of manufacture. So, price is an indicator to measure the product quality, which is based on the theory that quality is a measure of the utility, or the want-satisfying capacity of products (Sjolander, 1992). The author has also added that the more the quality a product possesses, the more the utility it contains, and the higher the price it will obtain in an open market exchange. This means that similar products offered to the market at different prices, contain different amounts of utility, and that there is a direct relationship between quality and price. The actual price-quality relationship is a complex interaction between price, brand name, store image, product features, and brand awareness (Lambert, 1980; Gerstner, 1985).

Overall, the quality of a product is also related to the availability of the product's main functional features on one hand and the consumer's experience-in-use of the other auxiliary features on the other hand (Yoon and Kijewski, 1997). A product's main functional features are the sources of the primary benefits that the consumers expect to obtain when purchasing a product. In general, consumers' evaluations of a product's overall quality are related to the availability of these features in comparison with the competition (Lambert, 1980; Nowlis and Simonson, 1996). Hence, it is necessary for the telecommunication service providers to effectively communicate with the consumers for measuring the quality. Quality reflects the extent to which a product or service meets or exceeds consumers' expectations (Wal et al. 2002). Therefore, the success of the telecommunication sector in the market place significantly depends on product quality and availability.

H<sub>3</sub>: Product quality and availability has a significant influence on consumer perception in selecting mobile telecommunication service provider.

#### Promotion

Promotion is one of the medium which is used by organization to communicate with consumers with respect to their product offerings (Rowley, 1998). It is an important part for all companies, especially when penetrating new markets and making more or new customers (Kotler et al., 1999). The authors also state that promotion is the activities that communicate about the products or services and its potential merits to the target customers and eventually persuade them to buy. Generally, promotion is concerned with ensuring that consumers are aware about the company/firm and its products that the organization makes available to those consumers (Root, 1994). More specifically, the objectives of any promotional strategy are:

- increase sales;
- maintain or improve market share;
- create or improve brand recognition;
- create a favorable climate for future sales;
- inform and educate the market;
- create a competitive advantage, relative to competitor's products or market position;
- improve promotional efficiency. (Rowley, 1998).

According to Alvarez and Casielles (2005), promotion is a set of stimuli that are offered sporadically, and it reinforces publicity actions to promote the purchasing of a certain product. Promotional offer consists of several different objects to create a better sale impact, for example, coupons, samples, premiums, discounts, contests, point-of-purchase displays and frequent-buyer programs. Each of the promotion techniques is intended to have a direct impact on buying behavior and perception about the company or service providers. The objectives of



promotion will be reached to a greater extent when it is done sporadically, when the consumer does not expect it. Promotional actions must be well planned, systematically organized, and commonly integrated into the subject corporation's strategic marketing plan.

H<sub>4</sub>: Promotion has a significant influence on consumer perception in selecting mobile telecommunication services provider.

### **Methodology**

Since the major purpose of the study is to learn the consumers' perceptions to select the mobile telecommunication service provider in Malaysia, a self-structured questionnaire was developed to collect the required primary data from the consumers. The survey questionnaire consists of 5 distinct sections, each of which contains relevant questions pertaining different parts of the study. Questionnaires were systematically distributed utilizing a non-probability convenience sampling from walk-in customers at market places, educational institutions, pedestrians' walk-ways (footpaths), government and private institutions. Data collection process went through rigorous real-life impediments in view of time and cost constraints, and of course a large number of populations of mobile telecommunication services users in the country. Even though the sampling method adopted in this study contains limitations in terms of generalisability as compared to other probability methods of sampling, it was logically assumed that the sample represented the whole population of mobile telecommunication services users in Malaysia. There is enough similarity amongst the elements within the population to conclude that a few of the elements (the sample) will adequately represent the characteristics of the total population (Page and Meyer, 2000). Primary data was collected randomly from the consumers as a convenience sample from Kuala Lumpur, Gombak, Cyberjaya, Putrajaya, Serdang, Subangjaya, Penang, Johor, Melaka, Pahang, and Perlis. The survey was conducted mainly via face-to-face customer survey. Apart from the ability to reach a large number of respondents and an inexpensive way to conduct the survey, the survey through e-mailing process also enabled us to collect the data, despite insignificant responses. Respondents were asked to assess the items on different constructs such as factors viewed as antecedents of service quality, price, and product quality in terms of their perceptions based on five-point scales. The descriptors range from strongly disagree, disagree, neither agree/nor disagree, agree and strongly agree. Data was collected from existing customers who had previously used mobile telecommunication services at least for a day.

A total of 670-sample sizes had been found to be valid and eventually distributed among the potential respondents for this study, of which 615 questionnaires were received. Each of the response received was systematically screened for errors, incomplete and missing responses. In some cases where respondents provided their identities, efforts were also taken to contact the subject respondents through e-mail for clarification and corrections, especially for missing or blanks responses. However, those responses that still contained questions in the survey questionnaire that had been remained unanswered or left incorrectly answered were finally discarded from data analysis in order to establish a rationality of analysis through proper representation. After having the screening process completed, only 583 responses were considered complete and valid for data analysis. This represents a success rate of 94%, which is considered to be extremely good in view of time, cost, certainty and geographical constraints.

Factor analysis is used in the study to identify the salient attributes that have impact on consumers' perception to evaluate the mobile telecommunication services providers. Since, Factor analysis represents an analytical process of transforming statistical data (as measurements) into linear combinations of variables, it is a meaningful statistical method used for combining a large number of data into a considerably smaller number of factors with a minimum loss of information (Hair, et al., 1992). In addition, Regression analysis has been carried out to investigate the relationship among the variables which influence the consumers' perception choice in selecting the telecommunication services providers.

### **Results and Discussion**

#### **Reliability Coefficient**

Reliability coefficient tested by using Cronbach's alpha ( $\alpha$ ) analysis. In order to measure the reliability for a set of two or more constructs, Cronbach alpha is a commonly used method where alpha coefficient values range between 0 and 1 with higher values indicating higher reliability among the indicators (Hair, et al., 1992). Hence, 1 is the highest value that can be achieved (Table 1).

In accordance with the Cronbach alpha test, the total scale of reliability for this study varies from .9778 to .9974, indicating an overall higher reliability factors. The reliability of this study is substantial in every perspective, as the highest reliability value that can be achieved is 1.0.

Table 1: Reliability Analysis

	Mean	Std. Deviation
Service Quality (Alpha = .9778)		
Tangibles	3.36	1.04
Reliability	3.27	1.05
Responsiveness	3.30	1.07
Assurance	3.30	.96
Empathy	3.38	1.00
Price (Alpha = .9902)		
Satisfactory Price Charge	3.73	1.34
Price does not has impact	3.73	1.32
Services are desirable than price	3.76	1.29
Price plays vital role	3.77	1.27
Product Quality and Availability (Alpha = .9846)		
Product outlets available	2.44	1.42
Product outlets hardly reachable	2.55	1.43
Product offer best solution to need	2.55	1.46
Product offer best technology	2.53	1.38
Promotion (Alpha = .9974)		
Attractive promotional offer	3.60	1.18
Promotional offer does not attract	3.54	1.22
Real need than promotional offer	3.55	1.22
Consider services at the time of same promotional offer	3.58	1.18

#### Factor Analysis

The results obtained from 583 respondents have been thoroughly analyzed and the outputs of the results have been clearly explained in this section. Applying SPSS, the principal component analysis (PCA) was carried out to explore the underlying factors associated with 20 items. The constructs validity was tested applying Bartlett's Test of Sphericity and The Kaiser–Mayer–Olkin Measure of Sampling adequacy analyzing the strength of association among variables. The Kaiser–Mayer–Olkin measures of sampling adequacy (KMO) was first computed to determine the suitability of using factor analysis. It helps to predict whether data are suitable to perform factor analysis. KMO is used to assess which variables to drop from the model due to multicollinearity problem. The value of KMO varies from 0 to 1, and KMO overall should be 0.60 or higher to perform factor analysis. If this does not have achieved, then it is necessary to drop the variables with lowest anti image value until KMO overall rises above .60. Result for the Bartlett's Test of Sphericity and the KMO reveal that both were highly significant and eventually concluded that this variable was suitable for the factor analysis (Table 2).

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.911
Bartlett's Test of Sphericity	Approx. Chi-Square	10043.963
	df	349
	Sig.	.000

Deciding upon the number of factors that can be retained is difficult but initial runs-based on eigenvalues showed 4 factors. To determine the minimum loading necessary to include an item in its respective constructs, Hair et al. (1992) suggested that variables with loading greater than 0.30 is considered significant, loading greater than 0.40 more important, and loading 0.50 or greater are very significant. For this study, the general criteria were accepted items with loading of 0.60 or greater. Not a single factor had been dropped out under this circumstance which means the factor analysis ran on an ultimate success. The result showed in table 3.

Table 3: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	14.539	53.848	53.848	14.539	53.848	53.848
2	4.084	15.125	68.973	4.084	15.125	68.973
3	3.558	13.179	82.152	3.558	13.179	82.152
4	1.002	3.711	97.443	1.002	3.711	97.443
5	.146	.540	97.983			
6	.112	.415	98.398			
7	.068	.251	98.671			
8	.046	.223	98.923			
9	.022	.172	99.146			
10	.011	.123	99.318			
11	.009	.102	99.441			
12	.007	.080	99.543			
13	.006	.032	99.623			
14	.004	.022	99.936			
15	.004	.015	99.959			
16	.002	.008	99.988			
17	.001	.004	100.000			

The values of the following Table 4 indicate the affiliation of the items to a factor. Generally, the factor is the natural affinity of an item for a group. The higher loading (factor) indicates the stronger affiliation of an item to a specific factor.

The findings of this study indicate that each of the four dimensions (Service quality, Price, Product quality, and Promotion) was homogeneously loaded to the different factors. That means each of the five dimensions that loaded into four different factors, all have proven as significantly related to the consumers' need.

Table 4: Factor Loading Matrices Following Oblique Rotation of Five-factor Solutions

Descriptions	F1	F2	F3	F4
Service Quality				
Tangibles		90		
Reliability		83		
Responsiveness		81		
Assurance		85		
Empathy				
Price				
Satisfactory Price Charge			71	
Price does not has impact			76	
Services are desirable than price			86	
Price plays vital role			82	
Product Quality and Availability				
Product outlets available	78			
Product outlets hardly reachable	90			
Product offer best solution to need	91			
Product offer best technology	92			
Promotion				
Attractive promotional offer				88
Promotional offer does not attract				85
Real need than promotional offer				79
Consider services at the time of same promotional offer				96

Notes: Extraction method: principal component analysis. Based on four factors specification (not on eigenvalue > 1). Rotation Method: oblique (oblimin – SPSS) with Kaiser Normalization. All numbers in the table are magnitudes of the factor loadings multiplied by 100. Loadings that are 0.60 or less are not shown.

### Hypotheses Testing

After having extracted the four independent variables for factor analysis, we tested the hypotheses by conducting regression analysis. Results for consumer perception showed in Table 5, 6, 7. Results indicate that 76.3 percent of variance of consumer perception choice in selecting telecommunication service provider was explained by these four independent variables with a significant 'F' value of 69.398 as being significant at  $p < .000$  (Table 5 and 6). Therefore, it has been evident that these four factors of consumers' perception significantly affect the process to select mobile telecommunication service provider.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.874(a)	.763	.752	.49752489

a Predictors: (Constant), service quality, price, product quality and availability, promotion

Table 6: ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	103.068	6	17.178	69.398	.000(a)
	Residual	31.932	129	.248		
	Total	135.000	135			

a Predictors: (Constant), service quality, price, product quality and availability, promotion

b Dependent Variable: perception

The hypotheses of this study are concerned with the individual effect of four variables on the consumer perception choice in selecting mobile telecommunication service provider. The test of these hypotheses leads to accomplish the objectives of this study. The strength of influence of each of the independent variables would have on the consumer perception choice in selecting mobile telecommunication service provider been addressed and results have been shown in the Table 7.

Table 7: Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4283E-16	.043		.000	1.000
	service quality	.309	.043	.309	7.210	.000
	price	.272	.043	.272	6.360	.000
	product quality and availability	.341	.043	.341	7.953	.000
	promotion	.421	.043	.421	9.826	.000

a Dependent Variable: perception

H<sub>1</sub>: The result showed that service quality emerges as the important factor affecting the consumer perception choice in selecting mobile telecommunication service provider. A significant positive effect of service quality on consumer perception is seen where beta coefficient 0.309 and t value is 7.201. This is mean significance positive effect and  $p < .000$  (Table 7). This result supports our first hypothesis. As a point of relevance, we see that a study by Wal et al. (2002) measured service quality at cellular retail outlets in the South African environment. The authors categorically focused on perception and expectation of service quality from the consumer's perspective. Results in that study also showed a significant relationship exists between the importance of a dimension to the customers and the perception about the service quality. So, based on this positive coefficient of the service quality, our study unanimously concludes that there is a significant positive effect of customization on the brand building process.

H<sub>2</sub>: The price is another important determinant proven to be statistically significant at  $p < .000$  level, and has positive influence on the consumer perception choice in selecting mobile telecommunication service provider. Success in the telecommunication industry depends not only on sales, purchase price, but also on call and rental charges. The special significance of the price for the decision to purchase is as undisputed in the

telecommunications sector as it is elsewhere. This is particularly true in the mobile telecommunication sector as available studies suggest. Here, the choice of the telecommunication service provider is often connected with purchasing a new end-user set, for example, consumers consider the fixed connection costs and variable call charges (Kollmann, 2000). Hence, from the result of our study, we can deliberately conclude that price has significant positive impact on consumer perception choice in selecting telecommunication service provider in Malaysia. Because standardized coefficient 0.272 and calculated t value is 6.360 which is greater than  $p < .000$ .

H<sub>3</sub>: The result on the product quality and availability shows that it entails positive impact on consumer perception choice in selecting telecommunication service provider. Results postulated from table 7, beta weight 0.341 and calculated  $p < .000$ . Hence, product quality from the marketer's perspective is associated with specification, feature, function, or performance of a product. In general, consumer's post-purchase or after-use evaluation of a product's overall quality is positively related to the availability of the product's main functional features on one hand and the consumer's experience-in-use of other auxiliary features on the other hand. A product's main functional features are the sources of the primary benefits that the consumers expect to obtain when purchasing a product. (Yoon and Kijewski 1997) According to Quelch and Hoff (1986), consumer response to product quality also changes dynamically as experience builds up, information accumulates, and the cost of quality changes. Moreover, Nowlis and Simonson (1996) and Zeithaml (1988) show the consumers' evaluations of a product's overall quality are related to the availability of these features in comparison with the competition. However, our study shows that product quality and availability has a significant impact on consumer perception choice in selecting mobile telecommunication service provider and supported H<sub>3</sub>.

H<sub>4</sub>: Promotion has significant impact on consumer perception choice in selecting mobile telecommunication service provider since; it is used to communicate with the consumers with respect to product offerings. Promotion possesses a significant key role in determining profitability and market success. Results apart from (Table 7), where beta coefficient value 0.421 and calculated t value is 9.826, that is indicating higher value than  $p < .000$  and supporting H<sub>4</sub>. According to the study of Alvarez and Casielles (2005), promotional offer of a product states at the moment of purchase as an explanatory element of the process. Promotion is a tool that can help manufacturers and/or retailers in the achievement of their objectives (try the brand, help to decide what brand to buy, etc.). Immediate price reduction is a desirable technique that wields greatest influence on the brand choice process.

Our study indicates that consumer perception choice in selecting mobile telecommunication service provider is influenced by the service quality. This might be propelled from the fact that the consumers expect better service quality from the telecommunication service providers. Next to this, price, product quality and availability, and promotion are also having significant impact on the consumers' perception choice in selecting mobile telecommunication service providers in Malaysia.

### **Conclusion and Implementation**

We reiterate here that the reform of the telecommunication sector began in Malaysia as a process of restructuring the telecom services industry, specially, following the introduction of mobile phones and the Internet. These two are seen as niche markets that are complementary additions to traditional telephone services (Melody, 2003). In recent years, the developed countries have been looking beyond the conventional telecom network and services, and its benchmark indicators. They are engaged in developing and applying additional indicators of progress in information infrastructure development and interface networking.

This study was undertaken to examine and understand the consumers' behavioral perception choice in selecting mobile telecommunication service providers. As a general notion, consumers' perception is widely varied in accordance with the service quality, price, availability of product, and promotion, etc. Hence the service provider companies are characterized by the engagement in competition with each other to attract and acquire the potential consumers. Historically, the competition among the mobile phone service providers in Malaysia is more intense now than ever before. They compete not only for networking quality by a large amount of investment in network quality, network extension and upgrading, but also for the acquisition of new customers and retention of old customers by direct and indirect price reduction. Network quality is one of the important factors of overall service quality. According to our study, product quality, availability, and promotion are also significantly important factors to influence the consumers in Malaysia's vast mobile phone market. These are the factors that truly helped the consumers to make uniform purchasing decisions on one hand and lead to higher consumer perception indirectly on the other.

#### **Limitation of the Study and Direction to Future Research**

This research has been carried out successfully based on what have been learnt from the available services market literature on the mobile telecommunication industry with specific empirical evidence from Malaysia. The outcome of this research shows a comprehensively integrated framework for us to understand the vibrant relationships among several dimensions of service quality, price, product quality and availability, and promotion to have handful ideas on the consumers' perception. However, we still predict that further research efforts are being needed to examine these factors in Malaysia with additional samples before generalization can be made.

Moreover, it is also needed to extend full-scale behavioral intensions of consumers upon mobile telecommunication service providers in order to match consumers' overall behavioral patterns with the decision making criteria of the mobile telecommunication services providers.

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# **A STUDY OF PERCEPTION AND EXPECTATIONS OF STUDENTS, MANAGEMENT AND STAFF OF THE QUALITY OF SERVICES OFFERED BY AICTE'S APPROVED INSTITUTIONS OF NORTHERN INDIA – A GAPS MODEL APPROACH**

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## **Introduction**

The internet and revolution in the field of communication technologies have changed the way business used to be managed and educational institutions are no exception to this revolution. Students have now greater access to information from all sources and often on real time bases and hence take an informed decision. They compare the quality is being offered at various places its price. Their expectations and perceptions often differ and it results in a gap that is primarily responsible for dissatisfaction, that, those institutes which can bridge, shall be the winners. An attempt has been made through this paper to measure the gap and recommend the ways and means to bridge the same.

The paper attempts first to provide a history of management education in India, then it talks about the concept of quality in services and especially in educational services. Perception and expectation of students, management and staff from approved management institute have been measured using gaps Model of Service Quality. The data has been analysed using appropriate statistical techniques

## **History of Management Education in India**

Business education has a long history in India dating back to the 19<sup>th</sup> century. Early business schools were focused on the commercial side of business, seeking to fulfill the colonial administration needs of the British government. Their graduates joined the British government colonial bureaucracy, usually at the clerical ("babu") rank. India's first business school - Commercial School of Pachiappa Charities – was set up in 1886 in the southern city of Chennai. In 1903, British government initiated secondary school level commerce classes at the Presidency College in Calcutta, with a focus on secretarial practice / business communication (shorthand, typing and correspondence) and

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accounting. The first college-level business school was founded in 1913 in Mumbai, and was soon followed by another in Delhi in 1920 (Commercial College, later renamed as Shri Ram College of Commerce). These business colleges imparted basic skills about the principles of trade and commerce to clerks and supervisors from fields such as banking, transport, and accounting. After India's independence in 1947, business education, which was associated with "babu-ism" and therefore lacked a strong social status, started to evolve. In an attempt to enhance vocational skills, the Government of India introduced commerce as a third stream of specialization at the high school level, science and arts being the other two.

The Indian Institute of Social Science, a premier institute of higher learning focused only on graduate and doctoral programs, founded India's first management program in 1948, intended to systematically train manpower, create and spread the knowledge required for managing industrial enterprises in India. Soon thereafter, in 1949, Catholic community founded Xavier Labor Relations Institute (XLRI) at Jamshedpur – the city of TISCO (Tata Group). TISCO had been a pioneer in progressive labor relations approaches in India, and XLRI was oriented towards developing managerial competence, with a sense of social justice and values of discipline, dedication and commitment to "Magis" (excellence in everything). Indian Institute of Social Welfare and Business Management (IISWBM), was set up in 1953, under the auspices of the University of Calcutta, as India's first official management institute. Formed in cooperation with the business community, national and state governments, the faculty of the Institute took up the mandate to promote professionalism in the industry by undertaking several field consulting projects for the industry and the government. The primary areas of consulting included organizational development, project formulation, and socio-economic programs. Encouraged by the results of these early initiatives, the Government applied for and obtained a grant from the Ford Foundation in 1961 to launch two Indian Institutes of Management (IIM), one at Calcutta (West Bengal), and the other at Ahmedabad (Gujarat). This grant was focused on helping transfer American business education knowledge and models to other nations, and required intensive collaboration with an American business school for facilitating the transfer of learning. The IIM at Calcutta established collaboration with the Sloan School of Management at MIT for faculty and pedagogy development, and the IIM at Ahmedabad established similar collaboration with Harvard Business School. IIM at Calcutta adapted the Sloan's incident method and laboratory training, and pursued a research and teaching philosophy more focused on quantitative and operational aspects of management. On the other hand, following HBS, IIM at Ahmedabad pioneered the case method of teaching in India, and conducted influential research oriented towards writing cases on Indian companies and context,



with an emphasis on qualitative strategic integration. The mission of IIM's was to professionalize Indian management through teaching, research, training, institution building and consulting. They also had a mandate to professionalize vital sectors of the economy, particularly agriculture, education, health, transportation, population control, energy, and public administration. Towards this end, they helped launch several specialized management education schools. For instance, the Indian Institute of Forest Management was set up in 1982 as a leader in specialized management education for the entire forestry system in India, with the help of IIM Ahmedabad.

Meanwhile, management institutes continued to grow. With the support of expertise developed by the pioneering IIM's, two more IIMs were founded in Bangalore (Karnataka) in 1973, and in Lucknow (Uttar Pradesh). In late 1990s, two additional IIMs, one at Calicut (Kerala) and the other at Indore (Madhya Pradesh) were established to further decentralize and develop management resources and talent throughout India.

## 2. The Concept of Service Quality, Perception and Expectations of Students, Management and Staff

"Quality of Service refers to a network system's ability to sustain a given service at or above its required minimum performance level." A modern definition of quality says that quality is "meeting or exceeding customer expectations." According to Quality Digest "Quality itself has been defined as fundamentally relational: Quality is the ongoing process of building and sustaining relationships by assessing, anticipating, and fulfilling stated and implied needs." According to [www.asq.org](http://www.asq.org) "Quality have two meanings (a) The characteristics of product or service that bear on its ability to satisfy stated or implied needs. (b) a product or service is free of deficiencies." A popular site <http://www.ldri.com> explains quality as- Quality is defined as the process of helping people and organizations move from a state of punishment, limitation, captivity, or victimization to a state of participation, liberation, captivation, and actualization. This is done through anticipating and fulfilling stated and implied needs. The quality process is effectuated by fulfilling all five dimensions, resulting in "customer delight." According to [www.tohm](http://www.tohm) Service quality is not a number on a scale. It is not a ranking. It is not something produced to specifications, or replicated identically. Rather, service quality refers to the relationships between customers and the organization, between expectations for excellent services and perceptions of service delivered. Service quality is about ensuring the customers, both internal and external, get what they want. Service quality is the gap between client expectations (perception) and service performance. Service quality is the compromise of the supplier (the promise) which takes place at the moment the client is served (the performance)

### 2.1 Gaps Model and Service Quality:

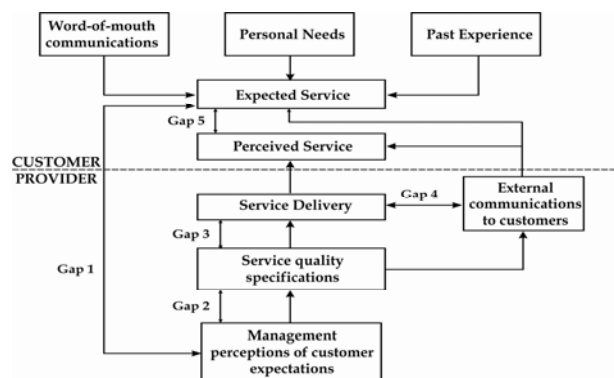
Quality of service has been studied in the area of business management for years because the market is more competitive and marketing management has transferred its focus from internal performance such as production to external interests such as satisfaction and customers' perception of service quality.

Based on this traditional definition of service quality, Parasuraman, Zeithaml, and Berry (1985) developed the "Gap Model" of perceived service quality.

This model explains five gaps:

- Gap 1. Consumer expectation - Management perception gap
- Gap 2. Management perception - Service quality specification gap
- Gap 3. Service quality specifications - Service delivery gap
- Gap 4. Service delivery - External communication gap
- Gap 5. Expected service - Experienced service

The model is given below:



Source: <http://www.lib.sun.ac.za/sym2004>

Figure: Gaps Model Framework

- Gap 1: Customer expectations of service and management's perspective on these Expectations
- Gap 2: Service quality specifications and management's perspective of customer Expectations
- Gap 3: Service quality expectations and service delivery
- Gap 4: Service delivery and external communication to customers about that Delivery
- Gap 5: Customers expectations of service and perceived service delivery

Service quality is not a number on a scale. It is not a ranking. It is not something produced to specifications, or replicated identically. Rather, service quality refers to the relationships between customers and the organization, between expectations for excellent services and perceptions of service delivered.

### 3. Review of Literature

Service Quality has received a large amount of attention among the marketing scholars in 1980's and at the beginning of the 1990, as such is relatively a young academic discipline, boasting only some two decades of research (Reynoso & Moores, 1995) Services are economic activities that create value and provide benefit for customers at specific times and places as a result of bringing about a desired change in or on behalf of the receipt of service (Lovelock, 2002).

Quality is regarded as a degree of excellence (Zeithaml 1996) or conformance to requirements and means that a product should be build according to formally stated specifications and quality is achieved when a product is produced the way it's supposed to be. It is a quest for perfection, which is as old as human existence (Mekoth and Hegde, 1995). The idea of service quality is based on the comparison that customers make between their expectation and about a service and their perception of the way the service has been performed (Lewis and Booms, 1983; Lehtinen and Lehtinen, 1982; Parasuraman et al., 1985). As relatively less research has been done on the topic of education quality (Cheng, 1995a), it is a vague and controversial concept in research and policy discussion. To different people, the definition may be different and so the indicators used to describe education quality may be different (Fuller, 1986; Hughes, 1988). Some may emphasize the quality of input to the education system, where as others emphasize the quality of processes and outcomes. No matter whether referring to input, process, outcome or all of these, these definition of education quality may often be associated with fitness for use, the satisfaction of the needs of strategic constituencies (eg., policy makers, parents, school management committees, teachers, students, etc.) or conformance to strategic constituencies requirements and expectations (Cheng and Tam, 1997). The best education, according to National Education Policy Commission (1998) is that which does most to enable each other to serve society. Education must therefore be appropriate to the needs of each pupil and the needs of society (Mahmood, 2001).

The usual debate taking place in service quality is concerns the similarities and differences between the constructs of service quality and satisfaction (Athiyaman, & Bathurst, 1997; Caruana et al., 1998; Sharma and Chahal, 2003; Shemwell et al., 1998; Parasurman et al., 1988). During early stages of service quality research it

was common to measure perceptions of service quality as a proxy measure of customer satisfaction, implying perfect correlation between the two constructs. Now it is more common to posit service quality as an antecedent of consumer satisfaction (eg., Cronin et al., 2000; Spreng and Mackoy, 1996). There appears to be a consensus emerging that satisfaction refers to the outcome of individual service transactions and overall service encounter, where as service quality is the customer's overall impression of the relative inferiority / Superiority of the organization and its services (Bitner and Hubbert, 1994; Athiyaman, & Bathurst, 1997). Deruyter et al., (1997), who found that an increase in service quality leads to increase in satisfaction. However the reverse need not necessary be the case; low perceived service quality may result in high service satisfaction e.g. customers may not necessarily buy the highest quality service i.e. convenience, price, availability may enhance satisfaction without actually affecting customer perception of service quality. Value is seen playing a moderating role between service quality and satisfaction. Though subjective, it is more individualistic and personal than quality and involves both a get and a give component (Zeithaml, 1988). An empirical study of indicates that although an offering may not be high in terms of quality, the fact a price is competitive, can contribute via-value to good level of satisfaction i.e., how the value plays a moderating role between service quality and satisfaction. The findings substantiate the salience of satisfaction in services marketing confirming that ensuring customer satisfaction should be as much a concern in service marketing as obtaining positive service quality judgments (Oliver, 1993; Verma, 2001). A recent study revealed that the time consciousness or speed in completing the transaction has a great relevance in customer satisfaction (Vyas, 2001). Some other studies provides evidence that the interpersonal failures are given major importance by the customers and that they feel unhappy on account of treatment that is meted out to them at interpersonal level (Verma, 2001; Sharma and Chahal, 2003 ; Verma and Sobti, 2002).

#### 4. Research Methodology:

To analyze the gap, if it existed in the perception and expectations of the students, staff and management, it was considered necessary to first measure it using primary data to be collected through structured questionnaire. For which instrument developed by Parasuraman, A., Zeithaml, V.A. and Berry, L.L (1991) has been adapted. In formulating the research problem, the major Service Quality Dimensions have been chosen. A questionnaire based on the dimensions of Service Quality has been used and the respondents of Management Institutes of Northern India were asked to respond to the through the structured questionnaire. Further details follow.

##### 4.1 Objectives of the Study

The important objectives of the study are to find out to what extent the services offered by a management institutes are perceived the same as these are perceived by the institute. It is hypothesized that if there is not difference in the perception of both of them, the expectations shall be met else there shall remain a gap which needs to be filled in for a better service quality. Main objectives can be summarised as below.

- To find the Overall Perception of Service Quality of Management, Staff and Students including Professors, Associate and Assistant Professors.
- To find the Overall Perception of Service Quality Dimensions by students including First Year and final year.
- To find the Overall Perception of Service Quality Dimensions between Management and Staff.
- To find the Overall Perception of Service Quality Dimensions between Management and Students.
- To find the Overall Perception of Service Quality Dimensions between Colleges with varying number of years of existence.

##### 4.2 Research Instrument:

The instrument developed by Parasuraman, A., Zeithaml, V.A. and Berry, L.L (1991) has been adapted. In formulating the objectives, the major Service Quality Dimensions as discussed in the above referred instrument were taken for the present paper. The instrument was modified and tested with 40 respondents and when the testing was found reliable only then it was administered.

##### 4.3 Population Frame and sampling

Total No of Management Institutes in India is close to 1073 ([www.indiaeducationinfo/management/india](http://www.indiaeducationinfo/management/india)) and total numbers of Management Institutes in Uttar Pradesh are 280. Total No of Management Institutes in Uttar Pradesh in Northern India affiliated from UPTU is 91 Hence in collecting information, primary sources have been considered as population sample. Stratified random sampling method has been adopted. The population of the study consisted of 91 Management Institutes approved by AICTE in UP. The institutes have been selected

on the basis of their years of establishment and include ones with more than ten years and less than ten years of existence having 60 and 120 intake and described below.

Data has been collected through a structured questionnaire developed on a five-point scale. Data was entered on SPSS. Thereafter overall mean of various scores was taken. In order to know if there existed significant difference among the perception of management, staff and students on major demographic parameters, independent samples t-tests were applied at 5% significance level. Cross referencing with respect to rank of teaching staff, rank of administrative staff, year of existence of institute and duration of stay of students were also considered and analyzed. Following table summarises the sample ultimately analyzed.

**Table showing summary of respondents**

<b>Respondents'</b>	<b>Numbers</b>
<b>No of Questionnaires Filled in by the Management</b>	<b>31</b>
No of Questionnaires Filled in By non-teaching staff	31
<b>No of Questionnaires Filled in By Professors</b>	<b>11</b>
<b>No of Questionnaires Filled in By Associate and Assistant Professors</b>	<b>33</b>
<b>No of Questionnaires Filled in By Senior Lecturers</b>	<b>24</b>
<b>No of Questionnaires Filled in By Lecturers</b>	<b>62</b>
<b>No of Questionnaire Filled in By Students:</b>	
<b>No of Questionnaire Filled in by First year students</b>	<b>155</b>
<b>No of Questionnaire Filled in by First final year students</b>	<b>138</b>
<b>Total Respondents</b>	<b>454</b>

#### 4.4 Administration of Questionnaire

The survey questionnaire employed in this study is based on Components of Gaps Model of Service Quality through which we need to find the gap level between Management, Staff and Student of the Management Institutes in Northern India.

From these five components of Gaps Model of Service Quality respondents were asked to rank the extent to which these components were applicable in those institutes. The five point scale represents:

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neither Agree nor Disagree
- 2 = Disagree
- 1 = Strongly Disagree
- NA= Not Applicable

#### 4.5 Testing and Follow Up

To collect the data from the respondents, three steps were taken. Firstly emails were sent to them with attached questionnaire, secondly questionnaires were sent to the institutes by post and thirdly by personal visit. After getting questionnaire filled from the 40 respondents, minor modifications were made. Three items were deleted and four new were added. Thereafter questionnaire were sent

The data collected from the respondents is as follows

- 31 questionnaire have been filled by the Directors of the Management Institutes according to the no of years of establishment of the institute
- 130 questionnaires have been filled by the Staff members keeping the no of years working in the Institute.
- 293 questionnaires have been filled by the students of first year and final year as they can better analyze the services they have received till date.

#### 5. Main Findings of the Study

*On the basis of analysis following important results can be summarised.*

##### A. Overall Perception of Service Quality of Management, Staff and Students

The perception of Management is saying that the Service Quality is neither very good nor very bad while the perception of Staff and Students are also more towards neither agree nor disagree statement. Therefore we conclude that the Management in its opinion is they providing sufficient services (3.3) on the other side Staff and Students neither agree nor disagree about the services which Management is providing (3.1 and 3). There is apparently a gap between the perception of Management, Staff and Students. This gap needs to be filled.

#### B. Overall Perception of Service Quality Dimensions of Management, Staff and Students

- (i) The total perception of 454 respondents for reliability dimension is 3.6 are more towards in agreement statement about the ability to perform the service at the first time. This means service quality is good in the beginning but afterwards the efficiency of services decreases like equipments, hostel, transport, library, computer lab, internet facility, training placement and industry professionals visiting the institute so this gap has to be improved.
- (ii) The overall perception of 454 respondents for Responsiveness dimension which is 2.9 is neither agree nor disagree statement about ability to provide prompt service. The Staff and Students are not happy with the Management for not fulfilling their needs to provide complete service like sufficient number of Staff to Students to serve them, poor attendance of Students due to lack of competency in Staff, policies for recruiting Staff, complaints about services provided are not corrected on time, Students are not following guidelines as expected to avail services etc on time and always get delayed the things till the end of session it means the gap efficiency need improvement.
- (iii) Perception of 454 respondents for Assurance dimension is 3 which mean all are neither agree nor disagree about the gap between the service quality specifications and the service that is actually provided. This opinion is regarding the promises which Management assures at the time of admission but actually the faculty and Staff has poor job performance in providing proper services to Students, lack of motivation of Staff to improve services, lack of performance appraisal, checks and controls on Staff service quality provided, proper scheduling of services to Students but never provide services what the promise and give importance to fill this gap.
- (iv) The total perception of 454 respondents for Empathy dimension which is 2.9 is that neither agrees nor disagrees about caring and attention to Students the gap between what Management provides and what the student is told. Findings shows that this dimension is again not followed by Management Institutes which emphasizes on Students were given incorrect information on the services provided, Management change many services without notifying Students, level of checks and controls for deadlines of services to Students, Students level to feel upset due to not providing benefits in time, Management does not provide information on time for training of Staff, update of job descriptions etc. The behavior of Management with Staff and Students for services is not up to the mark to fill the gap.
- (v) The physical evidence of a service like Space in class rooms to sit, number of computers as per the number of Students, sufficient availability of books in the library, hostel facilities, cleanliness, sufficient teaching Staff, sufficient transport and quality food for tangibility is 2.9 is neither agree nor disagree about the physical evidence of a service therefore this gap need to be filled.

In the above discussion results were about the overall perception of service quality as well as its dimensions of Management, Staff and Students now we discuss

#### C. Overall Perception of Service Quality Dimensions between Management and Staff

Significant differences do not exist in the mean scores of overall service quality dimensions for Management and Staff, hence Null Hypothesis  $H_0$  is accepted which means Management and Staff perception for service quality is same.

#### D. Overall Perception of Service Quality Dimensions Between Management and Students

Significant differences do not exist in the mean scores of overall service quality dimensions for Management and Students, hence Null Hypothesis  $H_0$  is which means Management and Students perception for service quality is same.

#### E. Overall Perception of Service Quality Dimensions between Management and Professor, Associate and Assistant Professor

Significant differences do not exist in the mean scores of overall service quality dimensions for Management and Professor + Associate/Assistant Professor, hence Null Hypothesis  $H_0$  is accepted which means perception for service quality is same.

#### F. Overall Perception of Service Quality Dimensions Between Management and Senior Lecturer and Lecture

Significant differences do not exist in the mean scores of overall service quality dimensions for Management and Sr. Lecturer + Lecturer, hence Null Hypothesis  $H_0$  is accepted that shows the service quality perception is same.

#### G. Overall Perception of Service Quality Dimensions between Management and First Year Students.

Significant differences do not exist in the mean scores of overall service quality dimensions for Management and First Year Students, hence Null Hypothesis  $H_0$  is accepted which reflects perception of service quality is same.

#### H. Overall Perception of Service Quality Dimensions between Management and Final Year Students

Significant differences do not exist in the mean scores of overall service quality dimensions for Management and Final Year Students, hence Null Hypothesis  $H_0$  is accepted. This analysis shows that the service quality perception of Management and Final Year Students is same.

#### I. Overall Perception of Service Quality Dimensions between Professors, Associate/Assistant Professor and Sr. Lecturer and Lecturers

Significant differences do not exist in the mean scores of overall service quality dimensions for Professor + Associate/Assistant Professor and Sr. Lecturer + Lecturer, hence Null Hypothesis  $H_0$  is accepted which means service quality perception is same.

#### J. Overall Perception of Service Quality Dimensions between First Year and Final Year Students

Significant differences do not exist in the mean scores of overall Reliability, Responsiveness, Assurance and Tangibility service quality dimensions for First Year and Final Year Students, hence Null Hypothesis  $H_0$  is accepted. But significant differences exist in the mean scores of overall Empathy service quality dimension, hence Null Hypothesis is rejected here which means First and Final Year Students do not have the same perception of service quality for Empathy dimensions.

#### K. Overall Perception of Service Quality Dimensions between Colleges Years of Establishment

Significant differences do not exist in the mean scores of overall service quality dimensions between Colleges year of establishment, hence Null Hypothesis  $H_0$  is accepted which shows perception of service quality of colleges existence more or less then ten years is same.

#### Conclusion:

It may be concluded that the institutes need to understand the expectations of the students properly. It is not always true what they perceive as suggested by the research. The expectations, if properly understood and systematically met, the institutes shall survive in the long run.

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## **A STUDY FOREIGN MARKET EXPANSION PROCESS OF FINNISH FIRMS INTO INDIA**

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### **Abstract**

There is a realization that firms especially SMEs play a vital role in international business and that has attracted researchers to re-conceptualize internationalization theory. Contrary to what was posited before, SMEs are no longer constrained by the lack of resources and experience in taking advantage of international opportunities. In fact some have suggested that the success of domestically- oriented entrepreneurs is dependent on their ability to be international competitive even if they do not do so on a large scale. It may even be argued that given their ubiquity, the probability that any new business going international will be a SME, is extremely high.

The aim of this research is to analyze the internationalization behavior of Finnish firms into India as a result of their perception of risk and opportunities, and the way they manage market changes in the Indian business environment. Furthermore, we aim at increasing knowledge on useful and practical issues to be considered by Western companies intending to expand their business operation to India.

Data was collected through qualitative methods: interviews, document analysis and observations both in Finland and in India and was collected in autumn 2009. Data was reduced; coded and analyzed using qualitative content analysis.

The study contributes to the internationalization literature by providing for important factors contributing to success or failure in the expansion process. Furthermore, the study provide for managerial and policy implications to seize opportunities brought by changes in the national and international business environment. In addition, the literature on expansion process to Asian markets is enriched by providing implications for why and how firms would increase their involvement in market. Interested managers should find the experiences of the involved companies and their implications informative too.

### **Key words**

Emergent markets, foreign market expansion process, small and medium-sized enterprises (SMEs), Uppsala Internationalization Model (UIM), network theory, international entrepreneurship, India.

### **Introduction**

In the field of internationalization into foreign markets, the core question has been how companies expand their business in foreign markets, and to be more specific, this has meant ascertaining the key processes and driving forces involved in the internationalization process. Furthermore, the focus has been specifically on how to manage these global opportunities (for such discussions see Buckley 1988, Buckley & Casson 1998; Dunning 1988, 1995, 1998; Rugman & Verbeke 1992; Porter 1985, 1990, 1991). The economic growth in emerging markets depends on liberalization and on privatization of the economic sector governed by competitive forces of the world market (Nieminen 1994). The opening up of markets in Eastern Europe and markets such as China and India in Asia, Brazil and Argentina in Latin America and to some extent in Africa, became a practical challenge for Western corporations, as their global business environment changed in its character. Moreover, these changes, together with other factors, have challenged earlier knowledge about the foreign-market expansion process (FME) of firms (see Forsgren 1989). These new emerging markets are characterized by a mixture of both open market practices together with some market regulations with the inevitable consequence that they may be difficult to handle for Western corporations (Nieminen 1999, Habiyakare, 2009). Thus, these changes call for a new understanding and for an increase in knowledge on expansion and operation strategies towards these emergent markets.

The aims and objectives of this research is to analyze the internationalization behavior of Finnish firms into India as a result of their perception of risk and opportunities, and the way they manage market changes and turbulence in the Indian business environment. India is considered as a power house of Asia and is attracting many Western corporations. Thus, understanding how foreign firms deal with the changing socio-economic environment to set up successful business operations is crucial.

The research questions that guide this research are put as following:

- 1) How have Finnish companies expanded their business operations to India?
- 2) What are the key drivers for expansion and for conducting successful businesses operations in India?
- 3) What are the main accelerators, inhibitors and barriers for the expansion process to progress smoothly?



- 4) Which strategies could Finnish firms deploy to sustain their business operations over time in India?

#### **Literature review on foreign market expansion process to emergent markets**

The major extant internationalization literature propose that the internationalization decisions of firms are based on a complex calculation governed by risk aversion and expectations (Johansson and Vahlne, 1977; Johanson and Vahlne, 1990); by the costs of producing within the company compared to externalizing (Andersen, Erik and Gatignon, Hubert, 1986); by rational economic analyses of ownership, location and internalization advantages in which the firm locates in foreign markets where its advantages can best be exploited (Dunning, 2000); or based on a network strategy where the firm uses its business relationships to move to desired markets (Johanson and Mattsson, 1995). While the propositions above are applicable to all markets, contextual studies have concentrated on studies of developed markets. In order to construct the conceptual framework used for this research, we present briefly three theoretical stands within the behavioral approach. These theories are: the Uppsala Internationalization Model (UIM), the business network approach to internationalization and the international entrepreneurship theories.

#### **The Uppsala Internationalisation Model (UIM)**

Between the early and mid 1970s, mainly Scandinavian researchers such as Johanson and Wiedersheim-Paul (1975), and Johanson and Vahlne (1977) drew our attention to the fact that the internationalisation especially of SMEs firms into foreign markets was a gradual process. Based on the initial article in 1975, Johanson and Vahlne in 1977 improved the model into what has come to be known as the Uppsala Internationalisation Model (UIM). There exist other interesting models related to the internationalization process, such as the Innovation-diffusion models of Bilkey and Tesar (1977) and Czinkota (1982). These models are based on the same fundamental assumptions of the Uppsala Model (U-models) and should be viewed as extension of it. Johanson and Vahlne (1977, 1990) posit that companies have a tendency to start expansion into countries with low psychic distance and later on to expand their operations towards countries with higher psychic distance. The UIM links that psychic distance to the market entry mode: export, sales subsidiary, and manufacturing operations. According to Johanson and Vahlne (1977, 1990), a gradual increase in commitment will follow an increase in market knowledge. According to Johanson and Vahlne (1977, 1990), the amount of resources committed includes, investment in marketing, organisation, personnel, financial resources, technologies, and so on. The Uppsala model proposes that the psychic distance which is, according to Johanson and Vahlne (1977, p. 12), “a sum of factors preventing the flow of information from and to a market” would influence the degree of commitment of resources. These factors could be, for example, differences in language, culture, political system and so on. When firms start the expansion process, they would choose a country, which has a shorter psychic distance to the home country. The theoretical explanations for such a process, was that a lack of market knowledge is an important factor in international business. However, the concept of psychic distance, which was once one of the strongest constructs in the UIM, may also prove to be one of its current weaknesses (see Thomas & Araujo 1985; Turnbull 1987; Andersen 1993, 1997; Vincze 2004; Hadjikhani & Johanson 1996; Hadjikhani 1997; Nordström 1991, Habiyaakare 2009). In the following, let us introduce briefly the network approach, which also forms a cornerstone of the FME - process into emerging markets.

#### **The network approach to internationalization**

Internationalization is no longer solely influenced by the internal variables of the internationalizing firm. It is also influenced by its network relationships with external entities. Thus, FME takes place in a network setting, where different business actors are linked to each other through direct or indirect relationships (Johanson & Mattsson 1988, 1992, 1995; Håkansson & Snehota 2002). According to Coviello and Munro (1997) model of internationalization, the initiating mechanism or trigger to the process are driven by network partners as is the subsequent market selection and entry mode.

The degree of commitment to a market is not only determined by a firm's position in different business networks, but also by the degree of internationalization of the market in focus. The business network approach considers entry into a foreign market because of interaction initiative by firms that are insiders in the network in the specific country. Johanson and Mattsson (1988, 1992, 1995) suggest that, during the internationalization process, a firm establishes and develops positions in relation to counterparts in a foreign network by extension, penetration and integration. Each firm in the network is seen to have direct relationships with customers, competitors, distributors, suppliers etc. Each firm also has indirect relationships with suppliers' suppliers, customers' customers, competitors' competitors, and so on. Since firms are dependent upon each other in the networks in which they operate, the model assumes that this coordination occurs through the transactions forged by firms engaging in a series of bilateral exchange relationships (Johanson & Mattsson 1988, 1992). These various actors from the network perspective possess resources and perform activities, which create exchange

relationships amongst themselves. An exchange relationship is manifested through several aspects, for example social, business and information exchanges. Accordingly, firms base their decisions on a network strategy where the firm uses its business relationships to move to lucrative markets (Johanson & Mattsson 1988, 1992, 1995; Andersson & Forsgren 1995; Anderson & Narus 2004; Håkansson 1982; Håkansson & Johanson 1988, 1992, 1993; Håkansson & Snehota 1995; Ford 1990, 2002; Ford et al. 2003; Frazier 1983; Dwyer et al. 1987). Inter-firm relationships are viewed as multi-faceted, long-term, and cooperative (Johanson & Mattsson 1988, 1992, 1995; Håkansson & Snehota 1995; Bridgewater 1999). From this perspective, it is argued that interaction in networks may also enhance the foreign market knowledge of the firm, which in turn determines the following commitment decision. The position of a firm in the network determines the future development of the relationship and of its business operations (Habiyakare 2009). Therefore the network internationalist needs to have a great deal of their own resources or long business experience in the domestic market for them to successfully internationalize. They simply leverage the resources of the network that allow them to choose foreign market entry modes and performance levels that would normally be expected of the firm with long experience in the Uppsala model of internationalization. The business network approach does not really reject the psychic distance concept, and does not challenge the incremental nature of internationalization. The model has been criticized of lacking explanation for how the members of the network internationalized at all. It is taken for granted that there was a network from the beginning that was already in advanced state of internationalization (Mitgwe 2004, 97). For detailed reflections and critical challenges to the behavioral theories, see Habiyakare, (2009, pp. 31-37).

### International entrepreneurship theory

McDougall and Oviatt (1994) defines international entrepreneurship as: “a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations”. Ibeh and Young (2001) have modified Stevenson et.al. 's (1989) definition that offers a more limited definition of international entrepreneurship viewing it only in the context exporting. Thus, they define export entrepreneurship as: “the process by which individuals, either on their own or inside organization, pursue export market opportunities without regard to the resources which they currently control, or environmental factors which they face”

International entrepreneurs therefore are:

*“Business persons who take specific proactive action to overcome inherent problems and difficulties associated with international business activities. Their actions however is both facilitated and constrained by ongoing processes of institutional relations in both the home and host countries. These institutional relations may be defined by the social and business networks in which these transnational entrepreneurs are embedded, political economical structures and dominant organizational and cultural practices in the home and host countries.” (Yeung, 2002)*

Brush (1995) makes an observation that in spite of their collective economic might, SMEs on the whole (including the long established businesses which often constitutes the majority of SMEs, are generally late internationalizers and their volume of international business is not commensurate with their domestic might and economic dominance. She further argues that misconceptions among domestic entrepreneurs about exporting are probably the greatest barriers to SMEs' unleashing their true potential on the world and that increased international entrepreneurial activity is beneficial in bringing about balanced social industrial development (Mitgwe, 2004, 84).

SMEs internationalization differs largely from large firm internationalization or at least is changing so as to elicit more research enquiry (see Habiyakare 2009). For instance, there are interesting firm age and foreign entry speed dynamics. New international entrepreneurs are more innovative, opportunity seeking and are heavily influenced by the owner/founder in their international involvement (Brush, 1995; Karagozoglu and Martin, 1998). Autio et al. (2000) contribute to these observations about international entrepreneurship by adding some advantages that accrue to early internationalizers. These advantages are:

- Freedom from constraining managerial routines that have been developed over long period of time
- Freedom to assume an international expansion in future because of the momentum created early to international business
- Fast learning that will translate into fast international growth.

Smaller international firms have started to emerge as serious competitors against large firms in certain niche markets (Fillis, 2001). Increasingly entrepreneurial firms are able to acquire foreign market knowledge, financial marketing and managerial resources and competitive advantages through collaboration with domestic

and foreign network partners (Johanson and Mattsson, 1988, Coviello and Munro, 1997). Different evidence suggest that entrepreneurial firms have a high awareness of foreign market risks and are able to manage these risks effectively (Shrader et al., 2000). The export only form is still the most preferred mode of foreign market engagement among many international entrepreneurial firms even though there are also many exceptions within industries and across industries (Bell, 1995; Brush, 1995; Burgel and Murray, 2000 and de Chiara and Manguzzi, 2002). Some new entrepreneurial firms are born international in contrary to received wisdom from Multinational Enterprise (MNE) theory (Oviatt and McDougall, 1994; Bell, 1995 and Madsen and Servais, 1997).

From a managerial perspective, there are number of ways in which international entrepreneurship is exciting. The human capital of the owner/founder is the source of the firm's differential advantage (Menolova et al., 2002). The owner / founder is in a possession of what McDougall et al. (1994) refers to as an "unusual constellation of competencies", that he/she has to combine exceptionally well to give rise to an international firm. These individuals are seen as enterprising, self- confident and aggressive and often their motive for internationalization is not necessary immediate financial gain but learning and risk taking (Prefontaine and Bourgault, 2002). A characteristic of international entrepreneurs that is often noted is an "iron will" or a "never-say-die attitude" that see international entrepreneurial firms succeed against the formidable challenge encountered in international business activity (Etemad and Wright, 1999, Mtigwe, 2004). Sometime they use what Johannisson and Monsted (1977) refer to as "*know - who*" strategy before using "*know-how*" strategy in their internationalization process. In other words, some SMEs start by learning international business through networks before going out on their own. The unique characteristics of SMEs as well as the uniqueness of their situation of necessity make their style of international business different.

Some of the unique differences between SMEs and large business have been outlined before. For instance SMEs generally do not spend a great deal of time on planning their internationalization activities. Their planning orientation is likely to be unstructured or semi-structured and project-by-project based (Brush, 1995). Larger firms by contrast expend a great deal of time and resources in planning for international business activities and the planning view is long-term. Modern entrepreneurial firms tend to internationalize their activities relatively early in their development and sometimes so early that they have not developed their reputations in the market and that in turn affect their ability to raise the necessary volumes of capital required for multi-market international expansion. What adds to swift entry and exit from foreign market is the size of the resources that have been committed to those market. (Mtigwe 2004, 86). The swift foreign market entry can in part be explained by previous international experience of the entrepreneur, relatively new unrestrictive routines that allow swift planning. Often, SMEs in their risk assessment tend to underestimate the size of the risk and to over-estimate the firm's ability to manage those risks. Thus, they may make a swift move to international markets once the decision to internationalize has been made, and some time with catastrophic results (Ogbuehi and Longfellow, 1994; Shrader et al., 2000 and Bridgewater and Egan, 2002). However, generally speaking, not only do SMEs have a high-risk appetite, they also have developed ways of dealing with foreign market risk through example networks with domestic and international partners that help to mitigate the effects of hostile environment (Johannisson and Monsted, 1997, Burgel and Murray, 2000, Mtigwe, 2004). Nevertheless, Obben and Magagula (2003) present an interesting but contrary view in their study of Swaziland small firms where they found that exporting firms are more risk-averse than those non- exporting domestic firms. Both sides of argument have one thing in common: that it may in fact be more risky for a SME to remain a non-international firm (Mtigwe 2004, 87). The capacity of entrepreneurial firms to absorb rapid international growth is relatively low and therefore exporting tends to be the preferred entry mode and the number of market entered tends to be limited to manageable levels (Lu and Beamish, 2001, Fillis, 2002 and Chetty and Campbell-Hunt, 2003, Mtigwe 2004, Habiyaakare 2009). The managerial processes in small entrepreneurial firms are largely informal and highly personalized. According to Tsang (2001), the entrepreneur relies on tight personal supervision that often involves a great deal of travel (as much as 70% of the time or more) between the different sites where operations are located (Mtigwe, 2004, 87). Sadler-Smith et al. (2001) found evidence to suggest that SMEs are fast learners and small high growth firms use active forms of learning. However, even with those advantages, SMEs however entrepreneurial have a lower capacity to harness a huge volume of information compared to their larger counterparts, by virtue of their size and therefore they tend to specialize in narrowly defined areas of business where their resources as well as their learning and knowledge capacities can be better focused (Mtigwe, 2004, 88). The impact of negative foreign market effects is likely to be more profound for SMEs than for the large firms. For example the cost of foreignness weight more heavily on SMEs and more so if it is very young because it can take a long time and money before establishing foreign market legitimacy that will give the market and other actors such as distributors enough confidence in the SME to do level of business that will make its foreign market operation profitable enough (Bugel and Murrya, 2000, Lu and Beamish, 2001, Mtigwe 2004). But until such foreign market confidence is achieved, the firm will often be financing an unprofitable operation in the short-run and to sustain this requires large financial reserves that SMEs often lack, and cannot

secure from banks and other financiers because of the limits to which they are prepared to fund debt/loss and high-risk enterprise (Mtigwe 2004, 88). In addition to this, exchange rate fluctuations and delay or non-payment by foreign customers for goods and services rendered or accelerated market changes weigh more heavily on SMEs than they do on large firms (Tannous, 1997). The source of an international entrepreneurial firm's competitive advantage is its human capital mainly in the person of the entrepreneur himself / herself or other key managers. What the entrepreneurial firm lacks in resources it makes up for in its specialized expertise, personalized attention and innovation in the sense of improvising to dealing with resource constraints that the firm faces (Menolova, et al., 2001, Mtigwe 2004). The essence of entrepreneurship is profiting from uncertain, creation, and as Stevenson and Jarillo (1990) put it, pursuing opportunities without regard to resources currently under the firm's control. By contrast large firms are able to buy their competitive advantage because of relatively large financial resources at their disposal (Mtigwe, 2004, Owusu 2002, Habiyakare, 2009).

According to Mtigwe (2004, 89), the differences outlined above do not imply that the ability of SMEs to engage in international business is going to be slow and incremental in nature as suggested the Uppsala School of thoughts in general (see section 2.1), but rather that the forms and pace at which the internationalization of entrepreneurial firms takes place will be different. For example because of their unique situations, entrepreneurial firms may jump from market to market, or enter markets unconventionally or use networking as their internationalization strategy or exhibit some other behavior to manage their disadvantages (Mtigwe, 2004; Habiyakare, 2009). Kiggundu (2002) suggests that one way that SMEs may use to manage both domestic and foreign risk is to use what he termed an "octopus" strategy where a firm engages in many and unrelated business at once, the idea being to facilitate survival by switching attention between the individual business depending on their performance or prospects. Attention moves from the business that is experiencing difficulties to one that is posting good or promising good performance (Mtigwe 2004, 89). Similarly, small international entrepreneurs may use different market entry combinations for risk minimization purpose (Clark, et al., Petersen and Welch, 2002). However, Lu and Beamish (2001) contend that exporting combined with other market models results in poor performance when compared to either export only or foreign direct investment options. Whatever the impact of the differences between large firms and entrepreneurial firm's internationalization, one thing is clear: international entrepreneurial firms have a higher growth rate than any form of business organization (Mtigwe 2004, 89). Lu and Beamish (2001) in their study of internationalization and performance of SMEs found that the growth rate of international entrepreneurial firms over a period of one year was as much as 344% compared to their domestic-market focused counterparts. Of course the rate of growth is industry related and firm specific (Mtigwe 2004, 90). However, it seems likely that this high rate of growth is among other things a function of their fast learning ability, possession of a competitive advantage and the urgent need to reach as many markets as possible within their capacity to take advantage of a window of opportunity to market a product with a short life cycle (Mehran and Moini, 1999, Autio et.al 2000 and Chetty and Campbell-Hunt, 2003, Mtigwe, 2004)

#### Conceptualization of foreign market expansion to emergent markets

Only a limited amount of works has been done in the area of putting details to the actual process by which entrepreneurial firms internationalize and establish successful business operations in foreign markets. While there is a more widespread agreement that the Uppsala Model of Internationalization (see section 2.1) does not accurately portray entrepreneurial internationalization, only few models that are very short on detail or of suspect generalisability have been advanced. So far, many studies advocate network internationalization (as in sections 2.2) as a more viable alternative without really going into the process specifics (Bell, 1995, Madsen and Servais, 1997; Human and Prova, 1997, Johnsen, 1999, Chetty and Blankenbury-Holm, 2000, Fillis, 2001; Lu and Beamish, 2001 and Habiyakare, 2009). Yet, a good starting point in analyzing and in suggesting a model for internationalization process in an entrepreneurial firm would be to examine the antecedents to process because this may help in putting the process behavior more holistically (Mtigwe, 2004).

The entrepreneur as an individual is already an "influenced person" before coming to the firm and that prior influence helps shape his/her activities in the business and his/her entire view of the world and the role that he/she should play in that world either individually or through the agency of the firm (Mtigwe 2004, 89). Four groups of influencing factors have been identified by Burns (2001, 35). The first group consists of entrepreneur's own personal characteristics traits like: leadership, opportunistic, innovation, self confidence, /motivated, energetic visionary, strong-willed. The second group consists of factors linked to culture and society like: religion, politics, history, family structure, business practices. The third group which has influences on and which is in turn influenced by personal characteristics traits consist of: the level of education, family background, work experience personal experiences, attitudes and values, aspirations and inspirations. The fourth group of influencing factors can be categorized as situational factors like: economic situation, demographics social set up and business opportunities (see also Habiyakare, 2009). A combination of situational factors, personal character traits, antecedents influences and culture of his/her society all come to bear upon the

individual. However, once in the firm the entrepreneur will have an additional set of factors which give impetus to the decision to internationalize or not to do so. Ibeh and Young (2001, p.580) detailed the antecedents requirements for the international entrepreneurship to occur. He groups these factors into several groups: Decision maker factors (international orientation, International contacts, previous business experience, and drive for independence, risk taking, innovativeness and leadership ability). Firm related Factors such as: top management support, planning orientation, Unique/ quality product, ability to develop new markets, access to home distributors, access to foreign distributors, technological strength, access to generous credit, export information search).

The above group of factors will contribute to high/low level of export entrepreneurial orientation: contributing to innovation in new market development, pro active motivation for exports and less averse to export risks. Yet, for the international entrepreneurship to occur according Ibeh and Young (2001, p.580) there must be other factors conceptualized as *domestic capacity related factors* such as: the level of technology used, state of local infrastructure and cost of production and government and market related factors: Political stability/instability, Consistency/Inconsistency policy implementation, country's image abroad. All these above factors together contribute to positive/negative export behavior of firm (starting export, establishing presence in new markets and planning for establishing in new market. The shortcomings in the above thinking are that it only captures a small part of the international entrepreneurial process (that is the antecedent part) and that it is a static model. Nevertheless, it is a good starting point to view the dynamics involved in international entrepreneurship. All the variables identified in all four constructs (decision - maker characteristics, firm characteristics, domestic characteristics, domestic and capacity related factors as well as government and market characteristics) must be positive or favorable for successful internationalization to take place.

Czinkota (1982) adds two important dimensions that are ignored in the Ibeh and Young (2001) and these dimensions are the question of direct export stimuli (internal or external) and that of pre-export activities (search, question, experiment, provide information). Czinkota (1982) suggests that foreign experimentation is an effective means of learning appropriate export routines and this view is supported by Naidu and Prasa (1994), Mtigwe, (2004) and Habiyakare 2009) who contend that valuable export experience can be obtained through foreign market experimentation.

Ellis and Williams (1995) conceive of an internationalization process that is initiated by a set of internal and external triggers, but unlike Czinkota (1982), they give more detailed picture of what the specific triggers may be. Thus, Ellis and Williams (1995, p.5) identify internal triggers to internationalization to be: organizational crisis, corporate & financial performance, business performance and internal dissident. Furthermore, they identify the external triggers to be: political, economic, ecological, social, technological, industry structure, competitive forces, take-over/merger and shareholders pressure.

The Ellis and William's reasoning presents a contrasting view to the network approach. For an independent firm, they see the factors given as internal and external triggers as the primary motivating factors of the process. However, Ellis and Williams (1995) have been criticized of not citing any empirical work to indicate the importance of each trigger in the process, nor the relationship amongst the triggers. These are not the only omission of the Ellis and Williams (1995) internationalization model. The model is also silent about how the process unfolds. Nevertheless its contribution is giving details of the possible triggers and the direction of the internationalization process. This model views the process of internationalization as a bi-directional process (Mtigwe, 2004, 95). The internationalization cycle begins with an outward movement of a firm's operation to foreign market and that cycle is complete when de-internationalization (retrenchment) takes place.

Based on (Root 1987, Madhok, 1997; Luostarinen, 1970, 1979, Luostarinen and Welch 1990, Agarwal and Ramaswami, 1992, Habiyakare 2009), there are different entry, marketing, and expansion strategies and factors influencing the expansion process. As suggested by Fayerweather (1978), expanding corporations must formulate expansion and marketing strategies and deploy adequate resources to implement these strategies. Firms formulate these expansion strategies according to their motives, resources, and capabilities to expand business operations into a given foreign market. They also depend on the home country factors and the host country business and networking environment (Habiyakare, 2009). There exists a correspondence of foreign market opportunities (or threats) with a firm's existing resources and capabilities (Penrose 1959). At least theoretically, firms base their choice of foreign market entry mode and subsequent commitment on several tradeoffs between: risk and return, the desirability of control over foreign operations, resource availability, and the interrelationship existing among these several factors (e.g. Anderson & Gatignon 1986). A number of studies have established different models and analytical frameworks used to investigate selection among all the available modes of entry abroad (Anderson & Gatignon 1986; Hennart 1982, 1989; Hill et al. 1990; Agarwal & Ramaswami 1992). Each of these studies introduces strategic selection criteria, which should precede any option the expanding firm faces when exploiting its specific advantage beyond national borders.

Root, Franklin R., (1994) developed a complex framework for analyzing foreign market entry mode. He identified four groups of exogenous factors: home country factors, target country market factors, target country environmental factors, target country production factors. In addition, he identified three groups of internal factors that have a bearing on the foreign market entry mode decision. These were identified as: company product factors, company successful operation strategies and company resource / commitments. Similarly, Habiyakare (2009) in his attempt to conceptualize foreign market expansion to emergent markets, he identified a broad category of environmental factors affecting foreign mode of operation strategies in emergent market (for such a discussion see Habiyakare 2009, p.47-54).

In any case, the selection between the use of exports and or/ other higher commitment modes (such as FDI) will depend on the ability of the firm to transfer resources across countries, either directly through a wholly-owned subsidiary within the firm using FDI (Kogut & Zander 1995) or indirectly using trade. Additional factors such as the level of internationalization of the firm in other countries with similar conditions, would also influence the method selected (Barkema et al. 1996). To reconcile the divisive debate about FME process to emergent market and in trying to accommodate the SME expansion process, Habiyakare (2009, p.164) proposed a six - dimensional framework he termed REMNET- model of corporate internationalization. The key constructs in the model were identified as: resources and capabilities, environmental factors, modal choice and expansion strategies, networking, events and time factors (see Habiyakare 2009, pp.44 -71).

Based on the discussion so far, the literature offers richness and disparities. It also offers possibility for at least partial integration of different approaches. With the Indian market in sight, there is a need for a holistic tool which may capture the real picture of what is taking place.

#### Data collection, analysis and key results

The empirical data has been collected through qualitative research undertaken with 9 companies in Finland and in India. A total of 17 semi- structured interviews of about 1-2 hours each were made with senior managers and other relevant people in Delhi and in Finland during autumn 2009. In addition to interviews, secondary data from the companies and other secondary sources have been used. The studied companies can be classified into following industries: automotive industries, business and project consulting, , fiber composite technologies , mining industries, process technologies, power plant and electrical engineering , pulp and paper industries, telecommunication, software and computer engineering. Companies in India were searched and chosen by FINPRO India, a consulting organization set up by the Finnish Government to help Finnish firms which want to establish their business in India. In Finland, headquarters of the same companies were approached by students. The aim was to gain information from the parent organization and from the subsidiary in India. Interviews in Finland were carried out by a group of students in international marketing course and interviews in India were carried out by a group of students together with me and my colleague; senior lecturer Sirpa Lassila. The data has been analyzed through qualitative content analysis involving a multiple-step process of data reduction, data categorization including coding, and interpretation (see Ghauri, 2004; Coffey and Atkinson, 1996; Miles and Huberman, 1994).

The traditional internationalization theory advocating global strategy (see Hamel and Prahalad 1985; Yip 1989), focuses on global integration, national responsiveness and worldwide learning (Bartlett & Ghoshal 1989). Sharing resources internally maximizes the economic benefits to the expanding firm. Although process-oriented studies could identify additional variables and enrich understanding of their complex interactions, studies that directly explore the causes and mechanisms that shape the FME-process into emerging markets are rare. The focus is on identifying and supporting the basic process that emerged in the empirical data. The analysis shows how the FME process of Finnish firms into India had unfolded and what had influenced them.

Managers usually have good skills of seeing, recognizing or matching patterns that confer obvious evolutionary benefits. In dealing with complex problems, they look for patterns, they simplify the problem by constructing temporally internal models or hypothesis or schema to work with. This means that they carry out localized deduction based on their current hypothesis and act on it (see Habiyakare 2009, Vinze, 2004). This is where the experience accumulated through repetitive decision-making and action help them to solve their problems. In a stimulus-response process, feedback from the external environment on their actions, may strengthen (positive reinforcement) or weaken (negative reinforcement) the temporary internal models (Aharoni 1966).

As identified earlier in the conceptual framework used for this study in figure 1, there are internal and external triggers and drivers that act on a firm, putting pressure on it to expand its activities into foreign markets. Some of these triggers were earlier identified, for example, by Czinkota (1982) and in the case of emerging markets by Torrisi (1985), Lecraw (1991) and Brewer (1991, 1993).

Based on the 19 interviews and on the analysis of the secondary data, it is possible to identify three groups of influential factors in the expansion process of Finnish firms into India. First there are those aspects responsible for initiation of the FME into India (internal and external drivers) and those aspects responsible for accelerating or slowing down the process (accelerators and barriers) as well as those aspects responsible for determining what form the FME into India took (selectors). Subsequently, each group of factors is discussed and the key relationships between these constructs are presented.

#### Internal drivers of FME of Finnish firms into India

Many factors act as internal drivers and contribute to variations which occur in the expansion process of Finnish firms into India. According to Penrose (1959), a firm's distinctive competence is based on the specialized resources, assets and skills it possesses, and focuses attention on the best utilization of these competences to build competitive advantage and economic wealth. These tangible and intangible resources, which are under the control of the firm's administrative organ, are what are referred to here as the firm's resources and capabilities (Penrose 1959, 1980; Grant 1991). These resources consist of tangible and intangible resources that may be traded. These could be financial resources, capital resources, physical resources, human resources, and skills of individual employees, technological resources like manufacturing systems, marketing systems, finance, patents, brand name, reputation and the international experience etc. In addition, the international experience and knowledge of the firm can be considered as an important source of competitive advantage (Padmanabhan & Cho 1999) because a firm's knowledge base increases with repeated experiences and becomes embodied in the personnel and organizational memory. For instance, prior experience with a particular type of business environment of the host country will allow the firm to "learn" from its experience and the learning becomes very valuable when dealing with similar circumstances (Johanson & Vahlne 1977, 1990). From this perspective, the size of the firm plays a decisive role in developing capabilities, and acquiring and using resources. In accordance with Caves (1971), there is a positive relationship between the propensity to expand business operations into foreign markets and the size and experience of the firm. Firms also need resources such as financial resources in order to absorb the costs and risk associated with involvement with foreign markets, such as emerging markets in India. It would be then safe to assume that the size and the existence of other internal resources of the expanding firm are likely to influence the perceived risk of any project to be taken in an emerging market. Consequently, and in accordance with Benito (1995), one might expect that the readiness to engage in culturally distant foreign markets, which may be associated with a higher risk, is dependent on the availability of internal resources and capabilities. There are also other forces such as influences from the owner and other interest groups.

The data analysis revealed out the existence different internal factors which acted as drivers for the expansion process. Those drivers could be grouped into two broad categories: decision-makers related factors like: decision maker's age, foreign experience, risk attitude, decision making team, history and values. Second, there were also other factors directly related to each firm like: firm age, planning orientation, competitive advantage, firm size and type of industry.

Each firm had own motives and drivers to expand its business into India, yet the analysis point to three different categories which acted as pushing these firms to expand their business into India. The involved cases had different motivators, yet a deep analysis shows that there are five motivators: risk minimization, capacity utilization, client fellowship, unsolicited order and opportunity seeking. For the process to take place, each firm needed adequate information. Information source has been different for each firm, yet the analysis point to five different sources: personal foreign visit, business networks, personal and social networks, political networks, government, trade association and Media.

For the expansion process into emerging markets to take place, there must be a number of factors that act as stronger enablers of the process. These factors can be found among the four broad categories and could be identified as management attitude and orientation; financial ability, partnership, political knowledge; opportunity seeking and risk taking. These factors enable the expansion process at a point in time. As posited by Mtigwe (2005, p. 370) the critical effect on the motion of the process is the strength of these enablers. Although a firm may have the same experience in the home market, the same financial resources and the same managerial competencies, the same firm-level factors and may face similar threats in the foreign market, enablers may make a considerable difference between a home market oriented firm and a foreign market oriented firms.

As indicated in the theoretical framework in figure 1, all the internal drivers are necessary but insufficient conditions for the expansion process FME into emergent markets. In addition there are also a set of external drivers which are presented in the following section.

External drivers of FME of Finnish firms into India

A second group of factors labeled external environment which can be sub-categorized into institutional, market related and production related environment also has a profound impact on the FME process of Finnish firms into India. Obviously, the macro and institutional changes taking place in India were a significant force in terms of their major effect on the moves of customers and competitors. The results at hand support the suggestion that external environment also plays a decisive role in the outcome of the FME into emerging markets. India as a market is a land of opportunity as the economical growth is one of the fastest in the world. Furthermore, there is a visible improvement in the living standard and a rise of the middle class. Compared to other mature markets, labor costs are still low and companies have access to a huge well educated work force. This allows these companies, not only to serve the Indian market alone, but rather to use India as a launch pad to serve other market as well.

Indian Government is trying to create favorable business environment and has succeeded in attracting foreign companies to benefit the advantages created through special economic zones with specific incentives through the whole country. As posited by one senior manager:

*"India is all about big numbers and a land of opportunities; therefore raw materials, adequate logistics, cheap labor and large potential are available in the future. This is due to high population and due to positive institutional changes attracting many foreign investments"*

The companies in questions integrated, adapted and made action strategies according to the condition created by the external and the internal environments and the involved actors' role. The cases involved initiated an adaptation process in order to cope with the environmental condition they were exposed to and in which they were operating. Companies tried to find compatibility between their business operations and the institutional requirements. Senior manager N15 confirms that in the following terms:

*"I give credit to government of India. There is no custom duty on our software. So if you import for 100 dollars, you will get your 100 dollars. There is no custom duty, there is no excise duty and there is no sales tax".*

Companies were not really driven by uncertainty avoidance. They rather acted as risk takers in the lights of the external stimulus in the external environment. When the expectation level was high, they deployed energy and resources into building good relationships with key actors in the business environment (see Hadjikhani & Johanson 1996). Seen from the perspective of institutional requirements, the adjustments made by competitors and customers' requirements, in the cases involved were that they were forced to respond adequately to the situation (see Knickerbocker 1973). These adaptation processes required: market information relating to customers, fighting competition, and positioning. As posited by N4:

*"There are so many businesses in India and to enter in the Indian market, to serve the customers in that country. We want to be more closely to the customers; building the good customer relations, and need to have also local market that is reason we have been in India".*

From the above perspective we could classify the environmental factors into following sub- categories: opportunities, costs factors, cultural factors, domestic market conditions, resources, host government policies. In accordance with Mtigwe (2005, p. 371), we identified two forces acting in opposite directions that have an impact on FME process. On one hand, there are *barriers* whose effect is to delay the commencement of the expansion programme into India. These barriers may play a negative role and may stop, delay or impede FME progress. In the case of Indian market the political system, regulations and generally the bureaucracy were cited to act some time as barriers and setbacks for instance in delivering products to India. One other factor, in contradiction with the existence of a huge number of skilled people, is a lack of willingness of skilled workers to move to where companies want them to locate. This unwillingness of young and dynamic work force may also reflect the Indian family-oriented culture, but also reflects the existence of opportunities for skilled people in their region of origin. Problems linked to adequate infrastructure leading to delays in deliveries may also act as a barrier. Business-wise, climatic changes, daily the traffic jams in addition to bureaucracies in customs may cause the deliveries of raw materials and products to arrive late. Although Indian government is trying to harmonize laws and regulations, most of the interviews saw labor, export laws and high taxation to be restricting the business in some ways. Even if the costs of operating in India may still be low, these factors add to the costs and thus diminish the profit. Although, not as a direct barrier, most of these involved companies found it difficult to find a highly skilled and good local management as playing a negative role. The other aspects mentioned are about getting working licenses on time, challenges related to health care and to recruitment of good employees. A part from these factors classified as barriers, there are other factors that could be named as



*accelerators* that act to speed up FME once it has started. Accelerators may be found, in the firm's internal and external boundaries. Those accelerators could be: international management experience, planning orientation, familiarity with emerging markets, the age of the firm, networking ability etc. These accelerators act to offset the problems imposed by the above barriers and set speed to the process to move smoothly towards achieving company's overall objectives. All interviewee mentioned the choice of location as an important decision. So far, New Delhi has been very attractive because there are several factors that act as pull for such a choice: the government of India is based in New Delhi, closeness to the airport; it is easier to hire the people who are quite international, it is a comfortable environment for people and also, because the people are open and hard working.

*"It is better to be near the port in order to have perfect and smooth importing and exporting of goods and services".*

Few participants mentioned other locations such as expressed that the outcome Chennai and Mumbai as their location. Location is decided on case by case basis, yet access to customers, partners, to skilled labor, to raw material, to suppliers, land and to logistics are some factors which play a decisive role there. Different cities have developed own profile, suitable for different types of industries and business. Finnish companies ought to do a good home work to find suitable location.

*We had a "50/50% of joint venture between our companies and our partner had a strong presence in this area. They had land and everything and our joint venture company is well connected with all the ports".*

This was probably for the reasons that they are some of the most developed and most potential markets in India.

#### Networking processes and Foreign Market Expansion to India

To compensate for lack of the necessary resources expanding firms become engaged in different relationships. As discussed earlier, firms engage in business, social and political networks. These different networks act as key complementarities for the expanding firms to gain access to external resources and information. Business relationships, social networks, and political networks are all embedded within the business environment and accordingly, they are largely influenced by the institutional setting. Therefore, concerning the institutional and political setting of the business network, four-sub categories were identified: political actors, political activities, political resources, and political institutions (Welch & Wilkinson 2004; Hadjikhani & Sharma 1996; Halinen & Törnroos 1998). The idea is to join forces with other actors and to increase competitive advantages to achieve growth. The other objective is also to secure revenue and to sustain organizational and business growth for both parties in the partnership. Interviewed companies suggested that finding a good, local partner is something to be dealt with first and if this succeeds, then setting up a manufacturing unit would be the next step. In addition, networking plays a vital role in recruitment of the right people. Even if they use normal recruitment channels, like advertisement in newspapers and some time others use the local recruitment agencies to recruit people, Finnish companies(at least N10 & N7) also use own network by informing the right people to apply for a particular position. However, all companies consider credibility, creativity and overall achievements of the applicant when they recruit him/her.

*"The majority of Finnish firms prefer to use printed media for their recruitment. They believe they can have a vast option to select the right person by advertising a position via print-media. In addition, using of headhunter agencies is a common practice for Finnish firms in India to recruit their managers". (N11 & N3)*

The interaction within the networking processes lead to different effect: interaction and learning, exchange of resources and commitment, partnership and trust, position, value co-creation, cooperative innovativeness, political networking, reduction of relationship distance and future care. Companies involved manage to use their involvement and interaction with these actors to increase their own political resources, which hopefully, in the long-term, helps the expanding firms to achieve their long-term objectives. Networking acts then as an *enabling process* and is apparent in the adaptation and integration process. The purpose of this structure is not to fix the operational mode, but rather to achieve some strategic flexibility. Once these relationships are initiated, the extended organizations create together with other members of the network a delicate balance in respect of the diversity of perspectives and unity of purpose. The cases involved in the study developed a contractual network with other companies and were able to move more rapidly into the larger network. Relationships with customers became very influential forces. In all these cases, joint interest and shared goals came into force. The relationship distance diminished over time and buyer-seller relationship was improved with time. Establishing business relationships with key customers and key actors functioned as a guiding rule for the cases involved. When business is complicated by institutional challenges and unpredictability in the business environment, the

operations strategy must be rather simple and flexible. As was observed in these four cases, the collaborative links had to be adapted according to how business and markets emerged in the turbulent situation (see also Hadjikhani & Johanson 1996).

Re-organization of internal structures at the subsidiaries and in the relationship prevailed and structural changes helped to combine different operation modes. It was probably a question of trying to attain efficiency and at the same time to achieve adaptation to the business environment constraints offered by India. One other reason may have been a question of whether or not the manager's mental maps were made explicit, as these might have created bias in favor of some investments in business relationships. Past successful business experience among subsidiary top managers favor previous patterns of relationship building (see also Vincze 2004). The cases involved re-organized themselves to respond to the environmental pressure imposed by the institutional requirements in India. They allocated time and resources to dealing with these issues and to implementing a more open communication. All the nine cases experience smooth development because of alliance champions, or promoters who could be on either side of the relationship. The Indian promoters who were recruited to participate and to carry out the early expansion processes at the initial stage, with support from headquarters established good customer relationships early on and gained recognition both from their respective headquarters and from the customer side. They slowly gained "*legitimacy and power*" in the extended organization. This study suggests that it is not enough to only rely on the internal resources and capabilities of each company. Companies in their FME efforts find themselves engaged in political activities at various levels. They gain political knowledge through various interactions with different actors. Political activities are the basis for social processes which pave the way to achieving long-term objectives. In expanding their business processes into India, the nine cases used different strategies in their actions and interactions with key actors. Different networks (business, social and political) and other social processes were always shaped by the institutional setting.

#### Internationalization process of Finnish firms into India and outcomes

In international business research, strict reliance on modes and means may mask the richness that is attributable to intra-organizational differences. Attempts to measure the average, the typical and/or the dominant level of any parameters for the sake of sub-grouping may cause the crucial internal differences to be overlooked, and in many cases may yield estimates that are in fact unrepresentative of any particular sub-units of a given organization (see also Vincze 2004). When integrating all the above processes, it became evident that FME included both a macro and micro- perspective which may be either the internal drivers or the external drivers. Furthermore, there are also other process elements such as time and temporality and different events which together contribute to the FME outcome. The feedback in form of market information from the market affects manager's perceptions about the initial elements which act as triggers and accelerators of the process. The outcome may be the speeding up or the slowing down of present or future foreign market expansion process. There are several outcomes and these could be grouped into modal choice and strategies which show the level of commitment to FME in terms of penetration, entry and adaptation, ownership and commitment, co-ordination and concentration, fragmentation and integration strategies. These strategies enable expanding firms to reach the target market and to increase or to reduce their level of commitment through business operations, which evolve over time. At least theoretically, firms base their choice of foreign market entry mode and subsequent commitment on several tradeoffs between: risk and return, the desirability of control over foreign operations, resource availability, and the interrelationship existing among these several factors. The selection between the use of exports and other higher commitment modes will depend on the ability of the firm to transfer resources across countries. Additional factors such as the level of internationalization of the firm in other countries with similar conditions also influenced the method and strategies selected. There follows a brief discussion of each category.

Modal choice and entry strategy refers to the firm's choice of whether to enter a foreign market by buying existing units in the host country, that is acquisition, or through establishing new ventures, that is, Greenfield. Acquisition also enables a firm to extend its resource base by acquiring skills and capabilities, which are unique to the target firm (the acquired). Since a firm's unique capabilities are path dependent, as they are acquired through a firm's history by tacit learning and dynamic routines that make it impossible for other firms to imitate or duplicate such capabilities (Collis 1991), the only way for another firm to gain such capabilities is by acquiring the whole unit in which such special capabilities lie. Commitment and ownership arrangements are a critical element of the expansion process. Firms expanding into foreign market firms have to make choices of whether to enter the new foreign market alone, or to share resources with other parties. This involves choice between wholly-owned subsidiaries (WOS) and a joint-venture, followed by the choice between majority, equal or minority ownership (see Hennart 1982; Buckley 1988). The level of the ownership that a firm is able to acquire is dependent on its bargaining strength in relation to that of the involved actors. The firm-specific characteristics play a significant role in determining the position of the firm in negotiations (Hennart 1982; Buckley 1988).

The interviewed companies used different approaches and strategies to develop their businesses in India. For instance N6 mentioned that the company used solely export in the beginning and later on the operation moved into joint venture with other company. Both N1 and N3 mentioned the importance of using agents or opening a sales office before moving to localization such manufacturing unit in the country. These incremental steps point to the same direction of risk minimization. The interviewees emphasized a need for business localization than standardization. Localization means that the product and services are localized to match with the local needs and wants and cultural aspects. All interviewees mentioned the fact that the parent company needs to support the subsidiary in term of setting the operation, but the Finnish managerial team should aim at handing over to local managers to handle the daily managerial and operational decisions. Planning is one issue mentioned and most of the interviewees mention that the business operations have developed according to plans. India possesses a multiple opportunities and that has led many companies to establish a greater presence in the country during the years. Views on how long it takes to start business operations in India vary according to firms. Yet the average for this was about 6 months, which is usually the time that the bureaucracy and the registration take in the country.

However, N1 mentioned that it might take even two years, if there is a manufacturing plant under progress. Those different opinions may reflect the existence of experiential knowledge in some firms (Johansson and Vahlne, 1977, 1990).

The external environment also acts as an encouragement or discouragement for a high level of commitment in emerging markets. Positive development in the external environment plays a positive role. In sum, companies have used low entry modes and have been moving to source intensive modes after acquisition of market knowledge. In addition, Indian Government has been encouraging investments through different incentives. The need for local expertise is further accentuated, especially if the foreign firm has no prior experience in operating in the country (Johanson & Vahlne 1977, 1990; Larimo & Mäkelä 1995). In the same context, finding skilled workers suitable for specific positions may prove difficult. This is especially true, if a vast pool of employees is needed at once, for instance, in the case of a manufacturing unit. Ironically, there are also views, that because of the market size, there are many applicants applying for the open positions. One company stated that:

*“we acquired a company which has already business activity in India but it is not Indian company”.*

In this case, they bought an established company that already knows the Indian activity.

Industries with fast growth rates in the host economy, due to short-term profit opportunities and participation in a growing market, are associated with the need for the firm to make a rapid market entry (Hennart 1982, 1989).

Each expanding firm makes decisions *co-ordination and concentration of value adding activities* and on which functions of the value chain these are to be performed in the new foreign market and to what extent they should take place (Porter 1985, 1990). At the moment the importance of the Indian market is not fully understood and exploited by Finnish firms. Many Finnish companies are wakening now to explore possibilities of taking advantages of these huge opportunities. Those already present on the Indian market are making positive progress. Interviewee N3 uses following words to describe the importance of India, as a market:

*“It is growing all the time; therefore the standard of living is going up so the potential in the future is very big”.*

Even in the near future India is seen to play a huge role in the long-run. Interviewee N11 expresses his believe in following terms:

*“At the moment we are very small, what we have been doing so far in last 3 years, we export from our associate companies from abroad and we have been selling it, establishing or branding. We have been quite successful in that. We have largest market share business area. We have ready market and our brand is very well recognized in India”.*

The decision regarding the appropriate coordination and concentration mechanisms during FME depends on several factors. Factors such as the existing resources in the firm and their transferability across countries (Kogut & Zander 1995; Rugman & Verbeke 1992) and changes in resources over time (Chang 1995), play a key role. The need for additional resources and the characteristics of the competitive environment (Hennart 1989, Kogut & Singh 1988) as well as the institutional conditions such as the political culture play a decisive role. The expanding firm makes choices regarding the amount of technical, managerial and marketing activities to assign to the business entity in the foreign market. The issue of which role the new entity is to play in the firm's entire global network is very crucial (see Fayerweather 1969; Perlmutter 1969; Bartlett & Ghoshal 1989; Doz &

Hamel 1998). Unlike the activities of cross-border coordination, integration involves rationalization that may entail standardization of products, centralization of technological development, or the vertical or horizontal integration of manufacturing (Kobrin 1991). There is a tension that prevails between the strategic choices of whether the management and the strategy of subsidiary operations should be diversified according to individual requirements (i.e. fragmentation), or if it should be integrated as a part of the global strategic system (i.e. integration). There are many reasons why expanding firms may favor integration: the need for greater utilization of the firm's existing resources and capabilities through economy of scale, scope and learning (Teece 1981). Integrating subsidiary operations allows a greater flow of information between subsidiaries in different national environments within the firm's global network (Arrow 1975). In this sense, subsidiaries can share experience arising through information exchange. Furthermore, learning (which occurs through networking and experience in the business environment) enables a firm to increase or strengthen its capabilities. This strategy is likely to be the one preferred in order to exploit the firm's existing resources and to develop the firm's resource base through learning brought about by the international coordination among the firm's units (Fayerweather 1969). Concisely, the expanding firm develops resources, its relative competitive advantage changes and this enables it to alter its foreign operations over time.

The smallest units in this analysis are mechanisms which could be defined as the inter-relation between processes and contexts (Pettigrew 1997), as well as between processes and objectives and strategies. This emphasis is crucial because it is the context which will force the behavior and actions to take place (i.e. the context will bring the process). At the same time, these actions will shape the context. It is noteworthy to see that a similar argument may apply to the process objectives and strategies. Since the content of the FME incorporates objectives, strategies, feed-back, deliberate and emerging consequences, these mechanisms may be further analyzed in terms of their feature, being linear or other type of progress (Vincze 2004). Thus, mechanisms may also be complex to a different degree. Yet it is possible within the same phenomena to find straightforward mechanisms, linear mechanisms, circular mechanisms, or mechanisms that are even more complex. In addition, at the core of a mechanism are actions and interactions. A mechanism would not be understood by seeing it in terms of responses without the force to induce actions or interactions. Furthermore, a mechanism would be questionable if no consequences or feedback were seen. With respect to the original focus of this study we had to find and to focus on some mechanisms, which were used by these Finnish corporations in order to be able to deploy and to focus on the strategies they used to achieve their overall objectives. Examples of mechanisms used in the nine cases analyzed are: customer selection, communicating marketing information, choice of place to locate, recruiting of the workforce, rewarding individual performance etc. From this perspective, a company needs to search for the best location by carrying out marketing research and try to be close to the customers and the port. The important issue is that Indians do not like to move from where they have lived all their lives. As workers are important, it will serve as the best criteria to look into before setting up a company in India. India has hardworking and skilled workers, even though they specialize on different skills.

*"Finnish firms consider Indians fully skilled, hardworking, talented, educated and ambitious people. Since the country has a huge population and meanwhile a huge number of them are highly educated, the Finnish companies find it easy to recruit right people.(N13, N11 and N10).*

However, interviewees explained that Indian workers have different skills and cultures in different locations; therefore the companies need to know what type of workers they need to employ, what location is the best and which products or services make the best investment. These are the factors companies need to consider. There may be some differences between Finnish and Indian employees, yet some companies did not really want to admit it. For instance N1 argues that:

*"Since every company has its rules and regulations employees are obliged to follow them. Therefore, there is no significant difference between Finnish and the Indian employees"*

On the other hand, some of the companies perceive the difference as it adheres from cultural differences. The majority of these interviewed did not see any obstacle concerning the internal communication between Finnish and Indian employees either located either in Finland or in India. The successful ones define working together as cooperation regardless of being an Indian or a Finn. They believe that Finns are very flexible people that can work efficiently together in a team with Indian and can work positively under the leadership of Indian bosses. According to N3:

*"Finnish employees are dependent and punctual to come to work as well as to leave the office and Indian employees are more independent and emotional and hard working"*

Companies do not have big internal communication problem. Those with problem indicated that language functions as a main blockage for bringing the employees closer and making the outcome of their efforts more efficient. Overall, most of the Indian and Finnish employees enjoy working together in a diversified atmosphere for instance in India, where they can learn a lot from each-other and they perceive working together as cooperation and teamwork on equal basis “without bosses”. In sum, the choice and combination of these mechanisms and the way they were applied were unique to each case. However, the data analysis revealed significant similarities between the nine cases. In fact, it was possible to conceptualize these similarities on the basis of matching properties across the cases in the processes. The following figure 1 captures the key factors involved in internationalization process.

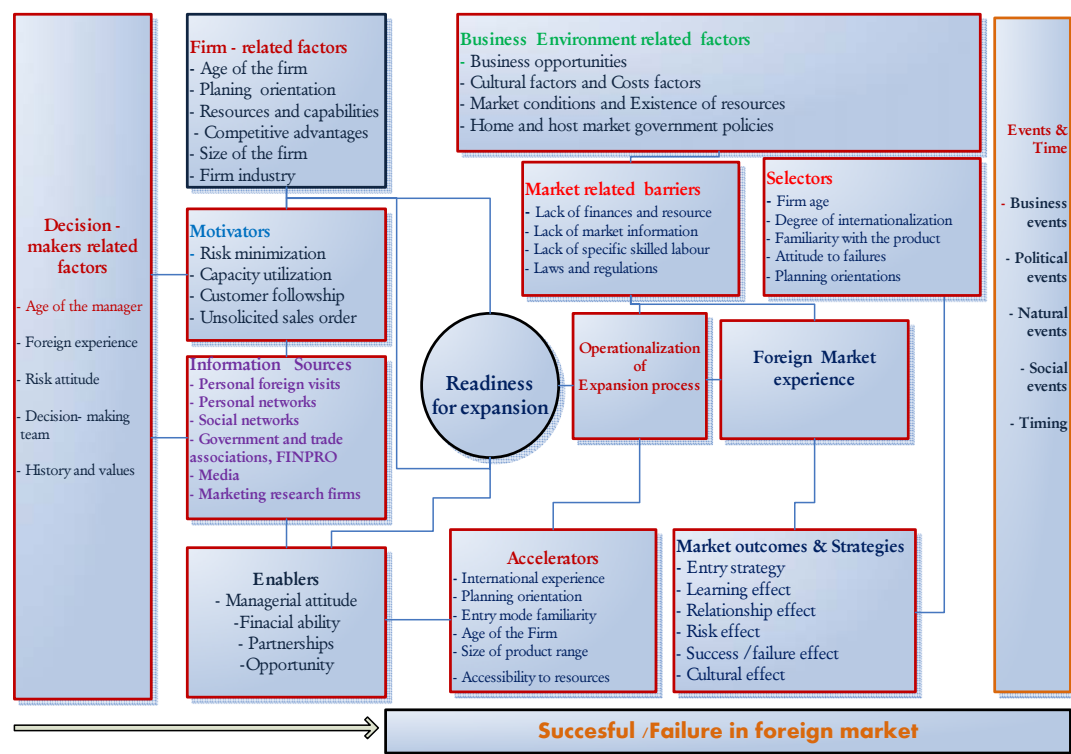


Figure 1: A model of internationalization process to emergent markets

#### Managerial implications

Indian geopolitical position, particularly its factors endowment, has together with its economic development and the openness of its market, increased its attractiveness to foreign businesses. The analysis and results presented here offer several managerial implications for Finnish companies interested in expanding their business into India. From the point of view of the expansion process into India, the findings of this study point to the need for expanding companies to review their recruitment policies in terms of the emphasis that they place on managers and employees' background, if they are to expand their businesses into India. Managerial experience in dealing with similar markets may prove to play a decisive role in advancing the expansion process. These findings also have implications for the nature and quality of training which should be available to managers and other employees. In addition, companies should strive to build facilitating networks with foreign contacts or create exposure to foreign business practices and opportunities. This could be done through reciprocal visits to India and through inviting visitors (business actors, political, academicians) from India to give presentations on India. Finnish firms could also benefit by using the knowledge base which may be held by individuals from India or from other related cultures (like Pakistan, Bangladesh, Srilanka). If these steps are taken, it will contribute toward nurturing an international mindset among the Finnish decision-makers that will provide a valuable resource for any expansion process into India.

When expanding business operations into India, and in accordance with views of Johannisson (1987) and Törnroos and Nieminen (1999), both social and business relationships at individual and organizational levels seem to play a significant role. In the course of the expansion, strategies that include understanding and positive participation in the socio-political context may enhance competitiveness in the long-run. Firms going to India should be ready to become involved in different types of political networking. In India, political actors (politicians, bureaucrats) may play a key role in providing valuable information and other valuable resources. These resources may be in the form of land, tax incentives, and other promotional activities. These actors may also act to speed up or slow down the process. Local business actors may well be connected to different political institutions and political actors and through networking the expanding firm may gain information and even contracts. It may be possible to obtain access to financial resources and to gain legitimacy through political networking and all these processes should contribute to the reduction of the level of uncertainty. Acquiring knowledge concerning political activities, social and infrastructural projects and the identification of key political priorities may also give the expanding corporations an advantage in attaining access to crucial information regarding potential markets in the regions.

Companies need to learn from the market and to cooperate with other key actors to innovate proper solutions for that specific market. As Owusu (2002, 2003) noted, interacting with political authorities played a role for future contracts too. In the short run, Finnish firms wanting to expand their business operations into India would be at a better advantage by participating in turnkey projects and other businesses that would ensure technological transfer and knowledge transfer to the host market as suggested earlier by Owusu (2002, 2003 and Habiyakare 2009). The results of this analysis suggest that corporations interested in expanding their business operations into India should consider both societal performance and sharing of resources outside firm boundaries in order to build long-term local capacities. Expanding firms benefit from operating in a vibrant local economy and gain more businesses in the long-term. Entering an emerging market certainly poses some problems and challenges. New actors emerge, others disappear, and different actors, for example the host government, labour unions, NGOs, civil society and international organizations may influence the expansion process. Business operations in India require strong consideration concerning the social impacts on local communities and on the environment (see also Björkman & Kock 1995; Carroll 1991; Mbare 2004). For Finnish companies expanding their business into India, it is very important to be sensitive to the history, and the social, political, and economic situation of the country. This can easily be done through Corporate Social Responsibility as suggested by Carroll (1991). Finnish Firms planning to expand their business operations into India and its surrounding countries would do better by entering into joint-ventures with local firms. The use of joint-ventures with local partners could offer positive results as is also suggested by Törnroos and Nieminen (1999) when discussing entry into Eastern Europe. Through cooperative innovativeness, it is possible to reduce cultural complexity and cultural diversity.

The number of Indian corporations is increasing and they will play an even greater role not only in the Asian context but also in global affairs. It is possible to manufacture cheaply in India due to the good quality of the existing raw materials and skilled human resources. Based on the result at hand we recommend that Finnish corporations (especially the big ones) do some manufacturing in India as it has a low cost-base, considerable potential in its raw materials, and an improving business environment and infrastructure. If manufacturing takes place there, it would help Finnish companies to be closer to the market (and to customers). They could then enter into the conducting of joint research with their key partners in the host market and thus reduce the relationship distance with their key customers. India also presents good opportunities for different types of Finnish companies. For instance, mechanical and process, energy and environment related industries, food and pharmaceutical industries are growing rapidly, infrastructural projects, and IT boom offer excellent opportunities to Finnish investors as well. Even smaller companies can enter the market through creating partnerships with local enterprises and partners. It is especially now, at this present time that the investors should go there in order to position themselves in the market. By waiting longer, the investors will lose this present momentum. Even the companies already established in India could do better by diversifying into other fields, e.g. petrochemicals pulp and paper, and other process industries. It would be possible to reduce uncertainty significantly by making every effort to allocate resources into training (technological and cultural training).

Finnish firms should not only target training Indian employees but also training should aim at Finnish employees located both in Finland and in India too. Overall, the human resource issues are crucial in the implementation of business operations. To date, the markets in other countries near India are not yet well explored by Finnish Firms. At the same time there are very positive signs in some countries such as Sri Lanka, Bangladesh, Malaysia, Thailand, Vietnam, Cambodia and Indonesia. Finnish firms should start to study these markets carefully to be able to enjoy the advantages of being first movers. There are several ways of

approaching these emerging markets. For instance, Finnish Firms could start project houses in some of the promising countries (or regions). These project houses could then have a role in identifying, planning, and designing good projects where Finnish products and expertise could be used. These project houses could also serve as very strong bridges between the governments and the international financial bodies. Eventually, both local and foreign corporations could benefit mutually. This study also propose a bottom-up learning approach (see Hamel 1991) when it comes to the adaptation and the use of a future care mindset in the FME process towards emerging markets such as India.

To move forward and to be able to adapt to these structures, Finnish firms may have to cooperate with non-profit organizations that usually possess valuable and relevant market information. Foreign corporations could actually participate in developing an expertise in promoting (jointly) local, social, and economic developments. It would then be necessary to forge other relationships with non-profit organizations that could provide knowledge about local contexts and other market potential.

Strategies which enhance learning and build capabilities in the market, and which encourage sharing resources across organizational boundaries may enhance effectiveness and long-term profit for the involved actors in Asian context. A successful strategy would require more than leveraging internal resources and capabilities or adapting standard expansion strategies. It is very important to identify the key partners with appropriate context-specific knowledge and to look for access to external competences wherever possible. Using the standard company model for international expansion into well-developed foreign markets may be inappropriate for emerging markets such as India, because, it may inhibit value-creation in the long term. The kind of partnership model the study proposes recognizes that many of these potential partners could actually be organizations with a strong societal mission. This would mean that the expanding ventures would have to incorporate societal and environmental goals together with economic goals (see Carroll 1991). This approach may require that the expansion process moves beyond the traditional Multinational Corporation (MNC) perspective. It suggests a broader openness and cooperation with business actors, government, civil society and international organizations. In some cases, relying solely on global capabilities might even be a constraint when going into emerging markets such as India. Therefore, companies need additional capabilities, which may be acquired from a base level i.e. from the host market through a bottom-up learning approach (see also Björkman 1990, Habiyakare 2009). They also need to adapt their solutions to the local market requirements. Thus, they should strive to combine the global mindset and the local mindset in a process called “glocal” (with a mixture of global and local mindsets).

#### Policy implications

Positive political, economic and market changes have moved companies into greater involvement in the Asian markets. The present study shows that Finnish companies will respond positively to changes that reduce the level of risk perception in the Indian business environment. The companies studied see great potential in the country's market, as well as problems that are due to the characteristics of the economy. They will continue to react positively, but are, on the other hand, apprehensive and watching developments carefully, especially regarding the regulatory environment and a reduction in the gap between the developed and the “Third World” economies taking place in India. Therefore, continued improvement of the economy and stabilization and clarification of the regulatory environment are important. As India is seen as a power house of Asia and a beachhead for the neighboring countries, positive growth and developments in India will spill over to neighboring countries and will influence the level of investment of many foreign firms.

Based on the results presented in this study, we would recommend that Indian government consider using both “carrots and sticks” to encourage foreign companies willing to invest in India. For instance, the government could reduce taxes or could contribute to training, or offer some other incentives to companies willing to operate in India. Regarding the overall development of neighboring countries, a lot would have to be done to adequately raise the interest of foreign companies. However, the perceptions held by Finnish business community on some Asian countries are much worse than the real situation. This makes Finnish business leaders more pessimistic about these countries and that lead to a late internationalization to these countries.

In line with the Uppsala Internationalization Model (UIM) (Johanson & Vahlne 1977, 1990), this study also shows that a high risk perception negatively affects the expansion process of companies. Risk is not only due to low profit expectations but also to turbulence in the host markets (see also Hadjikhani & Johanson 1996). This study shows uncertainty is caused by a large number of social, economic, political and legal factors. From a public policy point of view, this study suggests that government promotion efforts should target Indian companies which show early signs of developing capabilities to match international standards. If this happens, these local companies can act as candidates for networking. It would also be possible to identify these companies and to help them in fostering cooperation clusters to develop strategic competitive capabilities

together. This cooperative environment and trust among local young firms can be enhanced via the creation of localized regional clusters where firms (particularly new ones) in the same industry could be identified. If this process is adopted, there will be an opportunity to develop synergies in well localized networks among the members of the cluster. An institutionalized support could then be granted to these firms so that they act as targets for cooperation with foreign firms who wish to expand business activities in the region. Network cooperation can also be encouraged among domestic competitors in order for them to respond together to challenges posed by globalization. It is also possible to foster competitive capabilities among local firms that are ready to network with foreign firms through assisting them with training and other financial resources needed to increase their resources and capabilities in general.

