Corporate Governance and Performance in listed italian family firms

5th Annual EuroMed Conference of the EuroMed Academy of Business

Building New Business Models For Success Through Competitiveness and Responsibility

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FOREWORD

The Annual Conference of the EuroMed Academy of Business aims to provide a unique international forum to facilitate the exchange of cutting-edge information through multidisciplinary presentations on building new business models for success through innovation, competitiveness and responsibility.

It is acknowledged that the conference has established itself as one of the major conferences of its kind in the EuroMed region, in terms of size, quality of content, and standing of attendees. Many of the papers presented contribute significantly to the business knowledge base.

The conference attracts hundreds of leading scholars from leading universities and principal executives and politicians from all over the world with the participation or intervention of Presidents, Prime Ministers, Ministers, Company CEOs, Presidents of Chambers, and other leading figures.

This year the conference attracted over 200 people from over 50 countries. Academics, practitioners, researchers and Doctoral students throughout the world submitted original papers for conference presentation and for publication in this Book. All papers and abstracts were double blind reviewed. The result of these efforts produced empirical, conceptual and methodological papers and abstracts involving all functional areas of business.

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

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

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BOOK OF CONFERENCE PROCEEDINGS

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AN EXPLORATORY STUDY ON SWITCHING COSTS IN FAMILY TAKAFUL

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Abstract

Takaful company has been in Malaysia since 1984. Syarikat Takaful Malaysia is the first Takaful company established. There are two types of Takaful businesses; General Takaful and Family Takaful. General Takaful is a contract of joint-guarantee on a short-term basis (normally one year). It is designed to meet the needs for protection of individuals and corporate bodies in relation to material loss or damage to their properties. Whereas, Family Takaful plan is a long term in nature. A family takaful is life insurance protection provided to the Muslim as the conventional life insurance is unlawful to the Muslim scholars. However, despite the unlawful elements of conventional life insurance, most Muslims in Malaysia still do not participate in Family Takaful. Previous studies indicate that one of the reasons is already having life insurance. The gap between the conventional life insurance is very huge with the penetration rate of Family Takaful of only ten percent as compared to conventional life insurance of forty two percent in year 2010. In view of the large gap, this study was conducted with the objective to explore the switching costs elements that influence the policyholders from participating in Family Takaful. Interviews were conducted with few professionals using convenience sampling. The results of the interview revealed that some switching costs dimensions have more impact on Takaful participation readiness than the others.

Keywords : Family Takaful, switching costs and relational loss costs

Introduction

Takaful was introduced as an alternative to conventional. This is because majority of Shariah scholars believed that the conventional is unlawful to the Muslims due to involvement of Riba (usury/interest), Maisir (gambling) and Gharar (uncertainty).

Riba means an increment, excess or addition to the amount lent such as the money added on the loan. The Quran states that whoever is involved in the usury is waging war against Allah and his Prophet (pbuh). The element of riba exists in the profit of investments used for the payment of policyholders' claims by the conventional insurance companies. This is because most of the insurance funds are invested by them in financial instruments such as bonds and stacks which may contain elements of Riba (usury/interest). The insured in life insurance contact is expected to pay an indefinite

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number of premiums to cover the risk of life. But this risk may not exist at any one given point of time as such it is interpreted as Riba (interest or usury) in Islam and is, therefore altogether forbidden. (Choundhury., 1993)

Insurance contract contains gharar (uncertainty) because, when a claim is not made, one party (insurance company) may acquire all the profits (premium) gained whereas the other party (participant) may not obtain any profit whatsoever.

Maysir exists in an insurance contract when the policy holder contributes a small amount of premium in the hope to gain a larger sum; the policy holder loses the money paid for the premium when the event that has been insured for does not occur; the company will be in deficit if the claims are higher than the amount contributed by the policyholder.

http://www.islamic-banking.com/prohibition_of_gharar_masir_riba.aspx

In the case of Takaful, it is based on the concept of social solidarity, cooperation and mutual indemnification of losses of members. In order to eliminate the element of uncertainty in the Takaful contract, the concept of "Tabarru" (to donate or give away) is incorporated in it. In relation to this, a participant agrees to relinquish as Tabarru certain proportion of his Takaful instalments or contributions that he agrees or undertakes to pay thus enabling him to fulfil his obligation of mutual help and joint guarantee, should any of his fellow participants suffer a defined loss. In essence, Tabarru' would enable the participants to perform their deeds sincerely in assisting fellow participants who might suffer a loss or damage due to a catastrophe or disaster. The sharing of profit or surplus that may emerge from the operations of Takaful is made only after the obligation of assisting the fellow participants has been fulfilled.

However, despite the unislamic element of conventional life insurance, most Muslims in Malaysia have yet to participate in Family Takaful. Among the reasons for this behavior is, they had subscribed to conventional life insurance. Statistics showed a huge gap between the penetration rates of conventional life insurance to that of Family Takaful that is forty two percent as compared to 10 percent in year 2010. In view of the large gap, this study was conducted with the objective to explore the influence of switching costs in Family Takaful.