#### Implications for Finnish Government

Based on the results of the study, the Finnish government might also encourage more trade with India. For instance, this study has shown that a visit from a Finnish president or from other Finnish high-ranking personalities, both at ministerial and industrial level is of great importance to enhance trade with emerging economies. The study shows that such visits play an extremely important role, especially in the Asian context where the business community tends to believe and to respect foreign government officials. In India, business communities may even have stronger trust and belief in a deal supported by government officials. Added to that, some of the large companies in India may still be state-owned or the government may have a considerable share in their assets. Indian Government is also a big customer for many projects. It is then crucial to persuade eminent Finnish personalities to become involved in negotiations even if they do not play any significant role in the structure of the business deal at hand. These kinds of gestures from the government may eventually support the increase in trade flow between Finland, and India, and the surrounding markets. Any effort from the Finnish government to encourage business with India will certainly benefit the Finnish economy as well. Based on the results of the study, the Finnish government and trade authorities should be encouraged to make decisions to arrange for grants or other funds to countries that commit themselves to using Finnish products or expertise. Some of the countries mentioned here have many “sleeping projects” in which Finland and Finnish corporations could be involved. For example, Finnish corporations and government could be involved in aid to infrastructure development projects, to the training of local people and to the health care system and enhancing local entrepreneurship, all of which would yield positive results in long-term. The study shows that Finland has not yet used the full advantage of trade with India and the surrounding markets. For instance, it was found that Finland has been modest in marketing itself to the Indian market. This suggests that the Finnish government could help Finnish companies in these regions by establishing FINPRO offices in other countries to help in market research and in marketing Finland. The study suggests reciprocal trade between Finland and these markets. Lastly, most of the Finnish firms operating in India may be investing in sophisticated products and this may limit the competitiveness of the local firms. Yet Indian firms have shown to learn and to catch up quickly. This study suggests that the Indian Government, business community, educational institutions and international partners should work hand in hand to sustain the Indian Government in promoting technical education all over India.

#### Implications for further research

The present study looks at the behavior of nine different Finnish firms in the field of business-to-business industries. It is therefore recommended that the present study be replicated for business-to-consumer industries in order to analyze any differences and similarities. The study could also be replicated for other markets as well. It would also be of great interest to compare the FME behavior of non Finnish corporations. Another possibility would be to use the same approach to investigate the behavior of Finnish corporations expanding their business operations towards different emerging markets and assess the external validity of the proposed-framework. For instance, it could be interesting to know the role of political actors and how political networking transform into business resources. The study also provides a good basis for planning empirical tests on the proposed framework for foreign market expansion through quantitative inquiries. There is a need to explore the contingencies that surround the FME process of foreign firms into emerging economies. From this perspective, one could identify the most important factors in each case. One good starting point would be the use of the factors identified in this study. Such research might assist managers in their important and difficult tasks of prioritizing factors affecting expansion strategies, and would therefore allow them to focus their time and resources better.

**PLEASE CONTACT AUTHOR(S) FOR REFERENCES AS THEY EXCEED THE PERMISSIBLE ARTICLE LENGTH**



# ARE PEOPLE WILLING TO CHANGE THEIR BEHAVIORS IN FAVOR OF THE CLIMATE CHANGE? SOME INSIGHTS ON THE ACCEPTANCE OF RENEWABLE ENERGIES FROM GERMANY

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## Abstract

Climate change, increasing energy prices and the impending oil peak are only a few reasons for the increasing renewable energy legislation, incentives and commercialization. In order to achieve the energy turnaround it is of prime importance to ensure that renewable energies become more widely accepted and used – not only industrially, but also in the private sector. This paper develops an acceptance model on the basis of an exemplary end user survey conducted in Germany. The used construct of acceptance is based on the so-called three-dimension-theory of attitudes. The model seeks to explain, why private end users use renewable energies, or – in contrast – due to which motivational, temporal, social, financial or situational behavioral restrictions they do not.

Keywords: Renewable Energies, Consumer Acceptance, Technology Acceptance

## Introduction

Global challenges have moved the potential of renewable energies into the focus of science, society, and economy; not only in Germany but worldwide (Duncan, 2001; Hood, 2003; Lackner et al., 2005; Schwartz et al., 2006; Smil, 2003). With the increasing competitiveness of this technology with fossil energy sources, its market penetration – although partly due to significant subsidization – began, creating additional and significant interest in examining behavioral components (Kotler, 2000). As a result, the acceptance of renewable energies has come to constitute a common topic of socio-economic research in Germany (BMU, 2006; FORSA, 2005). However, acceptance-related topics in no case discuss the willingness of private end-users to independently use renewable energies; they exclusively consider broad social advantages. Furthermore, such studies may potentially be distorted by a bias of desirability, because it is not the consumers' personal willingness to act or use that is directly analyzed.

This paper, in contrast, provides a detailed picture of specifically this aspect, using the classical concept of attitude research to identify individual acceptances. Research based on attitudes is important when dealing with intensively reviewed purchase decisions, such as the purchase of higher price products like renewable energies (Krarup, 2005). The renewable energy sources considered in this paper are: photovoltaic, solarthermal, pellet heating, and geothermal heat pumps (Pimentel et al., 2002). In Germany's private end user sector, these technologies are most commonly used and attract a significant share of consumer interest (IWR, 2007).

### Literature Review and Construct Definition

Acceptance research is attitude research (Kollmann, 1998, p.51). Acceptance (and thus attitude) is a hypothetical construct, i.e. a non-observable circumstance that acts "within" a person (Heberlein, 1981; Kent, 2007). As most marketing constructs, attitude and acceptance are based on behavioral components (Foxall, 1974; Solomon, 2009). Subject of most studies about attitude is the system character of attitude in the sense of the so-called three-dimension-theory, according to which attitude consists an affective, a cognitive and a conative component –, which build on and influence each other (Solomon, 2009). In response to the criticism on the three-component theory, behavioral acceptance is considered as independent from the affective and cognitive components in the following paragraphs (Brehm, 1966; Heberlein, 1981; Tittle, 1967; Trommsdorff, 2004, S.164). It is assumed, however, that attitude and behavior do not diverge fundamentally or in the long run (Ajzen, 1996; Fazio, 1986; Krishnan, et al. 1998).

The theoretic fundament of attitude research on renewable energies was laid by Kollmann (1998, 2004), who – in Germany – added significantly to the research on marketing oriented acceptance theory. In contrast to the dichotomous acceptance conception of Döhl (1983), which simply assumed a yes/no-decision with respect to a certain subject, Kollmann (2004, p. 140) expanded the research spectrum in order to account for dynamic acceptance processes. This phase character constitutes the theoretic fundament for the framework as introduced in this paper, because it allows a differentiated analysis of the acceptance construct based on the following individual acceptances.

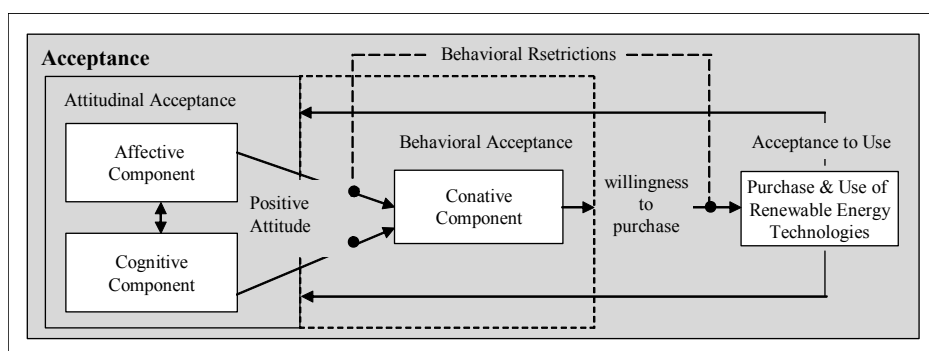
Attitudinal acceptance is comprised of the affective and cognitive component of acceptance (Bodur et al., 2000; Brehm, 1966; Tittle, 1967) and accounts for the coherence between the emotional attitude and the trade-off between advantages vs. disadvantages on the basis of cognitive knowledge and opinion (Ajzen, 1988; Eagly et al., 1994; Fishbein et al., 1975; Koufaris, 2002; Maloney et al., 1973). In the context of renewable energies, the

affective component is primarily characterized by feelings of fear, trust, boredom or disinterest. Cognitively, the objective is to identify general opinions towards technological maturity, future promise, and the general economic context. In the case of a positive attitude, consumers may exhibit a behavioral acceptance (Ajzen, 1988); positive opinions are considered as the motivation to act (Barrick et al., 2002). The behavioral acceptance corresponds to the conative component of attitude and is therefore the intention to use renewable energies (Venkatesh et al., 2000). At this stage, the private end user conducts first concrete steps with the intention to purchase or use renewable energies (Engel et al., 1993). In this paper, behavioral acceptance is described exclusively by active actions, direct experiences and the trial of the product. Through these explicit actions, the end user directly tests and prepares the acquisition of the product. If the test is satisfactory, a positive behavioural willingness to purchase and use the respective technology occurs (Davis et al., 1989; Venkatesh et al., 2000). Acceptance to Use: At this point, renewable energies are attributed to their task oriented application, namely the production of electric or thermal energy (Pimentel et al., 2002; Zoellner et al., 2008). This individual acceptance therefore complements the concept of attitude research by the actual behavior (Kollmann, 1998, 2004). Attitudinal acceptance and behavioral acceptance both are preconditions for the acceptance to use (e.g., Engel et al. 1993), which is explicitly observable. However, in contrast to the previous two individual acceptances, acceptance to use is measured on an absolute yes/no scale only. It has been asked whether (and, if so, which) renewable energies are used by the end user; a specific strength of the acceptance to use, however, is not considered.

#### Conceptualization and Methodology

Corresponding to the described acceptance construct, figure 1 shows the conceptual framework of the empirical study. In analogy to the description above, the individual elements have been set into a relationship based on the theoretic and empirical analysis. Behavioral restrictions can interrupt the relationship between the individual acceptances (Anstadt, 1994; Michman, 1991; Rogers, 1983; Srite et al., 2006; Urdang, 2008). In most cases such restrictions do not occur until the immediate action impends, because at this point potential conflicts with personal habits occur (Taylor et al., 1995). Hence, it can be assumed that only behavioral acceptance and acceptance to use are negatively impacted by restrictions (Ajzen, 1989; LaPiere, 1934/35; Wicker, 1969).

Figure 1: Conceptual Model



Because this study deals primarily with the recording of hypothetical constructs, a standardized online survey was chosen as the method for data collection, which allows the measurement of imperceptible circumstances (Brace, 2004). The generation of the various German items occurred primarily based on priorly validated studies (Wiedmann, 1986; Trommsdorff, 2004; Kuckartz, 2005), and was complemented by further considerations of the authors. The scale chosen for the self-assessment of the respondents was a five-point Likert scale (Villani, 1975; Klooster et al., 2008). Due to their versatile and easy applicability, rating-scales constitute one of the most common scaling methods (Kent, 2007). All response increments are verbally described. After pretesting the survey data collection took place during the spring of 2008. The results of the pretest had been integrated into the questionnaire development. For the final analysis 182 completed questionnaires were considered.

## Results and Discussion

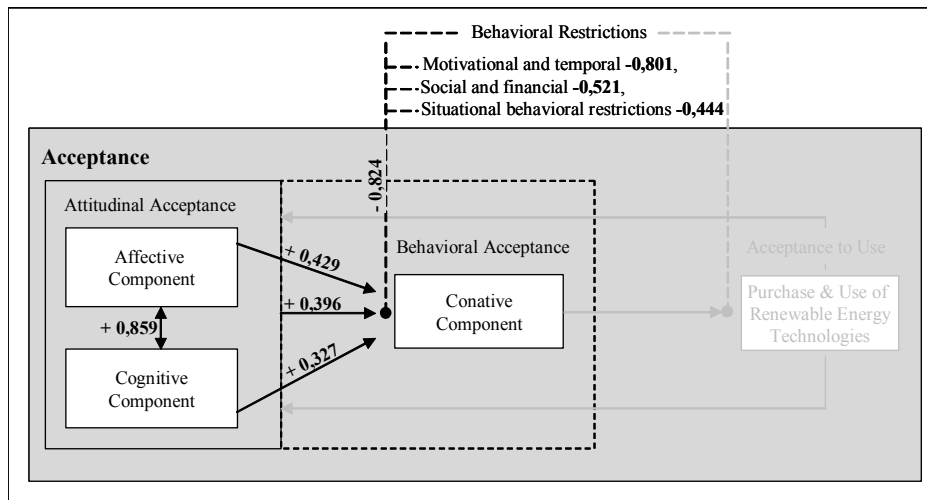
The empirical research approach to the construct is largely analogous to classical attitude measures; 'acceptance' among a sample is thus determined by adding the item values of the Likert rating scale (Kent, 2007; Solomon, 2009). All ratings are based on the described scale and its respective measuring principles, primarily because a high predictive validity has been attributed to it (Tittle, 1967). For each item an item and reliability analysis was conducted.

The affective component of attitudinal acceptance results from the addition of 10 items; the associated Cronbach's  $\alpha$  of 0.871 cannot be further improved by reducing the number of items. For the scale to measure the cognitive component a reduction by 2 items improved the calculated Cronbach's  $\alpha$  from 0.816 to 0.856. When directly surveying attitudinal acceptance, 81.3 percent of the sample stated a positive attitude towards solar heat. With respect to photovoltaics, 74.2 percent stated a positive attitude. Only 1.6 percent of the respondents expressed no positive attitude towards any of these technologies. One reason for the positive evaluation of solar technologies could be the fact that – in the general opinion in Germany – solar systems epitomize an environmentally benign energy supply (Staiß, 2007, p.1-121). With a Cronbach's  $\alpha$  of 0.902, the behavioral acceptance scale possesses the highest internal consistence. Roughly 22.5 percent of the 182 respondents have been consulted experts about the use of renewable energies; 59.9 percent own literature about renewable energies. About 58 percent of the respondents have sought information about photovoltaics and solar heat. Acceptance to use was declared by 36 respondents, i.e. only 19.8 percent of the sample use renewable energies in their private households. Specifically, 50 percent of the 36 respondents use solar heat and photovoltaics, 36 percent use a pellet heat, and 25 percent use geothermal heat pumps. In 47.2 percent of the cases, two or more types of renewable energies are coupled. This primarily applies to solar heat and photovoltaics – presumably because the installed solar collectors can be used for the supply of electricity as well as hot water, in order to reduce the time span of amortization.

Intending to deduce more differentiated interpretations, it has been tested, whether the 10 items of behavioral restrictions can be further compacted through a factor analysis. After screening the histogram and the Q-Q-diagram, a near normal distribution for all variables is assumed. The Bartlett-test of sphericity exhibits a significance value of 0.000, so that it was continued with the factor analysis. If, furthermore, an assessment based on the Kaiser-Meyer-Olkin-Measure – is considered, a value of 0.860 suggests that the composition of variables is well suited for a factor analytical model (Ho, 2006). Three factors possess an eigenvalue  $> 1$  and are thus, according to the Kaiser-criterion, included in the model (Crawford et al., 1980; Ho, 2006; Sarabia, 1996). After the main component analysis (extraction method) and varimax using the Kaiser-normalization (rotation method), the following interpretations were generated: Motivational and temporal behavioral restrictions, e.g. „I do not have the time to deal with the subject of renewable energy sources” (0.761); Social and financial behavioral restrictions, e.g. „Renewable energies are never a topic in my social environment (family, friends, etc.)” (0.753) and Situational behavioral restrictions, e.g. „My current housing situation does not allow the use of renewable energies.” (0.708).

In order to be able to in detail describe the acceptance construct as well as the relationships between the individual acceptances and the behavioral restrictions in analogy to the conceptual framework, correlation coefficients were considered in order to specifically analyze and interpret the direction and strength of the relationships. To measure the linear coherences – except for the 'acceptance to use' – the bivariate correlation according to Pearson is consulted. The correlation coefficients as displayed in figure 2 are significant on the level of 0.01. A single-sided significance test was conducted, because theoretical considerations provide a priori information about the expected relationship (Ho, 2006).

Figure 2: Correlations between Acceptance Variables



From experience a very strong positive relationship can be expected between the affective and cognitive components within attitudinal acceptance. Respondents, which express a strongly positive, felt attitude towards renewable energies, tend to also have a strongly positive opinion and view about this object of attitude. Compared to the behavioral intention (i.e., the conative component), the affective and cognitive components exhibit only weak or medium correlations. For further analyses, attitudinal acceptance as a whole is build additively from the Likert-scale values of the affective and cognitive components; it also only shows a weak correlation to behavioral acceptance. This suggests and supports the fact that a positive attitudinal acceptance not necessarily leads private end users to actively seek information about the use of renewable energies or engage in professional counseling. Reasons for the behavioral gap are founded in the behavioral restrictions. Figure 2 shows a very strong negative correlation between the behavioral restrictions and behavioral acceptance; i.e., if the behavioral restrictions are very strongly developed, private end users will tend not to pursue any activities in preparation for the use of renewable energies. Viewed in differentiation, the strongest negative correlation was observed between motivational and temporal behavioral restrictions ( $r = -0.801$ ). The negative influence of social-financial ( $r = -0.521$ ) and situational ( $r = -0.444$ ) aspects on behavior is rather moderate. This further implies that the behavioral gap is predominantly anchored in intrapersonal rather than in external circumstances.

In order to be able to analyze and interpret the nominally scaled acceptance to use in relationship to attitudinal and behavioral acceptance as well as to behavioral restrictions, cross-classified tables with a  $\chi^2$ -test are consulted. For this purpose, attitudinal acceptance, behavioral acceptance and acceptance to use, as well as the behavioral restrictions are nominally scaled as dichotomous variables; specifically, therefore, positive scale values are re-codified as 1, negative scale values as 0. As a first subject of analysis, the correlation between behavioral acceptance and acceptance to use is examined. A Pearson  $\chi^2$ -value of 30.156 was reported; the significance value of 0.000 for the  $\chi^2$ -value suggests that there is a likely correlation between the two variables. In order to further examine the strength of the relationship, the Cramer's V correlation measure for nominal scales is calculated. With a value of  $V = 0.407$ , a moderate correlation between the variables was observed (Ho 2006). Accordingly, it can be assumed that respondents, who seek information about the use of renewable energies, tend to be well suited for actually using them.

Significant correlations between acceptance to use and attitudinal acceptance or acceptance to use and behavioral restrictions could not be discovered based on the  $\chi^2$ -tests used for nominal scales.

#### Managerial Implications

The globally sustainable use of natural resources, global climate protection, and increased energy efficiency are important challenges faced by Germany and internationally during the 21st century. One central precondition in

the attempt to achieve the related objective of an energy revolution is the increased incorporation of renewable energies (Hood, 2003; Stern, 2006). Alternative energy sources provide a significant foothold for private end users in order to directly influence this goal.

For the future development of renewable energies in Germany as well as other parts of the world, consumer acceptance will become decisive (Keppler, 2007). However, despite this sensibilization of private end users (Keppler, 2007), political circumstances will play a significant role in the initialization of an energy revolution. A governmental subsidization is indispensable at this point. Therefore, it is essential to minimize the costs of specific actions in order to pave the way for socially desirable behavior (Lackner et al., 2005) so that sustainability becomes an underlying principle, and a new state of modern wealth can be achieved (Giannias et al., 2003; Turner, 1999).

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# SWITCHING TO NATURAL GAS VEHICLES: ARE CUSTOMERS' PERCEIVED RISK FACTORS IMPAIRING A RELEVANT CHANGE?

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## Abstract

Developing alternative fuels and engines in the automotive sector touch the scope of duties for a sustainable and environmental energy policy as a result of the ecological and economic importance of automobiles. The purpose of this paper is to provide a conceptual framework with especially elaborates the influence of different risk dimensions on customers' attitude towards purchasing a natural gas vehicle (NGV). Based upon empirically verified risk factors, different groups of private drivers are categorized with reference to the various dimensions underlying the perceived risks associated with the purchase of a NGV.

*Keywords: Natural Gas Vehicles, NGV, Alternative Fuels, Technology Management, Perceived Risk*

## INTRODUCTION

Within the ongoing trend to economical passenger cars and the growing number of offered alternative engines and technologies by the worldwide leading car manufactures, compressed natural gas (CNG) is seen as a short call alternative for traditional combustion engines (IGU 2005).

Understanding how firms can effectively manage the development of structural and technological challenges of alternatives technologies has become an important topic to academicians and practitioners in recent years. Part of this interest stems from the target of car manufactures and power suppliers to be participated in the development of sustainable traffic solutions (May 2004). Further research has mainly analyzed the performance of alternatives fuels and engines (EU 2001; German Federal Ministry of Transport, Building and Housing 2000; Dupont-Roc et al. 1994; Manning 1996).

In spite of the development of technologies with lower carbon dioxide emissions, the question why the registration numbers of natural gas vehicles (NGVs) are contemporary lower as petrol or diesel driven passenger cars has been largely neglected by academic research. All alternative drives have a share of only circa 1 percent based on German registrations in the year 2006 (Green Car Congress 2006; VDA 2007).

Part of the research of this paper stems from the recognition in the field of customer behavior that perceived risk influence the adoption of new technologies. Hence, this paper applies basically to the German market for passenger car and includes currently automotive trends in the consideration. The analysis accelerates the development of NGVs, whereat CNG, as a fuel, is regarded as an alternative technology for the combustion of petrol or diesel. In this context the following analysis focuses the private use of passenger cars. Also, the empirical study picks up this viewing angle. In the light of the exploration, we include serial manufactured NGVs from original equipment manufactures (OEMs). In this connection, NGVs are viewed as a possible substitute for classical petrol and diesel engines.

This paper is organized as follows: First, analyzing the development of alternative fuels and engines in Europe, especially in Germany, and on the literature on perceived risk, a conceptual model of consumer perceived risk concerning the market penetration of NGVs is developed. Second, based upon previous research, perceived risks factors in case of purchasing a NGV are introduced and empirically verified. Further, we specify and categorize different types of private drivers with reference to the various dimensions underlying the perceived risks in case of purchasing a NGV. Third, the empirical results of our exploratory study are discussed with reference to future research steps and managerial implications to handle the identified risks.

## BACKGROUND AND LITERATURE REVIEW

### *The structure of passenger transport and characteristics of NGVs*

On European level, the long-termed target to disengage from fossil fuels and to employ more alternative fuels and technologies in passenger transport is declared. This vision is part of Europeans long-run traffic strategy. At this, regenerative-generated hydrogen is considered as the fuel with the highest prospects (EU 2001, Stromberger 2003). Among this technology, the focus is on the optimization of fossil fuel-driven engines, the usage of hybrid vehicles, bio-fuels as well as CNG which is mainly part of this paper. The development of natural gas propulsion systems continues to be dynamic. Currently, there are about 50,000 vehicles with gaseous systems in Germany, this number increases by over 35 percent each year (VDA 2007).

Due to the novelty of the gaseous fuel, conventional petrol/diesel tank devices can not be used by NGVs for refueling. The operation of NGVs requires a gas refueling technology which is special and being under pressure

(Fulton 2005). Natural gas driven vehicles also benefit from the growing number of natural gas service stations. Up to the present, over 700 stations are installed across Germany. Consequently, CNG installations are available nationwide at approximately every twentieth filling station (IANGV 2006). Next to Germany, a positive development of the admittance numbers of NGVs connected to an expansion of available, compatible filling stations have primarily been established in Italy, Austria and Switzerland within the last few years (IGU 2005).

The attractiveness of NGVs is connected with one for the private driver comfortable accessibility of necessary supply points on public filling station locations (Flynn 2002). The local energy supply companies appear as an investor of setting up natural gas filling stations. The expansion of the national natural gas filling station network is connected with high investment costs (Stork 2000). One the one hand, the arising "the chicken or the egg causality dilemma" indicates that there is not the contingency for an increasing production and an expansion of the model variety of NGVs, if it is no full-coverage natural gas filling station structure available. Otherwise, the energy supply companies and mineral oil enterprises refrain from the development of petrol stations, if the promotion of NGVs can not be guaranteed (Yeh 2007; McTaggart 1915).

The process of innovation, including the stage of the market launch of NGVs not longer follows a separate economic logic (e.g. business profits, competition). Also, other stakeholders' (e.g. developers, sales representatives et cetera) interests as well as the politics and the public have to been integrated (Stromberger 2003). Hence, the development of alternative fuels and engines, especially the CNG technology, has technology push and also technology pull releases. Technological-push occurs when the introduction of new technologies precedes the development of a strategic focus by the adopting entity (e.g. car manufacturer, energy industry) (e.g. Morone 1993; Souder 1989). Technology-pull is divided into the types of internal demand-pull and external demand-pull. Internal demand-pull tendencies are derived from the major stakeholders, including management and customers. External demand-pull arises from three primary forces: institutional, political and innovative (e.g. determination of limit values for new cars' carbon dioxide emissions) (e.g. Drury and Farhoomand 1999; WBCSD 2008).

#### *Perceived risk*

Perceived risk was originally applied widely on psychology. In recent years, it is also considerably applied on the decision-making and explanation of consumers' behavior (Chaudhuri 1997; Dowling and Stealin 1994; Folks, 1998). Looking from the perspective of consumer behavior, the concept of risk was first presented in the 1960th (Cunningham 1967). The fundamental thoughts of perceived risk are traced back to Knight, whose work is influenced by different disciplines. The different view is of great importance, because they have numerous impacts on the essential definitions as well as the use of perceived risk so that there are various understandings of the risk construct depending on discipline focus (Knight 1948; Dholakia 2000; Mitchell 1999). The focus of this paper is on risk perception in the sense of consumer behavior that is strongly related to the psychology discipline (Dholakia 2000).

Mitchell (1999) proposed that the existence of objective risk in the theoretical literature is a necessity and he differentiates between objective and subjective risk. Rasmussen (1987) said that risk is only a feature of the "value perception underlying intuitive choice" that can not be considered separately. In this consideration it's important to mention the interrelationship between both - objective ("real world risk") and subjective risk ("perceived risk"). In contrast, Stone and Winter (1985) disbelieve the existence of objective risk, because of the human impossibility having a real world or objective risk. According to various authors, there are some limitations of perceived risk, because (the averaged) consumer has only limited information about historical data to reduce trials to consider and a semi-reliable memory (Erdem 1998). They are often confronted with completely new products and services which they have never occurred before (Mitchell 1992, 1999), with the result that a risk-assessment is really difficult or actually impossible to realize.

Risk perception is believed to be an important factor in the decision making process of consumers and therefore an important impact for marketing strategies and technology management. On this account, it is necessary to delimitate perceived risk from other constructs existing in the literature. Some researchers refer to the important interrelationship between the construct of perceived risk and involvement (Engel and Light 1968; Bloch 1981; Bloch and Richins 1983; Gemunden 1985; Laurent and Kapferer 1985). Also, this understanding is indirectly supported by other authors (Cooper et al. 1988; Weber and Milliman 1997; Mellers et al. 1997; Weber and Hsee 1998) who stress the differentiation between risk perception and risk attitude. Therefore, risk attitude means the integration of more emotional responses into the cognitive process with information to get a more realistic risk perception.

However, regarding to their evaluations, alternative decision making and behaviors the risk perception of consumers is examined to be very important and central (Dowling 1999). Based on consumer behavior literature, the term perceived risk can be defined in different, multifaceted ways. For a better understanding table 1 lists the definitions and quasi-definitions.

-----Insert Table 1 about here-----

During the process of purchasing decision making of NGVs, the consumers might face the goals they can not accomplish and thus have to encounter the disadvantageous results of various material and psychological aspects.

#### CONCEPTUAL MODEL

Referring an integrated understanding of the perceived risk construct, all relevant actual and potential dimensions should be integrated into one single model. For the purposes of this paper, regarding all prospective and directly attributable risk dimensions, this research follows the statement of Stone and Grønhaug (1993) and segments perceived risk in case of purchasing a NGV into six highly interrelated components of perceived risk. The multidimensional model adds on the remarks of Jacoby and Kaplan (1972), but focuses the measurement of a theoretical construct of a technological innovation – the purchase of a personal computer (PC). The characteristics of this product are similar to the object tested in this paper: the technological acquisition, high-costs and the complexity operating mode. Also, the measurement is characterized by a high level of validity and reliability (Stone and Grønhaug 1993).

Against this background, figure 1 shows the proposed conceptual model to investigate specific perceived risk factors in case of purchasing a natural gas vehicle for private use.

-----Insert Figure 1 about here-----

The questions in risk dimension are as follows: as to the product purchased, the customer actually can not experience the function (e.g., refueling mechanism). The customer has the loss of money since s/he can not actually experience the value of the product as in the advertisement, as to the NGV purchased. The customer might have the risk of being hurt physically, e.g. because of the damage of gas tanks in case of a crash. The NGV purchased can not satisfy her/his internal expectation and the loss is generated. As to the NGV purchased, s/he has the risk of being deceived, comparing with other alternative fuels or engines and might lose face because the customer can not face her/his relatives, friends and colleagues.

*Financial risk:* The consumer takes the risk of spending her/his money on it unsatisfactorily, since the product does not meet her/his expectations and needs as expected. Due to the limited NGV production, the purchase price of a NGV is higher than the price of a comparable conventionally fueled vehicle (American Gas Foundation 2000). Consequently, P<sub>1</sub>: *The perceived financial risk may be conducive to customers' perceived risk in case of purchasing a NGV.*

*Social risk:* By the purchase of a certain product the consumer comes in the risk that buyers' reputation decreases within her/his social environment (e.g. family, teammates, and friends). Also, studies have just illustrated the expression of personality and individuality in the choice of cars (Train 1986; Golob et al. 1997) and the role of social influence (Algesheimer et al. 2005). Thus, P<sub>2</sub>: *The higher degree of social risk results in higher degree of perceived risk in case of purchasing a NGV.*

*Time risk:* The time risk expresses the increased time expenditure and the amplified efforts at the purchase of an object. For example, the driver of a NGV has to ask about tank possibilities due to the not everywhere available filling stations prior to her/his journey (IANGV 2008). This leads us to, P<sub>3</sub>: *Due to the new functions, the consumers' perceive a time risk in case of purchasing a NGV.*

*Performance risk:* The risk type pushes this one the deviation obtained out of this one in the reality of expectation to the performance and the consumer is running functionality of the product. The product-specific performance risk (Mitchell 1998) in case of new technologies arises because the equipment dependability may be not comparable with mature technologies. Thus, P<sub>4</sub>: *The novelty of NGVs results in consumers' perceived performance risk.*

*Physical risk:* By the use of the product, there is a risk of the impairment of drivers' health or the risk of endangering others, e.g. the risk of being hurt physically in case of discharging gas (Nelson 2002). This reasoning leads us to, P<sub>5</sub>: *The gaseous fueling systems affect the perceived physical risk.*

*Psychological risk:* The risk of limiting the self-esteem of one's own by the purchase of a "wrong" product. Taken as a whole, the psychological dimension is highly interrelated with the other perceived risk components. Psychological risk perception is viewed as the experience of anxiety or psychological discomfort from anticipated post behavioral affective reactions such as worry and regret (Perugini and Bagozzi 1999). Consequently, P<sub>6</sub>: *In case of purchasing a NGV, the consumers' perceive a psychological risk.*

#### METHODOLOGY

##### *The Questionnaire*

All measures used in the study were adapted from existing scales, especially from the study by Stone and Grønhaug (1993). The wording of the items was adapted to reflect perceived risk in case of purchasing a NGV. Items were rated on five-point Likert scales because they are more commonly used in Germany than the seven-point scales.

As a first step, targeting the comprehensive ascertainment of the theoretical construct and the necessity for adapting the scales in case of natural gas vehicles, we posed a written, non-structured questioning to 20 potential passenger car buyers. The question, which focused the purchase intention, reads as follows: "Please imagine, you would purchase a brand new passenger car of your favorite manufacturer within the next 12 month. Alternatively, your dealer offers you a compressed natural gas engine of your favorite car model. If you would buy the natural gas vehicle, please write down the reasons of your choice. If you choose a petrol- or diesel vehicle, please describe why you favor these engines over a natural gas engine."

Second, the scales were pre-tested in a series of iterative personal interviews with 17 drivers. Each participant in the pre-test answered the questionnaire as s/he read the questions and verbalized any thoughts that came to mind (including ambiguities, inapplicable questions and interesting issues).

#### *The Sample*

In order to find out the perceived risk factors in case of purchasing a NGV, data from customers who had been able to acquire or drive a passenger car had been essential. To investigate the research model, an internet survey with a snowball sampling method was developed in Germany. It has been organized using an Internet form sent to addresses gathered by students from a national university. We appealed private costumers via personalized emails with the invitation to actively contribute to the online survey. A total amount of 177 valid questionnaires was received. Table 2 describes the sample structure.

-----Insert Table 2 about here-----

Respondents mainly aged 25-44, those with higher education and those who have an own car were over-represented, which is indicative of the fact that many students and employees participated as they are particularly interested in automotives. The higher percentage of younger and male consumers in the sample may be also attributed to the greater internet usage of younger people.

#### **RESULTS AND DISCUSSION**

Within the data analysis, we first uncovered the various dimensions underlying the perceived risks in case of purchasing a NGV by a factor analysis using the principal component method with varimax rotation. The factor analysis produced a nine factor structure with a Kaiser-Meyer-Olkin measure of .800. All items had medium (>0.5) up to high factor loadings (>0.8) and the factors' Cronbach's alpha were .700 up to .860. Table 3 shows our proposed nine factor solution.

-----Insert Table 3 about here-----

Then, the factor scores for each respondent were saved and consequently used in stage two for clustering them into market segments. The focus of cluster analysis in this study was on the comparison of cases according to the natural relationships between the hypothesized risk perception dimensions and factors. We used both hierarchical and non-hierarchical clustering techniques: An initial hierarchical clustering procedure was employed to obtain a candidate number of clusters and seed points for a k-means cluster analysis. To identify the right number of clusters, the respondents were partitioned by the hierarchical procedure first. Because it produces tight minimum variance clusters and is regarded as one of the best of the hierarchical clustering techniques (Wishart 1987), Ward's method of minimum variance was chosen to check the cluster differences in each stage of combinations and to maximize homogeneity within and heterogeneity between clusters.

The results strongly suggested the presence of four clusters. This four-cluster solution was validated using non-hierarchical k-means clustering. Overall, following the typical criteria for effective segments that consist of consumers with homogeneous needs, attitudes, and responses to marketing variables (McCarthy 1982), are distinctive from one another (Weinstein 1987), are large enough to be managerial useful (McCarthy 1982), and provide operational data that are practical, usable, and readily translatable into strategy (Weinstein 1987) the four-cluster solution most favorably met the above criteria and produced the most interpretable and stable result. With regard to classification accuracy once the clusters are identified, we also used discriminant analysis to check the cluster groupings (Hair et al. 1998). Using the categorical dependent variable a priori-defined four-cluster solution, the result of analysis revealed significant differences between the group characteristics. The classification results were used to determine how successfully the discriminant function could work. Overall, 98.9% of the cases were assigned to their correct groups, validating the results of cluster analysis for useful classification of consumer subgroups based on their risk perception.

-----Insert Table 4 about here-----

For market segmentation purposes, profiling the cluster solutions should lead toward a classification scheme through describing the characteristics of each cluster to explain how they might differ on relevant dimensions. To develop a profile of each market segment, more detailed information comes from looking at the questionnaire variables cross-tabulated by cluster segment. Comparisons among the four clusters were conducted on a variety of descriptive variables including demographic and socioeconomic characteristics. Based on the variables from which they derived, the four clusters were labeled as follows: Cluster 1 is referred to as the NGV-interested urbanites, members of Cluster 2 are referred to as the ecology-minded traditionalists, Cluster 3 is referred to as the service-oriented individualist, and members of Cluster 4 are called the security-oriented conventionalists:

*Cluster 1: The NGV-interested urbanites*  
(*n*=57, 32.2% of the sample; 49.1% male, 50.9% female; mean age of 28.5)

Typical consumers in this cluster had the most positive attitude towards the functional value of NGVs (e.g. “*due to lower consumption costs*”, “*a NGV is an interesting alternative*”). They perceive eco-friendly NGVs to be an interesting alternative due to lower consumption costs and state subsidies. Therefore, they do not associate the purchase of a NGV with financial or individual risks as evidenced by lowest ratings for “*I would make a mistake with the purchase*” and “*In the near future the purchase would be connected to too many uncertainties*”.

*Cluster 2: The ecology-minded traditionalists*  
(*n*=36, 20.3% of the sample; 36.1% male, 63.9% female; mean age of 27.2)

This group shows highest mean ratings for ecological awareness and state that “*Cars should be as eco-friendly as possible*”. To spare the environment, members of this cluster try to put short distances back without a car and use buses or trains regularly. Overall, this segment does not seem to be greatly excited about cars what can be seen in lowest mean scores for car involvement. With reference to a possible purchase of a NGV, they do not associate social risk aspects but are uncertain concerning the service aspects (e.g. “*I would not know where I shall refuel the vehicle*”).

*Cluster 3: The service-oriented individualist*  
(*n*=42, 23.7% of the sample; 69.0% male, 31.0% female; mean age of 30.8)

Members of this group are more interested in cars than other groups as evidenced by highest ratings for car involvement (“*Cars are important to me*” and “*I like to speak with others about cars*”). When considering the purchase of a NGV they put emphasis on the number of available models (“*The low number of available models would stop me from the purchase*”) and state that “*I could spend my money on a better way*”. People in this group do strongly associate service risk aspects with the possible purchase of a NGV: “*I would have doubts that more costs come towards me than with my present vehicle*”. Ratings for ecological awareness are the smallest percentage of all groups.

*Cluster 4: The security-oriented conventionalists*  
(*n*=42, 23.7% of the sample; 42.9% male, 57.1% female; mean age of 30.7)

Taken as a whole, this cluster associates the possible purchase of a NGV with the most risk aspects: Highest ratings for convenience risk, service risk, and social risk. They state that they would not know where to refuel the vehicle, think that the services would take problems, and for them, the purchase of a NGV would be connected to too many uncertainties. On the whole, more than the other clusters, they perceive that “*I would make a mistake with the purchase*”.

Even though, we have just made a very first step to categorize different groups of private drivers along the dimensions of perceived risk associated with the possible purchase of NGVs, our exploratory results seem to be worth focusing in further research as well as in managerial practice.

#### **FURTHER RESEARCH STEPS AND MANAGERIAL IMPLICATIONS**

The purpose of this paper was to examine customers’ perceived risk factors to gain a better understanding of the technology management of NGVs as a framework for a structured understanding and categorization of the different risk dimensions. Although, we have just made a very first step to categorize potential drivers in view of identifying different types along the dimensions of perceived risk, our integrative framework and the exploratory results seem to be worth focusing in further research as well as in managerial practice.

Of course, our study is only a first step and should be further developed in different ways. First, the different propositions sketched above will have to be elaborated more into depth. Second, in the next step of developing hypotheses, we should as well emphasize the interplay between the different variables. As important the generation of such an extended model might be, we believe that first of all, it was important to empirically find out more about the relevancy of different variables underlying consumer attitudes towards NGVs based upon various risk dimensions. The cluster analysis results revealing four types of consumers based upon their risk

perception might enable marketing researchers and managers to understand the multifaceted phenomenon of consumer hesitation and the gap between consumer pro-environmental attitudes and the intention to purchase a NGV. In line with a cross-national development of alternative fuels and engines, cultural differences in customer behavior have to be included into future research.

Further, there are wide-ranging managerial implications of our research. A central assertion is the development of natural gas fuelling stations. Cross-national cooperation could be suitable to promote the expansion of NGVs in Europe. Hence, the attractiveness of NGVs could be on the increase because customers would not have to expect any essential disadvantages compared with the refueling of petrol or diesel driven vehicles. By the amplified exchange of suppliers and OEMs, the targets to optimize technical characteristics of NGVs and to underline the economic and ecological advantages could be accomplished. Another strategic decision concerns the product-related segmentation of the market based on revealing different types of consumers. OEMs have to decide which models from the portfolio could be offered as natural gas types.

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#### TABLES AND FIGURES

TABLE 1: Definitions and Quasi-Definitions of Perceived Risk

Year	Author	Definition
1967	Bauer	Consumer behaviour involves risk in the sense that any action of a consumer will produce consequences which he cannot anticipate with anything approximating certainty, and some of which are likely to be unpleasant.
1967	Cunningham	"true" or "actual" probabilities of loss are not relevant to the consumer's reaction to risk except insofar as past experience is the basis for present perception. The consumer can only react to the amount of risk she actually perceived and only to her subjective interpretation of that risk.
1967, 1978	Cox; Robert, Green and Saegert	The <i>amount of perceived risk</i> involved in any behavioural act is assumed to be a function of two factors: (1) The amount that would be lost (i.e., that which is at stake) if the consequences of the act are not favorable. (2) The individual's subjective feeling or degree of certainty that the consequences will be unfavorable.
1992, 1998	Mitchell	Perceived risk influences every stage of the consumer decision-making process and the challenge is for the marketers to use this knowledge to gain a competitive advantage. (...) Since the outcome of a choice decision can only be known in the future, the consumer is forced to deal with uncertainty and to the extent that the consumer realizes he/she may not attain all of his/her buying goals, risk is perceived.
1993	Stone and Grønhaug	When studying perceived risk in consumer behaviour, however, the focus has primarily been on potentially outcomes only.
1994	Dowling and Staelin	The concept of perceived risk most often used by consumer researchers defines risk in terms of the consumer's perceptions of the <i>uncertainty</i> and adverse <i>consequences</i> of buying a product (or service). Their overall perceived risk model consists of two components: The first reflects the person's perception of risk inherent in purchasing any particular product in a specific product category (a person's category risk (PCR)). The second component (...) is associated with the particular product being considered in the product class (product specific risk (SR)).

FIGURE 1: The Conceptual Model

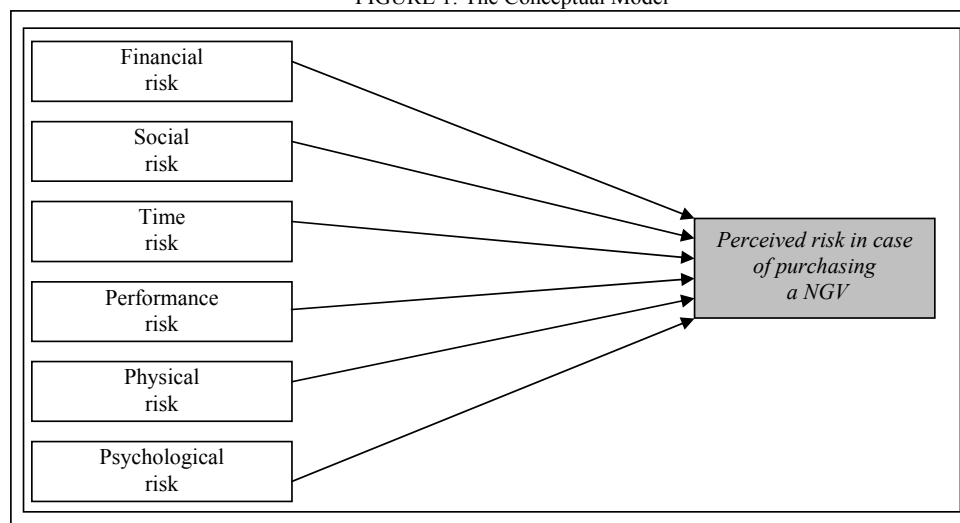


TABLE 2: Demographic Profile of the Sample

Variable	n	in %
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Age	17 – 24 years	42	23.7
	25 – 44 years	119	67.2
	45 – 59 years	13	7.3
	60+	3	1.7
Gender	Male	88	49.7
	Female	89	50.3
Occupation	Employee	62	35.0
	Worker	1	0.6
	Civil servant	9	5.1
	Self-employed	8	4.5
	Homemaker	2	1.1
	Pensioner	2	1.1
	Pupil	1	0.6
	Student	89	50.3
	Unemployed	3	1.7
Currently used engine	Petrol	90	60.8
	Diesel	52	35.1
	CNG (Compressed Natural Gas)	2	1.4
	LPG (Liquified Petroleum Gas)	3	2.0
	Other	1	0.7
Residential area	Rural area (less than 5.000 habitants)	22	12.4
	Small town (less than 20.000 habitants)	20	11.3
	Mid-size town (less than 100.000 habitants)	36	20.3
	Major city (more than 100.000 habitants)	99	55.9

TABLE 3: Factor Structure

KMO-Test: .800

Items	Factor Loadings	Means Cluster 1	Means Cluster 2	Means Cluster 3	Means Cluster 4	F	Sig
<i>n</i>		57	36	42	42		
F1 Social risk	$\alpha = .860$	1.39	1.06	1.21	1.63	7.290	0.002
My friends would think I was just being showy.	0.877	1.30	1.00	1.10	1.48	5.444	0.001
I think I would be held in higher esteem by my associates at work.	0.874	1.42	1.00	1.12	1.45	5.270	0.002
The purchase of a NGV would cause me to be thought of as being foolish by some people whose opinion I value.	0.802	1.44	1.00	1.24	1.50	4.898	0.003
I become concerned about potential physical risks associated with a NGV.	0.619	1.40	1.22	1.38	2.10	13.549	0.000
F2 Physical-handling risk	$\alpha = .798$	3.50	2.99	3.20	2.91	12.932	0.000
The thought of purchasing a NGV doesn't make me feel psychologically uncomfortable.	0.745	4.26	3.50	3.57	2.83	20.928	0.000
I think NGVs are safe and exclude endangering increasingly.	0.740	4.12	3.17	4.00	3.31	9.586	0.000
I think the NGV would work reliably.	0.737	4.23	3.50	3.71	3.24	11.880	0.000
One concern I have about purchasing a NGV is that endangering my passengers, like e.g. family member, could be too high.	-0.507	1.40	1.78	1.50	2.26	9.334	0.000
F3 Financial risk	$\alpha = .717$	1.78	2.01	2.45	2.85	16.866	0.000

I would be concerned that the financial investment would not be wise.	0.811	2.00	2.11	3.05	3.26	20.947	0.000
I could spend my money on a better way.	0.747	2.14	1.94	3.12	2.81	14.484	0.000
The thought of purchasing a NGV causes me to experience unnecessary tension.	0.522	1.56	2.42	1.95	2.76	13.510	0.000
The thought of purchasing a NGV makes me feel psychologically uncomfortable.	0.519	1.40	1.58	1.67	2.55	18.521	0.000
<b>F4 Functional value</b>	<b><math>\alpha = .700</math></b>	<b>4.35</b>	<b>3.83</b>	<b>3.40</b>	<b>3.61</b>	<b>16.457</b>	<b>0.000</b>
Due to lower consumption costs, a NGV is an interesting alternative.	0.830	4.33	3.72	3.29	3.50	17.404	0.000
State subsidies (tank vouchers, tax exemption etc.) make the NGV attractive.	0.787	4.19	3.86	3.29	3.57	13.487	0.000
NGVs are eco-friendly.	0.749	4.53	3.92	3.62	3.76	18.480	0.000
<b>F5 Convenience risk</b>	<b><math>\alpha = .723</math></b>	<b>2.89</b>	<b>3.56</b>	<b>2.86</b>	<b>4.10</b>	<b>16.498</b>	<b>0.000</b>
I would not know where I shall refuel the vehicle.	0.816	2.84	3.75	2.62	4.17	17.454	0.000
I would have the anxiety that I do not comfortably reach the filling stations at which I can tank natural gas on my journeys.	0.798	3.61	4.25	3.83	4.60	12.574	0.000
I would have security concerns in the case of an accident.	0.620	2.21	2.69	2.14	3.52	19.467	0.000
<b>F6 Service risk</b>	<b><math>\alpha = .702</math></b>	<b>2.80</b>	<b>3.02</b>	<b>3.60</b>	<b>3.71</b>	<b>11.723</b>	<b>0.000</b>
I think that the services (repair, maintenance etc.) would take problems with itself.	0.818	2.70	2.86	3.50	3.69	14.164	0.000
I would have doubts that more costs come towards me than with my present vehicle.	0.716	2.86	3.03	3.45	3.74	9.811	0.000
The low number of available models would stop me from the purchase.	0.660	2.84	3.17	3.86	3.71	11.195	0.000
<b>F7 Individual risk</b>	<b><math>\alpha = .799</math></b>	<b>2.18</b>	<b>2.83</b>	<b>3.19</b>	<b>3.46</b>	<b>25.290</b>	<b>0.000</b>
A possible purchase would causes problems which I cannot use.	0.871	1.91	2.69	2.95	3.36	31.078	0.000
I would make a mistake with the purchase.	0.811	1.79	2.25	2.95	3.00	26.957	0.000
With a NGV I would have to accept losses opposite my current vehicle.	0.742	2.54	2.92	3.36	3.67	19.446	0.000
In the near future the purchase would be connected to too many uncertainties.	0.737	2.46	3.47	3.50	3.81	23.678	0.000
<b>F8 Car involvement</b>	<b><math>\alpha = .825</math></b>	<b>2.68</b>	<b>2.59</b>	<b>3.47</b>	<b>2.91</b>	<b>4.552</b>	<b>0.004</b>
I like to speak with others about cars.	0.873	2.21	2.28	3.10	2.57	4.282	0.006
Advertising for cars, e.g. on television or in magazines catch into my eye.	0.858	2.63	2.44	3.40	2.67	4.756	0.003
Cars are important to me.	0.781	3.21	3.06	3.90	3.48	4.618	0.004
<b>F9 Ecological awareness</b>	<b><math>\alpha = .708</math></b>	<b>3.91</b>	<b>4.31</b>	<b>3.33</b>	<b>3.41</b>	<b>9.045</b>	<b>0.007</b>
I try to put short distances back without the car to spare the environment.	0.804	4.05	4.53	3.31	3.31	14.750	0.000
To spare the environment, I drive regularly with bus and train.	0.741	3.63	4.03	2.64	2.55	14.004	0.000
If I plan greater acquisitions, I calculate the costs of all alternatives exactly.	0.684	3.81	4.19	3.43	3.76	3.495	0.017
Cars should be as eco-friendly as possible.	0.623	4.16	4.50	3.95	4.00	3.931	0.010

*Means were summated from scale items*

TABLE 4: Discriminant Analysis					
Discriminant Function	Eigenvalue	Canonical Correlation	Wilk's Lambda	$\chi^2$	Significance

1	2.515	0.846	0.064	465,383	0.000
2	1.284	0.750	0.226	252,310	0.000
3	0.940	0.696	0.515	112,331	0.000
		Function 1	Function 2	Function 3	
Centroids (group means)					
Cluster 1		-2.084	0.460	0.395	
Cluster 2		-0.057	-2.075	-0.666	
Cluster 3		1.034	1.144	-1.263	
Cluster 4		1.843	0.010	1.298	
Significant variable (structure matrix)					
F7 Individual Risk		0.627	0.001	-0.016	
F4 Functional Value		-0.451	-0.017	0.298	
F3 Financial Risk		0.393	0.245	0.016	
F6 Service Risk		0.368	0.290	-0.051	
F2 Physical-handling risk		-0.401	0.474	-0.177	
F9 Ecological awareness		-0.190	-0.359	-0.195	
F8 Car Involvement		0.101	0.175	-0.158	
F1 Social Risk		-0.054	0.274	0.660	
F5 Convenience Risk		0.231	-0.425	0.552	

*Classification matrix revealed that 98,9 % of the cases were classified correctly.*

# **THE IMPACT OF THE GLOBAL ECONOMIC CRISES ON THE ISLAMIC BANKS & FINANCIAL INSTITUTIONS IN UAE**

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## **ABSTRACT**

Islamic banks are making significant contribution to the banking industry. Most of the studies have found that Islamic banks are more efficient and profitable than their conventional counterparts. The number of Islamic banks is growing in the last few years and operating in more than 75 countries. This study examines the performance of the Islamic banks in UAE with comparison of the conventional banks. A sample of four Islamic banks and four conventional banks were selected to measure the performance by using the financial ratio methodology. The findings of this study indicate that the performance of Islamic banks during the global financial crises was better than the conventional banks in terms of higher profitability ratio, liquidity ratio, and market or EPS ratio. This research project can be extended to cover more banks from GCC countries or from other countries.

**Keywords:** Islamic Banking, Global Financial Crises, and Performance of Islamic banks.

## **INTRODUCTION**

The global economic crises that started in USA last year and spread all over the world has created a lot of damages to the market system and to many economic sectors Governments have to intervene to support and correct the market failure in different forms. This includes Bailing out the major banks, insurance companies, automaker manufacturers, and providing unemployment benefits.

Banking system is one of the sectors that were hit by the global economic crises but the results on banks are not at same level of damage.

Islamic banks have managed not only to stay stable but also to benefit out of these crises. Currently, the number of Islamic banks and their operation has grown significantly because of the higher demand on these institutions. Also, these institutions apply different credit and financing standards than conventional banks. They provide loans and funds to finance real economic activities of goods and services. The finance is provided for only predetermined purposes of activities that are compliant with Shariaa laws and Islamic principles. The tools of Islamic finance are based on the profit and loss sharing principle.

The literature review indicate different types of studies have been conducted to measure the efficiency of Islamic banks, comparing the performance of Islamic banks and conventional banks in one country or in different countries, and examining the role of Islamic banks in the era of globalization.

The purpose of this study was to examine the performance of Islamic and conventional banks in UAE during the global economic crises. Most previous studies indicated that Islamic banking is more efficient than conventional banks. This study is another addition to this line of research and was specified to the UAE country.

This study analyzed the impact of the financial crises on banking system using a sample of eight banks over the period of 2006 to September 2009.

The findings of this study significantly accept the hypothesis that Islamic banks are more profitable and efficient than conventional banks.

The objective of this study is to measure the impact of the recent global economic crises on the Islamic Banks and financial institutions in UAE. It examines the performance of a sample of conventional and Islamic banks in UAE before and after the crises.

This study is presented in six sections. First, literature review section. Second, review of the causes and impacts of the global economic crises on all economic sectors and on the banking system, The third section focuses on the Islamic banking system performance. The fourth section covers the research methodology. The findings of the study are presented in the fifth section. The paper concludes with a discussion of results and conclusions.

## LITERATURE REVIEW

Performance and efficiency of Islamic Banks in general have been studied extensively. The focus of these studies was to compare the performance of these newly introduced banking systems with the existing for long time conventional banks.

Different types of studies have been conducted with different objectives. One group of studies compared the performance of Islamic banks from different regions. Suffian F. and Noor M.A. (2009) identified the determinants of Islamic banks' efficiency changes by using an empirical evidence from the MENA and Asian banking sectors. The purpose of their study was to provide a comparative analysis on the performance of the Islamic banking sector in 16 MENA and Asian countries. The methodology of study was using the data envelopment analysis (DEA) to estimate the technical, pure technical, and scale efficiency for each bank in the sample. Their results suggest that the MENA Islamic banks have exhibited higher mean technical efficiency relative to their Asian Islamic banks counterparts. Their empirical findings suggest that during the period of study, pure technical inefficiency outweighs scale inefficiency in both MENA and Asian countries banking sectors. Banks from MENA region were found to be the global leaders by dominating the efficiency frontier during the period of study. They found positive relationship between bank efficiency and loans intensity, size, capitalization, and profitability. Also, they found that technically more efficient banks are those that have similar market share and low non-performing loans ratio.

Another studies compared the performance of Islamic banks with conventional banks in different countries. Rosly S. and Abu Baker M. (2003) examined the performance of Islamic and mainstream banks in Malaysia. They found that Islamic banking scheme (IBS) banks have recorded higher return on assets (ROA) as they are able to utilize existing overheads carried by mainstream banks. Their findings confirmed their contention that Islamic banking that thrives on interest-like products (credit finance) is less likely to outshine mainstream banks on efficiency terms.

Other studies compared the performance of domestic and foreign Islamic banks in the same country. Sufian F. (2007) examined the relative efficiency between the domestic and foreign banks Islamic banking operations in Malaysia. He utilized the Data Envelopment Analysis (DEA) methodology to examine whether the domestic and foreign banks are drawn from the same population by performing a series of parametric and non-parametric tests. The results suggest that Malaysian Islamic banks efficiency declined in year 2002 to recover slightly in years 2003 and 2004. The domestic Islamic banks were more efficient compared to the foreign Islamic banks. Also, it was found that profitability is significantly and positively correlated to all efficiency measures.

The last type of studies was to highlight the importance of the Islamic banking system. Khan M. and Bhatti I. (2008) discussed how Islamic banking and finance system is on its way to globalization. Their main objective was to highlight the unprecedented growth of Islamic banking and finance in the contemporary finance world. They captured the advancements of Islamic banking and finance industry across the tools, systems, sectors, markets and over 75 countries from Africa, Asia, Europe, and North America. Their findings hold that Islamic banking and finance industry has been making breakthrough improvements to become a truly viable and competitive alternative to conventional systems at the global level. Islamic banking and finance institutions have acquired booming grounds in the Middle East, South East Asia. They predict that these growing Islamic hubs have been acting as a launching pad to promote Islamic banking in Western business and financial markets. They noticed the core factors contributing to the recent success of Islamic banking and finance, such as spiraling oils prices worldwide, prolonged boom in the Middle Eastern economies, product innovation, increasingly receptive attitude of conventional regulators and information technology advancements that have been acting as a catalyst for the Islamic banking and finance industry to go global. They believe that given all growth patterns, Islamic banking may be able to win over the majority of customers from the Muslim world that constitutes almost 24 percent of the world's population (over 1.3 billion), and other ethical groups across the globe in times ahead.

The above literature review indicate that Islamic banks have higher performance than their counterparts of conventional banks and Islamic banking system is growing globally because of changing global economic and financial conditions.

This study objective is to examine the performance of the Islamic banks in UAE during the recent global economic crises.

## GENERAL CAUSES AND IMPACTS OF THE GLOBAL ECONOMIC CRISES

The Causes and Beginning of the Global Economic crises:

The global economic crises started to appear during September 2008 in the United States of America as a result of many incidents that have taken place in 2007. It started as a result of the real estate market failure. Banks provided loans easily to individuals because of the availability of funds and lower rates of interest. At one time people are not able to pay back their loans and banks have to refinance or sell the loans to other financial

institutions. The financial crises started from the United States and spread around the whole world since all economies are connected under the globalization of the world economy.

#### **The Economic Effects of the Global Financial Crises:**

The global financial crises have created a lot of major damages and break down of many economic sectors in most countries. The global financial crises enforced large financial institutions and insurance companies to get bankruptcy; the government intervention and government bail out to assist failing insurance, banks, automakers companies. On the other hand, the financial crises led to a record increase of unemployment rate in USA and other countries, the collapse of the stock markets, the slowdown of the GDP growth rate of most countries, the real estate market failure because of price falling and new criteria of mortgages. Furthermore, the financial crises enforced some countries to impose import trade tariffs to protect their own domestic products, and to increase the government spending in most countries to provide unemployment benefits and to assist the failing economic sectors.

#### **The Global Economic Crises Impacts on the Financial Institutions:**

The financial institutions have reacted very quickly to deal with the global economic crises by applying new standards and policies in order to keep their operations and avoid bankruptcy. The first step was to implement strict lending criteria on loans to customers. They have to borrow from other sources at higher interest rate to meet the liquidity requirements for operations or to increase their capital to obtain more funds. On the other hand, financial institutions have raised the fees for their services to customers to cover part of their losses, and reorganized its structure by lowering the human power to reduce their operational expenses and losses.

### **ISLAMIC BANKING SYSTEM**

#### **The Importance of Islamic Financial Banks and Institutions:**

Islamic financial banks and institutions play a crucial role in the world financial system as an active member of this system. The number of these institutions is growing over short time. Currently, there are about 450 Islamic banks and financial institutions operating in over 75 countries worldwide including Middle East, GCC Countries, South Eastern Asia, Europe, USA, and Central Asia Countries. In addition to 300 conventional banks have Islamic windows or branches operating on Islamic Shariaa bases.

The financial experts predict the growth rate of Islamic financial institutions assets to reach 15 % annually by 2010. By the end of 2006, the total value of Islamic financial institutions assets has reached \$750 billion, and it is expected to reach more than \$100 billion by the end of 2010.

The GCC countries host a large percentage of the Islamic Banks and Financial Institutions because of the increasing demand on their products that consistent with the Islamic Shariaa laws and the increase of oil revenues that create a surplus of funds for investment.

The demand on Islamic banks products and services has witnessed significant increase especially after the global crises because of the ability of these institutions to survive with less impact during the crises. Also, many people prefer the investment according to Shariaa laws as there is an increase in religious awareness among them.

In 2008, three new Islamic banks were established and started their operations in UAE. In Kuwait, a third Islamic bank is established. While in Bahrain, one of the major banks has announced a plan to transform 50% of its branches to Islamic banking operations units.

#### *Principles of Islamic Banking and Finance:*

The Islamic Banking and Finance system is based on the following principles adoption and implementation of the Islamic principles and Shariaa laws according to the Quran and Sunnah, avoidance and not practicing any economic activity based on interest principle, applying the partnership concept and risk sharing principle, financing only the economic activities that are consistent with Shariaa laws and not forbidden, applying the Zakat system, applying the Islamic mutual system, and avoidance any uncertain or risky or gambling activities.

#### *Islamic Finance Tools:*

The Islamic Banking System offers several financing tools to investors and to borrowers based on the partnership concept and profit and loss sharing principle. These tools include Mudarabah, Murabaha, Musharakah, Ijarah, Assalam Contract, Al Estesnaa, and Al Qard Al Hassan.

The Islamic banks finance only activities including a real asset and for the purpose of purchasing a certain good or service according to the approved objective. This is one key difference between Islamic and conventional banks. The Islamic banks offer restricted financing for predetermined objectives. This feature reduces the degree of default risk by customers.

#### *The Impacts of the Global Economic Crises on Banking System in UAE:*

The available and published information on banks performance indicate that banks in UAE did not get big hit by the world financial crises as banks in other countries because of the direct government support by providing the required liquidity to meet the market needs.

Islamic banks were less affected by the financial crises because of applying different lending criteria than conventional banks, implementing the Islamic rules and Shariaa principles, and following different accounting standards.

According to a recent MEED banks' classification of largest 20 Islamic banks in GCC Countries by the value banks assets, Dubai Islamic Bank was in the third rank with a total assets of \$29,3 billion in June 2009. While Abu Dhabi Islamic Bank was in the fourth rank on the list with total assets of \$15 billion, and Emirate Islamic Bank was in the eighth rank on the list with total assets of \$6.8 billion for the same period.

Al Etihad Newspaper in Abu Dhabi has reported that the performance of Islamic banks in first quarter of 2009 was great. Profits of Dubai Islamic Bank has increased during the first quarter of 2009 by 31% from last year. Abu Dhabi Islamic Bank achieved a growth rate of 134% of operations during the first quarter of 2009 compared with the fourth quarter of 2008.

## **RESEARCH METHODOLOGY**

To investigate the impact of the global economic crises on banking system performance in UAE, an empirical study is conducted on a sample of conventional and Islamic banks in UAE .

The sample consists of four Islamic Banks Sharjah Islamic Bank, Abu Dhabi Islamic Bank, Dubai Islamic Banks, and Emirate Islamic Bank, and four conventional banks Abu Dhabi Commercial Bank, National Bank of Abu Dhabi, Dubai National Bank, and Union National Bank. These banks were selected on the following criteria: they have been in the market for some time and established a record of operations, their operations and branches cover all emirates, and they have similar regulations and activities.

The methodology of the study consists of analyzing the financial ratios of these banks before and after the global financial crises using the banks published financial reports. The period of the study is from 2006 to third quarter of 2009.

five financial ratios were selected and used to investigate the impact of the global economic crises on the banking system in UAE. These ratios are: profitability ration, liquidity ratio, financial gearing ratio, debt ratio, and market ratio.

## **RESEARCH FINDINGS AND DISCUSSION**

The results of this empirical study indicate that the performance of the Islamic banks in UAE was superior to the performance of its counterparts the conventional banks during the global financial crises.

The findings showed that chosen Islamic banks in the study have achieved higher profitability ratio over the period of the study, higher liquidity ratio, and higher market ratio or EPS, as indicated in tables 5 – 8.

On the other hand, the findings revealed that conventional banks have achieved lower profitability ratio over the period of the study, lower liquidity ratio, and maintained the value of the market ratio or the EPS, as indicated in tables 1-4.

Table 9 shows the direct results of the impact of the global economic crises on the two groups of banks in the study. The table compares the results of the financial ratio analysis between 2008 and the period ending September 2009. It is clear that performance of the Islamic banks was better than the performance of the conventional banks and they were not basically affected by the fallout from the crises. Also, they maintained their profitability level and the liquidity level went up. There was an increase in the ratio of shareholder equity to total liabilities and equity.

The ratio of the liabilities to the value of assets remained steady or varied only slightly and there was a clear rise in earnings per share.

In contrast, the analyses indicate that profitability of conventional banks was greatly affected over the same period, especially as the result of the financial crises in 2008 and 2008 as indicated in Table 9. In addition, the level of liquidity went down.

## **CONCLUSION**

The purpose of this study was to examine the performance of Islamic and conventional banks in UAE during the global economic crises. Most previous studies indicated that Islamic banking is more efficient than conventional banks. This study is another addition to this line of research and was specified to the UAE country.

This study analyzed the impact of the financial crises on banking system using a sample of eight banks over the period of 2006 to September 2009.

The findings of this study significantly accept the hypothesis that Islamic banks are more profitable and efficient than conventional banks.

The results of study would help the customers to make better decisions regarding their investment and financing activities. Also, it will help the banking industry decision makers to develop new products to compete effectively in the market.

This study can be extended in the future to cover more banks in GCC countries and include more financial ratios.

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## Appendix

### 1- Conventional Banks:

Table 1: Abu Dhabi Commercial Bank

Financial Ratio	2006	2007	2008	Sept. 2009
1- Profitability Ratio: Net Income Before Tax / Total Shareholders' Equity	0.20	0.18	0.09	0.0022
2- Liquidity Ratio: Cash Reserve Ratio: Cash / Demand Deposits	0.044	0.27	0.046	0.045
3- Financial Gearing: The Equity Capital Ratio: Total Equity / T. Liab. & T. Equity	0.132	0.107	0.108	0.127
4- Debt Ratio: T. Liab. / T. Assests	0.087	0.89	0.89	0.87
5- Market Ratio: EPS	0.52	0.42	0.25	NA



Table 2: National Bank of Abu Dhabi

Financial Ratio	2006	2007	2008	Sept. 2009
1- Profitability Ratio: Net Income Before Tax / Total Shareholders' Equity	0.24	0.23	0.21	0.13
2- Liquidity Ratio: Cash Reserve Ratio: Cash / Demand Deposits	0.11	0.44	0.19	0.11
3- Financial Gearing: The Equity Capital Ratio: Total Equity / T. Liab. & T. Equity	0.09	0.08	0.09	0.10
4- Debt Ratio: T. Liab. / T. Assests	0.91	0.92	0.91	0.89
5- Market Ratio: EPS	1.72	1.40	1.52	1.16

Table 3: National Bank of Dubai

Financial Ratio	2006	2007	2008	Sept. 2009
1- Profitability Ratio: Net Income Before Tax / Total Shareholders' Equity	0.18	0.095	0.133	0.035
2- Liquidity Ratio: Cash Reserve Ratio: Cash / Demand Deposits	0.17	0.23	0.119	0.117
3- Financial Gearing: The Equity Capital Ratio: Total Equity / T. Liab. & T. Equity	0.092	0.099	0.91	0.111
4- Debt Ratio: T. Liab. / T. Assests	0.907	0.900	0.908	0.888
5- Market Ratio: EPS	0.85	0.55	0.73	0.19

Table 4: Union National Bank

Financial Ratio	2006	2007	2008	Sept. 2009
2- Profitability Ratio: Net Income Before Tax / Total Shareholders' Equity	0.167	0.176	0.188	0.0344
3- Liquidity Ratio: Cash Reserve Ratio: Cash / Demand Deposits	0.087	0.244	0.426	0.195
3- Financial Gearing: The Equity Capital Ratio: Total Equity / T. Liab. & T. Equity	0.145	0.122	0.118	0.139
4- Debt Ratio: T. Liab. / T. Assests	0.855	0.879	0.882	0.862
5- Market Ratio: EPS	0.65	0.62	0.75	0.42

## 2- Islamic Banks:

Table 5: Sharjah Islamic Bank

Financial Ratio	2006	2007	2008	2009
1- Profitability Ratio: Net Income Before Tax / Total Shareholders' Equity	0.14	0.22	0.15	0.036
2- Liquidity Ratio: Cash Reserve Ratio: Cash / Demand Deposits	0.09	0.10	0.09	0.091
3- Financial Gearing: The Equity Capital Ratio: Total Equity / T. Liab. & T. Equity	0.28	0.20	0.26	0.266
4- Debt Ratio: T. Liab. / T. Assests	0.72	0.79	0.73	0.7331
5- Market Ratio: EPS	0.18 AED	0.22	0.23	0.03

Table 6: Abu Dhabi Islamic Bank

Financial Ratio	2006	2007	2008	June 2009
1- Profitability Ratio: Net Income Before Tax / Total Shareholders' Equity	0.69	0.41	0.30	0.20
2- Liquidity Ratio: Cash Reserve Ratio: Cash / Demand Deposits	0.059	0.066	0.075	0.14
3- Financial Gearing: The Equity Capital Ratio: Total Equity / T. Liab. & T. Equity	0.076	0.12	0.11	0.10
4- Debt Ratio: T. Liab. / T. Assests	0.92	0.87	0.88	0.89
5- Market Ratio: EPS	3.90	0.41	0.43	0.234

Table 7: Dubai Islamic Bank

Financial Ratio	2006	2007	2008	2009
1- Profitability Ratio: Net Income Before Tax / Total Shareholders' Equity	0.38	0.40	0.41	0.102
2- Liquidity Ratio: Cash Reserve Ratio: Cash / Demand Deposits	0.065	0.075	0.095	0.1377
3- Financial Gearing: The Equity Capital Ratio: Total Equity / T. Liab. & T. Equity	0.136	0.126	0.104	0.101
4- Debt Ratio: T. Liab. / T. Assests	0.86	0.87	0.89	0.898
5- Market Ratio: EPS	0.71	0.72	0.50	0.13

Table 8: Emirates Islamic Bank

Financial Ratio	2006	2007	2008	September 2009
1- Profitability Ratio: Net Income Before Tax / Total Shareholders' Equity	0.368	0.482	0.618	0.208
2- Liquidity Ratio: Cash Reserve Ratio: Cash / Demand Deposits	0.050	0.064	0.084	0.0515
3- Financial Gearing: The Equity Capital Ratio: Total Equity / T. Liab. & T. Equity	0.922	0.0786	0.0634	0.1078
4- Debt Ratio: T. Liab. / T. Assets	0.908	0.922	0.936	0.892
5- Market Ratio: EPS	0.18	0.32	0.43	0.09

Table 9: Summary of Overall Performance

		Abu Dhabi Commercial Bank	National Bank of Abu Dhabi	National Bank of Dubai	Union National Bank	Sharjah Islamic Bank	Abu Dhabi Islamic Bank	Dubai Islamic Bank	Emirates Islamic Bank
		08/09	08/09	08/09	08/09	08/09	08/09	08/09	08/09
1	Profitability Ratio: Net income before tax/Shareholders equity	0.09 0.0022	0.21 0.13	0.13 0.04	0.19 0.04	0.15 0.04	0.30 0.20	0.41 0.102	0.62 0.21
2	Liquidity Ratio: Cash Reserve Ratio: Cash/Demand deposits	0.046 0.045	0.19 0.11	0.12 0.12	0.43 0.20	0.09 0.09	0.075 0.14	0.095 0.14	0.084 0.52
3	Financial Gearing: The Equity Capital Ratio: Total Equity/T.Liability & T.Equity	0.108 0.127	0.09 0.10	0.91 0.11	0.12 0.14	0.26 0.27	0.11 0.10	0.104 0.11	0.064 0.11
4	Debt Ratio: T.liabilities/ T.Assets	0.89 0.87	0.91 0.89	0.91 0.89	0.88 0.86	0.73 0.74	0.88 0.89	0.89 0.898	0.94 0.90
5	Market Ratio: EPS	0.25 NA	1.52 1.16	0.73 0.19	0.75 0.42	0.23 0.03	0.43 0.23	0.50 0.13	0.43 0.09

## UNDERSTANDING STRATEGY IMPLEMENTATION

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### ABSTRACT

Researches in strategy implementation have focused on treatment of organizational factors and outcomes of implementation, and implementation process is often treated as a black box, hence, the concept of strategy implementation remains underdeveloped. To enhance this understanding, this article sets out to conceptualize strategy implementation in building strategic resources. This conceptualization begins from strategic decision to improved strategic resources that are capable of achieving strategic objective. Implementation involves translating a strategic decision into value, performance and competence gaps, and then based on the competences gaps to build and accumulate new competences into organization structure, stand alone assets, cognitive capability, process and routine and, behavior and culture. While building and accumulating new competences, the accumulated competences are used in transformation of inputs to outputs, hence as more competences are incrementally accumulated, the organizational effectiveness improves. This process continues until it eventually achieves the strategic objectives.

### 1. INTRODUCTION

Implementing strategic renewal has been a distinctive feature in organization, especially those in the dynamic business environment (Johnson, Melin and Whittington, 2003). In this environment, technological innovations occurs frequently, hyper-competition, and competitors employing better information technology to gather competitive information and business intelligence have resulted in their business landscapes changing rapidly (Wiggins and Ruefli, 2005), hence, giving rise to an evolving set of threats and opportunities.

Firms are facing their duration of above normal return being shortened (Wiggins and Ruefli, 2005) and resources and capabilities eroded; either replaced by a different capability or being surpassed by a better capability, hence their resources and capabilities are no longer capable of generating the desired economic rents (Collis, 1994). On the other hand, the environmental changes also give rise to new opportunities. Environment-strategy fit model (Child, 1972; Jauch, Osborn and Glueck, 1980; Hrebiniak and Joyce, 1985) suggests that firm should align its strategy with environmental conditions to achieve performance. Firms that are capable of achieving dynamic strategic fit by implementing strategic changes at the right timing, direction and magnitude with respect to changes in environment are capable of generating higher economic rents than those that are not (Zajac, Kraatz and Bresser, 2000). Hence, strategy implementation is an important phase of strategic management process.

### 2. STRATEGY IMPLEMENTATION IS AN UNDERDEVELOPED CONCEPT

Various authors have studied strategy implementation using different approaches. However, there is a lack of effort in conceptualizing strategy implementation. Strategy implementation is often treated as a black box. For example in the research tradition based on administrative and technical system improvement to achieve strategic objective, the focus is examining improvement in certain attributes of administrative or technical system in relation to the effectiveness of implementation. Examples are the study of matching characteristics of managers such as tenure, functional background, age and level of education with strategy to strategy type (Thomas & al., 1991, Govindaranan, 1989); and the application of control systems such as beliefs, boundary, diagnostic control and interactive control systems in implementing strategy (Simons, 1994). The appraisals of implementation results are based on organization level performance index such as client satisfaction, ROI, sales growth and profitability. This tradition treat implementation as a black box, therefore unravel very little detail about the concept of implementation.

Similarly, both the research traditions based on managing context and implementation tactics to achieve strategic objectives also treat implementation as a black box. In the former tradition, for example, the study on strategy implementation from the perspective of creating and embedding in organizational context a work ethic that induces rational and value-oriented actions from organizational members to achieve strategic objectives (Ghoshal and Bartlett, 1994). The appraisals of implementation results are asset and wealth creation, return on capital, efficiency, growth rate. And in the later tradition, Nutt's (1986, 1989, 1992, 1998) researches on strategy implementation based on implementation tactics such as intervention, participation, persuasion and

edict. The appraisals of implementation success are based on the adoption of strategy, efficiency of strategy, completion of implementation task, achievement of objective. Both of these research traditions again left the implementation process as a black box.

With the concept of implementation still remains underdeveloped, it is difficult for strategy implementation researchers to design their research comprehensively whether in scope or depth, and for practitioners to structurally envisage a task strategy that could effectively achieve the strategic objectives. Moreover, the rate of failure in implementation is alarmingly high; as high as 70 percent ended in failure because of poor implementation (Macintosh and Maclean, 1999: 308). Furthermore, the increasing dynamism in business environment entails increasing organizational capability to implement strategic change to remain competitive (Wiggins and Ruefli, 2005). However, in order to manage implementation efficiently, managers need to understand what constitutes strategy implementation. Thus, the aim of this article is to develop the concept of strategy implementation.

### **3. APPROACH TO CONCEPTUALIZE STRATEGY IMPLEMENTATION**

This paper proposes that the conceptualization of strategy implementation to be based on the resource-based and competent-based views of the firm. Strategy implementation is akin to building new competences; that is building new valuable and unique skills required to perform a particular task entailed by the strategy. The new skills are accumulated in organization in term of competences embedded in organizational resources such as the stand-alone assets, cognitive capability, process and routine, organization structure or behavior and culture (Durand, 1997). The improved organizational resources will yield outputs in the form of products or services with characteristics which are rare and valuable. Outcomes-based of the firm suggest that only those products or services characteristics which are valuable and rare are capable of generating above-normal economic rent (Mosakowski and McKelvey, 1997).

This approach is plausible because strategy implementation is about carrying out qualitative changes to competences embedded in organization structure, equipments, know-how, culture and organizational routines to the desired competent level which capable of coordinating deployment of organizational resources and capability to realize the targeted economic rents. This approach captures the dynamics of building new competences. In addition, this approach attempts to develop strategy implementation from the perspective of the deployment of organizational resources for rent realization which has been overlooked and underdeveloped logic in the resource-based view (Lee, 2008, pg. 1262).

### **4. CONCEPTUALIZATION OF STRATEGY IMPLEMENTATION**

Figure 1 illustrates the processes from a strategic decision to realization of improved competences that enable firm to produce desired products or services. The key issues to be discussed are the dimensions of strategic decision, translation of strategic decision into value, performance and competence gaps, building and accumulation of competences in strategic resources, and how improved competences contribute to rent generation.

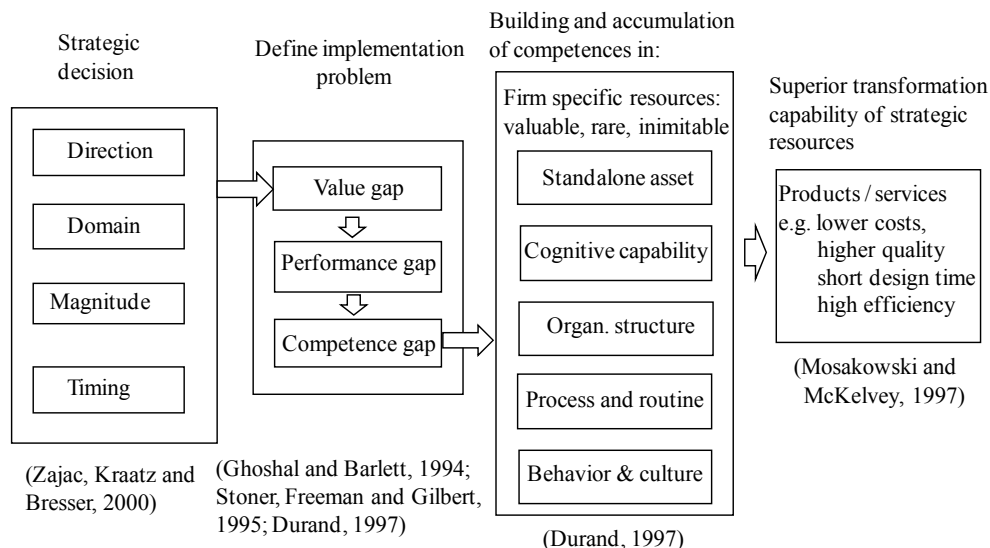


Figure 1 Conceptualization of strategy implementation

#### 4.1 Strategic decision and selection of strategic reference point

A strategic decision is a business strategy envisioned by top management to improve the economic health of the organization, through planned change to create firm specific resources (David, 1995), given the threats and opportunities in the environment, and the constraints of resources and capabilities (David, 1995 pg.11; Ansoff, 1965 pg 205; Rue and Holland, 1989, pg 3; Mintzberg, 1994, pg 43). In the dynamic environment, competitive firms are aggressively searching for opportunities to outperform competition, therefore, for the realized strategy to be effective, top management has to identify and determine the strategic direction, domain, magnitude and timing of change that reach far enough to the future such that, when the strategy is fully implemented will be appropriately aligned with environmental contingencies (Bourgeois, 1985; Venkatraman, 1990; Zajac, Kraatz and Bresser, 2000). Hence, top management has to decide the strategic reference points to achieve the alignments and provide the direction of change and focus organizational members' attention on the particular goals and objectives (Fiegenbaum, Hart, and Schendel, 1996).

##### Direction of strategic change

The strategic reference point could either based on strategic inputs or outputs. On the basis of top managements' understanding of the causality of firm's economic performance and the desired future position of firm, they have to select the appropriate strategic reference point. For example, a strategic decision to improve sales, top management can either choose the reference point using strategic input such as cost of product (objective: reduce cost to promote sales) or strategic output such as total revenue of a product sales (objective: increase product sales). If top management has chosen the reference point based on strategic inputs such as cost (e.g., minimize R&D cost), quality (e.g., make the best product), speed (e.g., fill rush order), and innovation (e.g., new functionality), then the focus is to look inside the organization to improve internal capabilities. Alternatively, the reference point is based on strategic outputs or the results of firm's operation such as profitability (e.g., ROA, ROE), growth (e.g., sales growth or profit growth), or value creation (e.g., create share holder value). These output measures capture different dimensions of the firm's performance, and the responses would be very different for each strategic reference points such as profitability and sales growth (Fiegenbaum, Hart and Schendel, 1996). For example, the output reference point using profitability (ROA) focuses on maximizing assets usage and reduces investments, whereas the reference point based on sales growth, organizational members have to look outward into the business environment, seeking to understand sources of business opportunity, and building superior resources such as new products that generate higher economic rents (Ginberg, 1988).

##### Domain of strategic change

Based on the chosen strategic direction, top management has to define the strategic domain of change to indicate the broad outline of the strategy that will guide stakeholders; management, implementers and change-recipients in making sense of what strategic actions need to be taken. Depending on the strategic direction, the domain of change, for example, in marketing could be in the form of either to expand sales market to new area or increase product range, whereas in production, the domain is either to increase automation or reduce material costs. And, in the turnaround strategy of a firm, the strategic domains are to discontinue unprofitable product lines, to reduce expenditures on personnel cost and R&D cost, reduce the development time for new products, to cut the cycle time from order entry to product delivery, and to shorten customer response time (Ghoshal and Bartlett, 1994)

#### Magnitude of strategic change

In the desired direction and domain of change, the magnitude of change is dependent upon top management's knowledge of firm's current level of performance relative to industry-market performance or benchmarked indexes of competitors. If the level of achievement of the reference point is below the industry-market performance or competitor, then top management is tempting to take more risk and setting higher target. However, if the achievement is above the industry-market performance or competitor, then top management is likely averse to risk (Singh, 1986). For example, firm which holds the market-leader position, the top management has, indeed, endowed the 'right' set of strategic resources, and perceived that existing strategic advantage is still sustainable, therefore they are more likely averse to risk, and tend to implement incremental strategic changes (Fiegenbaum, Hart and Schendel, 1996).

#### Timing of strategic change

The timing of when the strategy should be effective depends upon top management's judgment of the timing of strategic rent generating window; a feasible period of supra-normal economic rents. In the competitive business environment, the period of supra-normal economic return is brief, and it will be eroded when competition begin (D'Aveni and Gunther, 1994). Therefore, top management has to set the timing of implementation that maximizes the window of opportunity, in which the strategic resources can be exploited longer to generate the desired economic rent.

Top management's decisions on strategic direction, domain, magnitude and timing of change broadly clarified the desired state, major improvement activities and timing of implementation. For example, a strategic decision made by top manager of a turnaround industrial firm is as follows: at the time of decision, the firm suffers a loss of USD159 millions, and in the three-year turnaround plan, the strategic goal is to achieve break-even within first year and a target profit USD200 million by end of second year. The strategic action plan is to reduce personnel by 20 percent, to cut the R&D budget by more than 50 percent, and to close several facilities eliminating the related products from the line (Ghoshal and Barlett, 1994).

#### 4.2. STRATEGY IMPLEMENTATION

With the objectives of a strategic decision being made clear, strategy implementation is to create a value generating system which consists of a bundle of idiosyncratic resources (Barney, 1996) to achieve the strategic objectives such as addresses specific markets and customers in distinctive ways that lead to competitive advantages (Eisenhardt and Martin, 2000). However, competitive advantage is derived from the value generating system that has a capability to extract more values than competition from the use of resources (Miller, 1997).

Firms differ in its ability to extract values from the use of same resources. Firms in the same industry basically using almost the same resources, but some firms are able to extract more values than others from the use of same resources. Thus, the exchange value of a resource is not the same as the potential value-in-use of the resource, and dependent upon firm to develop their competent system to extract more values. Strategy implementation is, therefore, about creating a competent system that addresses specific markets and customers needs, and capable of extracting the desired values from the use of organizational resources (Eisenhardt and Martin, 2000; Miller, 1997). Thus, central issue in the discussion of strategy implementation is the creation of a competent system. The competent system consists of a bundle of organizational resources, and actually what are they? This issue will be examined in the following sections.

What is strategy implementation problem?

Strategy implementation problems, in general, are defined by the dimensions of the strategic decision – direction, domain, magnitude and timing of change. These dimensions enable implementers to define the value gap (Ghoshal and Barlett, 1994), and implementers have to define the strategic resources profile necessary to achieve the strategic objectives. By comparing the existing performance capability with the desired performance level, then the performance gap can be determined (Stoner, Freeman and Gilbert, 1995). With performance gap being made clear, then the competence gap can be determined (Durand, 1997). The competence gap becomes the implementation problem which implementation team has to build new organizational competences so that the performance gap can be closed. In this section, how value, performance and competence gaps are determined will be examined.

Establish value and performance gaps

In implementation planning, the value, performance and competence gaps between existing and desired state must be established. For example, the strategic decision of an industrial firm to turnaround in three years, at the time of decision, the firm suffers a loss of USD159 millions. The turnaround plan is to achieve break-even within first year and a target profit USD200million by end of second year. Thus, the value gap in year 1 is USD159 million and the value gap in year 2 is USD200 millions. The performance gaps are achieved by reducing operation costs: reduce personnel by 20 percent, cut R&D budget by more than 50 percent, and close several facilities eliminating the related products from the line. In addition, to improve revenue through reducing the development time for new products (the ‘time-to-market’ project), cutting the cycle time from order entry to product delivery (the ‘make-to-market’ project) and shortening customer response time (the ‘customer satisfaction’ project) (Ghoshal and Barlett, 1994).

Establish competence gaps

To achieve the performance goals, the competence gaps must be determined and closed, and the resources and capabilities required have to be enumerated and improved. An inventory of organization resources and capabilities is necessary to clarify the existing stock, particularly, the five components of organization resources and capabilities: stand-alone assets, cognitive capability, organization structure, process and routine, and behavior and culture (Durand, 1997). With information on the existing stock and the envisioned organization resources and capabilities, top managers and implementation team are able to determine the competence gaps and resources profile: what are the resources and capabilities that had lost their usefulness and should be cannibalized, and what are the desired new resources and capabilities, and the new competences necessary to build them (Danneels, 2002, 2008). For example, as in the turnaround firm, the year 1 interim strategic goals for R&D department are R&D budget reduced by 50 percent and product development time reduced from 6 to 4 months. With the stated strategic goals, top management and R&D managers have to consider how to bridge the competence gap on the basis of future business opportunities, perhaps to decide the numbers and which designers to be discharged, and focus effort to reduce design time by cannibalizing old design equipment and replaced with highly automated design equipment that are more efficient and speeding up design activities.

#### 4.3. BUILDING NEW COMPETENCES TO BRIDGE THE COMPETENCE GAPS

Building new competences into the strategic resources to close the competence gap between existing state and the desired state of the strategy becomes the strategy implementation problems (Simon, 1977). To improve the capability of strategic resources, it is necessary to build new competences to solve the performance problems. New competences are created by reconfiguring resources and capabilities and accumulating these competences and deploy them in ways that solves value problems and achieve the strategic goal (Sanchez and Heene, 1997). In each initiative of solving a contemporaneous problem accumulates new competence into organizational resources and capability, thus strengthening the capability of strategic resources to extract more values from the use of organizational resources, hence increases economic rent. The series of initiatives gradually uplift the strategic resources capability and converge to the strategic objectives.

Building and accumulation of competences in strategic resources

The qualitatively improved competences are accumulated into the five components of competencies: stand-alone assets, cognitive capability, organization structure, process and routine, behavior and culture. Such accumulation improves the capability of the strategic resource (Durand, 1997). These improved resources are utilized in the transformation of inputs into outputs, thereby improves the effectiveness and efficiency of the transformation process. In this section, how competences are accumulated in each component of competencies, and thereby contribute to higher effectiveness in the transformation processes are investigated.



a. Stand-alone asset

The accumulation of competences in stand-alone assets such as equipment enables work process to be done with greater efficiency and reduces the cost of production. Firm specific equipment which is designed to perform designated function, for example, the design and fabrication of special purpose computer-integrated manufacturing system enables the firm to manufacture a variety of bicycles with specifications defined by customers in a plant. The flexible production system reduces the setup and changeover time to enable firms to pursue mass customization (Kotha, 1995).

The accumulation of competences in standalone asset such as brand image creates strong customer affinity for a product. For example, the National Bicycle Industrial Company (NBIC) is the first company to introduce customization of bicycle, and through the strong marketing savvy of its sales teams, it has built a strong brand image "Panasonic" for building customized bicycle in Japan,. As a result, when one mentions about customization of bicycle, customer only thinks of "Panasonic" brand (Kotha, 1995).

b. Cognitive capability

A new set of cognitive capability is necessary to identify and solve issues related to efficient deployment of resources in the new strategic context. The cognitive capabilities encompass individual and collective knowledge and know-how, individual skills and technologies (Durand, 1997). The accumulation of cognitive capabilities in organization enhances the effectiveness in identifying and solving problems, and coordinating the deployment organizational resources and capabilities to create the desired values. For example, a project team consists of managers, a product designer, a few process engineers and some highly skilled and experienced line workers embodied a variety of skills; management, technical, operations and knowledge creation skills enable the project team to build a repertoire of knowledge, both tacit and explicit knowledge to deal with problems that may arise in the course of deployment of resources in carrying out mass customization (Kotha, 1995).

c. Organization structure

The accumulation of competences in organization structure will improve the alignment between structure-strategy and their fit will enhance structural effectiveness (Chandler, 1962). Two dimensions of organization structure-strategy fits are: new strategy entails a new interaction pattern between organizational members, and the capability to translate decisions into actions that improve the efficiency of organizational resources deployment. First, effective organizational structure requires the pattern of interactions and communication between organizational components that reflects the pattern of interactions between product architectures (Christensen, 1997). Over time, the redefinition of duties and roles of individuals create different interactions patterns between people (Kang, Morris and Snell, 2007), and such successful patterns are institutionalized. The new interaction patterns among organization members improve knowledge flows and organizational learning, hence their ability to create new meaning and solutions to strategic issues improves, and better able to coordinate deployment of resources and capabilities, thus allows activities to be carried out effectively.

Second, new strategy requires new organizational structure to translate decisions into actions. The change in the task environment, especially, the new interactions pattern resulted from the enactment of new operational criteria, the new division of labor and task specialization and the accumulation of new competences in organization structure in terms of gained experiences among organizational members, therefore requires new ways of making decision and translating decisions into actions to improve organization efficiency and effectiveness in utilization of organizational resources. For example, in moving from mass production to mass customization, the efficiency of mass production organization structure is based on the bureaucratic principle of division of labor, specialization, and high volume production. Whereas in mass customization, efficiency of operation is based on a mix of highly skilled craftsmen, autonomous structure and computer-integrated manufacturing systems to translate unique customer specification into finished products (Kotha, 1995). Thus, in mass production, centralized decision making enables more efficient use of organizational resources, whereas, in mass customization, distributed decision making or autonomous structure are more effective in translating decisions into actions.

d. Organizational process and routine

Organizational process and routine are the building blocks by which a firm physically transforms inputs into outputs (Collis, 1994). It is the repeatable patterns of activities that enable coordinated deployments of a specific set of capabilities and resources. These routines define how to use certain technological, organizational skills and complementary assets that allow the firm to perform a certain set of activities (Eisenhardt and Martin, 2000). Different configurations of organization routines have different economic, therefore, contribute differently to efficiency. The accumulation of qualitatively improved routines improves the effectiveness of organizational processes or pattern of interactions, hence improves its transformation capability. For example, in the effort to improve productivity and quality in an industry organization, old routines which are inefficient

are either destroyed or improved, and new routines are added. The new routines are established based on inputs from implementers with diverse field of knowledge putting together to create the superior routine that capable of solving organization problems that hitherto has failed to do so. Over a period time, many superior processes and routines are added and new patterns of relationships between organization factors are established, and gradually achieve the desired performance. The superior routines enable the organization to solve the strategic problems that the old routines failed or less satisfactory to perform the required functions (Kotha, 1995).

e. Behavior and culture

Team behavior and culture has significant influence on group performance. Cultivation of team behavior and culture in terms of open communication and communication safety, willingness to set higher goals, willingness to take charge and tolerance for diverse viewpoints will likely to develop cooperative norms and shared ambition. The cooperative norms preventing disagreement from being mis-interpreted as personal attack, and team members are likely to perceive that their goals are positively linked, and they are likely to develop cooperative attitudes and a pro-social motivation which will enhance team functioning and performance (Beersma, De Dreu and Ten Velden, 2005).

Conversely, in the environment where low trust and frequent accusation, team members are likely to perceive their goals are negatively linked, and they tend to develop competitive attitudes and selfish motivation. Team members tend to use defensive routines such as denying and distorting the problem. When someone views a problem as threatening to his or her interest, he or she will prefer to deny its existence as long as possible and then distort the problems in ways that weaken its emotional impact. When a person feels responsible for causing a problem may be held accountable for it, he or she may choose to hide the problem. By preventing symptomatic events from being revealed, the detection of the problem might be delayed, hence affects the remedial action (Worchel, Wood and Simpson, 1992).

Thus, in the situation of conflicts among members, leader has to arrange negotiations to achieve the group goal, and discussing conflict or negotiation deteriorates team functioning and performance. Steiner (1972) argues that discussing conflict in work is a “process loss” which is detrimental to performance - the time spent on resolving conflict cannot be used to engage in productive performance. Thus, a team with high morale and commitment to team activities is likely to reduce process loss and enhances organizational performance (Schuster, Dunning, Morden, Hagan, Baker and Mckay, 1997).

The degree of building and accumulation of competences depends on the competence gap of organizational resources, thus, new competences may have to be built into specific fields (engineering, production, quality control), and levels of organizational activity (at team, unit, departmental or firm level) to close the competence gap. Objectively, the accumulated competences would enable firm to attain environment-strategic capability fit and internal consistency necessary for high performance (Govin, 1991). As in the example of turnaround firm, one part of the strategy focuses on R&D department. In year 1, the interim strategic goals are the R&D budget reduced by 50 percent and product development time reduced from 6 to 4 months. Thus, the core accumulation of competences is in the design department concentrating in reducing design costs and improving design cycle time. New competences, for example, new organizational structure – new interaction patterns between design members to improve efficiency in problem solving, new organizational routines and stand-alone (computerized CAD system) to reduce operation time have to be built in R&D department. The competences have to be accumulated to a level capable of solving complex problems and decision making under uncertainties, addressing ambiguous and ill-structured tasks in a reliable pattern. The accumulated competences must be capable of solving value creation problems successfully across various situations, and reproduce such competences repeatedly when necessary (Schreyo and Lkiesch-Eberl, 2007).

#### **1.4. SUPERIOR TRANSFORMATION CAPABILITIES OF STRATEGIC RESOURCES**

The superior resources created compose of improved competences embedded in organizational structure, behavior and culture, cognitive capability, stand-alone assets and organizational routines, hence the superior resources has higher transformation capabilities. Outcome-based view of the firm suggests that, the superior resources have to have the capability to produce products or services with salient intermediate outcomes which are valuable and rare in order to generate the desired economic rent (Mosakowski and McKelvey, 1997). The rare and valuable product or services characteristics are, for example, lower cost, higher reliability or higher product performance compared to competition, in particular, the product characteristics that translate into the satisfaction of customers’ needs.

The intermediate outcome as a measure of value creation is appropriate because it has more direct link to rent generation. Intermediate outcomes are observable and comparable. Customers can compare intermediate

outcomes of products or services offerings across firms in a scientifically meaningful way and make a purchase decision on the basis of evaluation of the intermediate outcomes. For example, customers can compare the fuel consumption of several brands of cars and make a purchase decision. Firm will be able to capture the economic rents if its products or services provide higher utility to customers, thus, prevents competitors from competing away the value it created (Mosakowski and McKelvey, 1997).

#### 4.5. EFFECTIVENESS IN IMPLEMENTATION OF STRATEGY

Effectiveness in implementation is a collective achievement of implementation team members and change-recipients. To assess the degree of effectiveness in implementation, Pinto and Prescott (1990), and Rouse (1993) suggest that implementation effectiveness should be assessed based on factors related to internal organization and external factor related to client concerns. Such assessment is useful because project team must contend with both internal factors such as adherence to schedule and budget, technical performance capabilities and derived economic benefits, and the external factors such as fulfillment of user satisfaction and adoption of innovation.

Thus, effectiveness in implementation should be assessed from the perspectives of objectives to be achieved, and the time of starting and completing the implementation, and customers' satisfaction. Therefore, three features are necessary to defined effective implementation; they are completion, achievement and acceptability (Miller, 1997). The internal organizational considerations are completion and achievement. Completion refers to how far the strategy is implemented within expected time period. Strategies are sometimes implemented in part and often take longer time than decision maker expected (Alexander, 1985). For the purpose of this research, a strategy is considered to be completed to a high degree if the majority of the more significant implementation is carried out within the time period anticipated. Achievement is a performance measure which measures the degree of achieving the objective of strategy. Achievement measure is necessary because a strategy may be fully implemented, but it does not live up to expectations. Even though the implementation has produced positive impacts, the quantum of achievement is still fall short of target. And, acceptability is a measure of the degree to which the method of implementation and outcomes are satisfactory to those involved in, or affected by implementation. A strategy may be implemented in full, may achieve all that is required, but it is carried out in such a way, or has outcomes that are so widely unpopular, that it cannot be acclaimed an unmitigated success (Miller, 1997).

#### 5. CONCLUSION

The conceptualization of strategy implementation from the point a strategic decision is made till the creation of strategic resources has unraveled the black box. This framework will provide a guidance to managers when embarking on implementing strategy on how to translate a strategic decision into an implementation plan considering the value, performance and competence gaps, and determine to what extend building new competences in organizational structure, process and routine, cognitive capability, stand alone asset, and behavior and culture are necessary to achieve the strategic objectives. In addition, the conceptualization of strategy implementation will stimulate interest from researchers to further their researches in implementation with the hope of finding a solution to poor implementation which hitherto has been plaguing organization.

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# **BUYING BEHAVIOR OF TURKISH MUSLIMS IN CHINA FOR HALAL PRODUCTS: GLOBAL MARKETING IMPLICATIONS**

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Intention to consume halal meat is measured within an ethnic minority population of Muslims originating from Xinjiang and living in China. Meat consumption decisions within a religious context could differ significantly from purchase situations where religion does not play a key role. The role of self-identity as a Muslim and dietary acculturation is investigated using the Theory of Planned Behaviour as the conceptual framework. Practical implications extend to food policy decision-makers and food marketers who might pursue identity and/or acculturation-related strategies in their distribution and communication efforts targeted at the growing halal food market segment in China.

Keywords: Consumer behaviour, Halal Meat, Religion, Islam, Uyghur, Hui, China

## **INTRODUCTION**

This chapter reviews Chinese Muslims' current situation in China, introduces the objectives of the study, the significance of the study, the scope of the study, and its limitations.

China's Constitution defines the country as a unitary multinational state. Among its population of just under 1.266 billion (2000 census), the state recognizes a majority nationality, the Han, and 55 minority nationalities, the latter being 8.41 percent of the population, or about 106,430,000 people. It is important to note that they are living about two-thirds of the country's area (National Bureau Statistics, 2002).

China's Muslims especially Hui Muslims face their second millennium under Chinese rule (Gladney, 2002). Many of the challenges they confront are new as a result of China's transformed and increasingly globalized society. Muslims in China live as minority communities amid a sea of people, in their view, who are largely pork-eating, polytheist, secularist, and kafir (heathen). Though small in population percentage (about 2% in China), their numbers are nevertheless large in comparison with other Muslim countries. For example, there are more Muslims in China than Malaysia and every Middle Eastern Muslim nation except Iran, Turkey, and Egypt. Islam in China has primarily been propagated over the last 1300 years among the people now known as Hui, but many of the issues confronting them are relevant to the Turkic and Indo-European Muslims on China's Inner Asian frontier. Though Hui speak a number of non-Chinese languages, most Hui are closer to Han Chinese than other Muslim nationalities in terms of demographic proximity and cultural accommodation.

The attempt to adapt many of their Muslim practices to the Han way of life has led to criticisms amongst Muslim reformers (Israeli, 1978). The Hui are unique among the fifty-five identified nationalities in China in that they are the only nationality for whom religion (Islam) is the only unifying category of identity, though not all members of the Hui nationality practice Islam.

Xinjiang, China's western border province comprising 18 percent of the country's entire land area is a region beset by change, and increasingly, confrontation distinct concerns between two very distinct peoples: the more recently arrived Han Chinese and the indigenous Uyghur Turkish Muslims (Gladney, 1990).

A generation of rapid economic development in Xinjiang has created sufficient wealth to lift per capita income there to twelfth among all thirty-one Chinese provinces. Millions of Chinese, seeking to improve their lives, have flooded to Xinjiang, causing it to be viewed a land of opportunity. Xinjiang's capital, Urumqi, ranks among China's true boom towns.

China's trade with Central Asia is expanding at a rapid rate (Dorian, Wigdortz, & Gladney, 1997). Xinjiang's top two trading partners are Kazakhstan and Hong Kong, with China-Kazakhstan trade alone totaling more than Turkey's trade with all of Central Asia. Additionally, China is hoping to increase revenues from tourism to the region, marketing it as an important link on the ancient Silk Road. It has been a tremendous draw to foreign Muslim tourists, as well as Japanese, Taiwanese, Southeast Asians, and domestic tourists.

In the present study, the influence of the classical components of the Theory of Planned Behaviour on intention to consume meat is measured within an ethnic minority population of Muslims originating especially from Xinjiang and currently living in China. For them, eating foods that meet the religious prescriptions can be considered to be an expression of religion. Therefore, we argue that meat consumption decisions within a religious context could differ significantly from purchase situations where religion does not play a key role. By

extending the model with self-identity and dietary acculturation, the influence of the cultural and more specific religious context in which halal meat is consumed is investigated.

#### Objectives of the Study

This research has two major objectives.

1. To investigate Muslim consumer behaviour towards halal meat in China using the classical Theory of Planned Behaviour (TPB) as a conceptual framework.
2. Measure whether or not, within a religion, the validity and predictive power of the TPB is influenced by accounting for religious self-identity and dietary acculturation.

#### Significance the Study

This study is one of the first studies investigating the determinants of halal meat consumption in general and a first application of the Theory of Planned Behaviour within a food/religion context, i.e., halal meat consumption decisions in a Muslim population in China.

The global Halal food market is on the threshold of major developments that hold the promise of rapid and sustained growth (Archibald, 2007). With the Halal food market currently accounting for as much as 12 percent of global trade in agri-food products, major growth will generate future growth opportunities throughout the agri-food industry. The world Muslim population is approaching 1.6 billion people and is expected to account for 30 percent of the world's population by 2025.

The most attractive market in north-western region is the Xinjiang Autonomous Region, which, as mentioned above holds vast potential for the as yet unexploited Chinese halal market.

The Malaysian Trade Commissioner to China, Abu Bakar Yusof has stated that in Xinjiang presence in the halal market is still very weak. He feels that there is a need to raise the Malaysian market's profile among the 20 million Muslims in China and will look for opportunities to export to the Chinese market and to other countries due to the fact that Chinese Muslims import much of their needs from Turkey and other countries, but not much from Malaysia.

#### Scope of the Study

The study was limited to the residents of Xinjiang. Xinjiang is the most Muslim populated region in China. It has a larger Muslim population making their living style different in comparison with other Chinese Muslims. People in this area are generally better educated and are perceived to be more responsive to questionnaires. Xinjiang has up-to-date and modern amenities and infrastructure. The data for this study were collected through self-administered questionnaires over a two-month period.

#### Limitations of the Study

Firstly, Muslims are scattered everywhere in China, making it impossible to cover all Muslim areas in China. This survey will mainly focus on Xinjiang province of China.

Secondly, the local Chinese authority's strict controls on Islam limited the inclusion of some religion-related questions.

Thirdly, in view of the time and cost constraints, the present study is mainly conducted in Urumqi, which may not be representative of all of Xinjiang. Another limitation may be the use of quota convenience sampling, which may bias the findings of the study. As a result, this study is exploratory in nature. Finally, small sample size and the lack of budget are also major limitations.

Despite the above shortcomings, the findings of the research could be able to provide insights into the determinants of halal consumption in China and serve as a foundation for future research.

#### Literature Review

This section reviews how religion impacts food consumption, briefly introduces Chinese Muslims and the attendant opportunities in the halal food market in China. This chapter also illustrates the concepts of the Theory of Planned Behaviour. Last but not least, describes literature reviews on research hypothesis.

##### Impact of Religion on Food Consumption

Ample evidence has been provided that religion can influence consumer attitude and behaviour in general (Delener, 1994; Pettinger, Holdsworth, & Gerber, 2004), and food purchasing decisions and eating habits in particular (Mennell, Murcott, & Van Oosterloo, 1992; Steenkamp, 1993; Steptoe & Pollard, 1995; Swanson, 1996; Shatenstein & Ghadirian, 1997; Asp, 1999; Mullen, Williams, & Hunt, 2000; Blackwell, Miniard, & Engel, 2001). In many societies, religion plays one of the most influential roles shaping food choice (Musaiger, 1993; Dindyal, 2003).

Many definitions of religion exist. Within the context of this research we adhere to an anthropological viewpoint on religion that analyzes religion ethnographically. In this anthropological view, religion is an institution

consisting of culturally patterned interaction with culturally postulated superhuman beings (Spiro, 1973). This viewpoint on religion explains cultural influences on religious expression.

Although religion has been a significant force in the lives of many individuals, its exact role in consumer food choice is rather unclear (Delener, 1994). The impact of religion on food consumption depends on the religion itself and on the extent to which individuals interpret and follow the teachings of their religion. Most religions, except Christianity, forbid certain foods (for example pork in Judaism and Islam, or pork and beef in Hinduism and Buddhism) (Sack, 2001). The consumption of animal products, and more specifically meat and meat products is most strictly regulated in cases where religious considerations prevail (Shatenstein & Ghadirian, 1997).

Muslims have to follow a set of dietary prescriptions, halal dietary laws, intended to advance their well being. They prohibit the consumption of alcohol, pork, blood, dead meat, and meat that has not been slaughtered according to Islamic rulings. They are allowed to eat only halal, lawfully processed meat.

Although religions may impose strict dietary laws, the number of people following them may vary considerably. Hussaini (2004) states that 75 percent of Muslims in the US follow their prescribed dietary rules versus only 16 percent of Jews. Factors explaining differences in adherence to religious dietary prescriptions pertain among others to social structures, e.g. origin, immigration and generation differences (Limage, 2000; Ababou, 2005; Bonne & Verbeke, 2006).

#### *Halal Food Market*

The global Halal food market is on the threshold of major developments that promise rapid and sustained growth (Pervis, 2005). With the Halal food market currently accounting for as much as 12 percent of global trade in agri-food products, major growth will generate growth opportunities throughout the agri-food industry.

Investigating consumer decisions towards halal meat is topical, first, given the halal food market size and its evolution, and second, given the policy relevance of the issue. The Canadian International Markets Bureau reported an international halal food trade of \$150 billion a year. The total spending power of Muslims in the US was estimated at \$12 billion in 1999 of which \$3 billion was for meat and poultry (Riaz, 1999). Although there is no estimation yet for halal trade in the EU, the potential market size as expressed in terms of the Muslim population is substantial, i.e. estimated between 12 and 18 million individuals before EU enlargement (BBC News, 2005). As mentioned before, 75 per cent of Muslims would follow their dietary rules in the US (Hussaini, 2004) meaning that even after having emigrated most Muslims still eat halal. Assuming that this percentage can be applied for Muslims in Europe, since they are migrants too; this would yield a potential halal food market of about 10 million consumers in Europe.

The halal meat chain is adapting to newly emerging consumer interests like animal welfare and convenience in cooking and eating (Bonne & Verbeke, 2006). Major retailers such as Carrefour or Albert Heijn are now testing to include halal meat in their assortment. Previous attempts in a retail environment were often unsuccessful because of lack of insights in food consumption behaviour of Muslims. Fundamental problems that arise are the different definitions of halal meat, the different quality certifications, and the communication of these elements.

In the past, Muslims simply avoided foods that did not meet their dietary standards. Nowadays, Muslims are making their presence felt socially and politically and are requesting halal labeled food products (Riaz & Chaudry, 2004). Therefore, marketers, certifying organizations and policy makers need better insights in halal meat consumption.

Asia has the largest Muslim population of any given region, but the population has modest per capita incomes (Pervis, 2005). Malaysia, Thailand, Singapore, the Philippines, Brunei, China and India have all taken steps to tap into the global Halal market (Pervis, 2005). Malaysia, in particular, has designs on becoming an international Halal hub and its government has taken a number of measures to support that objective including the establishment of the Halal Development Corporation. The Singapore food industry has also taken a number of steps toward becoming a Halal hub, including an advertising campaign in the Middle East. Thailand has moved to become a recognized Halal centre of excellence in science and testing. Brunei is co-operating with Australian companies in order to combine its role in the Muslim world with Australia's track record in safe, high quality food production.

The Chinese Halal industry is growing and is expected to expand its role in the global market (Pervis, 2005). At the moment, the key advantage of the Chinese Halal industry is access to cheap labour. China recently signed a Memorandum of Understanding with the European Commission (EC) and already has several EC-approved companies ready to export Halal products to European markets. Indian exporters are attempting to gain recognition through the achievement of HACCP, ISO and Halal certification. Leading Indian exporters include Allanasons, Hind Agro, Al-Kabeer, Arabian Exports, M.K. Overseas and Amroon Foods.

#### *Value of Global Halal Market*

Placing a value on the size and importance of the Halal food market has proven difficult (Archibald, 2007). Estimates on the size of the global Halal market range from US\$500 billion to US\$2 trillion. The more



conservative value of an annual US\$500 billion is a reasonable estimate of global spending on Halal food, as it assumes per capita spending on such products to be approximately US\$300 per year.

#### Muslims in China

Muslims live in every region of [China](#). Over time, Muslims have been subjected to many outrages there. Under the pretext of unification of national education, Islamic schools were closed (Abdur Rahman, 1997). Other outrages included the closing of over 29,000 mosques, the widespread torture of imams, and executions of over 360,000 Muslims. Aside from the physical annihilation, Muslims have been subjected to a constant attack on their Islamic identity.

Since religious freedom was declared in 1978, Chinese Muslims have not wasted time in expressing their convictions. There has been an increased upsurge in Islamic expression in China, and many nationwide Islamic associations have been organized to coordinate inter-ethnic activities among Muslims. Islamic literature can be found quite easily and there are currently some eight different translations of the Qur'an in the Chinese language as well as translations in Uyghur and the other Turkic languages (Abdul Rahman, 1997). There are now some 34,000 mosques and 400 Islamic organizations in the entire People's Republic of China (Beijing, Rabi Awwal 28/June 20 (IINA). Muslims are allowed to perform Hajj and the number of pilgrimage from China is about 3000 per year (Fu, 2000).

After the Hui, most Muslims belong to Turkic language groups and are racially Turks (except for the Mongol Salars and Aryan Tajiks). The Turkic group is further divided between the Uyghur, Uzbeks, Kazakhs, Kirgiz, Tatars and Dongshiang (Michael, 1995). Nearly all of the Turkic Muslims are found in the western provinces of Kansu and Xinjiang. The largest of these Muslim groups are the Uyghur.

#### Conceptual Framework

Many different models have been proposed to explain consumer behaviour towards food in general (Sparks & Shepherd, 1992; Thompson, Haziris, & Alekos, 1996; Conner & Sparks, 1996; Grunert, Larsen, Madsen, & Baadsgaard, 1996). However, little study has ever focused specifically on investigating the determinants of halal meat consumption.

In the present study, the influence of the classical components of the Theory of Planned Behaviour on intention to consume meat is measured within an ethnic minority population of Muslims originating especially from Xinjiang and currently living in China. For them, eating foods that meet the religious prescriptions can be considered to be an expression of religion. Therefore, one could argue that meat consumption decisions within a religious context could differ significantly from purchase situations where religion does not play a key role. By extending the model with self-identity and dietary acculturation, the influence of the cultural and more specific religious context in which halal meat is consumed is investigated. The resulting framework is presented below in Figure 1.

(Figure 1: Research Framework should go about here)

#### Theory of Planned Behaviour

In [psychology](#), the Theory of Planned Behaviour (TPB) is a theory about the link between [attitudes](#) and [behaviour](#). It was proposed by [Ajzen](#) as an extension of the [theory of reasoned action](#). It is one of the most predictive persuasion theories. It has been applied to studies of the relations among [beliefs](#), attitudes, [behavioral intentions](#), and behaviours in various fields such as [advertising](#), [public relations](#), [campaigns](#), [healthcare](#), etc. It (TPB; Ajzen, 1985, 1991) postulates three conceptually independent determinants of behavioral intention: attitude, subjective norm, and perceived behavioral control.

The TPB has improved the predictability of intention in various health-related fields such as condom use leisure, exercise, diet, etc. In addition, theory of planned behavior as well as the theory of reasoned action can explain the individual social behavior by considering social norm as an important variable.

#### Attitude

Attitude toward the behaviour refers to the degree to which a person has a favourable or unfavourable evaluation or appraisal of the behaviour in question (Ajzen, 1991). According to Ajzen (1991) the more favourable the attitude with respect to behaviour, the stronger the individual's intention is to perform the behaviour under consideration.

#### Subjective Norm

Subjective norms consist of a person's beliefs about whether significant others think one should engage in the behavior (Conner & Sparks, 2005). Significant others are individuals or groups whose preferences about a person's behaviour in this domain are important to him or her. Subjective norms are assumed to assess the social pressures individuals feel to perform or not perform a particular behaviour. The TPB incorporates a third predictor of intentions, perceived behavioural control, which is the individual's perception of the extent to which performance of the behaviour is easy or difficult. In Chang's (1998) study the path from subjective norms to attitudes towards behaviour was significant.

### *Perceived Behavioral Control*

Perceived behavioral control is an individual's perceived ease or difficulty of performing the particular behaviour (Ajzen, 1988). It is assumed that perceived behavioral control is determined by beliefs concerning whether or not one has access to the necessary resources and opportunities to perform the behaviour successfully, weighted by the perceived power of each factor (Ajzen 1988, 1991). The link between perceived behavioral control and behaviour suggests that consumers are more likely to engage in behaviours they feel to have control over and are prevented from carrying out behaviours over which they feel to have no control. For example, low perceived availability of halal meat may hinder someone from its consumption as shown for instance in the case of sustainable food consumption (Vermeir & Verbeke, 2006).

### *Habit*

Habits are [habituated](#) routines of behavior that are repeated regularly, tend to occur [subconsciously](#), and tend to occur without directly thinking [consciously](#) about those behaviors (Butler & Hope, 1995).

Several studies using TPB to food related behaviour have successfully included habit as an independent predictor of intentions (Verbeke, 2005; Honkanen, Olsen, & Verplanken, 2005). Therefore, habit will be included as a separate component of the TPB. In addition, Conner and Armitage (1998) suggest incorporating habit measures as predictors of behaviour in the TPB.

### *Self-identity*

Self-identity may be defined as the salient part of an actor's self that relates to a particular behaviour. It reflects the extent to which an actor sees him or herself fulfilling the criteria for any societal role, for example, someone who is concerned with green issues (Sparks & Shepherd, 1992). Several authors have addressed the extent to which self-identity might be a useful addition to the TPB (e.g., Sparks & Shepherd, 1992).

Self-identity can be interpreted as a label that people use to describe themselves. It is assumed to be the result of social interaction and the cause of subsequent behaviour (Biddle, Bank, & Slavings, 1987). Previously, some studies of TPB to food related behaviour have successfully included self-identity as an additional predictor variable (Sparks & Shepherd, 1992; Sparks, Shepherd & Frewer, 1995; Bissonnette, Contento, & Isobel, 2001; Cook, Kerr, & Moore, 2002). Others, however, have not found self-identity to influence behavioral intention (Povey, Wellens, & Conner, 2001; Robinson & Smith, 2002). Conner and Armitage (1998) concluded that the effects of self-identity may depend on the behaviour in question. Here, the influence of self-identity as a Muslim will be investigated through differentiating consumers who identify themselves highly as being a Muslim from consumers with a rather low identification with being a Muslim.

### *Dietary Acculturation*

While acculturation pertains to adopting cultural traits, dietary acculturation specifically refers to the process that occurs when members of a migrating group adopt the eating patterns/food choices of their new environment.

Acculturation, in general, is used to denote the process by which a racial or ethnic group, usually a minority, adopts the cultural patterns such as beliefs, religion, and language of the host culture (Jamal, 1996; Laroche, Kim, & Tomiuk, 1999). Hence, it is the manner in which cultural identity may or may not change when an individual is exposed to a new majority culture (Goetz, 2006). Since the focus of this study is on food behaviour of Muslims we chose to measure dietary acculturation as the process that occurs when members of a minority group adopt the eating pattern or food choices of the host culture (Negy & Woods, 1992). Similarly to self-identity, dietary acculturation is added to the theoretical framework to investigate whether consumers who are highly versus lowly dietary acculturated rely differently on personal attitude, subjective norm or perceived behavioral control to make their halal meat consumption decision.

### *Behavioural Intention*

Behavioural intention is an indication of an individual's readiness to perform a given behaviour. It is assumed to be immediate antecedent of behaviour (Ajzen, 2002). It is based on attitude toward the behaviour, subjective norm, and perceived behavioral control, with each predictor weighted for its importance in relation to the behaviour and population of interest.

According to TPB, an individual's performance of a certain behavior is determined by his or her intent to perform that behavior (George, 2004). Behavioural intention is itself informed by attitudes toward the behavior, subjective norms about engaging in the behavior, and perceptions about whether the individual will be able to successfully engage in the target behavior.

### **Research Hypotheses**

For Islam, most researchers hold that Islam refers to a religious identity, especially in situations of "foreignness." Consequently, the extent to which an individual considers him/herself a Muslim, could influence

the decision making process concerning halal meat (Biddle, Bank, & Slavings, 1987). Previous research shows that someone can strictly follow the dietary rules and eat halal meat without following other religious prescriptions (Bonne & Verbeke, 2006). Possibly, these individuals consider themselves less as Muslim and are less motivated to comply with religious rules and/or peer-group pressure, while they are more inclined to follow their personal attitudes. On the contrary, individuals with a higher Muslim identification could be more inclined to follow Islamic rules and customs and therefore be more open for peer influence. In collectivistic (i.e., Islamic) cultures, people tend to perceive themselves as interdependent with their group and tend to strive for in-group rather than personal goals. Behaviour is then guided more by anticipated expectations of others or social norms of the in-group than by personal attitudes (Van Hooft et al., 2006). Therefore, the following hypothesis is set forth:

Hypothesis 1. Individuals with a lower self-identification as a Muslim will rely more on factors like personal attitude, personal conviction, and perceived behavioral control compared to the motivation to comply.

With respect to acculturation, Liou and Contento (2001) concluded in their study an increased predictive power of the regression models with individuals who are more acculturated. More specifically, when the degree of acculturation increased, independent variables, such as attitude, health concern, and self-efficacy, predicted behavioral intention significantly better. Following the above, we posit the second hypothesis as:

Hypothesis 2. The predictive power of the TPB components for behavioral intention improves with the degree of dietary acculturation in the host culture.

## **RESEARCH METHODOLOGY**

This section outlines the methodology employed in the study. The major parts covered include the types of data obtained, research instruments, and the rationale behind the design of the questionnaire, sampling procedure, and the primary data collection methods. The chapter also includes discussions on the statistical techniques employed for the data analysis and the limitation of the study. Following are list of total hypotheses of the study:

### **Type of the Data**

The data relevant to this study were obtained through secondary information sources as well as primary data collection.

### **Measurement of the Variables**

As indicated in the research framework (Figure 1) of the present study, the model of the study comprises seven constructs with six independent variables, two moderating variables, and one dependent variable. Bonne et al. (2007) suggest that these constructs enable the researcher to measure the behavioral intention. The measurements of the variables were adopted from previous studies.

Behavioural intention, attitude, subjective norm, personal conviction, perceived control, perceived availability, habit, self-identity, and dietary acculturation were measured in addition to relevant socio-demographic analysis such as age, gender, race, province, marital status, and level of education.

### **Questionnaire Design**

The survey instrument consisted of a four--page questionnaire. It was originally prepared in English and translated to Uyghur and Mandarin by using back-to-back translation technique. The questionnaire was divided into two major parts. In brief, Part A measured the determinants of halal meat consumptions of the respondents. Part B aimed to collect demographic information of the respondents participating in the study.

The Part A was developed to determine factors of halal meat consumption in China. A list of 12 statements measured determinants of halal meat consumption on a five-point Likert-type scale ranging from strongly disagree (1) to strongly agree (5), except for intention and control.

The Part B of the questionnaire was designed to gather demographic information of the respondents.

The scales were translated back and forth from English several times in order to ensure that they represented the same meaning in Uyghur and Mandarin. The translators were fluent in English, Uyghur, and Mandarin. Additionally, all the statements were written in short, simple and straightforward sentences.

### **Sampling Technique**

This study used non-probability convenience sampling to conduct the research. The targeted sample size was 500; a total 500 questionnaires were distributed to respondents with the goal of obtaining 350 usable responses for analysis. The study was confined to the residents of Xinjiang.

#### **Data Collection Technique**

Questionnaires were self-administrated. The researcher and some friends were stationed in universities in Xinjiang and on the street to collect data. Questionnaires were given and collected from those willing to take part in the study.

### **Data Analysis Techniques**

The Statistical Package for Social Sciences—SPSS version 15.0 software program was used to analyze the data. The analysis consisted five major parts:

At first, the summary of the respondent demographic profiles was tabulated using frequency, descriptive statistics and percentage counts. Secondly, in order to test for the reliability of analysis, Cronbach's Alpha was used to evaluate the motivation to comply and the perceived availability. Thirdly, an independent t-test was used for TPB components in order to distinguish the differences between Uyghur and Hui Muslims. Fourthly, a Pearson product –moment correlation looked at the relationship among TPB variables, self-identity and dietary acculturation. And, finally, several stepwise multiple regression analysis was used for components of TBP, self-identity and dietary acculturation, in order to identify the determinants of halal meat consumption.

### **Research results**

A total of 410 responses were obtained from the fieldwork with N=500, about 90 questionnaires were rejected, unreturned. Out of the total responses received, 42 were incomplete. The final analysis used 368 completed questionnaires, a 73.6 percent response rate.

Slightly more men (53.0 percent) than women (47.0 percent) completed the survey. With respect to race, the sample consisted mainly of Uyghur respondents (69.3 percent) and Hui Muslims, who accounted for 24.2 percent of total sample. In terms of age, our respondents were mainly younger respondents (54.9 percent under 25 years old) and relatively more single (69.3 percent) completed the survey compared to married respondents (29.3 percent). Respondents were mainly from Xinjiang (76.4 percent). The majority of respondents benefited from higher education: 60.1 percent have passed their Bachelor's Degree and 14.9 percent have obtained a diploma. Only 18.7 percent have a lower education than diploma.

### **Reliability of Assessment**

The reliability of the scales was confirmed using Cronbach's Alpha when appropriate because the degree to which the measure was reliable affects the analysis of relationships with other variables of interest in a study. This is especially important in psychographic research where in past studies arbitrary selection and measurement of scales has been criticized. The minimum Cronbach's alpha of .70 considered to be acceptable. The Cronbach's alpha value for motivation to comply and perceived availability were 0.70 and 0.85, respectively. Behavioural intention, attitude, personal conviction, habit, control, self-identity and dietary acculturation were measured using single item measures.

### **Descriptive Statistics for TPB Components**

All mean scores were presented on a five-point scale (1 to 5) and are positively scaled except the dietary acculturation, which was reversed for further analysis.

In general, participants have considered halal meat consumption as high in importance. It was same as the previous study done by Bonne (2007) which was 4.76. One can expect that involvement is activated because the product (i.e., halal meat) is perceived as being instrumental in meeting important needs, goals and values (i.e., being a Muslim). In addition, the sample considers the opinion of others (motivation to comply) relatively important, while halal meat consumption was strongly considered to be a personal choice. The previous research found that motivation to comply was relatively important and also halal meat consumption was considered to be a personal choice, 3.62 and 4.19, respectively. Respondents believe that they have control over their own eating pattern but were significantly less convinced of the availability of halal meat. However, the previous research found that French Muslims less control over their own eating pattern, the mean was 3.93. French Muslims also felt that there was less availability of halal products. In addition, Chinese Muslims do consider halal meat consumption an automated process as indicated by their relative high score on the habit item. Finally, they predominantly consider themselves to be Muslims and they still prefer food from their own region compared to Chinese cuisine.

It should be noted that in general, Muslims living in China tend to retain their original dietary behaviour (dietary acculturation score:  $M=1.47$ ) despite the fact that they are living in a non-Islamic environment. It was lower than compared to the previous research done by Bonne (2007) ( $M=1.77$ ), from this point one could see that Chinese Muslims have less dietary acculturation compared to French Muslims.

Furthermore, those respondents with low dietary acculturation are more inclined to form an intention to buy halal meat. The more importance one attaches to halal meat, the more one claims to be influenced by family, friends and religious institutions and the more personal control over eating halal meat is perceived.

### **Independent t-test for TPB Components by Race**

Independent t-test analysis was conducted for two groups: Uyghur and Hui Muslims. Other groups were excluded due to low numbers of respondents.

Independent samples t-test showed that there is no significant difference between the Uyghur and Hui Muslim respondents regarding the extent to which they consider themselves to be a Muslim ( $t(342) = 0.394$ ,  $p > 0.05$ ), assuming equal variances.

The Uyghur Muslims have a higher behavioural intention compared to Hui Muslims. Significant differences exist ( $t(98.85) = 12.90$ ,  $p < 0.05$ ). The big grazing land in Xinjiang province that provides a variety of meats for Uyghur Muslims may account for this difference.

Significant differences on personal conviction, dietary acculturation between Uyghur and Hui Muslims were observed. The results were  $t(127.40) = 6.67$ ,  $p < 0.05$  and  $t(98.06) = 6.90$ ,  $p < 0.05$  respectively. Uyghur Muslims have higher personal conviction compared to Hui Muslims. The Uyghur Muslims have less dietary acculturation compared to Hui Muslims. The differences may be due to the fact that the Hui Muslims are scattered everywhere in China; however, Uyghur Muslims are living in Xinjiang province, which has a strong community of Muslims.

### **Correlation Analysis for Components of TPB**

Correlation looks at the relationship between two variables in a linear fashion. A Pearson product –moment correlation coefficient describes the relationship between two continuous variables.

A significant positive correlation between behavioural intention and motivation to comply, and personal conviction and dietary acculturation were found. Attitude, control, habit, and availability are not correlated with the behavioural intention to eat halal meat. The hypothesized determinants of intention are not totally independent. Attitudes are positively correlated with personal conviction and dietary acculturation. A significant and positive correlation is, furthermore, found between personal conviction and perceived control on the one hand and habit on the other hand. In addition, perceived availability is positively correlated with the motivation to comply. Despite being significant, the correlations between the hypothesized determinants of intention are relatively low, hence not imposing limitations from eventual multicollinearity in further regression analysis.

### **Several Stepwise Multiple Regression Analyses for Components of TPB**

Several stepwise multiple regression models were tested. First, a model is regressed with the three classical determinants of intention, more specifically attitude, subjective norm (distinguishing between motivation to comply and personal conviction), perceived behavioural control measured as perceived control and perceived availability, and habit. Next, regression model results are compared for individuals with low versus high levels of self-identity (Hypothesis 1) and low versus high dietary acculturation (Hypothesis 2).

Behavioural Intention =  $2.017 + \text{Motivation to comply} * 0.311 + \text{Personal conviction} * 0.371 - \text{Perceived control} * 0.301$

The result shows that an increase of one unit in motivation to comply will result 0.311 unit increase in behavioural intention. Furthermore, an increase of one unit in perceived control will result in a 0.301 unit decrease in behavioural intention.

Similarly, stepwise multiple regression analysis was done for low versus high levels of self-identity and low versus high dietary acculturation. For the total sample, motivation to comply, personal conviction and perceived control are significant predictors of behavioural intention, while attitude, perceived availability, and habit are not significant. This was slightly different from the previous research results which done by Bonne (2007) in France. Its findings were the attitude was the significant predictor of the behavioural intention, while, the personal conviction was not. Thus, perceived availability does not turn out to be a barrier to consume halal meat for both Muslims living in China and France. In addition, habit or the degree to which one eats halal meat as an automated process seems to have no influence on behavioural intention to eat halal meat for both Chinese and French Muslims. However, for Chinese Muslims halal meat consumption was not determined by attitude.

The classical determinants (subjective norm and perceived control) are thus significant for intention to consume halal meat. Nevertheless, it should be noted that the resulting coefficient estimates (ranging from 0.02 to 0.03) and the explained variance ( $R^2 = 0.10$ ) is higher as compared with previous research done in France using the TPB framework ( $R^2 = 0.06$ ).

Data were split into two groups representing low and high self-identity, with scale values 1 to 4 considered as low self-identity and a scale value of 5 considered as high self-identity.

Data were split into two groups representing low and high dietary acculturation, with scale values 1 and 2 considered as low dietary acculturation and scale values 3, 4, and 5 considered as high dietary acculturation.

### **Role of Religious Self-identity (Hypothesis 1)**

Next, look at the possible differential predictive value of the TPB components depending on the level of individual's self-identity. Respondents were classified in two self-identity categories using a median split (low, high). The intentions of Muslims with a low self-identity ( $R^2 = 0.122$ ) are determined by subjective norms

toward halal meat consumption and by their perceived control. However, for Muslims with a high self-identity, behavioural intention was influenced by only subjective norm. In other words, both consumers who consider themselves to be more or less Muslim were primarily guided by the subjective norm. Furthermore, both consumers who consider themselves less as being a Muslim and consumers with a higher Muslim identity are more prone to be influenced by the opinion of other important people and institutions. In other words, both groups rely on the motivation to comply. The hypothesis that the degree to which a consumer considers him- or herself a Muslim influences the decision making process for halal meat is not confirmed. In addition, the aspects of the hypothesis suggesting that a person with lower self-identification as a Muslim will rely more on factors like personal attitude, personal conviction and perceived behavioural control compared to the motivation to comply were also rejected.

#### *Role of Dietary Acculturation (Hypothesis 2)*

After classifying respondents in two dietary acculturation groups using median split (low, high), results showed that personal conviction and perceived control towards halal meat consumption predict behavioural intentions for low dietary acculturated consumers ( $R^2=0.323$ ), while high acculturated consumers' intentions are predicted by motivation to comply, personal conviction, perceived control and habit ( $R^2=0.527$ ). Low acculturated Muslims' meat consumption decisions are influenced by the personal conviction and perceived control. In contrast, more dietary acculturated Muslims' intention to consume halal meat is influenced by subjective norm, perceived control, and habit. High dietary acculturation Muslims are more prone to take the opinion of other important people and institutions into account. They believe that their consumption decision is a matter of habit. With these findings we can confirm our hypothesis that dietary acculturation influences the predictive power of the TPB components; the ability to predict behavioural intention improves with the degree of dietary acculturation. Attitude does not influence behavioural intentions for either high or low acculturated consumers. Furthermore, the non-significance of perceived availability could possibly be explained by the reasoned or highly important character of halal meat consumption, independent of the level of dietary acculturation in the host culture.

### **CONCLUSION**

This chapter firstly and essentially presents a summary of the research results, the implications of major findings for the halal meat consumer segmentation and formulation of marketing strategy. Finally, the possible areas for further research are also discussed.

**Summary of Research Findings:** In summary, it is clear that different ethnic groups have different behavioural intentions toward halal meat consumption, more specific, the Uyghur people have higher behavioural intention toward halal meat consumption. At the same time, there is no significant difference between Uyghur and Hui Muslims they consider themselves to be "a Muslim". Both groups consider as them Muslims.

The motivation to comply and personal conviction have a positive attitude toward behavioural intention to consume halal meat. However, perceived control has a negative relationship with behavioural intention.

The purpose of this study is two-fold. First, the Theory of Planned Behaviour was used to investigate halal food consumption in China. In general, the classical TPB determinants of intention explain only little variance (more than previous research in France) in intention to consume halal meat and the regression coefficients are low compared to other food choice studies using the TPB. Apparently, the consumption of halal meat for Muslims is quite different from the consumption of regular meat or other foods for non-Muslims. The religious associations attached to halal meat probably make this decision more important for the Muslim consumer, which could lead to a different decision-making process, including a specific set of predictors.

We added two determinants that are associated with food decisions within a religion and origin context (i.e., self-identity and dietary acculturation) that could help us better understand the concept of religious meat consumption decisions. We can conclude that, in general, personal conviction influence regarding the consumption of halal meat, the influence of peers and the perceived control over consuming halal meat, predict the intention to eat halal meat among Muslims in China. Perceived availability of halal meat does not seem to be a barrier for consuming halal meat; neither is consumption strongly driven by habitual behaviour.

Muslims with a low Muslim self-identity intend to eat halal meat not only because of personal conviction and motivation to comply, but also because of perceived control; whereas Muslims with a strong Muslim self-identity are influenced only by subjective norms, such as personal conviction and motivation to comply. When considering the degree of dietary acculturation, low dietary acculturation Muslims rely on their personal conviction and perceived control, whereas high dietary acculturation Muslims rely on subjective norms and perceived control, and believe that their consumption decision is a matter of habit.

This study shows that in general halal meat consumption is determined by the pressure of others, personal conviction and perceived control. Positive attitude does not influence halal meat consumption contrary to findings by Bonne (2007). Possibly, the importance or personal relevance attached to halal meat (which is high in our sample given the specific religious context) dominates over preference for readily available food products. Consumers who are highly (versus lowly) involved with a product perceive the availability of a

product less as a potential barrier for behaviour and might be willing to devote more time and effort to obtaining their desired products. This has been shown for instance in the case of sustainable food consumption decisions (Vermeir and Verbeke, 2006) and can be confirmed by exploratory research that concluded that Muslims are willing to put considerable effort in obtaining halal meat (Bonne and Verbeke, 2006). Another explanation for the non significance of perceived availability could be an improved availability of halal products in China. There is a great potential north-western considering that China is pouring its resources into developing the western region of Xinjiang and Inner Mongolia as suggested by Abu Bakar Yusof (Hoo, 2005).

Furthermore, consuming halal meat is not an automated process. This is in contrast with findings from Verbeke and Vackier (2004) for non-halal or regular meat consumption decisions in Belgium. In general, the sample disagrees with the statement that eating halal meat is a rather automatic process. Probably, consumers with high as well as low behavioural intentions to eat halal meat consider halal meat consumption as a well thought over process, which can explain the non significance of habit. The low score on perceived availability of halal products is in accordance with the high level of personal conviction on halal meat consumption. A highly important product is usually attained through a reasoned decision-making process (Vermeir & Verbeke, 2005).

Personal conviction was added to assess Muslim's personal choice for halal meat consumption in contrast with peer's pressure or their motivation to comply with this influence of others. The authors are aware that this is an operationalization within TPB, which has not been validated through previous research. Nevertheless, within the focus of this study (i.e., meat consumption within a religious context) inserting personal conviction to the model was considered relevant to cover the hypothesized determinants of halal meat consumption. Hence, the item has proven to be successful in predicting intention to eat halal meat for a subgroup of Muslim consumers in China. Further effort to conceptualize this issue in specific food consumption decision contexts is recommended.

With respect to dietary acculturation, Muslims tend to retain their dietary habits despite they live in non-Islamic environment in the host country like China. Even Muslims are living with majority is non-Muslim in China prefer dishes from their traditional halal food. This finding corroborates Liou and Contento (2001) who also reported a low dietary acculturation score among Chinese Americans, as well as with Park, Paik, & Ok (2003) who reported that food habits may change most slowly when individuals migrate to other cultures.

Furthermore, the more a Muslim is acculturated, the better the predictive power of TPB components. This supports the findings of Liou and Contento (2001) within a Chinese-American sample. Interestingly, this study found that personal conviction influences behavioural intentions for Chinese Muslims. The previous research done in France by Bonne (2007) found that subjective norms did not influence on behavioural intention for both high and low acculturated consumers. Finally, based on the results hypotheses test results are summarized in Table 1.

(Table 1 should go approximately here.)

### **Implications of the Study**

Practical implications extend to food policy decision-makers and food marketers who might pursue identity-and/or acculturation-related strategies in their distribution and communication efforts targeted at the growing halal food market segments in China.

First of all, the result showed that the decision-making process that precedes halal consumption is different from regular meat consumption decision-making processes. Consequently, different marketing techniques should be used to stimulate halal meat versus regular meat consumption. In addition, different decision segments exist within the halal market (i.e., segments that base their decision on different variables).

From a marketing perspective, Muslims with a low Muslim identity can be motivated through communications to buy halal meat by slogans that focus on the individual's opportunity to makes his/her own choice, while Muslims with a high Muslim self-identity would be more attracted by messages focusing on the social importance of consuming halal on the one hand and the control consumers have over attaining halal meat on the other hand. From the Islamic perspective, try to provide good Islamic education for the younger generation. In addition, the halal food consumption of highly acculturated Muslims could also benefit from enhancing control feelings.

From the descriptive analysis, we could see that the mean (3.07) of perceived availability of Muslims is the lowest compared to the other means for both Uyghur and Hui Muslims. They think that halal products are not readily available and that there are not a lot of choices of halal products. Also this study found that there is not sufficient information available on halal products. So marketers should try to open halal food markets in China as the halal food development is growing in the world.

### **Limitations and Recommendations for Future Research**

#### **Limitations of the Research**

Firstly, limitations include focusing on only two individual characteristics related to religious food consumption, namely self-identity and dietary acculturation. Additional possible individual characteristics have not been considered, such as trust (Stefani, Cavicchi, & Romano, 2005), moral obligation (Sparks, Shepherd, & Frewer, 1995), involvement or values (Vermeir & Verbeke, 2006).

Secondly, the survey was confined to consumers residing in the vicinity of Urumqi city, which is a modern city whereby consumers from other parts of the Xinjiang, like Kashgar and Hotan where Muslims are living in a more Islamic environment, were excluded from the research due to time and cost constraints. Consequently, the study is subject to the limitations concerning possible biases that exist when only one geographic area is selected and the sampling method may not be representative of the actual target market as a whole.

Thirdly, the convenience sampling employed in this study cannot be viewed to be an actual representation of the total market.

Fourthly, the previous research studying halal meat consumption determinants with Islamic respondents is limited, so this study faced some difficulties in the literature review.

Furthermore, several constructs were measured by single-item instead of multi-item constructs. In addition, it might be possible that the phrasing of some of our statements is responsible for the low R<sup>2</sup>. In hindsight, because of the sensitive, religious nature of the topic, some questions like social or subjective norms, personal norms, and personal relevance could be asked more indirectly.

Finally, respondent bias and errors could not be avoided in this study. That all respondents truly understood the questions in the survey could not be assured. Therefore the questions have been answered by respondents according to their level of interpretation and understanding.

Nevertheless, the findings shed some initial insights on the validity of the TPB, extended with religious self-identify and dietary acculturation, for explaining halal meat consumption decisions among the Uyghur and Hui Muslim population in China.

#### **Recommendations for Future Research**

Further research is needed to investigate the validity of the TPB model within this population. The present research is the first research studying halal meat consumption determinants with Islamic respondents in China. The rather low R<sup>2</sup> is a bit disappointing, but reveal some ideas of which variables are important in understanding and predicting halal meat consumption.

Future research could investigate other individual characteristics that are important in religious food decisions. Furthermore, in this research several constructs were measured by single-item instead of multi-item constructs, so future research might want to adapt multi-item constructs. In addition, it might be possible that the phrasing of some of our statements is responsible for the low R<sup>2</sup>. In hindsight, because of the sensitive, religious nature of the topic, some questions like social or subjective norms, personal norms, and personal relevance could be asked more indirectly. Future research may try to focus additional individual characteristics such as trust, values, or involvement to improve the predictive power of the model.

**REFERENCES:** Please contact author(s) for a complete list of references as space considerations do not allow their inclusion in these proceedings



# THE EFFICIENCY OF ISLAMIC BANKS: EMPIRICAL EVIDENCE FROM THE ASIAN COUNTRIES ISLAMIC BANKING SECTORS

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## ABSTRACT

The paper investigates the efficiency of the Islamic banking sectors in selected Asian countries during the period of 2001-2006. The efficiency estimates of individual banks are evaluated by using the non-parametric Data Envelopment Analysis (DEA) method. The results suggest that the Asian Islamic banks have exhibited mean technical efficiency of 61.4% during study period under study. The empirical findings suggest that during the period under study, pure technical inefficiency outweighs scale inefficiency in the Asian countries Islamic banking sectors. Overall the results imply that during the period of study, although the Asian Islamic banking sectors have been operating at a relatively optimal scale of operations, they were relatively managerially inefficiency in controlling their operating costs and utilizing their resources to the fullest.

JEL Classification: G21; G28

Keywords: Islamic Banks, Asian countries, Data Envelopment Analysis (DEA)

## 1.0 INTRODUCTION

Islamic banks today exist in all parts of the world, and are looked upon as a viable alternative system which has many things to offer. While it was initially developed to fulfill the needs of Muslims, Islamic banking has now gained universal acceptance. Islamic banking is recognized as one of the fastest growing areas in banking and finance. Since the opening of the first Islamic bank in Egypt in 1963, Islamic banking has grown rapidly all over the world. So in comparison, Islamic banking is relatively new phenomenon as the first Islamic bank, Mit Ghamr Local Savings Bank of Egypt, was only established in 1963. Even then, the real growth of Islamic finance did not begin until the 1980s when Middle East countries experienced a large growth in surplus funds. Since then Muslim investment has spread throughout Europe and Asia, and Islamic finance is still expanding. Direct Islamic financing methods, such as with Islamic bonds, are gaining popularity in the West as is Islamic based funds management.

The number of Islamic financial institutions worldwide has risen to over 300 today in more than 75 countries concentrated mainly in the Middle East and Southeast Asia (with Bahrain and Malaysia the biggest hubs), but are also appearing in Europe and the United States. The Islamic banking total assets worldwide are estimated to have exceed \$250 billion and are growing at an estimated pace of 15 percent a year. Zaher and Hassan (2001) suggested that Islamic banks are set to control some 40-50 percent of Muslim savings by 2009/10.

Islamic banking operations started out as a mere deposit taking and lending facility and has since transformed into all aspects of banking, money and capital market operations, including fully fledged stock exchanges. The Islamic resurgence in the late 1960's and 1970's, further intensified by the 1975 oil price boom, which introduced a huge amount of capital inflows to Islamic countries has initiated the call for a financial system that allows Muslim to transact in a system that is in line with their religious beliefs. Before the re-emergence of the Islamic financial system, Muslims throughout the world has only conventional financial system to fulfill their financial needs.

Islamic financial products are aimed at investors who want to comply with the Islamic laws (*syaria'*) that govern a Muslim's daily life. *Syaria'* law forbids the giving or receiving of *riba'*<sup>1</sup> (because earning profit from an exchange of money for money is considered immoral); mandate that all financial transactions be based on real economic activity; and prohibit investment in sectors such as tobacco, alcohol, gambling, and armaments. Despite that, Islamic financial institutions are providing an increasingly broad range of financial services, such

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<sup>1</sup> *Riba'* the English translation of which is *usury* is prohibited in Islam and is acknowledged by all Muslims. The prohibition of *riba'* is clearly mentioned in the Quran, the Islam's holy book and the traditions of Prophet Muhammad (*sunnah*). The Quran states: "Believers! Do not consume *riba'*, doubling and redoubling..." (3.130); "God has made buying and selling lawful and *riba'* unlawful... (2:274).

as fund mobilization, asset allocation, payment and exchange settlement services, and risk transformation and mitigation.

Among other reasons which attributed to the rapid growth of the Islamic banking and finance industry are the growing oil wealth, with demand for suitable investments soaring in the Gulf region and the competitiveness of many of the products, attracting strong demand from Muslim and non-Muslim investors. Despite the growing interest and the rapid growth of the Islamic banking and finance industry, analysis of Islamic banking at a cross-country level is still at its infancy. This could partly be due to the unavailability of data, as most of the Islamic financial institutions particularly in the Asian region are not publicly traded.

The aim of this paper is to fill a demanding gap in the literature by providing the empirical evidence on the performance of Islamic banks in 4 Asian countries during the period 2001 to 2006. The efficiency estimate of each Islamic bank is computed by using the non-parametric Data Envelopment Analysis (DEA) method. The method allows us to distinguish between three different types of efficiency measures, namely technical, pure technical, and scale. Unlike the previous analysis of Islamic bank efficiency, we have constructed and analyzed the results derived from dynamic panels, which is critical in a dynamic business environment as a bank may be the most efficient in one year but may not be in the following year (s). A dynamic panel analysis will also highlight any significant changes taking place in the Islamic banking sector during the period of study.

This paper unfolds as follows. Section 2 provides an overview of the related studies in the literature, followed by a section that outlines the method used and choice of input and output variables for the efficiency model. Section 4 reports the empirical findings. Section 5 concludes and offers avenues for future research.

## 2.0 REVIEW OF THE LITERATURE

While there have been extensive literatures examining the efficiency features of the contemporary banking sector, particularly the U.S. and European banking markets, the work on Islamic banking is still in its infancy. Typically, studies on Islamic bank efficiency have focused on theoretical issues and the empirical work has relied mainly on the analysis of descriptive statistics rather than rigorous statistical estimation (El-Gamal and Inanoglu, 2004). However, this is gradually changing as a number of recent studies have sought to apply various frontier techniques to estimate the efficiency of Islamic banks.

Yudistira (2004), for example, with a global sample of 18 Islamic banks, found Islamic banks to be more efficient than conventional banks. In contrast, Hassan (2006) in a larger study of 43 Islamic banks found them somewhat less cost efficient than conventional banks. Mokhtar, Abdullah and Al-Habshi, similarly, in a study of Malaysian Islamic banks found that while Islamic banks had grown faster, their overall efficiency was lower than the conventional banks.

Samad (1999) was among the first to investigate the efficiency of the Malaysian Islamic banking sector. In his paper, he investigates the relative performance of the full-fledged Malaysian Islamic bank compared to its conventional bank peers. During the period of 1992 to 1996 he found that the managerial efficiency of the conventional banks was higher than that of the full-fledged Islamic bank. On the other hand, the measures of productive efficiency revealed mixed results. He suggests that the average utilization rate of the Islamic bank is lower than that of the conventional banks. Similarly, he found that profits earned by the full-fledged Islamic bank either through the use of deposit or loanable funds, or used funds are also lower than the conventional banks, reflecting the weaker efficiency position of the full-fledged Islamic bank. In contrast, the productivity test by loan recovery criterion indicate that the efficiency position of the full-fledged Islamic bank seems to be higher and bad debts as a percentage of equity, loans, and deposits also show a clear superiority over the conventional bank peers.

A study of Malaysian banks' efficiency by Katib (1999) showed most commercial banks in Malaysia did not operate at constant returns to scale and that technical inefficiency was attributed to scale inefficiency over the period from 1989 to 1995. The study assessed the efficiencies of Malaysian domestic banks over the pre-financial crisis period from 1989 to 1995 using DEA. Katib found that technical efficiency deteriorated over the period and concluded that banks tend to waste resources.

Batchelor and Wadud (2004) showed the mean TE of the overall Malaysian Islamic banking operations indicates a significant improvement of technical efficiency from 63% in 1997 to 83.7% in 2002. Except for two years (viz., 1997, 2001), the attribution of SE appears to be higher than PTE as the source of overall TE. The average pure technical efficiency (PTE) declined from 84% in 1997 to 75.4% in 1998, perhaps in reflection of the sudden shock of the Asian crisis, but increased almost consistently from 1999 onwards peaking to 91.5% in 2002. Similarly, the mean SE increased from 76% in 1997 to 91% in 2002 indicating an overall improvement of scale of operations of the entire Islamic banking industry. Based on the bank specific efficiency scores, Maybank appears to be the most efficient in the industry. Maybank achieves full technical efficiency (sourced from full pure technical and scale efficiencies) for the entire period under study except for the year 2001 where slight scale inefficiency of about 5% has been recorded. Public bank also seems to be highly efficient with regard to its Islamic banking services, as the bank achieved full TE, PTE and SE in all the years except 1998, the first full year of financial distress following the outburst of Asian crisis. In 1998, the bank recorded SE of 96

percent but TE and PTE of only 19 percent. Once again, the sharp reduction in the efficiency level during 1998 could be attributed to the Asian financial crisis.

More recently, Sufian (2006) examined the efficiency of the Malaysian Islamic banking sector during the period 2001-2004 by using the non-parametric Data Envelopment Analysis (DEA) method. He found that scale efficiency outweighs pure technical efficiency in the Malaysian Islamic banking sector, implying that Malaysian Islamic banks have been operating at non-optimal of operations. He suggests that the domestic Islamic Banking Scheme banks have exhibited a higher technical efficiency compared to their foreign Islamic Banking Scheme bank peers. He suggests that during the period of study the foreign Islamic Banking Scheme Banks inefficiency were mainly due to scale rather than pure technical.

### 3.0 METHODOLOGY

A non-parametric Data Envelopment Analysis (DEA) is employed with variable return to scale assumption to measure input-oriented technical efficiency of Asian Islamic banking sectors. DEA involves constructing a non-parametric production frontier based on the actual input-output observations in the sample relative to which efficiency of each firm in the sample is measured (Coelli, 1996). Let us give a short description of the Data Envelopment Analysis<sup>2</sup>. Assume that there is data on K inputs and M outputs for each N bank. For ith bank these are represented by the vectors  $x_i$  and  $y_i$  respectively. Let us call the K x N input matrix – X and the M x N output matrix – Y. To measure the efficiency for each bank we calculate a ratio of all inputs, such as  $(u'y_i/v'x_i)$  where u is an M x 1 vector of output weights and v is a K x 1 vector of input weights. To select optimal weights we specify the following mathematical programming problem:

$$\begin{aligned} & \min_{u,v} (u'y_i/v'x_i), \\ & u'y_i/v'x_i \leq 1, \quad j = 1, 2, \dots, N, \\ & u, v \geq 0 \end{aligned} \quad (1)$$

The above formulation has a problem of infinite solutions and therefore we impose the constraint  $v'x_i = 1$ , which leads to:

$$\begin{aligned} & \min_{\mu, \phi} (\mu'y_i), \\ & \phi'x_i = 1 \\ & \mu'y_i - \phi'x_j \leq 0 \quad j = 1, 2, \dots, N, \\ & \mu, \phi \geq 0 \end{aligned} \quad (2)$$

where we change notation from u and v to  $\mu$  and  $\phi$ , respectively, in order to reflect transformations. Using the duality in linear programming, an equivalent envelopment form of this problem can be derived:

$$\begin{aligned} & \min_{\theta, \lambda} \theta, \\ & y_i + Y\lambda \geq 0 \\ & \theta x_i - X\lambda \geq 0 \\ & \lambda \geq 0 \end{aligned} \quad (3)$$

where  $\theta$  is a scalar representing the value of the efficiency score for the ith decision-making unit which will range between 0 and 1.  $\lambda$  is a vector of N x 1 constants. The linear programming has to be solved N times, once for each decision-making unit in the sample. In order to calculate efficiency under the assumption of variable returns to scale, the convexity constraint ( $\sum \lambda = 1$ ) will be added to ensure that an inefficient firm is only compared against firms of similar size, and therefore provides the basis for measuring economies of scale within the DEA concept. The convexity constraint determines how closely the production frontier envelops the observed input-output combinations and is not imposed in the constant returns to scale case. The variable returns to scale technique therefore forms a convex hull which envelops the data more tightly than the constant returns

<sup>2</sup> Good reference books on efficiency measures are Thanassoulis (2001), Cooper et al. (2000), and Avkiran (2002).

to scale, and thus provides efficiency scores that are greater than or equal to those obtained from the constant returns to scale model.

### 3.1 Data Sample, Inputs-Outputs Definition, and the Choice of Variables

It is commonly acknowledged that the choice of variables in efficiency studies significantly affects the results. The problem is compounded by the fact that variable selection is often constrained by the paucity of data on relevant variables. The cost and output measurements in banking are especially difficult because many of the financial services are jointly produced and prices are typically assigned to a bundle of financial services. Two approaches dominate the banking theory literature: the production and intermediation approaches (Sealey and Lindley, 1977).

Under the production approach, pioneered by Benston (1965), banks are primarily viewed as providers of services to customers. The input set under this approach includes physical variables (e.g. labour, material) or their associated costs, since only physical inputs are needed to perform transactions, process financial documents, or provide counseling and advisory services to customers. The output under this approach represents the services provided to customers and is best measured by the number and type of transactions, documents processed or specialized services provided over a given time period. This approach has primarily been employed in studying the efficiency of bank branches.

Under the intermediation approach, financial institutions are viewed as intermediating funds between savers and investors. In our case, Islamic banks produce intermediation services through the collection of deposits and other liabilities and in turn these funds are invested in productive sectors of the economy, yielding returns uncontaminated by usury (riba'). This approach regard deposits, labour and physical capital as inputs, while loans and investments are treated as output variables.

Following among others, Hassan (2005), and Sufian (2006), a variation of the intermediation approach or asset approach originally developed by Sealey and Lindley (1977) will be adopted in the definition of inputs and outputs used in this study. Furthermore, as at most times bank branches are engaged in the processing of customer documents and bank funding, the production approach might be more suitable for branch efficiency studies (Berger and Humphrey, 1997).

Due to entry and exit factor, the efficiency frontier is constructed by using an unbalanced sample of 10 Islamic banks operating in the Asian countries during the period 2001-2006 (see Appendix 1) yielding 37 bank year observations. We are able to collect data on three outputs and two input variables. Data for the empirical analysis is sourced from individual bank's annual balance sheet and income statements. The Islamic banks are modelled as multi-product firms producing three outputs namely, Total Loans (y1), which include loans to customers and other banks, Income (y2), which include income derived from investment of depositors' funds and other income from Islamic banking operations, and Investments (y3), which include investment securities held for trading, investment securities available for sale (AFS), and investment securities held to maturity, by engaging two inputs namely, Total Deposits (x1), which include deposits from customers and other banks and Assets (x2). All variables are measured in millions of US Dollars (US\$) and are deflated against the respective countries inflation rates.

[Insert Table 1]

Table 1: Summary Statistics of the Variables Employed in the DEA Model (USDm)

	2001	2002	2003	2004	2005	2006
<b>Outputs</b>						
Financing (y1)	1,735,785.94	996,741.14	3,419,115.71	5,701,458.90	6,522,068.66	10,951,173.26
Investments (y2)	730,998.37	1,986,604.30	4,476,309.07	5,269,057.64	23,365,232.09	34,028,601.76
Income (y3)	172,433.32	484,848.66	1,398,069.98	472,558.03	1,405,999.35	2,104,884.79
<b>Inputs</b>						
Deposits (x1)	3,155,809.45	4,154,990.82	8,101,948.87	10,872,558.90	28,772,100.99	43,500,363.64
Assets (x2)	3,607,583.28	7,166,821.44	11,371,628.76	12,784,621.19	33,698,865.42	50,134,848.59

#### 4.0 RESULTS

In this section, we will discuss the technical efficiency change (TE) of the Asian Islamic banking sectors, measured by the DEA method and its decomposition into pure technical efficiency (PTE) and scale efficiency (SE) components. In the event of the existence of scale inefficiency, we will attempt to provide evidence on the nature of the returns to scale of each Islamic bank. The Islamic banks' efficiency is examined for each year under investigation.

##### 4.1 Efficiency of the Asian Islamic Banking Sectors

The results from Table 2 seem to suggest that the Islamic banks in the Asian countries have exhibited a declining trend during the earlier part of the study, increased in 2004, before declining again in years 2005 and 2006. During the years, the Asian Islamic banks have exhibited a lower mean technical efficiency of 61.4%. It is also clear from Table 2 that pure technical inefficiency outweighs scale inefficiency in determining the total technical inefficiency of the Asian Islamic banks.

During the period of study, we find that banks from Indonesia were the most efficient from the Asian region, exhibiting a mean efficiency score of 92.3%, followed by banks from Pakistan and Bangladesh with a mean efficiency score of 64.3% and 57.4% respectively. On the other hand, we find that the Malaysian Islamic banking sector were the least efficient, recording a mean efficiency score of 50.5%.

The empirical findings seem to suggest that pure technical inefficiency outweighs scale inefficiency in determining the total technical inefficiency in all of the Asian Islamic banking sectors. Thus, the findings imply that although the Asian Islamic banking sectors have been operating at a relatively optimal scale of operations, they were relatively managerially inefficiency in controlling their operating costs and utilizing their resources to the fullest.

[Insert Table 2]

Table 2: Summary Statistics of Efficiency Scores

The table presents mean, minimum, maximum, and standard deviation of the Asian Islamic banks technical efficiency (TE), and its mutually exhaustive pure technical efficiency (PTE) and scale efficiency (SE) components derived from the DEA. Panel A, B, C, D, E, and F shows the mean, minimum, maximum and standard deviation of TE, PTE, and SE of the Islamic banks for the years 2001, 2002, 2003, 2004, 2005, and 2006 respectively. Panel G presents the Asian Islamic banks mean, minimum, maximum, and standard deviation of TE, PTE, and SE scores for all years. The TE, PTE, and SE scores are bounded between a minimum of 0 and a maximum of 1.				
Banks	Mean	Minimum	Maximum	Std. Dev.
<i>Panel A: All Banks 2001</i>				
Technical Efficiency	0.658	0.255	0.900	0.351
Pure Technical Efficiency	0.722	0.266	1.000	0.398
Scale Efficiency	0.925	0.818	1.000	0.095
<i>Panel B: All Banks 2002</i>				
Technical Efficiency	0.597	0.372	1.000	0.296
Pure Technical Efficiency	0.622	0.372	1.000	0.279
Scale Efficiency	0.952	0.763	1.000	0.106
<i>Panel C: All Banks 2003</i>				
Technical Efficiency	0.239	0.057	1.000	0.374
Pure Technical Efficiency	0.264	0.057	1.000	0.367
Scale Efficiency	0.875	0.475	1.000	0.204
<i>Panel D: All Banks 2004</i>				
Technical Efficiency	0.865	0.602	0.995	0.152
Pure Technical Efficiency	0.894	0.621	1.000	0.157
Scale Efficiency	0.967	0.927	0.995	0.026
<i>Panel E: All Banks 2005</i>				
Technical Efficiency	0.804	0.605	1.000	0.159
Pure Technical Efficiency	0.812	0.605	1.000	0.164
Scale Efficiency	0.991	0.952	1.000	0.015

Panel F: All Banks 2006				
Technical Efficiency	0.496	0.237	1.000	0.268
Pure Technical Efficiency	0.736	0.329	1.000	0.259
Scale Efficiency	0.670	0.405	1.000	0.219
Panel G: All Years				
Technical Efficiency	0.614	0.057	1.000	0.254
Pure Technical Efficiency	0.685	0.057	1.000	0.296
Scale Efficiency	0.889	0.405	1.000	0.048

#### 4.2 Composition of the Efficiency Frontier

While the results above highlight the sources of technical inefficiency of the Islamic banks, we next turn to discuss the sources of the scale inefficiency of the Islamic banks. As have been mentioned earlier, a bank can operate at CRS or VRS where CRS signifies that an increase in inputs results in a proportionate increase in outputs and VRS means a rise in inputs results in a disproportionate rise in outputs. Further, a bank operating at VRS can be at increasing returns to scale (IRS) or decreasing returns to scale (DRS). Hence, IRS means that an increase in inputs results in a higher increase in outputs, while DRS indicate that an increase in inputs results in lesser output increases.

To identify the nature of returns to scale, first the CRS scores (obtained with the CCR model) is compared with VRS (using BCC model) scores. For a given bank, if the VRS score equals to its CRS score, the bank is said to be operating at constant returns to scale (CRS). On the other hand, if the scores are not equal, a further step is needed to establish whether the bank is operating at IRS or DRS. To do this, the DEA model is used under the non-increasing returns to scale assumptions (NIRS). If the score under VRS equals the NIRS score, then the bank is said to be operating at DRS. Alternatively, if the score under VRS is different from the NIRS score, then the bank is said to be operating at IRS (Coelli et al., 1998).

Table 3 shows the banks that lie on the efficiency frontier. The composition of the efficiency frontier suggests the number of 100% efficient banks varies between 1 to 10 banks. In general, the table indicates that while the small banks tend to operate at CRS or IRS, the large banks tend to operate at CRS or DRS, the findings which are similar to the earlier studies by among others McAllister and McManus (1993) and Noulas et al. (1990). To recap, McAllister and McManus (1993) have suggested that while the small banks have generally exhibited IRS, the large banks on the other hand tend to exhibit DRS and at best CRS. As it appears, the small Islamic banks have experienced increasing returns to scale (IRS) in their operations during the period of the study. One implication is that for the small Islamic banks, a proportionate increase in inputs would result in more than a proportional increase in outputs. Hence, the small Islamic banks which have been operating at IRS could achieve significant cost savings and efficiency gains by increasing its scale of operations. In other words, substantial gains can be obtained from altering the scale via internal growth or further consolidation in the sector. In fact, in a perfectly competitive and contestable market, the efficient banks should absorb the scale inefficient banks, in order to exploit cost advantages. Thus, the banks that experience IRS should either eliminate their scale inefficiency or be ready to become a prime target for acquiring banks, which can create value from underperforming banks by streamlining their operations and eliminating their redundancies and inefficiencies (Evanoff and Israelevich, 1991). On the other hand, the results seem to suggest that further increase in size would only result in a smaller increase of outputs for every proportionate increase in inputs of the large banks, resulting from the fact that the large banks have been operating at declining returns to scale (DRS) during the period. Hence, decision-makers ought to be more cautious in promoting mergers among the large banks as a means to enjoying efficiency gains.

[Insert Table 3]

Table 3: Composition of Production Frontiers

Bank	2001	2002	2003	2004	2005	2006	Count Bank
			CRS	DRS	CRS		2
Al-Arafah Islami Bank					IRS		0
Al-Baraka Islamic Bank B.S.C.					DRS		0
	DRS	CRS	IRS	DRS	DRS		1
Bank Islam Malaysia Berhad					CRS		2
Bank Muamalat Indonesia	CRS	CRS	IRS	DRS	DRS	CRS	2
					DRS		2
Bank Muamalat Malaysia Berhad					CRS	DRS	1
Islamic Bank Bangladesh					CRS	DRS	1
Kuwait Finance House (Malaysia)					CRS	DRS	1
Meezan Bank	IRS	IRS	IRS	IRS	IRS	DRS	0
Shah Jalal Islami Bank		DRS	CRS	DRS	DRS	DRS	1
Standard Chartered Modharaba		CRS	CRS		CRS	DRS	3
Count Year	1	3	3	0	5	5	

## 5.0 CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH

In this paper, we examine the performance of the Asian Islamic banks during the period 2001-2006. The efficiency estimates of individual banks are evaluated using the non-parametric Data Envelopment Analysis (DEA) approach.

The empirical findings suggest that during the period of study, pure technical inefficiency outweighs scale inefficiency in the Islamic banking sector implying that the Islamic banks have been managerially inefficient in exploiting their resources to the fullest extent.

The empirical findings seem to suggest that the Asian Islamic banks have exhibited highest technical efficiency on 2004 within the period of study 2001 to 2006. During the period of study we find that pure technical inefficiency has greater influence in determining the total technical inefficiency of the Asian Islamic banking sectors.

Due to its limitations, the paper could be extended in a variety of ways. Firstly, the scope of this study could be further extended to investigate changes in cost, allocative, and technical efficiencies over time. Secondly, it is suggested that further analysis into the investigation of the Islamic banking sector efficiency to consider risk exposure factors. Finally, future research into the efficiency of the Islamic banking sector efficiency could also consider the production function along with the intermediation function.

## APPENDIX 1

Country	2001	2002	2003	2004	2005	2006
Year						
Bangladesh		1	2	2	3	2
Indonesia					1	1
Malaysia	2	2	2	2	3	2
Pakistan	1	2	2	1	3	3
Total	3	5	6	5	10	8

Source: Banks Annual Reports

Note: Detailed results are available from the authors upon request

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Note: CRS – (Constant Returns to Scale); DRS – (Decreasing Returns to Scale); IRS – (Increasing Returns to Scale).  
The banks corresponds to the shaded regions have not been efficient in any year in the sample period (2001-2006) compared to the other banks in the sample.  
'Count Year' denotes the number of banks appearing on the efficiency frontier during the year.  
'Count Bank' denotes the number of times a bank has appeared on the efficiency frontier during the period of study.

# A COMPARATIVE STUDY ON DIRECTORS' COMPENSATION IN SELECTED ASIAN COUNTRIES

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## Abstract

As financial institutions which mobilized customers' deposits for higher returns, banks constantly in search of good financial leadership talents to be their directors. This leadership and managerial talents would be attractively compensated because they are scared and yet highly needed to chart the banks' future direction. Hence, banks are known to pay high compensation packages to their board of directors. However, do these compensation packages vary between countries? This paper provides comparison on the practices of directors' compensation of banks in Malaysia, Thailand, Indonesia, Philippines, India and Pakistan.

*JEL Classification:* G21; G28

*Keyword(s):* Boards of Directors, Compensation, Banks, Asian Countries

## 1.0 Introduction

The recent decade has seen a period of profound modernisation of the banking sector. Today, the banking sector has evolved from facilitating and supporting the economic activities to becoming a significant source of national growth. Innovation and product pioneering have proliferated the diversity of products and services offered. Beside these factors, other factors contributing to the rapid development in the banking sector are: the adoption of best business practices; the use of new technologies; systematic cross selling and the new ways of interfacing or interacting with bank customer. The banking system is also significantly stronger, due to strengthened institutional structures, enhanced financial safety nets and developed financial markets, especially the bond markets. Further, progressive deregulation and liberalisation have increased the flexibilities for banking institutions to capitalise on new business opportunities, both onshore and overseas. The strengthened incentives for staff / manpower and more competitive environment have also prompted continuous performance improvements, making the banking sector on the whole very sound against favourable financing and economic conditions. Domestic banking institutions, in particular, have benefited from the broad-based reforms and capacity building measures that had been undertaken following the Asian financial crisis. Additionally, according to Zeti, (2008) banking institutions have also made significant advances in the adoption of improved risk management infrastructure and practices.

Notably, several measures taken in countries in Malaysia such as the consolidation of the banking sector, the strengthened board and senior management oversight functions within banks, and the more risk-sensitive capital and the stress-testing requirements have contributed towards reinforcing the core foundations for a more resilient banking system. One of the core emphases is the management of the sector. High skill leaders with innovative, good quality service, competitive and people oriented directors is one of the essential management factors contributing to the banking industry success. Due to the banking business which always deals with risks, the management team and Board of Director (BOD) must have solid experiences, highly qualified and high managerial skills in order to for them to manage public funds effectively by evaluating the risk and return trade-offs for a high return in the future to a bank's stakeholders.

Therefore, oftenly directors' remuneration is determined at levels which enable the bank to attract and retain directors with the relevant experience and expertise needed to manage the bank and its group effectively. For this respect, there are several factors that banks consider in determining their BOD's compensation. Some of these factors have been identified in past studies (Smith and Watts, 1992; Lewellen and B. Huntsman, 1970; Chris, 2006). A positive relationship is found between pay and performance in Lewellen and B. Huntsman, 1970; Murphy, 1985). Khorana and Zenner (1998) find that the relationship between pay and performance is weaker after an acquisition. Some of the past studies (Mahmoud M. Nourayi, 2006; Chris, 2006 and Randy, 2003) focus on relation between internal determinants. Chris (2006) for example used variables consisting of performance variables (such as percentage change in stock market return and percentage change in return on equity) and size variables (such as sales, assets, and number of employees) and CEO specific characteristics (age, job tenure, education, and CEO stock ownership).

After examining these studies, we find there are no analyses done on internal and external factors affecting BOD's compensation. Furthermore, several conflicting results in the past studies motivate us further to

undertake a more comprehensive study in this area. Therefore the objective of this paper is to present fresh findings on the characteristics of banks providing BOD's compensation across East Asia countries. These countries are Malaysia, Thailand, Indonesia, India, Pakistan and Philippines.

This paper is divided into five sections where section one is introduction of this paper, section two on past studies while section three explains the method that been used in this study. Section four discusses the findings of this study and finally, section five concludes the paper.

## 2.0 Past Studies

Chris, (2006) study find that there is a weak relationship between both percentage of stock price return, percentage return on equity and the percentage change in CEO compensation. The study also find there is a weak relationship between age, CEO tenure in present position, education and CEO stock ownership and the dollar level of CEO compensation. Conversely, there is a strong relationship between sales, assets and number of employees and dollar level of CEO compensation. His result from the first Stepwise Regression analysis shows that the percentage change in return on equity was more important than the percentage change in stock market return in determining percentage change in CEO compensation. The results from the second Stepwise Regression analysis shows the determinants of BOD's compensation in order of importance are as follows: Assets, Sales, Number of Employees and Tenure of CEO in Present Position.

There is extensive evidence that CEOs of larger firms earn more than small firms (Jensen and Murphy, 1990; Hubbard and Palia, 1995). On the other hand, Mehran (1995) shows that firm performance is related to the form of the compensation contract. Mehran's findings suggests that CEOs compensation has significant bearing on strategic actions taken that effect firm's performance.

David, (2006) examines the viability of two basic theories of compensation to explain executive compensation in the banking industry. The two executive compensation motivation theories area; *sales/sales growth maximization* and *profit/shareholder wealth maximization*. His study finds a strong support for both theories on overall aspects. In specific, less support is found for the profit or shareholder wealth maximization theory among large banks. This study also shows, scale that of operations dominates other linkages between pay and performance. In other words, smaller banks show stronger linkages to the executive compensation than the larger banks.

Lucian A. Bebchuk and Jesse M Fried, (2005) find that a well-designed executive compensation can provide executives with cost-effective incentives to generate shareholders' value.

Meanwhile, James Ang, Beni Lauterbach and Ben Z. Schreiber, (2002) examine how a large sample of banks in the United State (US) compensates their top management teams. They find 166 US banks of various asset values compensated their top management teams during the 1993–1996 periods. The compensation of top bank executives is shown to depend on executive rank, bank size, and bank performance. Another finding is that the weight of base salary in CEOs pay is significantly lower than in other senior managers' pay, and the pay performance elasticity of CEOs pay is significantly higher. CEOs receive not only greater pay in absolute dollar, but are also rewarded more in relation to performance, as manifested in having a larger portion of their pay in performance contingent compensation. Next to the CEO, the top executives have similar compensation structure and pay to performance elasticities. The results are robust to a significant size effect an alternate measures of performance.

Based on self-interest, directors and the CEO are found to increase their cash compensation when they own a lot of shares in their company and those shares have suffered negative returns. The increased cash compensation helps 'alleviate' the stock market losses suffered by large share owning managers (Firth, Tam and Tang, 1999).

## 3.0 Methodology

The data for this study is obtained from secondary sources such as Banks Annual Report, World-scope database, Lexis-Nexis, Mergers and Acquisitions magazine, newspaper articles, Bursa Malaysia Report, Bank Negara Malaysia Report, as well as individual bank websites. The sample countries in this study are Malaysia, Thailand, Indonesia, India, Pakistan and Philippines. Total sample is 78 commercial banks consisting 9 commercial banks in Malaysia, 18 commercial banks in Indonesia, 12 commercial banks in Thailand, 17 commercial banks in India, 13 commercial banks in Pakistan and 9 commercial banks in Philippines. The study covers period from 2000 to 2007 (8 years).

Total compensation is defined as the base cash compensation plus the value of stock and options granted for directors. Meanwhile the banks' characteristics are firm size, firm age, numbers of employee, inside directors, outside directors, tenure, education background, experience, pretax income, operating expenses and net income. Macroeconomic variables such as inflation, GDP, Balance of Payment (BOP) are included to see how the total compensation packages are in different economic periods. The method used in this study is descriptive analysis and ANOVA analysis using SPSS software. The descriptive analysis will provide the banks' characteristics and their directors' total compensation. Meanwhile, the ANOVA will identify whether there exist any significant difference in BOD's compensation between the six Asian countries.

#### 4.0 Finding

##### 4.1 Descriptive Analysis

Table 1: Descriptive Analysis for six countries.

Variables	N	Minimum	Maximum	Mean	Std. Deviation	Skewness
Total Compensation (USD)	618	28862	2515884000	82373322.59	282215748.7	5.762631523
Total Assets (USD)	618	1165982	2.17629E+11	6297414175	19881502775	5.805994138
Firm Age (Year)	618	0	179	49.46440129	33.13436417	1.024843522
Employee (No.)	618	18	58981	9954.702265	11482.675	2.064968714
Insider Board (No.)	618	1	11	2.496763754	1.116034256	1.387268345
Outsider Board (No.)	618	0	16	7.872168285	3.25195398	0.240310002
Tenure (Year)	618	1	42	7.053398058	5.656458546	2.925843935
Education (Level)	618	2	4	2.622977346	0.593254521	0.356167531
Experiences (Year)	618	5	57	27.91262136	9.171981996	0.311608381
Inflation (%)	618	0.639	13.1	5.099745955	3.090979839	0.970396905
BOP (USD)	618	71.22	1098.95	276.8278155	248.5960657	1.661676412
GDP (%)	618	-19.35	26.05	3.420045307	8.251979741	-0.084469117
Pretax Income (USD)	618	-3588000000	6331257000	132986321.7	612714172.1	5.779921203
Operation Expenses (USD)	618	1847	2.17629E+11	6696332970	20175230035	5.544278012
Net Income (USD)	618	-28938990	19994990000	478851390.5	1640429572	6.815945515

Note: In Education, 2 = Degree and 4 = Master

In Table 1, the mean total compensation for the banks in the six Asian countries is USD 82,373,322, with the maximum value of USD 2,515,884,000 and the lowest value of USD 28,862. This finding shows a large variance between the maximum and minimum BODs' total compensation among the sample banks, giving rise to a large standard deviation of USD 282,215,748. The banks in Indonesia are found to pay the highest BOD compensation relative to banks in other countries. In contrast, the banks in Malaysia pay their BOD the lowest compensation.

Mean value for net income, operating expenses and pretax income is USD 478,851,390; USD 6,696,332,970 and USD 132,986,321 respectively. This suggests that total compensation is 17% of net income and 1.23% of operating expenses.

The mean value for total assets and firm age is USD 6,297,414,175 and 49 years. Our study highlights that the banks are on average have been long established (almost 50 years!). However, 0 year for firm age indicate bank in Pakistan has incorporated in year 2000.

We also find that the banks on average maintain 9,954 employees per bank. The mean number of insider board members and outsider board members is 2 directors and 8 directors respectively. The standard deviation value for insider and outsider board is 1.11 and 3.25 respectively. This board composition is very interesting because it highlights to us that banks across these six countries maintain a larger proportion of directors from outside

rather than from their management team. This composition provides an independent, non-bias valuation on their directors' compensation package and other board decisions.

Tenure shows the mean value of 7.05 years. The statistic indicates that the directors on average held 7 years directorship in the sample banks. The average level of education is Degree to Masters levels indicates that the directors of banks in Asian countries are highly educated and very experienced. This is shown by the mean value for experiences which is 27.91 (28) years.

On the economic performance, we find that the mean GDP for the six Asian countries over 2000 – 2007 study period is 3.4%. The minimum GDP of -19.35% taken into account that the large negative growth in GDP of India (-2.69%) and Pakistan (-0.86%).

Table2: Mean and Standard Deviation Analysis for each country

Country	Malaysia		Thailand		Indonesia		Philippines		India		Pakistan	
Variables	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation
Total Compensation (USD)	704824.639	444382.46	3978087.48	3479438.375	340537442	506049776	14652262.22	44124062.04	16551076.74	42689907.29	13964529.41	44295400.61
Total Assets (USD)	70914979.6	54931478	51655980.6	436419627.3	2.59E+10	3.4647E+10	20349750.50	7307258614	21111297.28	7126977450	1983649761	7319409029
Firm Age (Year)	44.055556	31.537989	41.583333	24.55827298	44.604167	21.5147433	57.92028986	36.53017183	76.777778	24.68272645	35.31884058	28.29819976
Employee (No.)	9060375	6003.708	7518760	5905.668443	4922.2431	6541.01937	11858137.68	162235638.4	22969604.17	151885151.5	112116594.2	164525569
Insider Board (No.)	1.3472222	0.6088484	3.51041667	1.337671124	2.1111111	1.22395159	3.036231884	0.992007625	2.486111111	0.658310097	2.231884058	0.595479995
Outsider Board (No.)	8.722222	1.9444556	8.77083333	2.87083031	4.7708333	2.69866258	9.282608696	3.985354815	8.756944444	2.615838065	6.391304348	2.193004081
Tenure (Year)	10.777778	10.536619	6.36458333	3.497727959	6.0694444	6.07027929	6.057971014	3.223472571	7.201388889	4.138476902	7.217391304	3.189259188
Education (Level)	2.8611111	0.5887575	2.90625	0.76884226	2.9166667	0.36450944	2.637681159	0.482421341	2.166666667	0.373978796	2.173913043	0.380415514
Experiences (Year)	23.111111	11.992434	27.3958333	11.6983842	22.083333	6.95892042	29.57971014	6.495154392	34.09722222	4.243167184	34.48550725	3.720598624
Inflation (%)	2.00125	0.827838	2.480125	1.352062138	8.734375	3.17537131	5.213572464	2.10751767	4.788722222	1.566649985	5.427615942	2.392272573
BOP (USD)	125.27125	31.261938	162.23875	42.8174437	262.09875	90.4693723	240.5526812	267.2143377	655.8246528	229.2932593	242.5150725	266.2158633
GDP (%)	15.4035	7.1720655	4.51625	6.033773132	6.81425	3.69014763	0.188195652	5.749553473	2.69252778	9.081339314	0.867608696	5.81357798
Pretax Income (USD)	1069292.51	1119203.1	3542348.17	10068897.6	556502834	1176509363	2383193.931	3465284.635	6693531.324	4973176.916	5430777.442	7018432.554
Operation	3824	38811	2200	39656	27768	34246	2165	19091	5899	35760	22571	30632

Expenses (USD)	35.2 36	4.35	5085 5	2521. 3	09335 0	80278 1	9539 3	4915. 6	4600 0.9	3538. 6	6352. 6	5330. 9
Net Income (USD)	6588 53.4 86	75864 3.8	1542 6711 .4	27134 044.8 9	1.96E +09	29514 22196	2205 1821. 85	18853 469.6 8	6108 5445. 03	12672 6566. 5	22528 234.3 6	23214 080.1 4

Country	Malaysia		Thailand		Indonesia		Philippines		India		Pakistan	
Variables	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation
Total Compensation (USD)	704824.639	444382.46	3978087.48	3479438.375	340537442	506049776	14652262.22	44124062.04	16551076.74	42689907.29	13964529.41	44295400.61
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Employee (No.)	9060.375	6003.708	7518.76042	5905.668443	4922.2431	6541.01937	11858.13768	16223.56384	22969.60417	15188.51515	11211.65942	16452.5569
Insider Board (No.)	1.34722222	0.6088484	3.51041667	1.337671124	2.1111111	1.22395159	3.036231884	0.992007625	2.486111111	0.658310097	2.231884058	0.595479995
Outsider Board (No.)	8.7222222	1.9444556	8.77083333	2.87083031	4.7708333	2.69866258	9.282608696	3.985354815	8.756944444	2.615838065	6.391304348	2.193004081
Tenure (Year)	10.777778	10.536619	6.36458333	3.497727959	6.0694444	6.07027929	6.057971014	3.223472571	7.201388889	4.138476902	7.217391304	3.189259188
Education (Level)	2.8611111	0.5887575	2.90625	0.76884226	2.9166667	0.36450944	2.637681159	0.482421341	2.166666667	0.373978796	2.173913043	0.380415514
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Inflation (%)	2.00125	0.827838	2.480125	1.352062138	8.734375	3.17537131	5.213572464	2.10751767	4.788722222	1.566649985	5.427615942	2.39272573
BOP (USD)	125.27125	31.261938	162.23875	42.8174437	262.09875	90.4693723	240.5526812	267.2143377	655.8246528	229.2932593	242.5150725	266.2158633
GDP (%)	15.4035	7.1720655	4.51625	6.033773132	6.81425	3.69014763	0.188195652	5.749553473	2.69252778	9.081339314	0.867608696	5.81357798
Pretax Income (USD)	1069292.51	1119203.1	3542348.17	10068897.6	556502834	1176509363	2383193.931	3465284.635	6693531.324	4973176.916	5430777.442	7018432.554
Operation Expenses (USD)	382435.236	388114.35	22005085	396562521.3	2776809335	34246802781	216595393	190914915.6	58994600.9	357603538.6	225716352.6	306325330.9
Net Income (USD)	658853.486	758643.8	15426711.4	27134044.89	1.96E+09	2951422196	22051821.85	18853469.68	61085445.03	126726566.5	22528234.36	23214080.14

In Table 2, the mean value of the BODs' compensation, the banks' characteristic and the economic indicators for each country is shown in detail. The mean total compensation for directors in Malaysia over the year 2000 – 2007 is USD 704,824; similarly for Thailand is USD 3,978,087; Indonesia is USD 340,537,442 (see Table 2 for further details). In term of total compensation, we find that banks in Indonesia are found to pay the highest BOD compensation relative to banks in other countries. In contrast, the banks in Malaysia pay their BOD the lowest compensation. Standard deviation in total compensation is prevalent in banks in Indonesia. This is further breakdown by year in Table 3.

Table 3: Total Compensation for Board of Directors in each country (in USD).

Countries	2000	2001	2002	2003	2004	2005	2006	2007
Malaysia	4,158,010	5,186,957	5,217,177	5,906,951	6,063,949	5,661,908	9,044,978	9,577,557
Thailand	37,054,898	37,160,647	37,423,587	38,011,698	47,067,419	53,177,622	58,292,943	61,441,293
Indonesia	25,770,000	33,580,000	45,300,000	51,900,000	62,500,000	83,500,000	100,100,000	106,200,000
India	10,300,000	10,800,000	10,500,000	10,700,000	12,200,000	12,400,000	15,200,000	16,100,000
Pakistan	24,590,163	24,802,937	25,822,501	24,326,039	27,159,230	28,566,058	32,453,254	39,068,591
Philippines	20,876,368	19,933,251	20,437,007	23,610,777	22,517,191	22,748,749	27,814,686	34,861,002

Figure 1: Total Compensation for each country

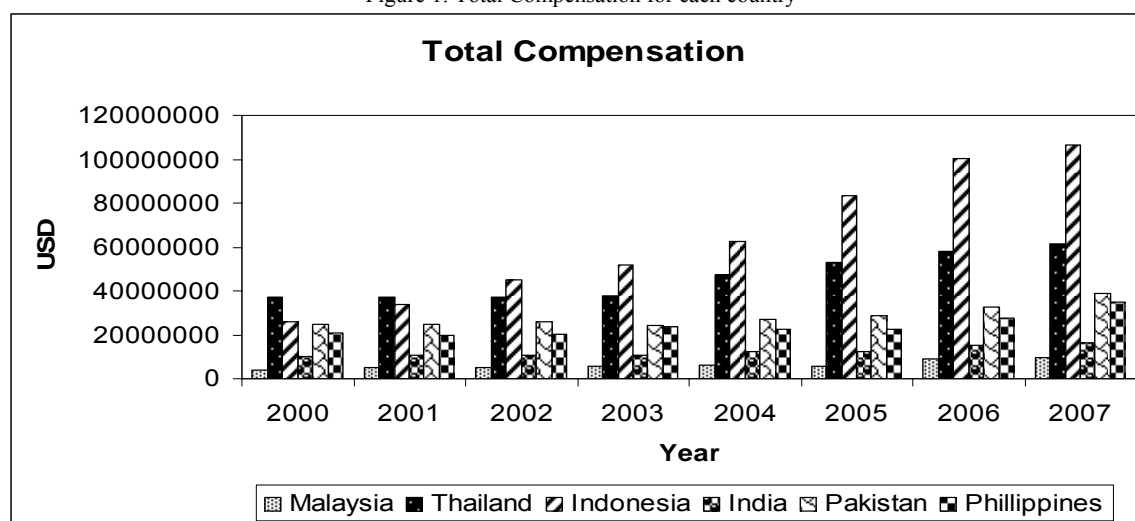


Table 3 show the total compensation value in USD for each country. Data in Table 3 is capture in figure 1 as bar chart. Total compensation for all countries is basically increasing from year 2000 to year 2007.

We find that total compensation for bank directors in Indonesia has maintained a highest total compensation for every year. This is because banks directors' compensation in Indonesia is covered with insurances where other countries directors do not enjoy this benefit.

The second highest country is Thailand where the total compensation for bank directors increases from USD 37,054,898 to USD 61,441,293 respectively from year 2000 to 2007. Pakistan, Philippines and India also show a steady increase in total compensation for bank directors in each country.

The lowest total compensation pay to bank directors is Malaysia. Even total compensation for bank directors is increase but a slow increase is shown. In year 2000, the total compensation for bank directors in



Malaysia is USD 4,158,010 and total compensation pay to bank directors in Malaysia in year 2007 is USD 9,577,557. The difference from year 2000 to 2007 is USD 5,419,547.

Mean pretax income of banks in Malaysia is USD 1,069,292; Thailand is USD 3,542,348; USD 556,502,834 in Indonesia, USD 2,383,193 in Philippines, USD 6,693,531 in India and USD 5,430,777 in Pakistan. This finding shows the highest country of pretax income is Indonesia and the lowest is Malaysia.

The percentage of total compensation and operation expenses in Malaysia, Thailand, Indonesia, Philippines, India and Pakistan is 184%; 1.8%; 1.2%; 6.7%; 2.8% and 6.1% respectively.

Meanwhile, the mean value for net income in Malaysia is USD 658,853; Thailand is USD 15,426,711; USD 1,960,493,046 in Indonesia, USD 22,051,821 in Philippines, USD 61,085,445 in India and USD 22,528,234 in Pakistan.

Total assets mean value in Malaysia is USD 70,914,979, Thailand is USD 516,559,806, Indonesia is USD 25,903,654,330, Philippines is USD 2,034,975,050, India is USD 2,111,129,728 and Pakistan is USD 1,983,649,761.

On average a bank in sample countries has firm age of mean value from 35 years to 76 years. This finding shows that banks in Asian countries have been incorporated more than 35 years.

Banks insider board members directors in sample countries is from one to three directors and banks outsider board members directors is from four to nine directors represent in directors structure. Banks in Thailand have the highest number of insider board members. Meanwhile, banks in Philippines have the highest number of outsider board members. Based on the finding, a lower directors' compensation is given when the number of outsider board members is large.

The mean value for employees in Malaysia, Thailand, Indonesia, Philippines, India and Pakistan is 9,060 employees, 7,518 employees, 4,922 employees, 11,858 employees, 22,696 employees, 11,211 employees respectively. By comparison, India appears to have the largest number of employees working in banks.

Most of the bankers in Asian countries have work experiences for 22 years to 34 years. Beside that those bankers also highly educated person by looking at their education level is Degree to Masters levels. Mean value of tenure shows 6 years and above. The finding indicates that the directors on average held 6 years directorship in the sample banks

The highest inflation rate mean value is 8.7343% in Indonesia and the lowest inflation rate mean value is 2.001% in Malaysia. The inflation mean value for other countries is Thailand with 2.4801%, Philippines with 5.2135%, India with 4.7887% and Pakistan with 5.4276%.

Meanwhile, GDP with the highest mean value is 15.40% in Malaysia follow by 6.81% in Indonesia, Thailand with 4.51%, Philippines with 0.18%, Pakistan with -0.86% and finally India with -2.69%.

## 4.2 ANOVA Analysis

This section describe, the results for the analysis on the differences of total compensation between countries.

Table 4: Test of Homogeneity of Variances  
TC

Levene Statistic	df1	df2	Sig.
62.815	5	612	.060

Table 4 shows Levene's test for homogeneity of variance is not significant 0.60 ( $p > 0.05$ ) and thus can be confident that the population variances for each group are approximately equal. A Levene's test met an assumption in doing one way between groups ANOVA test which is homogeneity of variance assumption.

Table 5: ANOVA Analysis  
TC

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	125158537897993 20000.000	5	25031707579598 64000.000	41.827	.000
Within Groups	366255609054353 10000.000	612	59845687753979 200.000		
Total	491414146952346 00000.000	617			

To determine whether have a significant is by looking at the F – probability value. Given in Table 5, that  $p < 0.05$  we can reject the null hypothesis and accept the alternative hypothesis which states that total compensation is different across sample countries. Having obtained a significant result we can go further and determine using a Tukey HSD test, where the significant is lies.

Table 6: Multiple Comparisons Analysis

Dependent Variable: TC

Tukey HSD

(I) COUNTRY	(J) COUNTRY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
MALAYSIA	THAILAND	-3273262.840	38138991.708	1.000	-112303906.21	105757380.53
	INDONESIA	-339832617.674(*)	35309845.108	.000	-440775378.79	-238889856.55
	INDIA	-6729228.743	35654339.559	1.000	-108656820.61	95198363.12
	PAKISTAN	-1664483.882	37971836.812	1.000	-110217269.68	106888301.92
	PHILIPPINES	-1982042.056	40772297.156	1.000	-118540702.67	114576618.56
THAILAND	MALAYSIA	3273262.840	38138991.708	1.000	-105757380.53	112303906.21
	INDONESIA	-336559354.833(*)	32233331.113	.000	-428707066.97	-244411642.70
	INDIA	-3455965.903	32610341.956	1.000	-96681465.71	89769533.90
	PAKISTAN	1608778.959	35129230.905	1.000	-98817647.52	102035205.43
	PHILIPPINES	1291220.785	38138991.708	1.000	-107739422.58	110321864.15
INDONESIA	MALAYSIA	-339832617.674(*)	35309845.108	.000	238889856.55	440775378.79
	THAILAND	-336559354.833(*)	32233331.113	.000	244411642.70	428707066.97
	INDIA	-333103388.930(*)	29251271.350	.000	249480702.76	416726075.10
	PAKISTAN	-338168133.792(*)	32035376.337	.000	246586329.03	429749938.56
	PHILIPPINES	-337850575.618(*)	35309845.108	.000	236907814.50	438793336.74
INDIA	MALAYSIA	6729228.743	35654339.559	1.000	-95198363.12	108656820.61
	THAILAND	3455965.903	32610341.956	1.000	-89769533.90	96681465.71
	INDONESIA	-333103388.930(*)	29251271.350	.000	-416726075.10	-249480702.76
	PAKISTAN	5064744.862	32414689.647	1.000	-87601429.79	97730919.52
	PHILIPPINES	4747186.688	35654339.559	1.000	-97180405.18	106674778.56
PAKISTAN	MALAYSIA	1664483.882	37971836.812	1.000	-106888301.92	110217269.68
	THAILAND	-1608778.959	35129230.905	1.000	-102035205.43	98817647.52
	INDONESIA	-338168133.792(*)	32035376.337	.000	-429749938.56	-246586329.03
	INDIA	-5064744.862	32414689.647	1.000	-97730919.52	87601429.79

	PHILIPPINES	-317558.174	37971836.812	1.000	-108870343.97	108235227.63
PHILIPPINES	MALAYSIA	1982042.056	40772297.156	1.000	-114576618.56	118540702.67
	THAILAND	-1291220.785	38138991.708	1.000	-110321864.15	107739422.58
	INDONESIA	-337850575.618(*)	35309845.108	.000	-438793336.74	-236907814.50
	INDIA	-4747186.688	35654339.559	1.000	-106674778.56	97180405.18
	PAKISTAN	317558.174	37971836.812	1.000	-108235227.63	108870343.97

- The mean difference is significant at the .05 level.

Table 6 shows result from multiple comparisons where Tukey test shows that Indonesia has negatively significant differences mean with all the countries which are Malaysia, Thailand, Philippines, India and Pakistan in term of total compensation for bank directors. On the other side, Malaysia, Thailand, Philippines, India and Pakistan have no mean differences in total compensation for bank directors among those countries.

## 5.0 Conclusion

As a conclusion we find that banks in Indonesia pay the highest compensation to their directors' compare to the banks in other five Asian countries (Malaysia, Thailand, Philippines, India and Pakistan). A drastic increase in total compensation of Indonesia banks directors can be seen from year 2002 to 2007. On the other hand, Malaysia banks directors receive the lowest compensation level compared to those in the remaining five countries despite of Malaysia having the highest economic growth of 15.4% during the study period. India appears to have the largest number of employees working in banks consistence with long establish firm age of 76 years. Banks in Thailand have the highest number of insider board members. Meanwhile, banks in Philippines have the highest number of outsider board members. Based on the finding, a lower directors' compensation is given when the number of outsider board members is large. Beside that, director banks in Pakistan are very experiences directors in six Asian countries by number of experiences of 34 years.

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# THE MODERATING EFFECT OF BARGAINING POWER OF SUPPLIERS BETWEEN PRODUCT FACTORS AND GLOBAL SOURCING STRATEGY

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## Abstract

Bargaining power of supplier is one aspect that may influence the relationship between product factors such as quality, cost and delivery on global sourcing strategy of a firm. Since this study had identified global sourcing strategy as intra-domestic, inter-domestic, intra-foreign and inter-foreign, the influence may be different for different types of global sourcing strategy. Bargaining power of supplier was divided into supplier dominance and competition intensity after factor analysis was used. It was found that impact of product delivery on intra-domestic sourcing was greater with high supplier dominance whilst the impact of product delivery on intra-domestic sourcing was greater for components with low competitor intensity.

Keywords: Bargaining power of supplier, Global sourcing strategy, moderator

## Introduction

In response to the global competitive environment, the manufacturing sector that played a leading role in the Malaysian recovery (Economic Report, 1999/2000) has to be innovative and proactive in responding to the current situation so as to achieve competitive advantage (Porter, 1985). One of the potential sources of achieving this competitive advantage at firm level is through the purchasing department (Monczka & Trent, 1991; Monczka, Trent, & Handfield, 2002). It has been found that two-thirds (2/3) of the cost of goods of a company is tied up in purchase expenditure (Chase & Aquilano, 1995). Hence, every dollar saved in purchasing could add to the corporate profit (Heinritz, Farrell, Guinipero, & Kolchin, 1991; Krajewski & Ritzman, 1993; Datta, 1999). At task for purchasing managers is the issue to make or to buy the materials needed, the choice of suppliers, the quantity to order, the price to pay for the materials, the quality of the materials, and the delivery of the materials to name a few (Leenders, et al., 2004). Since purchasing is the eyes and ears of the organization in the suppliers' marketplace (Krajewski & Ritzman, 1993), decisions made by purchasing professionals may have a ripple effect throughout the entire economy. It may either deepen a recession by reduced reorder levels during economic slowdown or fuel an upswing by optimistic activity (Scheuing, 1989). One of the many strategies that a purchasing department may pursue is sourcing strategies (Scheuing, 1989) or worldwide sourcing (Monczka & Trent, 1991; Monczka et al., 2002). Global sourcing however is multi-dimensional and includes factors such as production location, phases of production, internal versus external component sourcing, and internal versus external assembly (Rao & Witt, 1994). It addresses both ownership and locational perspective of sourcing. From the ownership perspective, it is viewed as company sourcing within their corporate system (intra) and sourcing from independent suppliers (inter) (Kotabe, 1998; Kotabe, Murray & Javalgi, 1998; and Kotabe & Murray, 2004). On the hand, locational perspective is viewed as sourcing from domestic and/or foreign suppliers (Swamidass and Kotabe, 1993, and Kotabe & Murray, 2004). From the studies conducted by Murray and Kotabe (1995), and Jantan et al. (2000), sourcing-related factors are considered an important factor in influencing global sourcing strategy. Both studies used it as a moderator in order to identify whether it will enhance or neutralize the relationship between the predictor and criterion variable. Moderator variables are important since it may modify the form and/or strength of the relationship between independent and dependent variable (Sharma, Durand, & Gur-Arie, 1981). Murray et al. (1995) investigated the moderator effect on the relationship between sourcing strategy and performance measurement (financial and strategic perspective), while Jantan et al., (2000) examined the influence between sourcing strategy and supplies performance (quality, cost, and delivery). This study shall examine the influence of bargaining power of suppliers as a moderator since these are common variables used by two studies, Murray and Kotabe (1995), and Jantan et al., (2000) that was studied in two different countries, America and Penang, Malaysia respectively. Furthermore, no study has examined the moderator effect between product factors and global sourcing strategy.

## Literature Review

Bargaining power of suppliers that focused on the number of available supplier in supplying the required materials or components is one of Porter's (1980) five competitive forces. This force determines the intensity of competition in an industry, which, in turn affects the behaviour of firms. Since bargaining power of suppliers is the mirror image of bargaining power of buyers, the discussion shall centre only on the bargaining power of suppliers. Bargaining power of suppliers is exercised largely through price, which determines the cost of raw materials and other inputs, and quality (Porter, 1980). However, these price advantages through purchasing are only attainable for buyers who are willing to change their suppliers that may result in suppliers' inability to produce quality product and unable to deliver as and when required (Kersten, Schroeder, & Schulte-Bisping, 2004). Min and Galle (1993) reported the factors that affect a buyer's strength in international negotiation pertaining to international purchasing based on a top three ranking were market situation (discusses about the buyer and seller), competitive situation (focused on the number of sellers whether few or many), and importance of the supplier to the buyer's business. The very meaning of market situation, competitive situation and importance of supplier in the study are the basis of bargaining power of suppliers. This reaffirms the importance of bargaining power of supplier in this study. This study shall base on Porter's (1980) suggestion that firms in managing costs of production, and to eliminate production disruption, use internal sourcing when bargaining power of suppliers is high. This is to control price and supply of components. When bargaining power of supplier is low, external sourcing is preferred since substitution of supplier can be carried out easily without incurring switching costs. This is when the control of price and supply of components is not crucial. Thus, if the buyer needs component according to the specification and few suppliers are available then, the bargaining power of suppliers may be high, which may lead to intra-firm sourcing and vice-versa (Williamson, 1979, 1986).

Studies using bargaining power of suppliers as moderator are limited to Murray and Kotabe (1995), and Jantan et al., (2000), global sourcing strategy research. These studies were carried out in America and Penang, Malaysia respectively. The former was finding the moderator effect between global sourcing strategy and financial performance and the latter between global sourcing strategy and suppliers' performance. Bargaining power of supplier was found not to be a moderator between intra sourcing and financial performance in Murray and Kotabe's (1995) research. However, in Jantan et al., (2000) research, bargaining power of supplier was found to be a moderator particularly between sourcing strategy and cost performance. To understand completely the relationship between the independent and dependent variables, the moderator effect should be included since it may modify the strength and/or form of the relationship (Sharma et al., 1981). The bargaining power of suppliers, and asset specificity used in this study as moderator variables were used in Murray and Kotabe (1995), and Jantan et al., (2000) research. However, these moderator variables were used to investigate its effect on global sourcing strategy (ownership) and performance.

Porter (1980) in his competitive strategy has identified bargaining power of suppliers as one of the driving forces for industry to compete. Suppliers may use their power by threatening to increase price or reduce quality to the buyer. Usually suppliers become powerful when materials to be supplied are controlled by a few companies, there is no substitute to their product, and when buyer is unimportant to them. Porter stated that when bargaining power of suppliers is high, the firm uses internal sourcing. This is because price and quality of components can be easily controlled and monitored by the buying firms. Jantan et al., (2000) study found that bargaining power of supplier is a moderator in their study. Supplier's bargaining power influences the difference in internal and external suppliers' cost. Unlike Jantan et al. (2000) research Murray and Kotabe (1995) found bargaining power of suppliers not to be a moderator in their study. Thus, it is hypothesized:

*H: The impact of product factors on global sourcing strategy is greater for components with high bargaining power of suppliers.*

## Methodology

This study is part of a bigger study and it examines whether the relationship between the product factors and global sourcing strategy variables is moderated by bargaining power of suppliers of electrical and electronic (E&E) foreign multinational corporations in Malaysia. Since sourcing strategy may differ by components, the unit of analysis for this study is by components. This unit of analysis is also used in other global sourcing strategy studies by Kotabe and Omura (1989), Cho (1990), and Murray et al., (1995).

Component sourcing is defined as an intermediate product that requires further processing or assembly into finished product and thus excludes raw materials (Kotabe, 1992).

The data used in this study was collected from foreign multinational manufacturing companies in Malaysia listed under Malaysian International Trade (MITI) Investor's Directory 2004. The sample for this study is restricted only to those firms that practice intra-domestic, intra-foreign, inter-domestic, and inter-foreign. The following step was taken to identify the firms that carried out three to four different types of sourcing. Out of a total of 578 of E&E foreign MNCs companies listed in MITI Investor's Directory 2004, 34 companies could not be reached owing to the change in telephone number. Five companies were found not to be operating the manufacturing plant. These companies still maintained the same telephone number but are just carrying out services. From enquiries made to the personnel in charge of sourcing materials from the remaining list of companies via telephone calls, only 118 companies carried out between three (3) to four (4) types of sourcing. However, seven companies refused to participate in the survey. The remaining 111 companies throughout Malaysia were being informed through a telephone call made to the purchasing manager or personnel in the purchasing department of survey forms being mailed to them. From the 111 companies that fulfilled the criteria for this study, 89 companies (80%) are using three types of sourcing for its components sourcing strategy and the remaining 22 (20%) using four types of sourcing strategy. The company selection was not done randomly but rather using purposive judgemental sample because of the sourcing strategies that they have adopted. This is similar to Kasouf, Jandeska, and Zenger (1995) and Jantan et al., (2000) study. Thus the total number of population for this study is 355. Using census study, a total of 39 companies returned the survey forms. Out of this only 35 companies' input that constitute to a total of 113 (31.8%) were found to be useable. Rejected questionnaires were due to incomplete responses. For this study, twenty-seven companies were found (77%) to use three types of sourcing strategy and 8 companies (23%) are practicing four types of sourcing strategy.

A mail survey was conducted to gather the data since the E&E of foreign MNCs were distributed throughout Malaysia. To ensure the sampled firms carry out the global sourcing strategies, the firms were contacted in advance by telephone to confirm their global sourcing strategy and to enquire the appropriate personnel to respond to the questionnaire, in this case the personnel that handles sourcing of components. The personnel designation ranges from purchasing executive, purchasing manager, supply chain manager, materials management manager to production manager. Questionnaire was then sent to the individual concerned. To ensure a good response rate, a follow-up telephone call was made after the questionnaire was sent. The follow-up call ranges from one to four in a span of 3 weeks until four months respectively.

The respondents needed to answer four (4) different scenarios or types of sourcing or at the very least three. This would mean that a respondent would need to answer between three to four questionnaires consisting of the same question but addressing different types of sourcing strategy for components in a major product. Clear instruction and definition were written in the questionnaire for ease of understanding and a self-addressed stamped envelope was enclosed for the respondents to mail the filled questionnaire.

A preliminary questionnaire was developed using measures adapted from prior studies. A survey questionnaire was designed with questions drawn from previous empirical studies, and conceptual studies in the area of global sourcing strategy. However few sections required designing new questions since this area of research is not well established. A preliminary questionnaire was developed that includes nominal, ordinal, likert scale as well as ratio scale. Experts in the area that include academicians and practitioners were consulted for face and content validity of the measurement before a pilot test is to be carried out on six foreign MNCs that carried out different sourcing strategies. On the advice of the experts, the questionnaire were design to have four types of section representing intra-domestic, intra-foreign, inter-domestic, and inter-foreign instead of a separate section for intra or inter, and foreign or domestic. This would allow the study to confirm that if the sourcing is inter-sourcing, whether it is from foreign or domestic supplier. Overall the instruments for this study were mainly adapted from Kotabe (1987). Bargaining power of suppliers, and asset specificity items were adapted from Murray (1992).

A pilot study was conducted on six foreign MNCs to determine whether the respondents understand the questions, and to address any ambiguities in the questions besides removing bias items, and to improve the format (Sekaran, 2003). These representatives of the MNCs were not the respondent for this study. Upon a review of these questionnaires by the representatives of the six foreign MNCs that carried out different sourcing strategies, few questions were simplified and reworded. Overall the representatives from the six foreign MNCs did not find any problem in answering the questions. Descriptive statistics was carried out to describe the characteristics of the study sample, and to check the variables for any violation of the

assumptions underlying the statistical techniques. This is followed by the factor and reliability analysis, descriptive statistic, and correlation analysis, multiple and hierarchical regression

### Findings and Analysis

From the 113 responded survey forms, 10.6% sourced their components from intra-domestic, 30.1% from intra-foreign, 30.1% from inter-domestic, and 29.2% from inter-foreign. Approximately 23% of the company is in the growth stage and 77% is in the maturity stage. In terms of designation, 83.2% are manager, followed by purchaser (8.8%), and assistant manager at 2.9%. A majority of the respondents are from the purchasing department (88.5%), while the rest that comprised of 8% from Materials, and 3.5% from Administration. With respect to company's position, a majority of the companies are subsidiary (50.4%), while 46% are division, and 3.5% are corporate headquarters. With regards to country origin, 63.7% are from Japan followed by United States of America (24%), Taiwan (6%), Singapore (4%), France (3.5%) and United Kingdom at 3%.

The factor analysis conducted for this study was based on principal component method with varimax rotation for all the study variables. Based on Hair et al. (1998), the cut-off point for identifying significant loading is .55 for a sample size between 100 to 120 respondents. For cross-loadings, an item is deleted from the final scale if the difference between weights for any given item is less than .10 across factors (Snell & Dean, 1992). To justify the application of factor analysis, the measure of sampling adequacy (MSA) was used. Variables with MSA below the acceptable level of .5 were excluded from the analysis. Bartlett's test of sphericity (large and significant) and Kaiser-Mayer Olkin (KMO) (greater than .6) are both carried out to determine the factorability of the matrix as a whole index indicating the significant correlations present in the data matrix (Sekaran, 2000). It was carried out for product factors and bargaining power of suppliers. However this paper would only present findings on bargaining power of suppliers.

All items recorded MSA readings above .5 resulting in a KMO reading of .609 with Bartlett's test of sphericity significant. The principal component analysis with varimax rotation resulted in three distinct factors instead of two that captured 68.7% of the variance. Bargaining power of supplier emerged as two factors. The two new factors are now named as suppliers' dominance and competition intensity. The result of the principal component analysis with varimax rotation is as shown in table 1.

Reliability of measure using Cronbach's coefficient alpha was carried out on suppliers' dominance and competition intensity and the Cronbach's and reliability coefficient were .75, and .60 respectively which were within and above the cutoff level recommended by Nunnally (1967) for preliminary research at .5 to .6. No items were dropped during the reliability test.

The conceptual framework and hypothesis were amended since variables were created, dropped or renamed based on the result of the factor analysis. The variable bargaining power of supplier was divided into two factors that were named as supplier dominance and competition intensity. The new hypothesis is:

*H1: The impact of product factors on global sourcing strategy will be greater for components with high bargaining power of supplier.*

*H1a: The impact of product factors on global sourcing strategy is greater for components with high supplier dominance.*

*H1b: The impact of product factors on global sourcing strategy is greater for components with high competition intensity.*



**Table 1***Results of the principal component analysis with varimax rotation for sourcing related factors*

Items	Factor	
	1	2
Supplier dominance		
Supplier have control over delivery of components	.816	.075
Supplier have control over quality of components		
Supplier have control over purchase price	.833	-.099
Competition intensity		
Many competitive suppliers	.732	-.249
Number of substitute for component is high		
Changing supplier involves low switching cost	-.128	.794
	-.239	.726
	.127	.689
Eigenvalue	2.35	1.91
% of variance	29.31	23.98
Cronbach Alpha	.75	.60

Table 2 displays the result of the moderating role of supplier dominance on the relationship between product factors and intra-domestic global sourcing strategy.

Model 1 shows the regression analysis with the control variables, that is, product life cycle and parent country. The model was not significant with  $R^2=.026$ , adjusted  $R^2=.008$ ,  $R^2\text{change}=.026$ , and  $F\text{change}=1.471$ . It was found none of the control variables contributed to the model.

Model 2 displays the findings after the inclusion of the independent variables with the control variables. After statistically controlling the product life cycle and parent country, the model improved significantly. The  $R^2$  was .267, followed by the adjusted  $R^2=.226$ ,  $R^2\text{change}=.241$ , and the  $F$  change=8.73. This model provides evidence of direct positive and significant relationship between trade barrier stability and intra-domestic.

Model 3 presents the findings with the inclusion of a moderator, supplier dominance to the independent factors and control variables. This step is to identify whether supplier dominance act as an independent factor to intra-domestic. The model was significant with  $R^2$  increase to .297, adjusted  $R^2=.250$ ,  $R^2\text{change}=.029$ , and  $F\text{change}=4.4$ . It was found supplier dominance do act as an independent factor to intra-domestic since there was a direct negative and significant relationship between supplier dominance and intra-domestic. The evidence of a direct positive and significant relationship between trade barrier stability and intra-domestic remains the same.

Model 4 shows the result for the moderating effect of supplier dominance on the relationship between trade barrier stability, product factors and intra-domestic global sourcing strategy. This is achieved by including the interaction terms together with the control variables, independent variables, and a moderator. The  $R^2$  increase to .412, adjusted  $R^2=.348$ ,  $R^2\text{change}=.116$ , and  $F\text{change}=4.969$ . The model remained significant and in accordance with the hypothesis that supplier dominance do have a moderating effect on the relationship between trade barrier stability, product factors and intra-domestic global sourcing strategy, with a good explanatory power as reflected in the  $R^2\text{change}=.116$ . The significant contribution is supplier dominance is a moderator between trade barrier stability and intra-domestic, and between product delivery and intra-domestic. Further findings from this model is that supplier dominance and trade barrier stability is still found to have direct positive and significant relationship with intra-domestic.

Overall model 2 was able to explain 26.7% of the variance in intra-domestic with 22.6% attributed to the independent factors. Model 3 was able to explain 29.7% of the variance in intra-domestic with 25% attributed to a moderator effect. Finally, model 4 was able to explain 41.2% of the variance in intra-

domestic with 34.8% attributed to the interaction terms. Supplier dominance behaved as a quasi-moderator in this relationship, that is, both an independent factor and a moderator.

This analysis was repeated for intra-foreign, inter-domestic, and inter-foreign. Similar analysis was carried out for competitor intensity as a moderator between product factors and global sourcing strategy. The impact of product delivery on intra-domestic sourcing is greater for components with high supplier dominance; and a reverse impact of trade barrier stability on inter-foreign sourcing is greater for components with high supplier dominance. For competitor intensity it was found that only the impact of product delivery on intra-domestic sourcing is greater for components with low competitor intensity. Thus the Hypothesis was partially supported.

### Discussions

Since supplier dominance is a spin-off from bargaining power of supplier, the comparison of previous study and this study shall be based on the findings of bargaining power of suppliers that has a lower mean. This would indicate that there are limited suppliers with a handful of substitute available in the market. The hypothesis posited that the impact of product factors on global sourcing strategy is greater for components with high supplier dominance, was found to be partially supported.

The impact of product delivery on intra-domestic sourcing is greater for components with high supplier dominance. Even though supplier dominance is a new variable for this study, its characteristics lend itself from bargaining power of supplier. This confirms and is consistent with Porter's (1980) suggestions that when bargaining power of suppliers is high (in this case high supplier dominance), the firm will use internal sourcing. Buyers in wanting to have more control over the price, and supply of components when bargaining power of suppliers is high, will source internally. According to Casson and Associates in Cho (1990), when a firm faces a highly monopolistic or oligopolistic intermediate product market, the firm would see strong incentives to establish internal supply sources of the intermediate product. The impact of product quality on intra-domestic and intra-foreign, inter-domestic and inter-foreign is greater for components with high supplier dominance were not supported. One possible explanation is when a transaction is internalized the administrative aspect of it would be the use of authority rather than the voluntary bargaining between people in the market (McGuiness, 1987). The impact of product delivery on intra-foreign, inter-domestic and inter-foreign is greater for components with high supplier dominance were also not supported indicating that delivery is a non-monopolistic issue.

**Table 2**

The moderating effect of supplier dominance on the relationship between product factors and intra-domestic sourcing

Variables	Model 1	Model 2	Model3	Model4
Standardized Beta				
<i>Step 1</i>				
<i>Control Variables:</i>				
Product life cycle <sup>a</sup>	-.062	-.135	-.129	-.123
Parent country <sup>b</sup>	.158	.140	.099	.126
<i>Step 2</i>				
<i>Predictors:</i>				
Trade barrier stability		.483***	.493***	1.36***
Product quality		-.155	-.059	-.059
Product value for money		-.090	-.100	-.083
Product delivery		.058	.008	.022
<i>Step 3</i>				
<i>Moderator :</i>				
Suppliers dominance (sd)			-.194**	.467**
<i>Step 4</i>				
<i>Interactions:</i>				
Trade barrier stability x sd				-1.226**
Product quality x sd				-.185
Product value for money x sd				.172

Product delivery x sd				.300**
$R^2$	.026	.267	.297	.412
Adjusted $R^2$	.008	.226	.250	.348
$R^2$ change	.026	.241	.029	.116
F change	1.471	8.728***	4.4**	4.969***

Note: \*\*\*p<.01, \*\*p<.05, \*p<.10. Dummy coded: <sup>a</sup> maturity=1, growth=0; <sup>b</sup> asia=1, European=0

The finding for this study that supplier dominance is a moderator is consistent with that of Jantan et al., (2000) that found bargaining power of supplier to be a moderator in their study. The similarity between this study and that of Jantan et al., (2000) could be that both studies were conducted in Malaysia focusing on the relationship between product factors and global sourcing strategy. However, the reported finding on bargaining power of supplier was a significant moderator applicable only on the relationship between sourcing strategy and cost and not for quality and price in Jantan et al., (2000) study. It is interesting to note that bargaining power of supplier was found not to be a moderator in Murray and Kotabe's (1995) study. One possible explanation to this is that the study was conducted in a developed country, America, in that foreign MNCs that invested in America are basically tapping the vast market potentials for their sales rather than economic factors. Both Jantan et al., (2000) and Murray and Kotabe (1995) reported their findings based on different conceptual framework, that is both criterion factor are performance in that the former based on product performance (quality, price and delivery) whilst the latter based on market performance, and the predictor are global sourcing strategy from ownership perspective (intra and inter-firm). Nevertheless, both studies may be used as empirical evidence pertaining to global sourcing strategy research which particular reference to supplier dominance. It is worthy to note that this study will be the first to prove empirically that supplier dominance is a moderator between the relationship of trade barrier stability and intra-domestic sourcing, and between the relationship of product delivery and intra-domestic sourcing.

For competitor intensity it was found that only the impact of product delivery on intra-domestic sourcing is greater for components with low competitor intensity. Since competition intensity is a spin-off from bargaining power of supplier, the comparison of previous studies and this study shall be based on the findings of bargaining power of suppliers that has a higher mean. This would indicate that there are many suppliers that are able to substitute components in the market. None of the hypotheses were supported with the exception of one hypothesis. This could be because the availability of alternative suppliers resembles that of perfect competition, with many suppliers and maybe many buyers (Kotabe et al., 1998). With many suppliers to choose from, and with a high rate of substitution for the product, the suppliers are deemed not to be a threat to the firm. This is because price and quality are within the control of the buying firm (Porter, 1980). The hypothesis that the impact of product delivery on intra-domestic sourcing is greater for components with low competition intensity were supported, reconfirms the impact of product delivery on intra-domestic sourcing is greater for components with high supplier dominance and the internalization theory as well as competitive theory. Competition intensity that is a new factor to this study as a moderator was partially supported.

The findings may assist decision maker of the country, practitioners and educationists to understand the importance and the role of the supplier to this industry. However, the findings cannot be generalized to all industry. Case studies should be the next step in understanding the reasons behind these empirical findings

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# **WELLS FARGO: ITS CONTRIBUTION TO THE U.S. ECONOMIC CRISIS AS WELL AS A LESSON IN BUSINESS ETHICS**

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## **EXTENDED ABSTRACT**

The United States of America is known as the home of the brave but is it also the home of the greedy? The United States is viewed globally to be the land of opportunity and prosperity. However, within the last decade, opportunity has transformed its self into the world's highest desired possession: profit. Ironically, with improved technology and human and physical capital, today's profit comes at a much greater cost. Today's profitable bank business practices can forgo its corporate social responsibilities with the deterioration of corporate ethical standards. The tremendous pressure of bank shareholders naturally made the banking corporations look for and develop a new market and strategy. With the "income for 40 million U.S. households earning \$30,000 or less totaling \$650 billion in 2004, according to Federal Reserve data," subprime lending, at the time, seemed to be the most lucrative solution for banks to generate profit (Brian Grow, Keith ect.). Subprime lending allows for the less financially able person to gain access to money quickly. The subprime lending enables numerous individuals to develop a higher standard of living while only producing a minimal amount of income. Though subprime finances are a fair and helpful lending practice, they involve lending to high-risk investors that would result in a low percentage of actual loan turnovers with interest. Therefore any subprime lending leaves banks vulnerable with a high level of monetary risk. Bank subprime lending can be a financial blessing to those in need of money yet it can be a life altering burden of debt due to unethical lending practices.

The overuse of subprime mortgages, loans, and credit has created an enormous amount of debt to those whose net gain per year is under \$30,000. Subprime mortgages and loans became an imminent problem when, "U.S. foreclosure filings spiked by more than 81% in 2008, a record, according to a report released Thursday January 15, and they're up 225% compared with 2006." (Les Christie, CNNMoney.com staff writer). This then triggered a 700 billion dollar federal bank bail out plan. All these events were the result of unethical lending practice

One of the United States leading corporate banking firms is Wells Fargo. Wells Fargo is an independent financially holding and banking corporation that specializes in a wide range of banking services available to its customers. "Most people think in terms of banks, brokerages, insurance companies; they haven't grasped the totality of financial services. We're not in the banking business. We're in the money business" stated by the then Wells Fargo CEO Richard Kovacevich (Adrienne Carter, cnnmoney.com). It was this attitude that enabled Wells Fargo generate an average of 1.57% return on assets and an 18.19% return on equity for the last ten years, making it one of the most demanded banking corporations in 2006 ( Geoff Gannon, buzzle.com).

However, high demand was what would eventually lure Wells Fargo to unethically undergo mass subprime mortgages. The mortgages would be distributed among individuals classified as subprime, who knowingly could not afford the contractual obligations, leaving these customers with a debt that rejuvenated monthly and increased their interest in the favor of Wells Fargo. "Subprime mortgage lending typically refers to a loan to someone whose credit history is insufficient to qualify that borrower for a 'prime' loan, such as a loan 'conforming' to the underwriting guidelines of Fannie Mae and Freddie Mac; poor credit history, including a spotty earning history or a record of late and missed payment to creditors, or a recent bankruptcy, often account for a borrower being considered subprime (Proquest)." Wells Fargo's targeting of these individuals with subprime finances with discrete information of interest was known as "predatory lending".

Predatory mortgage lending practices strip borrowers of home equity and threaten families with foreclosure with the use of unfair and abusive contracts with high interest, destabilizing the very communities in which they live ( HUD). Although illegal, predatory lending could be easily committed with subprime lending, while the bank still maintained protection from lawsuits by hidden contract clauses. In some cases Automated Risk Evaluators (ARE) could be used to have an unfair advantage, which allowed for the bank to compute the maximum amount a person could afford to pay at that given moment (Proquest). The bank subsequently set the total price, down payments, and interest rate allowing them to take advantage of the

customer without his/her knowledge. Through the years these seemingly small practices have accumulated a vast sum of consumer debt. "From 1989 through 2004, the total amount owed by household earning \$30,000 or less a year has grown 247%, to \$691 billion, according to the most recent Federal Reserve data available." (Proquest)

Before the year 2000, subprime mortgages and loans were not exceedingly popular. However, during the turn of the new millennium the economy was flourishing with exceptionally low and affordable interest rates. These comfortable low interest rates increased the frequency of subprime lending by numerous banks. The large use of subprime mortgages and loans inflated the U.S. housing market. With this in mind homeownership would rise to a record 69% in 2004, pushing housing prices to increase substantially (NPR). Many individuals at this time were making a profit by reselling houses and refinancing their mortgage which, ultimately, decreased their current loan payments and interest rates. These mortgage loans would mostly be variations of the adjustable-rate mortgage which allowed for the interest of the loan to rise or fall periodically (NPR).

Wells Fargo entered into the realm of subprime loans with a splash. Wells Fargo's subprime mortgage lending totaled \$16.5 billion in 2003; though modest compared to the company's prime mortgage originations which has been doubling its subprime volume each year since 2000 (responsiblelending.org). Wells Fargo became one of the multiple banks to indulge in the use of the adjustable-rate mortgage in its subprime loans. Wells Fargo along with the help of other banks would make subprime adjustable-rate mortgage loans account for 23% of mortgages in 2005, a third of which were reported to start out at a fixed 4% interest rate for the first two to three years then increase its interest percentage (NPR). Adjustable-rate mortgages appeared to be the best option to subprime assignees due to its unordinary low interest rate. Though these subprime loans looked to be the light at the end of the tunnel for these users, Wells Fargo along with other fellow banks, used deceptive sales pitching to entice their consumer targets. The sales pitching allowed limited information to the unfamiliar user. Thus, leaving the assignee with the impression that the interest rate at which the loan was signed would be the rate for the life of the contract. After two to three years the interest rate would more than double for the assignee without his/her knowledge, making him unable to make the monthly payments of the loan. This would then force the foreclosing of the loan (many assignees chose to file bankruptcy also) which left Wells Fargo paying for their losses while having to keep an empty house. The foreclosed houses would then decrease the overall realty market value which then adversely increased mortgage rates. This became an almost ordinary cycle for subprime mortgages until banks lost too much money and the housing market became flooded with empty foreclosed houses.

Though this subprime mortgage and loan crisis became the leading issue for one of the worst United States economic downturns, there is still hope for Wells Fargo solve its subprime financing problem before it results in an economic depression. Drastic measures needed to be taken yet the last option Wells Fargo should engage in is to freeze all its finance services and lending. This would only worsen the already crumbling economy and would eventually put Wells Fargo out of business. Wells Fargo needed to change all of its subprime mortgages and loans from an adjustable rate of interest to a low fixed rate fast as possible. Having a fixed interest rate will allow for assignees to create solid payment plans, lower monthly payments, and in turn increase the percentage of a subprime loan turnover. This is also an opportunity for Wells Fargo to review all subprime assignees recent information in order to make any necessary loan modifications and to halt any current foreclosing for applicants who are able to afford the new discounted loan. In addition to decreasing current interest rates, by making these rates fixed for all current subprime loans and mortgages, Wells Fargo would still be able to generate a profit with prime loans while taking subprime losses. An increase default interest rate for prime loans to 8% and higher down payment requirements on all new loans had Wells Fargo generating a profit while still promoting future prospected investors (Buzzle.com, O'Brain)

Additionally, Wells Fargo could use chapter 13 in order to regain lost equity without the loss of revenue due to foreclosures, court costs, and evictions (Stephen Gadel, cnnmoney.com). This proposal from Sen. Richard Durbin (D-Ill.) would force lenders, such as Wells Fargo, to accept lower interest rates, stretched-out payments or even a decrease in the loan itself (Stephen Gadel, cnnmoney.com) However, this plan may only be used for assignees who qualify under chapter 13. This plan will not solve all subprime loans but it is one of the only guarantees for Wells Fargo to receive any revenue.

Bank of America was one of many other banks that had generated itself into financial trouble with the use of subprime mortgages. Bank of America stated that banks and investors who made subprime loans or bought securities backed by them are reported billions of dollars in losses (Huliq news). The majority of subprime mortgages distributed by Bank of America were all created around the adjustable-rate mortgage process. The subprime loans would be created with a 7% interest rate then jump to 9.5% after two years

adding an average of \$350 to most monthly payments (Huliq, news). However, like all other banking corporations, the aftermath of these mortgages and loans have come back to haunt them. Bank of America swallowed its pride and decided that keeping its customers was more important than foreclosures and fast cash. Bank of America devised a plan named the Nationwide Homeownership Retention Program for Countrywide Customers to aid in the subprime loans and mortgage (bankofamerica.com). This plan calls for massive reduction of mortgage interest rates with a combined total of \$8.4 billion and principle reductions for over 400,000 Countrywide Financial Corporation customers (bankofamerica.com). The objective this plan was to have assignees still live in their homes allowing for Bank of America to collect revenue instead of empty houses.

The unethical lending by Wells Fargo and their competitors by subjecting to individuals whom are unfit to meet their terms of contract, have heightened the awareness in many other organizations. One organization that came out of the mortgage and foreclosure crisis unscathed was National City bank. Their secret was to stick with the minimal amount of risk. Unlike many other banks National City did not become arrogant and start to invest in risky unchartered areas of finance. Though, National City bank did not invest particularly in unethical subprime loans, it had its share of foreclosures also. In order to prevent future mortgage crises and foreclosures, National City should indulge in a minimum risk lending and investing strategy. Prime loans are the best investing strategy that National City could use in order to create a generous profit without minimum risk. In order to ensure minimal risk, future prime loans should have a standard non-adjustable interest rate. Also, to ensure investor seriousness and payment ability, National City could have a higher down payment standard and have deductions for paying loans off early. National City bank should be concerned about avoiding risk and should invest in lucrative long-term lending. Banks, such as Wells Fargo, should not administer unethical subprime loans and mortgages. Financing that preys on the wealth of the weak to make them weaker makes for undesired outcomes for both the lender and assignee.

This extended abstract is a conceptual foundation for a full article focused upon maintaining a strategic parallel between banking profit-making strategies and the inherent strategies within federal and state bank chartering procedures.

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## **CAN GREEN MARKETING BE USED AS A TOOL FOR SUSTAINABLE GROWTH? THE INDUSTRY PERSPECTIVE**

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### **Abstract**

#### **Introduction:**

Sustainable consumption and sustainable development are the two faces of the same coin. Sustainable development refers to maintaining long-term economic, social and environmental capital. While sustainable consumption becomes the way of life. Sustainable consumption is using resources in a way that minimizes harm to the environment while supporting the well-being of people.

Realizing the importance of people's concern for a healthy environment to live and preferring environmental friendly products and services to consume, marketers these days are trying to capitalize on the same to ensure sustainable growth and using these concepts in designing their strategies.

One of the key business strategies for sustainable growth has taken the shape of Green Marketing. Green Marketing can be viewed both as a type of marketing and a marketing philosophy. As a type of marketing it is like industrial or service marketing, and is concerned with marketing of green products and positioning them as green brands. As a philosophy, green marketing runs parallel to the societal marketing concept and espouses the view that satisfying customers is not enough and marketers should take into account ecological interests of the society as a whole. It is a part of Corporate Social Responsibility (CSR).

Green business strategy is no longer an option; the future depends on it. For gaining competitive advantage and ensuring sustainable growth, these days' companies put a socially responsible strategy at the top of their agenda. They have realized the fact that this whole exercise of creating environmental product differentiation may raise the business's costs initially, but due to this differentiation they may also become capable of commanding higher prices, to gain additional market share, or enjoying both these advantages.

The increasing environmental consciousness makes it incumbent on consumer marketers not just to respond to, but to lead the way in, environmental programs. Consumer marketers should analyze the changing consumer attitudes while recognizing the role that companies can play in protecting the environment. They must realize that green marketing is not purely altruistic - it can be a profitable endeavour for sustainable growth.

It is only since 1990's that the researchers have started academically analyzing consumers and industry attitude towards green marketing. Many research findings supports the idea of green marketing and states that these days customers are willing to pay more for an environmentally friendly product, it adds more credibility to such companies who practice concepts of green marketing, and these companies are able to protect themselves from imitators for long enough to ensure enough profit on their investments. In fact, most of such studies for identifying industry's attitude towards green marketing are done in developed countries and remain conspicuously missing in the context of developing countries like India. This research is a step to fill up this gap.

#### **Purpose:**

This research study discusses the concept of green marketing and its interface with industries in India. What attitude Indian industries have towards green marketing and whether their attitude varies from the type of industry i.e. durable, non-durable and services?

#### **Methodology:**

Exploratory research design was used in the study, and both quantitative and qualitative approaches were used in the study. A structured questionnaire was used for executing the postal survey of industries and to



support this study an exhaustive literature survey was done. Researchers have used following approach in the study, for examining the industry attitude towards green marketing.

#### Research Objectives

1. To study the attitude of Indian industries towards green marketing.
2. To compare the behavior of three types of industries i.e. durable, non-durable and services towards green marketing.

#### Research Hypothesis

Following hypothesis were formulated to articulate the above mentioned objectives of the research:

H1: In future more and more consumers will prefer green products.

H2: Companies, which can establish themselves with a green image, will have distinctive advantages in the marketplace and will enjoy sustainable growth.

H3: Companies, which sell green products, will be able to sustain for a longer period of time in the market as compared to non-green product sellers.

H4: Sustainable development will be feasible if companies start making green products.

H5: Government intervention will promote more and more green companies.

#### Research Design

Researchers have used exploratory research design in the study. Structured questionnaire was used for collecting the primary data from companies. Five-point balanced Likert Scale was used for measuring consumer attitude towards green marketing. Cronbach Alpha Index was used to check the validity and reliability of hypothesis and corresponding questions in the questionnaire. It was found that the above stated five hypotheses are reliable on the basis of their respective cronbach alpha value.

A sample size of 1,000 Indian companies was taken from CII (Confederation of Indian industry) directory for executing the postal survey. Judgment and convenience (non-probability) sampling methods were used for selecting the companies falling in durable, non-durable and service sectors. Questionnaire was sent to these 1,000 companies through postal and courier services. Out of which only 112 valid responses were received back from those industries. Then, collected data was analyzed by using T-Test, Z-test and One Way ANOVA (Analysis of Variance) on the above stated proposed hypotheses.

#### Major Findings:

Results of the study provide an insight of Indian industries and overall reflect a positive attitude towards green marketing. Comparison of durable, non-durable and service industry also provide very interesting and useful results, which are highly relevant in establishing a competitive advantage and gaining sustainable growth in this highly challenging era of liberalization and globalization. This study also provides future direction to researchers in the field of green marketing and sustainable growth.

#### Key Words:

Sustainable Growth, Green Philosophy, Green Marketing, Sustainable Consumption, Corporate Social Responsibility, Green Company, green Brands

## A CONCEPTUAL FRAMEWORK FOR SOURCE CREDIBILITY, PERCEIVED RISK, AND THE INTERNET SHOPPING

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### EXTENDED ABSTRACT

The marketing and social persuasion literature contains an abundance of research on various aspects of the three constructs of source credibility, perceived risk, consumer involvement, and, but very few researchers have conceptually and methodologically examined these constructs jointly. Still fewer have examined any of the three constructs in the context of in-home shopping mediums in general and almost none in the context of the Internet shopping. This article develops a conceptual framework for exploring the linkages among these three constructs in the case of Internet shoppers who have known experience of and preference for one of two shopping websites on the Internet. We highlight the implications for the design of the Internet-based shopping stores that induce online consumers to purchase decisions. We conclude by raising some questions and defining research approach to the issue of measuring the dimensionalities of both perceived source credibility and perceived risk.

Of interest to the present study is the difference between those shoppers who habitually purchase through the Internet. Such research seems to be important because the Internet shopping has been growing rapidly and yet there has been little research designed to elicit whether there are distinctive psychological processes (Klassen and Glynn 1992) followed by the set of people who buy from a particular Internet source. Previous research in the context of the Internet shopping does not appear to have adequately answered some questions such as: is the product type an important variable, and does it have different effects on the habitual users of different shopping mediums? Is the shopping medium itself important? Or, is the credibility of the information source important? Or, whether credibility can be understood independent of product being sought? These questions deserve more research. Source credibility has been shown to influence the effectiveness of social persuasion (Jain and Posavac 2001; Lafferty and Goldsmith 1999). To motivate and persuade an audience in social persuasion settings not restricted to marketing, a combination of high communication credibility (e.g., message content) and high source credibility have been considered important in various contexts (e.g., retail store) (Grewal, Gotlieb, and Marmorstein 1994; Stern 1994).

Past studies found that there is more perceived risk in in-home shopping than with store shopping (Dholakia and Uusitalo 2002; Weathers, et al. 2004), but have not yet studied the differences between or within the Internet shopping sources. The interest of majority of these studies is in using demographic and psychographic variables to predict which shopping medium a consumer will choose. There is almost no research into the psychological attitudes or risk-processing behavior of consumers who have already made such a preference.

This conceptual framework hopes to make some contributions to the literatures of marketing, social persuasion, and electronic retailing in general. To the best of our knowledge this is the first conceptual framework which attempts to explore the relationship(s) between the variables of source credibility and perceived risk in the Internet shopping context. One of the important implications of this framework is that it facilitates both consumer psychologists in order to understand and rationalize how Internet shoppers perceive to certain Internet shopping contexts, as well as assist marketing practitioners in developing sound communications strategies. At a managerial level, this framework has implications whether and in what contexts managers should try to vary the levels of source credibility (e.g., when to induce celebrity endorsements) in order to reduce or even eliminate Internet shopper's risk perceptions. The framework and its propositions may strongly suggest that the effects of source credibility may vary between different shopping contexts in rather complex way.

To understand the Internet shopper's perceptions at a deeper level, it, therefore, seems useful to identify these settings (product type, shopping medium, participant) where perceived risk has a strong influence on purchase behavior, and where source credibility has a strong effect in reducing relevant dimensions of risk purchasing behavior (Grewal, et al. 1994). At present, in the context of the Internet shopping, any link between the effects of source credibility, we have proposed, on perceived risk and the actual behavior of consumers in purchasing is an unstudied topic. In terms of implications, the combined study of source credibility and perceived risk may also serve as a tool for marketing communications. For example, managers, instead of emphasizing convenience might develop promotional campaigns which attempt to reduce specific types of perceived risks. Importantly, how should managers of Internet-based (shopping)

companies conceptualize and employ source credibility in terms of its 'inconsistent' dimensionality remains an open question (Jain and Posavac 2001; Warnick 2004). This conceptual framework also highlights a methodological stance that may prove useful to future Internet shopping investigations, in particular the use of non-student samples, and the use of qualitative focus groups to set realistically "face valid" variations in the levels of the variables for use in quantified laboratory studies.

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## **SOME THOUGHTS ON THE ADOPTION OF IFRS IN JAPAN**

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**Waseda University, Japan**

### **Synopsis**

We need the process of perception to recognize an object as a stimulus, as being related to a felt strain. This process depends on past experiences and what has been learned from them. We may draw a picture in which many kinds of filters are used by us in the process of sensation, perception and recognition. During the period immediately after the so called Financial Crisis of 2007-2009, the pace of efforts by the Japanese participants in capital markets to change direction from convergence on IFRS to its adoption has been accelerated. Especially, the regulatory agency of Japan, Financial Service Agency (FAS) has shown this change by revision of its report titled "Towards the International Convergence of Accounting Standards," in July 2006 to its report titled "The way to deal with IFRS in Japan" in 2010. Analysis of these reports along with that of rules on Consolidated Financial Statements issued by FAS. In this article we would like to analyze uniqueness of filters used by them in their process of perception of IFRS

## **DIVERSITY AND DEVELOPMENT: THE CASE OF BOSNIA AND HERZEGOVINA**

**John Leonard**

**Rick Chaney**

**American University of Bosnia and Herzegovina**

### **Abstract**

Scholars have recently considered diversity as an important part of the development process. B. Liam and J. O'Neal (1997) examined cultural diversity and economic development for a set of 98 countries. Thomas Leinbach and Richard Ulack (1999) restricted their focus to Southeast Asia and found that cultural diversity led to uneven development. Yves Berthelot (2004) edited a volume of UN sponsored work in which the five regional commissions wrote up the influence of regional economics on economic development for each of their areas. Daniel Nettle et al. (2007) defined domestic and external diversity and employed these items to study economic development and societal instability. Karen Fisher-Vanden and Gary Jefferson (2008) worked on technological diversity in Chinese enterprises. They found that neoclassical growth leads to capital deepening, that Chinese research and development is labor intensive and that the Chinese import technology which is capital using leads to the development of new products. Jonathan Hanson (2009) studied 70 nations and began with an intra-national analysis. His focus takes a political science perspective. In a forthcoming book, Tony Binns and Alan Dixon (2010) examine African diversity and development taking an interdisciplinary approach. They use recent data and case studies.

The authors propose to apply the idea of diversity affecting development to the diverse nation of Bosnia and Herzegovina. Census data taken at the canton and city level can be used to show how diverse elements lead to differing development outcomes. They propose that greater diversity leads to greater development and will use panel regression analysis to demonstrate that effect. This is part of a project to elicit diversity effects on development in an eco-historical context. Other nations will be represented when the body of work is completed.

## **WALK THE TALK: AN ENTREPRENEURIAL VENTURE BY BUSINESS SCHOOL STUDENTS IN INDIA**

**Dwarika Prasad Uniyal, Jindal Global Business School**

**S Ram Kumar, CEO, Last Resorts**

**Abhilash Lal, AnsWer Consulting**

**Abhishek Chandra, WTT Project Coordinator**

### **Abstract**

Walk the Talk (WTT) was a student corporate initiative at Chitkara Business School, Himachal Pradesh, India ([www.cbs.chitkara.edu.in](http://www.cbs.chitkara.edu.in)). As part of their curriculum, students, mentored by faculty, were encouraged to set up a corporate entity from scratch and carry out actual business projects under this entity. This provided students with a unique practical perspective and experience in actually DOING various things they have studied about i.e. setting up a company, structure, shareholding, A&MoA, obtaining regulatory approvals, deciding on business focus and preparing a capability pitch, approaching customers, winning business and actually executing the project (business line) and running it like a company, accounting and reporting.

As mentioned above, WTT was an initiative where students could actually go out and 'do' business activities as opposed to just studying about them. This instilled a huge amount of practical knowledge, awareness, experience and confidence in the students while ensuring that the class room learning was cemented through practical experience.

For the year 2009, the batch formed a company called 'Walk the Talk' as a co-operative, planned and executed all activities for setting up the entity and then approached a Mumbai based company (representative of a leading Kitchen appliances brand of the US) for handling the product sales for north India. The initial market survey and customer feedback was taken across the tri-cities of Panchkula-Mohali-Chandigarh (India) and based on customer feedback, the entire marketing, distribution, pricing, stocking and post sales strategy drawn up.

Mentors monitored this entire exercise and guided all the 57 students of 2009 batch across each step. They observed each step students took to encourage their thinking and application skills - non interfering but, at the same time, being present at each step to guide them in case they went astray or missed some important steps. It was executed well through a combination of mentoring, discussions, stimulation and hints to students as to the right process. The quality output of the entire program was due to constant supervision and guidance. At the same time, the thinking ability, knowledge, application and confidence that students gained was due to the gentle mentoring.

**Key Words:** Entrepreneurship, Chitkara Business School, Oxo, Marketing Plan, Walk the Talk, India

### **Background:**

World over, business education focuses on creating efficient managers who would manage someone else's business. At very few places the emphasis is on actually teaching or giving students an opportunity to actually think like a businessperson or even do business rather than just know and learn about how to manage it. A close substitute in the name of giving students an exposure of real life has been 2 months summer internships, where graduates work on some projects assigned to them by their project supervisors/mentors. While these projects do give interns some understanding of a particular department of a huge organisation it hardly exposes them to real life challenges and decisions faced by company executives. Since there is hardly any accountability attached with the project with no bearing on company's performance it hence gets reduced to a mere simulation exercise.

Also, most of these projects are randomly assigned to keep the interns busy and hence eventually resulting in very limited learning for the interns.

### **The Concept of Walk the Talk:**

The concept was to do away with the conventional summer internship concept and instead allow students to learn on their own by giving them an opportunity to form their own company and run it. The company was

real, the work was real, the deliverables were real, timelines were tight, budget was tight and pressure was immense. Also to form a company, to go through the nuances of the legal issues involved, raise the capital, identifying the right business model, working towards forming a real organization, job roles, work area, business development etc. It practically involved everything and hence was a revolution in thinking towards business education who has rarely tried to break the mould

Scope of Walk the Talk:

To set up a corporate entity from scratch and carry out actual business projects under this entity as a student corporate initiative at Chitkaa Business School, Himachal Pradesh, India.

Project with OXO International Ltd for its kitchenware product

Approach

#### **Defining Research Objective**

- To identify and evaluate potential of a market for a medium to premium brand in the kitchenware segment for OXO International currently in the entry stage in India through Premium homeware Pvt. Ltd
- To develop a marketing plan and effectively launch the product range for Premium Home ware in Northern India beginning with Tri-Cities of Chandigarh / Mohali / Panchkula

#### **Developing Research Plan**

Various sources of primary data have been used as part of the research plan. They have been explained below:

#### **PLEASE CONTACT AUTHORS FOR A COPY OF THIS FLOW-CHART**

##### **Stage I – Primary Research**

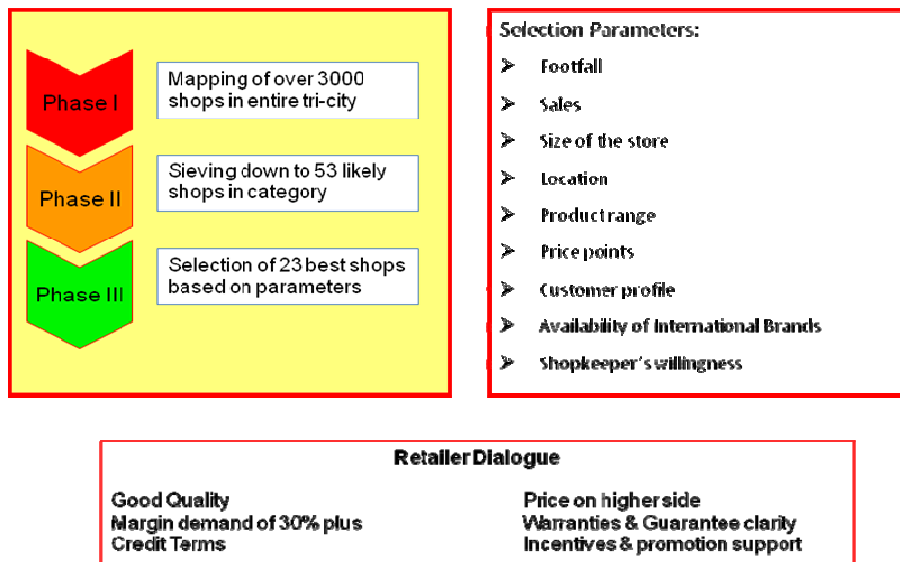
The entire primary research was divided into three phases:

Phase I- In the first phase the target market was studied and on basis initial knowledge, observation and feedback over 3000 shops were identified and mapped in entire tri-city for our detailed research. These shops were either retail stores or retail cum distribution outlet engaged in distribution of consumer product in the identified market. A comprehensive research was carried out and data was collected with the help of 100 point checklist. The entire exercise was done by dividing the entire region into tricity and forming 28 clusters covering 3000 shops. The exercise was done to study the buying behavior of the shoppers in the area as far as consumer goods were concerned.

Phase II- After phase one on basis of filled checklist the entire data was collated and effort was made to funnel the number of shops down to relevant outlets which can be considered as prospective business associate to retail the kitchenware product. We arrived at 53 such shop which was again targeted for further detailed research. The 53 shops selected were kitchenware, crockery or related store in the available market. Here the research was carried out from three different perspectives i.e. analysis of the shop which was done through observation, shopper which was done through observation and with help of questionnaire and lastly shopkeeper which was done with help of personal interview. The objective behind this phase was to find out consumer behavior with regards to kitchenware and related product.

Phase III- The third phase was carried out in order to get the right shop to retail the products. The various parameters which were considered in order to arrive at more accurate results with respect to selection of business associates were footfall, sales, size, location, product range, price points, customer profile and availability of international brands at shop along with willingness of shopkeepers to stock the product being one of the important criterion. On basis of data collected, 23 best shops were finally selected to be proposed to the client. The idea behind this phase was to ascertain the shops which can actually sell the products which were on offering.

## Retailer Gyan



While carrying out the research there were some frequent queries and feedback which were encountered by the research team. These were mainly pertaining to product related feedback or question from the retailers with regards to benefits from mutual association. Generally the team received encouraging feedback on products with quality being appreciated the most with price the biggest concern. The shopkeepers were keen on clarity of warranty and guarantee terms and expected incentive and promotional support from the company. Margin and credit terms were other factors which were of utmost interest to them.

### Structured interview of Shoppers and Shopkeepers

We conducted interviews with shoppers and shopkeeper in order to understand the product's features and the opportunities and obstacles relating to its launch in the Tricity

To meet the above objective, we carried out structured interviews with the following individuals:

1. Shoppers who visited the shops selected in first and second phase
2. Shopkeepers who owned or operated those shops

Based on the above interactions, we got a fair idea of what the various attributes of a kitchenware product would be desired by prospective consumer. The same are explained below:

### Actual market research – Quantitative techniques

#### **Target respondents**

The target respondents are primarily the shoppers who visited the targeted shop in Phase I&II and owner of these shops in the tricity of Chandigarh, Mohali and Panchkula.

#### **Data Analysis and Techniques**

Based on the analysis of the data collected through our market research, we have arrived at the following observations.

Out of a sample of 747 interviewed across 3 cities, 298 or 39.3% samples earned income which was below Rs 20000/- while 253 or 33.86 were samples earning above Rs 20000/- monthly. 53% of the samples falling above the age group i.e. ages 21 and above are the shoppers who can be targeted for the particular product as they were the one who could be considered as serious buyer on basis on response at time of research. Out of entire sample population studied as expected in country like India the kitchenware shopping was highly dominated by females who constitute 79% of entire shoppers studied. 59% were brand conscious, 61% were price conscious, 61% perceived American brands to be costly, while 32 % felt American brands were of better quality than Indian brands, 52% of the respondents were willing to pay



extra for a better quality American brands, though 56% of respondents were not aware of American brands in the market while 37% new some brands and could give their names in the kitchenware category. Almost 97% did not know about Oxo brand.

#### Final Output

On the basis of the primary research carried out we have designed a marketing plan for the purpose of the launch of the OXO kitchenware product in the Tricity. In order to define the target market, the STP approach of Segmentation, Targeting, and Positioning was followed. We also did an analysis of the strengths, weaknesses, opportunities and threats for premium kitchenware as a product. The marketing strategy is a culmination of the basic Marketing Mix, which consists of the various attributes of the product, the way the product is to be promoted, and the channel of distribution which is defined by the 'Place' attribute of the four Ps and the Pricing of the product

#### Recommendations

Outlet selected for retailing the products

#### **PLEASE CONTACT AUTHORS FOR A COPY OF THE DISTRIBUTION MAP AND PRODUCT AND PRICE MIX**

##### Product specific recommendations

- Products
  - ☐ To be launched in first phase
- Price
  - ☐ Expected price range based on market
- Channels
  - ☐ One Distributor
  - ☐ 22 Retailers
  - ☐ Storage & Inventory Levels
- Promotion
  - ☐ Newspaper ads
  - ☐ Canopies / live demos
  - ☐ Pamphlets
  - ☐ Radio Jingles
  - ☐ Glow Signs
  - ☐ Collateral – T-Shirts

##### Promotion/Approach Specific recommendations:

##### Marketing Plan - Expected Costs

- Marketing
  - ☐ Sales Executives Salary – Rs. 15600
- Transportation
  - ☐ Rs.3300
- Storage & Inventory
  - ☐ Storage rent – Rs.6800
  - ☐ Store/Accounts in charge salary – Rs.5000
  - ☐ Total Inventory - Rs.981455, 1923 units
- Promotion
  - ☐ Rs. 165800
- Credit Period / Cash Discount
  - ☐ 30 days period
  - ☐ 2% cash discount for 1st ten days
- Penalty
  - ☐ 2% interest per day after 30 days
- Expected Margins
  - ☐ Retailers – 30%
  - ☐ Distributor – 10%

- The sectors with higher propensity to contribute must be targeted first and according to the analysis, it is the transport sector
- The leaders and heads in the labor camps should be approached as they can help educate the workers about the product

#### **Inferences from the research:**

Our analysis reveals that good numbers of people are willing to pay premium for quality and durable kitchenware product. Also, the willingness to purchase is dependent on the utility of products to these customers while the amount that one is willing to invest depends on the level of income and budget set for kitchenware product.

#### **Stage II**

The Execution Plan: The whole project took one month to plan and execute and we were able to successfully launch the Oxo product range in the tri-city markets of Chandigarh, Panchkula and Mohali. The advertising and communications campaign led to tremendous excitement and awareness for the brands and retailers were able to get encouraging footfalls after initial launch.

Client's response: Oxo and their Indian national distributor were very happy with the planning and execution work done by the company and duly paid our consulting fees apart from operational expenses. The revenue thus generated was evenly distributed among all 57 employees of the company.

#### **Impact:**

Excited by the initial success of the Walk the Talk experiment, a select group of students then branched out and started an event management company called "annies lounge".

This new company entered in the area of creating campus events, road shows, fashion shows, rock shows, had a rock band which also performed in campus festivals, DJ parties etc.

#### **Key Business learning:**

This was an experiment on real life entrepreneurial venture by business school students who used their learning's from their curriculum and actually applied them in a real life scenario and worked for a real client.

- How to apply theory to practice?
- How to form a company?
- How to pitch for a project?
- How to run a venture?
- How to distribute job roles and coordinate?
- How to successfully plan and execute a huge marketing plan?
- How to cut costs and make a profit on the venture?
- How to "Walk the Talk"??

#### **Academic Learning**

- Economics-Situation Analysis/PESTLE
- Research Methodology-Research Design and Sampling
- Marketing Research-Process of Research/Tools
- Quantitative Techniques and SPSS-Data Analysis
- Marketing-STP/4P
- Urban Retail Study-Consumer insights
- Retailing-Dealer Analysis and Retail Kiosk
- Costing and Financial Management-Margins and Expense Sheet
- Operations Management-Logistics and Transportation Model
- Business Communications-Putting it all and Presenting it to you
- Organizational Behaviour: How to work in teams as well as individually
- Human Resources Management-How to manage people?
- Legal Aspects of Business- How companies are formed?

End note:

Walk the talk was all about the fun, the grind, the hot sun and dehydrating bodies, reluctant customers, non-interested dealers, Worried parents, cynical co-workers, demanding BOSS. It also had grueling deadlines, mind boggling data cleaning and breaking our heads over costing. We also enjoyed the fun of creating the Creative's, t-shirts, print advertisements, radio jingles, television spots, kiosks, a retail shop and much more.

In the world full of Pfaff, boring theories, stereotypes, old ways to do things, We DARED... we dared to be different, YES... WE... WALKED the TALK!!!!

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WTT Team:

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## INTEGRATED INNOVATION, KNOWLEDGE MANAGEMENT AND INTELLECTUAL CAPITAL MATURITY FRAMEWORK

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### Abstract

The paradigm shifts in the way the global enterprises carryout businesses in the context of modern day Knowledge Capital have severely constricted the application of existing standards like Six Sigma, SPICE, ISO's, CMMI, PCMM, Lean etc in the arena of Innovation driven Intellectual Capital enterprises. These standards completely ignore the newer dimension of enterprise Innovation, knowledge management and Intangible Asset processes maturity.

Such a problem calls of evolution of newer Knowledge, Innovation, IP and Intelligent Processes (KI3Ps) to govern the maturation of Intellectual Capital in the modern enterprises. These processes will establish a maturity framework for maturation of the KI3Ps in the context of globalisation of the modern knowledge enterprises. These KI3Ps will have to encapsulate the business strategy, knowledge strategy, Intellectual Property and Intelligent process strategy of the enterprise and create management and ICT systems that align the four strategies of Business, Knowledge, IC and Intelligence.

In my research I have attempted to create a framework after researching enterprises around the globe in the USA, EU, UK, Japan and other Asian economies to provide a structured maturation of the business, knowledge and IC governance processes in the modern enterprises. The resultant benchmarks and best practices have been formulated into a framework christened as the Integrated Innovation, Knowledge Management and Intellectual Capital Framework. Suitable process measurements and metrics have been embedded into the framework which provides enterprise indicators for organisational knowledge and IC maturity of the enterprise at all levels. The framework have been divided into three maturity levels over which knowledge enterprises around the globe can align their Business, Knowledge and IC (BICK) strategies. The three levels of organisational maturity reflects the maturity of the enterprise processes in the management of Innovation, knowledge and IC assets in terms of creation of systems for Idea generation and/or acquisition, Creating, Filing, Searching, Defending, Institutionalization, Protection Enforcement, Policing, Exploitation, Revenue generation and ultimately result in intertwining of the BICK Strategies.

Advantages: The most pertinent advantage of implementing the I2KIC Maturity Framework is that it provides a systematic globally recognized standard for enterprise processes maturity for Innovation, Knowledge management and Intellectual Capital. Some of the key benefits are :-

- Transforms service companies into product and service companies for an ideal Product-Service mix.
- Multiple Streams of Income and greater ROI by selling multiple licences instead of one time service.
- Provides global branding to a corporation which has the I2KIC Maturity processes certification has process demonstrative capability in its PDLC or SDLC or Service architecture to receive customers IP and protect it demonstratively.
- Acquiring finance/VC and better valuations in M&As.
- Re-branding corporate identity.
- Obtaining access to new markets.
- Global positioning and leadership
- Avoiding wasteful expenditure in R&D and marketing
- Preventing competitors from copying or closely imitating products/services
- Get the globally recognised InnQ™ (Innovation Quotient) rating from I2KIC Framework.

Present status of the Framework: The I2KIC framework fits seamlessly into all Knowledge and IC scenarios. Version 1.01 which was published by me is presently in vogue. Version 2.01, which has been released and published in my book titled "Breeding Innovation and Intellectual Capita" Edition 2, after inclusion of feedback received from implementing corporations of the first version. The book will be released for sale in Dec 2009. Version 2.01 has been specifically crafted to fit into the following Business Application Areas.

Business Application Areas:

- Information Technology/Technology Enabled – Both products and services
- Outsourcing – Business Process/Knowledge Process
- Telecom
- Healthcare
- Media, Entertainment, Animation and Gaming
- Internet
- Manufacturing
- Clean Technology/Alternative Fuel
- All Intellectual Property driven propositions
- Research Institutions, Business Schools, Engineering Schools and Universities

# EXISTENCE OF CAPITAL MARKET EQUILIBRIUM IN THE PRESENCE OF HERDING AND FEEDBACK TRADING

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## Abstract

The present paper tries to establish the existence of equilibrium, in an asset market inhabited by two representative investors with different risk aversions, by staying within the Arrow-Debreu framework. In order to capture heterogeneity in information and resources, the paper segments the investor population into two: (i) Individual investors and (ii) Institutional investors. Based on recent literature, it has been conjectured that as compared to institutional investors, individuals are less informed and more vulnerable to psychological biases. Accordingly, the individual investors are assigned a quadratic utility function while the institutional investors are assigned power utility function. The utility functions so specified attempt to capture the biases of herding and feedback trading demonstrated by the said categories of investors. The paper establishes the bounds for the interest rates at which the two investors need to trade with each other such that the market clears. This rate is determined by the parameters of the investors' risk aversion as well as the dynamics of their consumption and total wealth in the economy. The equilibrium pricing so arrived at would adjust for existence of herding and feedback trading amongst market participants.

Key Words: Heterogenous Agents, Herding, Feed back trading, shadow rate of interest.

JEL Classification: G12, C62, D53

**BEYOND PLANNING FOR DEVELOPMENT IN THE LESS DEVELOPED COUNTRIES:  
REVIEW OF THE NIGERIA'S STRATEGY**

**Abdu Ja'afaru Bambale  
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**ABSTRACT**

*Poverty, unemployment and slow growth rate are basic characteristics of less developed countries. National Economic Empowerment and Development Strategy (NEEDS) is a planning programme conceived in Nigeria to achieve some development related goals. Specifically, NEEDS aims at achieving poverty reduction, employment generation and wealth creation. This paper attempts to find out the workability and performance of NEEDS as an important tool for future change. Secondly, the paper recommends some future intelligence capacity actions to help NEEDS to effectively achieve its objectives. The method adopted by the paper is the use of library materials, publications and other documented researches pertaining to the subject-matter. The paper hypothesizes that NEEDS has not been able to make a significant impact and therefore did not significantly reduce poverty and unemployment in Nigeria. The failure of NEEDS to attain some reasonable measure of development is attributable to the failure of political leadership. The leadership, at all tiers of government, is bedeviled by high level of corruption, lack of sincerity of purpose, lack of vision, relegation of national interests and jettisoning popular interests. To achieve meaningful development in Nigeria, the paper concludes that choice of some future capacity actions must be considered, which include: heavy investment in education, visionary and transformational leaders, institution of true and popular democracy, and creating an enabling investment environment.*

## **EDUCATION AS A CAPACITY BUILDING TOOL FOR ENTREPRENEURSHIP AND SOCIO-ECONOMIC DEVELOPMENT: GOVERNMENT ATTITUDE IN NIGERIA**

**Abdu Ja'afaru Bambale**  
**Bayero University, Kano, Nigeria.**

### **ABSTRACT**

One of the fundamentals of societal building anywhere in the world is education. It is a very important tool for capacity development of human resource which is necessary for entrepreneurship and socio-economic development. The state of education in Nigeria is bad. As a nation, Nigeria is still dependent on minor technologies and foreign expertise from overseas. Nigeria is saddled with lack of adequate and competent professionals in most sectors of the economy. The vast majority of citizens are not given access to quality education. Inefficiencies and poor education services are the order of the day. The bane of the problem in the Nigeria's educational sector is mostly a leadership failure and general neglect of the sector. It is against this background that this paper seeks to find what actually people perceive as the major contributors to the present sorry state of education in Nigeria and the extent of government role in the problem. In pursuance of the study's objectives, survey method of interview and personal observation have been employed. Open ended questions were asked to provide for free flow of responses. The interview method was complemented with personal observation of the writer who has been obsessed with the situation over time. The study has found myriad of factors militating against educational development as a tool for capacity building in Nigeria which invariably affect entrepreneurship and general socio-economic development. Some of these factors include: shortage of qualified and well trained teachers; shortage of educational facilities; lack of incentives to teachers; official corruption; lack of foresight by the government; and poverty in the nation. For enhanced development of education and therefore entrepreneurship and development, the paper recommends some measures. These measures include: high budgetary provisions; poverty reduction; formation and strengthening of pressure groups; concerted government effort towards reducing enrolment gap and elimination of corruption.



## **A HISTORICAL PERSPECTIVE OF MICRO-ENTREPRENEURSHIP**

**Bella Galperin**  
**University of Tampa**

### **ABSTRACT**

Professor Muhammad Yunus, the founder of the Grameen Bank and a social entrepreneur, was awarded the 2006 Nobel Peace Prize for his efforts to provide credit and banking services to the rural poor and, in turn, creating economic and social development. The concept of micro-credit or micro-loan, pioneered by the Grameen Bank in Bangladesh, involves credit of approximately \$100 to economically disadvantaged entrepreneurs--typically creative women in developing countries. The micro-loan movement has created a global network of tens of millions of women entrepreneurs. This paper provides a historical perspective of micro-entrepreneurship and poses questions regarding the micro-entrepreneurship literature. Specifically, the paper poses the following questions: Do micro-finance efforts help micro-entrepreneurs in both developing and developed countries? What are the long-term effects of micro-credit? Finally, possible directions for future research are outlined.

**ORGANIZATIONAL JUSTICE, PARENTAL CONTROL, AND TEAM COMMITMENT:  
IMPACT ON THE STRATEGIC PERFORMANCE OF INTERNATIONAL JOINT VENTURES**

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**ABSTRACT**

This study develops a model to examine relationships among perceptions of organizational justice, organizational commitment, and organizational performance in IJVs in Indonesia (n=113). Specifically, the study aimed to answer the question: What model accurately describes the relationship among procedural justice, distributive justice, parental control, the management teams' organizational commitment to multiple parties (IJV itself, the foreign parent and the local parent), the management team's commitment to implementing strategy, and strategic performance? The model is evaluated using hierarchical multiple regression analysis, and using the senior management team of IJVs operating in Indonesia as the unit of analysis. The findings confirm that perceptions of procedural justice, parental control, and distributive justice are significantly correlated with the management teams' commitment to multiple parties: (1) procedural justice has the strongest effect on the team's commitment to multiple parties; (2) procedural justice, parental control, and distributive justice are significantly related to the team's commitment to implementing strategy; (3) the management team's commitment to multiple parties is significantly related to the team's commitment to implementing strategy; (4) the team's commitment to implementing strategy is significantly related to strategic performance; (5) the management team's commitment to the IJV itself and to the foreign parent has a mediating role on the relationship between procedural justice, parental control, and distributive justice and the team's commitment to implementing strategy. (6) the team's commitment to implementing strategy has a mediating role on the relationship between the management team's commitment to multiple parties and strategic performance. This study confirms the findings of previous studies on the role of organizational justice in IJVs and offers a psychological and sociological insight to help scholars, founders of IJV, and managers to better understand how to enhance strategic performance in an IJV. Theoretical and practical implications as well as suggestions for futures studies also are discussed.

**CONCEPTUAL MODEL OF TECHNOLOGICAL INNOVATION: LESSONS TO BE  
LEARNED FOR OTHER LESS DEVELOPING COUNTRIES LIKE IRAN**

**Reza Salami  
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**ABSTRACT**

This paper will survey the successful experiences of some Newly Industrialized Countries of East Asia in their rapid technological innovation. This is mostly due to the fact that the other LDCs such as Iran can draw valuable lessons from these success stories which in turn can also contribute to success in their experience of technological innovation which can also lead to their rapid development. Firstly, the empirical experience of successful East Asian NICs in managing technological innovation is studied. The most critical success factors contributed to East Asian NICs' technological innovation will also be investigated. Iran's own experience as a developing country that attempts to integrate its economy to the global economy has been chosen as a case study to apply East Asian model of globalization and technological innovation. Finally, a conceptual model of technological innovation based on drawing some invaluable lessons from the successful experience of the East Asian NICs in will be proposed for other LDCs such as Iran.

Key Words: Conceptual Model, Technological Innovation, Ldcs, Iran.

## **GLOBALIZATION AND SUSTAINABLE DEVELOPMENT: IMPLICATIONS FOR THE NIGERIAN ENTREPRENEUR**

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### **ABSTRACT**

This paper attempts to appraise the implications of globalization to entrepreneurship for sustainable development in Nigeria. The paper highlights the opportunities and challenges posed by globalization to sustainable development through entrepreneurship. Thus, the objective is to expose the implications of globalization to entrepreneurship for sustainable development. It argues that with the present technological development, particularly IT, the world is networked, people around the world are neighbours and everything is within reach. Globalization can help towards the development of entrepreneurship for sustainable development in both developed and developing economies. However, entrepreneurs in Nigeria may likely be affected by the process because of financial inadequacies, under developed technology and lack of competitive strength. Hence it may consequently lead to marginalization of the Nigerian entrepreneurs at both domestic and global markets. The paper submits that the negative consequences could be curbed through fair playing ground in the market, effective leadership, sound economic and stable government policies to ensure sustainable economic growth and development through entrepreneurship.

# **THE GLOBAL ECONOMIC MELTDOWN: ITS CONSEQUENCES AND IMPLICATIONS FOR THE NIGERIAN ENTREPRENEUR**

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## **ABSTRACT**

This paper focuses on the issues and consequences relating to the global economic melt down and their impact in Nigerian economy. The aim of the paper is to assess the impact of the crisis on entrepreneurship and how to surmount challenges posed by the crisis in Nigeria. The paper is literature based and employed content analysis to buttress the impact of the crisis on the Nigerian entrepreneur. The paper reveals that just before the onset of the current financial melt down, Nigeria recorded some micro economic gains such as single digit inflation, near single digit interest rate, high level of foreign reserve and stable foreign exchange regime. However, when the global financial/economic melt down reared its ugly head because of interdependence in the global financial systems coupled with fall in revenue accruing to the government due to fall in prices of oil globally, that led to credit crunch in both the money and capital markets in Nigeria. These have negative consequences on entrepreneurs' abilities to raise the needed capital/funds for their various ventures. The paper recommends that the Nigerian economy should be diversified instead of relying on oil alone, the Niger Delta crisis must be resolved amicably, local banks should be empowered to be able to give credit to deserving entrepreneurs.

## **YEMEN ACCESSION TO THE WORLD TRADE ORGANIZATION**

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### **ABSTRACT**

Republic Of Yemen is one of the least developed countries (LDCs) that is currently in the process of negotiating its accession to the World Trade Organization (WTO). The WTO accession process is a strenuous effort for Republic of Yemen that lacks the human resources and technical capabilities duly required to facilitate its accession to this august global body.

This presentation gives an overview of the accession process of Republic of Yemen, detailing the expected changes and their implementation costs in terms of institutional and legal reforms, and tries to analyze the major issues and challenges the country has been encountering over the years. While not exhaustive, it discusses some of the agreements that may pose particular implementation challenges in the days to come. Moreover, it also scrutinizes whether or not Republic of Yemen has received special consideration as promised by the “Doha Round of Multilateral Trade Negotiations” at which the WTO adopted guidelines for facilitating and accelerating negotiations for LDCs such as Republic of Yemen.

**IMPACT OF THE INTERFACE BETWEEN RELIGIOSITY, ANIMOSITY AND  
ETHNOCENTRISM ON SAUDI CONSUMERS' ATTITUDES TO PURCHASE AMERICAN  
CARS ACROSS SAUDI ARABIA**

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University of Malaya, Malaysia**

**ABSTRACT**

This research study endeavors to analyze the effects of Ethnocentrism, Animosity and Religiosity on Saudi consumers' purchase intentions towards American products such as automobiles. This study assumes unique importance as attitudes of Muslim consumers towards western brands have changed after the 911 global terrorism tragedy.

## **ATTITUDES OF MALAYSIAN CONSUMERS TOWARDS AMERICAN BRANDS**

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### **ABSTRACT**

Since the tragic global terrorism accident of 911, attitudes of Muslim consumers across the world towards American brands have undergone a major change because of the animosity developed by the on-going war of terrorism launched by the US in collaboration with its western allies across Iraq, Afghanistan and Pakistan, causing enormous amount of carnage, anguish and destruction to Muslim countries and societies.

This study examines unique relationship between the Product Country Image (PCI), animosity, ethnocentrism and purchase intentions of Malaysian consumers, especially the Malay consumers towards US brands. Though, Product Country Image (PCI), animosity and ethnocentrism have been studied extensively across the western world, but the relationship between the four constructs remain largely unexplored and how they (collectively) influence the purchase intentions of consumers across emerging countries such as Malaysia is also unknown. The goal of this study is to develop a new model with a focus on Malay consumers and their dispositions to purchase US brands in the context of 911.



## **AN ANALYSIS OF MOTIVATIONAL FACTORS AFFECTING MIDDLE EASTERN TOURISTS VISITING MALAYSIA**

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**Madan Annavarjula  
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### **Abstract**

This study was undertaken to identify factors that are central to tourists from the Middle East while choosing Malaysia as a vacation destination. Our findings reveal that push and pull factors were more important than other factors among Middle East tourists. For instance, “Novelty and Prestige” of the destination ranked highest among the push factors. Among the pull factors, “Natural, Historical, and Environment” attracted the highest ranking. The factors with low mean values were also visible, that can alert the stakeholders why a particular issue or factor is not scoring well with the Middle East tourists. Malaysian tourism can benefit from adequately addressing these issues by the Malaysian tourism marketers and policy makers. Additionally it would also improve the customer satisfaction levels of Middle East tourists who can in turn play a role as potential ambassadors of its global tourism industry.

### **Introduction**

Tourism revenues have grown to the third largest after revenues from export of oil and automobile. International tourism has become a major foreign exchange earner for many low income countries and small islands, and it is a principal export for 83% of developing countries (WTO, 2006). Studies on travel intentions have been one of the focal points of tourism research for years; motivation for travel has been an important area of study in the tourism literature for decades. Understanding why people travel and what factors influence their behavioral intention of choosing a travel destination is beneficial to tourism planning and marketing.

The tourism industry in Malaysia, over the past several decades, has become one of the fastest growing industries within the services sector especially as the economy transits into a post-industrial society. Backed by a steady rise in the number of tourists flocking into the country, especially travelers from countries like Singapore, Thailand, China, India and Middle East countries the tourism industry has rapidly become one of the prime sectors in the Malaysian economy. However, in the past two years, Malaysian tourism is seeing a downhill trend in the number of tourists arriving from the Middle Eastern countries. A significant number of tourists who come to Malaysia are from Middle East. Although Malaysian Tourism organizations have offered a variety of products and facilities for Middle East tourists, within past years, especially in the years 2007-2008, the number of travelers from these countries has decreased as shown in

Table 1 below.

Malaysia Tourist Arrivals by Middles Eastern Countries 2007/2008		
Country of Residence	2007	2008
BAHRAIN	6,874	0
IRAN	27,215	55,727
KUWAIT	17,650	17,812
LEBANON	8,523	0
OMAN	19,525	16,712
QATAR	11,782	7,437
SAUDI ARABIA	78,298	69,964
SYRIAN ARAB REPUBLIC	7,481	4,066

**Table 1** Tourist arrivals from Middle Eastern countries. Source: ([www.tourismmalaysia.gov.my](http://www.tourismmalaysia.gov.my)).

#### Objectives of Research

The objectives of this research are:

- To identify internal factors that push Middle East tourists to travel to Malaysia.
- To identify external factors that pull Middle East tourists to travel to Malaysia.

#### Significance of the Study

This study is significant for the researcher because it provides a platform to learn, appreciate and investigate tourism motivation in great depth so as to enable her to complete this investigation. The experiences and lessons learnt during the course of this study are with no substitutes from the text book. The study further provides a first-hands-on experience on conducting a questionnaire survey rather than basing it on the text book material alone. Furthermore, this study is important for the tourism industry as it highlights the motivational factors which encourage Middle Eastern tourists to visit Malaysia.

#### Push and Pull Factors

According to the tourism literature and related models of travel destination choice and decision-making process, one profound travel motivation model related to travelers' decision-making in choosing a destination involves the concept of push and pull factors (Uysal and Hagan, 1993).

This concept explains that people travel because they are pushed and pulled by some sort of inherent forces. These forces describe how individuals are "pushed" by internal variables, and how they are "pulled" by a travel destination (Uysal and Hagan, 1993). Push factors include cognitive processes and socio-psychological motivations that predispose people to travel (Chon, 1989). Most push factors originate from intangible or intrinsic desires of human beings, including the desire for escape, novelty seeking, adventure seeking, dream fulfillment, rest and relaxation, health and fitness, prestige, and socialization (Chon, 1989). Pull factors are those that attract people to a specific destination once the decision to travel has been made. They include tangible and intangible cues of a specific destination that pull people to realize the needs of particular travel experiences, such as natural and historic attractions, food, people, recreation facilities, and marketed image of the destination (Uysal and Hagan, 1993).

#### Tourism Industry in Malaysia

The Asia Pacific region became a rapidly growing tourism destination in the world since 2001. World Tourism Organization (2006) statistics showed that international tourists in the region grew to a total of 578 million in the first 8 months of 2006, up 4.5% from 553 million in those of 2005, a year which shows an all-time record of 806 million people traveling internationally. Growth is estimated to continue in 2007 at a rate of approximately 4% worldwide. As the world's second fastest-growing region in the first 8 months of 2006 (8.3%), the Asia and Pacific region remains strong. In spite of this fact, study about Asian travel motivations has not attracted as much attention as the European and US travel motivations (Kim & Prideaux, 2005).

In Malaysia, the tourism sector ranks second as a generator of foreign exchange after oil and gas manufacture. This industry has been growing rapidly in the country over the past few years. Malaysian

tourism had enjoyed quite an impressive average growth of 9.26% between 1981 and 2000. The number of international arrivals to Malaysia showed a significant growth before reaching its first climax in 1990. Malaysia, in 1990 also recorded a 54% increase in tourist arrivals from the previous year due to the intense "Visit Malaysia Year" promotional blitz throughout the world. After taking a dip in 1997 and 1998, the Malaysian tourism sector recovered with a 53% increase in international tourist arrivals if the projection by the Economic Intelligence Unit is still relevant.

#### Research Methodology

Primary data for this study was collected through a questionnaire survey. Tourists from Middle Eastern countries were surveyed to generate the necessary data for this study to identify the motivational factors affecting the decision making to choose Malaysia as the tourist destination. The data consists of responses from 118 tourists visiting Malaysia. The initial questionnaire was pre-tested among 20 Middle East students from University Sains Malaysia and some tourists in Penang during December 2008.

#### Data Collection and Analysis

The research survey was carried out followed by personal interviews at the following different locations at:

- Kuala Lumpur International Airport (KLIA),
- Bukit Bintang Street,
- Selected Arabic and Iranian restaurants in Kuala Lumpur

The survey and interviews were conducted for 5 days from 14<sup>th</sup> -18<sup>th</sup> January 2009.

During the interview, 150 self-administered questionnaires were distributed among the Middle East tourists.

A total of 130 questionnaires were obtained from the 150 distributed questionnaires and only 118 were usable. Factor analysis with varimax rotation was used as an appropriate way to identify underlying motivations factors.

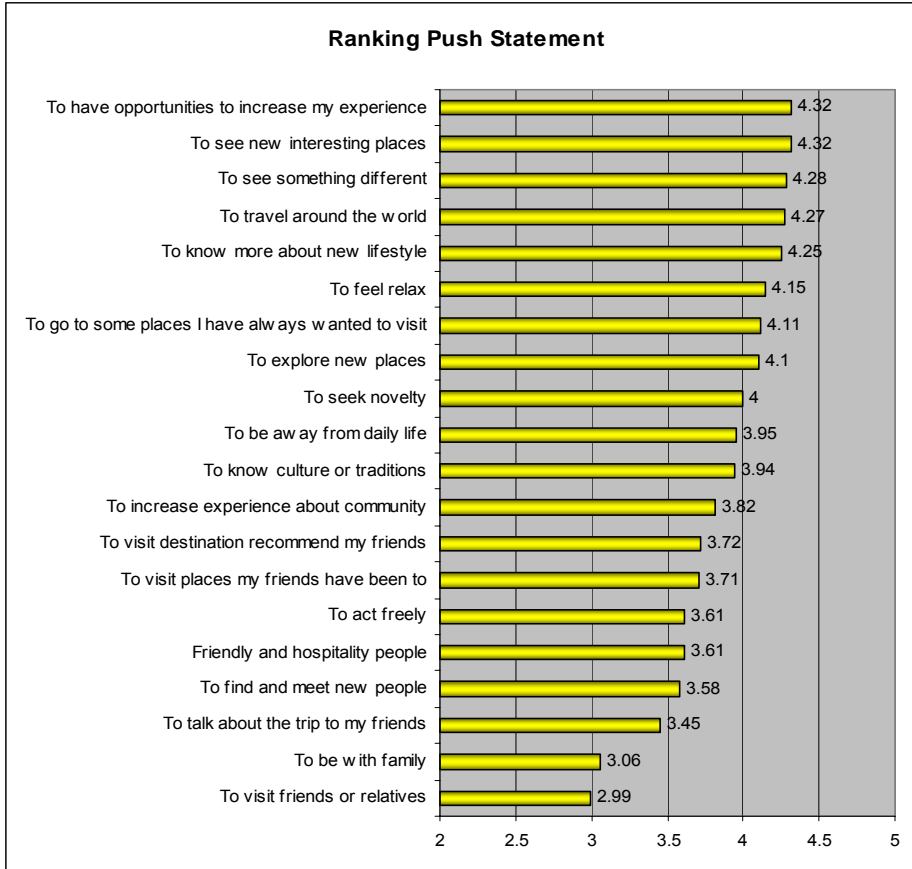
#### Research Findings

##### Overall Mean Ranking Push Factor Statements

The table below shows the importance of ranking for push factors. The first ranking in this push items acquired mean values greater than 4.0. The important push items included "To see new interesting places", "To have opportunities to increase my experience", "To see something different", "To travel around the world", "To know more about new lifestyle", "To feel relax", "To go to some places I have always wanted to visit", "To explore new places", "To seek novelty". However, eight items received a mean value between 3.50 to 3.99. These items included "To be away from daily life", "To know culture or traditions", "To increase experience about community", "To visit destination recommend my friends", "To visit places my friends have been to", "Friendly and hospitality people", "To act freely", "To find and meet new people". On the other hand, "To talk about the trip to my friends", "To be with family", "To Visit friends or relatives", were considered the least important because the mean value is less than 3.50. The responses for each statement are calculated to find the average value between 1 to 5. In this study there are 20 push statements. The mean ranges from the highest 4.32 to the lowest 2.99. The statement which got the highest mean was "To see new interesting places". The statement which got the lowest mean was "To visit friends or relatives".

**Figure 1** *Ranking of Push statement.*

Upon identifying the ranking of the statements then we were able to look at 5 statements with the highest mean value among the statements. Next we identified and selected the five top most push factor statements and sorted them in order from the highest to the lowest. The highest value was 4.32 and the lowest was 4.25. "To see new interesting places" got the highest value of 4.32 whereas "To Know more about new lifestyle" got 4.25. The push statements with the lower mean values are also identified by the research. The research identified and selected out 5 statements with the lowest mean value. The value ranges from 3.61 to 2.99. The lowest mean was for the statement "To visit friends or relatives" with 2.99. On the other



hand "To act freely" got a mean value of 3.61. Other statements were in between these two values.

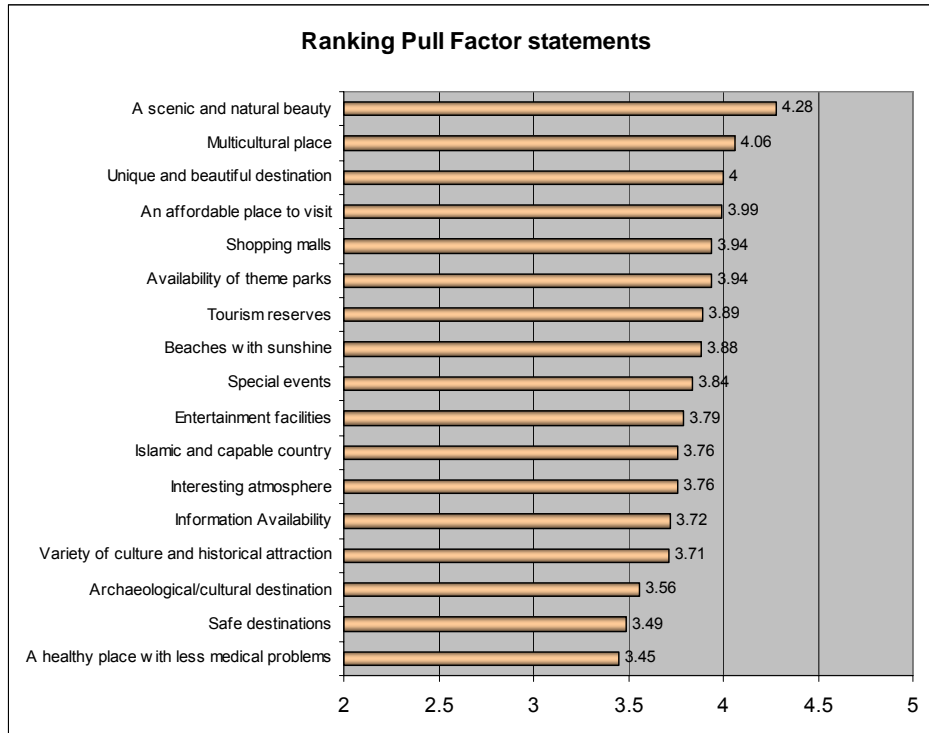
#### Overall Mean Ranking Pull Factor Statements

**Table** below illustrates ranking pull factors. The pull motivational items which had the highest mean value at more than 4.0 included "A scenic and natural beauty", "Easy to get visa", "Multicultural place", "Unique and beautiful destination". However, there are twelve items which acquired a mean value range of 3.50 to 3.99. These items were "An affordable place to visit", "Availability of theme parks", "Shopping malls", "Tourism reserves", "Beaches with sunshine", "Special events", "Entertainment facilities", "Interesting atmosphere", "Islamic and capable country", "Information Availability", "Variety of culture and historical attraction", "Archaeological/cultural destination". In contrast, "Safe destinations", and "A healthy place with less medical problems" were the lowest important items gathered from the opinions the Middle East tourists.

According to ranking results that shows the most important factor was "A scenic and natural beauty". It acquired a mean value (4.28), while "A healthy place with less health problems" was not an

important item because the mean value had a yield value of 3.45. On the other hand, all of these pull motivational items were important and most of them acquired a point mean value more than 2.5 that is on the border line between the positive way and negative way.

The order of ranking for pull factors are captured in the form of a bar chart from the highest to the lowest in Figure 2 below.



**Figure 2** *Ranking of Pull factor statements.*

Upon ranking the importance of the pull factor statements the researcher was able to segregate the top most from the bottom most mean values of the pull factor statements.

Next the researcher identified and selected 5 of the top most full factor statements. The top most statement value ranges from the highest 4.28 to availability of theme parks 3.94. The statement “A scenic and natural beauty” got the value of 4.28 whereas the statement “Availability of theme parks” got the lowest value of 3.94.

“Multicultural place” got 4.06, “Unique and beautiful destination” got 4.00. “An affordable place to visit” got 3.99. The ranking is done from the highest to the lowest.

Next the 5 statements were sorted with the lowest mean values. The statement “Information Availability” got 3.72 whereas the statement “A healthy place with less medical problems” got the mean value of 3.45. “Variety of culture and historical attraction” got 3.71, “Archaeological/cultural destination” 3.56 and “Safe destinations” got 3.49.

### SUMMARY AND CONCLUSION

This study used factor analysis to find out motivational factors affecting the Middle East tourist visiting Malaysia. The statistical analyses based on the factor analysis were used to strengthen the findings. The academic demands were put in place by the researcher to ensure the results of this study to be of significant importance to the Malaysian tourism sector stakeholders. Motivational push factors which are affecting the Middle Eastern tourists to visit Malaysia are as shown in Table 2 below.

**Table 2** *Push factors affecting the Middle Eastern tourists.*

To see new interesting places	4.32
To have Opportunities to increase my experience	4.32
To See something different	4.28
To travel around the world	4.27
To Know more about new lifestyle	4.25

Also as answer for second question, the motivational pull factors which are affecting the Middle Eastern tourists to visit Malaysia are as shown in Table 3 below.

**Table 3** *Pull factors affecting the Middle Eastern tourists.*

A scenic and natural beauty	4.28
Easy to get visa	4.22
Multicultural place	4.06
Unique and beautiful destination	4
An affordable place to visit	3.99

#### Contributions

This study has helped to identify all the factors which affect the Middle Eastern tourists in making Malaysia as their choice for holidays. Upon identifying the push and pull factors it is possible to positively affirm the factors which motivates the Middle Eastern tourists to visit Malaysia. On the other hand all the factors which scored low with the tourists were highlight equally. These low ranking factors could well be used to encourage more tourists only if the relevant authorities would be able to systematically improve on them. The research addresses these low raking factors in the recommendation section of this chapter.

#### Limitations

The research was only able to conduct the study limited to tourists in Kuala Lumpur. Tourists in other parts of Malaysia, out of Kuala Lumpur were omitted in this study. Another important limitation of this study is the fact it was conducted in January during the off peak season among the Middle Eastern tourists. The peak months for Middle Eastern tourists visiting Malaysia are during the school holidays from June to September every year. Furthermore, there are imbalances between number of male and female respondents that could have caused some level of bias in the analysis.

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# **A STUDY ON THE EFFECTIVENESS OF OPERATION AND MANAGEMENT IN THE RECRUITMENT AGENCIES**

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## **Abstract:**

Recruitment agencies are independent companies that specialize in matching skills and experiences of candidates with the hiring requirements of organization. The increasing globalization of the marketplace combined with an ever increasing shortage of skilled staffs and advances in technology have resulted in large scale changes to recruitment practices throughout the world. Therefore, this study was conducted with the aim to discover the effectiveness of recruitment agencies in Malaysia Labour Market by investigating their operation and management with regards to staffing issues and processes. Kuala Lumpur was chosen as a location of study. This qualitative study involved 7 informants from 3 categories: the recruitment agency operators, the employers, and the job applicants. In-depth interview was used as a method of data collection. Every response received from the informants was recorded. In this study, there were 3 sections in the interview schedule – Section A focused on informant's background; Section B consisted of open-ended questions which focused on the agency or employer client management; and Section C focused on the agency workers. The findings clearly revealed that recruitment agencies play a major role in external recruitment method. Meaning that, without effective operation and proper management, the recruitment agencies might not be successful. In addition, the recruitment consultants are the important person to determine the effectiveness of recruitment agencies. Without a professional consultant, the recruitment objectives could not be met. The recruitment practices and procedures greatly influence the effectiveness of recruitment agencies. Meanwhile, the success of the job matching is very much depending on the suitability of the requirements from employers and qualification of employees. As a conclusion, effectiveness of the firms in terms of operations and managements is an important element in recruitment agencies. The professionalism of recruitment consultants can deliver quality recruitment services and lead to customer satisfaction. Therefore, more research about recruitment agencies should be conducted in order to gain valuable outcome, thus contributing to the human resource field.

**Keyword:** Recruitment, Recruitment Services, Recruitment Agencies, Recruitment Consultants, Staffing

## **1.0 Introduction**

The increasing globalization of the marketplace combined with an ever increasing shortage of skillful staffs and advances in technology have resulted in large scale changes to the recruitment practices throughout the world. The recruitment process in an organization nowadays can be organized in a variety of ways. It can be coordinated in-house or by an external recruitment agency. Smaller organization may have limited staff or budget to run their own recruitment functions. Organizations with low turnover rates may also prefer to use external recruitment agencies because they do not have a recruitment function of their own. Many organizations have moved to outsourcing all of their non-core activities.

Recruitment agencies are independent companies that specialize in matching skills and experiences of candidates with the hiring requirements of organizations (NES group, 2008). They can function on either locally or globally. Some of them are even specialized in the way they operate. The most basic services offered by these recruitment agencies are to match the applicants' skills and qualifications to the most suitable vacancies available. The usual process is that candidates will send in their resume to the agency, which will then identify possible roles and then contact the candidates for approval before putting them forward for each vacancy. The agency will then coordinate the interview process and provide feedback to the client about the outcome of each interview.

According to Zulkifli Musa (2008), recruitment agencies come with different specialties. For example top notch multinational agencies like Korn/Ferry, Boyden, Spencer Stuart and Russell Reynolds, which are called headhunters, only work with some of the world's largest companies and hire top executives such as CEOs, CFOs, Managing Directors and so on. There are middle level agencies that handle recruitment for middle level managers and senior executives such as Kelly services, Manpower and Adecco, which have offices scattered around the world. They offered temporary recruitment, contract and payroll services.

The recruitment agency can recruit candidates through several of methods such as newspaper advertisement, online job portals, their own websites, and walk-in interviews and so on (Zulkifli Musa,

2008). Many companies would advertise the job vacancies even though they are not hiring, as they are accumulating candidate database for agency future references. However, for headhunters, they would normally approach highly competent employees directly, due to the fact that most people who are good at their job are not actively looking for job.

Pretty (2008) had reported that most employers and job applicants are now facing problems in finding out the good agencies as they do not know how exactly the agencies operate and help them out. Helping job applicants to get new jobs is the responsibility of recruitment agency. However, an independent recruitment agency scoring website has discovered that 70% of people surveyed who had looked for work through an agency felt they had been cheated. Despite the best efforts of the recruitment industry to improve its reputation, 73% of people who were asked if they had ever felt lied to by an agency about a role replied yes.

In the survey conducted by London-based Web Hires Ltd, which run the recruiting evaluation web site, nearly 90% of those surveyed felt that recruitment agency should do more to increase its transparency when they involving in recruitment and selection process. The survey result had shown the concerns of the reliability of recruitment agency. There are candidates' evaluations of recruitment agency that they had not received enough information that was entirely accurate about the chances getting their jobs and they felt stressed. From the survey analysis, 81% admitted that they would prefer to go direct employment to a company rather than via an agency. This is because many do not know exactly how the recruitment agency will work for them. From the survey results, more than 56% felt that they had been pressured into going for a role by agency. They did not feel they can trust the information that their agencies provide. Instead, most however, 70% felt that using online job boards and forums made the recruitment process easier.

In 21<sup>st</sup> century, most organizations had shifted their external recruitment method attention from recruitment agency to online recruitment. Online recruitment which operates without consultants and need fewer administrative support workers has become their challenges. Through such developments, employers have seen the emergence of online recruitment with an increasing ability to less costly recruitment which is faster and flexibility. Job postings on employer Web sites; online newspaper classified advertisement; and job matching Internet sites operated by educational institutions and professional associations compete with this industry thereby start to limit the growth of recruitment agency. Thus, this study was conducted to investigate the reasons among employers in choosing recruitment agency as the recruitment alternative method. This study would also identify the advantages and disadvantages of using recruitment agency.

## **2.0 Literature Review**

### **2.1 Choosing a Recruitment Agency and Its Role in Recruitment and Selection Process**

Recruitment agencies may provide varying levels of service for candidates. It is best to do some research into the best agency in the field before registering to make sure it matches the expectations. The recruitment consultant from the agency often has contacts with a large number of clients who choose not to advertise their vacancies publicly, thus widening the pool of vacancies to job seekers. Many candidates are still conducting what is known as a traditional job search, where they will scan the job pages of local newspapers, apply for positions and wait for a response. However, this approach might result in missing as many as 75% of all possible jobs (the invisible jobs markets). Recruitment agencies can increase their efficiency of job seeking by giving the candidates more time to pursue other tasks, as they are searching for their career move.

Good recruitment agencies will have an excellent understanding of their local markets and become major players within the sector. According to Pretty (2008), agencies can also give the candidates an accurate understanding of what salary they are expecting, according to the experiences and area that they wish to work in.

The most basic service offered by recruitment agency is to match the skills and qualifications to the most suitable vacancies that arise. The usual process is that the candidates will send in their curriculum vitae to the agency, which will identify possible roles for the candidates and then contact them for approval before putting them forward for each vacancy. The agency will then coordinate the interview process and provide feedback from the clients (employers) about the outcome of each interview.

The recruitment services offered by an agency are free for candidates to register. Reputable recruitment agencies will take time in understanding the requirements and ensure that types of positions that the candidates are interested in. Recruiters often have contacts with a large number of clients who choose not to advertise their vacancies publicly, widening the pool of vacancies to job seekers. As most agencies have huge database of job applicants who are looking for jobs, they generally help employers to save their times and costs to speed up the recruitment and selection process (NES group, 2008). The recruitment consultants

will not simply send the unqualified candidates for short-listing as it is not beneficial to them. Unqualified ones for sure will be rejected from the employers.

### **2.3 The Motives Using Agency Workers**

While temporary agency work merged out of the demand from employers for workers to fill short-term gaps created by staff absences, temporary vacancies between permanent appointments and to meet unexpected, short-term peaks in demand, it has been apparent for some time that agency work now extends beyond this traditional “temping” model. A number of researchers have attempted to classify and analyze the range of employer motivations for using labour hire and temporary agency work (Abraham, 1990; Allen and Henry, 1996; Von Hippel *et al*, 1997; Houseman, 2001; Hall, 2000 in Hall (2006). Employer motivations for using agency workers are diverse but tend to range across few general sets of reasons: numerical flexibility; cost; lack of locally available labour; to replace the absent employees; recruitment and selection; access to skills.

### **2.4 Advantages of Using the Recruitment Agency**

Many people do not use temporary recruitment agency because they either do not know what temporary agencies are or think they should be able to find job on their own. According to Amy (2007), temporary agencies are a great resource for simplifying the job search. They are particularly useful for students, recent graduates, people who have just gotten started in their careers, and people who want to change jobs- that is, almost anyone.

A temporary agency is a firm that helps match people seeking work with open positions at companies. They keep a running list of available positions with a running list of available workers, and they often know about the openings that are not known to the general public. When the agency finds a match, the job applicants will get a phone call telling them about the job and asking whether they are interested. Amy (2007) reported that temporary recruitment agencies usually will offer temporary jobs, temp-to-hire jobs (where the candidate will work for a company on a trial basis with the possibility of securing a permanent position later on), and direct hire jobs (where the candidates will immediately be hired as a full-time employees).

For those candidates who are fresh of new in the market, they probably would not have much of network to help in the job search. Recruitment agencies can be the contact the candidates do not have. The agency will review the resume, meet and interview the candidates, and test their basic skills, so when they introduce the candidates to their clients, the candidates will have the same kind of credibility.

For those who are currently employed but want to change jobs, it may be difficult to find the time to look around as they are already working 40+ hours a week. Letting the recruitment agency to do the legwork will be save lots of time and energy. For those college or high school students, temporary recruitment agency can help them to find more useful and significantly better paying work than they find at the mall.

The recruitment agencies are market specialists as they are concentrating on highly technical or specialized fields and generally will have well inside knowledge of the labor markets. They often help to attract candidates for those hard-to-fill positions better than other recruiting strategies. On occasion, the employers may need a recruiting effort to be conducted confidentially. When this need arises, the recruitment agencies are one of the best sources to turn for recruitment assistance as they can act as confidential recruiters. Another strengths of recruitment agency is they are able to find applicants who may not know the organizations and able to attract them to the opportunities. These recruitment firms can help to open the eyes for those who are not looking.

### **2.5 Disadvantages of Using Recruitment Agency**

The recruitment agencies usually offer their recruitment services to their clients. However, the most expensive strategy to use in hiring employees in any organization is the recruitment services charge (Visconti & Brountein, 1992). Some agencies charge for their time. Some will charge a retainer, based on the hire’s annual compensation, which is paid in installments: immediately, in the middle, and upon completion of the assignment. A percentage of the annualized compensation is charged once the new hire is found.

Since the recruitment agency will make their money when offering the recruitment services by convincing the clients to fill the openings, an agency’s sales skills maybe stronger than its recruiting skills. As they are emphasis on sales, the agency firms may work harder at persuading their clients to accept their candidates than understanding their recruitment needs and qualifying the best candidates to meet those needs.

However, according to Visconti and Brountein (1992), there are many professional, talented recruiters in the recruitment agency firms, unfortunately, a few who are not. The ethics and professionalism of a few of these recruiters are questionable. The employers are advised to do investigation to any firm before using the recruitment services.

For job applicants, it is worth remembering that recruitment agencies are not careers advice centres, and they are usually not qualified to help with career decisions. Their role is to find people to fill positions for their clients, and not help to concern with the career satisfaction. Some agencies will have no hesitation in trying to talk and get the job applicants into jobs which are unsuitable. Some feel obligated to take it and that is actually a mistake. It is because they had gone to the agency to get help find a right job, and not the wrong one. There are plenty of these types of agencies around.

### **3.0 Research Methodology**

The type of research design that was used for this study is qualitative research approach. By using this approach, it allows the researcher to explore more on employers and job applicants' perception towards the recruitment agency. This research was conducted within the Malaysia Labor Market. The target population for the research study was done in Kuala Lumpur. This is because the majority of recruitment agencies and well-established organizations are found located there. In this study, the researcher used 7 informants from three categories: the recruitment agency operators, the employers and the job applicant. The informants for this study were selected using purposive and judgmental sampling. They were selected based on the researcher's judgment and knowledge because researcher knows those informants have knowledge, skills and are able to provide the best information to answer questions raised from the research questions. These categories of respondents have close relationships with each other as they often deal with one another. The small group of informants will enable the researcher to be more focused on the issue being discussed.

The research instrument used by the researcher was interview schedule. Interview schedule is a set of question to be answered by the subjects of the study. It was conducted orally and the researcher recorded the answer to the questions. In the development of interview schedule, the researcher had determined the objective of this study. It was a starting point to begin developing a schedule of questions. In this study, there were 3 sections in the interview schedule. Section A focused on the informant's background that consisted of 4 questions. Section B consisted of about 12 open-ended questions, which focused on the agency or employer client arrangement, and Section C consisted of about 10 open-ended questions which focused on the agency workers. The usage of open-ended interview questions had encouraged the informants to expand their answers by giving examples. By doing so, the researcher had obtained a lot of worth information.

The data collection technique in this study was in-depth interview. In this study, the researcher used the structured interview. In structured interview, the researcher used the interview schedule as a guideline when asking questions to the informants. Then, the responses to the questions would be compared. Before conducting the interview, the researcher called the informants to ask whether they were willing to be interviewed and determined the date, time and place for interview. Interviews were recorded in an MP3 format with the permission of the informants. The interview started from 22 February 2009 until 28 February 2009.

After data collection, the researcher started to analyze, and interpret all the collected data. By preserving the data and meanings on recording, data transcription has greatly increased the efficiency of data analysis. By identifying salient themes, recurring ideas or languages, and patterns of belief that link people and settings together is the most intellectually challenging phase of data analysis. The researcher has to question through the collected data, thus engaging the ideas. After the researcher discovered the categories and patterns in the data, there were explanations for these data and the linkages among them. Objective of study has been used as a guideline for data analysis and interpretations.

To ensure the research findings are reliable, all information data were obtained from those expert and experiences informants who have relationships with any recruitment agency. To ensure the whole research findings are valid, the conversation dialogue has been recorded as proof and also for future references. Besides, data transcription was acknowledged by informants before the researcher proceed to data interpretations.

The researcher used content validity and face validity. In content validity, the researcher developed interview questions based on the comprehension of the literature review in Chapter 2 and other related researches. In face validity, the researcher discussed and checked the interview questions with the supervisor and lecturers in UNIMAS. To determine the reliability of the data, the researcher had sent a manuscript to the informant. Manuscript refers to the raw data which had been analyzed by the researcher.

The informants were required to recheck the fact and information in the manuscript and make acknowledgement on it.

#### 4.0 Findings and Discussion

##### 4.1 Summary of Informant Background

Informant	Gender	Age	Education Level	Current Position	Number of years employed	Specialization
A	Female	31	Bachelor Degree	Country Manager	10 years	Manager
B	Male	25	Bachelor Degree	Product Executive	1 year+	Hospitality
C	Female	40+	Master of Business Administration	Talent Acquisition Manager	14 years+	Business Administration
D	Female	34	Bachelor Degree	Business Development Manager	10 years	Recruitment, payroll, business administration
E	Female	35	MBA	Regional Managing Director	15 years	-
F	Male	38	Bachelor Degree	Human Resource Manager	8 years	-
G	Female	34	Bachelor Degree of Science and Technology	Assistant Human Resource Manager	10 years	Recruitment, Performance Management, Payroll

Table 1.0: Summary of Informant Background

##### 4.2 Findings on the Reason of Using Recruitment Agencies

Overall, all the informants in this study were satisfied with the recruitment services provided by the recruitment agencies. According to the informants from the employers' perspective, by using recruitment agencies, their objective on succession planning achievement level was very high; informant from the job applicant's perspective, he could achieve objective in his career planning. Some well-established agencies have performed very well where most of the informants would rate them in between 6 to 8 in the scale of 10 (10 is the best rating). Although some agencies who are still lacking of recruitment experiences, they are still putting their effort to get candidates for their clients. The employers know how to liaise with these agencies. Furthermore, agencies do help job applicants to be employed. They became more confident with the recruitment services. One of the informants, Informant B commented that agency is very helpful for those candidates who want to get a job. This is because he got his first job through recruitment agency last time when he graduated from a local university. According to Informant C, she said that recruitment agencies actually help the employers to source those candidates with specialized skills. If the management needed people to fill in the scarce position, and the HR department did not have the volume of these people, so they have to use recruitment services to outsource candidates. Informant G noted that search firms are more stable in terms of reputation as they are more expert and capable to recruit from juniors to seniors' level position.

There are several statements which can be concluded of the reasons of using recruitment agencies. Recruitment agencies mentioned here are those professional groups of people doing recruitment for white collar workers but not for maid or others. *"Recruitment agencies are focusing to white collar executive; they are more motivated by career prospect, by company brand, money, and long term goal in their career, working in good environment and other aspects as well..."* This is how the way informant E defined recruitment agency as a search firm. According to informant E, one of the agency operators for executive level, she said that the agency should know what to do for their clients and for job applicants. Informant B commented that the agencies actually provide alternative sources to get a job. The reason why informant B go for agency services because he believed there are a lot of companies will go through job agencies to get quality candidates from there. Informant B will get the job by himself, but still will consider and also refer to agencies also. For a good agency, the way they conduct the interview is more effective. Most of the agencies used by informant B are Kelly Services and Adecco, according to him, the recruitment consultant still did job recommendation for him, *"We cannot expect maybe the company they offered maybe can offer*

*me higher salary, or better working environments...*" Although he is currently employed, but he is still trying his best to attend interview arranged by the recruitment consultant, which is a chance to explore more companies. This is one of the reasons why he still in touch with them.

Informant C did not simply went to any agencies which they do not know or not familiar with. There are those agencies who deal with lower level position, for example Kelly services, Manpower, and Recruit Express. *"Different agencies have different strength... depends on what specific skills set we want to, then we decided which agencies to be used.."*, Informant C will normally use more global standard of agency such as Aspac when they want to hire higher level positions such as Senior Manager, or the Head of Department. For agencies with her background as recruitment consultant before, she knew the agency have their network of candidates, *"they actually can go and tell candidates from other companies actually our company is hiring these positions or those positions..."* this is called database of candidates. It is undeniable that agencies are able to outsource candidates for those employers. Informant A and Informant D were strongly said they did advertisement and promotion for their recruitment firms to the public in order to receive more resumes and collect the candidates' databases. In addition, one of the reasons Informant E used agency services because they have wider databases of part-timers and temporary people. The agencies here is no right or wrong answer, however, informant C suggested not using too many agencies in the same time, as it may have administrative problems to manage them.

Informant D, one of the recruitment agency operators in Kuala Lumpur for almost 8 years, she mentioned that the main reason for clients to use agency services is because they want to reduce their headcount. *"If there is a headcount, they will have limited budget, they could not cover up all the permanent staffs' duration..."* The moment when the budgets are allocated for the HR department, the employers are now able to hire temporary or contract staffs to help in their business. Many do not know actually hiring a temporary or contract staff can eliminate an amount of cost on compensation and benefits, recruitment, training and other fees (Hall, 2006).

Lastly, according to Informant D, most of their clients use the agency services are to replace the maternity leave. This is because agencies can help them to find immediate replacement for absent employees (McKay& Markova, 2008). Replacement of absent employees is the first and most traditional motive for most firms' use of agency workers. Using agency workers is a cost-effective, since there is no hiring or firing costs incurred with the use of agency workers. In addition, arrangement of agency workers can be made in a very short period of time.

#### **4.3 Discussion on the Advantages and Disadvantages of Using Agency Services**

The researcher has a discussion with the job applicant; informant B informed that he got his first job through agency. During that time he has less working experiences because he just graduated from university. *"Job agency provided a lot of information and the requirement from the company actually suit me and I jump into this kind of working environments..."* According to Amy (2007), agencies are great resources for simplifying the job search. They are particularly useful for students, recent graduates, people who have just gotten started in their careers and people who want to change jobs-that is, they can benefit almost everyone.

Informant A notified that most of the time, a lot of candidates, they do not know which company to apply for. When every time comes to interview discussion with the candidates, the applicants responded, *" huh? What they do? What kind of company? Where is the location?"* For those candidates who are fresh or new in the market, they probably would not have much of network in the job search. But recruitment agencies have the contact that the candidates do not have. The agency will review the resume, meet and interview the candidates, and test their basic skills. Then recommendation of qualified candidates will be made to the employers.

However, according to Informant A, if the candidates used agency services, she had explained how the consultant educated the candidates about the job, by providing the job scope and general company descriptions. *"We teach candidates how to dress, how to act, how to talk, we cannot tell them what to do, but we can give them some ideas generally..."* Informant A do believed by doing this to candidates, the chance for them to get the job is higher. The advantages for candidates to use agency services, by own study about company background, actually the agencies are providing interviewing tips to them.

According to Informant C, she commented that using agency services will save a lot of time especially for HR people. On behalf of clients, Informant C thinks time is a very crucial factor. *"Using agency to recruit the employees, it will help the employers to cut down their junk mail in receiving a lot of resumes. We eliminate this and providing them the suitable, the best candidates for the particular positions..."* The



researcher was informed and understands that resumes screening had been done by recruitment consultants and this had become their job responsibility and the results must be reported to their clients (employers).

Informant A, who had 10-year working experiences, notified the specialties of recruitment agencies are collecting databases for a daily basis; they will help to interview those people and find suitable job for them. *"Most HR department in the company, they do not have to collect databases everyday and every time, this is not their main job. Their main job is not look for candidates..."* From the conversation with Informant E, the Regional Managing Director of one of the well-known search firms in Kuala Lumpur, mentioned that they did advertise everyday, so their base definitely wider than the employers. Moreover, the researcher was informed the way how recruitment agencies could help employers to find candidates for them. *"We are calling candidates, everyday we are looking at ended resume, everyday we receive job order..."* From this point, it could be shown how the effectiveness of recruitment agencies in their daily operation and management.

According to Informant A, the major advantage of employers using agency services are money and the speed of getting people. Since agencies have the databases of job applicants, they could source their candidates in a very effective way compared to the method used by employer. *"They save money. For agency to do this only cost them zero, no money at all, they just need to interview, if they found the person suitable, then they pay us and hire them..."* From the explanation done by Informant A, the researcher understand that if the employer found the person is not suitable, they do not need to pay the agency, until they interview a group of candidates and they only pay if they are satisfied.

Next, Informant C believed the HR has their budget for recruitment; they will work according to the budget. *"We are able to cater needs according to their budget..."* This is the function of agencies and cooperation between the employers. *"The moment they go through agency, the HR will be more confident, whatever candidates they need, they can always ask for our recommendation...When recruitment agency steps into the organization, the recruitment roles are taken over..."* The consultants will help to get the right candidates, for the right jobs, at the right time. The conclusion could be made was it will be the reliability of recruitment agencies. In the perspective of agency operator, Informant C felt the beauty of recruitment agencies is that they provided the warranty periods; this is because the employers paid the recruitment fees, which means if the HR did not satisfy with any candidates they provided, they can always come back to the consultants and request for candidates' replacement free of charges. From the previous studies, it showed that the replacement of personnel is the important reason for firms to hire agency workers (Mckay & Markova, 2008). Informant C strongly agreed that this is the satisfaction of using recruitment agencies.

Hall (2006) claimed that the employers attracted to agencies for their capacity to supply specialist, and in-demand skills. For the responses from employers' perspectives, Informant C responded that the agencies are a source of candidates; internally the management of the organization does not have enough sources for that. *"It's an advantage because it helps you to source the candidates faster than we work in our own... we are able to get some candidates to fill in those scarce positions..."* It is undeniable that agencies have their own network; they actually go and tell other companies and people certain companies are hiring these positions or those positions. However, according to Informant C, for hiring an administrative position which is not a scarce position, they will not use agency because the management is able to get thousand of application out there.

For another employer, Informant F was very satisfied that the agencies are able to provide them the people they wanted. Another advantage is of course they help employers to identify the right candidates. Informant G responded, *"They know what we want, even though they send 1 candidate, I don't mind to accept if he or she qualified..."* From this point, the researcher understands the employers are actually enjoying using agency services and they are continuing using their services.

No matter how, there are several disadvantages of using recruitment services. The most expensive strategy to use in hiring employees in any organization is the recruitment services charge (Visconti & Brountein, 1992). It is unavoidable the agencies charge for their times. Informant C and G replied which the agencies had charged the organization for candidates hired through recommendation of consultants. *"It might be 25 percent of annual package. Annual package is included annual basic and the allowances, it actually costs us a lot...."* Besides that, there is no guarantee in the kinds of quality. Informant C has came across hiring a volume that the management needs them immediately; however the agencies just sent anybody. So informant C ended spending her times to interview the people who is did not meet the enquiry. *"They don't meet our expectation or standard...We have no control to avoid those agencies to send unqualified candidates to us..."*

From this point of view, the researcher concluded that recruitment consultants just simply put the candidates for interview arrangement to show they have completed their job but in the real situation they are not. Because of this reason, so Informant C will go through interview session with the candidates recommended by agencies. Informant C mentioned “*We still need to know their personality, and their attitude, we still have to assess that before we hire them...*”

In the accordance of view, Informant F, the Human Resource Manager who has 8 years of working experiences with recruitment agencies, he responded that the disadvantage of using recruitment agencies is the sense of belonging because they put the candidates in contract basis, even they work in the company, but they are not integrated with the rest of the team. Moreover, the bond of family is not there because those agency workers hired from different agencies. Sometimes, the agencies just sent in their candidates, but Informant G still will screen the candidates’ application because she does not trust the consultants. Informant G mentioned “*If the recruitment consultant is not professional and have not enough experiences, it will take more times for us to shortlist the candidates...*” No matter how, there is still inappropriate job-matching between the qualification and skills posed by the candidates and the requirement from the company. “*Which field they come from...? Are you sure they have C&B experiences...?*”

## **5.0 Recommendation and Conclusion**

### **5.1 Recommendation**

This study outcome is expected to help agency operators in Kuala Lumpur labour market as it could be used to evaluate the effectiveness and individual performances of recruitment consultants in recruitment process. From this study, it could provide support to increase the potential of recruitment agencies and recruitment consultants then move towards to increase the recruitment trends in Kuala Lumpur. Besides, the outcome of the study can be used to identify the strength and weaknesses of recruitment agencies from the perspectives of agency users. The feedback received from employers and job applicants will maximize the performances of agencies in the future.

For all human resource practitioners in Malaysia, there are exposures of the criteria on the effectiveness of recruitment agencies, communication, and relationship between recruitment agencies and organizations. Moreover, this study could enhance practitioners’ knowledge not only on the aspects which contributing to the recruitment agencies in terms of operation and management, but also the effectiveness of overall recruitment agencies.

The research outcomes could be used as part of references for all the future researchers in Sarawak and generally to the whole Malaysia citizens. Research scope included overall aspects and elements of recruitment agencies covered the working ethics, communication and negotiation skills of recruitment consultants with employers and job applicants, the discussion about the effectiveness of recruitment agencies which help in contributing sources of new literature review in the future study.

### **5.2 Conclusion**

Overall, effectiveness of the firms in terms of operations and management was an important element in recruitment agencies. Besides, the professionalism of recruitment consultants can deliver quality recruitment services and lead to customer satisfaction. Therefore, more research about recruitment agencies should be conducted and make the reliable outcome thus contributing to the human resource field.

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## **SAUDI CONSUMERS' ATTITUDES TOWARDS ADVERTISING: A CONTEMPORARY PERSPECTIVE**

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### **ABSTRACT**

The purpose of this paper is to examine Saudi consumers' attitudes towards advertising. While a number of studies have examined consumer attitudes towards advertising, most of them have been confined to western country settings. This study investigates the consumer attitudes in a developing country. This study is based on a questionnaire survey conducted in Saudi Arabia. Using empirical research, the study examines demographic difference in consumers' attitudes towards advertising and analyses responses on advertising content. The paper discusses the marketing implications of these findings. This study makes a valuable contribution given the fact that there is a dearth of empirical studies covering studies of this nature in Saudi Arabia.

Key words- consumer, advertising, attitude, Saudi Arabia

### **INTRODUCTION**

Advertising is arguably the most visible aspect of companies' marketing programs, and has indeed often been equated to marketing itself. Because of its visibility, most consumers tend to have strong opinions about the role of advertising. Some consumers claim that advertising mislead them and make them buy things they would not think about without the power of advertising. A particularly strong criticism of advertising is that it cultivates a materialistic consumption culture among children.

The proponents of advertising however argue that advertising gives consumers the power to choose and make them better informed. Attitudes toward advertising invariably feed into attitudes toward marketing as a whole. A large number of studies have investigated attitudes toward advertising both in national and cross-national contexts. However, this research has been done mostly in the western countries, and there is a relative dearth of studies conducted in developing markets. The result is a lack of full international coverage (Semenil et al., 1986; Tuncalp, 1990; Kwan et al., 1981). There is an even greater dearth of studies of Saudi consumers' attitudes toward advertising (Al- Makaty et al., 1996), a situation that has created the need for the present study.

There has been little empirical research written about consumer attitudes towards advertising across the Middle East including Saudi Arabia, compared to research done on the same topic in United States or Europe (Tuncalp, 1990). This paper presents an empirical study conducted in Saudi Arabia on consumers' attitudes towards advertising.

Advertising in Saudi Arabia is still in its infancy. However, there is evidence that the industry is growing as competition intensifies and more and more companies realize the importance of advertising to inform, persuade, and remind consumers about their products.

The main objective of the present study is to examine Saudi consumers' perceptions of advertising. Specifically, the study seeks to achieve the following objectives:

1. To investigate Saudi consumers' attitudes toward advertising, and to examine whether there are any systematic demographic differences in such attitudes.
2. To examine Saudi consumers opinions regarding the content of advertising. This objective is particularly important in view of the strong Islamic culture in Saudi Arabia, which seriously objects to the use of women and nudity in advertising.
3. To examine Saudi consumers' advertising media preferences.

Such a study important is for a number of reasons. First, many researchers argue that it is important to investigate consumers' attitudes towards advertising in general, since a specific advertisement is shaped by perceptions about advertising as a whole. (Muehling, 1987; Grane, 1991). Second, the Saudi market is lucrative and attractive to many companies from all over the world, which makes the competition intense and one way to get into the market is through advertising. Without knowing the attitudes of the target market towards advertising, their efforts might be wasted, especially if attitude towards advertising are

negative. Therefore, knowing the attitudes of the consumer will help local or international companies to develop effective advertising campaign. Third, many companies in Saudi Arabia do not spend adequate funds on advertising because they believe that advertising is a waste of money. If research could prove that customer attitudes towards advertising were positive, that might encourage them to increase advertising expenditure.

## LITERATURE REVIEW

There is an abundance of studies in a wide variety of national contexts on attitudes towards advertising (Grane, 1991). These studies have also spanned a wide variety of segments of the population, including attitudes of consumers (e.g. Anderson et al., 1987; Christian, 1974), business executives (e.g. Dunn and York, 1974; Watson 1974; Crane et al., 1989; Johns and Moser, 1989; Rau and Preble, 1988), and students (e.g. Haller, 1974; Lutz, 1995; Larkin, 1971).

The results of previous studies of attitudes toward advertising have shown positive, negative, or mixed opinions. Zanot (1981) reviewed 38 public opinion polls and surveys conducted between 1939 and 1950 and found relatively stable public attitudes toward advertising in the U.S. However, in a review of studies conducted during the 1960s and 70s, Reid and Soley (1982) concluded that the 1960s witnessed a shift from stable to more mixed attitudes towards advertising while by the 1970s, attitudes toward some aspect of advertising (especially the social impact of advertising) had become decidedly negative. Specifically, Reid and Soley (1982), found that although respondents believed that advertising was manipulative, deceptive and misleading, they view advertising as having a positive economic impact, including lowering product prices and raising the standard of living. This finding is similar to the earlier results of Bauer and Greyser (1968) who found that American consumers respected the economic role of advertising but criticized its social effect. Grane (1991) found that 60 per cent of respondents had mixed feeling about advertising, with the remainder having almost positive attitudes. Similarly, Tylee (1989) found that no British customer was completely against or in favour of advertising.

In another study, Zanot (1984) examined 38 studies of American consumers' attitudes to advertising from 1930 through 1970s. The results showed negative attitudes over time. One reason for these negative attitudes was attributed to the volume of advertising, and the concern of the social responsibility of business. Similar results were found by other studies such as Mital (1994) and Alwitt and Prabhaker (1992).

A number of studies have adopted a cross-national perspective to the study of attitudes toward advertising, mostly comparing attitudes across national contexts in the same study. Examples of these include the studies by Beatson (1984), Bonnal (1990), and Heyder et al. (1992). Beatson (1984) compared consumers' attitudes toward advertising in Britain, Finland, Germany, and Norway and found attitudes to be generally favourable across these countries. Bonnal (1990) reported that three quarters of respondents in six European countries like advertising "a lot" or "a little", while Heyder et al. (1992) compared attitudes across several East and West European countries and found that there were more positive attitudes in Britain than in France or West Germany. Attitudes were however less favourable in Poland, Hungary and East Germany.

Researchers have sought to explain why consumers, students, or executives hold positive, negative, or mixed attitudes toward advertising. Millman (1984) and Schutz and Casey (1981), investigating why consumers hold negative attitudes toward advertising, found that the main reasons were that respondents believe that advertising is deceptive, misleading, unbelievable, and manipulates consumers into buying those products they do not really want. According to Hite and Eck (1987), negative attitudes toward advertising can be partly attributed to consumer beliefs that advertising creates materialism in children and often can cause conflict between parents and children. Aaker and Bruzzone (1985) conclude that respondents had negative attitudes towards advertising because they believe that advertising causes irritation.

Substantial research attention has been devoted to the study of consumers' attitudes toward advertising (for example O'Donoh, 1995). However, this research has been done mostly in western countries, and there is a relative dearth of studies conducted across developing markets. The result is a lack of full international coverage (Semenil et al., 1986; Tuncalp, 1990; Kwan et al., 1981). There is an even greater dearth of studies of Saudi consumers' attitudes toward advertising (Al- Makaty et al., 1996), a situation that has created the need for the present study.

## METHODOLOGY

Saudi consumers' attitudes towards advertising were examined in a survey that was conducted using a convenience sample in the Eastern Province of Saudi Arabia. Since random sample is so difficult to obtain in Saudi Arabia (Tuncalp 1999), a total of 600 questionnaires were distributed, and 484 were received and processed resulting in a response rate of approximately 81%. The high response rate was obtained due to persistent follow up by the author. The questionnaires were personally distributed and later collected after completion.

Tuncalp and Yavas (1987) argue that the nature of the environment in Saudi Arabia makes survey research using self-administrated questionnaire a formidable undertaking. Therefore, students were of great help especially in reaching the female population. The survey was conducted over a period of one month. The questionnaire was pretested on a sample of 20 respondents with different background. The sample for the pilot study focused on the questions on the comprehension of questions. Based on the feedback, the initial questions were modified and some questions were added.

The questionnaire included two sections. The first section includes four major areas of concern towards social and ethical issues in advertising, others are concerned with economic issues of advertising, advertising media and advertising regulation. The respondents were asked to evaluate these statements on 3 points-Likert -Scale ranging from agree, neutral and disagree. The second section of the questionnaire was used to gather information about the respondents' background, namely, age, income, level of education, occupation, and gender and marital status.

### Sample Characteristics

Table 1 shows summary characteristics of the resulting sample of respondents that completed the questionnaire.

**Table 1 about here**

Table 1 : demographic profile of respondents

<i>Age</i>	<i>%</i>	<i>Occupation</i>	<i>%</i>
Less than 21 years	11	Students	32
21-30 years	62	Government employee	51
31-40 years	18	Private employees	13
41-50 years	8	Businessman	2
more than 50 years	1	Housewives	1
<i>Monthly Income*</i>		<i>Gender</i>	
Less than SR 2001	29	Female	46
SR 2001-6000	33	Male	54
SR 6001-9000	23	<i>Marital status</i>	
More than SR 9000	15	Married	60
<i>Level of education</i>		Divorce	2
High school or less	38	Single	37
university	59	Widow	0.20
Post graduate	3		

Note: US\$ = SR 3.756 at the time of study

The sample consisted mainly of respondents in the 21 to 30 years age bracket (62% of the sample). Thirty three per cent of the respondents earn a monthly income of between SR 2000 and SR 6000 (SR means Saudi Riyal; US\$1= SR 3.75) while 15% earn more than 9000 SR a month. In terms of the level of education, 59 per cent of the respondents hold a university degree and 3 per cent have a post graduate degree. Regarding the occupation, 51 per cent are government employees, which is consistent with the general belief among Saudi people that working for the government is secure and more prestigious, while 32 per cent are students. In regard to the gender of the respondents, 54 per cent are male and 46 per cent are females. 60 per cent of the respondents are married, 37 per cent are single, 2 per cent divorced, and only 20 per cent are widowed.

## ANALYSIS AND RESULTS

### *Attitudes Toward Advertising*

Table 2 shows the percentage of respondents who agreed or disagreed with each of the attitude statements.

**Table 2 about here**

Table 2  
Frequency Distribution of Responses to Attitude Statements

#	Statements	% Agree	% Neutral	% Disagree
1	Advertising makes people buy things they do not want (R)	54	25	20
2	Advertising made me buy things which I do not want (R)	28	21	51
3	Advertising is often misleading (R)	54	26	20
4	I am have sometimes been misled by advertising (R)	28	26	45
5	Most advertising towards children is manipulative (R)	73	18	9
6	There is too much advertising nowadays (R)	92	6	2
7	Advertising is important to the Saudi economy	72	19	9
8	Good products do not need to be advertised (R)	50	14	36
9	Advertising raises the standard of living	19	33	47
10	Advertising increase the prices of products (R)	60	23	17
11	Advertising helps consumers to save money	21	25	54
12	Advertising provides information that help consumers in making purchase decisions	73	20	7
13	I need advertising when I want to buy very important products	49	23	28
14	Advertising should be more tightly regulated (R)	91	6	3

Note: "R" indicates statements that were reverse-coded for the analysis reported in Table ...

The overall picture that emerges from Table 2 is a somewhat sceptical attitude toward advertising among Saudi consumers. Majority of consumers agree that advertising makes consumers buy things they don't need, is often misleading, is manipulative toward children, and increases the prices of products. Probably as a consequence, an overwhelming majority of respondents also tend to agree with the statements that there is too much advertising these days (92%), and that advertising across Saudi Arabia should be more tightly regulated (91%). However, majority of consumers also acknowledge the informational role of advertising in product purchase decisions (73%), and the importance of advertising to the infant Saudi economy in its bid to modernize (72%).

To provide an overall assessment of the level of consumers' attitudes toward advertising, the statements labelled "R" in Table 3 were reverse-scored and responses to all 14 statements were summed up to provide a single attitude score labelled "ATTITUDE." The lower and upper bounds of this variable are respectively 14 and 42 with a mid-point of 28. Scores below and above the mid-point indicate positive and negative attitudes respectively. The mean and standard deviation for this variable are respectively 30.39 and 4.14. This indicates a relatively negative overall attitude toward advertising among Saudi consumers.

#### *Demographic Differences in Attitudes Toward Advertising*

Demographic differences in attitudes toward advertising were examined through univariate analysis of variance with ATTITUDE as dependent variable and each of age, sex, income, and education as independent variable. Table 3 shows summary results of the analyses. The results show that sex, income, and education have statistically significant effects on Saudi consumers' attitudes toward advertising, while age has a marginally significant effect.

**Table 3 about here**

**Table 3**  
ANOVA Results for Effects of Demographic Variables Attitudes Toward Advertising<sup>1</sup>

	ANOVA SUMMARY STATISTICS		GROUP SCORES ON DEPENDENT VARIABLE (ATTITUDE)			
Independent Variable	F -Ratio	p	Group <sup>2</sup>	N <sup>3</sup>	Mean	S. D.
Age	F <sub>3, 480</sub> = 2.210	.086	Less than 21 years	53	30.73	4.85
			21 – 30 years	300	30.14	4.07
			31 – 40 years	85	31.34	3.93
			Over 40 years	46	29.91	3.98
Sex	F <sub>1, 482</sub> = 20.343	.000	Male	262	29.62	4.12
			Female	222	31.30	3.98
Income	F <sub>3, 480</sub> = 6.387	.000	Less than SR 2,000 <sup>a</sup>	138	29.62	4.33
			SR 2,001 – 6,000	159	30.61	4.09
			SR 6,001 – 9,000 <sup>a b</sup>	112	31.63	3.67
			Above SR 9,000 <sup>b</sup>	75	29.51	4.14
Education	F <sub>2, 481</sub> = 10.632	.000	High school or Less <sup>c d</sup>	183	31.41	3.94
			College degree <sup>c</sup>	285	29.87	4.15
			Higher than college <sup>d</sup>	16	28.07	3.78

**NOTES:**

1. N= 484, mean = 30.3926 and S. D =4.1427
2. With 14 statements and a scale from 1 - 3, the lower and upper bounds of ATTITUDE are respectively, 14 and 42 with a midpoint of 28.
3. Mean scores for categories with the same superscript are significantly different from each other at  $\alpha = 0.05$  using Bonferroni post-hoc tests.
4. Totals may not add up to the sample size of 484 due to list wise deletion of missing data.

The results for gender show that both males and females have decidedly negative attitudes toward advertising. However, attitudes of female respondents are significantly more negative than those for male respondents. The mean attitude score for females is 31.30 compared with 29.62 for males ( $F_{1, 482} = 20.343$ ;  $p < .001$ ). There is also a statistically significant effect of income on attitudes ( $F_{3, 480} = 6.387$ ;  $p < .0001$ ). Although, again overall attitudes are negative across all income categories, in general, attitudes become more negative as respondents' income increases. The only exception to this general observation is the striking similarity in overall attitudes between respondents with income over SR 9,000 and those with incomes below SR 2,000. Finally, there is a statistically significant effect of education level on attitudes with attitudes becoming less and less negative as education level rises. Although age has only a marginal effect on attitudes, the pattern of mean scores for the different age categories is instructive. In general, attitudes are most negative for the 31 – 40 years category and least negative for over 40 years age group.

**Consumer Views on Advertising Content**

Table 4 shows percent of respondents who agreed or disagreed with the set of statements relating to advertising content.

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**Table 4 about here**  
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Table 4  
**Consumers' Opinions Regarding Advertising Content**

	<i>Statement</i>	<i>% Agree</i>	<i>% Neutral</i>	<i>% Disagree</i>
1. 1 5	All advertising towards children must be stopped immediately	26	35	39
2. 6	Women should not be used in advertising	65	20	14
3. 7	Music should not be used in advertising	31	32	37
4.	I respect advertising which take into consideration the local tradition	90	7	3
5.	Advertising should just be used to promote local products	27	19	54
6.	Advertising should reflect the local culture	57	25	18
7.	Local accents should be used in the commercial	41	28	31
8.	Local people should be shown in the advertising	46	32	22



The pattern of agreement/disagreement are most clear for the statements relating to the use of women in advertising and the need for advertising contents to take local Saudi traditions into account. The majority of respondents are of the opinion that women should not be used in advertising (65%) and that advertising should take local traditions into account (90%) and should reflect the local culture (57%). In spite of some anecdotal beliefs among some Saudi consumers that music is not acceptable for religion reasons, the present results show that Saudis who resent the use of music in advertising are actually in the minority (31%). The majority of respondents either actively disagree that music should not be used in advertising or express a neutral opinion on the issue.

#### Consumers' Preferences for Different Advertising media

Table 5 shows responses to statements about consumers' preferences for advertising in different media.

**Table 5 about here**

Consumers' Reactions to Advertising in Different Media

#	<i>Statement</i>	<i>% Agree</i>	<i>% Neutral</i>	<i>% Disagree</i>
1.	I like TV advertising	69	24	8
2.	I like magazine advertising	33	44	22
3.	I like newspaper advertising	41	40	18
4.	I like outdoor advertising	43	35	22
5.	I like Radio advertising	22	44	34

The results show that respondents have a clear preference for TV advertising (69% like it), followed by outdoor advertising, newspaper advertising, and then magazine advertising. Radio is the least preferred advertising medium. This may be attributable to the fact that the government does not allow advertising on the official Radio stations, although advertisers use Radio from nearby countries such as Bahrain, Qatar, and MBC FM radio from London.

#### MARKETING CONCLUSIONS AND IMPLICATIONS

The purpose of the present study was to examine the nature of Saudi consumers' attitudes toward advertising, the extent of variation in attitudes across different demographic groups, consumers' views on advertising content, and their preferences for different advertising media. The results of our survey conducted in the Eastern Province of Saudi Arabia to examine these issues indicate that consumers have a generally negative attitude toward advertising and that this is more profound among female consumers, respondents with high incomes, and those with relatively low education. Specifically, Saudi consumers believe that advertising makes people buy things they don't need, is often misleading, is manipulative toward children, and increases the prices of products. However, they also acknowledge the informational role of advertising in product purchase decisions and the importance of advertising to the infant segment. With a drive on modernization of Saudi economy, respondents generally are also of the opinion that there is too much advertising across Saudi Arabia, and that advertising should be more tightly regulated in the Kingdom. The results for opinions on advertising content reveal that Saudi consumers generally are of the opinion that women should not be used in advertising and that advertising content should reflect local Saudi culture and traditions. Finally, majority of the survey respondents indicate that they enjoy advertising on Television as opposed to magazine, newspaper, and billboard advertising.

The present results have both theoretical and managerial implications for advertising researchers and advertising practitioners in Saudi Arabia. From the theoretical point of view, the results add to the findings of numerous cross-national studies of attitudes toward advertising, some of which have found attitudes to be positive, others have found them to be negative, while the majority has generally found mixed attitudes. From a managerial point of view, marketers in Saudi Arabia need to pay more attention to the negative attitudes held by Saudi consumers toward advertising. Such negative attitudes may hinder the effectiveness

of advertising campaigns, and lead to waste of corporate resources. It is the responsibility of both advertisers and advertising agencies to build consumer confidence and favourable attitudes toward advertising. The advertising industry in Saudi Arabia could consider launching a campaign similar to the "Right to Choose" campaign of the International Advertisers Association in order to increase Saudi consumers' awareness of the benefits of advertising to the individual consumer and the general economy. In spite of rather negative attitudes toward advertising, the finding that consumers at least see some benefit in advertising when it comes to product purchase decisions and development of the Saudi economy should be rather comforting to advertising practitioners in the Kingdom. The practitioners are advised to build upon this favourable foundation by designing informative advertising along with the typical persuasive information.

The findings of the present study relating to consumers' opinions regarding advertising content also have some implications for practitioners in the advertising industry. They are advised not to merely use Western advertising campaigns without adaptation to the local conditions. Specifically, greater care should be exercised in using women in advertising. The most preferred advertising media is TV and the least preferred is Radio. Companies should be more careful in choosing the advertising media.

## **LIMITATIONS**

Due to certain limitations of the present study, the results should be interpreted with some caution. First, given the convenience sampling procedure used, and the fact that the survey was conducted only in the of Dhahran-Alkhobar-Dammam tri-city, there is no guarantee that the results are representative of the whole country. Future studies should seek more representative samples than the present study has managed to achieve.

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**THE IMPACT OF EXPORT MARKETING MANAGEMENT COMPETENCY AS AN  
INTERVENING VARIABLE ON THE RELATIONSHIP BETWEEN MARKET  
ORIENTATION AND EXPORT PERFORMANCE**

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Malaysia**

**ABSTRACT**

Manufacturing sector plays a major role on Indonesia's exports and contributes significantly to gross domestic product (GDP). Indonesian exporters in manufacturing sectors are encouraged by Indonesian government to upgrade their implementation of marketing management competency in order to export more. The study investigates the impact of export marketing management competency as an intervening variable on the relationship between market orientation and export performance in Indonesian manufacturing firms. Moderating effect of competitive intensity, market turbulence, and technological turbulence on the relationship between export marketing management competency and export performance are also investigated. The study also considers the influence of the control variables (firm size, export experience, export mode, and industrial type) on export performance. Data are collected through mail survey and a total of 109 usable responses are accepted for the purpose of this study. The results of the study indicate that the constructs of market orientation (customer orientation, competitor orientation, and inter-functional coordination) and export marketing management competency (export product management competency, export pricing management competency, export promotion management competency, and export distribution management competency) are statistically significant predictors of export performance, whereas market orientation is a determinant of export marketing management competency. The results support the mediation effect of export product management competency and export pricing management competency on the relationship between market orientation and export performance. This study does not find any convincing evidence to support the moderating effect of competitive intensity, market turbulence and technological turbulence on export marketing management competency and export performance relationship. In addition, the findings revealed that none of control variables significantly influence export performance.

# EFFECTS OF FOREIGN DIRECT INVESTMENT (FDI) ON NIGERIA'S ECONOMIC GROWTH

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## **Abstract**

The quest by developing countries for increased foreign direct investments (FDI) stems from the assumption that leads to economic benefits within the host country. This assumption is based on economic theory. Furthermore, there are existing researches that have highlighted the benefits of foreign direct investments. For instance, developing countries are encouraged by the World Bank to attract more foreign direct investment (FDI) because it encouraged production improvements, contributes to the advancement in technology, boosts employment opportunities, bolsters business sector competition and creates exports. This write up attempts to look at the effects of FDI on Nigeria's economic growth. Thus, the determinants, benefits and costs of FDI to Nigeria are examined and discussed. However, the economic effects of FDI cannot be measured with precision and exactness.

## **Introduction**

Foreign Direct Investment (FDI) like so many other concept is seen differently by different authorities. FDI is considered as an investment made to acquire lasting interest in enterprises operating outside the economy of the investor (IMF, 2000). Moreover, FDI occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset. Both the two definitions of the international monetary fund (IMF) and World Trade Organization (WTO) are pointing to the same things. The investor's purpose is to gain an effective voice in management of the enterprise. The foreign entity or group of associated entities that makes the investment is termed the "direct investor". The unincorporated or incorporated enterprise branch or subsidiary, respectively, in which direct investment made is referred to as a "direct investment enterprise". Some degree of equity ownership is almost always considered to be associated with an effective voice in the management of an enterprise, in the revised edition of the manual, IMF suggests a threshold of 10 percent of equity ownership to qualify an investor as a foreign direct investor.

The rationale for FDI is two dimensional because it is a two-way flow and two sets of interest are involved; interests of the foreign investors, and that of the host countries. It has been observed that both domestic and international structural forces were driven private investments to developing countries since the early 1990s. These forces are classified as push and pull forces. In developing countries, the forces that push Multinational Corporations (MNCs) to invest around the world apart from their home country are the search for higher returns, and opportunities for risk diversification (World Bank Report, 1997).

Other factors that reinforce the desire of foreign investors to look outward include competition and rising costs in domestic markets; along with failing transport and communication cost encouraged foreign firms to look for opportunities to increase efficiency and returns by producing abroad. This led to the progressive globalization of production and to the growth of efficiency seeking" FDI flow. Moreover, the transportation of the financial markets to a more globally integrated market as a result of advances in communications, information and financial instruments, and by progressive internal and external deregulation of financial markets (Oyeranti, 2003). The pull factors that draw foreign investors to developing countries are enabling environment for FDI, natural resources, market size, and cheap labour. Many countries have embarked on structural reform programmes since the mid 1980s and this lead to increase openers of their economies.

However, despite the above stated rationales behind FDI, Boon charoenpol (2007) in a study revealed that developing countries need to be cautious in taking uncritical attitude towards the benefits of FDI. Therefore, this paper would attempt to discuss the determinants of FDI, benefits and costs of FDI to a developing country like Nigeria

## DETERMINATION OF FDI

The capacity of African countries to attract foreign direct investment (FDI) is principally determined by their natural resources and the size of their local markets. Nigeria and Angola have been two most successful countries because of their comparative locational advantage in oil despite their unstable political and economic environments. There is no consensus among scholars on the determinants of FDI and part of the resources is the fact that countries (both supplying and receiving FDI) may be structurally diverse (Yauri, 2006). In the following paragraphs, factors that affect FDI inflows in Nigeria will be discussed. But to comprehend these factors, it is necessary to distinguish between market-seeking and non-market seeking. Asiedu (2002) explains that the main objective of market-seeking FDI is to serve domestic markets. Thus, goods are produced in the host country and sold in the local market (Yauri, 2006). The drivers of this FDI are large market and high income in the host country. For non market seeking FDI, goods are produced in the host country but sold abroad.

- i. **Market size:** One very important reason for the inflow of FDI into Nigeria is the largeness and attractiveness of its market. With a population of over 140 million, Nigeria is the most populous nation in Africa and among the ten most populous countries in the world. There is always a correlation between FDI and market size. Broadman and Sun (1997) explained that the size of China's market determined the massive FDI flows since early 1980s. Thus, for Nigeria, market size is considered as a major determinant of the inflow of FDI. For instance, in 1995, Nigeria was among the highest recipient of FDI (the third) in the sub-Saharan African countries (Yauri, 2006).
- ii. **Openness of the host country:** The effect of openness of the country on FDI depends on the type of investment. When investments are market-seeking, trade restrictions can have a positive impact on FDI (Asiedu, 2002). Therefore, there is a widespread perception that open economies encourage more foreign direct investment (ODI, 1997)
- iii. **Political Risk:** Political risk is measured by political instability (which means the probability of a change in government and political violence ( the frequency of political assassinations, violent riots and politically motivated strikes). Ironically, however, before the return of democracy in 1999, the political risk in Nigeria was high but it is one of the highest recipients of FDI in sub-Sahara Africa. The reason for this could be explained that where the host country possesses abundant natural resources, no further incentive may be required.
- iv. **Infrastructural Facilities:** Infrastructure covers many dimensions ranging from roads, railways, ports and telecommunication systems to institutional development (e.g accounting, legal services etc). Though they are different views on whether poor infrastructure is a major or minor incentive (OD, 1997). Poor accounting standards, inadequate disclosure and weak enforcement of legal obligations have damaged the credibility of financial institutions to the extent of deterring foreign investors (Yauri, 2006). Nigerian roads are largely unmotorable and electricity generations have remained major problems. Therefore, if infrastructural facilities are important incentives to foreign investors, then Nigeria's ability to attract FDI would have been hindered.
- v. **Privatization:** This is also one of the major determinants of FDI to developing countries like Nigeria. In the last one and half decade, privatization has been a major policy used to attract FDI flow (Yauri, 2006). Privatization has attracted some foreign investment in Nigeria in 1993 and Ghana in 1995 (ODI, 1997). Though some amount of FDI in Nigeria has been attributed to privatization in recent years, but these amounts are not commensurate to the attention it has generated especially after the return to democracy in 1999. This is due to a number of constraints hindering the process of privatization like inefficiencies of the financial market, dearth of transparency and absence of regulatory procedures.
- vi. **Social factors:** Social instability, crime and corruption are considered as some of the limiting factors to FDI flow in Nigeria (Yauri, 2006). Nigeria is ranked among the top-most corrupt countries in the world according to transparency international. This has led to the loss of confidence by investors to invest in Nigeria in general or partner with Nigerians in particular. Corruption is a powerful deterrent to potential investors who see it as endemic across Africa, and particularly in Nigeria where it exist at all levels and is difficult to avoid. Other social evil that discourage foreign investors are armed robbery, violent street crime and hostage taking for ransom in the Niger-Delta region of Nigeria.

## BENEFITS OF FDI

Generally, economists believed that FDI can lead to increased employment and increases in economic growth (Smekal and Sausgruber, 2000). However, Graham and Krugman (1995) rejected the notion that

there are employment benefits or losses associated with liberalized trade. This is based on the fact that Central Banks, with influence over interest rates can regulate job growth at will in industrialized countries. But this does not necessarily hold true for developing countries where the influence of the Central bank varies dramatically, between countries, and where even powerful Central banks must compete with the fiscal spending whims of their government, as well as inflationary concerns and employment level, that are unresponsive to short term interest rate changes. With regards to economic growth, FDI in developing countries has led to GDP increases as well as decreases in the level of poverty (UNCTAD, 2004). It has been found that 1% rise in the ratio of FDI stock to GDP will rise GDP by 0.4%. From 1991 to 2000, the ratio of FDI to GDP in the developing countries went up from 7% to 21%. This, rise translate into an improvement in GDP of 5.6% ([www.economist.com](http://www.economist.com)).

With foreign investment, market seeking firms often bring a new set of activities and products to a country (Moran, 1998). The increased in the presence of firms can boost competition, which is perhaps the most tangible benefit of FDI. Increase in competition leads to increase in productivity, increase in competitiveness of local industries in the global market place and perhaps most importantly, lower consumer prices. Not only do lower consumer prices benefit individual consumers, but lower prices may also have effects on intermediate goods and factor inputs which also benefits businesses (Adlaka, 2009). Equally beneficial are technological and innovative improvements to such products.

An often cited reason for the protection of indigenous industries from trade and FDI is to protect “infant industries” from the foreign competitive forms. But it is very difficult as a developing country to protect infant industries under the veil of trade protection and have them blossomed into legitimate competitors against large companies having available capital, skilled labour and technology. Infact, MNEs spend more on R&D abroad than domestically and their labour productivity tends to be higher in their foreign subsidiaries (Smekal and Sausgruber, 2000). This has the effect of benefiting developing countries in siphoning technology spill over from foreign invested firms.

It is very difficult to discern why FDI has different impact on countries in the developing world. On the positive side, FDI do alleviate the re-enforcing elements of low productivity and low wages found in underdeveloped industries by introducing improved technologies, marketing techniques and management efficiencies. Moreover, FDI do add to local savings and serves as a longer term capital commitment relative to portfolio and debt investment of which investors may flee the country at any perceive weakness and exacerbate economic difficulties in a developing country. However, for this to occur there must already be a competitive market in the host country. In competitive markets, businesses do incorporate incremental technology and efficiency improvements to increase their competitiveness (Moran, 1998).

#### **COST OF FDI TO NIGERIA**

- i) As a developing country, when FDI is introduced into the Nigerian market, which have industries that have debilitating inefficiencies and age-old technologies, the foreign firms may exploit and crush weak businesses. This leads to a situation of foreign firm capturing excessive rents which hurt consumers, repatriating profits, reducing domestic saving and leaving little to be re-invested in the economy. Furthermore, powerful foreign firms tend to gain preferential access to local capital markets and foreign exchange and dampen the availability of local firms’ access to these (Moran, 1998).

Other costs associated with FDI which can affect even a developed country are:

- ii) A historical review of the phenomenon of FDI conducted by Graham and Krugman (1995) actually found out that foreign firms are rarely swayed from their profit seeking motives by domestic politics even in cases where the home and/or host country is at the brink of war (Graham and Krugman, 1995).
- iii) There is possibility that the presence of MNCs may widen wage inequality in a country. There are a number of measures which a host country can take to mitigate this effect if so desired, such as setting cascading tax rates or instituting laws that govern inequalities (Adlaka, 2009).
- iv) While FDI may serves as a safer form of foreign investment for a country, the cost of it may be higher than others. Investors who prefer the added country risk associated with managing facilities in the host country (as opposed to portfolio investment) will require a higher premium ([www.staff.economist.com](http://www.staff.economist.com)).
- v) Investors normally take actions based on the decisions of other investors. The tendency is that inventors move in the same direction when they perceive a favourable investment. Also, events in one country may have a contagion or spill-over effects on another country.

## CONCLUSION

Most developing countries, Nigeria inclusive, compete for FDI in the hope that it will significantly contribute to their economic development. They often provides subsidies and special incentives believing that the total benefits will out weight the total costs of attracting FDI. It is true that foreign firms can raise the level of capital formation, promote exports, and generate foreign exchange. They also can provide the much needed market for domestic suppliers and support industries, and in the process, transfer technology, increase industrial linkages and stimulate industry as a whole, while providing direct and indirect employment. They can also disseminate best practices through the demonstration of higher production efficiencies, labour standards, wages and environmental protection. In addition, competition between foreign and domestic firms in a market dominated by a few large local firms can improve competitiveness and efficiency of domestic firms.

However, in practical terms, the economic effects of FDI cannot be measured with precision. This is because each foreign investment provides a complex package of firm-level attributes in varying quantities and qualities which are difficult to separate and quantify. The most prized assets of MNCs include technology, brand equity, product development, specialized skills, and the ability to organize and integrate production across countries, the ability to establish marketing networks. These attributes can be copied or reproduced by others but the cost of doing so can be prohibitive, and so are the risks associated with the development of competitive branded products, particularly in a developing country like Nigeria and especially where advanced technology is involved.

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## EXPLORATORY STUDY ON CUSTOMER DEFECTION IN BANKING SECTOR

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### 1.0 Introduction

Customer defection is now seen as a key performance measure for the effective implementation of these relationship-marketing strategies (Ennew and Binks, 1996; Reichheld and Sasser, 1990). Switching behavior, also termed defection or customer exit (Hirschman, 1970; Stewart, 1994), refers to decision a customer makes to stop purchasing particular services or patronizing the service firm completely (Bolton and Bronkhurst, 1995; Boote, 1998).

Switching behavior is becoming an increasingly important issue in contemporary bank marketing as banks are very competitive to retain their customers from switching to another bank. A loss of one customer, especially valued customer can have a negative effect on a bank's market share and profit (Colgate and Hedge, 2001; Ennew and Binks, 1996; Keaveney, 1995) arising from reduction in interest income or fees from rendering banking services.

The entrance of Islamic banking creates a wave of new change in the banking landscape in Thailand. It poses a big challenge to the existing conventional banks as more customers switch from using conventional banks to Islamic banks. In this paper, we study the profiles of the customers involved in bank switching and present their feedbacks as to the factors that prompt them to defect their existing bankers.

### 1.1 Islamic Banking in Thailand

The Islamic banking system was launched in Thailand since 1988. Similar to Malaysia, it can be divided into two categories; Islamic window and Islamic full-fledged banks.

#### a) Islamic window

The early step of Islamic banking in Thailand was introduced as Islamic windows in which conventional banks maintain a separate unit within their organization to offer Islamic banking products and services. This separate unit maintains a separate accounts of the banking transactions from the other conventional banking activities in order to avoid *non-syariah* based transactions.

#### b) Islamic full-fledged banks

This concept was introduced after Islamic banking in Thailand showed significant progress. A full fledged state-owned Islamic bank named Krung Thai Bank was set up in 2002. In its early year, the Krung Thai Bank has received 500 million baht in deposits to date from 15,000 customers. In subsequent years, it opened 40 branches nationwide (Bangkok Post, 2003).

The first full fledged government-owned Islamic bank was The Islamic Bank of Thailand (ISBT). It was established under the Islamic Bank of Thailand Act, B.E. 2545 (A.D.2002), effective 22 October

B.E. 2545. The current paid up capital is THB 695.86 (USD 17.35m). Of this 10.453 million shares are owned by foreign interest representing 15% of the shareholding. According to ISBT Regulations, foreign holding is limited to 33%. The bank has a new organization structure after acquiring the financial business offered under the Shariah principles from Krung Thai Bank Public Company Limited on 9 November 2005. It opened the door of its first branch on 12 June 2003 under the Islamic Bank of Thailand Act, B.E 2545 (2002). ISBT is designated as a specific-purpose financial institution, supervised by the Ministry of Finance. ISBT went on to open eight additional branches after acquiring the banking services under the Shariah principles and a computer system from Krung Thai Bank Plc on 9 November 2005. The acquisition resulted in ISBT owning 18 more branches overnight. Today, ISBT boasts a total of 27 branches.

The growth of Islamic banking in Thailand can be illustrated in term of the branch number, total deposits and financing volume. After implemented Islamic banking system, there were two full-fledged Islamic banks being set up. These are the Government Saving Bank (GSB), which offers Islamic financial services through 7 branches in 6 provinces; and Bank for Agriculture and Agricultural Cooperatives (BAAC). BAAC has 45 branches in 14 provinces. Table 1 shows that the deposit per branch by the GSB and BAAC were 19 million baht and 2 million baht respectively. In comparison, the average deposit by GSB was higher than BAAC despite BAAC having more branches in the same province.

**Table1: Deposit and Branch of GSB and BAAC in 2001 ('000 baht)**

Institution	Branch	Deposit	Deposit/Branch	%
GSB	7	133,962	19,137	59
BAAC	45	91,946	2,043	41
Total	52	225,908	21,180	100

Source: GSB&BAAC, 2001.

In 2001, the figure of deposit by GSB and BAAC through Wadiah account was 108,990 million baht (81% of the total Islamic banking deposit) and 86,837 million baht (94%). Table 2 shows the different types of Islamic banking deposits. Pilgrim saving accounts for 2,056 million baht (2%), Mudarabah accounts for 22,916 million baht (17%) for GSB and 5,113 million baht (6%) for BAAC as in table 2. The mount of investment by GSB was 53,856 million baht. The popular mode of finance is Murabaha and Ijarah.

**Table 2: Types of Deposit in 2001 ('000 baht)**

Types of A/C	GSB	%	BAAC	%
Wadiah	108,990	81	86,837	94
Pilgrim Saving	2,056	2	0	0
Mudarabah	22,916	17	5,113	6
Total	133,962	100	91,950	100

Source: GSB&BAAC, 2001.

Number of Islamic bank, one of Islamic bank full fledged (Islamic Bank of Thailand), two Islamic window ([The Bank for Agriculture and Agricultural Cooperatives \(BAAC\)](#) and [The Government Savings Bank](#))

## **1.2 Key features of Islamic Banking in Thailand,**

Thailand is a multi-religious country and Islam is the second largest religion with over six million followers. In Thailand, the Islamic banking system was established after some countries had already launched in South East Asia like Malaysia, Philippines, Indonesia and Brunei. The Islamic financial system in Thailand started with the establishment of a cooperative society. These Islamic cooperative societies have successfully established themselves as viable financial institution in managing and mobilizing Muslim funds in their region. In addition, the launching of economic integration policy in Southeast Asian, The IMT-GT project, which cover southern Thailand area, northern state of Malaysia, and Sumatera area in Indonesia. It has given recognition to the functional of Islamic financial institution in the economic development particularly Islamic bank and emphasized to research with related to Islamic banking. As a result, many discussion and meeting in IMT-GT project suggest establishing of Islamic bank in Thailand for better economic development in this region (Haron & Yamirudeng; 2003).

## **2.0 Literature Review on Consumer Behavior**

### **A Simplified Model of Consumer Decision Making**

According to Schiffman&Kanok (2007) consumer behavior was relatively new field of study in the mid to late 1960s. Because it had no history or body of research of its own, marketing theories borrowed heavily from concepts development in other scientific disciplines, such as psychology (the study of the individual), sociology (the study of groups), social psychology (the study of how an individual operates in groups), anthropology (the influence of society on the individual) and economy to form the basic of this new marketing discipline. Many early theories concerning consumer behavior were based on economic theory, on the notion that individuals act rationally to maximize their benefits (satisfaction) in the purchase of goods and services. Later research discovered that consumers are just as likely to purchase impulsively and to be influenced not only by family and friends, by advertisers and role models, but also by mood, situation, and emotion. All of these factors combine to form a comprehensive model of consumer behavior that reflects both the cognitive and emotional aspects of consumer decision making.

### **The Conceptual of Consumer Buying Behavior**

This section will explain the consumer buying behavior's concept. It is a basic requirement of marketing is to produce product that customers need (Lancaster *et al.*; 1999: 26). Sargeant *et al.* (2001) defined the customer and organizational buying behavior as the environment and decision process effecting individuals and groups when evaluating, acquiring, using or disposing of goods, services or idea. While the organizational buying refers to the process by which firms and institutions purchase good and services (Howard and Sheth; 1969).

Many studies have investigated the consumer buying behavior in financial institution. They were focused on customer loyalty (for example, Jain *et al.*, 1987; Meidan and Moutinho, 1988), customer expectation (for example, Lewis, 1991), perception (for example, Erol., *at al.* 1981; Meidan and Moutinho, 1988; Lewis, 1991; Turnbull, 1983; Rosenblatt, 1988; Yorke, 1990; Haron, 1994; Metawa, 1998; Ahamad *et al.*, 2002), attitude (for example, Erol *et. al.* 1981, 1990; Kaynak and Yucelt, 1984; Chan and Ma, 1990; Lewis, 1991; Gerard *et al.* 1997), selection criteria (for example, Anderson, 1976; Laroche and Manning, 1984; Turnbull and Gibbs, 1989; Rosenblatt, 1989; Javalgi, 1989; Boyd, 1994;), service quality (for example, Rosenblatt, 1988; Turnbull and Gibbs, 1989; Chan and Ma, 1990; Chan, 1990; Ennew, 1990; Ennew and Binks, 1996; Lewis, 1991; Othman, 2001), and marketing segmentation (for example, Harrison, 1994; Edris, 1997). This concept can be broadly divided into two categories, namely, customer buying behavior and organization buying behavior.

### **Customer switching behavior**

In an attempt to simplify and understand the process of switching, the previous studies have highlighted the broad evaluative constructs of service quality and satisfactions are related to service switching (Bitner, 1990; Mittal *et al.*, 1998; Zeithaml *et al.* 1996). Keaveney (1995) was exploratory research provided a

valuable initial classification of the causal factors that induce service switching. Eight categories of switching antecedents were postulated and he placed particular emphasis on five major causal factors;

- 1) Care service failure, incident due to mistakes or other technical problems with the service.
- 2) Service encounter failures, problem due to the interaction between the service employee and customer.
- 3) Service recovery failure, problem arising due to the failure of the service firm to resolve previous complaints or problem.
- 4) Inconvenience, incidents where the customer felt inconvenienced by aspects to the service.
- 5) Pricing, problem associated with fees, charges, price deals associated with the service.

Colgate and Hedge (2001) were investigated the problem that influence both switching behavior and complaints made prior to exit. There were surveyed to banking customers in Australia and New Zealand from 694 mail surveys. Results showed that the reasons for switching banks were classified into three main problem areas; service failures, pricing problem, and denied services. The problem with pricing had the most important impact on switching behavior.

### **3. Motivation for Islamic Banking in Thailand**

The motivations for the establishment of Islamic banking were different in South East Asia. In Thailand case, the motivation for established Islamic banking can be discussed as follows:

#### **a) Islamic teaching**

The emergence of Islamic teaching in modern business is a new phenomenon in Muslim community. Islamic banks and other financial institutions started to take shape only in the 1970s. In that decade, many Islamic oil exporting countries experienced a tremendous growth in their economies following the 1973 sharp rise in oil price. Most of the earnings from the sale of crude oil was surplus to the immediate needs of these countries for internal capital and recurrent spending. The surge of domestic capital expenditure led to an increase in the circulated currency and commercial activity (Naser & Moutinho; 1997).

The Quran prohibits Muslims from paying and receiving Riba, which sometime defined as excessive interest.

The area of Islamic banking at national and international level is new, and in the process of evolution. The objective of these institutions, in general, is to promote, foster and develop the application of Islamic principles, law and traditions to the transactions of finance.

According to Siddiqui (1985) Islamic banking seeks a just and equitable distribution of resources. In non-commercial bank, if a borrower makes a loss on a project financed by a bank loan, the borrower is obliged to pay all interest due on the loan. On the other hand, if the interest rate falls and the borrower secure a high profit, other savers in the commercial bank will not benefit from such a profit. This very specific type of risk taking, which is one of the non-Islamic banking principles, is against the tenets of Islam.

#### **b) Economy crisis**

The Asian currency crisis began in Thailand when on 2 July 1997, The Thai baht was forced to float after a futile attempt by the Thai government (losing as much as US\$20 billion in the process) to maintain its value relative to the US dollar, under heavy selling pressure (Tan; 2000: 209). By October 1997, the baht had lost 40% of its value relative to the US dollar and was trading at just under 40 baht to US dollar. By the end of 1997, many Thai banks were reporting large reductions in profit, some as much as a 95% fall in profit, and 16 finance companies. ...

**c) People need**

As state earlier, the motivation for the establishment of Islamic finance has been a desire of Muslims to formulate and reorganize their economic and financial activities according to Islamic principles and derive from the Quran and the Sunnah.

**d) Shareholding structure**

According to Islamic Bank of Thailand Act of B.E. 2545, the share capital of the Bank is Baht One Thousand million which is divided into 100 million ordinary shares, at a par value of Baht 10. As of 31 December 2006, the Bank has registered capital which were issued and called for fully paid-up of 70,444,400 shares, totally Baht 704,444,000. The remaining non-issued and non-call for payment shares are 29,555,600 shares, totally Baht 295,556,000. The first ten major shareholders of the Bank as of 31 December 2006 are as follows;

**Table 3: The first ten major shareholders of the Bank as of 31 December 2006**

No	Name of Shareholders	Number of Share	Percentage
1	Thailand Prosperity Fund	10,453,000	14.8839%
2	Ministry of Finance	9,900,000	14.054%
3	SMEs Venture Capital Fund	7,500,000	10.647%
4	Government Savings Bank	7,000,000	9.937%
5	Bank Thai Public Company Limited	6,000,000	8.517%
6	Bank Islam Brunei Darussalam Berhad	5,226,500	7.419%
7	Perbadanan Tabung Amanah Islam Brunei	5,226,500	7.419%
8	Dhipaya Insurance Public Company Limited	5,000,000	7.098%
9	Thai Bank Public Company Limited	4,000,000	5.678%
10	Siam City Bank Public Company Limited	4,000,000	5.678%

Source: Islamic Bank of Thailand. Annual Report 2006.

**e) Deposit Services**

At the end of 2006, ISBT's deposits grew 76.88 per cent to Baht 8,214.76 million. ISBT has provided fair returns and a variety of banking services as follows: (1) Wadiah Saving Account (2) Wadiah Current Account (3) Mudharabah Account; 3 Months, 6 Months, and 12 Months (4). Al Ameen Account; Al Ameen 1 (Type 1), Al Ameen 2 (Type 2), Al Ameen 3 (Type 3), and Al Ameen 4 (Type 4).

**f) Variety of Financing Services**

ISBT has provided the following financial services to accommodate the needs of our customers:

**a) Financing for Consumer**

- Home Financing (- Financing for buy Residence, - Financing for Build / Restore / Expand Residence, - Financing for Refinance)
- Car Financing
- Consumer Financing (Computer, Electronics, Furniture)
- Tour Financing
- Personal Financing

**b) Financing for Business**

1. Term Financing Facilities
  - Shop-House Financing
  - Land Financing
  - Factory & Machine Financing
  - Asset Construction Financing
  - Factory Construction Financing
  - Asset Refinance
2. Revolving Facilities
  - Working Capital Financing
  - Cash Line Financing
  - Real Estate Development Project Financing
3. Bills & Contingents
  - Bank Guarantee
  - Accept & Aval Bills
  - Discounted Bills
  - Domestic Letter of Credit
4. Trade Financing Facilities
  - Import - Letter of Credit - Trust Receipt - Shipping Guarantee or Delivery Order - Inward Foreign Bill for Collection
  - Export - Advising of Letter of Credit or Amendment - Advising of Letter of Credit Transfer - Outward Foreign Bill for Collection - Foreign Bill Purchased - Packing Credit
5. Policy Financing
  - Microfinance

#### **g) Financing Performance**

##### **1. Total credits**

As of 31 December 2006, ISBT's credits totaled Baht 6,903.40 million or 79.60 per cent increase from the end of 2005 of Baht 3,843.82 million only thanks mainly to its clearer financial products that strongly responded to customers' needs which allowed the Bank to extend its credits much more than before. This included credits extended to major and retail borrowers. Financings were mainly extended to the real estate and construction sector as well as housing credits was increasing from the year before.

##### **2. Credits categorized by sector**

Credits: As of end of 2006, a total of Baht 6,903.40 million was extended while the Bank gave priority to businesses in major sectors; namely, the manufacturing sector, the commercial sector and the service sector, which remained two main income generators for the country. Total credits extended to businesses in these sectors accounted for 23.27 per cent of ISBT's total credits. In addition, the Bank also focused at the real estate and construction sector where credits extended to this sector accounted for 19.07 per cent since they helped ISBT to generate incomes especially during the start of its business. Overall, credits were extended to major economic sectors as follows:

**Table 4: Credit to major economic sector**

<b>Credit extended by Sector</b>	<b>Percentage</b>	<b>Amount (Bath)</b>
Real Estate and Construction	19.07%	1,316,647,659.34
Manufacturing	14.97%	1,033,445,825.00
Commercial	0.37%	25,746,515.83
Service	7.93%	547,651,683.67
Personal Consumption	49.24%	3,399,009,715.23
Other	8.42%	580,902,257.75
<b>Total</b>	<b>100.00%</b>	<b>6,903,403,657.42</b>

**Note:** Credits prior to the deduction of deferred incomes and excluding interbank and money market transactions.

**Source:** Islamic Bank of Thailand. Annual Report 2006.

### 3. Other Services

#### *Electronic Services*

Electronic Services available in 2006

1. ATM Silver Card
2. ATM Gold Card

#### *Remittance*

1. Foreign Bank Draft
2. Foreign Travelers Cheque
3. Inward Remittance
4. Outward Remittance
5. Foreign Exchange
6. Foreign Clean Bill Purchased – FCP
7. Outward Foreign Bills for Collection – OFBC

#### *Zakat Account*

### 4. Products available in 2007

#### *Deposits Services*

1. Al Ameen Account (new)
2. Al Haj Account (new)
3. Sajjawat Wadiah
4. Mudharabah Non-Tax Account
5. Mudharabah Certificate of Deposit

#### *Financing Services*

1. Leasing
2. Hire Purchase

At the end of 2006, ISBT saw its deposit customers rise to 89,800, who altogether deposited a total of Baht 8,214.76 million or a rise by 76.88 per cent, with the Bank. Its credits totalled Baht 6,903.40 million or a 79.60 per cent increase from end of 2005. In 2006, ISBT earned Baht 279.91 million incomes from its credit extension, which was Baht 171.93 million higher from 2005, plus another Baht 127.41 million of other operation incomes; also up from last year by Baht 104.80 million. At the same time, the Bank recorded an operating expense of Baht 471.43 million due to requirements to upgrade its information technology to provide better service and the need to recruit additional staff for lending and other departments. As a result, the Bank suffered a net loss of Baht 269.85 million in 2006, which was Baht 111.76 million higher than the previous year. The net loss per share was Baht 3.85 or Baht 1.58 higher than in 2005.

ISBT's deposit growth rose Baht 3,570.48 million or 76.88 per cent at the end of 2005 to Baht 8,214.76 million a year later. As of end of 2006, credits totaled Baht 6,903.40 million, or 79.60 per cent increase to total Baht 3,059.58 million at the end of 2005.

In 2007, ISBT planned to attract a total deposit of Baht 14,300 million and total credits of Baht 13,000 million where it plans to increase capital to be able to expand its operation based on the initiated plan and objectives.

#### **Assets**

As of end of 2006, ISBT's assets were Baht 8,773.80 million, or an increase by Baht 2,652.06 million from the end of 2005 thanks largely to its active credit expansion.

The Bank's total credits consisted of Baht 6,875.12 million credit and net accrued incomes; Baht 389.34 million investment in securities; Baht 359.38 million in net land, buildings, renovated buildings for rent and equipment; Baht 217.80 million worth of cash, Baht 578.69 million in interbank and money market transactions and Baht 353.47 million worth of assets. Investment in securities as of end of 2006 totaled Baht 389.34 million, which accounted for 4.44 per cent of its total assets. ISBT has a policy to invest in

securities of both listed securities in the Stock Exchange of Thailand and non-listed businesses as well as short-term government bonds for the purpose of short-term liquidity management. As of end of 2006, net credits and accrued incomes totaled Baht 6,875.12 million or Baht 3,045.66 million increases from the previous year, which accounted for 78.36 per cent of the total assets.

#### **Liabilities**

ISBT's major funding sources were deposits and liabilities. As of end of 2006, its deposits totalled Baht 8,214.76 million or Baht 3,570.48 million increases from a year before thanks to increasing public interests in ISBT. Other liabilities totaled Baht 393.10 million, which consisted of Baht 200 million interbank and money market transactions; Baht 73.21 million liabilities on demand; and other liabilities worth Baht 119.89 million. This year, ISBT paid a total of Baht 854.93 million as the cost of P/N used to fund the acquisition of the financial business under the Shariah principles from Krung Thai Bank Public Company Limited.

#### **Shareholders' Equity**

As of end of 2006, shareholders' equity of ISBT totalled Baht 165.94 million, down Baht 292.63 million from the past year, due to its operating loss and a decline of premiums in its securities investment compared to a year before.

### **5. Customer profile of Islamic Banking in Thailand**

#### **5.1 Background of the Respondents**

The purpose of this section is to answer the first research objective about which demographic/ socio-economic issues of customers' switching behavior of Islamic banking in Thailand.

A total of 450 sets of questionnaire have been sent and returned to the researcher making the respond rate of 67.0 percent. Table 5 presents the background of the respondents in this study. It is found that the respondents are retail customers 48.3 percent and corporate customers 51.7 percent.

Another important demographic trend having an impact on the targeting of financial services is gender. The results of this study a majority of the respondents are female with 63 % and 37% are male, working women becoming more extensive users of financial services. 85.3% of the respondents were in the range ages between 20 to 40 years old.

McKechnie and Harrison (1990) mentioned that the corporate customers differ widely from the retail customers in term of structure and characteristics, corporate customers are generally smaller in number but larger in size and more complex than retail customers. Also important is that corporate decisions are influenced to a much greater extent by the state of the economy, and factors outside the buyer's control can take on a significant role in decision making. These differences have important for bank to implication for market segmentation to formulation marketing strategies. This study indicates that, most of corporate customer is small enterprise, which performs the business in the city and a female.

Ford and Richard (1985) showed that the age of a person has discriminatory power in the usage of financial services; generally younger customers have a larger demand for loan facilities than older customers.

All of the respondents are from the province of Yala, Narathiwat and Pattani. Out of 300 respondents, 58.3% of them have finished the high school and the other obtained the first degree.

The results reported in Table 5.1 also indicate that the respondents are predominantly female, constituting 63 percent of the respondents. Majority of respondents are well educated, with more than 41 percent holding degree. Category of employers, most of them from business sector, constituting 22 percent and 28 percent are government and private sector. Majority of the respondent' income (49%) earned up to 5,000-10,000 Baht per month, with a quarter of them earning 10,000-20,000 Baht per month. This finding, indicate that most of Islamic bank customer earning between 5,000-20,000 Baht. This indicates that most of Islamic bank customer as a middle-class households.



The next set of results in Table 6 identifies background of corporate customer. The majority of types of business are single owner (23%), following by partner (15%) and company limited (11%). The category of business are retail trade (8%), Wholesale Trade (7%), and service sector (10%). Most of business that their own is single firm (24%). The monthly sale more than 100,000 Baht (12%), following by more than 10,000-30,000 Baht (10%).

**Table 5: Profile Respondents (n=300)**

	<i><b>Total</b></i>	<i><b>%</b></i>
<b><u>Types of Customer</u></b>		
Retail Costumer	145	48.3
Corporate Costumer	155	51.7
Total	300	100.0
<b><u>Gender</u></b>		
Male	111	37.0
Female	189	63.0
Total	300	100.0
<b><u>Age</u></b>		
20-29 years	186	62.0
31-40 years	76	25.3
41-50 years	30	10.0
51-60 years	8	2.7
Total	300	100.0
<b><u>Region</u></b>		
Yala	100	33.3
Narathiwat	100	33.3
Pattani	100	33.3
Total	300	100.0
<b><u>Resident</u></b>		
Urban	155	51.7
Rural	145	48.3
Total	300	100.0
<b><u>Level of Education</u></b>		
Secondary	175	58.3
University/College	125	41.7
Total	300	100.0
<b><u>Category of employers</u></b>		
Businessman		
Entrepreneur	23	7.7
Government/public agency	33	11.0
Employee	86	28.7
Commerce	59	19.7
Agriculturer	10	3.3
Student	2	0.7
Teacher Private School	31	10.3
Professional	54	18.0
Total	2	0.7
	300	100.0
<b><u>Income</u></b>		
<5000 Baht	52	17.3
5000-9999 Baht	148	49.3
10000-19999 Baht	77	25.7
20000 - 29999 Baht	13	4.3
30000 - 39999 Baht	3	1.0
> 40000 Baht	7	2.3
<b>Total</b>	<b>300</b>	<b>100.0</b>

**Table 6: Profile respondents based on the corporate customer**

	<i><b>Total</b></i>	<i><b>%</b></i>
<b><u>Types of Business</u></b>		
Single owner	69	23
Partner	15	5
Ltd. Co.	11	3.7
<b><u>Category of Business</u></b>		
Retail Trade	25	8.3
Wholesale Tread	21	7
Manufacturing	8	2.7
Service sector	31	10.3
Other	5	1.7
<b><u>Year on Job/business</u></b>		
Less than 1 year	6	2
2 to 3 years	23	7.7
3 to 4 years	15	5
5 year or more	46	15.3
<b><u>Business that you own</u></b>		
Single	71	23.7
2 to 3	11	3.7
4 to 5	5	1.7
More than 5	3	1.0
<b><u>Monthly sale</u></b>		
<10,000 Baht	14	4.7
>10,000-30,000 Baht	29	9.7
>30,001-50,000 Baht	9	3
>50,001-100,000 Baht	4	1.3
>100,000 Baht	34	11.5

#### 6. Factor of Customer Switching

The study results to customer switching of Islamic banking in Thailand are shown in Table 7. With the scale of 1 to 5 with 1 is strongly disagree and 5 is strongly agree, the respondents indicate that the most important factor is **convenience** (Means=3.84, SD=1.31). It is followed by Satisfaction (Means=3.82, SD=1.12), and **denied service** (Means=3.78, SD=1.09). Other factors of switching are **Quality of service, Service recovery, Service counter, and Care service**. It is also indicate that **pricing** has a less important influence to the customer switching (Mean=3.31, SD=1.05).

**Table 7: Factor of Customer Switching**

<b>Factor of Customer switching</b>	<b>Mean</b>	<b>SD</b>	<b>Rank</b>
1. Pricing	3.3133	1.05143	<b>8</b>
2. Quality of service	3.6967	.99732	<b>4</b>
3. Denied service	3.7833	1.09257	<b>3</b>
4. Care service	3.4533	1.01880	<b>7</b>
5. Service counter	3.5300	1.10446	<b>6</b>
6. Service recovery	3.6033	1.05659	<b>5</b>
7. Convenience	3.8367	1.13178	<b>1</b>
8. Satisfaction	3.8167	1.11679	<b>2</b>

Table 8 describes the differences opinion between the factors of customers switching and the bank customers. The results indicate that there are 2 factors are significantly difference with the groups of customers. There factors are denied service ( $F=5.58$ ,  $p<0.05$ ) and care service ( $F=13.272$ ,  $p<0.01$ ). Retail customer indicate the highest mean for denied service factor (3.83), while corporate customer indicate the highest mean for care service factor (3.53).

**Table 8: Differences between Corporate and Retail Bank Customers**

Factor of Customer switching	Corporate	Retail	F-value
1. Pricing	3.4467	3.1800	3.356
2. Quality of service	3.7200	3.6733	.688
3. Denied service	3.7333	3.8333	5.582*
4. Care service	3.5267	3.3800	13.272**
5. Service counter	3.6200	3.4400	1.640
6. Service recovery	3.6933	3.5133	3.137
7. Convenience	3.8067	3.8667	1.932
8. Satisfaction	3.7333	3.9000	1.992

\* $P<0.05$

\*\* $P<0.01$

Table 9 describes the T-test results for factor of customer switching and qualification. From Table 9, we found that only one factor which is significantly different between the two types of respondents. The factor is **pricing** ( $F=3.966$ ,  $p<0.05$ ). High school respondents indicate the highest mean (3.32) compared to Undergraduate (3.30).

**Table 9: Differences between Factor of customer switching and Qualification**

Factor of Customer switching	High School	Undergraduate	F-value
1. Pricing	3.3200	3.3040	3.966*
2. Quality of service	3.6743	3.7280	2.333
3. Denied service	3.8286	3.7200	.004
4. Care service	3.4514	3.4560	.832
5. Service counter	3.4914	3.5840	.551
6. Service recovery	3.5257	3.7120	2.500
7. Convenience	3.8800	3.7760	.096
8. Satisfaction	3.8857	3.7200	.084

## 7. Conclusion

This paper explores the possible factors that induce customers to switch to Islamic banking in Thailand. We find the customers in general, rank “convenience” as the key factor for the switching. “Convenience” here does not only refer to location but also to the degree of ease in them to deal with the bank managers and bank staff in terms of communication, understanding the *shariah* concept applied and the *syariah* compliant. Since Islam requires full disclosure of information and the transaction should be interest or *riba*’ free, the customers (including customers with degree qualification) perceived that doing their banking requirements by Islamic banking would conveniently fulfill their banking needs and their religious needs. This factor also applies to corporate customers. In contrast, retail customers (high school graduates) perceived *satisfaction* as the deciding factor in the switching decision. Hence, Islamic banks should

continue to improve their strengths from the perspective of customers' convenience and satisfaction in order to avoid their customers from switching to another bank and the possibility of losing the market share and income.

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## ORGANISATIONAL CREATIVITY AND INNOVATION PROMOTION: AN INTEGRATED HR APPROACH

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### **Abstract**

*Creativity and innovation are of fundamental importance in achieving a competitive edge in business, education or government. As a source of competitive advantage, creativity can provide an organisation with all the weapons necessary to fight their rivals, particularly in rapidly globalised and changing markets. This paper will review the literature on the various approaches to creativity, discuss the barriers that obviate organisations from harnessing her employees' energies, and identify conditions needed for successful creativity and innovation in organisations. The paper will also provide a 3-phase approach in designing effective HR programmes in promoting creativity and innovation in organisations. The argument, therefore, is that there are no quick-fix approaches to the challenges of fostering creativity in organisation, instead what is required is integrated, multi-intervention strategies to enhance organisational creativity and innovation.*

*Key words: Creativity, innovation, Human Resources, organisation*

### **Introduction**

A survey by several Businesses singled out managing continuous change as the most important factor influencing the future roles of managers in. Intuitively, many managers believe that innovative organizations are better able to cope with changes, and it is not surprising that creativity, and innovations are ranked as the most important skills and qualities by African and Asian employees when recruiting Master of Business Administration (M.B.A) graduates. Unfortunately, these are the kind of skills and qualities that are most difficult to find (Syett, 1995). In view of the importance and scarcity of creativity and innovation skills, it is imperative that organizations learn how to take appropriate measures to foster the development of essential HR competency. More importantly, organizations should also learn how to exploit the creative and innovative energies of their employees as a source of competitive advantage against their rivals.

This paper provides an integrated HR framework to help managers develop, sustain, and exploit employee creativity and innovation for organizational success. Specifically, the paper will explore and discuss the following:

Common approaches in managing creativity and innovation;  
Obstacles to creativity and innovation;  
Conditions for organizational creativity and innovation; and  
An integrated HR framework to foster employee creativity and innovation.

### *Approaches in Managing Creativity and Innovation*

There are three common approaches that managers could adopt in order to manage creativity and innovation in their organization: One of them will have to do with trait or dispositional approach; skills approach; and work environment or cultural approach.

*Traits or dispositional approach.* Theoretically, this approach is linked to the pioneering efforts of researchers to identify specific personality traits and characteristics associated with creativity ( e. g., Barron, 1955; From, 1959; Rogers, 1959; Mackinnon, 1962). Over the years, researchers have found many characteristics that are linked to creative behaviours, and some of these are: awareness and sensitivity to problems; openness to experience; tolerance of ambiguity; fluency of ideas; flexibility of thoughts; self-discipline and persistence; sense of humour; non-conformity; intellectual “playfulness”; self-reliance;

willingness to take risk. For instance, Raudsepp (1983) found that creative people are responsive to feelings, motivated, unafraid of failures, original, flexible, and have keen sense to spot problems, and Velthouse (1990) believes that creative people, when compared to those who are not so creative, tend to be more self-confident, optimistic, curious, visionary and humorous.

The trait or dispositional approach has a deterministic inclination towards managing creativity and innovation in organizations. Proponents of this approach believe that there are certain inherent traits or characteristics that predispose an individual to be creative. The logical recommendation is to devise ways to identify and measure these creative traits and characteristics so as to enable managers identify creative talents for their organization. Thus, there has been much research work on the development of tests to identify creative individuals (Guilford, 1971). In practice, the managers adopting the traits approach will emphasize stringent selection as a means to manage creativity and innovation.

**Skills approach:** Unlike the supporters of the traits approach, proponents of skills approach believe creativity can be taught and learnt. Hence, they advocate training as a means of developing creativity in organizations. Professor Torrance of the University of Georgia is perhaps one of the most prominent proponents of this approach. He designed a few programmes to teach children to think creatively (e.g., Meyers and Torrance, 1964; Torrance, 1965 a, b) and conducted research studies to evaluate the effectiveness of creativity training programmes for children (Torrance, 1972). Another leading advocate of this skills approach is Edward de Bono. In the educational settings, de Bono reported that 106,000 teachers in Venezuela were trained to use his materials to teach creativity to school children (deBono, 1978). Furthermore there is also much evidence to support the effectiveness of this approach as demonstrated by Torrance, 1987; Basadur, Graen and Green, 1980.

In the business settings, there are many creativity programmes available in the market. Some of these programmes are techniques-driven, i.e., teaching specific techniques to stimulate individual creativity. Usually, trainers in these programmes will teach participants on idea-generating techniques such as, brainstorming, Osborn's Checklists, analogies, attribute-listing, to mention but few. In addition, there are also theory-driven programmes in the market, i.e., the programmes are based on some theoretical frameworks. Examples of the more theory-driven programmes are lateral thinking (deBono, 1977) and Osborn-Parnes Creative Problem-Solving Procedure (Isaken, 1989).

**Work environment or cultural approach:** The two previous approaches focus their attention on the individuals in the organisation. They are micro-approaches to organisational creativity and innovation. More recently, however, both researchers and practitioners realise that an over emphasis on the micro approaches leads to a serious neglect of another significant factor of organisational creativity, such as the work environment in which the individuals function. In the early 1980s, managers discover that the work environment has a significant impact on how employees feel, think and act in organisation. This leads to the work environment or cultural approach to managing creativity and innovation (Raudsepp, 1987). In essence, this approach involves measures taken by managers to foster a nurturing work environment to encourage creativity and innovation in organisations.

Research studies have also found that Creative/Innovative organisations are more likely to possess the following characteristics: open communication (Cummings, 1965; Majaro, 1988), fair reward systems that emphasizes intrinsic satisfaction (Ashford and Cummings, 1965; Peters and waterman, 1982), absence of formal, hierarchical structures (Kimberly, 1981), inter-group/departmental support and collaborations (Amabile and Grysiewicz, 1987), autonomy ( Sapolsky, 1967; Abbey and Dickson, 1983), access to power support for innovative problem-solving (Kanter, 1983), optimum amount of work pressure (Evans, 1990), tolerance for diversity (Thompson, 1965; Siegel and Kaemmerer, 1978), risk-taking (abbey and Dickson, 1983).

#### *Obstacles to Creativity and Innovation*

There are many obstacles to creative thinking in organisations, and to a considerable extent, some of them are linked to organisational and behavioural factors. These maladies to creativity include:

bureaucracy – red tapes, rigid rules and regulations, emphasis on managerial control, hierarchical structures; dysfunctional organizational culture – false assumptions, unable to see emerging environmental trends, too much emphasis on traditions; reward systems – over emphasis on bottom-lines, short-term

orientation, reliance on external rewards to motivate employees, little emphasis on the influence of intrinsic motivation.

There are many behavioural factors that block organizational creativity and innovation, and some of the common ones are as follows: leadership practiced – criticize ideas, do not trust employees, punish employees for making mistakes; resistance to change – unwilling to change work habits, fear of making mistakes, not willing to learn new skills; tendency to conform – fear of being ridiculed for new ideas, risk of failures, pressurized by peers not to outlandish in thinking and behaviour; dysfunctional conflicts – preoccupation with status, unwilling to share resources and information.

Further analysis suggests that the aforementioned barriers to creativity and innovation are associated with the various subsystems of the organisation, namely, cultural subsystems, structural subsystems, leadership and people. For example, bureaucracy and reward systems barriers are linked to the structural subsystems, and dysfunctional culture are directly related to the cultural subsystems of the organization, including resistance to change, tendency to conform and dysfunctional conflicts.

#### *Conditions for Creativity and Innovation*

Certain conditions must exist before an organisation can be creative and innovative. At the individual level, the two essential conditions are positive belief systems and competencies. Under the *positive belief systems*, individuals in the organisations should have positive belief systems in order to contribute creatively in organisations. Employees should think positively of themselves and believe that they can be creative. Again empirical evidence supported by research studies have found that self esteem is a precursor to individual creativity (Korman, 1971). When employees have positive self esteem, they will be more willing to take risks, and experiment with new approaches of doing things. However, if they have low self esteem, they will not dare to rock the boat, instead they would prefer to maintain the status quo. The same thing is applicable to managers and supervisors as they may have to think positively of their subordinates. Otherwise, they will not empower their subordinates to exercise their initiatives and engage in innovative behaviours.

To be creative, individuals need to acquire certain *competencies*, namely creativity, technical, and human relations skills. While the need for creativity is obvious, the need for technical skills emanates from the fact that in the organisational setting, creativity always function in a domain-specific context, be it product innovation or service quality. Human relations skills are needed because there is a behavioural dimension in promoting creativity and innovation in organisations. Individuals must know how to champion their ideas and garner support from others. Failure to do so will lead to premature killing of innovative ideas.

At the organisational level, the two essential conditions are *conducive organisational culture* and support for creativity. The organisational culture plays a pivotal role in organisational *creativity*. To nurture creativity and innovation, there must be trust, tolerance for diversity and open communication. When trust is lacking, people will not dare to take risk and adopt a wait and see attitudes, and this kind of attitudes hinder creativity. In contrast, tolerance for diversity provides opportunities for organisational members to share different perspectives and explore alternative ways of doing things thereby promoting creativity. Open communication is important because ideas and information are the life blood of creativity. When communication is blocked, creativity will be stifled.

Besides creating a congenial environment to promote creativity, organisation should provide support to promote creativity and innovation, so that organisations can be willing to commit resources – financial, physical, human resources, empower employees with authority to make decisions, invest time on projects to promote innovation, and share information with employees. A good example of how a company supports creativity is 3M, which allows employees to devote up to 15% of their time to any petty projects. It also stages celebrations to reward and give morale support to their creative employees (Leob, 1996).

#### *An Integrated HR Approach*

Managing creativity and organisational innovation is a complex problem. However, often managers tend to rely on *ad hoc* approaches in solving this problem. In this paper, we argue for the need to have an integrated HR approach in fostering employee creativity and innovation. Our approach takes a holistic view of the organisation, leading us to recommend the use of multiple HR interventions, such as training, reward system, leadership development, and team building. Each of the HR intervention is targeted at

different subsystems of the organisation and managers should coordinate the interventions in order to reinforce one another. Our specific approaches involve three fundamental phases: diagnostic, design and action.

Under the *diagnostic phase*, an organisation may be plagued by a bureaucratic structure with many outdated rules and regulations even though it has young and creative managers and employees. For this organisation, the immediate need is to see how to update the rigid rules and regulations and remove bureaucracy from the structure. The need for creativity training is not urgent, yet most managers tend to take a copy cat approach to creativity without identifying the real needs of their organisation. The most common approach is to install creativity training programmes in the organisation even though what it really need is to revamp its procedures and structure.

The phase involves assessing the readiness of the organisation for creativity and innovation and identifying the factors that support and those that hinder creativity and innovation. Every organisation has unique problems and potential, and it is for these reasons that it is important not to jump straight into any creativity interventions without proper diagnosis of the organisation. Managers should diagnose the strengths and weaknesses of the organisation in terms of its alacrity to change and examine the nature of the barriers to creativity before designing the appropriate interventions to promote creativity in organisation.

The *design phase* involves designing appropriate HR interventions to promote creativity and innovation. Some examples of interventions available to HR managers are team building, work redesign, restructuring of organisations, employee empowerment programmes, training interventions (creativity training, leadership development, etc), compensation systems and incentive schemes, and culture change programmes.

An effective diagnosis will not enable the manager to know what kind of HR interventions to adopt but also give him/her suggestions on how to sequent these interventions. For example, Company A is ready for creativity, its managers and employees perceive the need for creativity to excel, however, the company does not know how to be creative. In this case, the company will get the most leverage by investing in creativity training first. Other HR interventions, such as revising the incentive schemes to reward creative behaviours can follow later. In contrast, Company Y is not ready for creativity as the management has little faith in its employees and in turn, the employees dare not voice out new ideas for fear of criticisms. Perhaps, in this case, the most immediate need is to change the mindset of the people (including managers and employees) in the organisation through investing in training programmes.

During this phase, a detail road map or action plan will be worked out to specify the types of interventions and when they will be implemented. In designing the appropriate interventions, managers should be guided by the following principles: make use of data obtained during the diagnostic phase to design a multi-intervention programme to promote creativity, phase the interventions in ways that the subsequent ones are consistent with and reinforce the earlier interventions, choose interventions that are cost-effective and efficient, select interventions that are most relevant given the context and situation, and be sensitive to organizational and psychological strains.

*Action phase* will involve implementing and evaluating the HR interventions as designed in the earlier stage. Implementation and evaluation are very much intertwined. Evaluation is a form of feedback to the effectiveness of the interventions. To ensure success, there is a need to closely monitor the implementation process and make necessary refinements based on the feedback from the evaluation. It is impossible to foresee to every detail during the design phase. The action plan as worked out in the previous phase is not meant to be rigidly applied. Managers should be flexible. Once they feel that the interventions are not working according to plan, they must be ready to make modifications. For example, when implementing the training interventions, if the participants reveal certain problems regarding outdated rules and regulations that were not identified earlier, the management should then make an attempt to address these concerns immediately.

Experiences indicate that there are certain factors that contribute to successful implementation of creativity interventions in organisations, and some of these factors are top management support, realistic expectations, support systems for change agents, and sustained interest.



The top management sets the tone for the organization. If the top management is seen to give lip services to the creativity interventions, no one in the organization will take them seriously, commitment will not be as effective as what should be expected. As an indication of commitment and support, the top management must provide sufficient resources to push through the programme, invest their time in communicating with their employees about changes, and participate actively in the interventions. They cannot rely on the HR department or even on an external consultant to drive the programme.

On the issue of realistic expectations, different interventions will require different time frame to demonstrate their effectiveness. For example, the effectiveness of training interventions can be felt quite quickly at the individual-level as it is possible for an individual to derive immediate benefits after attending a creativity course from a good instructor. However, managers will be disappointed to find out that, most often than not, improvement on creativity skills at the individual level does not automatically lead to improvement in organisational creativity. Interventions directed at the individual level still need to be supported and reinforced by interventions directed at the other sub-systems of the organizations. Hence, managers must have realistic expectations and should expect to get instant results and quick fix solutions.

Changes are stressful and change agents can be vulnerable to burnt out. To help and convince others to change is an emotionally taxing task, and one way to resist change is to attack the change agent. The attack can manifest itself in various forms, from insults to attribution of bad motives and intentions, and to outright confrontation. To make matters worse, change agents are often trapped between supporters and opponents of the change. Both sides are making demands on the change agent's time and energy, and it will be a good practice to provide some avenues of support for the change agents. Management must be sensitive to the emotional needs of the change agents and be willing to lend a listening ear. Change agents themselves must also learn to take care of their emotional health, with some avenues to share and ventilate their problems to one another.

### **Conclusion**

Creativity is of fundamental importance to organisations because it discovers original and novel ideas that lead to feasible alternative courses of action. Encouraging creativity and innovation among managers can be a pressing organisational concern that many organisations hire outside experts to help them develop programmes to train their managers in the art of creative thinking and problem solving

Above all, people are thrilled with the promises of creativity and innovation and they would like to see some positive changes. However, when results take longer than expected, employees begin to lose interests. Hence, it is important to define midpoint goals in the creativity programme. Once these goals are achieved, the organisation should stage celebrations to energise the people and sustain their interest in the programme. Another way to sustain interests is to have effective employee communication programme to inform employees of the progress of the programme.

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# THE RELATIONSHIP BETWEEN MARKETING CAPABILITIES AND PROFITABILITY OF CASUAL DINING RESTAURANTS IN MALAYSIA

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## Abstract

There are about 63000 restaurants currently operates in Malaysia and most of them belong to the small and medium enterprise (SME) industry. Malaysian SMEs contributes almost 70% of national employment and thus contribute significantly to the development of national economy. Without doubt, this sector deserved to be studied. Past researches have identified skills or competencies or capabilities as significant factors that contribute to SMEs performance. Thus, this study was conducted to examine the relationship between marketing capabilities and profitability of the casual dining restaurant. A theoretical model that is based on the resource-based view of the firm is developed and tested empirically. The model includes six components of marketing capabilities which are promotional capability, supplier relationship capability, product development capability, market management capability, marketing research capability and pricing capability. The performance of the casual dining restaurant is measured by looking at profitability of the restaurant. There were 164 questionnaires distributed to the managers of the casual dining restaurants in the Klang Valley, Malaysia and out of that 130 questionnaires were return. Regression analysis was performed to examine the relationship of the variables tested. The test reveals that only pricing capability has positive and significant relationship with profitability. This finding suggests that in order to ensure the profitability, the casual dining restaurant needs to have the skills or capability to competitively price its food and beverage.

Key words: Marketing Capability, Restaurant, Performance, Profitability and SMEs.

## 1. Introduction

The small and medium enterprises (SMEs) have been known as the key segment and driver for most national economies (Woff & Pett, 2006). In Malaysia, SMEs contribute significantly to the national economy by providing employment and also as a major source of GNP. Bank Negara Malaysia Annual Report (2006) shows that there are about 520,000 SMEs currently operate in the Malaysian market. This figure constitutes about 99% of the whole companies operating in Malaysia contributing about 47% of the total incomes by the whole business establishments. When it comes to employment, SMEs provide 65% of the total employment in the Malaysian economy, thus known as the largest source of employment provider.

According to Small and Medium-Sized Industry Development Corporation (SMIDEC) the retail, wholesale and restaurant sector is the largest segment in the Malaysian SMEs which dominates about 60% of the total segment in SMEs. The status of these segments is mentioned in the Table 1 below.

**Table 1**

*Status of Malaysian SMEs by Segment*

Segment	Establishments	SMEs	% Of SMEs	% of segment in SMEs
Manufacturing	39,219	37,866	96.6	7.3
Services	119,980	118,662	98.9	30.0
Retail, Wholesale and Restaurants	312,245	311,234	99.7	60.2
Finance	19,291	19,108	99.1	3.7
Agriculture	32,397	29,985	92.6	5.8
TOTAL	523,132	516,855	98.8	100

Source: SMIDEC (2006)

Further break down of the segment in the retail, wholesale and restaurant category shows that restaurant sector contributes about 20% of the total SMEs in this category. The largest segment in this category is still dominated by the retail segment which is about 67% of the total SMEs. The detail of the break down is as mentioned in the Table 2 below.

**Table 2**

*Break down of segment in the Retail, Wholesale and Restaurant SMEs category*

Segment	Total	Micro		Small		Medium	
	No.	No.	%	No.	%	No.	%
Wholesale	40,075	25,734	63.5	12,500	30.8	1,841	4.5
Retail	208,146	179,198	85.9	26,683	12.8	2,265	1.1
Restaurants	63,013	55,438	87.8	7,362	11.7	303	0.5

Source: SMIDEC (2006)

Restaurants can be grouped or classified based on several criteria such type of service, market orientation, price, type of establishment, menu range, food specialization, style of operation and ownership (Lawson, 1994). However, among the marketing circle, restaurant is usually divided into three groups according to price. Based on this aspect, the three types of restaurants are quick service or fast food restaurant, mid scale or casual dining or family type restaurant, and upscale restaurant or full service restaurant or fine dining restaurant (Lundberg, 1994).

A casual dining restaurant serves moderately-priced food in a casual atmosphere or environment. It is also sometimes termed as family restaurant. The menu served can be standardized, varied or limited to specific food items such as steak or seafood. Table service of plated meals is usually offered together with buffet service. The design is based on themed or modern design and sometimes incorporated with local features. The atmosphere is usually bright, relaxing and casual (Lawson, 1994). Casual dining restaurant comprises a market segment of between fast food restaurants and full service restaurants.

## **2. Literature review**

To be able to sustain the business in the highly competitive market firms need to have capabilities. Despite many attentions given into this area, the definition on capabilities is still mixed. De Saa and Garcia (2002) referred capabilities as a firm's capacity to deploy resources, usually in combination in executing organizational process in order to affect a desire end. Ulrich and Smallwood (2004) argued that organizational capabilities are the collective skills, abilities, and expertise of the organization which emerge from a bundle of activities. These capabilities are the outcome of human resource management such as staffing, training, and communication. According to the authors these capabilities are stable over time and more difficult for competitors to copy than capital market access, product strategy, or technology. On the other hand, Day (1994) argued that capabilities are complex bundles of skills and collective learning or accumulated knowledge which are exercised through organizational process that will ensure superior coordination of functional activities. He further argued that capabilities and organizational process are closely entwined by the nature that capabilities are the one that enable business and organizational activities be carried out. Capabilities are also defined as stable patterns of collective activities that enable the firm to transform the inputs effectively into superior value propositions (Zollo & Winter, 2002). Teece, Pisano and Shuen (1997) argued that capabilities are the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments; such capabilities are R&D, product and process development, technology transfer, intellectual property, manufacturing, human resources, and organizational learning. Meanwhile, Grant (1991) defined capabilities as a complex pattern of coordination between people and resources that are learned through repetition. Some authors treat capabilities as competencies (Aziz & Yasin, 2004; Conant & White, 1993) while others such as Teece et al. (1997) treated competencies as routine activities performed in the organizations. In short, we can simply say that capabilities are the firm's abilities, skills, and expertise in combining, developing, and using resources in order to create competitive advantage (Kaleka, 2002).

Marketing capabilities on the other hand are defined as the integrative process designed to apply the collective skills, knowledge, and resources of the firm to the market-related needs of the business, enabling the business to add value to its goods and services and meeting the competitive demand (Day, 1994). These marketing capabilities are developed and enhanced when the employees repeatedly apply their skills and knowledge in handling and solving the firm's marketing problems (Slater & Narver, 1995; Vorhies, Harker & Rao, 1999).

The concept of capability development and its impact on performance has been an important focus within the marketing field (Vorhies et al., 1999). It has been identified as a source of competitive advantage which in turn will result in better performance (Day, 1994; Kohli & Jaworski, 1990; Narver & Slater, 1990). Not all capabilities create competitive advantage; in fact in order to become one, the capabilities must have the following four criteria. It must be valuable to the firms in the sense that it can exploit opportunity and neutralizes threats in the firm's environment which enable the firm to implement strategies that improve the firm's efficiency and effectiveness; not easy to be copied by competitors; must possess rare and unique characteristic; and cannot be substituted (Barney, 1991).

Some of the researches conducted on the effect of capability on performance are by Vorhies et al. (1999), Conant, Smart, and Mendez (1993), Moore and Fairhurst (2003), Day (1994), Saini and Johnson (2005), Zehir, Acar and Tanmverdi (2006), Ray, Barney and Muhanna (2004), Kaleka (2002), Sinkovics and Roath (2004), Tsai and Shih (2004) and Javalgi, Whipple and Ghosh (2005). All of those authors tested different capabilities on different indicators of performance and they found different capabilities affect different performance. For example, Javalgi et al. (2005) tested strategic flexibility on customer loyalty, and Moore and Fairhurst (2003) tested marketing capabilities which includes customer service capability, store image capability, market knowledge capability, and promotional capability on financial performance such as ROI and ROA in the retailing sector. They found that store image differentiation and promotional capability contribute significantly to the performance. Zehir et al. (2006) tested global capability, marketing capability, upper management capability, product/service capability, technological capability, information system capability, order fulfillment capability, and external relationship capability on sales growth, market growth, new product development, and overall business performance. They found that only global capability, product/service capability, marketing capability and technological capability contribute to overall business performance and growth. Sinkovics and Roath (2004) tested two forms of capabilities the operational and collaboration capabilities on logistic performance and market performance in the third party logistic provider sector. They too found only collaboration capability has an effect on market performance. McGee and Peterson (2000) on the other hand examined the impact of service image capability, control of retailing program capability and action capability. They however found that only service image capability and control of retailing program capability that is related to price have a positive relationship with performance. Meanwhile, Tsai and Shih (2004) examined distribution capability, market research capability, pricing capability, promotional capability and product development capability on performance of large manufacturing and service firms in Taiwan. They found that all of those capabilities have a significant relationship with performance. Finally, Lerner and Almor (2002) examined strategic planning capability, venture resources capability, previous experience, and management skills with performance in women-owned small ventures. They too found that not all capabilities tested have a positive relationship with performance except strategic planning capability.

Review on past literature on restaurant shows that there is a clear gap of studies on the relationship between marketing capability and profitability in the restaurant sector. Most of the researches were conducted to explain the attributes that affect customer's choice or customer's loyalty. In another word, these studies examine the restaurant sector from the perspective of consumer behavior and not from the perspective of resource based view of the firm.

### **3. Research framework and hypotheses**

The research framework or model in this study is developed base on the Resourced-based theory (Wernerfelt, 1984, 1989; Barney, 1986, 1991; Peteraf, 1993; Hamel & Prahalad, 1994). This theory assumes that firm with valuable, rare, and very hard to imitate resources and capabilities have the potential of achieving superior performance. With respect to this assumption and theory the framework for this study is as mentioned below.

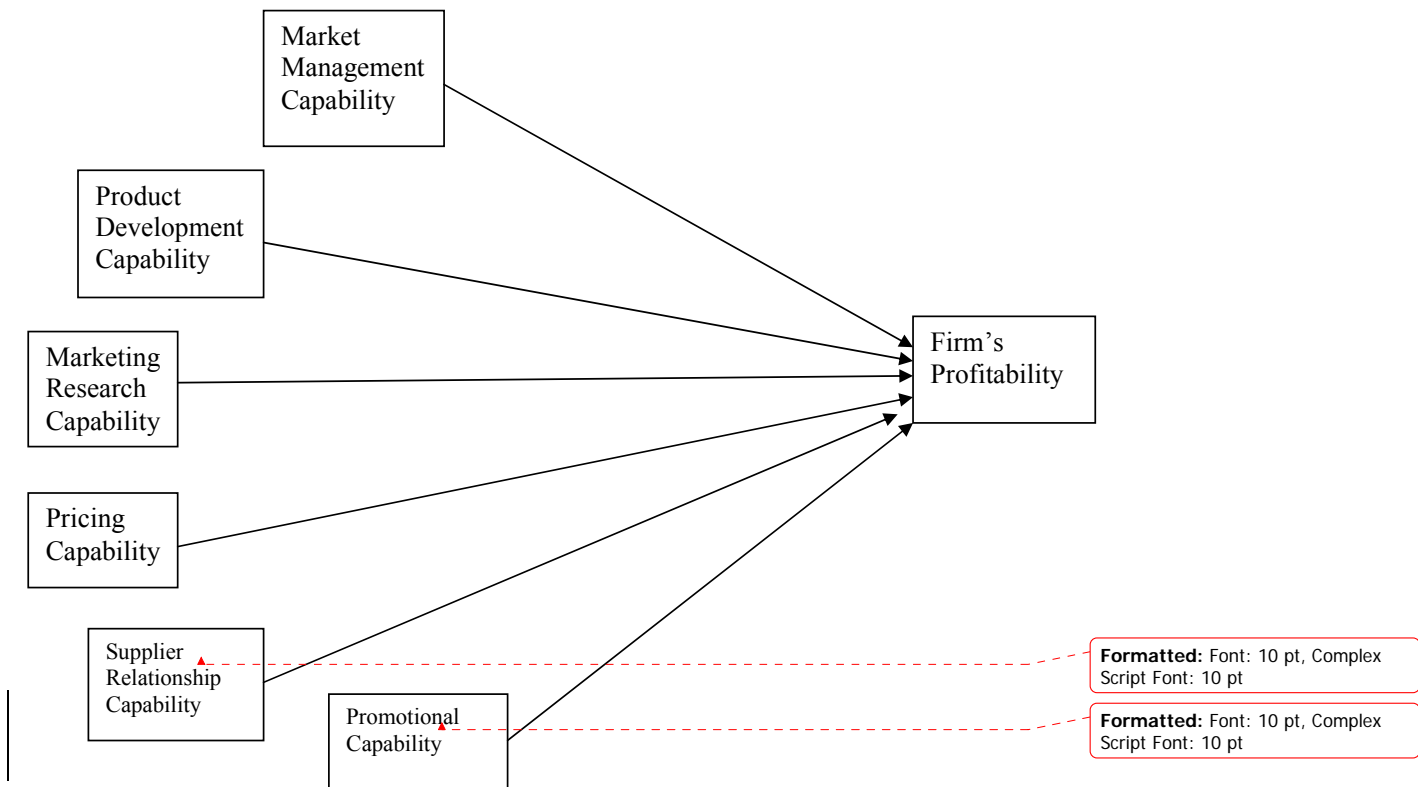


Figure 1: Marketing Capabilities and Firm's Profitability

From the above framework six hypotheses were developed in order to test the relationship. Those are such as:

- H1: Product development capability is positively related to profitability.
- H2: Marketing research capability is positively related to profitability.
- H3: Pricing capability is positively related to profitability.
- H4: Supplier relationship capability is positively related to profitability.
- H5: Promotional capability is positively related to profitability.
- H6: Market management capability is positively related to profitability.

#### 4. Methodology and results

##### 4.1 Sample

The population of the study comprises of all the casual dining restaurants that are operating in Malaysia. The population frame is as listed in the [www.yellowpages.com.my](http://www.yellowpages.com.my), which reveals a total of 2629 restaurants.

The sample companies that were approached were subjected to a set of criteria as follows:

1. The restaurant has been in business for at least one year.
2. The restaurant does not fall into a franchise category.
3. The restaurant is not a fast food or full service/fine dining category.
4. The restaurant is located in the Kuala Lumpur and the Klang Valley.

The total number of restaurants that were approached was about 200, and out of this the researcher managed to persuade and collect 164 responses. The response rate was about 82% which is considered very encouraging.

#### 4.2 Marketing capability's construct

The items that form marketing capabilities in this study are adapted from the work of Vorhies et al. (1999). There are six components of marketing capabilities which are marketing research capability, pricing capability, product development capability, supplier relationship capability, promotional capability and market management capability that will be tested and measured. Although this construct is used to study marketing capability in large services and manufacturing sector, review of the literature shows that SMEs also perform market research, promotion, product development, maintain good relation with supplier, pricing, and market management. As such, the marketing capabilities construct used to study marketing capability in the casual dining restaurant is justified.

According to Vorhies et al. (1999), market research capability is defined as the ability to perform market research activities which cover processes needed to discover information about customer needs and broad market information. Pricing capability is defined as the ability to perform pricing activities which cover the processes needed to competitively price the restaurant's products and monitor prices in the market. The supplier relationship capability is referred to having the ability of managing the suppliers and supply programs and also maintaining good relationship with the suppliers. The promotional capability is defined as the ability to perform advertising activities, and sales promotion activities. Finally, the market management capability is defined as the ability to perform activities relating to customer acquisition management, the management of marketing programs, and the ability to coordinate actions among the diverse elements in the firm needed to implement a marketing program. All of the items are measured by using a five points Likert scale ranging from 1 = strongly disagree to 5= strongly agree.

#### 4.3 Profitability's construct

This study employs profitability measures adopted from the work of Haber and Reichel (2005), which according to them is most appropriate for small ventures in the tourism and hospitality industry. The profitability dimension is measured by comparing the restaurant's profitability with the closest competitor in term of size and strengths. The measurement utilizes Likert scale range from 1 = lowest to 5 = highest. The manager will be asked to rank his or her restaurant's profitability on those scales compared to the competitor. If the manager thinks his restaurant's profitability is the highest compared to the competitor then he or she will rank scale 5, if the manager thinks that his or her restaurant's profitability is the lowest then he or she will rank scale 1.

#### 4.4 Goodness of measure

The principal component analysis (Hair, Anderson, Tatham & Black, 1998) was used to test the validity of the construct. The reliability test was conducted by using Cronbach's alpha of more than 0.6 as stated by Hair et. al. (1998). The result of the principle component analysis on each of the marketing capabilities variables indicated that all items have factor loading more than 0.5 and their eigenvalues are also well above 1.0. The Cronbach's alpha for product development capability is 0.70, marketing research capability is 0.90, pricing capability is 0.80, supplier relationship capability is 0.70, promotional capability is 0.90 and market management capability is also at 0.90. Thus all marketing capabilities variables are found to be valid and reliable. The goodness of measure for profitability was not conducted due to this variable only has one item in the construct.

#### 4.5 Results

The result of hierarchical multiples regression on the relationship between marketing capabilities and the firm's profit are as mentioned in the table below.

**Table 3**

***Regression Result for Marketing Capabilities and Profitability***

<b>Variables</b>	<b>Model 1 Std. Beta</b>	<b>Model 2 Std. Beta</b>
Step 1: Control Variable (location)		
Shopping Row	-.09	-.18
Main Street	.03	-.10
Shopping Complex	.11	-.03



## Step 2: Independent Variables

Product Development Capability		.10
Market-Research Capability		-.22
Pricing Capability		.34**
Supplier Relationship Capability		.09
Promotional Capability		.07
Market Management Capability		.22
R	.16	.48
R <sup>2</sup>	.03	.23
Adj. R <sup>2</sup>	.01	.18
R <sup>2</sup> Change	.03	.20
F value	1.40	4.57**

Note: \*\*  $p < 0.01$ , \*  $p < .05$ . Location (Benchmark = Housing Area)

The result of the regression analysis indicates that the location by itself does not reveal a significant relationship with the dependent variable. However in the second model where the components of marketing capabilities were included it shows that  $R^2 = 0.23$  indicates that 23% of the variation has been explained by all of those independent variables. The  $R^2$  change of 0.20 indicates that there is 20% improvement in the variation in the second model. The result also indicates that  $R^2$  in the second model is also statistically significant, with  $F = 4.57$  at  $p < 0.001$ .

The result from the table indicates that only pricing capability is positively and significantly related to profitability. Another five components of marketing capabilities are not significantly related to profitability. Thus, only H3 is supported while hypotheses H1, H2, H4, H5 and H6 are not supported.

## 5. Conclusion

### 5.1 Theoretical implications

Studies on performance such as profit especially in the small firms are still lacking. Thus, this study supports the arguments by Acar (1993) that most internal factors that affect performance such as profit of small firms came from the owner/manager's experience, age of the firm, production capabilities, marketing capabilities, and strategies. The result of this study shows that capabilities do relate to profit in the casual dining restaurant sector. The study also contributes to the literature in performance especially the performance in small firms such as casual dining restaurant. This is especially true in the light of lack performance as compared to the study on consumer behavior. Thus this study will help to fill the gap in the area by looking at the performance such as profit from the perspective of marketing capabilities. It will contribute to the understanding of the performance of the SME which is known as complex (Conant et al., 1993; Wolff and Pett, 2006).

The finding of the study also supports the previous findings that the relationship between capabilities and performance is still mixed. According to Chaston and Mangles (1997) the effect of the relationship depends on the current circumstances confronting an organization. The study shows that in the casual dining restaurant sector in Malaysia, the pricing capability do contribute to profit while the supplier relationship capability, market research capability, promotional capability, and market management capability do not.

### 5.2 Managerial implications

The findings of the study suggest that the casual dining restaurant should develop and establish pricing capability. The restaurant must be aware of its competitors' pricing and must be able to offer a competitive price compared to its competitors. However, to develop this capability is not as simple as it thought. To price any product or service requires several steps such as considering the total cost, looking at the elasticity of demand, comparing with the competitors, and suit the price with the restaurant's objectives. To be able to offer a competitive price means the restaurant must have a very good cost structure. The restaurant must be able to plan and maintain its cost including the food cost and labor cost. Activities such as buying supplies from the cheapest suppliers that also can supply good quality supplies must be given

priority. Hiring enough employees for the operation is also very crucial since surplus employees will add more financial burden to the restaurant.

### 5.3 Limitations and future research

Two main limitations of the present study should be addressed in future research. First, generalization of the results is limited by the small sample size which only covered one particular area. The second limitation is that the marketing capabilities tested only cover six components as mentioned in the writing.

Future research should take more samples and should cover the whole area in Malaysia. Thus, the results could provide better picture of the behavior of casual dining restaurant in Malaysia. It may also provide more conclusive finding on the impact of marketing capabilities on the profit of casual dining restaurant in Malaysia. The future research also should cover more indicators of performance in SME such as increasing number of employees, number of branches established and sales growth. Thus, it could give clearer picture which components of performance that are affected by marketing capabilities. Another area that could be investigated in future research is by including more marketing capabilities such as customer service capability, staff or employee service capability, store atmosphere capability, and cleanliness capability.

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## **WORKPLACE SPIRITUALITY'S DIMENSION AND WORK RELATED OUTCOMES: AN ISLAMIC PERSPECTIVE**

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### **Abstract**

This paper reviews the dimensions of workplace spirituality, specifically from an Islamic perspective, that appear to influence Work related outcomes. Workplace spirituality is built upon three important foundations namely: Taqarrub, Muraqabah and Istiqomah. Sprituality alone is not sufficient without action (ahlaq). Believers attitudes at work consist of three elements: Those three factors should reflect spirituality at work on three important levels: individual, community/ connectedness to others, and alignment with organizational value. The characteristics, importance and applications of these factors are discussed.

### **Introduction**

An important trend in business in the twenty-first century is a focus on employee spirituality in the workplace (Shellenbarger, 2000). The impact of workplace spirituality and employees' behavior become important issue to be discussed in the field of Organizational behavior. Spirituality has also been considered in the context of the workplace as a vehicle capable of transforming weaknesses and creating a superior functioning environment (Ashmos & Duchon, 2000; Fairholm, 1997; Heaton, Schmidt-Wilk, & Travis, 2004; Mitroff & Denton, 1999).

Most studies in International business state that there is a link between religious values and cultural values and then proceed to review the major religions, the information about Islam seems inadequate (Fontaine, 2008). According to Fontaine (2008) at best, there is a paragraph with little information (such as in Cullen and Parboteeah, 2005; Hodgetts and Luthans, 2003). At worst, the information is misleading (Hill, 2000). Fontaine (2008) further claims that the work of Muslim scholars in management is rarely mentioned though the last ten years have witnessed the emergence of a field known as management from an Islamic perspective (MIP).

According to Ahmad (1996) it is right to say that the world did not try to explore the possibility of finding solutions from Islamic perspectives in its comprehensive and fullest sense. Ahmad (1996) further claims that it is quite possible to have an alternative management system which has an ethnico-socio- and Islamic religious perspective. To date, Islamic theories have been noticed and are well positioned to meet the needs of people (Hayward, 2007). Because they are looking generally so promising, this is a good time for the entry of Islamic approach (Bokhari, 2007).

Despite of its growing interest, the topic has received little attention from management scholars. Moreover, most study in workplace spirituality were measured based on Christian, Jews and secular dimensions and lack of researches were undertaken on workplace spirituality from Islamic perspectives. Hence this paper attempts to offer an alternative views on workplace spirituality dimensions and how it shapes organizational culture. The main sources of this study are taken from the Koran and Hadist (Prophet Muhammad's peace be upon Him (pbuh) words, actions, agreement) as a source of knowledge for Muslims all over the world.

### **The Raise of Spiritual Needs at the Workplace**

Because of its 'intangible nature', defining spirituality is a challenging task for scholars. Among proposed definition of spirituality in the management literatures are: specific form of work feeling that energizes action (Dehler & Welsh, 1994, p.19); deeply held values that guide our life and work practices (Butts, 1999, p.19); the particular way the human person in all its richness, the relationship of the human person to the transcendent, the relationship between human persons, and the way to achieve personal growth are envisioned (Konz and Ryan, p. 2002); the recognition that the basic of feeling of being connected with

one's complete self, others, and the entire universe (Mitroff & Denton, 1999, p.86); the recognition that employees have an inner life that nourishes and is nourished by meaningful work that takes place in the context of community (Ashmos and Duncan, 2000, p.137); and secular and sacred values aimed at transcendence toward our ultimate values (Harlos, 2000, p.613).

There has been growing body of research on spirituality at the workplace recently (Aburdene, 2006; Bell and Taylor, 2004; Casey, 2004; Driver, 2005; Duchon and Ashmos, 2005; Fry, 2003; Gotsis and Kortezi, 2007; Hassan, 2001; Hicks, 2003; Krishnakumar, and Neck, 2002; Lips-Wiersma, 2003; Lips-Wiersma and Mills, 2002; Lund-Dean et al., 2003; Milliman et al, 2003; Mitroff and Denton's, 1999; Pawar, 2008; Tischler, 1999; Zohar and Marshall, 2005). Spirituality in the workplace is currently crucial issue in both scientific and empirical inquiry (Gotziz and Kortezi, 2008). In fact, it becomes an interesting topic to be discussed in the field of Organizational Behavior (Filhaq and Yunizar, 2000). Research findings compounded in the book of Megatrends 2010 (Aburdene, 2006) concluded that spirituality at the workplace is the biggest megatrends nowadays.

The proliferation of interest in workplace spirituality is due to several reasons: first, the relevance of subjective factors in organizational settings, such as individual quest for higher purpose, personal meaning and transcendent value (Klenke, 2005); second, spirituality is expected to bring positive value to organizational reality (Benefiel, 2003; Brown, 2003; Neal and Biberman, 2004; Gibbons, 2000) through management process (Boozier, 1998; Lewis and Geroy, 2000; McCormick, 1994; Steingard, 2005) leadership practice (Bolman and Deal, 1995; Conger, 1994; Fairholm, 1996; Fry, 2003; Hicks, 2002; Korac-Kakabadse et al., 2002; Reave, 2005) and entrepreneurship (Chappel, 1993; Cohen and Greenfield, 1997). In short, spirituality at the workplace have positive impact both qualitatively and quantitatively level on intended organizational outcomes (Heaton et al, 2004; King and Crowther, 2004). Third, Workplace spirituality appears to contribute important values to support individual employees at work as a result of complicated contemporary organizational problems such as massive layoffs, downsizing, reengineering (Driver, 2005; Kinjerski and Skrypnk, 2004). Fourth, workplace spirituality is considered to have essential contribution to a better (deeper and more meaningful) understanding of human work and corporate reality (Gotsis and Kortezi, 2008), hence to reduce employees cynicism and mistrust in organization (Cartwright and Holmes, 2006)

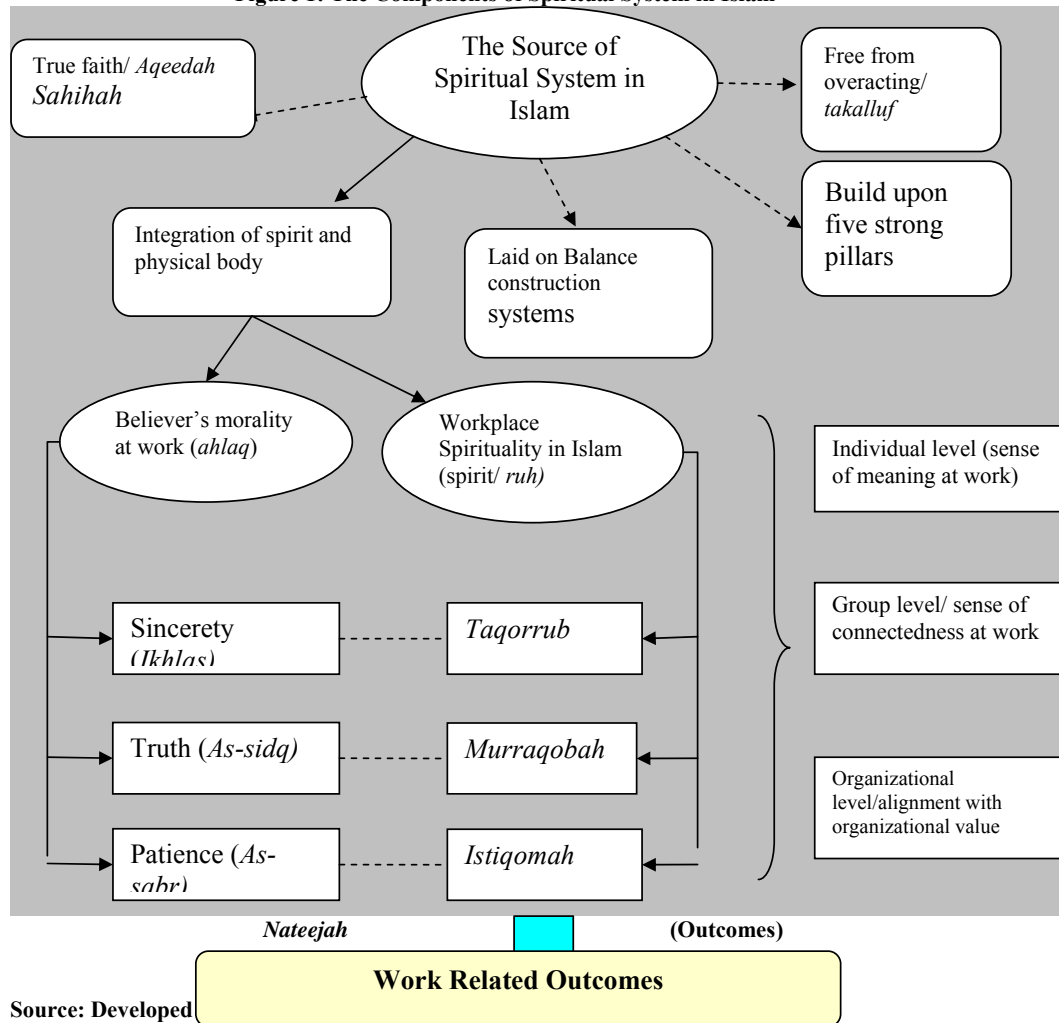
Major organizational changes resulted in the demoralization and the spiritual disorientation of the employees (Kinjerski and Skrypnk, 2004; Lee and Zemke, 1993; Leigh, 1997) which needs to be neutralized by the positive impact of spirituality (Driver, 2005; Kinjerski and Skrypnk, 2004). As emphasized by Tourish and Pinnington (2002) that increasing interest in the spiritual side of workers, is often driven by non-spiritual concerns although some researchers argue that the non-spiritual concerns are the outcomes, not antecedents, of workplace spirituality (Neal, 2001). Hence workplace spirituality is generally treated in the literature as the missing attribute of organizational life, in the absence of which people's understanding of corporate reality remains limited and incomplete (Gotsis and Kortezi, 2008)

Maintaining organizational spirituality is a complex task (Konz & Ryan, 1999), it is worth doing given its associated benefits, such as better leadership (Conger, 1994), improved ethical behavior (Fort, 1995), increased creativity (Biberman & Whitley, 1997), improved productivity (Nash, 1994), higher employee effectiveness and reduced absenteeism and turnover (Giacalone & Jurkiewicz, 2003), and increased job performance (Neck & Milliman, 1999). In fact, spirituality has been heralded as the ultimate competitive advantage (Mitroff & Denton, 1999a).

### **The Spiritual System in Islam**

The Spiritual is a matter concerning the deepest feeling within human's spirit or soul and heart. It is a power that knows and feels everything passing through the human's spirit. The matters concerning activities to achieve spiritual development or anything called spiritualism is not merely a matter for Muslims, but also the matter of all human-beings (Ansari, 1970, pp. 120-122; Ya'aqub, 1980, pp. 67-69; an-Nadawi, 1983b, p. 32). This matter is very difficult to be understood so that God says in the Qur'an: "They ask thee concerning the Spirit; say: 'The Spirit is of the Command of my Lord.' Of knowledge it is only a little that is communicated to you, (O men!)" (Qur'an-17: 85).

**Figure 1: The Components of Spiritual System in Islam**



Spiritual matters in Islam are covered in a very well-organised system which are based on the following primary foundations (Abu 'Urwah, 1989, pp. 11-14):

First, based on 'Aqeedah Sahihah (True Faith). The Islamic spiritual system accepts only any concept of soul or spirit development which is aimed at achieving anything allowed or regulated by the Islamic teaching (Shari'ah).

Second, no separation between spirit and physical body. The Islamic spiritual system rejects the idea that spirit and physical body are two conflicting entities, so that the spiritual development has no relationship with, and is even completely separated from physical and material interests. The separation between spirit and physical body has divided the life into 'spiritual' and 'secular' worlds. According to this idea, those who want to achieve their secular interests should not fulfil their spiritual needs. On the other hand, those who want to achieve their spiritual satisfaction should leave any activity in their worldly life including social, economic, political, and so on.

Third, laid on a balance construction system. Because Islam does not accept the separation between spiritual and physical interests, both should be developed in balance. They should support each other.

Fourth, developed from five strong pillars. These five pillars are: salah, zakah, saum (fasting), hajj, and jeehad (strive). These five pillars reflect the relationship between men and the Creator, between men and others, and between believers and non-believers who oppose their belief.

Five, free from any types of takalluf. Takalluf is excessive, over-acting or self-forced conduct. As Allah says: "Say: 'No reward do I ask of you for this (Qur'an), nor am I a pretender'" (Qur'an-38: 86). Islam forbids any types of clergy and asceticism (Qur'an 57: 27). The Islamic spiritual system forbids any types of takalluf, either in performing the ritual ibadah (such as prayers and fasting), or in performing any worldly-human life matters.

#### *The foundation of the Islamic spiritual system*

The Islamic spiritual system, in order to strengthen the spirits or souls of believers, are based on three main things; those are: taqarrub, muraqabah, and istiqamah.

Taqarrub is any effort to keep close with Allah, and it is commanded by Allah in the Qur'an (51: 50; 3: 133; 11: 61) and the Sunnah.<sup>i</sup> It is done by obeying all of His commands and avoiding anything He prohibits, physically and spiritually. It is done in order to achieve the high and respected place in the sight of Allah. As Allah says: "Verily the most honoured of you in the sight of Allah is (he who is) the most righteous of you" (Qur'an-49: 13). Doing taqarrub is the first foundation to develop the believer's spirits to achieve the pleasure of Allah.

Muraqabah means to be wary of the coming of the attacks of spiritual diseases. People should be aware that evils (shaetan) are always looking for any chance to attack and pull people away from obeying Allah's commands. It is a carefulness of self-weaknesses so that one will not be influenced to disobey Allah. The starting point of muraqabah is the belief that Allah always watches and sees people's movements (Qur'an 26: 218-219; 50: 16). Muraqabah also means that a Muslim always calculates himself. This is because he understands that this is the only way to know his self-weaknesses and to try to improve himself. Carefulness and calculation will enable a believer to strengthen the muraqabbah.

Istiqomah means be steadfast or firm on the right path. It is the characteristic of noble and praised people, and is one of the Allah's commands. Istiqomah is needed in any activities concerning with the development and improvement of Muslim's spiritual. Istiqomah for spiritual power should be done with heart, oral and physical services (ibadah). It is one foundation of the Islamic spiritual system because by doing this a Muslim may be kept in taqarrub and muraqabah.

#### *Akhlaq (Moral) System in Islam*

Al-khulq, the singular form of akhlaq, literally means character or nature. In this context, it means all character or nature existing in the soul in which, based on the support and consideration of such nature, a deed can be said to be good or bad (Zaidan, 1980, p. 99). Akhlaq is a sacred term because it takes its source from Allah. As Allah says: "And surely thou hast sublime morals (akhlaq)" (Qur'an-68: 4).

There are three main foundations of Islamic akhlaq, namely: ihsan (Sincerity), As-sidq (Truth), and As-sabr (Patience). Ihsan, the first foundation, means doing every thing for nothing but to seek Allah's pleasure. As Allah says: "... , so serve Allah, offering Him sincere devotion. Is it not to Allah that sincere devotion in due?" (Qur'an-39: 2-3); and also, "Say: 'It is Allah I serve, with my sincere (and exclusive) devotion'" (Qur'an-39: 14).

As-Sidq, a truthful attitude, resulting from a sublime akhlaq, as the second foundation of Islamic akhlaq, covers truthfulness of a believer in his ideas, words, and conducts. Allah says: "O ye who believe! Fear Allah and be with those who are truthful" (Qur'an-9: 119); and, "... , it were best for them if they were true to Allah" (Qur'an-47: 21); and also "That (Allah) may question the truthful about their truthfulness, and He has prepared for the Unbelievers a grievous Chastisement" (Qur'an-33: 8).

As-Sabr (patience), the third foundation of Islamic akhlaq, literally means restraint and prevention (Qur'an 3: 200; 16: 126; 52: 48; 8:46).ii In this context, it covers three things: be patient in obedience, be patient from or against sin or wickedness, and be patient in facing difficulties.

These three foundations: sincerity (ihlas), truth (as-sidq), and patience (as-sabr), are also the foundations for all believer's deeds. Each of them gives different meanings, but together they unite in all believers' akhlaq and deeds; while deeds and akhlaq will never be perfect without these three altogether. Moreover, each of these three supports and strengthens the others. If one of them becomes weak, then the others also become weak.

#### *The Believers' Attitudes at Work (Work Related Outcomes)*

Having achieved this knowledge of the one true God, man should constantly have faith in Him, and should allow nothing to induce him to deny truth. When faith enters a person's heart, it causes certain mental states which result in certain actions. Taken together these mental states and actions are the proof of true faith. The prophet said: "faith is that which resides firmly in the heart and which is proved by deeds."

Foremost among those mental states is the feeling of gratitude towards God, which could be said to be the essence of ibadah (worship). The feeling of gratitude is so important that a non-believer is called 'kafir', which means 'one who denies a truth' and also 'one who is ungrateful.' A believer loves, and is grateful to God for the bounties He has bestowed upon him, but being aware of the fact that his good deeds, whether mental or physical, are far from being commensurate with Divine favours, he is always anxious lest God should punish him, here or in the Hereafter. He, therefore, fears Him, surrenders himself to Him and serves Him with great humility. One cannot be in such a mental state without being almost all the time mindful of God. Remembering God is thus the life force of faith, without which it fades and withers away. The Qur'an tries to promote this feeling of gratitude by repeating the attributes of God very frequently (e.g. Qur'an 59: 22-24; 2: 255; 4: 171).iii

Muslims with high spiritual feeling at work will show positive attitudes such as job satisfactions, high commitment, lower intention to leave as well as demonstrating extra role behaviour. This is supported in the Koran verse Al Mukmin: 1-; Al Baqoroh: 177 and An nahl: 16.

#### **Conclusion**

In its spiritual system, Islam sees that man consists of two complementary components: spirit and physical body. Islam rejects the separation between spiritual and physical interests; both should be developed in balance. Strong spiritual power will create people's morals. As a 'religion', Islam emphasises the human being, i.e. to develop the morals (akhlaq) of people. As the Prophet (pbuh) has said: "I have not been sent but to perfect the morality" (Al-Hadith). Therefore, the core of Islamic teachings is morality (akhlaq). When akhlaq degrades or disappears, then all system in the societal life will collapse.

Such spiritual thought must be brought by every Muslim at work. Workplace spirituality work at three levels: individual level, group and organizational level. Achievement at the three levels is necessary to energize spirit at work. Islam stresses on how to create moral of individuals. As a society is a collection of individuals, moral individuals will inevitably create a moral society. However, it is realised that 'shaetan' (Satan) will keep encouraging people to do the contrary, so that a 'religion' is not enough to create and maintain a morally/ethical society. There always a need for societal systems which work to enforce and guarantee the development of such society. Hence the role of Organizations as a system is also crucial to safeguard spirituality at work



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*"Therefore flee unto Allah; I am from Him a Warner to you, clear and open!" (Qur'an-51: 50);*

*"Be quick in the race for forgiveness from your Lord and for a Garden whose width is that (of the whole)*

*of the heavens and of the earth, prepared for the righteous" (Qur'an-3: 133);*

*"Then ask forgiveness of Him, and turn to Him (in repentance);*

*for my Lord is (always) near, ready to answer" (Qur'an-11: 61);*

*"If a servant approaches Me one span (of the hand), I will approach him one cubit; and if he approach Me one cubit, I will approach him one fathom; and if he walks to approach Me, I will run to approach him" (Hadith Qudsi, narrated by Bukhari).*

<sup>1</sup> *"O ye who believe! Persevere in patience and constancy; vie in such perseverance" (Qur'an-3: 200);*

*"But if ye patience, that is indeed the best (course) for those who are patient" (Qur'an-16: 126);*

*"Now await in patience the command of thy Lord; for verily thou art in Our eyes" (Qur'an-52: 48);*

*"And be patient and persevering; for Allah is with those who patiently persevere" (Qur'an-8: 46).*

<sup>1</sup> *"Allah is He, than Whom there is no other god; Who knows (all things) both secret and open; He, Most Gracious, Most Merciful. Allah is He, than Whom there is no other god;*

*the Sovereign, the Holy One, the Source of Peace (and Perfection), the Guardian of Faith,*

*the Preserver of Safety, the Exalted in Might, the Irresistible, the justly Proud.*

*Glory to Allah! (High is He) Above the partners they attribute to Him.*

*He is Allah, the Creator, the Originator, the Fashioner,*

*to Him belong the Most Beautiful Names;*

*Whatever is in the heavens and on earth, doth declare His Praise and Glory;*

*and He is the Exalted in Might, the Wise" (Qur'an-59: 22-24).*

*"Allah! There is no god but He, the Living, the Self-subsisting,*

*Supporter of all, no slumber can seize Him, nor Sleep.*

*His are all things in the heavens and on earth.*

*Who is thee can intercede in His presence except as He permitteth?*

*He knoweth what (appeareth to His creatures as) Before or After or Behind them.*

*Nor shall they compass aught of His knowledge except as He willeth.*

*His Throne doth extend over the heavens and the earth,*

*and He feelth no fatigue in guarding and preserving them*

*for He is the Most High, the Supreme (in glory)" (Qur'an-2: 255).*

*"O People of the Book! Commit no excess in your religion, nor say of Allah aught but the truth.*

*Christ Jesus the son of Mary was (no more than) a Messenger of Allah,*

*and His Word, which He bestowed on Mary, and a Spirit proceeding from Him;*

*so believe in Allah and His Messengers.*

*Say not "Three": desist; it will be better for you; for Allah is One God,*

*Glory be to Him; (far Exalted is He) above having a son.*

*To Him belong all things in the heavens and on earth.*

*And enough is Allah as a Disposer of affairs" (Qur'an-4: 171).*

# **GROUNDING RED, BLUE, AND GREEN OCEANS STRATEGIES TO A BUDDHIST THEORY OF LEARNING BASED ON MINDFULNESS TRAINING AT OUR CITTA (HEART-MIND, CONSCIOUSNESS) LEVEL DIRECTLY**

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## **Abstract**

Recent concerns and fieldwork evidences, shown by Kaplan and Kaiser (2009), Hammond et al. (2009), Goleman et al. (2009), Baer et al. (2006) and Seidel (2009), all point towards the vital role played by “Sati” (Mindfulness) in developing our Mental Faculties (Citta and Cetasika, Pali words for Mind-Heart). Their research indicates that mindfulness-mental quality has the ability, at the most fundamental level, to prevent people from falling into Psychological Traps (Hammond et al. 2009), and also has the ability to deliver organizational performance (Kaplan and Kaiser, 2009), and Emotional and Intelligent Quotients (Tan, 2009c; also referred to Goleman et al. 2009). A simple framework is proposed that links the organizational, teams and individual levels of performance to the individual mindfulness development. The training is highly Single-Loop and Double-Loop Learning in nature that fits Action Research at individual level (Tan, 2009a), and also has simple self-assessment or performance measurement schemes built into the learning routine and system (Tan, 2009a; 2009b; Baer et al. 2006; Kabat-Zinn, 2003). A single, rich case research study is conducted, based on quantitative survey and qualitative interview mixed method approach. Validity and reliability measures of the research are investigated, and the evidences are clear that the Buddhist Noble Eightfold Path and Its Theory of Learning (Tan, 2009a; 2009b) are in fact practical to the business or management worlds, and which also share similar meanings to Ontology, Epistemology, Methodology, and the World 1, World 2 and World 3 Knowledge first advocated by Professor Karl Popper (1972). Thus, this research should serve to draw the interests of Management Academics and Scholars, as well as the Business Communities and their Professions, to areas of “Mindfulness” development. The root thinking and conception on the so-called Red Ocean, Blue Ocean, and Green Ocean strategies will also be illustrated in the lens of the proposed theoretical framework.

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## **Introduction**

The world is indeed extremely dynamic, and a series of recent Global Economic Breakdowns (from the late 1990s to the present ones) provide such evidences. This is the Reality. This Reality is called “Dukkha” (a Pali word, implying un-satisfactoriness, short lived satisfaction or performance levels). What causes this Reality to be so dynamic? From the Complexity Economy (credit or blame, according to Beinhocker (2006), coining this term goes to the economist Brian Arthur, formerly of Standard University and the Santa Fe Institute) standpoints, as suggested by Beinhocker (2006), if everyone starts with the same perfect rationality rules and sticks to them with little learning, then the market trundles along in a herd, behaving at equilibrium. As soon as heterogeneity and learning are introduced, things get much richer and more complex. In the midst of these dynamic environmental conditions, it is thus important we can maintain mental tranquility or wise stability, and in this research, “Mindfulness” (Sati, Pali word) is suggested to be a key successful element – in fact, a very fundamental one, right to the source of our Mind-Heart-Consciousness.

In a recent Harvard Business Review OnPoint's article (Fall, 2009), "awareness" is asserted in Hammond et al. (2009) as the best protection against all psychological traps which can help to eradicate the distortions ingrained into the way our mind works. The research, illustrated by Hammond et al. (2009), has revealed that we use unconscious routines to cope with the complexity inherent in most decisions. And often, this unconscious routine has gradually been molded by our past experience, beliefs and learned values (Alder, 2001), which forms our perception, our modes or patterns of feeling, mental proliferations or formations, and the knowledge of our consciousness (Tan, 2009a; 2009b; 2009c), and in this research, these mental manifestations are called "Citta" and "Cetasika" – the cognitive and non-cognitive mental elements. Both "Citta" and "Cetasika" are Pali words. According to the Buddhist Canons, the mental states are made up of consciousness (Citta) and mental concomitants (Cetasika), which are often grasped at, taken to be I, my mind, and permanent (Sayadaw, 1996). Because of our egoistic nature (Tolle, 2003), unconscious routines of mental faculty are slowly developed, strengthened and thus, they prevent us from functioning in fully awakened or mindful manner (Tan, 2009a; 2009b). Thus, it is important "mindfulness" (Sati) is developed. Most of the research cited the importance of being mindful, but short of stating the mechanism in developing it. Alder (2001) argued that because of this unconsciousness routine situation, marketers cannot thus afford to base their marketing strategy on their own map of reality, and instead, a mind to mind, or map to map relationship must be established. To do so, marketers must make an effort to communicate effectively, to understand the customer's map of reality, and to manage customers' perceptions (Alder, 2001). On the management perspective, Drucker (2009) and Hammond et al. (2009) proposed to establish diagnostics and testing procedures or mechanisms as ways to implement "awareness". And, according to Tan (2009a; 2009b), right awareness must be non-forceful, has full alertness and investigative mental functions working concurrently to protect us from being trapped in delusion, which is the so-called psychological trap as illustrated by Hammond et al. (2009). To train "Sati" or "Mindfulness", one has to practice noting and labeling at the time we are in contact with the Six Sense Objects (e.g. Sight, Sound, Smell, Taste, Touch, and Mind-Object) through Eye-Consciousness, Ear-Consciousness, Nose-Consciousness, Tongue-Consciousness, Body-Consciousness and Mind-Consciousness (Tan, 2009a; 2009b). Medical research has shown that describing and labeling these mental events with words is a facet of mindfulness that these reflective dialogues can directly foster, and the capacity to label seems to balance the arousal of the right hemisphere with the activity of the left to create a more flexible integrated state (Siegel, 2009). In other words, as reflective dialogue becomes internalized, through mindfulness development based on the Buddhist Theory of Learning (Tan, 2009b) and Its Action-Research and Performance Measurement Mechanisms (Tan, 2009a), the individual can develop a new source of "insight" into her own mind (Siegel, 2009). That is how, according to the Tipitaka (Buddhist Canons), how delusion and psychological traps are extinguished or eradicated, and how "wisdom" or "insight" is nurtured and developed. Besides, it is also proven by Kaplan and Kaiser (2009) in their research that by exercising the "right amount" of forceful leadership – not too little, not too much, that managers function most effectively. Reflective reasoning is also an important success element for effective learning in Kolb's (1984) Theory of Experiential Learning.

#### Operational Definition and Direction for Operationalization of Constructs

The definitions of the key variables included in this research are provided, as in many instances there are differing definitions that might distort the meaning of this research. Definitions are important as they drive the nature as well as the process of implementation of the concepts involved. Therefore, for the purpose of this research, the following definitions are adopted.

#### "Mindfulness"

Based on the themes delivered by Tan (2009a; 2009b) and in this paper, an operational definition given by Kabat-Zinn (2003, p. 145-146) is considered appropriate – that is, mindfulness is awareness that emerges through paying attention on purpose, in the present moment, and nonjudgmentally to the unfolding of experience moment by moment. It is stated in Siegel (2009) that by non-judgmental, it means "not grasping on to judgments," as the mind seems to continually come up with reactions that assess and react, and by the meaning of "on purpose", it implies that the mental state is created with intention to focus on the present moment. Based on the definition given by Kabat-Zinn (2003), Baer et al. (2006) identifies five factors that contribute to measuring "mindfulness": (1) non-reactivity to inner experience (e.g., I perceive my feelings and emotions without having to react to them); (2) observing/noticing/attending to sensations, perceptions, thoughts, feelings (e.g., I remain present with sensations and feelings even when they are unpleasant or

painful); (3) acting with awareness/(not on) automatic pilot/concentration/nondistracted (e.g., I (do not) break or spill things because of carelessness, not paying attention, or thinking of something else); (4) describing/labeling with words (e.g., I can easily put my beliefs, opinions, and expectations into words); (5) nonjudgmental of experience (e.g., I (do not) tell myself I shouldn't be thinking the way I'm thinking) (Siegel, 2009, p. 67-68). Thus, in short, mindful awareness involves awareness of awareness, acquires reflexivity or reflective awareness of awareness in the present moment, and Siegel (2009) states that such a mindfulness has the qualities explained by an acronym "COAL": that we approach our hear-and-now experience with curiosity, openness, acceptance, and love.

#### Consciousness (Citta)

If we are not aware, we will be flooded by unconsciousness – that is the theme Osho (2007) is trying to deliver in his book. He notes of three stages for awareness, namely: (1) You have done something, then you become aware; (2) You are doing something and you become aware; and (3) You are going to do something and you become aware; and only in the third stage will your life be transformed, but the first two are necessary for the third. All these three are about "Mindfulness" (Sati) training, directed towards our Citta (Mind, Heart, Consciousness) through Six Sense-Door-Consciousness, namely: (1) Eye-Consciousness, (2) Ear-Consciousness, (3) Nose-Consciousness, (4) Tongue-Consciousness, (5) Body-Consciousness, and (6) Mind-Consciousness. The importance of these different modes or means of consciousness have been evidenced in Lindstrom (2005) in his Five Senses Models to create Brand Loyalty, and many facets of scientific evidences are also available from Goleman et al. (2009), Siegel (2009), Kabat-Zinn (2003), Baer et al. (2006), Hammond et al. (2009) and Kaplan and Kaiser (2009). Citta, a Pali word, as shown in Humphreys (1984), means Mind, Consciousness, also means Heart, as in Bodhi-Citta. Further in-depth explanations will be given in the contents of this research paper. To the Buddhists, consciousness is divided into two classes: Phenomenal (*manovijjāna*, Pali) and Transcendental (*alayavijjāna*, Pali). The former is the relation between subject and object and the inferences drawn therefrom, and thus, based on the discussions about research methodologies (Sekaran, 2000), consciousness could directly or indirectly involves all three dimensions of research philosophy or assumptions – namely, (1) Ontology, (2) Epistemology, and (3) Methodology. This research provides solid empirical evidences that this will be the case. For "Mindfulness" Training, the Ontology is set at a Positivist/Deterministic (albeit Realism, depending on our level of wisdom to feel and experience the reality) Reality Realm (Tan, 2009a). As Reality is real, epistemological wise, it demands our direct experience of the Reality at the Citta level. As direct experience is not an easy task, as we often filter our thoughts without consciously aware of it, and thus, the methodology demands a continuous learning-and-action process (Tan, 2009b), similar to that of Single-Loop Learning and Double-Loop Learning of Argyris and Schon (1978). The Transcendental Consciousness is independent of sense organs and of the relation of subject and object (Humphreys, 1984). The action of Phenomenal Consciousness is ratiocinative, of the Transcendental Consciousness intuitive. These two aspects are united in an ultimate identity which will be realized at the goal of the Eightfold Path (to be discussed later, which consists of Wisdom, Precepts or Ethics, and Concentrated Mindful Methodology or Mental Quality; to be illustrated to embrace also Ontological, Epistemological, Methodological, or the World 1, World 2 and World 3 Knowledge of Professor Karl Popper). The essence of the theme here is that by mindfully aware of our mentality (mental qualities, mental manifestations, the awareness, our mind and heart), then we can reform ourselves, at the root.

From the Western Literature on consciousness, as shown in Braddon-Mitchell and Jackson (1996), consciousness is thought of as a kind of stream in which the various mental states inhere (p. 143), and has cognitive and conative attitudes towards one's sensational states (p. 144). In other words, consciousness can be defined in the sense of being in a state that displays qualia (of feeling and perception, or phenomenal qualities) and in the sense of being aware of the mental state one is in (p. 144). In the later domain, consciousness embeds in it the ability to access and report on one's mental states. One's consciousness is in the fullest sense when one is fully aware of one's mental state (Tan, 2009b). It is also stated in Braddon-Mitchell and Jackson (1996) that often we see things without noticing that we do, which means that our relevant perceptual experiences may display qualia but often will fall short of being cases of consciousness in the fullest sense precisely because we do not notice that we are having the experience. In fact, it is also pointed out in Braddon-Mitchell and Jackson (1996) that it is often impossible to have a belief or desire without the possibility of the distinctive feel, and thus, beliefs and desires are sometimes or always associated with distinctive feels. In other words, consciousness is nothing more than qualia coupled with propositional attitudes. The Buddha said that we often form wrong beliefs based on what and how we feel,

whether pleasantly, unpleasantly, or neutrally. Seeing from the cognitive roots of consciousness as explained in Braddon-Mitchell and Jackson (1996), learning can take effect by mechanisms that can activate our cognitive faculty, for instance, as shown in Behaviourism which is the doctrine that studies mental states as behavioural dispositions (Braddon-Mitchell and Jackson, 1996, p. 39). As such, there is the so-called Methodological Behaviourism – the doctrine advocates that the way to study the mind is through behaviour and capacities for behaviour, in which Vipassana Meditation (Tan, 2009a) can be seen as an illustration of such approach. Vipassana Meditation also fits into the notion of Instrumentalism, which is traditionally thought of as a doctrine that is concerned with an anti-metaphysical theory of mind, as it does not offer an account of what mental states are but instead is a view about when ascriptions of mental states to subjects are true: roughly, they are true when the doctrine serve their purpose (Braddon-Mitchell and Jackson, 1996, p. 154). During the Vipassana Meditation practices, particularly at the immature or initial stages, we are not in a reliable position to judge our mental states, and thus, we need skilful facilitators who are often meditators of such practices for a long period of time and have already comprehended the interrelationships of consciousness, rupa (corporeality) and mind objects, as well as their conditionality factors, and the true nature of their experiences, in accordance with the teaching as advised in the Tipitaka. In this way, Vipassana Meditation also fits into another doctrine known as Interpretationism, which holds the view that part of what makes it true that a subject has certain intentional states is the fact that they would be interpreted as having them by a suitably placed expert interpreter: to be in mental state M is to be such that you would be assigned M by a suitably placed expert (Braddon-Mitchell and Jackson, 1996, p. 164).

In the Abhidhamma text, consciousness is systematically categorized and studied, of different facets and functionalities, and of different consequences, whether wholesome, unwholesome, or indeterminate, as already shown previously. This assortment can be termed as Functionalism, which is rooted in a Causal Theory of Mind, in which mental states are inner states with typical causes and effects, where the causes may be environmental circumstances, or they may be other mental states (perceptions typically cause beliefs); and the effects may be other mental states or behavioural states. In particular, this Functionalist Theory of Mind specifies mental states in terms of three kinds of clauses: (1) input clauses that say which conditions typically give rise to which mental states; (2) output clauses that say which mental states typically give rise to which behavioural responses; and (3) interaction clauses which say how mental states typically interact. Vipassana Meditation has a core focus in training to strengthen the sati, which is a mindfulness mental faculty, to always be in alert of the “qualia” of sensations, or feelings, perceptions, or mental formations that reveal through the six sense-contacts. Thus, by diligently engaging in the sati (mindfulness) development, the interaction clauses will be swiftly noted by bare attention and without attachments from which to cause defilements such as greed, hatred and delusion, and as such, the input clause and the output clause of the Functionalist Theory of Mind will be undone and thus not made the reality. In other words, when one is heedful (appamada, of skilful reflection, yoniso-manasikara), the as-yet unarisen skilful dhamma will inevitably arise, and unskilful dhammas that have already arisen will inevitably decline. Thus, sati is an antidote to the traditional Functionalist belief on Mind – that is, Sati functions to purify all volitional bodily actions, speech and thought, to free one from defilements, has the ability to take hold of a meditation object and to lay it down in front of the mind so that subsequent investigation by the Wisdom-Faculty (one of the Beautiful Mental Factor, sobhanaa) may proceed with optimum clarity.

#### Literature Review

This research intends to draw to our understanding at its very root or fundamental level the basic elements and mechanisms that establish the ways we are, the shapes or forms of strategies, the social networks and the performance realities reflected at macro-, micro-, organizational, team and individual levels. The root is the reason for the world it is today, which is of mind, heart, and physical manifestations. In the Buddhist Canons (Tipitaka), mind or heart is often referred to as “Citta” and “Cetasika” (the consciousness; the cognitive and non-cognitive mental factors), which is a “Nama” (of mental manifestations), contrary to the physical manifestation that is referred to as “Rupa” (of corporeality) (Jayasuriya, 1963). Mind or heart is really a manifestation, quality or reality of human thought unit consisting of a cognitive element and a number of mental factors, of which mind is by far the more important to the living being, because it directs life and acts to improve it. The mind or heart, cognitive element and the mental factors in each moment of consciousness, are representative of four groups or masses of mental elements (Nama-Khandha) which are referred to as (1) Feeling, (2) the Noting, (3) the Mental Formations, and (4) the Cognition Group (Citta)

(Jayasuriya, 1963). Among the mental formation is where the so-called volitional (Cetana) or Conative mental faculty is situated. The physical manifestation, to the Buddhists, is of four causes, namely: (1) Past-Action or Kamma, (2) Thought, (3) Energy and (4) Nutriment (Jayasuriya, 1963). The Thought element can generate a number of different kinds of atoms that can cause the health of body, maintain posture, cause respiration and also cause muscular movements (Jayasuriya, 1963), which has been proven scientifically in a series of studies compiled by Goleman et al. (2009). The Energy or Heat element is an integral property of every kind of matter and the Nutriment element is within the atom and not the atom itself that sustains life in the first place. The Past-Action or Kamma are the volitions of thoughts with which various actions were done in the past, which manifested in the way we are (Jayasuriya, 1963).

Thus, as the world is a manifestation of both Nama and Rupa, it is important we train systematically by targeting at the sources of happiness or troubles – namely, our Citta (Mind and Heart) (Tan, 2009a; 2009b). From now on, it will be referred to as only “Citta” to mean both cognitive and non-cognitive mental quality, mental reality, or state of mentality. Training at our Citta directly manifests both Single-Loop Learning and Double-Loop Learning characteristics of Argyris and Schon (1978) in that learning to gain direct knowledge is first rooted in Faith (Saddha) which is based on action by learning from teaching and from a set of ethical principles (Sila) (Tan, 2009a), and when learning has become mature, direct insight or knowledge will be gained which leads to Higher-Level Understanding similar to that of Double-Loop Learning (Tan, 2009a). The two learning schemes cross reinforce each other, and one without the other is fundamentally ineffective (Tan, 2009a). Citta development is thus circular or continuous feedback-loop in nature, where performance levels and qualities, enacted through our bodily action, speech and thought, are noted continuously from moments to moments by our mental faculty (Citta and Cetasika) called “Sati-Sampajaya” (Tan, 2009b). Sati (Mindfulness) is to prevent the mind from drifting, does not allow mental states to pass by, prevents the mind from becoming agitated, is attentive, placing the mind on the object or recollecting it, to protect one from error, to prevent one from stumbling into undesirable mental states or situations, to allow no opportunity for unwholesomeness to enter the mind, to prevent the misuse of thoughts, and in short, to know directly and by insight, in order to bring the field of experience into focus by making it accessible to insight (Sayadaw, 1996). “Sampajanya”, usually coupled with “Sati”, is a mental faculty that functions to maintain clear comprehension and penetrative understanding of the object or action fixed upon by “Sati” in regard to its purpose, nature, and the way to proceed in relation to it, free from delusion and misunderstanding (Devedhi, 1988). This forms a Buddhist Version of Learning, which is applicable at Individual, Teams, Organizational and Societal Levels (Tan, 2009b). This learning is characterized in the Buddhist Canon (Tipitaka) as a “Direct Path”, which is a translation of the Pali expression “Ekayano Maggo”, meaning a path in the sense of leading straight to the goal, as a path to be travelled by oneself “alone” (eka) (Analayo, 2003). Thus, “ekayano” conveys a sense of directness, draws attention to Satipatthana (The Four Foundations for Developing Mindfulness) as the aspect of the Noble Eightfold Path most “directly” responsible for uncovering a vision of things as they truly are (Analayo, 2003; Tan, 2009a).

To be more specific about the world of Rupa (Corporeality) and Nama (Mentality), let us illustrate with few examples that are already available in the literature. Whether there are Rupa or Nama, they can be experienced through our Six Sense Doors, namely: (1) Eye, (2) Ear, (3) Nose, (4) Tongue, (5) Body, and (6) Mind, which form the bases for the Mindfulness Training, as stated in the Satipattana Sutta, one of the important Buddhist Scriptures in the Canons of Buddhist Teaching (Analayo, 2003). In Lindstrom (2005), five sense-objects, composed of touch, taste, smell, sight and sound, are tested empirically to have tremendous impact on brand awareness. It is stated in Lindstrom (2005) that we all store our values, feelings, and emotions in memory banks, and our memory library begins accumulating material from birth through the five senses that have worked very well in emotionally connecting people to the rituals of faith and trust in brands. Having rooted in this principle, Lindstrom (2005) proposes a Five-Dimensional (5-D) Brand Sensory Model, as a sensogram of brand. What is missing in Lindstrom (2005) is the “Mind” function, as most of our interpretations to product or service brand is an outcome of “Mind Object” (Tan, 2009a; 2009b). In Tan (2009b), Citta is developed by training our “Sati” on every arisen mind object or sensual objects through the six senses. Our deluded ego is built because of our habitual exposures to the Six Sense-Door-Objects (Touch, Taste, Smell, Sight, Sound, and Mind-Object). For instance, the mind object can be illustrated by referring to perceived quality as an important factor for brand association, brand awareness or brand loyalty. Perceived quality, according to Aaker (1996), reflects a measure of “goodness” that spreads over all elements of the brand, is usually at the heart of what customers are buying, and in that sense, it is a



bottom-line measure of the impact of a brand identity. However, what is important is that, perceived quality may differ from actual quality for a variety of reasons. Cited in Aaker (1996), first, consumers may be overly influenced by a previous image of poor quality; a company may be achieving quality on a dimension that consumers do not consider important; consumers rarely have all the information necessary to make a rational and objective judgment on quality; and perhaps consumers may not know how best to judge quality. Thus, whatever the manifestations of the Five Sensual Senses (Lindstrom, 2005) may be, they will become, essentially, the Mind Objects or Mental Formations. That is the reason why our Citta (Mental Quality, Consciousness, the so-called Mind and Heart) has to be purified, developed and maintained rightly, otherwise, they will be corroded, eroded, and polluted by the Six Sense Doors, which further strengthens our Ego (Tolle, 2003). Thus, this research is working straight to the heart – our Citta, by mindful noting on our Subconscious and Conscious Mind, directly, without mental decorations, at the moments the mental thoughts, mental formations and our sensual experiences arise. This thus delimits the frustrated limitations often troubling Marketers in that Marketers often assume that most of our thinking takes place in our conscious minds. According to Zaltman (2003), in actuality, consumers have far less access to their own mental activities than marketers give them credit for, and ninety-five percent of thinking takes place in our unconscious minds – that wonderful, if messy, stew of memories, emotions, thoughts, and other cognitive processes we're not aware of or that we can't articulate.

The importance of mindfulness (Sati) can also be stressed by illustrating another fallacy of most marketers, who tend to think of consumers' brains as cameras – mechanical devices that take “pictures” in the form of memories, and further assuming that those memories, like photographs, accurately capture what the person saw, believing that what a consumer says she remembers remains constant over time, and that a shopping experience a consumer recalls today is the exact same experience she recalled a week ago or will recall some months from now (Zaltman, 2003). What Zaltman (2003) is trying to illustrate is that our memories are far more creative – and malleable – than we might expect, and they're constantly changing without our being aware of it. In fact, not only consumers are often unaware of what they experience, but the management teams are in fact the same, and that is the danger of not mindful, and that is the reason Hammond et al. (2009) call for awareness training an urgent priority with an objective to prevent falling into psychological traps in decision making. Putting into Wind et al.'s (2005) terms, “Sati” training as highly valued in the Buddhist Theory of Learning (Tan, 2009b) based on the Noble Eightfold Path (Tan, 2009a) can be an effective way to unlock the so-called “Cognitive Lock”. In a situation of “cognitive lock”, according to Wind et al. (2005), people become so fixated in a single view of the world that they filter out all information that conflicts with this model and are unable to see another possible explanation. That is the reason why leadership has become too extremes – either too forceful or totally too lightly, which prevents organizational effectiveness and performance from being at their optimal states (Kaplan and Kaiser, 2009). Having developed and strengthened our “Sati”, we can actually build into ourselves an early warning system at the mind-level, which is characterized by the incredibly high speed of thoughts or consciousness (e.g. Eye-Consciousness, Ear-Consciousness, Nose-Consciousness, Tongue-Consciousness, Body-Consciousness, and Mind-Consciousness). Again, in Wind et al. (2005)'s understanding, to unlock the cognitive lock, one may need to create systems for identifying specific changes in the environment which should be based on real-time feedback and have trip wires for action or more intense investigation. The difference is that this real-time warning system is really our “Sati” which is at the Mental (Mind-Heart) Level, and it allows us to know ourselves, directly, without the risks of jumping too quickly to embrace biased mental models.

#### Research Gap and Direction

The literature review has clearly pointed out the importance of being able to directly focus on developing our mental faculty or Citta through mindfulness faculty that also exhibits a systematic learning-and-action mechanism as explained in Tan (2009a; 2009b). In short, our mental quality governs our performance, and traditionally, this may sound abstract to conduct empirical research, but this research intends to qualify and quantify these abstract terms, and provides a practical methodology to guide the mental development. Scientific evidences that this de-abstraction can be done are already widely available, and Goleman et al. (2009) provide a reasonable wide scopes of details on this aspect. To explore this research problem, the following research questions will be targeted:

1. How mindfulness can be trained?
2. How a mature development on mindfulness can lead to higher level of performance at individual, teams and organizational level?

3. What operational framework is there to show the linkages between mindfulness development at individual level and performance domain at individual, teams and organizational levels?

In terms of research question 1, Vipassana Meditation is one of the feasible solutions, which is illustrated in Tan (2009a) through a Buddhist Theory of Learning in Tan (2009b). Both Baer et al. (2006) and Seifel (2009) have illustrated the usefulness of mindfulness in enabling patients to recover swiftly, and such practices are already installed at the medical faculty at the University of Massachusetts Medical Center and at the University of Wisconsin in Madison (Siegel, 2009). Vipassana Meditation is a feasible approach, because, from the Buddhist psychology standpoint, it holds that an individual's clinging to personal experience is the deepest psychopathological problem, which propagates the formation and over-attachment to the self. Besides, according to Hageman (2009), from a strict psychophysiological lens, meditation is about the intentional self-regulation of attention that is used for self-inquiry, which may also involve self-experience, self-realization, and/or a way to achieve the discovery of ultimate truth.

In terms of research question 2, Tan (2009a) has provided some preliminary direction in that through mindfulness training, based on a systematic development scheme that parallels both Single-Loop Learning and Double-Loop Learning, an individual-level action research activity is activated, which gradually polishes all the three performance-enabling factors simultaneously, namely the (1) Wisdom (Panya), (2) Sila (Precepts, Ethics, Behaviors) and (3) Concentration (consisting of Right Efforts, Right Concentration and Right Mindfulness). The illustrations drawing from the Blue Ocean Strategy of Kim and Mauborgne (2005) will also provide some preliminary understanding on this perspective. Due to the limitation when this research paper is summarized, no empirical works are obtained to draw on the correlations between mindfulness state of mental quality to the performance level, at individual, teams or organizational level, although many people continue to exert efforts on the Vipassana Meditation, as evidenced in Thailand. Evidences are also clearly discussed in Hammond et al. (2009) and Kaplan and Kaiser (2009). However, an empirical work that relates perceived organizational performance to the three performance domains, namely, the cognitive focus, the behavioral focus and the learning-driven methodology, are made available in this research paper. These three domains are partly embraced within the Wisdom, Sila and Concentration Factors, as enunciated in the Noble Eightfold Path (Tan et al. 2003).

In terms of research question 3, a working model is proposed which will be discussed in the following section. The framework will include the sources for mindfulness development by targeting at both the physical and mental faculty capitals, and a simple self-assessed performance measurement scheme (also referred to Tan, 2009a and 2009b), the three performance-enabling variables that deliver the Noble Eightfold Path (referred to Tan, 2009a and Tan et al. 2003), a performance reality realm and also a Reality Principle based on the Four Noble Truths (Tan et al. 2003).

#### Working Model

In what follows we will present a working model or framework that summarizes the essence of the Buddhist Theory of Learning and Performance. The model or framework is a broader view of the works of Tan et al. (2003), Tan (2009a) and Tan (2009b). By presenting a framework, it makes it easier to focus on details without becoming overwhelmed, as the framework provides a prioritization on key factors that drive performance and success at individual, group, organizational and societal levels. An empirical work based on a single rich case of mixed quantitative survey and qualitative interview will be illustrated, albeit at a preliminary level that deals with only the Cognitivism, Behaviorism and Methodologicalism domains of performance at organizational level. The framework is balanced enough so that it avoids being paralyzed by too broad a context or a focus that overwhelms one and leads one to inaction. The framework can be zoomed out to let one know the bigger picture, at the individual capital level (Tan, 2009c), at the Citta Development and Learning level (Tan, 2009b), and at a broader Path-oriented, individual-action-research and performance-measurement level (Tan, 2009a).



knowledge gained by this Direct Path (Analayo, 2003) can be externalized reliably and robustly, and is the result of continuous research, reflection, learning, action and continuous improvements, coupled with moments-to-moments measurements and performance feedback.

A feasible way leading to the cessation of dukkha is suggested by Tan (2009b) as a Buddhist Theory of Learning, which is used to mature and develop the Noble Eightfold Path consisting of Eight Factors, namely: (1) Right View, (2) Right Intention, (3) Right Speech, (4) Right Action, (5) Right Livelihood, (6) Right Effort, (7) Right Mindfulness and (8) Right Actions. The three performance measurements and management schools – (1) Cognitivism, (2) Behaviorism, and (3) Methodologicalism (Tan, 2009a) are suggested to minimally parallel to the Three Broad Categories of the Noble Eightfold Path (Tan et al. 2003), as shown in Figure 1, namely as: (1) Wisdom Domain – Right View and Right Intention, (2) Sila (Precepts, Ethics) Domain – Right Speech, Right Action and Right Livelihood, and (3) Samadhi or Concentration Domain – Right Effort, Right Concentration and Right Mindfulness. Methodological theme is predominantly learning in nature, which is aimed to develop our Citta, directly (see Tan, 2009a and 2009b). The Buddhist Theory of Learning, that embraces the Noble Eightfold Path and aims directly at the Name-Rupa sources, provides a Mechanism or a Way to pull people off from the so-called Psychological Traps. It is stated in Hammond et al. (2009) in a recent Harvard Business Review OnPoint that the best protection against all psychological traps – in isolation or in combination – is awareness. Mindfulness or Sati is a term alternative to mere “awareness” – as, Mindfulness is alerted awareness, has the ability to note the movement and the manifestations of our Citta (Mental Faculty) directly at the moment it arises when in contact through the Six Sense Doors (Eye, Ear, Nose, Tongue, Body, and Mind). Hammond et al. (2009) suggest using tests and some sort of disciplinary methods (unelaborated in detail) to uncover errors in thinking before they become errors in judgment, so that psychological traps manifested by misperceptions, biases, and other tricks of the mind cannot influence the decision-making process wrongly. The danger with “testing” is that it could possibly stand on an unstable knowledge platform, and thus, chances are the test could deliver self-fulfilled outcomes or wrong interpretations limited by the knowledge that constrains the test in the first place. Thus, it is important to work directly at the Citta so that one is prevented from being caught in a psychological trap at its root sources.

“Sati” is mindfulness, alertness and awareness at the mental arising quality as it is, without a need to exert too much or too little effort. In other words, as psychological trap is the work of ego (e.g. deluded knowledge), it is important one is mindful of one’s thoughts and emotions – as they happen. This is not really a “doing”, but an alert “seeing”, which is a shift from thinking to awareness, an intelligence that is far greater than the ego’s cleverness (Tolle, 2005). As such, awareness is beyond cognition, beyond establishing a discipline to diagnose or test, as suggested by Hammond et al. (2009) and Drucker (2009). As suggested by Drucker (2009), we need to know our strengths in order to know where we belong, and thus, the only way to discover our strengths is through feedback analysis. From the perspectives of Tan (2009a; 2009b), feedback analysis is only a manifestation of performance measurement, which is extremely important, if the feedback can occur by referring to or measuring directly at the states of our mental faculty (Citta and Cetasika). Feedback analysis has been performed by the Buddhists since 2500-plus years ago, by having sought consultations or advice from our teachers or colleagues who are in a better knowledge position through self-qualifying our mental states, and examples of Buddhist Performance Measurement Schemes are illustrated in Tan (2009a; 2009b). In sum, ego comes about through a split in the human psyche in which identity separates into two parts that we could call “I” or “me” or “myself” (one lives in a mental image of oneself, a conceptual self that one has a relationship with), and every ego is therefore schizophrenic (Tolle, 2005). Thus, mindfulness is really the “Right Amount of Forcefulness or Forceful Leadership”, to use the term by Kaplan and Kaiser (2009) in that they state that generally speaking, the managers deemed most effective are also viewed as exercising the “right amount” of forceful leadership – not too little, not too much, and at either extreme, we see a marked drop in effectiveness. Thus, Figure 1 and its sub-practical and theoretical elements and mechanisms asserted in Tan (2009a; 2009b) are a way to realize the “right leadership amount” as suggested by Kaplan and Kaiser (2009).

On the far left portion of Figure 1 is the “training” on “Sati” or “Mindfulness”. An operational definition is given earlier, and the details can be referred to Tan (2009a; 2009b). Basically, Sati is to be developed and strengthened by exploiting the two capitals we each already possess, namely the “Nama” (Mentality) and “Rupa” (Corporeality). The usefulness of the capitals is revealed only when we mindfully note their occurrences and interactions – such as, our feeling, our perceptions, our mental concomitants and the

consciousness or knowledge about the sensed objects, whether physical objects or mind objects. Physical capital (Rupa) is the physical object our mental faculty exposes to and interacts with, such as our financial accounts, the things we created, the organizational structures we established, and the business processes we designed and built (Tan, 2009c). The “Nama” Capital is referred to as Mental Faculty Capitals, which are consisted of our feeling, our perceptions, and our mental concomitants and knowledge factors. Feeling is referred to as a mental element that is found in every thought unit and its function is to experience the flavor of object that is being apprehended by the mind (Jayasuriya, 1976). The mental proliferation or concomitants of the Mental Faculty Capital are predominantly the Resultant of our basic motives or root causes, which are of six of them, namely: (1) Attachment (Lobha), (2) Ill-Will (Dosa), (3) Delusion to the Immoral Thoughts, and (4) Non-Attachment (Alobha), (5) Non Ill-Will (Adosa), and (6) Non-Delusion (Amoha) to the wholesome thought (Jayasuriya, 1976). “Nama” or Mentality Capital (or Citta Capital) is manifested by our thoughts and understanding, and emotion intelligence or qualities (referred to as Cetasika or Mental Concomittant in the Buddhist Canons) as well. In other words, the “Nama” Capital allows us to actually know ourselves and to let others know us, openly and honestly, and these questions actually lead to the themes, contents and direction of the discussions pertaining to the topics on Emotional Intelligence. As asserted in Cooper and Sawaf (1997, p. 39), emotions are primarily an energy, are neither good nor bad, and how we respond to their messages determines the effect they manifest and thus, emotions are our “signal system”, acting as on-the-spot wake-up calls that give us information we need to direct us towards behaving, acting and thinking.

On the bottom part of Figure 1 is the performance measurement scheme for mindfulness training, which can be performed by self-assessment (Baer et al. 2006) that reflects (1) the state of mindfulness, and (2) the state of mental faculty as shown in Tan (2009a) in terms of cause-and-effect characteristics of our bodily actions, speech and thoughts, or in Tan (2009b) in terms of performance gaps in between wholesome and unwholesome, or between greed and non-greed, hatred and non-hatred, and delusion and wisdom mental states. Both the leftmost and bottom triangles of Figure 1 depict the mindfulness training at individual level, and its results can be expanded to individual level, team level, organizational level and societal level, as shown at the two triangles at the top and rightmost of Figure 1. At the individual level, the three performance domains of human behavior and thoughts will be developed and strengthened, namely the Noble Eightfold Path, which is consisted of (1) Wisdom, (2) Sila (Precepts/Ethics), and (3) Samadhi Mental Quality. The Samadhi Mental Quality is consisted of Right Effort, Right Concentration and Right Mindfulness. The Wisdom domain is consisted of Right View and Right Thoughts, whereas the Sila domain is consisted of Right Speech, Right Actions and Right Livelihood. Right View is possessing the right view or clarity of knowledge about what is to be performed, or what has been revealed from the markets or potentialities. From the blue ocean standpoint, Right View is having a clear picture on uncontested market space, made possible by exploring into the existing and across the existing or alternative market boundaries and, in knowing how to strategize forward that earns profitable returns on the uncontested market space (cf. Kim and Mauborgne, 2005). In blue ocean, it also makes use of “Sight” or “Visual” (which is one of the Six Sense Doors referred to as “Rupa” or Physical Capitals in Figure 1, or referred to Tan, 2009a and 2009b) in interpreting strategic scopes and in winning the hearts of the people involved in making strategies work, namely by visual awakening based on a simple strategy canvass, and by visually exploring the actual fields to seek genuine and valid understanding of the competitive scopes, and then by visually convincing the teams and the organizations such as by drawing the “to-be” strategy canvass based on insights from the field observations (cf. Kim and Mauborgne, 2005). Right Thought or Right Intention (Samma Sankappa) refers specifically to the purposive or conative aspect of mental activity, whereas the Right View covers the cognitive aspect of our mental faculty. Right intention is threefold: the intention of renunciation, the intention of good will, and the intention of harmlessness, which are opposed to three parallel kinds of wrong intention, namely intention governed by desire, intention governed by ill will, and intentions governed by harmfulness. Right View and Right Intention are closely related. When wrong views prevail, the outcome is wrong intention giving rise to unwholesome actions (Bodhi, 1984). Thus, the Wisdom domains of mental and performance qualities provide the governing and guiding principles for behaviors, ethics, corporate governance, and management, by considering the benefits of customers and the societies as a whole in Blue Ocean Markets, Red Ocean Markets and Green Ocean Markets. In this way, there are no conflicts among different types of Market Oceans, and any type can easily be the solutions, so long as the results are made consciously and mindfully.

At the organizational level, these three performance attributes can be referred to as the themes embraced by the three schools of thought synthesized from the literature in Tan (2009a). In the Buddhist Canons (2500 plus years old), Right Mindfulness can be reflected in many ways, but one crucial skill is to develop “Citta” in order to gain the ability to do Four types of Right Actions, namely: (1) to let the not-yet-arisen good quality to arise, (2) to maintain the arisen good quality, (3) to eradicate what is bad quality, and (4) to prevent what is bad quality from arising. These four wise actions will be internalized within us when our mindfulness ability is acutely robust and stable. These four wise actions are termed by Kim and Mauborgne (2005) as the Four Actions that are needed to reconstruct buyer value propositions, a new value curve or strategy canvass, namely: (1) Which factors should be created that the industry has never offered, (2) Which factors should be raised well above the industry’s standard, (3) Which of the factors that the industry takes for granted should be eliminated, and (4) Which factors should be reduced well below the industry’s standard. The key is that, when our citta is maturely developed, these four actions proposed by Kim and Mauborgne (2005) will be robustly and wisely internalized within us, and thus, we can better interpret competitive or business positions, without reacting to our egoism (Tolle, 2003) or being fallen into the psychological traps (Hammond et al. 2009), from moments to moments, without hesitation.

On the far right section of Figure 1, it depicts the reality of business, competitive conditions, or performance, which can be applicable at individual, teams, organizational and societal or community levels. The red ocean reality signifies fierce competition which may involve the use of forceful tactics or strategies, unnecessarily, in order to win over the markets. The blue ocean reality is to out-beat the competition, wisely and conservatively, by exploiting opportunities that involve uncontested territories or market spaces. The green ocean reinforces on the sustainability theme as a mother lode of organizational and technological innovations in the aim to yield both bottom-line and top-line returns – that is, by becoming environment-friendly (Nidumolu et al. 2009). However, by Green Ocean, it doesn’t only mean the Environmental Issues; it involves as well the Ethics, Caring, Community Services, Corporate Governance, Spirituality (Tan et al. 2003) and Behavioral Principles. As the previous President Bill Clinton (2009) puts it concisely, by investing in communities’ growth and welfare, a corporation empowers tomorrow’s customers and creates a stronger brand with a moral loyal following. This research identifies that there is no distinction between the Blue Ocean, Red Ocean and Green Ocean, as there are just realities enacted, manifested and delivered by our mind-and-heart or Citta reactions. Both blue and red ocean strategies are actually the results of mindsets in trying to differentiate one’s strategies from the others, by targeting on price, cost, margin and value propositions simultaneously, with different mindset or mental framework levels. Thus, whether the market or competitive reality is Red, or Blue, or Green, it is our volitional, purposeful, deliberate, unconscious, conscious, knowledgeable or deluded acts. To be mindful of our reactions to them is the best recipe for successes among all sorts of market or competitiveness oceans. In this way, we cultivate the so-called “Self-Sufficiency” mentality state wherein one is prepared and robustly ready to face any experience that might occur and to deal effectively with all of one’s affair rightly and mindfully (cf. Thich, 1998). This “Self-Sufficiency” mental capability is believed to form a strong foundation for the so-called “Self-Sufficiency Economy” concept which has been actively promoted by the Beloved King of Thailand and his Royal Families.

#### Some Preliminary Empirical Data and Conclusion

A qualitative-and-quantitative mode of research is performed at a publicly listed organization in Thailand. The objective is to study the correlations between the three performance-enabling variables (namely, Cognition, Behaviour and Learning-Driven Methodology) and the level of perceived organizational performance. Because this research involves an issue that has blurred boundary and the context of the phenomenon is not particularly well-structured at this juncture in time, a case study research approach is undertaken. Case study research is useful in externalizing the mental models of informants, which are formed tacitly, and often, are believed by informants to be the accurate views of what has occurred and why it has occurred. In short, the case study research is aimed to probe theory manifested by one or more explicit mental models vis-à-vis the phenomenon and its process or mechanics, which also involves and incorporates multiple behaviours and events within one case study, so as to deepen the understanding of patterns and contingencies relating to the theory.

The mixed method approach of the case research study can be justified from the triangulation perspective (Hussey and Hussey, 1997). For the data triangulation aspect, data are collected at different times from convergent interviews (with the top management teams in the organization), which are conducted following

the questionnaire-survey to different levels of employees in the organization, in a case study of a single case organization. A total of 42 participants for the questionnaire-survey and 7 participants from the top management on the qualitative interviews are made available. Investigator triangulation is not applicable as data are collected and summarized by the author only. Relating to the methodological triangulation aspect, the mixed method is selected for its cause. For the theory triangulation aspect, different theories of a cross-disciplinary nature, such as those advocated by Karl Popper (1972) in the discipline of philosophy (referred to Tan, 2009a), as well as systems sciences in management, are investigated and matched in themes for contributions to the general bodies of knowledge.

In terms of research design and execution procedures, the steps recommended by Cepeda and Martin (2005) are adapted, of which they are six sequential phases: (1) Conceptual Framework, (2) Planning, (3) Data Collection, (4) Data Analysis, (5) Critical Analysis, and (6) Theory Building.

The three Performance Domains are operationalized by Six Parts, namely: (1) Key Performance Indicators to indicate the perceived performance level, (2) the Cognitive and Behavioural Key Success Factors that drive performance, (3) the Organizational Learning Practices, consisted mainly of single-loop and double-loop learning, (4) the perceived Rate of Change in the business environment, (5) the various modes or facets of performance mentality or principle, and (6) the demographic profile. Relating to the cognitive and behavioural domains, questionnaires that pertain to competitive prioritization, the function-centric theme, the causality mindset driven actions, the leadership and favourable behavioural factors, and bounded rationality principles are stressed. Of particular attention that needs to be emphasized here is the bounded rationality principle, which is aimed to exploit the reliable knowledge repertoire accumulated as a codified systems boundary. In this way, the bounded rationality enabler builds and develops absorptive capacity which enables organization to acquire, assimilate, transform and exploit available and potential knowledge. Simon (1947) associates this bounded rationality principle with the aspiration-level mechanism, which is more closely related to psychology. Dolan and Garcia (2002) call this aspiration-driven performance-enabling mechanism the cultural re-engineering, which involves using visioning and values ('this is how it should be') to guide objectives ('this is what we are going to achieve') and thus, enable performance reality ('this is what we have achieved'). In fact, Dolan and Garcia (2002) also label this as the act of true leadership, which is about a dialogue on values. Bounded rationality is using nature and true characteristics of whatever we are focusing on to help us deliver performance results. Thus, bounded rationality is an outcome of a Right View in a way, which is rooted in Right Thoughts or Intention. From the systems theory perspective, these bounded rationalism guideposts and values are perceived as the "attractors" of chaos, and thus, Dolan and Garcia (2002) argue that although an organization is seemingly chaotic and disorderly when observed at a single point in time, it is indeed possessed with a certain degree of orderliness when viewed from an adequate time perspective. Five types of rationality are incorporated in the questionnaires, namely: (1) practical rationality, which is more of an experiential base consequence such as in the satisficing principle, (2) theoretical rationality, which believes in cause-and-effect mechanisms such as the use of strategy mapping in enabling effective implementation of strategies, (3) formal rationality is developing actions through formal laws, rules, regulations, and formally structured patterns of domination and administration, (4) substantive rationality that emphasizes the development of patterns of action based on value postulates or clusters of values, and (5) social rationality that emphasizes social practice and marshals both the collective will and resources for success in the organization (referred to Bolan, 1999; Karlberg, 1980). These five rationalities embrace the ability to deliver results on Red Ocean, Blue Ocean and Green Ocean market opportunities.

The questionnaire-survey data are statistically tested for validity and Cronbach's alpha reliability. First, construct validity, which establishes the correct operational measures for the concepts being studied is secured using common factor analysis which groups those relevant survey instruments that delineate similar characteristics or underlying theoretical concepts together. Second, internal validity, which demonstrates that the proposed causal relationship between two factors is basically accomplished by corroborating the conceived instrument with the outcomes of the literature reviews. Third, content validity, which means how well a set of items is measuring the complexity of a concept or variable studies, is secured using subject experts from the literature review as well from the pilot study performed at the case organization.

The empirical data conclude that the three performance-enabling factors, namely, (1) the Cognition, the (2) Behaviour and (3) the Organizational Learning, are interrelated, with regression coefficient at 0.624 between the Cognition and the Perceived Performance, at 0.816 between Cognition and Learning, and at 0.677 between Learning and Perceived Performance. The high correlation between Cognition and Learning also provides some favourable explanation to the framework as shown in Figure 1, in that learning (which in this case is trained by being mindful of every existence, at the time it arises, from moments to moments, and because of the reflective and investigative nature of mindfulness inducements, learning is established – cf. Kolb (1984)) leads to maturity of Right Views and Right Intention. The positive interconnectedness also implies that learning is best established at the cognitive focal areas, which really span across the entire work or teleological portfolio of the organization. However, the statistical data analysis reveals that there are significant differences in the mean of learning practices across different levels of positions, with the executive managers at much lower level, evidenced by 3.13 out of 8 Likert Scale for Double-Loop Learning, 3.75 out of 8 Likert Scale for Single-Loop Learning, and 3.250 out of 8 Likert Scale for Learning Behaviour. The correlations stated above also confirm that a structured type of organizational learning in a simple, experientially iteration-based configuration is effective. Thus, the framework delivered in Tan (2009a) and Tan (2009b) has its reliable and valid theoretical and empirical standpoints. In addition, Tan (2009a) indicates that as a result of continuous systematic and structured learning, not only Right Views and Right Intentions or Thoughts are formed, but also the Right Behaviours are also made possible. Right Behaviours are interpreted as Right Speech, Right Actions and Right Livelihood (see also Tan et al. 2003). This is the rationale behind the ABC (Antecedent-Behavior-Consequence) models easily be found from the literature of management. An interesting discovery is that, although the above correlations are high, there exist some significant differences in the perceived levels or extent of practices in the cognitive, behavioural and learning domains, across different positions. In this regards, there is an actual mismatch or strain between the systems-as-planned and the systems-as-executed, between different mental mindsets of people, and between the espoused theories at the organizational level and the theories-in-use at the individual or departmental levels, which puts the organization into a perpetual learning loop to seek to optimize performance. Thus, training at the “Citta” (mind and heart) level becomes necessary, especially through “Sati” (Mindfulness) development, so that performance mismatches and strains can easily be spotted and corrected, without falling into the so-called psychological traps as identified in Hammond et al. (2009).

In the Cognitive aspect, emerged themes are numerous:

- (1) The first emerged theme stresses the function delivered by teleology and the function-cum-process value. Function is important as the concept reinforces the centres of excellence, and process is important as it is the source of organizational value. Together, this theme stresses on deployment and action that is goal-oriented in that each business or functional process has to be linked together to achieve a specific objective. Obviously, effectiveness measures or objective (teleology) has a driving force on the direction of efficiency.
- (2) The second emerged theme stresses cognitive bounded rationality, which consists of theoretical rationality, substantive rationality, practical rationality and formal rationality. Cognitive rationality manifests a set of simple rules in the process approach to strategic management which extract values from experiential learning (practical rationality), causative cognition (theoretical rationality), development of patterns of action based on value postulates (substantive rationality) and accumulated knowledge resulting from validating work practices to meet performance standards (formal rationality). As such, cognitive rationality could be reasoned as embracing the concept of discipline of strategy. Both the cognitive rationality and social rationality principles reinforcement could be argued to be a communicative competence, which is a concept discussed in Habermas (1984) – a primary human symbolization system language that aims to establish positive interpersonal relations and build cognitive competence in actionable knowledge, and which also prompts single-loop learning, because of the repetitive learning process that follows pre-concluded reliable work procedures, as well as double-loop learning, because of the continuous dedication to updating assumptions and work procedures creatively.
- (3) By combining cognitive rationality, which is predominantly a paradigmatic content, the teleological and path-oriented variable, together with the causal knowledge variable, a systems theory property is revealed.

Also, the research reveals the importance to deliver a synergistic alignment between the Three Performance Factors (of the Noble Eightfold Path origin). In doing so, the management framework can be considered as a psychological-social-cognitive constructionist system that recognizes the importance of individual mental faculty quality, the cognition and the fluidic interactive elements of learning and behavioural reinforcement within a community of practice. The community of practice is called the “Sangkha” (the Practice Communities), which is extremely important for success in individual realization or learning. When the quantitative statistical outcomes are matched with the responses from the convergent interviews (not



illustrated here), the interpretation becomes clearer, and can be supported by a web of existing theories, in particular the systems theory and the theory of knowledge epistemology of Karl Popper (1972). That is, the levels of practice associated with organizational performance measurement and the system's ability to deliver expected performance essentially build a reliable knowledge repertoire, which is perceived as a reservoir of wealth in the form of intellectual capital that the organization is able to draw upon to guide present actions for a better future. In Tan (2009a), when presented from the viewpoints of Buddhists, it means the formation of right wholesome life-continuum (memory, see Figure 1 of Tan, 2009a). This astounding logic of epistemological knowledge creation can be traced to the doctrine of a priori truth, or pragmatist theory of knowledge, advocated by Lewis (1929).

The usefulness of a priori knowledge (the repertoire of past experience), according to Lewis (1929), is in meeting the pragmatist test of knowledge by creating value for the organization and in serving as the value-guiding actions that essentially manifest the validity of the interpretation performed by the collective mind of the organization. This organizational level of life-continuum shares the similar understanding to the individual level of life-continuum as illustrated in Tan (2009a). This, to a large degree, is also similar to Herbert Simon's (1978) bounded rationality principle. Thus, the pragmatist epistemology on knowing, from Lewis' (1929) viewpoint, is a continuously evolving and never-ending process, along which mental frames are continuously reshaped and improved, establishing the generative knowledge and self-organized double loop learning of Don Schon and Chris Argyris. This is the sort of the reasons why by diligently practicing to strengthen "Sati" (which has in its concomitant mental formation the investigative and reflective ability, as identified in Kolb's (1980) experiential learning theory), one's knowledge and wisdom is matured and fully developed. Thus, all the Eightfold Path Factors are interrelated and fully cross-supporting each other. The doctrine of a priori truth or the pragmatist theory of knowledge essentially establishes a background for building a theory of knowledge epistemology for performance management as shown in Figure 1.

The three Eightfold Path performance domains, together with the Four Noble Truth Realities (the Results), are also shown by this research to embrace the World 1, World 2 and World 3 knowledge advocated by Professor Karl Popper (1972) – in that World 1 is the perceived performance reality, World 2 connotes the dispositions to behave through behavioural and learning practice development, and World 3 relates to the cognitive content elements of the management issues, which is concerned with thought content, strategies, theories, arguments, problems, rule of the skill and rules of the games, work practices, language, explicit knowledge, formulated plans and object of learning. Thus, the roles of (1) Wisdom, (2) Sila, and (3) Samadhi (Concentration Factors) become sensibly clear cut from the perspectives of management. Surprisingly, these three factors also deliver the ontological, epistemological and methodological aspects of knowledge, insight and path of performance development. In this research, we will define them as the Ontological Performance Dimension (Wisdom), the Epistemological Performance Dimension (Sila) and the Methodological Performance Dimension (Samadhi). Ontology, from the vantage of the knowledge-creation process, is not just about whether reality exists or not, but also about what it exists of (Nonaka, 2005) in describing the nature of being and the essence of things. From the viewpoint of computer scientists (Foguem et al. 2008), ontology captures a formal, explicit specification of a shared conceptualization. In such a context, "explicit" means that concepts and their relationships are clearly and precisely defined. By "shared", it indicates the existence of an agreement between ontology and users. By "Conceptualization", it signifies an abstract model of a phenomenon (Foguem et al. 2009). Having defined and reasoned ontology as such, it is clear that the cognitive content is related to the Ontological Performance Dimension, which in reality also includes the Nature of Reality characterized by the Four Noble Truths (Tan et al. 2003). On the aspect of epistemology, Nonaka (2005) associates with the issue of subjectivity as one of knowing the "truth" beyond one's subjectivity, in which subjectivity is seen as influenced by the values and contexts of those who see truth. Thus, the behavioural dispositions enacted through the mindful and concentrated learning methodology clearly are the topics of discussions associated with the Epistemological Performance Domain. In terms of methodology, the mindfulness development emphasizes on a Path of Learning that embraces all these three Domains, which means that learning is focused on the Ontological, Epistemological and Methodological Levels.

### **Conclusion and Further Recommendation**

In conclusion, the usefulness of the Noble Eightfold Path Factors (Wisdom, Sila, and Concentration Factors; or, Cognitive, Behavioural and Methodological Factors; or, Performance Ontology, Performance Epistemology, and Performance Methodology; or, World 1, World 2 and World 3 Knowledge) is

illustrated, demonstrating positive correlations to perceived organizational performance. A preliminary case research study confirms the practicality of the Buddhist Theory of Learning (Tan, 2009b) that is principally based upon the Noble Eightfold Path advocated in the Buddhist Cannons (Tan, 2009a; Tan et al. 2003). The framework is thus a feasible theoretic direction for further research, which involves measuring “mindfulness” maturity at the individual levels, and then to draw the understanding on the patterns of correlations between “mindfulness” and the rest of the causal or instrumental factors and the resultant realities, as shown in the proposed theoretical model, in Figure 1.

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# MARKET TREND OF ADVANCED PREVENTATIVE MEDICAL CARE

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## Abstract

The advanced preventative medical care business is an industry that includes incidental services such as sightseeing offers as well as a health care service. In this study, the market trend of advanced preventative medical care was investigated, and the possibility for medical institutions to enter the advanced preventative medical care business was inspected. In this study the problems were clarified and some policies for entry into this business were proposed. Though investigating the market trend of the advanced preventative medical care business was the main focus, this study also determined the needs of wealthy foreigners with regard to health care and incidental services. Based on the results, marketing strategies for potential future health care and incidental services were explored.

## 1. Introduction

The advanced preventative medical care business is an industry that includes incidental services such as sightseeing offers as well as a health care service. The health care service may include medical care (a medical examination and treatment of the illness) and preventative medical care (various kinds of profitable acts for the purpose of preventing illness).

In recent years, the environment surrounding medical institutions has changed greatly, and strategic management reform has become a pressing need in order for each medical institution to achieve stable medical care management as a corporation. The advanced preventative medical care business, which offers health care services such as medical checkups that include incidental service such as aesthetics or sightseeing, is available to the wealthy in the medical institutions of many foreign countries including Asian countries, and there has been a movement to acquire foreign currency. Governments in many countries are promoting health care services for the wealthy by promising industrial health care in the future.

The medical institutions of these countries believe that entry into the advanced preventative medical care business should be examined as a new profit acquisition strategy, thus advancing medical globalization.

In this study, the market trend of advanced preventative medical care is investigated, and the possibility for medical institutions to enter the advanced preventative medical care business is inspected; this study aims to clarify the problem and develop a policy for entry into this business. Though investigating the market trend of the advanced preventative medical care business was the main focus, this study also determined the needs of wealthy foreigners with regard to health care and incidental services. Based on the results, I aimed to understand health care and incidental services demands in Japan and explore potential future problems.

In this study, China was targeted for investigation. China is a promising target for advanced preventative medical care for wealthy foreigners. In addition, among tourists visiting Japan, the number of tourists from China is growing rapidly from year to year. Because China is nearby, the convenience of visiting Japan is high. In addition, many wealthy individuals are visiting because of interest in health care service as a result of recent economic growth.

## 2. Preventative medical care (a healthy promotion) in Japan

The Ministry of Health, Labor and Welfare is pushing forward with the third nation health action plan from 2000. This plan is intended to decrease topographic maturity death, extend the healthy life expectancy and improve the quality of life (QOL); concrete aims include improving nourishment and eating habits; increasing body activity and exercise; encouraging people to quit smoking and reduce alcohol intake; managing diabetes, cancer, cardiovascular disease, and the overall health of the heart; improving dental health; and improving the general health of the population. In addition, a "standard medical examination/health guidance program" was devised to encourage efficient enforcement of the specific

health guidelines and an identification medical examination/identification health guidance program began an identification medical examination program that paid particular attention to a metabolic syndrome as part of the 2008 reform of the medical system. Thus, the plan has moved from treatment to prevention.

Interest in health services has risen significantly, as has health tourism, which includes health services and sightseeing services such as a tour that included a PET-CT examination and lodging at a resort hotel. According to the Health Tourism Institute, the potential market scale of health tourism reaches 4 trillion yen, and the scale of all potential markets (including transportation expenses) reaches 6 trillion yen. There are many companies offering health services. For example, credit card issuers may offer their gold members telephone consultations, special treatment services, clinical surveys, medical care, and care consultation for incidental services. Life insurers may offer insured individuals iatric arrangement introduction services and a medical care inquiry service (24 hours correspondence).

### **3. Summary of the investigation**

A survey was performed regarding medical checkups, clinical surveys and the future needs of wealthy Chinese, who it is assumed will be future customers for the advanced prevention business.

(1) Questionnaire period:

From February 23 to February 28, 2009

(2) Survey procedure:

Questionnaire administered by telephone

(3) Object of investigation:

Chinese individuals 30 years and older who have traveled overseas by charter flight

A total of 42,300,000 people traveled abroad from China of 2008, representing 3.3% of the total population of China; these individuals are thought to be well-off)

(4) Sampling method:

Random sampling

(5) Total sample size:

410

(6) Number of survey respondents:

100

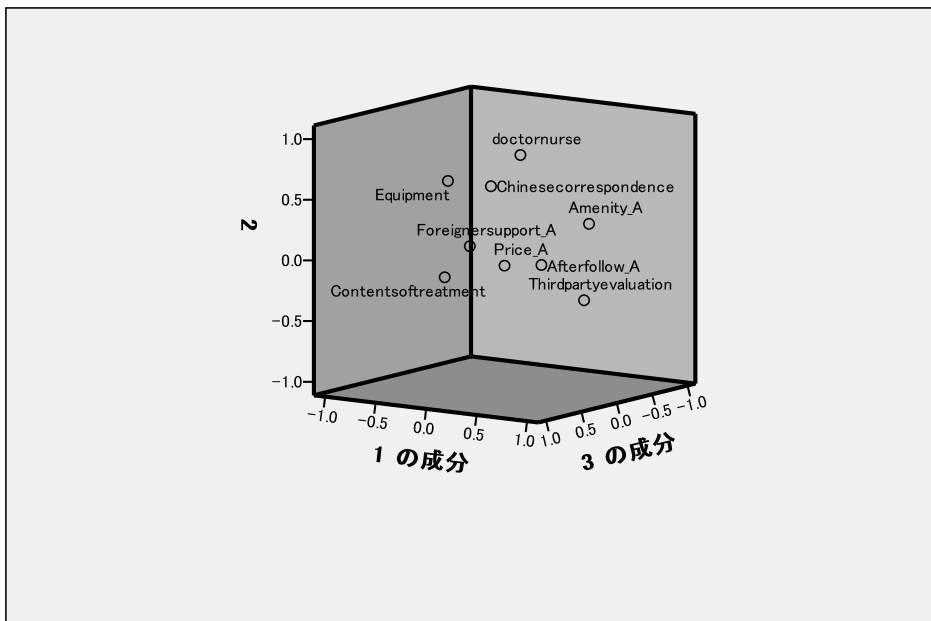
### **4. Quantitative analysis results**

Of the 100 people who responded to the survey, 37 expected to have a clinical checkup in future travel abroad. Of these 37, 16 chose Japan from among the U.S.A., Singapore, Thailand, Japan, and others when asked in what country they expected to have this checkup. All of the following analysis were done with the statistics software SPSS.

#### **4.1. Elements to focus on for those who planned to have a clinical survey consultation in a foreign country**

Principal component analysis was performed on the answers of the 37 people who planned to have a clinical checkup abroad. (Chart 1)

回転後の空間の成分プロット



1) First principal component: Outside evaluation

This element includes those factors that can be judged from the outside, such as third-person evaluations of the medical institution and amenities like the accommodations or the meals.

2) Second principal component: Medical quality

This refers to the qualitative side of medical care, including medical facilities, equipment and doctors and nurses.

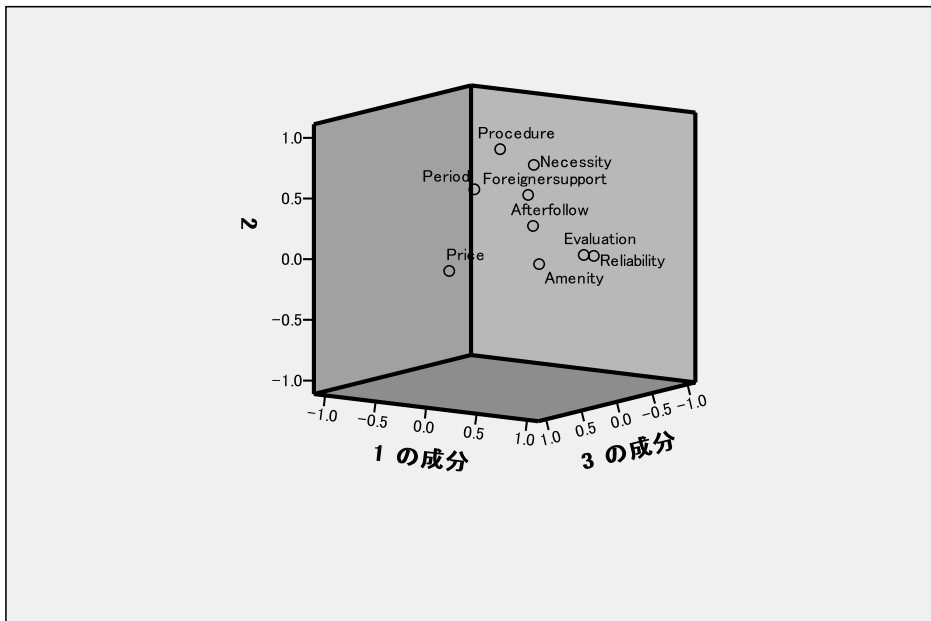
3) Third principal component: Foreign support

This component includes the support system of the tourist, including medical appointments, hotel reservations, clinical options, and therapy methods.

4.2. Elements to focus on for those who did not plan to have a clinical survey consultation in a foreign country

Principal component analysis was also performed for those 63 survey respondents who did not plan to have a clinical checkup abroad. (Chart 2)

### 回転後の空間の成分プロット



1) First principal component: Medical reliability

This item addresses the reliability of the health care service in question.

2) Second principal component: Complexity of the procedure

This component includes problems with the procedure (for example, making the appointment and/or lodging arrangements may present difficulties).

3) Third principal component: Cost-effectiveness

The third component is the cost of the services, which may be expensive. However, the contribution of this component was small in comparison with the other principal components.

4.3. Priority factors when deciding to have a clinical checkup abroad

A discriminate analysis was performed to examine the factors affecting preference whether Japan was chosen as the site of a clinical survey abroad. (Chart 3)

**(Chart 3) The result of  
discriminate analysis**

Third party evaluation	.245
Contents of treatment	-1.149
Equipment	1.037
doctor, nurse	.894
Language Support	-.580
Foreigner support	.560
Amenity	.852
Price	-.635
After follow	-.202
(invariable)	-.633

People who choose Japan tend to attach much importance to such factors as the well-developed facilities, including medical facilities and equipment, personnel including doctors and nurses, the support system (e.g., appointments and lodging), and amenities, such as accommodations or meals. People who do not choose Japan tend to attach much importance to such factors as the clinical options, therapeutic methods and other factors such as low prices and the ability to correspond in Chinese.

#### 4.4. Anxieties about consultation abroad

A discriminate analysis was also performed to examine anxiety about medical consultations in foreign countries and choosing a country for these consultations. (Chart 4)

**(Chart 4) The result of  
discriminate analysis**

Evaluation	1.778
Reliability	-.665
Foreigner support	-.154
Amenity	-.620
After follow	.714
Price	.224
Period	1.903
Procedure	-1.707
Nothing in particular.	1.143
(invariable)	-.966

People who choose Japan tend to focus on such factors as the validity of the visa, hospital and iatric evaluations, and follow-up.

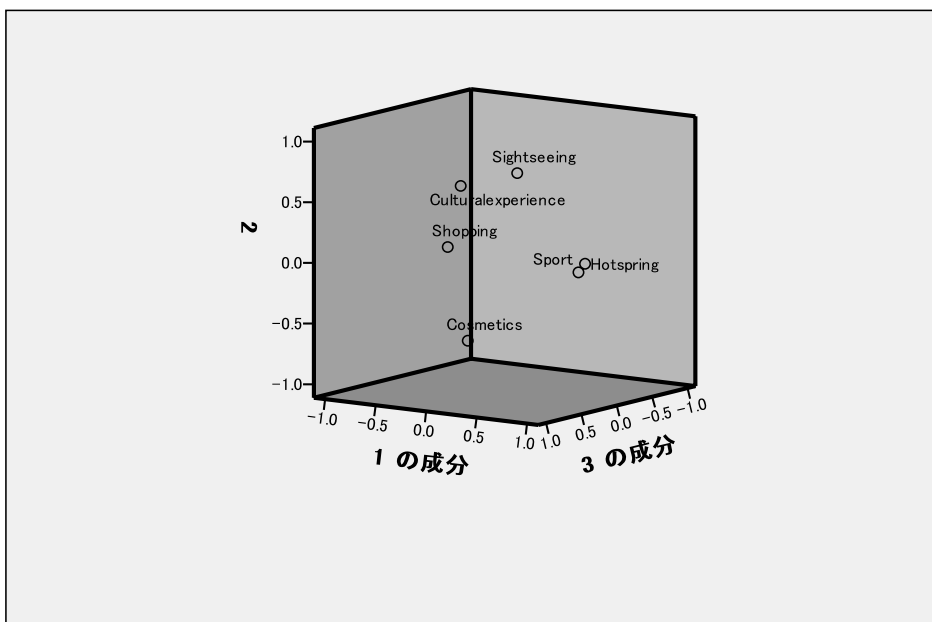


People who do not choose Japan tend to focus on such factors as the choice of procedures, the reliability of test results, and amenities, including accommodations and meals.

#### 4.5. Incidental services (except medical care)

Principal component analysis was performed for the services to be utilized if the individual visited Japan to receive medical care. (Chart 5)

回転後の空間の成分プロット



First principal component: Healthy intentions

The first component focuses on health-oriented services such as hot springs and sports (e.g., golfing, skiing).

Second principal component: Tourist experience

This component includes tourist-oriented services such as sightseeing (e.g., Mt. Fuji, Hakone, Kyoto) and Japanese cultural experiences (e.g., traditional cultural activities, anime).

## 5. Discussion

### 5.1. Service contents

In China assumed as an important customer in advanced preventative medical care business, there is not an equivalent idea to clinical survey in Japan at present. The enforcement of medical checkups is not yet common, but public consciousness regarding health is improving slowly. This presents a business opportunity. Wealthy Chinese are thought to be good potential customers because Japanese health care services are associated with high medical quality. If one thinks of sightseeing as associated with health care services, but not as part of a package, made-to-order sightseeing should be suitable. Because traveling abroad is common and wealthy Chinese are particularly likely to travel for business or medical purposes, and there is not much interest in package tours, personal services are thought to be easier to arrange. In

addition, from a medical point of view, additional services are also thought to be healing for patients and their families; incidental services (e.g., meals in a cafeteria, massages, and beauty treatments in a salon) are a good example.

#### 5.2. Price

Japanese health care should not be based on price competition, but rather on superiority in developing an advanced preventative medical care business. In other words, it should not be necessary to consider prices in the business model.

#### 5.3. Channel

There has not been a method for measuring recruitment to medical care services until now; in Japan, this will examine how customers are attracted to the medical institution in question. Referrals from other institutions serve as one channel for patients in Japan. Being referred by other institutions can help ensure that a patient receives the most suitable treatment and allows medical institutions to find patients with little effort.

As a matter of course, in health care services, a referral from another institution is considered a channel; however, there are few reasons for a Chinese medical institution to refer a patient to a Japanese institution. Incentives for a Chinese medical institution to encourage patients to go to a Japanese medical institution are necessary. If this can be resolved, Japan and China can present effective business opportunities for each other. This does not have to hold true only for health care services; for example, it is thought that there may be room for a tie-in with travel agencies.

#### 5.4. Promotion

Advertisement is needed to promote Japanese medical care in China, and it is necessary to utilize publicity effectively because advertisement is regulated in China.

The Chinese medical institution appeals the height of treatment rate and the technology with the interviews of magazines and newspapers now. There is a limit to what can be achieved by pulling in customers and advertising medical institutions. Therefore, it is necessary to develop health care services all over the country, like Singapore. If a government-led promotion can be realized in the health care service, the effects will be apparent in Japan.

#### 5.5. Acquisition of medical institution evaluations

Acquiring certification to prove that a medical institution sponsors the appropriate health care service is becoming necessary, and such certification must be based on international evaluation criteria. According to this questionnaire, the hospital and doctor's evaluation was concerned most about the medical checkup in foreign countries. Meeting a common global standard is necessary, and foreigner patients often choose a health care service based on global evaluations. Unfortunately there is no Japanese medical institution conducting JCI authorization at present, but globalization is an important goal that should be examined.

#### 5.6. Foreign reception of the medical scene

According to this survey of wealthy Chinese individuals, many people express concerns about language of correspondence when having a medical checkup in a foreign country. Because English is not an official language in Japan, an interpreter must be arranged for the foreign patient.

In addition, it is essential to educate medical workers about the culture or habits of the foreign country. It is sometimes necessary to talk with a doctor or nurse without an interpreter, but regulations have been established about the employment of foreign medical workers in Japan. Therefore, it seems that multidirectional measures are necessary to address this major issue.

#### 5.7. Differentiation from rival hospitals

When one thinks about medical care as a service, brand names become essential. The name of a corporate body or a doctor is regarded as the brand in case of the medical care, but it is necessary to build the reputation of brands that hospitals in other countries lack. However, differentiation from rival hospitals should not be a result of price competitiveness, as price competition might cause the quality of the service to drop and make it difficult for potential clients to pay. In Japan, differentiation should be based mainly on high medical quality.

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**BUSINESS AND TECHNOPRENEURSHIP DEVELOPMENT FOR ECONOMIC GROWTH:  
SUCCESS STORY OF UUM GRADUATES**

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**1. INTRODUCTION**

In recent years, entrepreneurship is given an increasingly greater emphasis in business and economic development by governments both in developed and developing economies. Countries like Japan, Thailand, Bangladesh and Malaysia, to a certain extent have achieved economic transformation by engaging their people in entrepreneurship through successful small, medium enterprise programs. Shaemi et. al (2008) cited that Schumpeter as early as 1934 had identified entrepreneurship as the engine of economic growth. They also quoted a study by Zahra and Schulte (1994) which pointed out that entrepreneurial ventures were widely promoted to stimulate economic growth in developing economies.

Although capital is a well-accepted fact in business as an important factor of production, it is critical that capital be efficiently mobilized by competent people to create optimum productivity. Hands-on experience and experiential learning could enable young or newly start-up entrepreneurs to manage their capital effectively and efficiently. However, managing it requires good human skills and any business also depend on good business acumen and managerial talents. Hence, capital has a wider interpretation to include not only capital funds but also human capital, public capital and more recently social capital (Shaemi et. al, 2008). Since the last decade, development of human capital as educated, knowledgeable and competent workers is one of the key economic objectives for Malaysia.

**2. ENTREPRENEURSHIP TALENT DEVELOPMENT**

**2.1 Government Role**

One of the most effective ways for individuals to develop high competency is through experiential learning or mastery experience (Sahada et al, 2004). In the aspect of entrepreneurship development, many programs and institutional developments have been put in place by the Malaysian government. Among others include the setting up of SME Bank, a commercial bank specially educated for providing financing and advisory services to entrepreneurs, SME Corp as an institution to provide facilities, and trainings. There are also other agencies such as Credit Guarantee Co-operations, whose main function is to assist Small and Medium scale Enterprises (SMEs) particularly those without collateral or with inadequate collateral to obtain credit facilities from financial institutions by providing guarantee cover on such facilities. MARA, an institution was set up to motivate, guide, train and assist bumiputeras (indigenous people of Malaysia) to participate actively and progressively in both commercial and industrial enterprises. It is also its objective to create a strong and viable business community (BCIC). TEKUN (Tabung Ekonomi Kumpulan Usahawan Niaga) is another government-based body under the Ministry of Agriculture to assist small companies. These agencies promote businesses among entrepreneurs and also instrumental in creating the entrepreneurship culture among the public and young graduates.

## 2.2 University Role

- ***The Ministry of Higher Education Malaysia***

The Ministry of Higher Education Malaysia is actively promoting entrepreneurship programs for universities. It has a 4 month special program with SMIDEC and SME premises for graduates who are interested in business and entrepreneurship. SMIDEC will provide 1 month training on the foundations of entrepreneurship and for the next 3 months, students will be placed on business sites (SMEs). Using consultancy approach, students are required to apply theory and entrepreneurial knowledge acquired at the universities to improve or strengthen SMEs in managing their businesses, promotions, branding and other related activities to make them profitable.

- ***Universities***

As for universities, there are many specially designed curriculums concentrating on entrepreneurship development. There are three local universities which are currently actively involved in creating and developing entrepreneurial talents among the graduates. These are Universiti Teknologi MARA (UITM), University Technology Malaysia and Universiti Utara Malaysia (UUM). These efforts form a significant contribution by academia fraternity towards fulfilling the Malaysian Vision 2020 of creating talented, knowledgeable human capital.

- ***Universiti Utara Malaysia (UUM)***

UUM is currently at the fore front in providing entrepreneurship development for graduates; with a strong concentration in business and information technology. Important aspects of entrepreneurial development cover theoretical knowledge, personality development and experiential learning. UUM has set up one institute dedicated for students' entrepreneurial activities to provide them with experience while academic programs are also provided. UUM has two colleges; *College of Business* and *College of Arts and Science* that are directly involved in entrepreneurship programs. To date, the programs at UUM /the university and college levels are:

- **At UUM/university level**

- Cooperative Entrepreneurship and Development Institute (CEDI)
- Program Siswaniaga (a graduate business program involving students operating their own businesses)
- Entrepreneurship Graduate Excellence : U – GRACE (Usahawan Graduan Cemerlang)

- **At College level**

- Bachelors Degree in Entrepreneurship (with honors) – offered by College of Business
- Master of Science Technopreneurship ( with Technoentrepreneur Incubator) - offered by College of Arts and Science.

## 3. UUM TECHNOPRENEURSHIP GRADUATE PROGRAM MODEL

### 3.1 UUM Master of Science Technopreneurship (MSc Technoentrepreneur)

#### (i) ***Background***

In response to rapid development in information technology and internet usage, UUM has embarked on techno-entrepreneurship program that blends business knowledge and IT applications since 2004. This program is Master of Science Technopreneurship. This 2-year Masters' program is equipped with an entrepreneurship incubator – the *first* of its kind in Malaysia. The primary aim of the MSc Entrepreneurship is to produce successful graduate IT technopreneurs (Sahadah et al, 2004). In order to ensure that the contents of the MSc program are very close to the market's needs, UUM has entered into a smart partnership with MARA ( a government agency on entrepreneurship) and firms in the industry. The involvement of the university, the industry and the government is the pave the way for a better industry-based, practical approach to students. Each partner is designated to execute the following role:

- UUM : to design the program content and execution of the program until the graduation of the students
- MARA : to provide initial seed capital and adequate funding for start-offs.
- Firms/industry : to provide real-live business environment for practical experience

**ii) Program Component**

The program has 4 components as illustrated in Sahada et al (2004):

**a) Self–Development and Competencies**

This component will be implemented through three phases of experiential learning emphasis:

- Technopreneur Development Training,
- IT Business Managements System,
- IT Business Strategic Planning and Management
- writing a viable potential Business Plan (BP).

The relationship between the first component and its emphasis is shown in Appendix 1

**b) University-Industry Linkage**

In this component, the emphasis is on IT project development, business management and commercialization skill, and business networking. This phase involves students going to the firms through internal and external internship programs. This university-industry linkage is illustrated in Appendix 2

**c) Knowledge and Skill on IT and Business**

This component involves “Teaching Factory and Mentoring” approach. Students will have formal classes and lab to gain knowledge and skills on business cultures and enterprise operations. There will also be seminars, workshops and related activities to stimulate communication and analytical skills. Subsequently, mentoring involve 3 mentors: IT expert, business expert and industry specialist. The relation between the component and its focuses is shown in Appendix 3.

**d) Continuous Support System**

This component focused on supportive action after the graduation and incubation process where the young entrepreneurs will continue to be supervised and monitored by UUM and the industry for five years after the incorporation of their business. A comprehensive technopreneur database will be developed for monitoring and evaluation purposes

**(iii) Program Structure**

The MSc Technopreneurship Program Structure has 3 Modules in which the following courses are taught.

**a) Business and Enterprise Development Module (40 credit hours)**

Accounting and Financial Planning  
Marketing Analysis and Strategy  
Writing Business Plan  
Intellectual Property

**b) Information Technology Module (40 credit hours)**

ICT Industry Analysis  
Advanced Application Development  
IT Project Management

- IT Services and Consultancy  
c) Personal Development Module (40 credit hours)

Entrepreneurship  
Business Communications  
Business Idea Innovation  
Effective Presentation

(source: UUM CAS -Program Brochure )

**(iv) Conditions for Graduation**

Students will graduate upon fulfilling the following conditions:

- Pass all modules
- Produce one product prototype/ or service and document as IT research thesis
- Produce one complete Business Plan
- To set up one company either as a sole proprietor or a partnership
- To secure grant or financing facility from approved financial bodies OR  
Successfully achieved Sales amounting to RM50,000 for the product as in (b).

**4. MSC TECHNOENTREPRENEURSHIP SUCCESS**

**4.1 Overall Achievement**

Up to this date, 26 graduates have become technopreneurs through this program, while 17 are in training at the UUM CAS Technopreneur Incubation centre. The 26 graduates have successfully fulfilled the graduation requirements and are now operating their own IT business and software solutions, Three (3) of the technopreneurs have achieved MSC status and the rest were owners of private limited companies and enterprises in ICT field. Table 1 shows the sales achieved by the respective techno entrepreneurs in two years during the participation in UUM MSc Technopreneurship Program. (For confidentiality purposes, the names of the techno entrepreneurs can be made available upon request).

Table 1: STUDENTS ACHIEVEMENT IN SALES

STUDENT NAME	TOTAL SALE (RM)	LOAN FROM MARA	ROI(x)
Student 1	4,315,000.00	42,920.00	100.5
Student 2	1,328,966.22	42,920.00	31.0
Student 3	433,000.00	42,920.00	10.1
Student 4	313,000.00	42,920.00	7.3
Student 5	313,000.00	42,920.00	7.3
Student 6	200,000.00	42,920.00	4.7
Student 7	200,000.00	42,920.00	4.7
Student 8	160,000.00	42,920.00	3.7
Student 9	156,712.00	42,920.00	3.7
Student 10	140,824.00	42,920.00	3.3

Student 11	123,000.00	42,920.00	2.9
Student 12	101,000.00	42,920.00	2.4
Student 13	101,000.00	42,920.00	2.4
Student 14	100,000.00	42,920.00	2.3
Student 15	201,004.00	42,920.00	4.7
Student 16	125,260.00	42,920.00	2.9
Student 17	302,361.00	42,920.00	7.0
Student 18	302,361.00	42,920.00	7.0
Student 19	201,004.00	42,920.00	4.7
Student 20	172,625.00	42,920.00	4.0
Student 21	202,150.00	42,920.00	4.7
Student 22	202,150.00	42,920.00	4.7
Student 23	320,259.82	42,920.00	7.5
Student 24	320,259.82	42,920.00	7.5
Student 25	156,733.30	42,920.00	3.7
Student 26	320,259.82	42,920.00	7.5
<b>AVERAGE</b>	<b>415,843.46</b>		<b>9.69</b>

(Source: Tecnoentrepreneurship Program 2009)

Based on the record, the highest sales achieved is RM4,315,000.00 and the lowest sales is RM100,000. Although it is the smallest amount of sales, the figure nonetheless is greater than the minimum RM 50,000 set as benchmark for graduation purposes. On average, these group of technoentrepreneur earned sales value of RM415,843.46. In Table 1, we also include the total financing given by MARA to each student for the 2-year program. This amount totalled to RM42, 920 consists of RM 24,929 tuition fees and RM 18,000 for student's allowance. If one considers the loan provided by MARA as the amount of capital invested to turn one graduate into a techno entrepreneur, thus, the average return on investment is 9.69 times over the invested capital. The first top three returns on investment speaks of great success of the particular students, namely Mohd Azhar Abd Wahab and Hishammuddin Mohd Amin.

#### 4.2 *Analysis on Breakdown of Achieved Sales.*

Figure 1: Breakdown of Achieved.Sales.



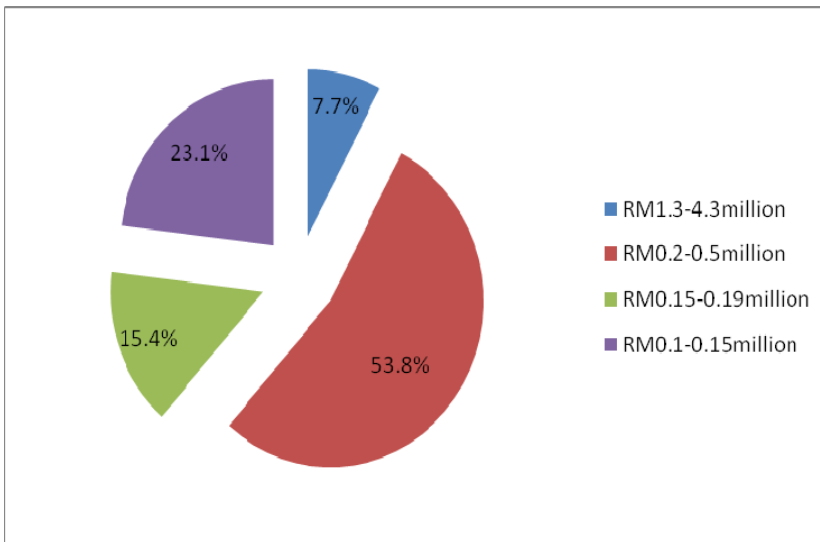


Figure 1 further analyses the sales achieved by the new start-up businesses of the 26 techno-entrepreneur graduated from the MSc Technoentrepreneurship program. About 53.8% or 14 of the techno entrepreneur achieved sales in the range between RM200, 000 to RM500,000. 23.1% or 6 people recorded sales between RM 100,000 to RM150,000 per year.

## 5. CONCLUSION

According to Mohammad Ariff and Abu Bakar (2005), the development of entrepreneurship, as both concept and activity, has been growing in importance in Malaysia. The government has identified entrepreneurship as one of the catalysts for economic growth as evidenced by the amount and variety of supporting mechanisms and policies that exist for entrepreneurs, including funding, physical infrastructure and business advisory services. Even, in the Malaysian 2010 Budget, the government has announced to allocate RM82 million to modernise aquaculture industry and conduct entrepreneurship training scheme for aquaculture breeders. The Malaysian economy itself is forecasted to grow by 2-3 percent in 2010 with per capita income to increase by 2.5% to RM24, 661.00. The way forward appears towards high-technology application as well, with further growth anticipated to be in the capital market sector. With such optimistic economic and business growth, entrepreneurship should continue to play a significant role in the growth of business and economic development.

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Appendix 1

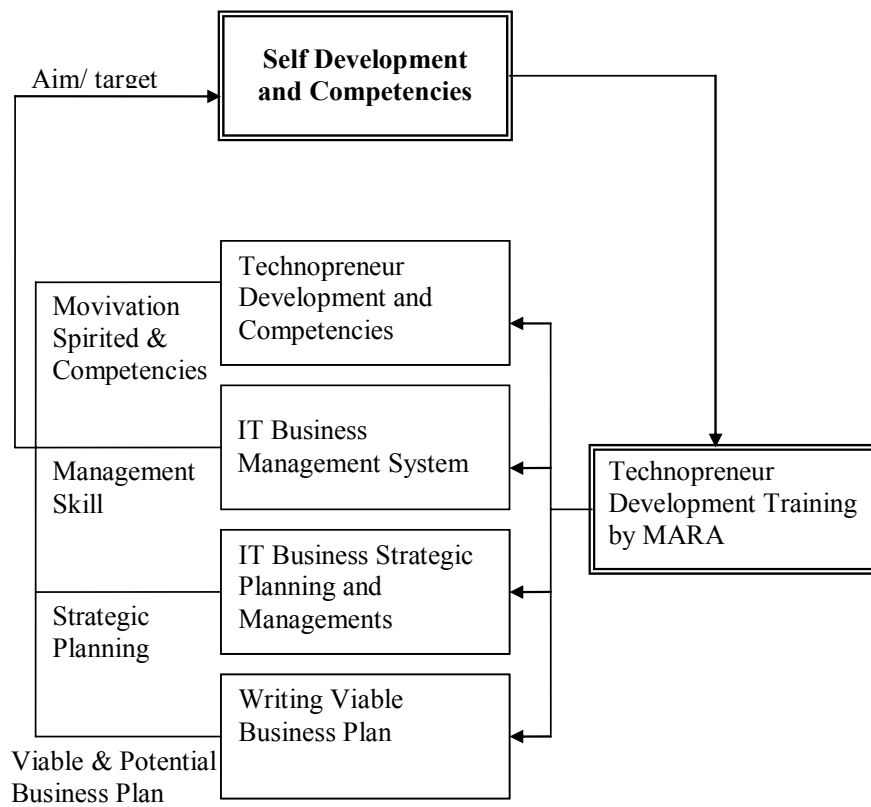
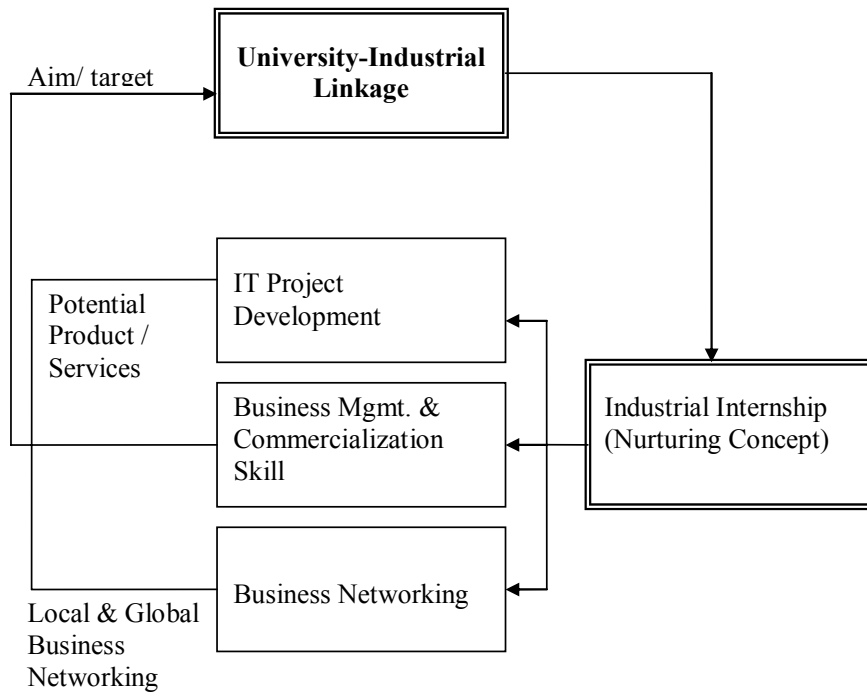
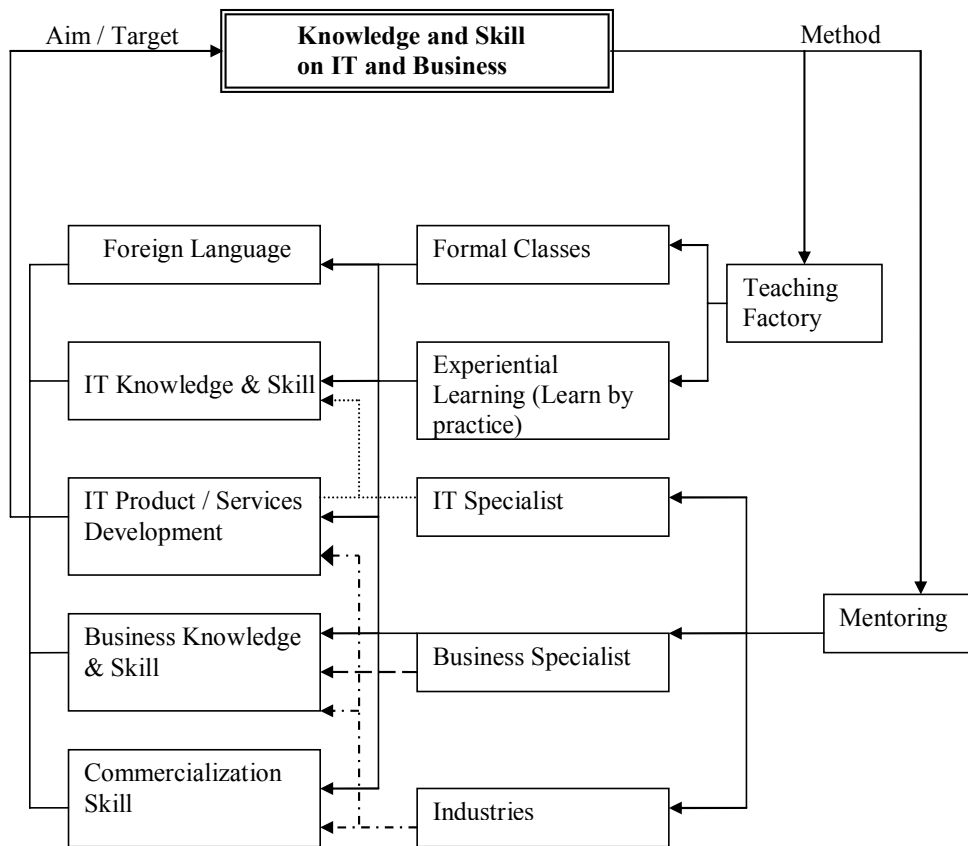


Figure 2: Self Development & Competencies component and the emphasis.

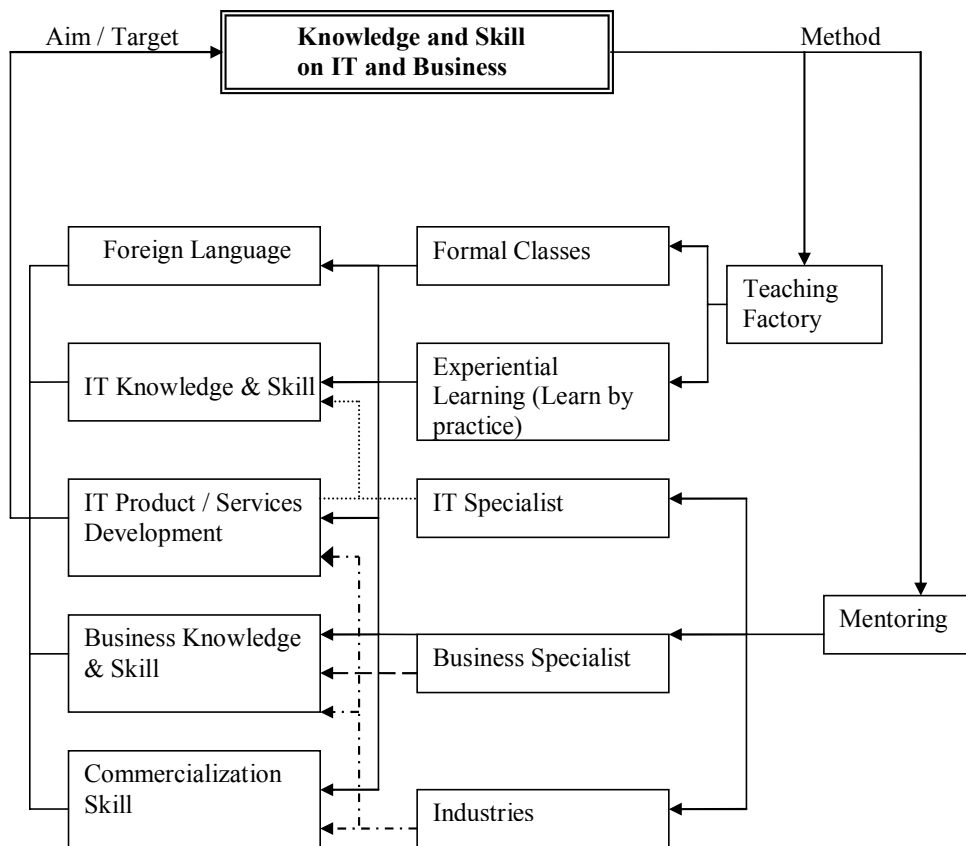
Appendix 2



**Figure3: University-Industry Linkage and the emphasis.**



**Figure 4: The relation between Knowledge and Skill component and the focuses**



**Figure 4: The relation between Knowledge and Skill component and the focuses**

## CHANNEL OF MONETARY TRANSMISSION: EVIDENCE FROM MALAYSIA

Sabri Nayan \*  
Abdul Razak Chik \*\*

### **Abstract:**

*There are various channels through which monetary policy actions of the Central Bank is transmitted to the economy. An important channel of monetary transmission is the relation between the overnight policy rate (OPR) and base lending rate (BLR). In this paper, the relation between OPR and BLR are empirically examined. Relationship between OPR and BLR are analyzed by employing the vector error correction modeling and cointegration techniques. The findings reveal a cointegration relation and unidirectional causality from OPR to the BLR that supports the horizontalist view of the money supply endogeneity.*

**Key words:** cointegration, overnight policy rate, base lending rate, monetary policy.

### **Introduction**

Basically, there are two types of policies that can be utilized by a government in managing its national economy: fiscal and monetary policies. While fiscal policy refers to government attempts to influence the direction of the economy through changes in its revenues and expenditures, monetary policy concerns with the central bank policy in managing the supply of money in the economy. More precisely, monetary policy rests upon the relationship between interest rate and the supply of money in the economy. Since interest rate is the opportunity cost of holding money, it can serve as an effective and direct instrument for the central bank to monitor (and manage) the supply of credit in the economy.

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## Methodology

According to Mishkin (1997), interest rate, money stock and nominal income are among various channels of monetary policy transmission - the process through which monetary policy affects the economy. Atesoglu (2003:357) has provided evidence of a positive cointegration relation representing “a pass-through from the federal funds rate to the prime rate”. His study on US data concluded two interesting findings:

- (i) A two - way causality (bidirectional) relationship between the federal funds rate and the prime rate, based on the first sample period of (1987-1994).
- (ii) An unidirectional causality based on more recent sample period of (1994-2002). The causality runs from federal funds to the prime rate.<sup>1</sup>

Interestingly, these findings are supportive of the interest rate channel of monetary transmission, hence inline with the monetary transmission process emphasized by Post Keynesian Economics.

The next question would be - if this is true for the US data, is it also applicable for the Malaysian case? In order to address this issue, the present paper will try to detect the presence of causal correlation between overnight policy rate (OPR) and base lending rate (BLR).

The relationship between OPR and BLR is to be analyzed by employing the **cointegration** and **vector error correction** modeling techniques of Johansen, using the following equations:

$$BLR = f(OPR) \quad (1)$$

$$BLR = \beta_0 + \beta_1 OPR + \mu \quad (2)$$

$$\Delta BLR = \beta_0 + \sum_{i=0}^n \beta_1 \Delta BLR_{t-i} + \sum_{i=0}^n \beta_2 \Delta OPR_{t-i} + \beta_3 EC_{t-1} + \varepsilon_t \quad (3)$$

The presence of a long run relationship between the dependent and explanatory variables would suggest the existence of a cointegrating regression between them. More specifically, cointegrating regression attempts to fit a long run relationship among those variables which have the same order of integration.

The residuals from the cointegrating regression can be represented as *error correction term* ( $EC_{t-1}$ ) to explain the short run dynamics in *Vector Error Correction Model (VAR)*. Data analysis based on error correction modeling techniques of the dynamically stable adjustment process implied by the cointegration relation, can reveal the direction of causality between these variables.<sup>1</sup>

Any change in OPR initiated by the central bank will be transmitted to the commercial bank through the BLR. This seems to suggest that interest rate is an exogenous variable. Perhaps based on this premise, Atesoglu (2003) utilized the concept of interest rate channel of monetary transmission to prove the endogeneity of money supply in the US.

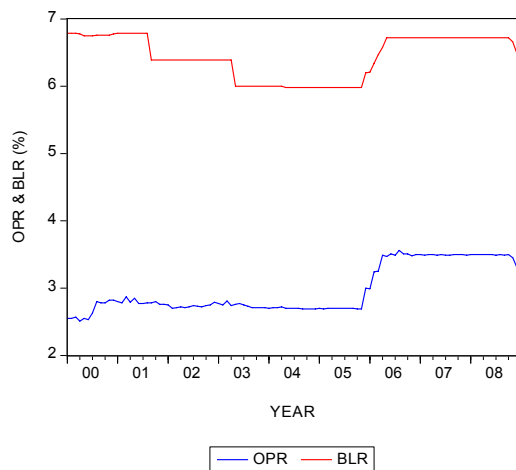
Following this (see also Vera, 2001), we used the Malaysian data to examine the tendency of OPR to influence the behavior of BLR.

## The Results

The general picture of how the Malaysian BLR behaves in relation to the OPR (for a period of 2000 – 2008: 108 months) is charted in figure 1. It was noted that generally, both rates tended to move together. This observed that the OPR and BLR may be cointegrated, and there may be an empirical equilibrium relation between both variables. In addition, analysis with error-correction modeling techniques of the

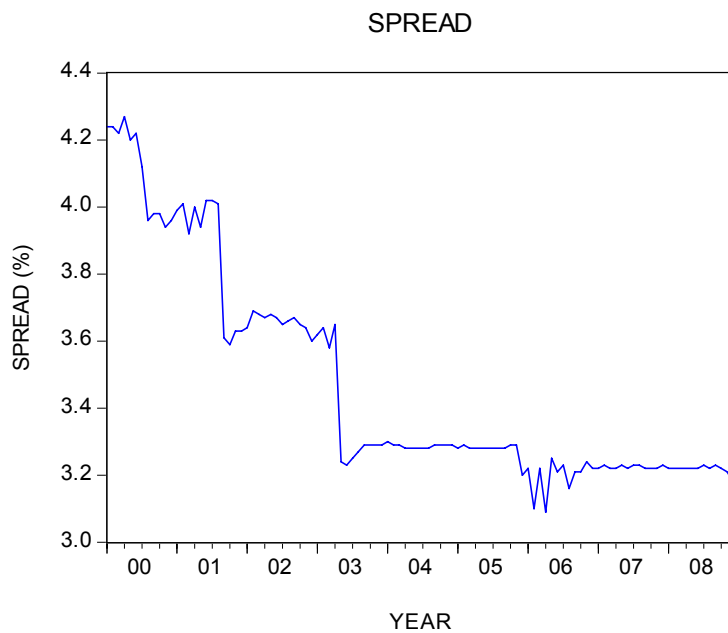
dynamically stable adjustment process, implied by the cointegration relation, can reveal the direction of causality between these variables.

**Figure 1: OPR & BLR**



The relative behavior and relationship between OPR and BLR are further examined based on chart of their spread.

**Figure 2**  
**Spread between OPR & BLR (2000-08)**





The behavior and magnitude of spread (through time) between OPR and BLR are shown in figure 2. Basically, there has been downward shift in the markup of BLR over OPR during the later period, indicating that the commercial banks in general have reduces the interest rate spread to make their banking business more competitive.

After visually examining the behavior and relationship between interbank rate and BLR, the data are further analysed by employing cointegration tests. Tables 1a and 1b provide the results of cointegration test of the interbank rate and BLR. Both tables indicated that the OPR and BLR are significantly cointegrated (as proven by both Trace statistic and Max-Eigen statistic).<sup>1</sup>

**Table 1a**  
**Cointegration of OPR and BLR (Trace Statistic)**

Hypothesized No. of CE(s)	Trace Statistic	0.05 Critical Value	Prob.**
None*	18.0795	15.4947	0.0199
At most 1	2.1551	3.8414	0.1421
Notes: Trace test indicates 1 cointegrating equation (s) at the 0.05 level * denotes rejection of the hypothesis at 0.05 level ** MacKinnon-Haug-Michelis (1999) p-values			

**Table 1b**  
**Cointegration of OPR and BLR (Maximum Eigenvalue Statistic)**

Hypothesized No. of CE(s)	Max-Eigen Statistic	0.05 Critical value	Prob.**
None*	15.9244	14.2646	0.0000
At most 1*	2.1551	3.8414	0.0000
Notes: Max-Eigenvalue test indicates 1 cointegrating equation(s) at the 0.05 level * denotes rejection of the hypothesis at the 0.05 level ** MacKinnon-Haug-Michelis (1999) p-value			

Empirical results obtained by employing Johansen cointegration and Vector error correction modeling techniques are presented in Table 1c.

<sup>1</sup> *Augmented Dickey-Fuller and Phillips-Perron (PP)* tests indicate that the OPR and BLR can be assumed to have a *unit root*. These results indicate that all variables of interest in this study are integrated of order one, *I*(1).

**Table 1c**  
**OPR and BLR (OLS and Johansen estimates)**

Sample period	Intercept	OPR	R <sup>2</sup>	Error Correction Term
OLS 2000:1- 2008:12	4.3582	0.6587 (52.1845)	0.9585	
Johansen		0.6696		

2000:1- 2008:12	4.3166	(21.9471)		
$\Delta OPR$				-0.0169 (-0.1632)
$\Delta BLR$				-0.2513 (-3.4443)
Notes: OPR is the overnight policy rate (right-hand side variable) and BLR is the base lending rate (left hand side variable). Values in parentheses are <i>t</i> -statistics. The Johansen cointegration tests assume no linear deterministic trend, lag interval (in first differences): 1 to 1. The trace tests indicate one cointegration equation at the 5 percent level.				

In addition to the Johansen test, the ordinary least squares (OLS) estimation is also shown in Table 1c, for the purpose of comparison. These findings are briefly interpreted in the following points:

- (i) a positive and significant cointegration between OPR and BLR. The value of cointegration coefficient is 0.6696, indicating that more than half **pass-through** from the OPR to the BLR<sup>1</sup>.
- (ii) column 5 (Table 1c) noted the error correction term as a significant determinant of the change in BLR (i.e.  $\Delta BLR = -3.4443$ ), rather than change in the OPR (i.e.  $\Delta OPR = -0.1632$ ). These results indicated that while the BLR adjusts in maintaining the cointegration relation, the OPR does not. This implies the presence of unidirectional causality that runs from the OPR to the BLR during the analysed periods.
- (iii) The estimated error correction term for  $\Delta BLR$  indicates that about 25 percent of the adjustment in the BLR is completed within one month after the change in the OPR. [compared to about 77% of the adjustment in prime rate was completed within one month after the change in federal fund rate in the US - see Atesoglu, 2003].

<sup>1</sup> In the US, a study by Atesoglu (2003) has found that the cointegration coefficient between federal funds rate and prime rate is 0.8. This value indicate that a less than complete pass-through from the federal fund to the prime rate.

<sup>2</sup> This relatively higher percentage of adjustment might be explained by the fact that the monetary system of the US is more efficient than that of the Malaysian.

### Conclusion

Our evidences revealed a positive cointegration relation representing a pass-through from the OPR to BLR. These are supportive of the interest rate channel of monetary transmission process as emphasized by Post Keynesian<sup>1</sup> approach. Hence, causality runs from the OPR to the BLR supported the view of Post Keynesians and the *horizontalist endogeneity* approach to determination of the money supply.

Monetary policy actions engineered through the OPR are now rapidly transmitted to the BLR, which in turn forms the basis of other interest rates charged by banks. Thus, changes in the OPR and BLR in recent years have increased the effectiveness of our monetary policy.<sup>1</sup>

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<sup>3</sup> See for example, Moore (1988), Palley (1991), and Vera (2001).

<sup>4</sup> See Vera (2001) and Atesoglu (2003).

## **WRITING WORLD CLASS BUSINESS CASES BUSINESS CASE DEVELOPMENT**

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### **ABSTRACT**

Business cases to be used for training purposes will be of world class, if they meet the acceptable standards as stipulated by the majority of the case writers associations. Once the data and information obtained for case writing is reliable and validated, then the 'world class' label is determined if through the use of the case, the trainees are able to acquire the knowledge that the case is intended to. Thus the writer of the case must first be knowledgeable about the subject matter so that the content of the case covers all the components that need to be acquired, and the way the case contents are written meets most of the criteria of a good case. A good case meets the objectives, well written, a meaningful and value added journey. An athlete who runs the 400 metres in 45 seconds in Bukit Gambir Muar, Johore is of world class. But if he wants to run in the Olympics for world recognition then he has to compete during the Olympic with all the necessary support that is expected such as the sports attire, finance, and national backings. So is a world class business case.

### **1. INTRODUCTION:**

This paper is not meant for the veteran case writers but more for the young and upcoming individuals who have joined the academic world hopefully not by chance, or overwhelming persuasion from the elders or colleagues or because of there is no other alternatives career but because it is a preferred choice. However, once in, he realised that an academic is not just teaching but his key performance indicators also included publication preferably in refereed international journals.

*Case writing in Malaysia is not new but not popular either. Prolific academic writers would prefer to write research based articles for publication consideration in journals. Writing cases has long been considered as second rate, easier and not much value for academic promotion and advancement. It was considered as an outcome of a consultancy project and the author are already rewarded from it; financially and recognition.*

In Malaysia, the Economic Development Institute of the World Bank (1982) and probably Conrad Adeneur Foundation of Germany (1984) were the pioneers in introducing case writing courses/workshops in Malaysia. Conrad Adeneur financed several case writing workshops through the Malaysian Institute of Management (MIM), and the trained personnel then met and form the Case Writers' Association of Malaysia in 1986. Even with the establishment of CWAM, case writing activities have not been growing as the recognition given by the academic institutions was disheartening.

It was only in the early 2000 when case writing in Malaysia slowly picked up. Some universities started recognising the value of well written cases as students demand the use of more local cases. Western text books also started to incorporate Asian cases and the number of case writers (trained or self learnt) slowly began to be visible.

## WRITING A CASE IS NOT LIKE WRITING A RESEARCH ARTICLE.

Many prolific writers who target the academic journals realised that writing a case is worlds apart from what they have been used to. Even consultants who write final reports for the clients at the end of an advisory engagement find it quite challenging in converting the report into an acceptable case. Thus writing a case is totally a new ball game and even a prolific academic research writer need to undergo specific training to be able to write a good case.

For those who are new in this business of case writing, a quick explanation might be necessary. There are several types of cases. Medical, legal, and even police cases are all written as a report. They qualify to be a case as they are specific to a particular situation, or an individual, a department and even an organisation. The latter would be true for consultancy report but the moment they are targeted to be used for training purpose then the whole document need to be relooked and most likely need to be revamped. Writing a case to be used for management training (which is the focus of this paper) require some additional considerations. The available documents can be treated as one of the source of data for further work to be added. Thus the process of writing a case is the first part of this paper.

*The second part will focus on how to write it and to be categorised as a world class.*

## 2. WRITING A CASE FOR TRAINING

Within this short space and given time, the paper will only able to skim through the various recommended steps whose sequence can be different and need not be in the order as stated. But the two more important ingredients in writing a case are the following:

- a. **Knowledge on the content:** the focus area to be written and which is the subject matter that the case is written for, and
- b. **Knowledge on the guidelines** in case writing: this is necessary in writing a good case.

### 2.1 Knowledge on the content

Since the case writing exercise that we are concern is for training purpose, then it must be focussed on a specific area. The writer must therefore be the one who is knowledgeable on this area of training in which the case will be focussed on. With the knowledge, then he will be able to fulfil the following preparatory work necessary at the early part of case writing.

- a. purpose
- b. principles to be trained
- c. analytical tools to be used
- d. target audience and potential users
- e. level of difficulty
- f. levels of ambiguity
- g. able to access such invaluable data from a reputable source (own or external company) where the research need to be done. (The problems that is related to this accessibility are not discussed here)

### 2.2 Knowledge on the guidelines in case writing

In addition to the knowledge on the content aspect of the case, the other ingredient is the skills required in writing a case. There are certain guidelines that need to be considered and in some situations followed strictly. As mentioned, writing a case for training purposes (and submitted to a case journal or an author of a text book, or even to a case clearing house) is quite different than writing a research paper for a journal. The latter would normally has the following format as in introduction, research objectives and the hypotheses, literature review, methodology, data and analysis, findings and conclusion. As for case writing, it also has certain norms and guidelines and is discussed as follows:-

- a. The case boundary: By definition a case has a boundary where the decision to be made on the problem or issue identified and analysed need to be confined to a specific boundary as in a person, department, a group of clearly defined personnel or organisation

component, a company and even a country. So all issues and problems that need to be solved must be within this boundary.

- b. The structure of the case: while the overall structural layout is probably similar with the introduction, body and conclusion, but it does not have literature review, methodology, data analysis and conclusion as laid out in a research journal article. As mentioned that our interest is on case writing as a training material, then the case contents stops at the stating of the problems and issues to be handled. Data analysis and suggested solution are not shared to the readers. Its introduction and conclusion are unique and is deliberated next.

- c. The prologue (beginning) and the epilogue (ending) paragraphs and the, critical incident: the trend of the opening and closing paragraphs has migrated towards writing them in a dramatised form hoping to excite the readers/trainees. The opening paragraph (prologue) brings the trainees face to face to the problem that is being experienced by the relevant personnel.

The ending paragraph (epilogue) also recalls the various story line and episodes in the case and ended up with a decision to be made.

The critical incident provides the scenario for certain characters in the case to be involved in the decision making process, and someone has been identified to be responsible for the decision and to be done within a short time so as to make the incident critical.

- d. The characters in the case (clear roles, relevant only?): all characters mentioned in the case must be appropriately introduced, their designation and role clear and irrelevant characters removed to reduce the complication if required.
- e. Language used: there is no substitute for correct usage of the English language. Jargons and local dialects or localised English should be minimised and not only to be used appropriately but also need to be explained of its true, meaning.

All cases must be written in the past tense. This is significant as the moment the case is written, it is history. The use of present tense however is acceptable if it is in a dialogue form or first order speech.

- f. Solvable: all cases must be solvable from the writer's perspective. The solution however is kept with the author and be made available only in the instructor's/user's guide or when requested (especially if it is already published and requested by the trainer). To meet these criteria, then all data necessary for analysis and overcoming the problem must be made available in the case. A good case will have different trainees using the document and able to solve the problems identified and the alternative solutions are within that expected by the author. There should not be one perfect solution as in a problem solving exercise.
- g. Write as if you are a reporter: This is to avoid any opinion or bias statement portraying the view of the writer. A statement such as "the personnel manager was one of the most respected in the senior management team" is an opinion statement. "Most respected" is an opinion of the writer and is not allowed. If it is true, then who was the one that gave you this opinion? Then write "according to one of the senior manager, the personnel manager is one of the most .....". Written in this way, it removes the opinion tag of the write-up. Other commonly used terms would include "from the annual report, it was stated that.....", "in the presidents annual address, he reconfirmed that our corporation has been identified as .....", and many more.

- h. All cases must have an "instructor's guide": It is the objective of the writer that when he published a case, he would like it to be used by other trainers. This can be enhanced as any potential user would be comfortable with a case that has an instructor's guide. He will then be able to confidently use the case and adjust were necessary to suit his constraints. A standard Instructor's Guide will have sections on: the objectives of the case and the principle learning outcome to be achieved, case summary, suggested questions to be given to the trainees, suggestion as to the way the case can be conducted (estimated time to read and understand, group or individual work, role play etc.) summary of

problems to be identified and solved, the analysis and suggested alternative solutions and perhaps the actual outcome of the case after it was written.

- i. Others: There are others but the main ones have been listed and briefly discussed. These include:
  - a. Realism
  - b. Correct chronology of events
  - c. Make it interesting,
  - d. No difficult language terminology
  - e. Others

### 3. WRITING A WORLD CLASS CASE

Having written a good case and tested and proven to be effective i.e. achieved what the case is supposed to have achieved, then is the case world class. World class in this paper is defined into two aspects. First is its quality and second is its universal attractiveness.

3.1: **world class quality case**: this is quite straight forward as a quality case would have met most of the criteria mentioned above. It would have been popular as many trainers would have selected it because of its effectiveness in meeting the training objectives. This is itself is a world class criteria.

3.2: **universal attractiveness**: national level case to be accepted for use internationally requires a few additional criteria to be met. If it is a case written to solve a functional issues (marketing, financial, operational, managerial) or an operational issue (quality, logistics, delay, staff conflict, absenteeism, packaging, price war, credit period etc.) then perhaps it can be used directly anywhere in the world as the principles to be used are generic in nature. Perhaps what need to be defined are the local scenarios, the terminologies used might mean different in the local context, and local dialects might need to be rewritten, removed or explained.

But if the principles to be used are intervened by national values and environment, then for it to be accepted to be used universally require that the national values and environment be defined and explained. The selected case must also add value to the knowledge of the trainees because of its uniqueness to the country and which is part of the learning objective of the training. A strategic case will have to have some universal applicability, as in the case of being a multinational company, in the top 100 listed in the country, or the issues could be applicable and of interest in other countries as well. Here more information needs to be added, which might not be familiar to the overseas trainees.

To illustrate.

- a. Even the country need to be introduced. Example Malaysia being located in South East Asia, surrounded by Thailand, Indonesia and Singapore being located right at the centre. Internationally, many would know about Singapore but perhaps not as many, about Malaysia. The PETRONAS Twin Towers, F1 race at Sepang, Le Langkawi cycling, and badminton in TV Sports Channel, and “Malaysia truly Asia” tag line in its tourism promotion however had successfully promoted the country indirectly. I still remembered my first conversational encounter with a westerner after airport clearance, at Madison, Wisconsin in 1974; “Is Malaysia near Japan?” That was in 1974 and I did not blame them for that.
- b. If it is about local crops then rubber and oil palm need to be described. Not every trainee knows how the trees look like. The products need to be compared with internationally known competitor like maize and soya bean oil (for palm oil) and that rubber is the main ingredient for vehicle tyres.
- c. If it is about PROTON, Malaysia’s prime car manufacturer/assembler then a short history might be useful.
- d. If it is about Sime Darby then description of a plantation might be necessary.
- e. Perhaps a case on MAS or Air Asia might be easier as they have enough international publicity but yet a background of the company profile is required for not all trainees are aware of the company.

- f. A case about Kuala Lumpur International Airport (KLIA) would attract international audience if it is compared to the other airports in the neighbouring countries. A map of South East Asia will also be relevant.
- g. A special product of the country also requires additional explanation. Example would be the pewter industry where it is internationally marketed but the product is unique only to tin-producing countries. Many would not know what pewter is and therefore a short explanation might be necessary. Of course trainees could be asked to find what pewter is all about and as part of self development!

Thus writing world class business case is not that difficult if extra effort is put in to handle the “internationalisation” issues mentioned. With globalisation, and the economic growth shifting to the Asian continent, perhaps more are seeking for non-American and European cases. What an opportunity!

#### 4. CONCLUSION.

A case can be world class if it meets the following two general requirements.

- a. It meets the objectives set by the writer.

If the case writer’s objective is to impart knowledge on the trainees and at the end of the exercise, they are able to appreciate and acquire the knowledge then the case is superb and successful. It can be written in a local environment but is still world class because any instructor will be able to meet the objective set and can be used in anywhere at different venues and time. It does not have a national limitation because the fundamental knowledge is generic or universal. The case can be short (case-lets) or comprehensive and a major world class criterion is that it meets the objective successfully.

To illustrate: a simple case to impart knowledge on the styles of leadership and its situational nature (Blanchard’s). If the case is able to illustrate the basic four leadership styles (tell, sell, participate and delegate) and the situation where they are appropriately used or otherwise and the trainees got it from the discussion on the case. If they manage to acquire the knowledge on different leadership styles effectiveness in different situation (maturity and job difficulty interplay) then the case has met its objective and therefore have reach a certain standard that is of world class.

- b. It can be used anywhere in the world successfully.

This benchmark is more demanding and the case is influenced a lot by the local scenarios and environment. Here the local scenarios need to be explained and defined as it might not be understood outside the national boundaries. Example was the term on “pewter, palm oil”. If the boundary of the case plays a significant role in the analysis then even the country need to be described, the culture differences clarified, the corporate background made available. Unless the case discussed is about an international iconic company such as “Kentucky Fried Chicken, Pepsi, Samsung, Toyota and Nestle” to name a few, then a detail explanation of the company might not be necessary even if it is “KFC in Shanghai”. But however, if it does not meet the previous mentioned criterion, a world class icon need not be a world class case.

### ATTACHMENT 1: INITIAL UNEDITED PROLOGUE (MBA STUDENT CASE WRITING)

#### 1.0 PROLOGUE

It was early July. Vidjaya came back from work, feeling distressed and angry. How could Gerwin, the managing director cum the founder of the company treat her such a way? She thought. It was totally unjust and obviously it was favoritism, which few of her colleagues also agreed. Everything she worked for had gone to the so called blue eye girl of the company, Gaik, who handles the North Central territory. How could Gerwin be so blinded to again give productive accounts to her? She did not have the capability to grow the accounts given. For all the accounts that were passed to her in the past years were either stayed the same or never had second order. It must be favoritism that these juicy accounts again passed to her. From the start, the restructuring of sales territory are not being fair at all. The more Vidjaya thought about this issue, the more devastated she felt towards her rival team member, Gaik.

An email (Appendix 1) was sent to Gerwin about an hour ago, demanding for compensation which Vidjaya believed she was entitled to. Gerwin had reacted quite immediately upon her email, showing great dismay. Furthermore, he had forwarded her email to the other two team members, which seem like he tried to



embarrassed her. What a childish act as a managing director, she thought. Vidjaya was now worried that Gerwin might dismissed her for not being obedient in taking the decision of him in the territory division. At the same time, she was anxious to know whether Gerwin would agree in giving the compensation which she demanded for.

Vidjaya knew her value to the company. Without her, the sales of this product would not have shown so much growth for the past 2 years. Gerwin needed to come out with a solution which is attractive to meet each team mate. Other wise, without team spirit and cooperation, the sales of this product will surely decrease dramatically. It would be quite impossible to reach the new target of 1.8 million for year 2008 that was set by the principle. She had lost confidence with the company's reward system and felt totally demotivated to strive for the target set. Although Gerwin had promised that she will get some compensation through next year profit sharing, but that was too far away. Profit sharing will only be given in April, which will be another nine months.

## **ATTACHMENT 2: PROLOGUE EDITED (FIRST ROUND)**

### **1.0 PROLOGUE**

It was not a smooth week at all for Gerwin, the Managing Director of Humedical (M) Sdn, Bhd. During the meeting with International Marketing Director of Baxter in early May 2007, she had given Humedical a sales target of 1.8 million for the year 2007/2008 (financial year ends at 30 June). So far, she was quite satisfied with Humedical's performance but thought it could be better. However, she hinted that Baxter has set up a branch office in Kuala Lumpur, and might take back the distributorship should Humedical unable to deliver the targeted result.

With pressure from Baxter, Gerwin must come out with a few effective and workable marketing strategies to meet the demand of the supplier. Baxter products have shown great potential to become one of the significant contributor for Humedical. With the revenue it generated and the impressive growth rate it showed for the past two years, it will be too valuable to lose the distributorship.

In an effort to increase sales of Baxter product, he had decided to get another product specialist, Jane to boost the sales. However, this would means restructuring sales territory that was set in 2005. The sales teams were divided according to product then. Gerwin had few different product teams which covers the same territory. By restructuring the current territory would mean quite a major exercise.

"Maybe it is time again to restructure the sales territory for Humedical Malaysia. A more organized and uniform territory division for all the teams will be of beneficial to the company's overall operation and not only for the Baxter team." Gerwin thought.

With that thought, he started to restructure the territory, and a new list was released three days ago. He knew this would not be easy as he could foresee that some of the existing product specialists would not be happy with the changes proposed, especially the Baxter team. He did not have many problems with the other product teams.

Sure enough, today he received an email (Appendix 1) from one of the product specialists of Baxter team, Vidjaya. He was very upset after reading the email. How could she accuse him of favouritism toward her team mate, another product specialist of Baxter, Gaik? He must bring forward his trip to Kuala Lumpur which was supposed to be next week, and meet her in three days time.

How can Humedical reach the 1.8 Million sales targets set by Baxter if there was lack of team spirit? Gerwin wondered. He was aware that if this problem continued, it would affect sales performance of Baxter products for the year 07/08. A workable solution which is acceptable and attractive to meet each person's needs in the Baxter team must be derived. He has to come up with an alternative before seeing them in three days time.

# A STUDY OF THE RELATIONSHIP BETWEEN TRAINEE CHARACTERISTICS AND TRANSFER OF TRAINING

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## ABSTRACT

This study is aimed at exploring the relationship between trainee's characteristics (self-efficacy, trainee's ability and trainee's motivation ) towards transfer of training. The data were collected from 68 hotel employees in Kuching who had attended training program. Respondents were asked to complete the closed-ended questionnaire. The data was analyzed descriptively using mean and frequencies and inferentially using Pearson Correlation and Multiple Regression. Pearson Correlation Analysis is used to measure the relationship between personality factors and the transfer of training. All alternative hypotheses were accepted. The results suggest that there has a significant relationship ( $p < 0.01$ ) between trainee characteristics and transfer of training. The results also show that trainee's ability is the predictor that has the most significant relationship with the transfer of training among the trainee characteristics construct.

## INTRODUCTION

In recent years, training program can be considered as an essential feature of organizational life. Hence, organizations are investing considerable resources to support employee and organizational development activities such as training because they consider human capital as one of the most important organizational assets in establishing and maintaining a competitive advantage (Pfeffer, 1994; Becker et al., 2001). *Training Magazine's 23rd Annual Industry Report* (2004) suggested that U.S. companies have been spent \$51.4 billion on training in 2004 and \$51.3 billion in 2003. It is estimated that the total yearly cost of training to business and industry to update employee knowledge and skills could easily reach as much as \$200 billion after including indirect costs, informal on-the-job training, and costs incurred by small organizations (Holton, Bates, & Ruona, 2000; Yamnill & McLean, 2001).

However, such investment in training is not only limited to United State, but also to Malaysia. Since independence in 1957, Malaysian government has manifested its commitment toward Human Resource Development (HRD). The Malaysian government has increased the budget for training in each of five-year plan (RM400 million for Eighth Malaysia Plan as compared to RM223.7 million for the Seventh Malaysian Plan). Besides that, it has established a special agency to monitor the training activities in the country and introduced the HRD Act 1992 which requires a company to contribute a one-percent equivalent of its monthly payroll to the HRD Fund. Organizations are concerned about the value for money they get from the training budgets, which cause them always thought of the effectiveness of their training programs.

Training is a planned learning experience designed to bring about permanent change in an individual's knowledge, attitudes, or skills (Campbell, Dunnette, Lawler & Weick 1970, as cited in Baharim & Gramberg, 2005, p.2). According to Ibrahim Mamat (2001), a training program is considered effective if the behaviours of the trainees change for better when they back to the workplace. Improving the needs of training transfer is one of Human Resource Development's top priorities so that organizations can remain competitive and develop a highly skilled workforce (Broad & Newstrom, 1992). HRD is a set systematic and opportunities to learn necessary skills to meet current and future job demands (Desimone, Werner & Haris, 2002). According to Holton (1996), transfer of training in an HRD context represents a core element transforming learning into individual performance. Thus, organizations should understand the factors that inhibit transfer and find out some strategies to facilitate positive transfer.

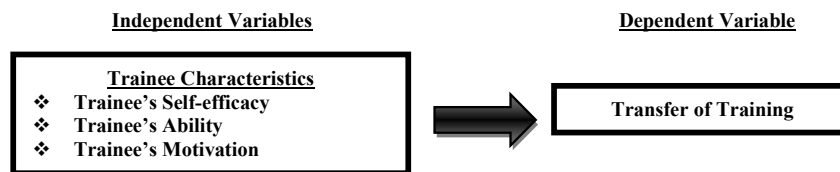
Most formal investments in organizational training and development are wasted because most of the knowledge and skills gained in training are not fully applied by trainees back to the job (Broad & Newstrom, 1992). This scenario is aligned with Dessler's view (1997) that training is regarded as a waste if the training program is unable to change the trainees' attitude at the workplace. In addition, there was little empirical data relating to trainee characteristics and transfer although some limited evidence was available that ability, motivation and self-efficacy would influence behaviors on the job (Baldwin & Ford, 1988). There have numerous empirical studies that examine the transfer of training, but most of the past research only focused on the learning component of training rather than specifically examining the issues of transfer

(Gagne & Briggs, 1979; Hicks & Klimoski, 1987). Previous research on transfer of training has focused primarily on issues concerning training design factors; especially the appropriateness of various instructional methods (Noe, 1986). However, the issues of trainee characteristics have received relatively little research attention (Elangovan & Karakowsky, 1999). Some years after Baldwin and Ford (1988) review of the literature, Ford and Weissbein (1997), Gregoire, et al., (1998) and Cheng and Ho (2001) reviews also agreed that difficulty remained in the development of adequate theoretical frameworks to explain the relationship of trainee characteristics to transfer. Therefore, this research will attempt to study the relationship between trainee characteristics and transfer of training.

### CONCEPTUAL FRAMEWORK

The conceptual framework for this study is called a direct relationship model and as depicted in Figure 1 below. It is developed based on the problem statement and research objectives. This framework will be used to develop the hypotheses for this study. As shown in Figure 1, the dependent variable in this study is the transfer of training. The independent variables are trainee characteristics which include trainee's self-efficacy, trainee's ability, and trainee's motivation.

**Figure 1: The Conceptual Framework of the Study**



### Research Hypotheses

- H<sub>a1</sub>: There is a significant relationship between trainee's self-efficacy and transfer of training
- H<sub>a2</sub>: There is a significant relationship between trainee's ability and transfer of training
- H<sub>a3</sub>: There is a significant relationship between trainee's motivation and transfer of training
- H<sub>a4</sub>: There is a significant relationship between the construct of trainee characteristics (trainee's self-efficacy, trainee's ability and trainee's motivation) and transfer of training

### Transfer of Training

Transfer of training is generally defined as the degree to which trainees apply the knowledge, skills and attitudes gained in training to their job (Wexley & Latham 1991; Tannenbaum & Yulk 1992; Ford & Weissbein, 1997). However, Detterman (1993) defined transfer as "the degree to which a behavior will be repeated in a new situation" (p. 4). A training and development strategy is not only whether trainees learn, but whether what is learned is transferable and generalizable to the work context (Baldwin & Ford, 1988). Transfer of training has traditionally been regarded as a critical topic of study in HRD (Pedersen & Liu, 2002; Holton et al., 2003). HRD has expressed the gap between what is learned and what is applied on the job represents a large number of transfer problems (Baldwin & Ford 1988; Broad & Newstrom 1992; Ford 1994). It is estimated that over 80 percent of the employees who undergo training were unable to practice the knowledge and skills learned in training into their workplace (Broad & Newstrom, 1992). London and Flannery (2003) also stated that less than 10 to 20 percent of the training is actually transferred directly to the workplace. There is a strong agreement that training is a wasted investment if the acquisition of knowledge and skills are not generalized to the job and are not maintained over time (Baldwin & Ford, 1988; Broad & Newstrom, 1992; Kozlowski & Salas, 1997; Haskell, 1998; Yamnill & McLean, 2001; Burrow & Berardinelli, 2003).

### Trainee's Self-efficacy

Self-efficacy represents an individual's beliefs regarding his or her ability to perform a specific task (Bandura, 1977; Bandura, 1986; Gist, 1989). A review of literature on self-efficacy and organizational behavior concluded that an employee's level of self-efficacy is positively related to job performance (Gist

& Mitchell, 1992). This means that people who think they can perform well on a task do better than those who think they will fail. A number of studies have shown that the enhancement of self-efficacy facilitates positive transfer of training (Fray & Latham, 1987). A consistent finding to emerge from training research is the central role of self-efficacy for enhancing training effectiveness and the transfer development (Mathieu, Martineau & Tannenbaum, 1993). Trainees with high self-efficacy are more likely to apply trained tasks and attempt more difficult and complex tasks on the job (Ford, Quinones, Sego, & Sorra, 1992). In other words, those individuals with higher level of self-efficacy usually will have a greater degree of training transfer. Another study conducted by Gist et al. (1989) also found that self-efficacy played an important role in computer software training when trainees with high levels of self-efficacy performed better than trainees with lower levels. This finding was consistent with a later study by Gist et al. (1991) that examined the effects of self-efficacy in a two-stage training process on the acquisition and maintenance (retention) of complex interpersonal skills.

#### **Trainee's Ability**

Fleishman (1972) defined ability as the general capacities related to performance of a set of tasks. Transfer of training is a way of thinking, perceiving, and processing information; without the ability to transfer, people could not engage in everyday thinking and reasoning (Haskell, 1998). Thus, the trainee's cognitive ability reflects the ability of an individual to make use of the major cognitive processes that are used in everyday job performance (Ree, Carretta, & Teachout, 1995). Noe (1986) says that "the cognitive and psychomotor skills that trainees possess directly influence whether or not they will be able to understand and master the content of the training program" (p. 737). Ford et al. (1998) found a significant link between knowledge and transfer. Ree and Earles (1991) examined which measure of intelligence best predicted training success and found that general intelligence was best. Robertson and Downs (1979) in their review of trainability studies (the degree to which trainees are able to learn and apply the material emphasized in the training program) have suggested that approximately 16 percent of the variance in trainee performance may be attributable to ability (as cited in Noe, 1986; Cheng & Ho, 2001).

#### **Trainee's Motivation**

Motivation is defined as the process of arousing, directing and maintaining a behavior toward a goal (arousal), has to do with the drive or energy behind our action (direction), involves the choice of behavior made (maintenance), has to do with people's persistence, their willingness to exert effort until a goal is met (Greenberg, 1996). The research by Foxon (1993) showed that the low level of trainee motivation is a major factor for failure in transfer of training. Many researchers have acknowledged that transfer of training will occur only when the trainees have the motivation or desire to use the learned knowledge and skills on the job (Baldwin & Ford 1988; Noe 1986; Noe & Schmitt 1986; Wexley & Latham 1991). Kehrhaun (1995) has investigated the relationships of individual characteristics and perceptions on transfer of customer service skills training and found that motivation to transfer was the only independent variable that significantly predicted transfer of training (p.1). With regard to individual motivation to transfer, similar results have been found throughout the transfer literature (Mathieu, Tannenbaum, & Salas, 1992; Quinones, Ford, Sego, & Smith, 1995; Warr & Bunce, 1995). Fitzgerald (2002) also found that motivation to transfer and transfer design were related to transfer for state employees attending an ethical decision making program. Motivation to transfer is a predictor of actual transfer of knowledge, skills, and attitudes to the job (Huczynski & Lewis, 1980; Machin, 1999). In Axtell, Maitlis, and Yearta (1997) empirical study, they also found that motivation to transfer was a significant predictor of positive transfer at one year.

#### **METHODOLOGY**

The sample size of this study was 80 hotel workers who have attended a training program. However, only 68 respondents returned the questionnaires. The survey questionnaire had 3 sections with 25 items. Section A consisted of 5 questions on general information and was designed to ask the respondents to answer questions about their demographic characteristics (age, gender, race, level of education and length of service). In the section B, the respondents were asked to identify their perceptions toward the trainee characteristics (trainee's self-efficacy, ability and motivation) on transfer of training. This section consisted of 3 parts with 15 items. Each category of trainee characteristics in this section had 5 items respectively. In Section C, the respondents were asked to point out their perception towards the effectiveness of training transfer when they returned to the workplace. There were 5 questions in this section. The questions in both section B and C were adapted and modified from research literature because of its readability, ease of completion and professional appearance. Note Table 1 for a summary of measures scale that used in

Section B and Section C. All items used in Section B and C were measured using a five-point Likert type rating scale. Thus, the respondents were asked to choose and circle a number of the scale that represents their level of agreements for each question.

Variable	Number of Items	Sample question	Source
Trainee's Self-Efficacy	5	I am confident in my ability to apply what I learned in training program to the workplace.	Clark (1990), Denson (1993), Hastings (1994), Cvercko (1995), Giannetto (1995), Poteet (1996), Kilgore (1997), Richman (1998), Machin (1999).
Trainee's Ability	5	I can understand training contents easily.	Robertson & Downs (1979), Ford & Forti (1986), Noe (1986), Ford et al. (1992), Cheng & Ho (2001).
Trainee's Motivation	5	I will receive a salary increase after attending the training program.	Denson (1993), Cvercko (1995), Legut (1996), Poteet (1996), Machin (1999).
Transfer of Training	5	My job performance has been improved.	Ford et al. (1992), Quinones et al. (1995), Axtell & Maitlis (1997).

**Table 1: Summary of Measures Used**

#### Goodness of Measures

Table 2 showed the goodness of data that used to determine the construct validity and reliability of the instrument. The results showed all the research variables were significant in Bartlett's Test of Sphericity and exceeded the acceptable standard of KMO's value of 0.60. The Eigenvalues of all the research variables had larger than 1, the items for each research variables exceeded factor loadings of 0.40 (Hair, Anderson, Tatham & Black, 1998). Besides that, the Cronbach's alpha for each research variable was greater than 0.60. This indicated that the reliability of the instrument being used in this study is high.

Variable	Items	Factor Loading	KMO	Bartlett's Test of Sphericity	Eigenvalue	Variance Explained (%)	Cronbach's Alpha
Trainee's Self-Efficacy	4	0.416 to 0.815	0.722	47.883 p = 0.000	2.152	53.800	0.710
Trainee's Ability	5	0.524 to 0.927	0.801	135.846 p = 0.000	3.084	61.676	0.839
Trainee's Motivation	5	0.408 to 0.914	0.667	157.696 p = 0.000	2.914	58.276	0.817
Transfer of Training	4	0.429 to 0.845	0.680	83.357 p = 0.000	2.377	59.415	0.757
Overall	18	0.408 to 0.927	0.736	798.482 p = 0.000	6.465	35.914	0.874

**Table 2: The Goodness of Data - Measures of Sampling Adequacy for Actual Study**

## FINDINGS AND DISCUSSIONS

### Demographic Characteristics of the Respondents

In this section, the frequencies and percentages were used to explain the respondents' demographic characteristics, which include age, gender, race, level of education and length of service. From 80 questionnaires distributed, 68 were returned. Most respondents' characteristics were aged between 21 to 30 years old (47.1%), female (69.1%), Chinese (38.2%), workers who held Degree level (36.8%) and workers who had worked less than 5 years (47.1%).

### Relationship between Trainee Characteristics and Transfer of Training

The relationship between trainee characteristics (trainee's self-efficacy, ability and motivation) and transfer of training was discussed by using Pearson Correlation Coefficient. When the  $r$  value is positive, the relationship between selected trainee characteristics and transfer of training is also a positive one. This means that as the values of one variable increases, the values of the other variable generally increase and vice versa.

**Table 3: Correlations between Trainee Characteristics and Transfer of Training**

	Trainee's Efficacy	Self- Trainee's Ability	Trainee's Motivation
Transfer of Training	.320**	.545**	.414**

\*\* . Correlation is significant at the 0.01 level (2-tailed).

#### **H<sub>a1</sub>: There is a significant relationship between trainee's self-efficacy and transfer of training.**

Table 3 above showed the result of correlation between trainee's self-efficacy and transfer of training. Referring to the table 3, the result ( $r = 0.320$ , at  $p < 0.01$ ) showed that there is a significant relationship exists between trainee's self-efficacy and transfer of training, therefore the hypothesis was accepted . Although both of the variables are positively correlated at the significant level, the strength relationship between both of the variables is weak. A positive correlation relationship indicated that trainees high in self-efficacy were more likely to view themselves as capable to apply the knowledge and skills obtained than those who believe themselves incapable.

This result was supported by the study of Fray and Latham (1987) which concludes that the enhancement of self-efficacy would facilitate positive transfer of training. Besides, according to the finding that done by Gist et al. (1989) also supported that trainees with high levels of self-efficacy performed better in computer software training than trainees with low levels. Additionally, findings by Ford, Quinones, Sego and Sorra (1992) in their research also concluded that those trainees with high self-efficacy will more likely to apply trained tasks on the job. A consistent finding to emerge from training research that done by Machin and Fogarty (1997) stated that transfer of training is positively related to an employee's level of self-efficacy. Thus, through the research done, it is clear that self-efficacy is important for enhancing training effectiveness and the transfer development of the employee in an organization.

#### **H<sub>a2</sub>: There is a significant relationship between trainee's ability and transfer of training.**

Table 3 also showed the correlation between trainee's ability and transfer of training. The result shows that  $r$  value is 0.545 and  $p$  value is 0.000, which is at the significant level ( $p < 0.01$ ). The  $r$  value showed that there is a moderate relationship between trainee's ability and transfer of training. It indicated that these two variables are positively correlated. The result also showed that there is a significant relationship between both of the variables. A positive correlation relationship indicated that as trainee's motivation (independent variable) increase, respondents' perception towards transfer of training (dependent variable) would also increase. Likewise, as level of trainee's motivation decline, respondents' perception towards level in transfer of training would also decrease.

This is consistent with the findings by Robertson and Downs (1979) which suggested that the trainees' performance may be attributable to their ability. Noe (1986) and Cheng and Ho (2001) research also agreed with the findings by Robertson and Downs (1979) that showed ability as one of the most important trainee characteristics in influencing transfer of training. In addition, findings by Thian (2007) in her research also supported that trainee's ability has a direct relationship with the transfer of training.

#### **H<sub>a3</sub>: There is a significant relationship between trainee's motivation and transfer of training.**

There is also a correlation between trainee's motivation and transfer of training as shown in Table 4, where 'r' value is 0.414 at the level of significant,  $p < 0.01$ . It suggested that there is a moderately relationship between trainee's motivation and transfer of training. The result also indicated that the relationship between these two variables is statistically significant and positive. Finding by Noe (1986) who stated that the trainee's low level of motivation is a major factor which leads to failure in mastering training content. This showed that only highly motivated trainees will desire to apply learned knowledge and skills on the job. This has been gained supports from Cheng and Ho (2001) research finding, they found that trainees with insufficient motivation are more likely to be poor in mastering the training content and subsequent training performance. This finding also strongly supported by Thian (2007) research which concluded that trainee's motivation influences trainee's training performance and transfer outcomes. Therefore, it could be concluded that trainees who attend training with high levels of motivation will learn more and are more likely to perform better when they back to the workplace.

**H<sub>a4</sub>: There is a significant relationship between the construct of trainee characteristics (trainee's self-efficacy, ability and motivation) and transfer of training.**

**Table 5 (a): The Result of ANOVA for Multiple Regression**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.967	3	2.322	11.243	.000 <sup>a</sup>
	Residual	13.220	64	.207		
	Total	20.187	67			

a. Predictors: (Constant), Trainee's Motivation, Trainee's Self-Efficacy, Trainee's Ability

b. Dependent Variable: Transfer of Training

Table 5 (a) as shown above gives the F statistic for testing the claim that there is a significant relationship between independent and dependent variables. If the significant value of the F statistic is smaller than alpha value ( $p < 0.05$ ), then the independent variables do a good job in explaining the variation in the dependent variable. This means that the claim that there is a significant relationship between independent and dependent variables was accepted. In this study, the significant level is 0.000, which indicated that there is a significant linear relationship between predictor variables (trainee's self-efficacy, trainee's ability and trainee's motivation) and transfer of training because F statistic is significant ( $p < 0.05$ ).

**Table 5 (b): The Result of Model Summary for Multiple Regression**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.587 <sup>a</sup>	.345	.314	.45449

a. Predictors: (Constant), Trainee's Motivation, Trainee's Self-Efficacy, Trainee's Ability

b. Dependent Variable: Transfer of Training

As shown by Table 5 (b), the value of  $R^2$  is 0.345. This implied that 34.5% of the variability in the transfer of training is explained by the variability in trainee characteristics (trainee's self-efficacy, trainee's ability and trainee's motivation). The higher the value of  $R^2$ , the better is trainee characteristic as a predictor of transfer of training.

**Table 5 (c): The Result of Coefficients for the Multiple Regression**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.675	.599		1.128	.263
	Trainee's Self-Efficacy	.140	.131	.117	1.065	.291
	Trainee's Ability	.426	.126	.406	3.375	.001
	Trainee's Motivation	.224	.122	.208	1.835	.071

a. Dependent Variable: Transfer of Training

Table 5 (c) showed the beta ( $\beta$ ) value for all the independent variables. The result in the analysis showed that the  $\beta$  value for trainee's ability is 0.406 and it has the significant value ( $p = 0.001$ ). Trainee's ability has the largest  $\beta$  value, which indicated that it is the best predictor towards transfer of training. On the other hand, trainee's self-efficacy and trainee's motivation were not statistically significant linear relation with the employees' perception towards transfer of training. It is because the  $p$  values of them were 0.291 and 0.071 respectively, which were not at the significant level ( $p < 0.05$ ). Therefore, it is clear that trainee's self-efficacy and trainee's motivation are not the best predictors of the transfer of training. This might be caused by the limited number of the respondents.

Among the selected trainee characteristics, trainee's ability was found to be the best predictor of transfer of training. This result is similar with the research findings by Ree and Earles (1991), had identified that general ability was the best predicted training success. Therefore, in this study, trainee's ability can be considered as a predictor that has the most significant relationship with the transfer of training.

### **Research Implications**

This study has indicated that the trainee characteristics have a significant positive relationship with the transfer of training. Therefore, trainee characteristics especially trainee's self-efficacy, ability and motivation are suggested as important factors that will increase the employees desire to transfer what they have learned into the workplace. Through this study, the organization will have the awareness in identifying the construct of trainee characteristics toward transfer of training. For organization, the knowledge about the most significant trainee characteristic that predict the transfer of training is useful in designing the training program that can enhance the transfer of training. Hence, this would give the organizations with the hope to save their budgets for human resource functions and prevent profit loss in term of employees' productivity. The findings generated from this research are important for today HR Practitioners in Malaysia and elsewhere to consider how to enhance transfer of training and maybe contribute to a greater return on investment (ROI) for the training effort. This study was helpful for HR Practitioners to identify the main dimension of trainee characteristics that highly contributed to the transfer of training in the organization.

From a theoretical perspective, the findings had provided a valuable knowledge base for related theory such as self-efficacy theory, cognitive theory and goal-setting theory that can be used to strengthen the past theories and to support the future research. This study had also contributed to its impact on HRD theory and practice through the development of a range of mechanism to improve trainee characteristics as an explicit goal of workplace training because of its role in enhancing training transfer. The empirical information of this study had provided greater insights as to how and to what extent the understanding of transfer of training model actually affected by trainee characteristics. It would inform us about the complexities faced by trainer or HR manager in trying to apply transfer of training models in a real practice situation. Besides that, previous transfer of training models that recommended by Baldwin and Ford (1988) did not include self-efficacy as a factor, thus this research made a key contribution in adding this variable to the chain of variables that contributing to training transfer.

### **Limitations of the Study**

There are various factors of trainee characteristics that are able to influence the transfer of training. However, the researcher only concentrates on certain factors which are trainees' self-efficacy, ability and motivation. The researcher recognized that there are other potential variables are not taken into consideration in this study such as trainees' readiness, perceived utility, job involvement and organizational commitment that may have significant relationship with the transfer of training. Furthermore, this research was done in the form of direct relationship between independent variables and dependent variable. It did not focus on either moderator or mediator relationship between both variables. This means that the researcher is unable to generate different insights into these findings and gain a better understanding about the contributions of trainee characteristics to transfer of training in the organization.

### **Conclusion**

The transfer of training is an interesting issue to be studied. Key success factors related to transfer of training have been started to increase researcher's motivation to conduct the research. This study intended to identify the relationship that exists between trainee characteristics and transfer of training. The findings of this research showed that there is a significant relationship between the selected trainee characteristics and transfer of training. All the alternative hypotheses were accepted. Consequently, these findings also



showed that there is the most significant relationship between the construct of trainee characteristic and transfer of training with  $R^2=0.345$ . There may be some other trainee characteristics that will indirectly or directly have significant relationship with the employees' transferring of what their have learned in training program to the job. Thus, future researchers are encouraging to complement the previous researches or conduct toward wide areas regarding the research.

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**EXPLORING THE CAREER SUCCESS OF GRADUATES WITH MSC. (HRD):  
A STUDY IN UNIVERSITI MALAYSIA SARAWAK**

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**Abstract:**

*This study was conducted to explore the perceptions of the Master of Science (Human Resource Development) graduates' at the Universiti Malaysia Sarawak, Malaysia on their career successes after obtaining that qualification, their reasons for undertaking this particular master's programme, and the differences in perceptions on their career successes after qualifying for this degree based on gender, age and ethnic background. A survey research method was used to gather 43 usable questionnaires from the alumni of this program from Universiti Malaysia Sarawak, Malaysia. Of all hypotheses tested by T-Test and ANOVA, only one hypothesis failed to be rejected – that showed a significant difference in the perception of Master of Science (Human Resource Development) of the Universiti Malaysia Sarawak's graduates on employability based on gender. Thus it means that there were no differences in the perceptions of the alumni on career success, objective career success, subjective career success, pay, promotion, job satisfaction, skills development and work-life balance based on gender, age, and ethnic background. This was then inconsistent with several earlier studies. It is important to note that most literature reviews and past researches were (most of its) conducted at western settings, which were no doubt different as compared to the Malaysian context, particularly in culture and perception. This result confirms that the orientation of career success and perception could differ from those in the same culture, as well in different cultures.*

**Keywords:** Career Success, Objective Career Success, Subjective Career Success, Demographic Characteristic.

**Introduction**

Rapid economic growth, coupled with intense global competition and increased corporate restructuring has led to a liberal expansion of institutions offering postgraduates qualification and a surge in demand for master level degrees (Tay, 2001). According to Mihail & Elefterie (2006), the main aim of a master level degree is to add value to graduate students by providing them with relevant business-related knowledge and managerial skills. For some, a master level degree is likened to an international currency or recognition (Carnall, 1995 in Tay, 2001).

A popular conception on the attainment of a master level degree is that it is the ticket to career success, often measured in terms of increased salary and position within the organization (Baruch, Bell & Gray 2004). Thus, postgraduate qualifications are increasingly becoming prerequisites for both men and women aspiring for senior positions within an organization (Finney, 1996).

**Background of Study**

In view of the importance of postgraduates towards the quality of human capital in Malaysia, and the government's effort in providing greater access to higher education for the nation, the question is thus raised on the perception of these graduates on their career success. While there have been several previous research to uncover the value of obtaining a post graduate education in relation to career success, most of the studies had only focused on the career success of MBA graduates (Baruch & Leeming; 2001; Hay & Hodgkinson, 2006; Mihail & Elefterie, 2006,) and none to date on the career success of graduates with post graduate qualifications in human resource development.

Despite the fact that the Master of Science programme in human resource development (MSc HRD) had been offered by the Universiti Malaysia Sarawak (UNIMAS) since 1996, the researchers have yet to find any conclusive studies which measure the effectiveness of the programme with respect to the career success

of its graduates. This gap motivates the researchers to explore these graduates' perceptions on their career success. The objectives of this study are as follows:

To identify main reasons for these graduates in taking this particular post-graduate programme.

To identify a significant difference in perception of MSc HRD's graduates on career success based on selected demographic characteristics (gender, age, ethnic background).

To identify a significant difference in perception of MSc HRD's graduates on objective career success based on selected demographic characteristics (gender, age, ethnic background).

To identify a significant difference in perception of MSc HRD's graduates on subjective career success based on selected demographic characteristics (gender, age, ethnic background).

To identify a significant difference in perception of MSc HRD's graduates on pay based on selected demographic characteristics (gender, age, ethnic background).

To identify a significant difference in perception of MSc HRD's graduates on promotion based on selected demographic characteristics (gender, age, ethnic background).

To identify a significant difference in perception of MSc HRD's graduates on job satisfaction based on selected demographic characteristics (gender, age, ethnic background).

To identify a significant difference in perception of MSc HRD's graduates on employability based on selected demographic characteristics (gender, age, ethnic background).

To identify a significant difference in perception of MSc HRD's graduates on skill development based on selected demographic characteristics (gender, age, ethnic background).

To identify a significant difference in perception of MSc HRD's graduates on work-life balance based on selected demographic characteristics (gender, age, ethnic background).

### **Research Hypotheses**

There is a significant difference in perception of MSc HRD's graduates on career success based on selected demographic characteristics (gender, age, ethnic background).

There is a significant difference in perception of MSc HRD's graduates on objective career success based on selected demographic characteristics (gender, age, ethnic background).

There is a significant difference in perception of MSc HRD's graduates on subjective career success based on selected demographic characteristics (gender, age, ethnic background).

There is a significant difference in perception of MSc HRD's graduates on pay based on selected demographic characteristics (gender, age, ethnic background).

There is a significant difference in perception of MSc HRD's graduates on promotion based on selected demographic characteristics (gender, age, ethnic background).

There is a significant difference in perception of MSc HRD's graduates on job satisfaction based on selected demographic characteristics (gender, age, ethnic background).

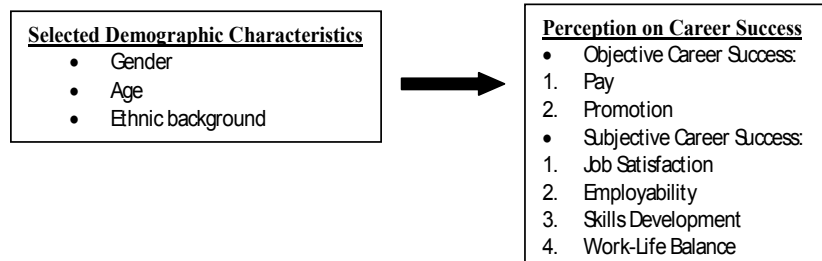
There is a significant difference in perception of MSc HRD's graduates on employability based on selected demographic characteristics (gender, age, ethnic background).

There is a significant difference in perception of MSc HRD's graduates on skill development based on selected demographic characteristics (gender, age, ethnic background).

There is a significant difference in perception of MSc HRD's graduates on work-life balance based on selected demographic characteristics (gender, age, ethnic background).

### Conceptual Framework

The conceptual framework outlining independent and dependant variables of study is illustrated as follows.



### Career Success

According to Baruch (2004), the meaning of career success is often associated with personal, professional, and organizational goals, and the extent to which these goals have been achieved. Traditionally, career success was centred on formal education, lifelong employment, job security, and hierarchical advancement. This view however is rapidly being replaced by the contemporary concept where career success is seen as improving self-development competencies; gaining employability; making lateral/spiral movements; undertaking self-management or entrepreneurship; and achieving work-balance (Baruch, 2004).

#### *Measurement of Career Success*

Baruch (2004) indicated most individuals dream of succeeding in their careers. However, the desired level/s of success for each individual is different from each other. Some of the commonly accepted measures of career success include advancement (hierarchical position, power level, status); learning (development of skills, knowledge and abilities); physiological and survival (money, increased employability); and psychological (job satisfaction, self-esteem, self-actualization, career resilience).

#### *Objective versus Subjective Career Success*

According to Nabi (1999) and Baruch (2004) career success can be measured in both objective and subjective terms. Objective career success refers to extrinsic measures such as pay and position (Melamed, 1996, Baruch, 2004). On the other hand, subjective career success is linked to an individual's personal feelings of achievement and values (Baruch, 2004) such as perception of career achievements (Aryee, Chay, Tan, 1996) and enhanced sense of competence through skill development (Greenhouse & Callanan, 1994).

### Career Success Theories

#### *Heslin's Conceptualization of Career Success*

According to Heslin (2005), there are four implicit assumptions that are prevalent in most career success literatures: objective outcomes such as pay and promotions are, for most times, regarded as adequate proxies for success (Greenhouse, 2003); job and career satisfaction are seen to be able to adequately capture how people react to their careers (Greenhouse, Parasuraman & Wormley, 1990); people are similarly concerned regarding their objective career success as compared to subjective career success; and conceptualization and evaluation of career success are often viewed in relation to self-referent criteria such as career aspirations.

#### *Derr's Career Dimensions*

Derr (1986) has identified five measures of career success through his career orientation framework. These five dimensions of career success set by Derr (1986) are getting ahead (highly ambitious, knows how to get to know the right people, motivated by financial gains and status, high performer); getting secure (hardworking, employment for life mentality, resistance towards change, prefer predictable work routine, need for belonging); getting high (thrives on interesting and challenging work, driven towards learning and development, not motivated by conventional reward system of career advancement and financial incentives, willing to trade-in autonomy if necessary); getting free (highly motivated, experts in own field, does not like to be managed and therefore not likely to trade-in autonomy, not easily swayed by financial

incentives); and getting balanced (placing equal importance towards career; self development; and **family**, ability to remain loyal to employers, demonstrate happiness and contentment with current job).

#### *Human Capital Theory*

The theory of human capital implies that individuals decide on their own education by weighting the benefits and costs of each action (Becker, 1993). This theory suggests that individuals invest in their own education because of their belief on future pay-off. This is based on assumptions that labour market tends to equate individual's worth relative to their education level (Livingstone, 1997).

#### *Previous Research*

##### *Factors Affecting Career Success*

Prior researchers on career success have found that career success was affected by demographic characteristics, personal traits, and organizational factors (Callanan, 2003). According to Judge, Cable, Boudreau, Bretz (1995), demographic characteristics such as age, marital status and gender have positive associations with career success. In research carried out among graduates who obtained MBA from the University of Ulster in Northern Ireland between 1992 and 1996, Ackah, Heaton, McWhinney (1999) revealed significant differences between the perceptions of male and female graduates on the effect of obtaining their MBA qualifications to their successes.

On the other hand, Lau & Shaffer (1999) in their study proposed that certain personality traits such locus of control, self-monitoring, self-esteem, optimism and Machiavellianism, along with job performance and person-environment fit are determinants of career success. This was revealed earlier by McClelland & Boyatzis (1982) that indicated individuals who were high in these certain dispositions were able to progress successfully in organizations when compared to those who lacked these dispositions.

In the case of organizational factors, Ballout (2007) indicated that employees with high levels of organizational support were reported to have greater success when compared to those who perceived low levels of support. Further, Ballout (2007) revealed as well that the person-environment perspectives of person-job fit, person-organization fit and person-culture fit were all positively related to career success. Previously Callanan (2003) had indicated that individuals who fail to abide by the culture rules within organization were likely to face career plateaus.

##### *Objective and Subjective Career Success*

Nabi (1999) in his study in United Kingdom indicated that the highest objective career successes were reported by employees with higher levels of education while employees with high work centralities were reported as having highest subjective career success. Locally in a study conducted by Rokiah Mohd Rasdi, Maimunah Ismail, Jegak Uli, & Sidek Mohd Noah (2009) in Malaysia, overall career aspirations were significantly related to subjective career success but were not significantly related to objective career success.

##### *Impacts of Post Graduate Degree on Pay, Promotion, Employability and Skills Development*

Baruch & Leeming (2001) in their study at a leading United Kingdom business school indicated that the values graduates gained from their Master's degrees include increased managerial skills; self-confidence; and several aspect of career development. Similar to this, a study done by Mihail & Elefterie (2006) revealed that postgraduate studies gave positive impact to skills, employability, compensation and career advancement of MBA graduates in a Greek business school. These two studies had supported an earlier study by Ackah *et al.* (1999) that indicate the salary and management level of respondents increased after having obtained their MBA.

#### *Methodology*

##### *Research Design*

This is a cross-sectional study that involved collecting data from a sample of study at only one point in time (Sekaran, 2000). A questionnaire that was developed based on literature reviews and previous research findings were used in gaining information from respondents.

### *Population and Sample*

The population of the study includes all of MSc HRD graduates from UNIMAS Malaysia. To date, a total of 258 graduates had successfully completed this program. However, Due to small size of the population the entire population is included for this study.

No of students who graduated with MSc HRD from UNIMAS (1997 – 2008)

Year	No. of Graduates
1997	22
1998	36
1999	51
2000	23
2001	33
2002	8
2003	11
2004	20
2005	11
2006	7
2007	15
2008	21

### *Sampling Methods*

The sampling method utilized in this study is purposive sampling. Purposive sampling is a useful method in reaching a targeted sample quickly, where sampling for proportionality is not the primary concern (Trochim, 2006). While the initial aim was to include the entire population of the study as the sample, approximately 181 respondents were finally selected as the sample for the study after the screening of valid correspondence addresses from the list of graduates obtained from UNIMAS

### *Research Instruments*

The sole instrument for this study was a questionnaire set with 43 items in overall, derived from two sections of A (8 items with regards to the background of respondents that include age, gender, ethnic background, education level, year of completing the MSc HRD, main reasons for taking the MSc HRD program, number of promotions after obtaining the master's degree and the number of different employers after obtaining the master's degree) and B (35 items that were divided to six sub-sections of pay, promotion, job satisfaction, work-life balance, skill development and employability). Respondents were required to respond to each questionnaire's item based on five levels of the Likert scale.

### *Pilot Test*

A total of 21 sets of questionnaire were distributed as a pilot test of this study. Respondents were both from graduates of the MSc HRD program of UNIMAS and from the University of Putra Malaysia, Serdang, Malaysia. The result of this test is as below:

Result of Reliability Analysis of Research Instrument

Items	Total Items	Cronbach Alpha Coefficients
Pay	5	.8271
Promotion	7	.7729
Job Satisfaction	6	.8966
Work-Life balance	7	.8371
Skill Development	4	.7912
Employability	6	.8341

### *Data Collection Procedures*

A total of 156 questionnaires were successfully delivered through post, e-mail and fax to respondents. Out of this numbers, only 48 sets of completed questionnaires were collected back.

### *Data Analysis*



The data of study were analysed using SPSS version 14.0. Both statistics of descriptive **and inferential (T-Test, ANOVA) were performed to test all hypotheses.**

#### Findings and Discussions

Results showed that most popular reason for taking MSc HRD program at UNIMAS was for knowledge development. Other reasons for undertaking this program include personal challenge, employability, and career motivation. This supported a study by Naquin & Holton (2003) that indicated knowledge and skills obtained from education led to improvements in work outcomes such as s increased pay, recognition, and opportunities. Likewise, this study supported research conducted by Buchanan, Kong & Basham (2007) in USA that showed masters degree graduates were motivated by careerism (employability and career promotion) and their needs to improve job knowledge – knowledge development and personal challenge

Main reasons for taking the MSc HRD program at UNIMAS

Reasons	Percentage
<b>Employability</b>	<b>14.6</b>
<b>Personal Challenge</b>	<b>16.7</b>
<b>Knowledge Development</b>	<b>66.7</b>
<b>Career promotion</b>	<b>2.1</b>
Total	100.0

From all hypotheses tested by T-Test and ANOVA, only one hypothesis failed to be rejected – that showed a significant difference in the perceptions of the MSc HRD's graduates on employability based on gender. This result was revealed earlier by a similar study done by Ackah *et al.*(1999) in Northern Ireland. This means there were no differences in the perception of MSc HRD's graduates of this university on career success; objective career success, subjective career success, pay, promotion, job satisfaction, skills development and work-life balance based on gender, age, and ethnic backgrounds.

This was inconsistent with studies conducted earlier by Callanan (2003) and Judge *et al.* (1995). However it is important to note that most literature reviews and past researches were (most of it) conducted at western settings, which were no doubt different as compared to Malaysian context, particularly in culture and perception. Further to these, these results are in line with study conducted by Namhee Kim in 2004 at Korea, that revealed the orientation of career success and perception could differ from those in the same culture, as well in different culture.

Summary of Hypotheses Testing

Hypotheses	Test	Significance (p)	Results
There is a significant difference in perception of MSc HRD's graduates on career success based on gender.	<b>T-test</b>	<b>.290</b>	<b>Fail to accept</b>
There is a significant difference in perception of MSc HRD's graduates on career success based on age.	<b>One-way ANOVA</b>	<b>.943</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on career success based on ethnic background.	<b>One-way ANOVA</b>	<b>.757</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on objective career success based on gender.	<b>T-test</b>	<b>.748</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on objective career success based on age.	One-way ANOVA	<b>.854</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on objective career success based on ethnic background.	One-way ANOVA	<b>.496</b>	Fail to accept
There is a significant difference in perception of	<b>T-test</b>	<b>.398</b>	Fail to accept

Hypotheses	Test	Significance (p)	Results
MSc HRD's graduates on subjective career success based on gender.			
There is a significant difference in perception of MSc HRD's graduates on subjective career success based on age.	One-way ANOVA	<b>.623</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on subjective career success based on ethnic background.	One-way ANOVA	<b>.328</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on pay based on gender.	<b>T-test</b>	<b>.670</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on pay based on age.	One-way ANOVA	<b>.890</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on pay based on ethnic background.	<b>One-way ANOVA</b>	<b>.277</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on promotion based on gender.	<b>T-test</b>	<b>.872</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on promotion based on age.	One-way ANOVA	<b>.750</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on promotion based on ethnic background.	One-way ANOVA	<b>.739</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on job satisfaction based on gender.	<b>T-test</b>	<b>.701</b>	Fail to reject
There is a significant difference in perception of MSc HRD's graduates on job satisfaction based on age.	One-way ANOVA	<b>.911</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on job satisfaction based on ethnic background.	One-way ANOVA	<b>.234</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on employability based on gender.	<b>T-test</b>	<b>.043*</b>	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on employability based on age.	One-way ANOVA	.248	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on employability based on ethnic background.	One-way ANOVA	.191	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on skill development based on gender.	T-test	.357	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on skill development based on age.	One-way ANOVA	.131	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on skill development based on ethnic background.	One-way ANOVA	.302	Fail to accept
There is a significant difference in perception of MSc HRD's graduates on work-life balance based on gender.	T-test	.345	Fail to accept
There is a significant difference in perception of	One-way	.840	Fail to accept

Hypotheses	Test	Significance (p)	Results
MSc HRD's graduates on work-life balance based on age.	ANOVA		
There is a significant difference in perception of MSc HRD's graduates on work-life balance based on ethnic background.	One-way ANOVA	.725	Fail to accept

### Recommendations

Based on the findings of this study, knowledge development was rated as most important reason for taking Master of Science (Human Resource Development) at the University of Malaysia Sarawak. In view of this, organization should place more emphasis on knowledge development for career development of their employees. As related to this, institutions of higher learning offering this programme should see this as unique selling points in selling the programme to the potential students.

An interesting finding of study shows male graduates were found to be perceived more positively in obtaining employment with better working conditions as compared to female graduates. This implies that organizations should look to recruit and retain talents, especially male graduates.

For future research, it is proposed that a combination of quantitative and qualitative research should be performed to yield better understanding on the variables relationships. In addition, a future study could focus on other aspects affecting career success besides demographics characteristics, such as personal traits and organizational variables.

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# **AN ANALYSIS OF MOTIVATIONAL FACTORS AFFECTING MIDDLE EASTERN TOURISTS VISITING MALAYSIA**

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## **Abstract**

This study was undertaken to identify factors that are central to tourists from the Middle East while choosing Malaysia as a vacation destination. Our findings reveal that push and pull factors were more important than other factors among Middle East tourists. For instance, “Novelty and Prestige” of the destination ranked highest among the push factors. Among the pull factors, “Natural, Historical, and Environment” attracted the highest ranking. The factors with low mean values were also visible, that can alert the stakeholders why a particular issue or factor is not scoring well with the Middle East tourists. Malaysian tourism can benefit from adequately addressing these issues by the Malaysian tourism marketers and policy makers. Additionally it would also improve the customer satisfaction levels of Middle East tourists who can in turn play a role as potential ambassadors of its global tourism industry.

## **INTRODUCTION**

Tourism revenues have grown to the third largest after revenues from export of oil and automobile. International tourism has become a major foreign exchange earner for many low income countries and small islands, and it is a principal export for 83% of developing countries (WTO Statistical Yearbook for Asia and the Pacific, 2008). Studies on travel intentions have been one of the focal points of tourism research for years; motivation for travel has been an important area of study in the tourism literature for decades. Understanding why people travel and what factors influence their behavioral intention of choosing a travel destination is beneficial to tourism planning and marketing.

In Malaysia, the tourism sector ranks second as a generator of foreign exchange after oil and gas manufacture. This industry has been growing rapidly in the country over the past few years. Malaysian tourism had enjoyed quite an impressive average growth of 9.26% between 1981 and 2000. The number of international arrivals to Malaysia showed a significant growth before reaching its first climax in 1990. Malaysia, in 1990 also recorded a 54% increase in tourist arrivals from the previous year due to the intense “Visit Malaysia Year” promotional blitz throughout the world. After taking a dip in 1997 and 1998, the Malaysian tourism sector recovered with a 53% increase in international tourist arrivals if the projection by the Economic Intelligence Unit is still relevant. The tourism industry in Malaysia, over the past several decades, has become one of the fastest growing industries within the services sector especially as the economy transits into a post-industrial society. Backed by a steady rise in the number of tourists flocking into the country, especially travelers from countries like Singapore, Thailand, China, India and a significant number of tourists who come to Malaysia from. Although Malaysian Tourism organizations have offered a variety of products and facilities for Middle East tourists, but from 2007 to 2008, Malaysian tourism practiced a downhill trend in the number of tourists arriving from the Middle Eastern countries (Tourism Malaysia, Facts and Figures, 2008), as shown in Table 1.

Table 1: Tourist arrivals from Middle Eastern countries 2007/2008.

Country of Residence	2007	2008
BAHRAIN	6,874	0
IRAN	27,215	55,727
KUWAIT	17,650	17,812
LEBANON	8,523	0
OMAN	19,525	16,712
QATAR	11,782	7,437
SAUDI ARABIA	78,298	69,964
SYRIAN ARAB REPUBLIC	7,481	4,066
UNITED ARAB EMIRATES	38,170	33,347
TOTAL	215,518	205,065

Source: Tourism Malaysia (2008)

Tourist motivations which can be defined as the amalgam of biological and cultural factors which gives value and direction to travel choices, characteristics and experience (Pearce et al, 1998). Motivation for travel has been an important area of study in the tourism literature for decades. Understanding why people travel and what factors influence their behavioral intention of choosing a travel destination is beneficial to tourism planning and marketing. Hence, the objectives of this research are to identify internal (push factors) and external (pull factors) forces which drive Middle East tourists to travel to Malaysia.

## PUSH AND PULL FACTORS

According to the tourism literature and related models of travel destination choice and decision-making process, one profound travel motivation model related to travelers' decision-making in choosing a destination involves the concept of push and pull factors (Uysal and Hagan, 1993).

The push motivations have been useful in explaining the desire for travel, while the pull motivations help illustrate the actual destination choice (Crompton, 1979). Most push factors originate from intangible or intrinsic desires of human beings, including the desire for escape, novelty seeking, adventure seeking, dream fulfillment, rest and relaxation, health and fitness, prestige, and socialization (Chon, 1989). Pull motivations are those that are inspired by a destination's attractiveness, such as beaches, recreation facilities, cultural attractions, entertainment, natural scenery, shopping, and parks. These destinations' attributes may stimulate and reinforce inherent push motivations (McGeehan et al., 1996).

Iso-Ahola (1982) argued that individuals perceive a leisure activity as a potential satisfaction-producer for two major reasons. The activity may provide certain intrinsic rewards, such as a feeling of mastery and competence, and it may provide an escape from the routine environment. Similarly, Kippendorf (1987) revealed that tourist motivation is self oriented also tourists are motivated by going away from something rather than going toward it. In general push and pull factors have been characterized as relating to two separate decisions. They are made by two separate points which in time-one focusing on whether and where to go. Once the trip has been decided upon, where to go, what to see or what to do (relating to the specific destination) can be undertaken. Thus, analytically, and often both logically and temporally, push factors precede pull factors' (Tzu-Kuang Hus et al, 2008).

In summary, variety of studies point out that physiological, intangible and internal forces push people to travel. These factors include, escape, rest and relaxation, adventures, health and fitness, prestige, social communication, seeking behavior, and exploration. Moreover, unique items of destination pull people, as an example, recreational facilities, education, quality consciousness, special foods, and beautiful sceneries. Travel motivations are varied from one person to another, as well as, each destination can present its own feature.

## **RESEARCH METHODOLOGY**

Primary data for this study was collected through a questionnaire survey that was designed based on the Likert Scale. Tourists from Middle Eastern countries were surveyed to generate the necessary data for this study to identify the motivational factors affecting the decision making to choose Malaysia as the tourist destination. Cluster sampling is used for dividing sample group based on the percentage of each country from entire Middle East tourist's population. The data consists of responses from 118 tourists visiting Malaysia. The initial questionnaire was pre-tested among 20 Middle East students from University Sains Malaysia and some tourists in Penang during December 2008.

The research survey was carried out followed by personal interviews at the following different locations at:

- Kuala Lumpur International Airport (KLIA),
- Bukit Bintang Street,
- Selected Arabic and Iranian restaurants in Kuala Lumpur

The survey and interviews were conducted for 5 days from 14th -18th January 2009. During the interview, 150 self-administered questionnaires were distributed among the Middle East tourists.

A total of 130 questionnaires were obtained from the 150 distributed questionnaires and only 118 were usable. Factor analysis was used as an appropriate way to identify underlying motivations factors.

## RESEARCH FINDINGS

### Analysis of Demographic and Characteristics Variables

Out of 118 respondents, 91 were found to be males and the 27 respondents were females. 48 tourists were in the 18-25 years old group (representing 40.7% of the total respondents). In terms of marital status, there were 67 single respondents representing 56.8% of our sample and the rest were married and belonged to other categories. 67 of the respondents accounting for 56.8% of the respondents reported less than USD \$2,500 monthly income. 57 of them (48.3% of the respondents) had Diploma/Bachelor degrees. The respondents of this survey were mostly Saudi Arabian tourists with 39 respondents and the Iranian tourists presented the second largest number of respondents with 31 responses followed by 19 respondents from UAE and 29 respondents hailed from other countries.

Majority of the respondents (50.8%) visited Malaysia for the first time. The most important source for Middle East tourists to get information about Malaysia was 'by word of mouth'. 46.6%. 46 of the respondents forming 39% of our sample) preferred to stay in an apartment. Most of the respondents were on holidays across Malaysia and an equal number of them were students studying in Malaysia (representing 36.4% of our sample).

Table 2: Demographic Variable.

Gender	Percentage	Income (USD\$)	Percentage
Male	77.1	Less than 2500	56.8
Female	22.9	2501-5000	20.3
Age	Percentage	5001-7500	10.2
18 – 25	40.7	7501-10,000	3.4
26 – 32	38.1	10,001-12,200	1.7
33 – 40	13.6	More than 12,500	7.6
41 – 48	4.2	Educational Level	Percentage
More than 48	3.4	Primary School	0.8
Marital Status	Percentage	Secondary School	15.3
Single	56.8	Diploma/Bachelor	48.3
Married	38.1	Higher Study	34.7
Widowed	3.4	Others	0.8
Divorce	1.7	Nationality	Percentage
Nationality	Percentage	UAE	16.1
Saudi Arabia	33.1	Others	24.6
Iran	26.3		

Table 3: Characteristics Variables.

Number of visit	Percentage	Length of Stay	Percentage
First Time	50.8	Less Than Two Days	2.5
Second Time	19.5	3-4 Days	7.6
Third Time	8.5	5-6 Days	5.9
More Than Three times	21.2	More Than Two weeks	83.9
Source of Data	Percentage	Place of Stay	Percentage



T.V	7.6	Hotels	37.3
Newspaper	1.7	Apartment	39.0
Friend	46.6	With Relevant or Friends	16.9
Internet	42.4	Unclassified Hotel	1.7
Magazine	0.8	Others	5.1
Other	0.8		
<b>Purpose of Visit</b>	<b>Percentage</b>	<b>Length of stay</b>	<b>Percentage</b>
Business	12.7	Less than tow days	2.5
Holiday	36.4	3-4 days	7.6
Cultural	6.8	5-6 days	5.9
Official Mission and Diplomatic	3.4	More than one week	83.9
Participation conference	4.2		
education	36.4		

### Analysis of Push and Pull Motivational Factors

To identify the important factors for Middle East tourists in coming to Malaysia, factor analysis was used to determine motivational dimensions. Four push motivational factors were analyzed using Varimax Rotation procedures to delineate the underling dimension that drive Middle East tourists to travel to Malaysia.

All push motivational factors had an eigenvalue greater than one. For assessing the appropriateness of running factor analysis, the Kaiser-Meyer-Olkin was 0.722. The reliability test which was done for push factors ranged from 0.53 to 0.87. The same procedures also applied to eighteen items related to pull motivational factors (Table 4 & 5).

**Table 4:**Factor Analysis for Push Motivational Factors.

Push Factors	Communality	Eigen Value	Variance	Mean	Alpha	KMO
Social		2.25	45.1	3.54	0.68	0.74
To find and meet new people	0.509					
To Increase experience about community	0.516					
Friendly and hospitality people	0.497					
To Visit places my friends have been to	0.409					
Relaxation		2.01	50.3	3.69	0.65	0.53
To feel relax	0.523					
To be away from daily life	0.650					
To act freely	0.554					
To be with family	0.288					
Knowledge		2.48	62.1	4.14	0.79	0.73
To See something different	0.651					
To Know more about new lifestyle	0.798					
To Know culture or traditions	0.635					
Novelty and prestige		4.01	58.6	4.02	0.87	0.87
To travel around the world	0.509					
To see new interesting places	0.750					
To Seek novelty	0.645					
To explore new places	0.707					
To Talk about the trip to my friends	0.535					
To have Opportunities to increase my experience	0.446					

To visit destination recommend my friends	0.514					
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**Note:** Push factors importance: 1= strongly disagree and 5= strongly agree.

**Extraction method:** Principal Component analysis. Cut off point 0.40

**Rotation method:** Varmix with Kaiser Normalization

**KMO (Kaiser-Meyer-Olkin measure of sampling adequacy) = 0.722**

**Barlett Test of Sphericity=0.000**

**Table 5:Factor Analysis for Pull Motivational Factors.**

Pull Factors	Communality	Eigen Value	Variance	Mean	Alpha	KMO
Facilities, events and cost		3.51	58.6	3.92	0.85	0.82
Special events	0.437					
Multicultural place	0.639					
Tourism reserves	0.567					
An affordable place to visit	0.608					
Entertainment facilities	0.700					
Shopping malls	0.566					
Accessibility and safety		2.17	54.4	3.72	0.71	0.69
A healthy place with less medical problems	0.593					
Safe destinations	0.736					
Information Availability	0.612					
Natural, historical and environment		4.96	62.14	3.86	0.83	0.82
Islamic and capable country	0.752					
Availability of theme parks	0.593					
Variety of culture and historical attraction	0.637					
Interesting atmosphere	0.552					
Unique and beautiful destination	0.669					
Archaeological/cultural destination	0.528					
Beaches with sunshine	0.661					
A scenic and natural beauty	0.580					

**Note:** Pull factors importance: 1= strongly disagree and 5= strongly agree.

**Extraction method:** Principal Component analysis. Cut off point 0.40.

**Rotation method:** Varmix with Kaiser Normalization

**KMO (Kaiser-Meyer-Olkin measure of sampling adequacy) = 0.722**

**Barlett Test of Sphericity=0.000**

### Overall Mean Ranking Push Factor Statements

The table below shows the importance of ranking for push factors. The first ranking in this push items acquired mean values greater than 4.0. The important push items included "To see new interesting places", "To have opportunities to increase my experience", "to see something different", "to travel around the world", "to know more about new lifestyle", "to feel relax", "to go to some places I have always wanted to visit", "to explore new places", "to seek novelty". However, eight items received a mean value between 3.50 to 3.99. These items included "to be away from daily life", "to know culture or traditions", "to increase experience about community", "to visit destination recommend my friends", "to visit places my friends have been to", "Friendly and hospitality people", "to act freely", "to find and meet new people". On the other hand, "to talk about the trip to my friends", "to be with family", "to Visit friends or relatives", were considered the least important because the mean value is less than 3.50. The responses for each statement are calculated to find the average value between 1 (strongly disagree) to 5 (strongly agree). In this

study there are 20 push statements. The mean ranges from the highest 4.32 to the lowest 2.99. The statement which got the highest mean was “To see new interesting places”. The statement which got the lowest mean was “To visit friends or relatives” (Table, 6).

**Table 6:** *The importance Mean ranking of push statements.*

Statements	Mean
To see new interesting places	4.32
To have opportunities to increase my experience	4.32
To see something different	4.28
To travel around the world	4.27
To know more about new lifestyle	4.25
To feel relax	4.15
To go to some places I have always wanted to visit	4.11
To explore new places	4.10
To seek novelty	4.00
To be away from daily life	3.95
To know culture or traditions	3.94
To increase experience about community	3.82
To visit destination recommend my friends	3.72
To visit places my friends have been to	3.71
Friendly and hospitality people	3.61
To act freely	3.61
To find and meet new people	3.58
To talk about the trip to my friends	3.45
To be with family	3.06
To visit friends or relatives	2.99

#### **Overall Mean Ranking Pull Factor Statements**

Table 7 below illustrates ranking pull factors. The pull motivational items which had the highest mean value at more than 4.0 included "A scenic and natural beauty", "Easy to get visa", "Multicultural place", "Unique and beautiful destination". However, there are twelve items which acquired a mean value range of 3.50 to 3.99. These items were "An affordable place to visit", "Availability of theme parks", "Shopping malls", "Tourism reserves", "Beaches with sunshine", "Special events", "Entertainment facilities", "Interesting atmosphere", "Islamic and capable country", "Information Availability", "Variety of culture and historical attraction", "Archaeological/cultural destination". In contrast, "Safe destinations", and "A healthy place with less medical problems" were the lowest important items gathered from the opinions the Middle East tourists.

According to ranking results that shows the most important factor was "A scenic and natural beauty". It acquired a mean value (4.28), while "A healthy place with less health problems" was not an important item because the mean value had a yield value of 3.45.

**Table 7:** *The Importance Mean Ranking for Pull Factor statements.*

Statements	Mean
A scenic and natural beauty	4.28
Multicultural place	4.06
Unique and beautiful destination	4.00
An affordable place to visit	3.99
Availability of theme parks	3.94
Shopping malls	3.94
Tourism reserves	3.89
Beaches with sunshine	3.88
Special events	3.84
Entertainment facilities	3.79
Interesting atmosphere	3.76
Islamic and capable country	3.76
Information availability	3.72
Variety of culture and historical attraction	3.71
Archaeological/cultural destination	3.56
Safe destinations	3.49
A healthy place with less medical problems	3.45

## LIMITATIONS

The research was only able to conduct the study limited to tourists in Kuala Lumpur. Tourists in other parts of Malaysia, out of Kuala Lumpur were omitted in this study. Another important limitation of this study is the fact it was conducted in January during the off peak season among the Middle Eastern tourists. The peak months for Middle Eastern tourists visiting Malaysia are during the school holidays from June to September every year. Furthermore, there are imbalances between number of male and female respondents that could have caused some level of bias in the analysis.

## CONTRIBUTIONS AND CONCLUSION

This study has helped to identify all the factors which affect the Middle Eastern tourists in making Malaysia as their choice for holidays. Upon identifying the push and pull factors it is possible to positively affirm the factors which motivates the Middle Eastern tourists to visit Malaysia.

On the other hand all the factors which scored low with the tourists were highlight equally. These low ranking factors could well be used to encourage more tourists only if the relevant authorities would be able to systematically improve on them.

Malaysia repeat tourists who liked their previous visits to Malaysia and decided to come back are Malaysia's golden loyal tourists. Malaysia Tourism Industry should consider them as ambassadors of Malaysian tourism in their countries. The word-of-mouth was their reliable source to get information about the specific travel destination, hence positive experience could help build a positive image of Malaysian tourism in their respective countries. The second largest segment of Middle East tourists visits Malaysia for the purpose of education. Consequently, it is essential for Malaysia education marketers to have appropriate strategies to meet and satisfy their

motivation. Islamic motivation got highest communality (0.725) among push factors; therefore, Malaysia tourism marketers can use this focal point to cater more religiously minded tourists to Malaysia.

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## **The Demand for Foreign Reserves at Central Banks: A Conceptual Approach**

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### **Abstract**

In an increasingly inter-related world economies with a relatively free movement of goods and services across the globe, and the increasing sophistication of inter-dependent financial markets, there is a growing importance for studying the behavior of central banks in managing their international monetary reserves. The central banks have to continuously come up with educated decisions with regard to the holding of foreign reserves, not only to support their countries' trade activity but also to protect their national economies and to ward off the negative effects of speculators trading daily over \$1.5 trillion dollars in the Forex market.

A country's reserve of foreign currency affects its ability to sustain international trade, avert depreciation of its own currency and manage inflation, among other issues. Therefore, central banks must maintain a minimum foreign currency reserve to meet the increasing demand for imports and to support its fiscal and monetary policies and instruments, and maintain the value of its currency. This applies somewhat equally to countries that shifted from fixed to floating exchange rates.

There are several theoretical approaches that explain international reserves holdings including, but not limited to, the Keynesian assumptions approach and the monetary approach. The paper which focuses more on the monetary approach and its ability to guide associated monetary behavior.

### **Introduction**

Increased economic globalization in the last two decades has subjected many countries to external destabilization factors originating from external economies. The bailout of the foreign reserves following the financial crisis in the far east in the late 1990's, nearly collapsing the economies of the Asian "tiger" countries, and the billions that were lost as Britain and France tried to defend its pegged rate and the values of their currencies in 1992 & 1993 are only examples of the potential severity of such impacts. A more recent example is the currently witnessed global economic crisis (2008-09) originating from western countries and the resulting weaknesses in its currencies as it affected the global economy as a whole, including strong world economies such as China and the Gulf states which suffered economically, albeit at varying degrees, as they held huge foreign reserves in affected western currencies.

Since the beginning of this decade, there has been a growing importance for studying the behavior of international reserves despite a policy shift from fixed to floating exchange rates by many major world economies. Historically, the research in this field was strong before 1973, and then it slowed down on the expectation that a floating exchange rate system would end the need for reserves. This slow period continued up to the late 80s and early 90s, after increasing demand for reserves by the world following the financial crises in the Far East.

The Bretton-Woods system viewed foreign reserves as means to smooth the fluctuations in the current account. After its collapse in 1973, the depreciation or appreciation of a currency and the movement of capital from one country to another as a form of investment (debt) became an alternative adjustment mechanism that would continue regardless of the reserves. Frenkel (1978) believed that the world demand for reserves would not change since the countries were still practicing a managed floating exchange system.

In fact, it was noticed that the non-gold reserves holdings increased at an annual rate of 12% during 1973-1982.

Bahmani (1988) points out that oil prices were one of the reasons for the changing behavior of the central banks. After the oil price increased in 1973, there was a need to facilitate the recycling of petrodollars, which was seen as a reason for holding reserves.

The volatility of the international financial markets is also a serious reason for holding reserves. In July of 1993, France lost \$34 billion defending the value of its currency, almost its entire foreign reserves. Even in the EMU there were arguments that the monetary union should reduce foreign reserves holdings at the disappearance of a large part of the international trade among its members, but of all the foreign reserves in the EMU, dollar holdings have risen from 40% in 1995 to 64% in 1998.<sup>1</sup>

The international financial crisis of the 1990's renewed interest in understanding the behavior of foreign reserves. For example, in 1995, when the Mexican peso lost 50% of its value, the United States and Japan intervened and used their reserves to guarantee Mexican bonds and prevent more speculative attacks against the peso. In another example, during the Asian financial crisis, Singapore and Taiwan, which had the largest foreign reserves, were the least affected by speculative pressures.<sup>1</sup> As of the early 2000's, China, Taiwan, Hong Kong, South Korea, Singapore and Japan had the largest foreign reserves in the world. As Micossi (1994 p.105) notes "Reserves assets always suffered from the following paradox: when you have plenty you don't need them, so that there is an unnecessary hoarding; when you start using them, however, the rate of depletion will be increased by the market's reaction to the fact that you are using them. In other words, the more you need reserves, the less you have" Much of the literature on foreign exchange crises is based on the idea that low reserve levels were the trigger for the crisis, yet some argue that the change in level is the trigger. It is still uncertain what trends will emerge after the end of this current global economic crisis (2008-09), especially that major economies such as China and Gulf States, which have large foreign reserves pegged to the US dollar, felt that they had less control over their wealth and could not adequately minimize their losses without additional consequences.

Some economists, such as Williamson (1994), believed that the concept of liquidity/ international reserves has lost its strategic role in the operation of the international monetary system. His argument concentrates first on the move to a floating exchange rate system and, more importantly, the increase of capital movements. On the other hand, there are economists such as Harrod who believe that more reserves are needed under a floating rate to offset the weakening in credibility of monetary policy.

The oil exporting countries experienced a massive payments disequilibrium that happened after 1974. The oil exporting countries, as with any exporters of primary products, received their export revenues in foreign currency (mostly dollars). Yet, these countries were different from other exporters of primary products and from the rest of the world in that they do not face an upward pressure in their exchange rate since the demand for their exports does not affect the demand for local currency. Second, there is a lack of any relationship between the rates of monetary expansion and the size of current account surpluses in some of these countries, which depend on the different roles of oil in the economy of these countries. The third issue is that an increase in exports would not necessarily result in an automatic increase in either money supply or domestic income.

The study of foreign reserve management remains a vital issue for Central banks. The reserves, which are usually held in the form of short term, highly liquid, interest bearing securities, are used to directly finance international payments imbalances. In addition, they are used to intervene in financial markets to provide liquidity in times of crisis (precautionary act), influence the exchange rate, pay for government purchases from foreign countries, repay debt that is denominated in foreign currency, act as a portfolio motive, such that the central bank keeps the foreign exchange as an institutional investor, and finally act as a policy goal to stabilize the domestic interbank foreign exchange market.

## Foreign Reserves Modelling

International reserves are defined as central banks' holdings (both borrowed or owned) of foreign currencies, gold, special drawing rights (SDRs), and their reserves position at the International Monetary Fund (IMF). The most important characteristics of these ingredients are their high liquidity and ease of conversion to other financial media. Their other feature is having some kind of return, such as treasury

<sup>1</sup> Badinger, 2000.

<sup>1</sup> Lane and Burke, 2001.

bills. Some definitions exclude gold from the makeup of international reserves on the premise that gold is not used anymore in interventions nor is it used to buy other currencies.

The balance of payments (BOP) accounts are the starting point for studying international monetary economics. The current account (CA) includes all the credit and debits from trade and services and from transfers. The capital account (KA) includes the purchases and sales of international assets, such as long-term and short-term security, and covers statistical discrepancies. So  $CA+KA=BOP$ . The surplus or deficit in the BOP would be accommodated by official reserves transactions (ORT) that include gold, special drawing right (SDR), the reserve position at the international monetary fund, and foreign exchange, which are the foreign exchange reserves. The surplus in the BOP will end up as a debit in the ORT and vice versa. In accounting terms  $CA+KA+ORT=0$  or  $BOP=-ORT$ .

The BOP only balances in an accounting sense, and the difficulty is in finding the sources of disequilibrium that need to be accommodated for, which depends upon where to draw the line between which accounts. Some disturbances or shocks to the BOP may be short-term, such as seasonal fluctuations, or they may reflect cyclical variations in supply and demand in the international economy. In such short-term cases, the foreign reserves would accommodate the deficit or the surpluses (to prevent inflationary pressure). If the unbalanced BOP takes a long-term approach, the reserves would be depleted and an appropriate policy action should be taken (expenditure-changing or expenditure-switching).

Expenditure-changing, which is the absorption approach, emphasizes the importance of reducing domestic expenditure to correct a deficit while expenditure-switching does not alter the amount of spending but switches from consuming foreign goods to local goods by imposing tariffs or subsidies<sup>1</sup>. Another way to direct the consumers from foreign to local goods would be by altering the relative prices, which is done by devaluing the local currency.

The buying and selling of the domestic currency is known as an intervention. Since exchange rates are important prices that influence the time path of inflation and output, central banks often intervene in the foreign market, buying and selling currency to influence exchange rates. In practice, the motives for intervention are to correct misalignment or stabilize the exchange rate at predetermined levels or within targeted rates of change, calm disorderly markets, accumulate reserves, and supply foreign exchange to the market. This intervention may be sterilized or non-sterilized. Non-sterilized intervention is considered a domestic monetary policy since it affects the money supply. Non-sterilized intervention can affect the exchange rate through central bank purchases or sales of domestic securities. This effect in the exchange rate would result in a change in the stock of base money and thus change broader monetary aggregates, interest rate, real demand for goods and assets, and market expectations.

Sterilized intervention is controversial. The monetary authority can correct the imbalances in the balance of payments and keep sufficient levels of international reserves by sterilization if the domestic concerns are more important than maintaining an external balance. The advantage of sterilization of capital flows is to give a country control over their money supply. Since sterilized intervention does not affect the monetary base or interest rates, it cannot influence the exchange rates through price or interest rate channels. However, in theory, sterilized intervention might directly affect the exchange rate by changing the relative supplies of domestic and foreign bound currency and by changing market expectations, which are the portfolio balance and the signaling channel. So a sterilized intervention is a pure change in the relative stocks of domestic and foreign assets held by the public, not combined with any change in the monetary



base. It changes the currency composition of the assets held by the public by changing the composition of the central bank portfolio (Edison and Hali, 1993).

Triffin (1947) introduced the reserves/imports ratio as the measure for reserves adequacy. Despite the criticisms raised by many economists (e.g. Machlup, 1966), it has become the standard approach to estimate the need for international reserves. The theoretical foundation of the Reserves/Imports ratio is based on an analogy to the quantity theory of money, which states a stable relation between the demand for money and the volume of transactions in current prices, and it replaced money demand by international reserves and income by imports. The rule of thumb is to maintain reserves equivalent to three months of

<sup>1</sup> Johnson (1961) called it “expenditure reducing” since the problem came mostly from deficits and not surpluses, where the policy may increase spending, which makes expenditure changing more accurate. imports. The 1958 IMF survey showed that countries generally achieved annual reserves/imports ratios of 30%-50%, which is four to six months of imports.

An alternative approach is to take into account the size of reserves in relation to a country's short-term external debt (Greenspan, 1999). This approach became more significant after the Asian financial crises, which highlighted the fact that a small, open country is very vulnerable to the withdrawal of capital, and this vulnerability can be reduced by better reserves and debt management.

The reserves (R)/ broad money supply (M2) ratio has been introduced by many researchers. For example, Calvo (1996) argued, with a fixed exchange rate regime, the R/M2 is the appropriate standard for measuring reserves adequacy. Many other studies also support the R/M2 ratio as a natural measure of the potential demand for foreign assets with regard to the “internal drain” of domestic sources. De Gregoria (1999) argued that if residents can freely transfer any amount of money out of the country in response to financial difficulties, all M1s should be covered by foreign reserves to prevent the collapse of the exchange regime and the financial system. However, Wijnholds and Kapteyn (2001) believe that is an extreme view since it is not reasonable to expect that the entire money supply will mobilize against the reserves in a short time span. They think that 10% to 20% of the M2s may need to be covered by foreign reserves. They noticed that the standard deviation of the reserves/M2 ratio over the last ten years falls within the 5-10 % range for countries using an independently floating exchange rate and the 10-20% range for countries using a fixed or managed floating exchange rate regime.

The second new ratio which fits emerging countries is the reserves / short term external debt (STED), defined as debt with a remaining maturity of less than one year. Pablo Guidotti, former Deputy Minister of finance for Argentina, proposed that a country manage its external liability in a way that allows it to live, at the minimum, for one year without borrowing. That means the reserves should exceed scheduled external amortization for one year.

Exchange rate determination models have some shortcoming. Under flexible exchange rates, they ignore the reserves since the flexibility of the exchange rate would clear the market and make the reserves worthless. Under a fixed exchange rate, these models consider the reserves an endogenous and residual item. In addition, these models are short-run models and cannot determine the state of reserves in the long-run.

Additional efforts were made after the mid 1960s to define the demand for reserves based on theory that treats reserves holdings as an independent issue instead of as a residual of international accounts. Inventory models were tried with some success.

Two models in particular have shown improved results: the Keynesian approach and the monetary approach.

## 2. The Keynesian Approach

A “traditional” – labeled or the Keynesian model has been derived from the theory of balance of payments during the 1950s and 1960s within the context of fixed rate and limited capital mobility (Wilson, 1986).

The theory of adjustment against financing is a precautionary theory whose concept is to balance the cost of holding the assets against the benefits provided. In our case, the foreign reserves are the assets and reducing the probability of incurring costs from adjustments as a result of payments imbalances are the benefits of holding it. These costly adjustments may be expenditure-switching policies (external measures), such as exchange rate change, or controls on foreign transactions, or the adjusting of domestic absorption by using expenditure reducing policies (internal measure) such as restriction of income.

Clark (1970) based his version of the traditional theory on a social welfare function with the reserves levels among his argument. Social welfare is considered an increasing function of income and a decreasing function of income instability. He argues that higher levels of reserves would reduce the probability of fluctuation in income since the probability of large amounts of reserves being depleted is less, so the probability of adjustment is less. But these high reserves mean higher opportunity costs, which imply lower income. When this tradeoff has been solved, the welfare maximization has been attained. The uncertainty is given by the stochastic properties of the reserves depletion.

The model assumes that the monetary authority will use the reserves to maintain the external balance in unbalanced payments and receipts. Then the authority would take steps to restore the level of the reserves holdings to their target level. As long as the reserves deviate from the desired level, the authority would like to have a balance of payments surplus / deficit  $B^*$  such that:

$$B^* = a(R^* - R_t - 1) \quad 0 \leq a \leq 1 \quad (1.1)$$

where  $R^*$  is the target level of reserves and  $a$  is the speed of adjustment.

The policy maker controls the level of income, and export is exogenous, so the desired change in the level of reserves  $B^*$  is

$$B^* = X - kM \quad (1.2)$$

where  $X$  is the export,  $k$  is the marginal propensity to import, and  $M$  is the imports. Yet, the actual change in the balance of payments will reflect other private flows

$$B = B^* + v = X - kM + v \quad (1.3)$$

where  $v$  is the other private flows, which has a zero mean and a constant variance  $\sigma_v^2$  and is independently distributed.

The decision makers want to maximize the expected utility function over choice variables with a simple liner functional form:

$$\begin{aligned} \text{Max } U &= \alpha_0 + \alpha_1 E(y) - \alpha_2 y - \alpha_3 \text{pr} & \text{With} \\ E(y) &= y_{\text{max}} - cR^* \\ \text{Pr}(R \leq 0) &\leq S_R^2 / R^{*2} = S_v^2 / 2a(2-a)R^{*2} \end{aligned} \quad (1.4)$$

Where  $E(y)$  is the expected level of income,  $y_{\text{max}}$  is full employment output in the case that no resources are invested in reserves,  $c$  is the net opportunity cost of holding reserves,  $S$  is the standard deviation, and  $\text{pr}$  is the probability of running out of reserves.

By using the utility function, Clark (1970) derived the optimum values of  $R^*$ , and the model predicts that targeted reserves will vary positively with income and the instability of the balance of payments and negatively with the marginal propensity to import and the opportunity cost of holding reserves.

### 3. The Monetary Approach

The development of the modern theory of international adjustment – the monetary approach – is relatively new. It has been developed through the Bretton-Woods fixed exchange rate period and the flexible

exchange rate regimes. (David et al., 1986). It consists of three elements: a theory of demand for money, a money supply process, and a balance of payments surpluses in case of excess demand for money and deficits in case of excess supply (Connolly, 1986). The monetary approach is a framework for analyzing open economies within a larger world economy. It views the world aggregate as a system of smaller, integrated, open economies. To examine the relation between money and prices, the monetary approach indicated that there are three possible cases: the closed economy, the small open economy with a fixed exchange regime, and the small open economy with a flexible exchange regime. In a closed economy it had been well known, from the quantity theory of money, that an increase in money would cause an increase in prices. Advocates of the monetary approach said that the only purely closed economy is the world economy, and the quantity theory applies to the world economy. Yet in a small open economy under a flexible exchange rate regime, the increase in the money supply would result in a depreciation of the currency, which would end up increasing prices. So the quantity theory of money holds. In a small open economy under a fixed exchange rate regime, the prices will not change if there is an excess supply of money since tradable goods prices are determined in world markets and given exogenously to any small open economy. This excess supply will create a balance of payments deficit as a result of importing goods and securities. So the quantity theory of money does not apply since the prices are invariant with respect to change in the domestic money supply.

The two main assumptions of the monetary approach are: first, the demand for money is a stable demand function and independent of the money supply; second, perfect commodity arbitrage such that, in the absence of transportation costs and restriction on trade, the law of one price, purchasing power parity (PPP), will hold in the world market.

Girton and Roper (1977) introduced the first modern monetary model known as the Exchange Market Pressure model, which is a succinct monetary model that assumes a small open economy faces given world prices and interest rates.

$$M_d = PY^{\phi_1} e^{-\phi_2 I} \quad (1.5)$$

$$M_s = mB \quad (1.6)$$

$$B = R + DC \quad (1.7)$$

$$P = S P^* \quad (1.8)$$

$$M_s = M_d \quad (1.9)$$

Equation (1.5) specifies the demand for money ( $M_d$ ) as a function of price level ( $P$ ), real income ( $Y$ ) and the interest rate ( $I$ ). Including the price level in the money demand function is to have price homogeneity. That implies: no money illusions, and long-run neutrality of money (which means, in the long-run, the output is determined independent of the behavior of money).  $\phi_1$ ,  $\phi_2$  are elasticity parameters of the demand for money.  $\phi_1$  is for the domestic income and  $\phi_2$  is for the interest rate. Equation (1.6) states that the money supply is a function of the product of the money multiplier ( $m$ ) and base money ( $B$ ).<sup>1</sup> Base money is a combination of net foreign reserves and domestic credit ( $DC$ ). So the money supply may change from: a foreign source, such as a change in foreign reserves as a result of an unbalanced BOP or /and a domestic source, such as a change in domestic credit by the central bank. Equation (1.8) defines the assumption of purchasing power parity.  $P^*$  is the foreign price level and  $S$  is the exchange rate.<sup>1</sup> Note that the model makes no distinction between traded and non-traded goods: the domestic prices of all goods are assumed to be kept in line with international prices, which is one of the more controversial assumptions in the monetary approach. Yet it is very important since it is a part of the transmission mechanism; world price movements and exchange rate changes are an important reason behind the change in the demand for money.

Equation (1.9) represents the money market equilibrium. The assumption is that the money stock adjusts rapidly to the quantity demanded, either by deficit (running down the money stock) or exchange rate increases, or by a combination of the two. So, under a fixed exchange rate regime,  $S$  is exogenous and the money supply adjusts to the money demand via payments imbalances. That is, the money demand will not change and the central bank will absorb the excess domestic money from the market by selling foreign reserves or exuding domestic money by buying foreign reserves.

Under a floating exchange rate regime, the money demand adjusts to the money supply via changing the exchange rate. Finally, under a managed exchange rate regime, both the money supply and demand are adjusted via payments imbalances and changing the exchange rate to reach the equilibrium.

By substituting

$$m(R+DC) = S P Y^{\phi_1} e^{-\phi_2 I} \quad (1.10)$$

and taking the logarithms of both sides and differentiating with respect to time, the equilibrium condition in percentage change is rearranged as:

$$\dot{R}_t - \dot{S}_t = P_t^* + \phi_1 \dot{Y}_t - \dot{m}_t - \dot{DC}_t - \phi_2 \dot{I}_t \quad (1.11)$$

Where

R = the change in foreign reserves (BOP) as a percentage of base money.

<sup>1</sup> It also may be called high-powered money, or reserve money

<sup>1</sup> The spot and forward exchange rates fully incorporate all current information and expectations regarding the future.

S = the percentage of depreciation of domestic currency.

P = the world rate of inflation.

Y = the growth rate of domestic real income.

m = the growth rate of the money multiplier.

DC = the increase in domestic credits as a percentage of base money.

I = the change in the interest rate.

In the case of a fixed exchange rate  $\dot{S} = 0$ , which implies

$$\dot{R}_t = P_t^* + \phi_1 \dot{Y}_t - \dot{m}_t - \dot{DC}_t - \phi_2 \dot{I}_t \quad (1.12)$$

R measures the reserves growth and this equation expresses the BOP ( $\dot{R}$ ) as a monetary phenomenon.

In case of a pure floating exchange rate regime  $R = 0$ , which implies

$$-\dot{S}_t = P_t^* + \phi_1 \dot{Y}_t - \dot{m}_t - \dot{DC}_t - \phi_2 \dot{I}_t \quad (1.13)$$

This formulation provides the theory of exchange rate determination. In case of a managed exchange rate regime,

$$\dot{R}_t - \dot{S}_t = P_t^* + \phi_1 \dot{Y}_t - \dot{m}_t - \dot{DC}_t - \phi_2 \dot{I}_t \quad (1.14)$$

$(\dot{R}_t - \dot{S}_t)$  measures the exchange market pressure (EMP). This formulation explains both exchange rate movements and official intervention. For the given rate of growth of these variables, the central bank has a choice between reserves accumulation or currency appreciation, and vice versa. The dependent variable gives us the amount of intervention necessary to achieve our target exchange rate such that:

$$\dot{R}_t = \dot{S}_t + P_t^* + \phi_1 \dot{Y}_t - \dot{m}_t - \dot{DC}_t - \phi_2 \dot{I}_t \quad (1.15)$$

Since the flexible exchange rate is a monetary policy instrument, the central bank can, for example, accumulate foreign reserves by depreciating the domestic currency.<sup>1</sup> Yet when the domestic credit growth is expansionary relative to the exchange rate depreciation (as in Argentina from 1979-1981), the speculators will attack and the reserves will be depleted, forcing a country at time  $t^*$  to free its exchange rate:

$$t^* = -\square + [\ln(R/DC + 1)] / (\dot{DC} - \dot{S}) \quad (1.16)$$

where  $\square$  is the sensitivity of the demand for money with respect to the expected rate of inflation,  $R/DC$  represents the initial reserves as a proportion of initial domestic credit, and  $(\dot{DC} - \dot{S})$  represents the difference between the growth in domestic credit and increase in the exchange rate (depreciating the currency). So the

collapse, which would result from speculative attacks, would be accelerated by: more sensitivity to the demand for money with respect to the expected rate of inflation (larger  $\square$ ), smaller initial reserves as a proportion of initial domestic credit (smaller  $R/DC$ ), and domestic credit growth that is very expansionary relative to exchange rate depreciation (greater  $(DC-S)$ ). This gives an idea of the inconsistency of monetary and exchange rate policy.

So basically the monetary approach becomes a general equilibrium approach that explains the overall balance of payments which includes the current and capital accounts, while the non-monetarist approach focuses on the real sector (current accounts) and analyzes it in a partial equilibrium framework. The monetary approach assumes that a country cannot completely sterilize the imbalance in the BOP.<sup>1</sup> The monetary approach assumes flexible prices and PPP and considers money a stock and not a flow. The increase of income would trigger the demand for money so that the appreciation of the exchange rate would end up increasing the reserves if the central bank leans with the wind. A rise in the price level would induce reserves inflow by increasing the demand for money. Higher interest would result in reserves loss since

<sup>1</sup> Except in a pure floating exchange rate regime.

<sup>1</sup> In the monetary approach to the BOP, the direction of causation may be from a change in reserves to a change in domestic credits rather than the other way around as the monetarists would have it.  $\Delta DC = \text{money multiplier} \cdot b \Delta R$ , where  $b$  is the sterilization coefficient.

high interest means weak currency, low demand for the currency, and higher debt service. These assumptions are often in contrast with the traditional or Keynesian model.

The monetary approach emphasizes the monetary aspects of the balance of payments adjustment under the system of a fixed exchange rate regime instead of the relative price and income effects. This approach has been often under attack by many economists (e.g. Currie, 1976; Kenen, 2000), but other economists such as Akhtar (1986), Boughton (1988) and David et al. (1986) responded with counter arguments.

The previous studies suffered from one or all of the following deficiencies. The first deficiency is using OLS as an econometrics method. Time series have a high likelihood of being non-stationary; OLS cannot be applied since it might yield spurious results, or, at best, ignore important information about the underlying data generating processes, such that it loses all the long-run information in the data by differencing. The second deficiency is lump summing a group of countries which ignores the differences in the institutional characteristics of central banks, the structures of national money markets, monetary policies, and the exchange rate regimes. Third, the new era of high capital mobility implied that quasi-money should be considered in the optimization behavior. Finally, the latest three studies using an ECM were not formally testing for lag length. Also, they either used a single equation and/or dropped some main variables.

## 5. Concluding Remarks

The current theory of the demand for international reserves has often not been able to satisfactorily predict the demand, an issue that is highly critical for central banks in their endeavors to satisfy the requirements of their countries' economic activities and to protect the value of their currencies.

The main prediction of the monetary theory is that the change in the money market equilibrium in the fixed exchange regime, combined with the absence of sterilization, is the balance of payments (the change in the reserves). This prediction was extremely accurate when tested within (EMP) model. The (EMP) model carried out the test for the monetary approach. However, with the exception of the change in money, the EMP model did not show significant results among the countries.

This study leaves two main questions open for future research. The first issue is a theoretical issue, whereas the second is an empirical one. First, there is a need to determine the demand using other models such as hybrid models that include additional factors. The second issue that requires further research is the money market disequilibrium (MDE). By including the MDE as an exogenous variable in the reserves demand equation, a verdict has been issued that the monetary approach is a short-run theory. The trend in studying the reserves demand was to separate the two approaches. Combining the two long-run approaches is a new trend, but it is conditioned on the short-run effect and the exogeneity of money on the demand for reserves.

The reason for not including the money effect as a long-run endogenous variable in the VEC system is a legitimate question that is worth answering. In contrast to the first open question, the difficulty here of adding the money effect as a long-run endogenous variable in the VEC system is more empirical. How can researchers overcome the problems of the MDE's stationarity? If the stationary problems can be overcome, can the MDE be considered a long-run variable? If not, what if the money supply itself is used rather than the MDE? All of these questions are empirical questions that need to be answered.

Finally, the demand for foreign reserves and the problems associated with it, in particular reference to oil producing countries, are still open issues that require further studies, especially with the increased globalization activities.

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# BEYOND PLANNING FOR DEVELOPMENT: A STUDY OF NIGERIA NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT STRATEGY (NEEDS)

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## ABSTRACT

*Poverty, unemployment and slow growth rate are basic characteristics of developing nations, like Nigeria. National Economic Empowerment and Development Strategy (NEEDS) is a planning programme conceived in Nigeria to achieve some development related goals. Specifically, NEEDS aims at achieving poverty reduction, employment generation and wealth creation. This paper attempts to find out the workability and performance of NEEDS as an important tool for future change. Secondly, the paper recommends some future intelligence capacity actions to help NEEDS to effectively achieve its objectives. The method adopted by the paper is the use of library materials, publications and other documented researches pertaining to the subject-matter. The paper hypothesizes that NEEDS has not been able to make a significant impact and therefore did not significantly reduce poverty and unemployment in Nigeria. The failure of NEEDS to attain some reasonable measure of development is attributable to the failure of political leadership. The leadership, at all tiers of government, is bedeviled by high level of corruption, lack of sincerity of purpose, lack of vision, relegation of national interests and jettisoning popular interests. To achieve meaningful development in Nigeria, the paper concludes that choice of some future capacity actions must be considered, which include: heavy investment in education, visionary and transformational leaders, institution of true and popular democracy, and creating an enabling investment environment.*

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## 1. INTRODUCTION

This paper is a research study that attempts to investigate the reform agenda or plans of Nigeria's leadership in its fourth republic. After the successful handing over of power from the military to the civilians on May 29<sup>th</sup> 1999, President Chief Olusegun Obasanjo, the democratically elected President and Commander in Chief of Nigeria's Armed Forces, declared that he had inherited an economy that had virtually collapsed and was bedeviled with a myriad of problems. According to the government, the economy was over-burdened with problems such as energy crisis manifested in widespread scarcity of petroleum products and epileptic power supply; high fiscal deficits which threw macroeconomic fundamentals out of order and a near total collapse of infrastructure and services. The economy was also said to experience low industrial outputs, high unemployment and a crushing debt burden.

In response to the big economic mess and, therefore, a challenge for correction, the new government of Chief Olusegun Obasanjo came up with its reform agenda: the National Economic Empowerment and Development Strategy (NEEDS). The NEEDS, which was said to be a 'home-grown' strategy specifically designed to lay a solid foundation for sustainable poverty reduction, employment generation, wealth creation, and value-oriented economy, was launched during the four-year second term of President Obasanjo in May, 2004. However, after 3 years, not much was achieved in real terms; especially in improving the living conditions and standards of most Nigerians. This way, the paper attempts to



investigate the conception and philosophy of NEEDS as a futuristic plan, its operation and performance as well as institutional, structural and societal challenges and constraints. For a clear presentation, the paper is divided in to 6 parts, namely: introduction, conceptual framework, review of relevant literature, summary of findings, future intelligence capacity actions and conclusion.

The paper uses research papers and documents produced by academics and government, the IMF and other multinational institutions as well as other relevant library materials to present arguments and analyses of the subject matter under study. It is observable, therefore, that the paper tries to present a balanced reports and analysis of the operation and performance of the NEEDS. As a way forward, using the diverse outcomes and standpoints expressed, the paper proposes some future intelligence capacity actions for poverty reduction and sustainable development in Nigeria.

## **2. CONCEPTUAL FRAMEWORK**

### **2.1 Philosophy and Conception of NEEDS**

Bad governance, and protracted military rule, coupled with lack of direction and purposefulness in Nigeria have led to the stagnation of the economy. Preceding military regimes, viewed as command and control institutions, have been alleged to have led to institutional decay, inefficiency, corruption, high level of poverty, and other social miseries which the country was known for, before 1999. Streamlining the aforementioned statement, Sonni (2007) puts it in this way: “Catastrophic governance caused the erosion of the values of hard work, patriotism, honesty, integrity, creativity, respect for dignity of labor, sanctity of human life and a host of others. Any society which has compromised these values, cannot but plunge itself into the throes of underdevelopment and political stagnation and that was the situation in which Nigeria found it self as a result of military rule”. Because of a widespread feeling of disenchantment about governance and other things related to development, on assumption of office in May 1999 as a democratically elected President, Chief Olusegun Obasanjo made it clear that he would introduce a reform agenda to take care of the problems. Consequently, in May 2004, NEEDS was launched.

Nigeria’s National Planning Commission (2004:29-29) states that: “NEEDS is the strategy aimed at achieving the directive principles of state policy. Its focus is wealth creation, employment generation, poverty reduction, elimination of corruption, and value reorientation. Aluaigba (2007:10) further submits that “other principles that underpin NEEDS are: an incentive structure that rewards and celebrates private enterprise, entrepreneurial spirit and excellence; new forms of partnership among all stakeholders in the economy to promote prosperity – among all arms of government, federal, state, and local; public and private sector organizations; civil societies and international community; and indeed all stakeholders; a public that delivers prompt and quality service to the people”. According to Sunday (2007:10) other goals of NEEDS include: “to re-define the role of government in the economy by de-emphasizing the participation of government in the running of business, and to make government responsible to create enabling environment for economic activities”.

Wikipedia (2007) further sums up the principles of NEEDS as follows: “the purpose of NEEDS is to raise the country’s standard of living through a variety of reforms, including macroeconomic stability,

deregulation, liberalization, privatization, transparency, and accountability”. It goes on to add that “it is intended that 7 million jobs would be created and inflation reduced to a single digit”.

According to the International Monetary Fund (IMF) report (2007:1-4), the National Economic Empowerment and Development Strategy (NEEDS) 2004 – 2007 is Nigeria’s reform based medium-term plan for economic recovery, growth and development. NEEDS was conceptualized in 2003 and launched in 2004, as a response to the numerous challenges facing the nation. Some of the challenges include the following:-

- Near collapse of social and economic infrastructure;
- Per capita GDP remained stagnant prior 1990; grew at 2.2% 1999 – 2003
- Total GDP 2001 \$45 billion;
- Per capita income was \$300 a year;
- External and domestic debt – 70% of GDP (difficult to service debt, domestic debt rose by 200% between 1999 and 2002 – about \$9.0billion);
- Real sector dominated by primary production sectors: agriculture 41%, crude oil 13%, manufacturing 5 – 7 % of GDP;
- High macroeconomic volatility (exchange rate, inflation rate, budget deficit, GDP growth rate, GDP per capita - among the worst in the world);
- Finances at all levels of government in poor shape (pension crisis, arrears of salaries, huge debt misallocation and mismanagement);
- Nigerian urbanization rate – 5.3% (one of the fastest in the world);
- High level of poverty (about 70%);
- Dysfunctional education system (low standard, institutions decay, youth militancy etc);
- Unfriendly business environment (public sector dominance, rent seeking, weak institutions, corruption, high cost of doing business);
- High unemployment rate (urban 12.4%, rural 23.2%);
- General insecurity of life and property.

Given the parlous state of the economy, an integrated and coordinated development approach was adopted, with the sub-national governments, developing complimentary medium term plans: States Economic Empowerment and Development Strategy (SEEDS). The conceptual issues on NEEDS/SEEDS are based on four goals, namely: poverty reduction, wealth creation, employment generation, and value re-orientation.

The framework for actualizing the goals of NEEDS is anchored on three pillars which are:

- Empowering people and improving social delivery,
- Fostering private sector led growth through creating the appropriate enabling environment, and
- Enhancing the efficiency and effectiveness of government, by changing the way government does its work.

## 2.2 Development Efforts in Nigeria

The strength of a nation could be measured by its resource endowments (physical and human capital) and how productively these resources are deployed to produce goods and services. To many economists and strategists, development is equivalent to economic growth and the distribution of economic benefits equitably. Sagagi (2007:6) sees sustainable development as not only the generation of wealth but also the distribution of economic benefits equitably. This implies empowering people rather than marginalizing them. It gives priority to the poor and enlarges their choices and opportunities. One alternative measure of development is the human development index (HDI) which measures other factors not only economics. HDI provides a measure of development by a process that enlarges people's choices and provides avenues for growth and exploitation of live opportunities. To some people development is about political freedom and democracy while others see it as the shift in value system and orientation (modernism). Others see development as the a shift of economic structures from dependence on primary sectors (agriculture, crude oil and raw material production) toward more advanced sectors such as manufacturing, service and knowledge.

It is generally believed that the reasons for lack of economic growth in societies to a large extent is because of the choices of the political elders. Sarchs (2001:187-198) identifies the following factors as critical for development:

- Urbanization development of new urban areas and increase in the population living in urban centers. No nation wants to remain agrarian and rural.
- Increased income per capita
- Growth of family income- increased productivity/employment, savings, use of technology, education
- Infrastructure
- Family size
- Good governance
- Cultural reorientation
- Innovation and entrepreneurship
- Economic policy framework- cost of doing biz, trade, human capital development, incentives to business, social capital
- Fiscal discipline – budget

Hausmann, Rodrik and Velasco (2005) provide an interesting model for determining the binding constraints to growth which would eventually lead to development. The model posits that low levels of private investment and growth are due to either low returns or to low savings and associated high cost of finance. The Department for International Development (DFID) 2006 survey investigated the performance of Nigeria based on key factors for achieving growth. It is found that the accumulation of physical capital has been lower than in more successful and rapidly growing developing economies. In fact, the low investments are also characterized by significant pro-cyclicality which is explained largely by the influence

of the oil cycle and its low efficiency as well as poor investment planning and corruption. This could explain the problem of inadequate infrastructure in the country which, in turn, increased cost of doing business and low growth. The survey similarly insisted that the low productivity in Nigeria (evidenced by large unused capacity) indicates low return on capital.

Since 1946, Nigeria has tried four Developments Plans: First Development Plan 1962-1968, Second Development Plan 1970-1974, Third Development Plan 1975-1980 and Fourth Development Plan 1981-1985. The First and Fourth plans yielded very limited results because of shortages of resources or falling government revenues (Ikein, 1990). The Second and Third plans were however credited with nationalizing the economy, employment, food production, improvements of rural areas and social infrastructure among others. Structural Adjustment Programme (SAP) ruled from mid 1980s to 1990s. The Programme was meant to liberalize the economy and encourage private sector participation in the economy, increase efficiency in the use of resources, encourage the use of local inputs and increase export of locally made products. The first National Rolling Plan 1990-1992 which was expected to stabilize exchange rate, stimulate employment, reduce inflation, fix fiscal imbalances and improve infrastructure and social services was met with set backs that crippled its effectiveness (Sagagi, 2007:12). Since then, the nation abandoned planning in favor of visions to develop specific areas of development. What promised to charter the course of Nigeria's development was vision 2010 which was debated and adopted in 1998 by a broad based platform of different occupational, professional and other interests groups in Nigeria. Unfortunately vision 2010 could not see the light of the day after the untimely death of the architect, former military leader, General Sani Abacha.

### **3. LITERATURE REVIEW**

#### **3.1 Official Assessment of NEEDS**

The Government of the Federal Republic of Nigeria and the IMF have concurred in the belief that NEEDS has performed tremendously well in almost all the target sectors, namely: foreign capital inflow, poverty reduction, employment, declining rate of inflation, manufacturing, banking etc (IMF, 2007 and Ogbo, 2006).

**3.1.1 The Federal Government of Nigeria's Assessment of NEEDS:** The central objective of the macroeconomic reform was to stabilize the Nigerian economy, to improve budgetary planning and execution, and to provide a platform for sustained economic diversification and non-oil growth: (Okonjo-Iweala, 2007:9). A deliberate fiscal policy was sought to enable accumulation of government savings for back-up purposes. Government expenditure estimates were based on a prudent oil price benchmark. Surplus accumulations above the prudent oil price were saved in a special excess crude account. "...government budgeting has been based on conservative oil prices of \$25 per barrel in 2004, \$30 per barrel in 2005 and \$35 per barrel in 2006, despite higher realized prices of \$38.3 and \$54.2 in 2004 and 2005 respectively, and an estimated average price of \$68 for 2006 (Ikonjo-Iweala et al, 2007:10). This development had helped in declining government expenditure from oil revenue earnings. "Gross excess crude saving totaled about \$6.35b at the end of 2004 and about \$17.68b by the end of 2005" (CBN 2006)

The domestic and foreign debt profile constituted another constraint on the macroeconomic stability. Under the reform Programme, government was able to pay its Paris Club outstanding arrears of \$6.4b, receive a debt write-off of \$16b on the remaining debt stock, and purchased its outstanding \$8b under a buyback agreement at 25% discount for \$6b. The entire Paris Club debt relief package totalled \$18b, or a 60% write-off in return for a \$12.4b payment of arrears and buyback (Okonjo-Iweala et al, 2007:11, IMF Report 2007:5). They further added, debt owed to London club commercial creditors, was also restructured and paid off. Domestic debt constituting about 12% of GDP in 2005, owed to contractors and civil service pensioners, was systematically paid.

In order to address the structural constraints to growth, state-owned enterprises which were largely considered unproductive, corruption-ridden and a drain on scarce public resources, were privatized. Other sections of the public sector were earmarked for deregulation. Between 1999 and 2006, about 116 enterprises were privatized, including various loss-making government enterprises operating in industries such as aluminum, telecommunications, petrochemical, insurance and hotel. Deregulation in telecommunication sector for example, has attracted over US\$1b a year in investment in the past four years resulting in increase in the number of telephone lines from about 500,000 landlines in 2001 to over 32 million GMS lines at present. This makes Nigeria one of the countries with the fastest growing teledensity in the world (Okonjo-Iweala et al, 2007: 13)

In the civil service sector, the reform considered the civil service as over-sized, poorly remunerated, corrupt and under-skilled, resulting in poor service delivery. The rationalization policy adopted resulted in retrenching a total of 35,700 officials at an estimated cost of about ₦26b, while 1,000, high flying University graduates were recruited. In the process of restructuring, an estimated 8,000 ghost workers were expunged from the government payroll. In respect of public service wage increase, the Shonekan recommendation of 25% increase in 2007 and a further 10% annual increase over the next 10 years was rejected in favour of 15% increase with effect from January, 2007. Housing and cars were monetized and consolidated with basic salaries. In the Banking sector, Deposit Banks were requested to raise their minimum capital base from about US\$15m to US\$192m by the end of 2005. Through mergers and revocation of licenses, the number of the deposit banks was reduced from 89 to 25.

With the adoption of the ECOWAS Common External Tariff, the simple (unweighted) average tariff rate declined from 29% to 18%, while the weighted average tariff rate fell from 25% to 17%. The essence of institutional and governance reform was to prioritize anti-corruption measures. A government survey discovered that prior to 1990, the government lost an average of about ₦40b each year from corrupt practices in public procurement alone (Okonjo-Iweala et al, 2007: 17). To tackle this, the government introduced a value for money audit, or Due Process Mechanism in public contracts. The Mechanism promoted an open tender process with competitive bidding for government contracts. Any project exceeding ₦50m required approval i.e. Due Process Certification. To ensure competitive costing of contracts, a database of international prices was developed to serve as guide during the bidding process. The government also published a Public Tenders Journal periodically as a means of reducing patronage in

the award of contracts. Finally, certification of completed government projects was also required before final payments are made.

Also a monthly publication of the state and local government shares of the Federation Account was introduced in Jan 2004, providing details of revenue allocation to all the 36 state governments and the FCT, as well as the 774 Local Governments. Further more, the government introduced two institutions to tackle corruption in the domestic official and business environments - the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices and other Related Offences Commission (ICPC). Through these institutions, there had been about 91 convictions for various corruption crimes and assets worth over \$5b had been seized, confiscated and refunded to the state and various victims of crime (Okonjo-Iweala et al, 2007: 19).

**3.1.2 The International Monetary Fund's Assessment of NEEDS:** The IMF, the body that originates the idea of the NEEDS through encouraging member developing nations to come up with their Poverty Reduction Strategy Papers (PRSPs), has described the NEEDS as tremendous success and therefore earned Nigeria credibility and confidence in the global world. According to August 2007 IMF report, NEEDS' achievements among others include the following:

- Real GDP annual growth rate averaged 6.6 percent (2004-2006) as against the annual target of 6.0 percent
- Oil sector annual growth rate averaged 0.23 percent as against 0.0 percent targeted (2004 – 2006);
- Non-oil sector average annual growth rate; 8.2 percent as against the NEEDS target of 8.0 percent;
- The inflation rate on year on year basis declined from 15.0 percent in 2004 to 8.5 percent in December 2006. It declined further to 8 percent in January 2007.
- Reduction of fiscal deficits to less than 3 percent of the GDP;
- Stable exchange rate (convergence of parallel and DAS exchange rates);
- External reserves grew by an annual average rate of about 230% from US\$7.68 billion in 2004 to US\$43 billion at the end of 2006, as against 12.2 percent target (2003 and 2007);
- Favourable external balance as reflected in increasing value of non-oil exports;
- Phenomenal growth in the net in-flow of foreign direct investment (FDI) and portfolio investment, particularly in the banking and telecommunications sectors; FDI rose from US\$1.866b in 2004 to US\$2.3b and US\$4.8b in 2005 and 2006 respectively.
- Reduction in external debt stock from over US\$30 billion to less than US\$5 billion;
- Favourable rating of Nigeria by International Credit rating agencies as “BB-” (Fitch rating and Standard & Poor).

### **3.2 General Analysis and Assessment of NEEDS**

Here varied assessments about the operation and performance of NEEDS were captured and reported. Wide arrays of researchers and scholars have put a lot of time in research about the conception, implementation and performance of NEEDS as a future oriented problem.

**3.2.1 NEEDS for National Development:** To a lot of scholars the goals of NEEDS seem to be phony and contradicting to what liberal model of development gives. Liberal model of development is a development model that emphasizes capital supremacy over state institution and other interventions. In line with this assertion, Usman (2003:7-8) in an open letter to the President Chief Olusegun Obasanjo, whose government initiated and set in motion NEEDS reform, observes with dismay that “the document establishing NEED fails to propose any strategy for national economic empowerment and development. To him, it contains no strategy, no coherent plan of action which to endorse. It is a bundle of confusion in its conceptualization, use of data and organization”.

Along a related argument, Usman (2004:2) states that “Mr. President, are you serious about NEEDS? Are you serious putting in place a National Economic Empowerment and Development Strategy, which you will diligently pursue in the next three years to uplift our country’s economy? Or, are you just trying to bamboozle Nigerians, and dupe the rest of the world?” He went further to add that “Deception has been part of your military training. It has been part of your battlefield experiences. As a successful battlefield commander, you know how to signal that you are deploying troops westwards, while you are deploying them eastwards, or you are just staying put. You know how to indicate that you are going to retreat, while you are actually going to attack. Is all this NEEDS just a part of such a maneuver? Is it just a smokescreen? Is it just a camouflage? Or, is it a serious attempt at putting in place, what you sincerely believe to be, a coherent and comprehensive way forward for the badly battered economy of our country?. The ideas expressed by Usman were ideas that most Nigerians share. President Chief Obasanjo’s first four-year term was full of mess, crises, treacheries, illegalities, unconstitutionality, deceit and colossal mismanagement of resources. With those records, his second term of another four years, in which NEEDS was launched, majority of Nigerians have lost hope and confidence that NEEDS was genuinely conceived for Nigeria’s development and as such the programme was greeted with serious suspicions, witch-hunt, doubts and lack of support.

When looked at table 3.1, one could observe that nothing has been achieved in respect to reduction of inflation rate; rather the country has experienced a further deterioration level of inflation. As indicated in the table, inflation rate in 2005 has surpassed previous figures by over 100 percent.

**TABLE 3.1: GDP, EXCHANGE RATE AND INFLATION**

Year	GDP	US Dollar (\$) Exchange Rate to Naira (N)	Inflation Index
1980	50,849	0.78	1.30
1985	98,619	2.63	3.20
1990	286,374	8.94	8.10
1995	1,928,642	54.36	56
2000	4,676,394	102.24	100
2005	12,989,629	131.01	207

Source: [http://en.wikipedia.org/wiki/Economy\\_of\\_Nigeria](http://en.wikipedia.org/wiki/Economy_of_Nigeria), p2.

It is also disgusting to note in table 3.2 that Nigeria ranks low, among 177 countries, as at 2004, in all the three human development indicators, namely: Human Development Index; Life Expectancy; and Combined Primary/Secondary/Tertiary Gross Enrolment. Nigeria's Human Development Index (HDI) is at the 159<sup>th</sup> position; and 166<sup>th</sup> and 140<sup>th</sup> positions on Life Expectancy and Educational Institutions' Enrolment respectively.

**TABLE 3.2: NIGERIA HUMAN DEVELOPMENT INDEX**

Human Development Index (HDI)	Value	World Ranking
Human Development Index	0.448	159
Life Expectancy	43.4	166
Combined Primary/Secondary/Tertiary Gross Enrolment	55.0	140

Source: UNDP Human Development Index Report, 2006

Table 3.3 shows that only 46 percent of Nigerians survive beyond the age of 40 years. This phenomenon places Nigeria at the 160th position of 177 countries from which data was gathered. The crux of the matter is that despite the well publicized reform of the democratic government of President Chief Obasanjo which NEEDS is the hub; Nigeria still occupies a very pitiable position in both human development and human poverty indices. The implication here is that the conception, precept and method of NEEDS as a reform agenda did not really favor Nigeria's development; the NEEDS programme could said to have aided further pauperization and marginalization of Nigerians.

**TABLE 3.3: INDICATOR OF HUMAN POVERTY IN NIGERIA**

Indicator of Human Poverty	Value	Ranking
Human Poverty index (HPI)	40.6	76
Probability of not surviving passed the age of 40	46.0	160
People without access to improved water source	52.0	116
Children under weight	29	113

Source: UNDP Human Development Report, 2006

Table 3.4 provided a picture of the revenue allocation, population, and poverty incidence in six states in Nigeria. It was found out that state governments have the capacity to do much in terms of growth and raising living standard independent of the federal government if they choose to do so. Unfortunately, evidences to support meaningful efforts by the states to improve the productiveness and capacity of their citizens are indeed thin.



**TABLE 3.4: NET FEDERAL REVENUE ALLOCATION TO SIX STATES IN NIGERIA  
(REVENUE IN BILLIONS OF NAIRA)**

STATE	2005	2006	2001-2006	POPULATION	INCOME PER CAPITA	POVERTY LEVEL
Abia	20.6	26.2	100.7	2.8	9, 357	22.27
Akwa Ibom	76.7	93.6	303.9	3.9	24, 000	34.82
Anambra	19.2	25.5	85.6	4.1	6, 219	20.11
Bauchi	23.4	28.1	103.9	4.6	6, 108	86.29

Source: Sagagi, 2007

**3.2.2 Globalization, Market Economy, Democratization and NEEDS:** The reform agenda of NEEDS in Nigeria could be said to have conformed to the world trend of globalization. Umezurike (2007) has claimed that while the external echelon of the Nigerian ruling class in collaboration with globalization have been fundamentally advocating the state divestiture from the and the entrenchment of private sector driven economy, the content of NEEDS portrays this vividly. On the other hand, the domestic petty bourgeoisie has been carefully pushing the need for a domesticated reform in which state divestiture is not completely implemented. This action could be seen from the series of extra ministerial institutions erected to guard against unbridled market and private sector political economy.

NEEDS has a potential to open up, subject and transfer the control of Nigeria's economy to global super powers, and hence contravenes the constitutional provisions. Biereenuy-Nnabugwu (2007:14) authoritatively proves the unconstitutionality for Nigeria to implement NEEDS by reference to chapter 2 of the 1999 constitution of Nigeria. Among others, the chapter provides in section 4(2) that sovereignty belongs to the people of Nigeria, from whom government through the constitution derives all its power and authority. It also provides that the participation by the people in their government shall be ensured in accordance with the provisions of the constitution.

The chapter, inter alia, also provides in section 16(1) and (2) that the state shall:

harness the resources of the nation and promote national prosperity and an efficient, dynamic and self-reliant economy; control the national economy in such manner as to secure the maximum welfare, freedom and happiness of every citizen on the basis of social justice and equity of status and opportunity; without prejudice to its rights to operate or participate in areas of the economy, other than the major sections of the economy manage and operate the major sections of the economy; promote planned and balanced economic development; ensure that the economic system is not operated in such a manner as to permit the concentration of wealth or the means of production and exchange in the hands of few individuals or of a group.

From the era of structural adjustment policy of General Ibrahim Badamosi Babangida in 1985 to the amorphous reform options of President Chief Obasanjo regime, there is evidence that the reform options taken by the decision makers reflect the wishes, desires and indeed prescriptions of off-shore interests and

preferences. Reflecting on this phenomenon, Khor (2003:4) laments that there is “erosion of national sovereignty and narrowed ability of governments and people to make choice from options in economic, social and cultural policies”. The implication is that Nigeria, like many post colonial states is busy implementing policies spuriously tagged reforms that are in line with the decisions and rules of those international economic and financial engines.

Under the guise of globalization, it is alleged that there is increasing concentration and monopolization of economic resources and power by both transnational corporations and global financial firms and funds (Biereenu-Nnabugwu (2007:15). The most important and unique factors of current globalization process is what Khor (2003:4) tags “globalization of national policies and policymaking mechanisms” the implication is that reform policies have increasingly come under the powerful control of international agencies and processes. Not only do these international organizations reside in few contemporary world industrial centres, it is obvious that reform agenda which they propagate go to determine the reform policies and perspectives that are largely implemented in policy recipient countries such as Nigeria. That position was elaborated by Jere-Malanda (2007:11) where he laments that, “the saddest thing of all is that these multinational corporations are able to exert undue influence over African governments and economies, simply by influencing political decisions and public opinion in places that matter”. This is the agonizing reality in Africa where Nigeria is a part. To break from this unfortunate situation some serious future decisions must be taken and adhered to.

Nwosu and Edeh (2007:6-7) observe that NEEDS tries to entrench private ownership thereby empowering the socioeconomic group with the means to replace the state in areas of the economy where the state is made to recede. Therefore, the two reforms share common stand in favor of privatization. They went further to argue that, other policy tools of the two reforms essentially have impacts of empowerment on the ruling class as against empowerment of the subordinate socioeconomic group.

The outcry is that most kind of reforms in Africa as NEEDS do not fit Africa’s socioeconomic structures. Kankia (2007:6) clearly puts it that while countries like Ghana and Uganda are reputed to have gone far in positive Neo-Liberal economic transformation, with appreciable development indices like GNP, GDP, life expectancy etc, the mass of the people in those countries still live on or under the UN poverty line of \$1 per day. This therefore, means the analysis and statistics of government and IMF about the positive impact of NEEDS on some development indices in Nigeria are not reliable.

In sum, the Nigerian entrepreneur is no way in position or likely, in the foreseeable future, to fit in to global competitive map. Kankia (2007:12) “concurs with the argument when he claims that infrastructural bottlenecks continue unabated despite massive investment of scarce public resources in the sector. The messy form of Nigeria’s energy sector, roads, rail transportation, ports etc inflicts huge transaction costs on business and reduces the Nigerian private sector competitiveness aggressively”.

**3.2.3 Social, Economic and Political Structures of Nigeria and NEEDS:** There are some fundamental contradictions in policy document of NEEDS. The objectives of NEEDS could hardly be achieved under a free market economic structure that Nigeria is operating. Liberal democracy instead of popular democracy is what is obtained in Nigeria. Popular democracy is what the majority of Nigerians need, but when this is

denied as is evidently clear every other thing seems to be lost. Ake (2003) has demonstrated that assertion when he argues that the feasibility of democracy in Africa will depend crucially on how it relates to the social experience of Africans and how far it serves their social needs. More than any other thing shows that the pursuit of popular democracy is central to freedom and development of African people.

Reform programmes like NEEDS can only benefit countries that have adequately prepared for it. Against this background (Biereenu-Nnabugwu (2007:23) identified the following three key reform issues:

- Reform must be methodologically organic such that there is clear relation with the concrete reality, projects and processes put in place to achieve them. For instance, in the case of NEEDS, it is only welcome in the areas where it is required and in such a way that the local authorities are able to determine the terms. For example, Nigeria's infrastructures have virtually collapsed, and for a country to achieve industrialization and economic development, infrastructural facilities must be well developed and be made available in every nook and cranny of the country (Dandago, 2005:132).
- Reform agenda must be theoretically holistic. In formulation of reform policies, adequate care must be taken into consideration about various paradigms to development. It must be recognized that the dialectic of the reform agenda has been relegated. The formulation process of NEEDS was highly bureaucratic and elitist in nature; its formulation process should have affected the broad based platforms from which real people voices could be heard.
- Reform must be socially relevant. There is no doubt that reforms are products of specific social forces. Beyond this however, it must be appreciated that socially relevant development comes the way of those who are clear headed and work steadfastly to achieve same.

**3.2.4 Leadership in Nigeria and NEEDS:** Aremu (2005:46) claims that, the inability to initiate purposeful development policies coupled with poor implementation, macroeconomic instabilities, weak policy response and lack of commitment on the part of political leaders have been the bane of development efforts in Nigeria. According to Usman (2004:3), Nigeria has been ruled, for over 20 years, without a national development plan. Actually, what has been brandished as policies by most governments in Nigeria are caricatures of strategic plans that will hardly breed development in the country. In the same vein Omoh, (2007:29) claims "economic liberalization has been underway in Nigeria for over two decades, but many of the claims originally made for it have not been fulfilled. The reform process has tended to be overtaken by certain broader economic, political and social developments which the designers underestimated, misunderstood or deliberately ignored". A proper understanding of the effects and prospects of the reform process in Nigeria therefore depends on comprehending the policymaking process.

Moreover, given that such policies are fabricated under the influence of foreign capitalist interest, they lack the domestic relevance to nurture economic growth. Although Nigeria's corruption perception index improves over the last few years, the DFID, (2006) survey revealed that lack of good governance and related weaknesses in institutions remain a major constraint to achieving reasonable economic growth. The survey reported that Nigeria had the worst score -1.13 in the Rule of Law Index and also ranked poorly on other institutional and governance indices. Sagagi (2007:2) argued that those kinds of surveys by DFID

tend to neglect the powerful impact of vision and goal-orientation and the successes of the leaders in achieving specified high impact objectives. As long as the expenditure follows due process as enshrined by regulations, it is regarded as an indication of good governance. But, the rationale and the relevance of the expenditure in achieving future development goals are hardly scrutinized. For this, leadership at both levels: federal, state and local has become a popularity contest. Sagagi maintained that most leaders mainly undertake programmes and projects that increase their fame. Specifically, programmes and plans meant for poverty reduction and socioeconomic development generally failed to achieve desired objectives because they were not really based on strategic and visionary foundations. For nations like Nigeria to appreciably reduce poverty level, generate more employment and wealth, strategic and visionary leadership is necessary.

Related to leadership inadequacies as one of the problems behind the failure of NEEDS as a strategy for development in Nigeria were the lack of popular support and mass loss of confidence on President Obasanjo and his ruling party (the PDP). President Obasanjo and his ruling party (the PDP) have suffered a serious problem of lack of confidence from 2003 to 2007. This argument could be related to what Covey (2004) observes; that is, there is a pattern that is common in all great leaders, that is, those who have had the greatest influence on others, those who have made significant contribution, and those who simply made things happen. The pattern is reflected in their four intelligences- mental - vision, physical - discipline, emotional - passion, spiritual - conscience. The unprecedented amount of labour unrest, violent conflicts, mass election riggings and consequent court cases were additional indices of leadership inability of President Obasanjo. Effective leadership inspires and influences; on the contrary ineffective leadership intimidates, terrorizes and heavily relies on state coercive instruments. In short, (Munroe, 2005:54) summarizes it all by saying, "leadership is the capacity to influence others through inspiration, motivated by passion, generated by vision, produced by a conviction, ignited by a purpose"..

Sagagi (2007) conducted a survey on strategic leadership of 15 local governments that cut across the northern and southern parts of Nigeria. Among the 15 local governments surveyed, it was found out that there was no evidence of medium term planning. In other words, budgets were simply based on the need of the moment rather than a particular programme being pursued. In essence, many local governments do not have a disciplined spending culture. Our observation reveals that the supervisory roles of the ministries of local governments and audit departments have been weak and ineffective. It was also found out that many local governments are over staffed and most of the projects executed are substandard. The question remains that how can underdevelopment in Nigeria be explained given its massive resources endowments and various forms of planning/visions adopted over the years. Sagagi (2007:8-15) sums up by saying Nigeria lacks strategic leadership capable of harnessing material resources with its vast human resources to achieve socio-economic development capable of improving the standard of living of the people. At the national level, Nigeria is yet to have leaders with the right sense of mission to envision a desired future and actualize it. The formulation of various development plans, reforms, and national plans were not enshrined in the vision of the leaders, rather they represent a chaotic response to local and global challenges or were simply adopted as political gimmicks. The situation is even worst at state and local government levels

where there is the virtual absence of key indicators for socio-economic development such as poverty level, Gross Domestic Product (GDP), unemployment level, capacity utilization, birth rates and death rates, business growth, literacy rate, and others. Without reliable information on these indicators, it will be difficult, if not impossible, to judiciously and efficiently allocate resources in real areas of need. This explains why resources, at the state levels, are directed to areas that least contributes to growth or poverty reduction.

Privatization and commercialization of government owned high impact corporations especially National Electric Power Authority (NEPA) currently branded as Power Holding Company of Nigeria (PHCN), despite the huge investment, did not commensurately improve service delivery. It is along that line, Amadi (2004:5) states that practical realities in PHCN indicate no improvement in capacity utilization. In addition, Audu (2006:20) claims that there was a clear deterioration of the operation and delivery of PHCN as evidenced by increasing number of factories closing down in Kano. Before 2000 there were 1, 502 medium and large scale factories in Kano, which is the second largest industrial state in Nigeria, but at the end of 2006 only 128 remained functional producing at less than 35 percent capacity. This has rendered more than 250, 000 workers jobless at various levels.

Sandbrook (1993:57) posits that “the secret of the East Asian newly industrializing countries is a strong interventionist, yet market confronting, state. He went further to say that Africa does not need less government per se rather, it requires active development states capable of complementing and directing market forces”. Along the same argument, Nwosu and Edeh (2007:20) argue, Nigeria is moving toward a situation whereby the government is virtually having no responsibility; there is near total retrenchment of the state from the economy. They further claim that economic history of most developed nations did not show that they had this form of the state that Nigeria aspires when they were at Nigeria’s stage of development. Hertz (2002: 21) specifically cites examples of the UK development process; that in the UK between 1945 and the mid—1970s, the proportion of GDP spent on the main welfare services rose from just 5% to around 20%. Expenditure on the National Health Service rose from about €500m in 1951 to €5,596m by 1975.

Attempts by the Nigeria’s government to reduce poverty, generate more income and employment have more or less created problems rather than solutions. Government actions in form of downsizing, reduction of government expenditure in respect to health, education and the workforce have caused colossal problems to the fragile economy. Related to this argument, Amadi and Ogwo (2007:10) claim that the impact of government reform on education at the tertiary level is a monumental disaster. Government has cut down university funding by 70 percent. As a result of this action, Academic Staff Union of Universities (ASUU) paralyzed academic activities in Nigerian universities for 3 months in the early 2007. Related cases were the Nigerian Labor Congress nation wide strike that lasted for a week in response to increase in the pump price of petroleum products in the second quarter of 2007.

Kankia (2007:11) lamented that despite improvements against the background of the high stream of ascending oil revenue, debt relief, the huge proceeds of privatization and commercialization, and refund of money confiscated from past and present corrupt leaders and all other gains during the NEEDS period were

lavishly spent on political campaigns to out cost opponents. He posits therefore, that NEEDS has failed to live up to the promise it holds to an average Nigeria.

Corruption is one vice that hinders future development objectives and programmes in Nigeria. Despite the government mass propagation of its success in fight against corruption, reasonable number of Nigerians and members of the international community are still skeptical about accepting the fact that corrupt practices have significantly reduced (Bambale, 2007:8). Kankia (2007:16) was convinced that very little was done to mitigate the cankerworm of corruption in the Nigerian socio-political and economic fabrics. In fact the architects of the reform were widely seen as themselves corrupt, bringing to mind the debacle of executive bribery allegedly offered to the legislature to induce favorable treatment of the unconstitutional President Obasanjo's third term agenda, which was televised nationwide, amongst many other instances.

Mkandawire (2005:20) remarks that African governments have neither the type of government nor the political acumen to prevent capture of these policies by rent seekers and patron-client networks. This feature has characterized reforms in Nigeria and inspires pessimism about the success of NEEDS right from the onset. Political processes and reforms in Nigeria are devoid of transparency and popular participation.

#### **4. SUMMARY OF FINDINGS**

From the varied standpoints about NEEDS; its operation and performance, the following are the major findings of the paper:

- NEEDS has attracted mixed feelings from different stakeholders at national and international levels. The government and the IMF acclamation about NEEDS are countered by the popular voice of the learned and most other citizenry of Nigeria as well as some international agencies. While government and IMF believe that NEEDS could solve the problem of high rate of poverty in Nigeria. The critics of NEEDS lack confidence and are skeptical about the institutionalization of NEEDS in Nigeria as panacea for poverty (Mkandawire 2005).
- NEEDS has been seen as gimmick for further economic domination of Nigeria's economy by the global powers. This position was attributed to seemingly apparent unfit of the local capital in Africa and particularly Nigeria to favorably compete with their global counterparts (Sandbrook 1993, Sagagi, 2007).
- NEEDS is theoretically good but practically unable to solve the problem of poverty, unemployment and wealth creation due to myriad of problems, inter alia, lack of mass support arising from negative perception about the programme, and poor and collapsing infrastructure (Dandago, 2005).
- There are contradictions about the performance and achievements of NEEDS. Government and IMF positions and arguments greatly differ with scholars and international organizations', like UNDP and Transparency International, standpoints and arguments. The former have credited NEEDS while the latter have discredited the programme. (See tables 3.1, 3.2, 3.3, 3.4 and appendix 1, 2 and 3).
- The acclaimed success of NEEDS by the government and IMF is not monumental and not significant enough to impact on the lives and activities of people. The employment generation and

poverty reduction achieved during NEEDS are mostly in the telecommunications and banking industries. Jobs created fall far below the 7 million targets (IMF, 2007). Those achievements were not foul-free; a large number of workers have lost their jobs during the reform process in almost all sectors.

- The overall GDP has increased significantly in Nigeria during NEEDS (IMF Report, 2007, Table 3.1). However, it is difficult to establish a correlation between NEEDS and GDP growth rate, perhaps because of increased oil revenue over the years.
- At all levels of governance, Nigeria's leadership is corrupt, not sincere, not focused, and not transformational on real terms of development hence the failure of NEEDS to make good impact on most Nigerians (Kankia 2007, Sagagi 2007).
- For a country to achieve industrialization and economic development, infrastructural facilities must be well developed and be made available in every nook and cranny of the country (Dandago, 2005). Because of the critical role of infrastructural facilities in social progress and economic development, and the current collapsing-state of infrastructure in Nigeria, the objectives of NEEDS for the next eight years may be difficult to achieve. Therefore, standardizing the nation's infrastructure shall be among the first and fast ways of making NEEDS realize its objectives.

## **5. PLANNING FOR NATIONAL DEVELOPMENT: NIGERIA'S SCENARIOS**

Development is the driving force for all sorts of programmes and plans. In Nigeria NEEDS was meant for poverty reduction and wealth creation. The future of Nigeria in terms poverty reduction and development as a whole is dependent on certain variables, and hence the need for scenario development. Scenarios could give policy makers and all stakeholders in Nigeria's economy a better understanding of possible futures. Two scenarios, namely: National prosperity and Over-dependency have been contemplated.

### **5.1 National Prosperity**

One good scenario for Nigeria is a situation of real wealth creation, increase in employment level, increase in per capita income, robust political system, infrastructural development, and sustained industrial and economic growth. This scenario is bound to happen when the Nigeria's political leadership was able to understand and become focused on the need for national development or through maturation in the emerging socio-political processes; or through a possible change in the global economic and political matrix and dialectics. It is then that NEEDS and all plans would focus on real and genuine national development and would be recognized and supported by the larger majority of Nigerian citizenry.

### **5.2 Over-dependency**

This is the worst case scenario. This scenario is characterized by further dependency on the western capital powers and the emerging economies for most manufactured products and machineries. The local industries would continue to find it very difficult to compete with global corporate powers owing to collapsed infrastructures and lack of good incentives to the local manufacturers. Dependency on foreign capital and technology will persist owing to increasing neglect of the educational sector in Nigeria. Our investment on education and human capital development would continue to be low. However, Nigeria would continue to be shown in the world record as having improvement in some development indices, simply because it has

conformed to the current tide of global capital order. The country would also continue to be invited to high profile world meetings, and be deceptively regarded as African giant and leader while poverty continues to deepen.

## **6. BEYOND PLANNING FOR DEVELOPMENT: FUTURES INTELLIGENCE CAPACITY ACTIONS**

### **6.1 Heavy Investment in Education**

The current global trend is knowledge-based economy. For any economy to be economically and politically relevant in the global arena, it must develop strength and competitiveness along side its human resource element. The human capital of a nation should have sound knowledge and information relevant in the dynamic competitive global environment. Sustainable development can not be attained without having the large part of the population becoming soundly educated. The consequences of a sound and competent human capital in an economy, inter alia, include technological development and innovation which could further lead to increased gross domestic product (GDP), increased employment level, increased wealth, decreased poverty level and global relevance. Nigeria should therefore understand the trend and the role of education in the nation's development and invest heavily in the education sector. There is urgent need for serious investment and regulation of the education sector from the primary school level up to university level. At this information age, the most assuring way to sustainable development and global competitiveness is knowledge. The starting point towards becoming a knowledge based society, in Nigeria, may be the implementation of United Nations Educational, Scientific, and Cultural Organization's standard on education. UNESCO's standard of 26 percent of annual budget to education sector is still far from reach. The highest budgetary allocation, in Nigeria, in the last 8 years was 13 percent.

### **6.2 Encouraging Popular Democracy**

Against the liberal democracy that is in place, popular democracy should prevail. Popular democracy is much more likely to lead to situation of breeding leaders with vision and future focus, leadership that utilizes fully our human, natural, and material resources to the advantage of the vast majority of Nigerians, leaders that would try to reduce the high level of inequalities in the Nigerian society. However, the policy making and implementation have at all times pursued the narrow interest of the ruling class that ignores popular aspirations. What Nigeria ought to pursue as a reform agenda is the democratization of development both at the level of decision making and implementation. The key to achieving that is popular democracy.

### **6.3 Societal Value Re-orientation**

The reality now is that patriotism and nationalism are at their low ebbs in Nigerian polity. Nigerian society is characterized with high level of tribalism, ethnicity and sectionalism, thus making it difficult for any development efforts to succeed. Like in the United States of America, where the driving force is the American interest, there is an urgent need for patriotism and nationalism to pervade at all levels of governance and activities of all Nigerians. The best method to achieve this is through a robust programme of societal values reorientation. The society should be reoriented to appreciate the prioritizing of national values, quality rather than material being, truth, honesty, justice, equity and ethical conduct. The



Government, community leaders, spiritual leaders, educational institutions, and Non-Governmental Organizations should all be on board to ensure the success the programme. National interest should suffice and be supreme in all our affairs. It could be recalled that, War Against Indiscipline – a national reorientation programme – was effectively enforced in 1984 and 1985 by former military leader, Retired General Muhammad Buhari. However, the programme should not be seen as an obstacle or a contradiction to current tides of globalization; a balance should be struck between national interest and global demands.

#### **6.4 Political and Electoral Reform**

Democracy in Nigeria and indeed Africa as a whole could not be meaningful if the current political culture and electoral processes remain the same. The current political arena is mostly dominated by corrupt and questionable character. It is necessary that people of high integrity, high quality, sound educational background form the integral part of Nigeria's political and electoral processes. When this is achieved responsible and qualified political leaders will dominate the political and electoral landscapes. This scenario can be achieved through sustainable democracy, increased political awareness among the masses, increased level of education and future thinking. Once this is achieved the likelihood of reform resistance like the one experienced by NEEDS would greatly be avoided. On the other hand support from the citizenry would be maximized. It is recommended that party leaders and the elected leaders at all levels of government be exposed to strategic and future issues and economic development before they assume active duty. The reforms should be reflected in the Nigeria's constitution for legitimacy and sustainability.

#### **6.5 More Vibrant Non-Governmental Organization Activities**

Local and international non-governmental organizations should be more encouraged in Nigeria. The international and national donor organizations as well as elite members of the society should lead in this respect. The role of non-governmental organizations should not be understated in the present state of Nigeria's development. The role of civil society organizations like Transparency International significantly helps in curbing corruption; it serves as an eye opener to the government; it helps in better utilization of national resources and helps generally to improve overall governance in Nigeria. These agencies and organizations, in the sphere of socio-economic and political spheres, play sensitizational, educational and economic roles that are practically difficult for any internal agency to perform. International communities and organizations in the developed economies should intensify action programmes in less developed economies like Nigeria. With increased vibrancy in the activities of local and international non-governmental organizations in Nigeria, it is possible that future poverty reduction and development programmes of government would have better inputs and focus and hence greater impacts on socio-economic and political lives of Nigerians.

### **7. CONCLUSION**

The analysis presented above provides a broad enough picture of the operation and performance of Nigeria's reform agenda in terms of NEEDS. It is deductible that regardless of the improvement in the level of GDP or economic growth rate as reported by the Government and the IMF, many Nigerians are evidently wallowing in poverty. Nigeria can not be said to be developed or developing if family income drops, quality of education is low, infrastructure is collapsing, unemployment persist, and the economy

continue to rely on primary products. Official corruption, lack of coordination of policies, lack of effective control of programme activities, lack of popular support and lack of prioritizing the public interests are among the problems hampering the success of NEEDS in Nigeria. In fact, the reform trends in Nigeria make one factor clear: the absence of democracy in decision making. Meaningful development reflects positively on the living conditions and income level of people. For development programme such as NEEDS to be successful in Nigeria, there is need to have a clear concerted national focus and enabling economic environment in terms of good infrastructures and security. Nigeria, more than any other thing, needs to be focused in terms of real and sustainable development; it needs to be focused on having a dynamic and transformational leadership; it needs to shift emphasis to providing its citizenry with quality education to be able to fit in to the global map and be relevant. In fact among all deficiencies Nigeria is having that constitute obstacles to sustainable socio-economic and political development, poverty of focused and transformational leadership is the most serious one. Futuristically, solving the problem of leadership could be a key to solving all other problems. Having focused and transformational leadership is a function of high level of education, good political awareness among majority of the citizenry, positive attitudinal change of the political class and ethical global partnership.

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# ENTREPRENEURIAL EDUCATION AS A TOOL FOR BUSINESS ENTREPRENEURSHIP DEVELOPMENT IN NIGERIA

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## ABSTRACT

*The role played by entrepreneurship in all economies of the world could not easily be quantified. In Nigeria like other developing economies so many hiccups militate against development of this development force. Against this backdrop, this paper reviews the entrepreneurship problem spots with specific emphasis on entrepreneurial education. The methodology adopted is extensive review of relevant literature and personal observation. The paper while reconfirms the widely acclaimed problem of entrepreneurship in Nigeria, which is inadequate money capital a more serious problem facing development of entrepreneurship in Nigeria lies in inadequate entrepreneurship education among most entrepreneurs. Most Nigerian entrepreneurs lack effective entrepreneurial skills, knowledge and culture to survive and prosper entrepreneurial project in economic recessionary environment. Against this discovery, the paper makes numerous recommendations among which include: change of mindset among Nigerian entrepreneurs; new orientation and training for entrepreneurship teachers; developing entrepreneurship education targeted at all forms of students; more responsible leadership focused on developing robust and honest policies aimed at solving entrepreneurship development problems among others.*

## 1.1 NIGERIA: A BRIEF INTRODUCTION

Nigeria is situated in West Africa. It borders the Gulf of Guinea and lies between Benin and Cameroon. Nigeria is also bordered by Chad and Niger. Nigeria is Africa's most populous country with population of more than 140 million people and as such one of the most promising markets for international companies. Foreign Direct Investment (FDI) in 2001 totaled US\$ 1.1 billion. About 66% of the population now falls below the poverty line, however and the country has a literacy rate of 67%.

Nigeria is a country rich in natural resources; consequently most industry activity revolves around these. Agriculture is an important industry involving a large percentage of the country's workforce. Oil is the country's most important natural resource and generates up to 95% of Nigeria's revenues. The country is a member of OPEC and is the largest oil-producer in Africa. The continued increase in crude oil means continued growth in this sector.

The Nigerian economy is heavily dependent on the oil and gas sector, which accounts for 99% percent of export revenues, 85% of government revenues, and about 52% of gross domestic product (World Bank, 2008). Despite total earnings of over \$400 billion USD in oil revenue since the early 1970s, Nigeria's GDP per capita is only about \$1,049 (2007), and the vast majority of its 140 million citizens have seen little benefit from this legacy of wealth. Nigeria ranks 159th out of 177 on the UN Human Development Index.

### The Map of Nigeria



Nigeria offers the interested investor Africa's largest domestic market as well as the additional attractions of a low-cost labour pool and abundant natural resources.

The Foreign Exchange Decree of 1995 re-established the foreign exchange market. Foreign companies can source foreign exchange at the parallel market rate. Companies are allowed to hold domiciliary accounts in private banks. Foreign investors are allowed to bring capital into the country without requiring prior government approval.

The degree of foreign investment in the country is relatively small considering the abundant natural resources. The legislation passed by the government has helped to improve this situation slightly, along with legislation, economic liberalization has also been a government priority. Under the government's improved investment plan, markets other than those in the energy sector, namely, telecommunications, have been developed.

## **1.2 BACKGROUND OF THE STUDY (INTRODUCTION)**

For quite a reasonable period, much has been discussed about the subject matter of entrepreneurship in Nigeria at different circles. Government has made several policies and colossal amount of money spent to turnaround the poverty and high unemployment situation in the country. The publicity and popularity of entrepreneurship in the political and academic community have attracted attention of researchers to contribute intellectually and professionally toward boosting economic activities nationally and globally.

Business entrepreneurship has been identified as a strategy capable of playing critical role in solving the poverty and development problems plaguing developing countries like Nigeria (Akinlua & Akintunde, 2008). The major problem identified as a limiting factor for entrepreneurship in developing countries, specifically, Nigeria has been identified mainly as inadequate capital occasioned by the reluctance of commercial banks to grant loans to small scale industrialists to either start or further expand their operations. Banks demonstrate that the funding problem is more of inadequate credibility, experience and competence on the part of entrepreneurs to attract the capital; the tendency to start "big" instead of small, to grow up.

Solution strategies in Nigeria have been in the direction of developing policies and creating institutions for mobilizing and deploying capital funds to the small scale businesses. Various authors in the field of entrepreneurship in Nigeria argue that after so many policies aimed at providing capital base to entrepreneurship, not much appears to have been achieved in terms of Small Scale Businesses (SSB) development. This suggests that the problem of entrepreneurship development in Nigeria might not mainly be that of inadequate capital.

In the quest for solution to the lingering entrepreneurship development problem, some authors propose that solution should be entrepreneurial education. It is believed that entrepreneurial education is a more effective and enduring strategy for solving the problem of entrepreneurship than the capital injection solutions that has been embraced greatly by the major stakeholders in Nigeria. Entrepreneurial education could enable small scale industrialists to start the right business at the right level of operation, with the right level of experience, character and competence to attract their capital requirement.

In the last few years, at least 60% of graduates are not able to get employment immediately (Bamkole, 2007). He further states that, because of the disturbing unemployment level, people struggle hard for money capital to go into one entrepreneurial venture or another. Unfortunately, because they have not been adequately prepared to face the challenges of venturing, these entrepreneurs eventually find themselves folding up.

This paper attempts to contribute useful literature for the development of entrepreneurship in Nigeria. The paper focuses on unveiling the secrets of entrepreneurship education as a better solution towards solving the problem of entrepreneurship development in Nigeria which can transform the present poverty and unemployment situation into economic prosperity and social development. The paper is divided into 4 sections: section 1 is introduction which discusses the general background of the paper; section 2 presents analysis of conceptual definitions and literature review; section 3 focuses on recommendation of strategies

for effective entrepreneurial education for entrepreneurship development in Nigeria. Finally, section 4 presents conclusions of the paper.

## **2.0 CONCEPTUAL DEFINITIONS AND LITERATURE REVIEW**

Attempt to clarify the underlying concept of entrepreneurship is vital for understanding the foundation level of this paper. Different point of views about entrepreneurship have been presented and analyzed.

### **2.1 Defining Entrepreneurship**

Entrepreneurship means different things to different people. Wikipedia (2009) attempts giving a picture of entrepreneurship. It defines the term as the act of being an entrepreneur, which is a French word meaning "one who undertakes an endeavor". Entrepreneurs assemble resources including innovations, finance and business acumen in an effort to transform innovations into economic goods. This may result in new organizations or may be part of revitalizing mature organizations in response to a perceived opportunity. The most obvious form of entrepreneurship is that of starting new businesses; however, in recent years, the term has been extended to include social and political forms of entrepreneurial activity. When entrepreneurship is describing activities within a firm or large organization it is referred to as intra-preneurship and may include corporate venturing, when large entities start spin-off organizations (Shane, 2003).

Entrepreneurship is often a difficult undertaking, as a vast majority of new businesses fail. Nevertheless such undertaking supposes the development of more than just a business venture. Entrepreneurial activities are substantially different depending on the type of organization that is being started. Entrepreneurship ranges in scale from solo projects to major undertakings creating many job opportunities.

The act of entrepreneurship is often associated with true uncertainty, particularly when it involves bringing something really novel to the world, whose market never exists (Wikipedia, 2009). However, even if a market already exists, there is no guarantee that a market exists for a particular new player.

One major thing to note is that entrepreneurs are people with entrepreneurial spirit. People with entrepreneurial spirit are likely to have knowledge and skills requirements unique and different from others. Entrepreneurs learn in the real world through adaptive learning. They are action oriented and much of their learning is experientially based. They also learn by doing which encompasses activities like trial and error as well as problem solving and discovery. Learning is not an optional extra, but is central to the entrepreneurial process: Effective entrepreneurs are exceptional learners. They learn from everything. They learn from customers, suppliers, and especially competitors. They learn from experience. They learn by doing. They learn from what works, and more importantly, from what doesn't work.

### **2.2 THE ROLE OF SMALL SCALE BUSINESSES**

It has been researched and established that small scale businesses play crucial roles in the economic development of countries (Ogundele, 2006). Whatever be the form of economic and political set-up of the country, entrepreneurship is indispensable for economic development (Bayineni, 2005). They employ more workers than their large scale counterparts. They play complementary roles to large scale firms as a training workshop for developing skills of industrial workers and establishing forward and backward linkages.

The spectacular economic development of the Asian countries like Malaysia and Indonesia were attributed to the rapid development of the small and medium scale enterprises. In recognition of the role of small and medium scale industries, many countries now see them as instruments for fighting poverty and underdevelopment and are redirecting their economic policies toward the development of this class of enterprises. In Nigeria, Small Scale Businesses constitute 85% of all firms operating in the economy (Akinlua & Akintunde, 2008). Like in most other developing countries they employ the largest number of workers in the economy. It is compelling on the Government, therefore, to become concerned about development and sustenance of the sub sector. Against this background, Moja, (2000) confirms that in Nigeria it is the official policy of government to develop the economy and fight poverty through the development of small scale businesses.

### **2.3 THE PROBLEMS OF SMALL SCALE BUSINESSES IN NIGERIA.**

The major problem associated with growth and development of Small Scale Businesses (SSB) has been identified as inadequate capital to start or engage in expansion (Ogundele, 2006). The most popular argument to support the inadequate capital syndrome is that banks refuse to grant loans. Banks prefer to give loans to bigger businesses than the smaller ones. This argument could be examined from the very essence and condition for the survival of banks. Given that every idle fund in the bank is a liability, it would be illogical to expect that a bank would refuse to fund a good business idea. Bank funds are investor's fund. They are operated by experts who could detect bad/good businesses ideas or project. They fund only those that would guarantee the safety and growth of investor's money (Akinlua & Akintunde, 2008).

Other problems of small scale business development include: lack of experience and skills needed to succeed; poor infrastructures especially electricity; tendency to start big instead of small; inadequate credibility to attract funding; and general indiscipline which characterized the Nigerian business environment.

Government, over time, has developed and executed many small scale business friendly policies. However, Nigeria is still bedeviled with large scale of unemployment and poverty. The government was unable to make the desired impact in the nation's economy as those of the Asian tigers. To further buttress this point, Ihunweze, (2006) states that several indices of economic performance of the nation point to the failure of government to solve pressing economic problems like: the low per capital GDP; a low growth ratio; a weak industrial base with declining output and capacity utilization; and large budget deficits. In similar conviction, Fabiyi and Adetoro, (2006) asserts that increasing number of graduates from public and private higher institutions roam the streets, seeking for placement in the few declared vacancies.

### **2.4.0 THE ROLE OF NIGERIAN GOVERNMENT IN ENTREPRENEURSHIP DEVELOPMENT.**

In Nigeria, credit has been recognized as an essential tool for promoting small and Micro Enterprises (SMEs). About 70 percent of the population is engaged in the informal sector or in agricultural production. The Federal and State governments in Nigeria have recognized that for sustainable growth and development the financial empowerment of the rural areas is vital, being the repository of the predominantly poor in society and in particular the SMEs. If this growth strategy is adopted and the latent entrepreneurial capabilities of this large segment of the people is sufficiently stimulated and sustained, then positive multipliers will be felt throughout the economy.

Most of the arguments and write-ups on the problems of small scale enterprise or entrepreneurship development in Nigeria hinge around capital injection. In response to and based on that inadequate capital argument, government of Nigeria has made several efforts to enhance the sources of micro credit facilities to entrepreneurs.

The Federal Government of Nigeria considers SMEs segment critical for its development efforts to be fully realized. The Government has instituted various policies to achieve its aims, including a commercial bill financing scheme; regional commodity boards (later called national commodity boards); an export financing and rediscount facility; the Nigerian Agricultural Cooperative and Rural Development Bank Ltd; Community Banks, People's Bank; the Agricultural Credit Guarantee Scheme Fund (ACGSF); and the Small and Medium Enterprises Equity Investment Scheme among others. These policies have contributed to improving the livelihoods of farmers and entrepreneurs. The highlight of some of the efforts Nigerian government has made include the following:

#### **2.4.1 Nigeria Agricultural and Cooperative Bank (NACB)**

The Nigeria Agricultural and Co-operative Bank Ltd was established in 1972. The Nigeria Agricultural Co-operative & Rural Development Bank evolved recently from the merger of the Nigeria Agricultural and Co-operative Bank with the People's Bank.

#### **2.4.2 National Economic Reconstruction Fund (NERFUND)**

The National Economic Reconstruction Fund (NERFUND) was established by Decree No. 2 of 1989 to act as a catalyst towards the stimulation of the rapid rise of real production enterprises in the country. The NERFUND was specifically mandated to provide long/medium term loans to entrepreneurs through commercial/merchant banks for industrial growth of Nigeria.

In accordance with the provision of its decree, the followings are its statutory responsibilities: (1) correct any observed inadequacies in the provision of medium – to long-term financing to small-and medium-scale industrial enterprises, especially manufacturing and agro-allied enterprises and ancillary services; (2) provide medium – to long-term loans to participating commercial and merchant banks for on-lending to small- and medium-scale enterprises for the promotion and acceleration of productive activities in such enterprises; (3) facilitate the provision of loans with five to ten-year maturity, including a grace period of one to three years, depending on the nature of the enterprises or project; (4) provide such loans either in naira or in foreign currencies, or both according to the sources of funds available to the NERFUND, and the requirements of the eligible enterprises or project.

#### **2.4.3 Bank of Commerce and Industry**

NIDB came into existence in 1964 after the restructuring of ICON. The new company was chartered to provide medium and long term credit to existing and emerging industrial and mining firms in Nigeria. A reconstruction of ICON to NIDB brought in the federal government of Nigeria and the World Bank/International Finance Corporation as partners. Originally, the firm had 42 Lagos shareholders holding about 20% of the equity and 56 foreign shareholders holding about 80% of the company. The company originally had a paid up capital of 1 million pounds.

#### **2.4.4 People's Bank**

The People's Bank was established in 1989 to provide access to credit for low-income families, farmers, and craftsmen. This community development finance initiative was relatively unsuccessful and was criticized as being too dependent on government subsidies. The initiative was unable to recover many of its loans and was facing severe decapitalization when it was replaced by the Community Banks Program in 1990.

#### **2.4.5 Community Bank**

The community banking concept was also introduced into the financial landscape. They provide banking and financial services for the rural economies and micro-enterprises in the urban centres and are structured on communal ownership. The first community bank started operations in 1990. There were five hundred and four community banks by May 2004 (Olaitan, 2006).

#### **2.4.6 National Directorate of Employment (N.D.E.)**

The National Directorate of Employment (NDE) was set up as an employment agency. NDE is committed to employment generation, poverty reduction, wealth creation and attitudinal change to enable Nigerian Youths to be self-employed and contribute to the economic growth and development of the Nation.

The NDE has developed four major programmes: (1) Vocational Skills Development (VSD); (2) Small Scale Enterprises (SSE); (3) Rural Employment Promotion (REP); (4) Special Public Works (SPW). The programmes have the following training strategies: Vocational Skills Acquisition, Entrepreneurship/Business training, Rural Employment promotion, Labour-based works, Employment Counselling and Linkages as well as resettlement of trained beneficiaries to set up their own businesses.

NDE customers include: School Leavers; School Drop outs; Youths with little or no education; Artisans; Graduates of tertiary Institutions; Retired Public/Private workers (Mature Persons); Women Groups.

#### **2.4.7 Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB)**

The birth of the Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) Limited as the single largest development finance institution in Nigeria followed the successful merger of the former People's Bank of Nigeria (PBN); the defunct Nigerian Agricultural and CO-operative Bank (NACB) Ltd. and the risk assets of the Family Economic Advancement programme (FEAP) in October, 2000. Thus; NACRDB is dedicated primarily to agricultural financing at both the micro and macro levels, as well as micro financing of small and medium scale enterprises.



The Bank is a registered limited liability company that is wholly owned by the Government of the Federal Republic of Nigeria with the share capital fully subscribed by the Federal Ministry of Finance Incorporated 60% and the Central Bank of Nigeria 40%. The Bank's mandate encompasses savings mobilization and the timely delivery of affordable credit to meet the funding requirements of the teeming Nigeria population in the agricultural and non-agricultural sectors of the national economy.

#### **2.4.8 Microfinance**

Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Three features distinguish microfinance from other formal financial products. These are: (i) the smallness of loans advanced and or savings, (ii) the absence of asset-based collateral (iii) simplicity of operations (CBN, 2005).

In Nigeria, the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services. This 65% are often served by the informal financial sector, through Non-Governmental Organization (NGO), microfinance institutions, moneylenders, friends, relatives, and credit unions. The non-regulation of the activities of some of these institutions has serious implications for the Central Bank of Nigeria's (CBN's) ability to exercise one aspect of its mandate of promoting monetary stability and a sound financial system (CBN, 2005).

#### **2.4.9 The Small and Medium Industries Equity Investment Scheme:**

Small and Medium Industries Equity Investment Scheme (SMIEIS) is a voluntary scheme developed by the Banker's Committee that was designed to replace many of the unsuccessful government small business development programs in Nigeria.

Beginning in 2001, all Nigerian banks are required to set aside 10 percent of their before-tax profits and invest these funds in small and medium enterprises. Qualified businesses must have less than ₦200 million in assets and between 10 and 300 employees. Investments have a term limit of three years.

#### **2.4.10 The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)**

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established by the SMEDAN Act of 2003 to promote the development of the Micro, Small and Medium Enterprises (MSME) sector of the Nigerian Economy. The Agency positions itself as a "One Stop Shop" for Micro, Small and Medium Enterprises Development. The agency was established to facilitate the access of micro, small and medium entrepreneurs/investors to all resources required for their development.

### **2.5 MISCONCEPTION ABOUT BUSINESS CAPITAL**

The problem with capital relates more with the misconception about the nature and component of capital. Capital is the money or money worth items invested in businesses. From these perspectives, capital has many forms. Izedonmi (2007) states forms of capital to as: Wisdom capital; Knowledge capital; Skill capital; Money-worth capital and Money capital. Akintunde (2004) describes wisdom capital as character capital.

The misconception about capital is that many sees capital mainly in terms of cash. Akintunde (2004) further argues money capital is only a component of capital required by entrepreneurs and constitutes only 25% of the entire capital and hence concludes that there is undue emphasis on money capital. It is such kinds of conceptions of capital leads to conclusions such as: (1) You will succeed in business, principally because you have adequate capital; (2) Capital is all you need to start your business; (3) To be functional, money capital has to be integrated with other forms of capital.

The truth is that there is an undue emphasis on money capital because of the wrong conception of its role. Individuals may have adequate money capital and still fail if the other components of the capital are not fully integrated. Many businesses require no or little money capital to start.

## **2.6. STATE OF ENTREPRENEURSHIP EDUCATION IN NIGERIA**

Entrepreneurship education focuses on developing understanding and capacity for pursuit of entrepreneurial behaviours, skills and attributes in widely different contexts. Entrepreneurship education is required to start and successfully run a business. Entrepreneurship is the pursuit of opportunity, regardless of the resources or lack of resource at hand (Akinlua & Akintunde, 2008). This assertion is true since business could be started successful without necessarily economic resources. Entrepreneurship is about the exercise of enterprising abilities and skills to start and run a business irrespective of the immediate problems. It is these abilities that most of the potential and small scale entrepreneurs lack and need to be trained to have and exercise. This puts entrepreneurial education at the fore for successful business in any type of environment.

The entrepreneurial education required is the one that linked theory with practice. It is the kind of education that practically demonstrates how business could be nursed from idea generation level to commercialization level. Akintunde (2008) argues that most of the teachings and learning of entrepreneurship education in Nigeria are done in the classroom, hence represents only theoretical aspects. Many of the lecturers teaching entrepreneurship are neither entrepreneur nor linked with entrepreneurs on a regular and systematic manner for the purpose of educating the students. Such resource persons may not have enough experience, conviction or arguments to trigger the students into entrepreneurial activities. Systematic exposure of academics to the practice of their professions or fields of study in the non-academic sectors of national life is recommendable. The lecturers of business entrepreneurship at various educational levels should themselves be exposed to practical aspect of what they read and teach in our conventional markets and other avenues where their knowledge could be polished with real life business situation.

Akinlua & Akintunde (2008) suggest that educationists should undertake industrial attachments in schools and government education agencies; academic economists in the nation's economic and financial agencies; academics of business and marketing should undertake attachment in industries and physical markets in Nigerian cities and villages; and media academics to undertake their attachment in the print and electronic media organizations. This is a good thinking that can have the potential to change the culture of entrepreneurial education in Nigeria's higher institutions of learning.

## **2.7 EDUCATION INVESTMENT IN NIGERIA**

The impact that education has upon us is unfathomable. Its breadth, its width and its depth are unimaginable (Enright, 2003). From this view, it is deductible that concern about education is a must for the role it plays in all walks of our lives. The 1970's were the period of the oil boom in Nigeria. The economy expanded and with it came rapid growth and development of the education sector. By the 1980s, in contrast, major economic problems were encountered following the decline in revenue from petroleum products. The decline in the real gross domestic product in the 1980's and 1990's was estimated to be 6%. By 1994, the central bank of Nigeria reported that the money supply, particularly by way of deficit financing, had increased tremendously in a period of ten years.

The funding of education suffered a major setback with the introduction of a stringent economic policy in the mid-90s. The new economic policy (structural Adjustment Programme) that was described by many as western oriented, and was responsible for pauperizing the vast majority of Nigerian populace. By 1995 the value of the Naira had fallen from a US\$ ratio of 1:1 in 1985 to one of 85:1. The rate of inflation remained high and this had a negative impact on the education sector as well. The funding responsibilities during the crisis were transferred from one level of government to another, as well as to families, to help subsidize education through fee payments at secondary school and in higher education.

The total expenditure on education as a percentage of the GNP has dropped from 1.4 percent in 1990 to 0.9 percent in 1995. According to 1995 data, the total education budget represent on average 11.5 percent of total government expenditure. The education share of the budget dropped in 1991 and 1992 but remained stable in the range of 12 to 14.5 of the total Federal budget for a number of years.

Table 1 indicates the percentage allocations of the total budget for the mid- nineties. The education budget remains a huge share of the annual budget but it is still not sufficient to address existing problems as well

as cater for new needs. The implications are that new sources of funding should be sought while government also increases its share of the cost units per pupil.

**Table 1: Education Budget as Percentage of Total Budget**

Year	Total Budget (Billion N)	Total for Education	Percentage of Total (allocation to education)
1994	69.30	10.30	14.87
1995	111.45	12.70	11.42
1996	127.47	15.35	12.33

Source: International Bureau for Education. World Data on Education, 3rd edition, 1999.

Nigeria has earned well over US\$223 billion in oil revenues since the end of military rule in 1999, but millions of Nigerians still lack access to basic health and education services because so much of the money has been lost to corruption and mismanagement (Human Rights Watch, 2008).

**Table 2: Percentage of Total Budget Spent on Education Budgetary in 2008**

Country	Percentage of Total Budget Spent on Education
Nigeria	7.0
Botswana	19.0
Swaziland	24.6
Lesotho,	17.0
South Africa	25.8
Cote d'Ivoire	30.0
Burkina Faso	16.8
Ghana	30.0
Kenya	23.0
Uganda	27.0
Tunisia	17.0
Morocco	17.7

Source: Human Rights Watch UPR Submission about Nigeria. September 2008

UNESCO recommends that at least 26 percent of every country's annual budget be spent on education. Nigeria spends less than 7 percent of her budget on education (HRW, 2008)). Botswana spends 19.0 percent; Swaziland, 24.6; Lesotho, 17.0; South Africa, 25.8; Cote d'Ivoire, 30.0; Burkina Faso, 16.8; Ghana, 30.0; Kenya, 23.0; Uganda, 27.0; Tunisia, 17.0; and, Morocco, 17.7 percent. It is pathetic to note that among the 12 African nation states used as sample by Human Right Watch, Nigeria still ranks the lowest in terms of its commitment to boost education among its populace. This and other leadership insensitivities and high level corruption could be foremost problems that entrepreneurship development would continue to encounter in the history of Nigeria's development if continued unabated.

The IMF and World Bank were primarily responsible for serious cut in education funding in Nigeria. Nigeria is among the major beneficiaries of loans from these international financial institutions (IFIs). Among conditionalities of these global financial lenders include withdrawal of government subsidy in education. Statistics show that federal government expenditure on education between 1997 and 2000 was below 10% of overall expenditure (Bambale, 2009).

## **2.8 VOCATIONAL AND TECHNICAL EDUCATION AT JUNIOR SECONDARY SCHOOLS**

The National Policy on Education made recommendations for a system of education that segmented the system into 6 years of primary education; 3 years for junior secondary school; 3 years for senior secondary

school; and 4 years for university education – the 6-3-3-4 education system. The system was designed to allow an exit point after nine years of schooling to continue careers through apprenticeships or other vocational training programs. The revised system placed emphasis on terminal objectives aimed at providing practical skills for those students who were judged to lack the ability to continue with an academic career in a higher education institution.

However, the implementation of the terminal objective plan at the end of junior secondary has been problematic (Moja, 2000). He finds that the implementation of the terminal objective became problematic due to the need to achieve uniformity in test administration, lack of capacity for planning and management, and lack of the necessary resources. Specific case cited was Oyo State. A study conducted in 1997 in Oyo State to evaluate the success of the implementation of the terminal objective, it was found out that failure was mainly due to staff shortages, the inability to keep records for continuous assessment, failure to provide career guidance to students. The system in general faced problems of shortages of teachers, in particular teachers with qualifications and experience to teach pre-vocational subjects.

Similarly, the same failure rate in teaching vocational education in the popular employment provision scheme of the government called National Directorate for Employment (NDA) was found (Evawoma-Enuku et al, 2005). They also established that apprentices have low educational background; no evaluation and certification at the end of training; trainers were paid in arrears of three to six months; there was shortage of tools and drop-out rate was high.

Prior to 1982 the Nigerian secondary education system prepared students for basic white-collar jobs and consisted of little more than basic numeracy and literacy education modeled on the British system of education (Moja, 2000). A scarcity of jobs led to high unemployment and a high failure rate that proved to be expensive for the state. It was for this reason that a new structure for the education system at that level was introduced.

### **3.0 WAY FORWARD FOR EFFECTIVE ENTREPRENEURIAL EDUCATION AND SUSTAINABLE BUSINESS ENTREPRENEURSHIP IN NIGERIA.**

In the last parts of this paper critical review of the situation of entrepreneurship development in Nigeria was made: the role that government has been playing in terms of policy formulation on funding and skill development of entrepreneurs; and the education expenditure in Nigeria. After these important highlights and reviews, the most important thing that this paper contributes is to fashion out ways and strategies for effective entrepreneurial education and sustainable business entrepreneurship in Nigeria which no doubt could be a major catalyst in the nation's socio-political and economic development.

It is the opinion of this paper that the solution of entrepreneurial education is a more effective and enduring strategy for solving the capital problems of small scale businesses. With the right entrepreneurial education, entrepreneurs would be enabled to start the right business at the level of operation with the right level of experience, character and competence to attract their capital requirement.

This paper uses not only the knowledge of the already presented literatures to formulate and proffer the following solutions to entrepreneurship education development problems, but also personal experiences of the writer over the years as a result of observation; teaching and practicing entrepreneurship in Nigeria:

1. **Change of mindset:** First of all, the mind-set of the small businesses or entrepreneurs in Nigeria needs to be changed to align with new business and global realities. Most Nigerian entrepreneurs like to be sole owners and prefer to control their businesses themselves. The new reality reveals that there is a success secret in partnership and equity financing. Equity and partnership help to provide a pool of knowledge and leverage against risk. The culture of getting rich quick which has become the basic characteristic of ordinary Nigerian should systematically change. This get rich attitude has been responsible for frustrations and business failure among some entrepreneurs in Nigeria. Some entrepreneurs want to start big or expect initial handsome return on their investments failure of which results to frustrations, unethical practices and eventual withdrawal. Patience and persistence are important ingredients for entrepreneurship growth and development. A good entrepreneurship education scheme should aim at achieving change of mindset of entrepreneurs in Nigeria.

2. **Entrepreneurship education should target all students:** The propensity to behave entrepreneurially is not exclusive to certain individuals. Entrepreneurial behaviours can be practiced, developed and learned; hence it is important to expose all students to entrepreneurship education. Entrepreneurship education is valuable to all students, including those who are taking courses other than business and management. Entrepreneurship education should also be taught at all levels of education: primary, secondary and tertiary. The current practice only target segment of students at tertiary levels. Personal qualities that are relevant to entrepreneurship, such as creativity and a spirit of initiative, can be useful to everyone, in their working responsibilities and in their daily existence.
3. **New orientation and training for entrepreneurship teachers:** Academics in Nigerian higher institutions of learning teaching entrepreneurship should be well trained and oriented on special modules to be included in the entrepreneurship teaching modules. The current practice is not standard and could not effectively deliver the desired results. Most of the knowledge taught in universities, polytechnics and other higher institutions of learning are mere theoretical. Students at this level of their entrepreneurship study should be more of practical experience than theories. This can not be possible without special training and new orientation to the teachers responsible for rearing young entrepreneurs. Alternatively, academics should be encouraged by university, polytechnic, and other higher education institutions' authorities to go on sabbatical in organizations that would expose them to the actual practice of their disciplines, hence strengthen their abilities to impart a more practical and pragmatic knowledge to their students. This is because we live in an era in which change happens rapidly, and knowledge is being generated fast. The change dynamics takes place in learning organizations outside the tertiary institutions.
4. **Development of result oriented curricula:** Subjects relevant to skill development, idea generation and acumen to succeed in business should be designed. More importantly, practicality and application of skills and abilities should be the major concern in curricula development. Practicals in actual business design, plan implementation or professional engagements should dominate the teaching modules.
5. **New assessment criteria should be designed:** Entrepreneurship education (EE) should not be assessed through conventional examinations. The EE programme should develop students' skill to take risk, therefore the assessment criteria should ensure that taking risk is rewarded; an approach that tends to run contrary to the assessment culture in Higher Education Institutions in Nigeria. A new solution needs new approach to succeed.
6. **Development of political will for change and development:** Leadership in Nigeria must develop the political will necessary for development of an atmosphere conducive for education and learning. Government should take up its responsibility of providing enabling environment for business to thrive and flourish. The huge revenue accruing from oil revenue and other internally generated sources should be used to provide the needed infrastructures, quality education and security. It is not only about the policy formulation alone, but the real political will to achieve a reformed system of education that will provide access at all levels of education and to improve the quality and efficiency of the entire education system.

#### 4.0 CONCLUSIONS

Poverty, due to lack of access to income-earning opportunities and lack of capacity to take advantage of the opportunities, is a social malaise that is threatening global prosperity in general and Nigeria's economic growth and development in particular.

There is a strong need for the development of entrepreneurial culture within existing and future enterprises. The chance of establishing successful businesses increases with entrepreneurship training; participation of successful entrepreneurs in entrepreneurship education programmes; and an environment conducive for continuous learning and economic prosperity. Entrepreneurship education should aim at helping entrepreneurs to be more competitive and successful by enabling them with right frame of mind and training to acquire adequate market, managerial and economic knowledge.

Without a real commitment to education, without the official realization that education is critical not only for economic concerns but also for society as a whole, then the fight against unemployment, poverty, dependence on government or private sector employment and other social vices in Nigeria will continue to

be under threat. Nigerian leaders must shun corruption and discharge their responsibilities ethically by investing heavily in education, health, security and other basic infrastructures.

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**Clinical Psychologist's Role in the Assessment of Patient's Criminal Offenses  
and Civil Litigations: A Challenge in Health Care Management Across Saudi**

**Arabia**

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***Abstract***

This study examines clinical psychologist's role as a member of the (civil/ criminal) psychiatric medical committee in assessing the mental capabilities of the psychiatric patient and his/her criminal responsibility in the cases that are referred from administrative, judicial, and police authorities to Saudi mental health hospitals in order to determine the patient's criminal responsibility, mental status, and competency in order to stand trial. Based on our research findings, we recommend the formation of "**Criminal Psychiatry Medical Committees**" across all regions of the kingdom; where the symptoms of the disease could be changed, activated, deactivated or cured.



**Impact of Interface Between Domestic Violence and Juvenile  
Delinquency: A Challenge in Public Administration Across Saudi Arabia**

By

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**Abstract**

Contemporary Saudi society has been engulfed with widespread domestic violence and juvenile delinquency causing havoc to Saudi families. Our study examines the cause and effect of this widespread phenomenon, that besides being against the tenants of Islamic law, is also destroying the traditional Saudi family ethos. Our study analyzes determinants and impacts of the interface between domestic violence and juvenile delinquency. Our study finally proposes pragmatic strategies that could reduce domestic violence and juvenile delinquency across Saudi society facilitating social harmony across the country.

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