This study is different from other Takaful study as this study is looking at the switching costs dimensions that influence participation readiness. It has never been studied before even though they are few empirical studies such as Redzuan (2009), Abdul Hamid (2009(a)), Salleh (2011), Mohd Noor (2005), Abdul Rahman (2010),Abdul Rahman (2008), Abdul Hamid (2009(b)) and Ab Rahman (2008). Previous empirical research on Takaful contributing the body of knowledge has focused on the concept of Takaful and Takaful awareness.

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It is important to study switching cost in Takaful as studying switching costs leads to specific selection patterns as consumers and marketplace change over time (Handel, 2011). Switching costs are measured as the consumer's perceived difficulty in switching (Lee et al., 2001). This study hence explored in detail the switching costs dimensions by interviewing thirty conventional life insurance policyholders.

This paper is organised as follows: the next section will review the literature related to studies on switching costs and followed by a discussion on research methods and an analysis of the result then, finally, the conclusions.

The Literature Reviews

Switching costs

A rise in switching cost deters consumers from initiating any search activity of another products (Wilson, 2009). There are few definitions of switching costs. One definition is the costs that are incurred by buyers for terminating some business transaction and initiating a new business relation (Oyeniyi, 2010). Burnham (2003), defines switching costs as the onetime costs that customers associated with the switching process and need not be incurred immediately upon switching. Wilson (2009) defines switching costs as the costs incurred by a consumer in changing supplier that do not act to improve the consumer's pre-purchase information such as the costs from arranging the actual switch, lost compatibility or lost loyalty discounts. It is the cost that anticipated will be incurred in the future (Lee and Cunningham.L.F, 2001)

Switching costs dimensions

Among the earliest study on switching cost was Klemperer, 1987. Klemperer (1987) introduced three switching costs dimensions: transaction costs, learning costs and artificial costs. Transaction costs are costs that occur to start a new relationship with a provider and sometimes also include the cost necessary to terminate an existing relationship. Transaction costs are the most commonly cited potential source of switching in the theoretical and empirical literatures (Handel, 2011). Learning costs represents the effort required by the customer to reach the same level of comfort or facility with a new product as they had for an old product. Artificial switching costs are created by deliberate action of firms such as the frequent flyer programs, repeat purchase discounts and "clickthrough" rewards (Pei-Yu (Sharon) Chen and Hitt, 2002).

Fornel (1987) has comes out with different switching costs constructs. The construct listed by (Fornell, 1987) are search costs, transaction cost, learning costs, loyal customer discounts, customer habit, emotional costs, cognitive efforts & financial, social.

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Another study by Perera & Kim (2007) classifies switching costs psychological costs, procedural costs and lost cost. Perera and Kim (2007) define psychological costs as the costs arising from mind or emotions associated with the switching. Procedural cost is defined as the costs arising from the monetary and non-monetary spending associated with the switching. Loss costs mean the costs arising from the loss incurred from abandoning the status quo. They classify the uncertainty costs and emotional costs to be under psychological costs, learning costs and set up costs are under procedural. For the lost cost they identified the lost performance costs and the sunk cost.

Ozer (2009) has classifies switching costs under three major dimensions: financial switching costs, procedural switching costs, and psychological switching costs. Financial switching costs consist of monetary lost costs and benefit loss costs. Monetary loss costs are the payment that is incurred in switching providers. Benefits loss costs are the costs associated with contractual linkages that create economic benefits for staying with an incumbent firm.

Procedural switching costs consist of evaluation costs, set-up costs and learning costs. Evaluation cost is the time and effort costs required before making a switching to a new brand (Burnham et al., 2003). Set-up cost: is the time and effort cost related to the process of initiating a relationship with a new service provider or brand (Burnham et al., 2003) and Learning costs: is the time and effort of acquiring new skills or know-how in order to use a new product or service effectively (Burnham et al., 2003).

Psychological switching costs include relational costs and uncertainty costs. It consisting of personal relationship loss and brand loss costs which involves psychological or emotional discomfort to the loss of identity and the breaking bonds. Interpersonal relationship refer to the strength of personal bonds that develop between customers and their service employees (Berry and Parasuraman, 1991 as cited in (Jones et al., 2000).When customer dissatisfaction is an ongoing phenomenon, customer may remain due to high switching barriers. ((Jones et al., 2000)

Uncertainty costs: Costs of which the customer faces switching to the new brand as the customer cannot evaluate the brand’s performance or quality before using it. Klemperer 1995 and few others classify it as economic risk costs. They define it is as the cost of accepting uncertainty with the potential for a negative outcome when adopting a new provider in which the consumer has insufficient information (Burnham et al., 2003). Jones (2002), treat relational costs as sunk costs and defined it as customer perceptions of the non-recoupable time, money and effort invested in establishing and maintaining a relationship.

Switching costs study in insurance

Despite a large theoretical literature on switching costs, there are only a few empirical studies especially concerning insurance. The previous switching costs study for insurance industry was on the

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switching barriers. Different types of insurance lead to different kind of switching behaviour. For example a motor insurance will have different switching barrier from life insurance (Roos, 2004). The other study that relate to insurance was conducted by Posey (2003). His only looking at the switching costs involved in property and casualty insurance market for large commercial accounts.

Readiness

According to Abdul Rahim Abdul Wahab et al. (2007), readiness is "prepared mentally and physically for an experience or action" as such readiness is always associated with change, that is readiness to change. In the context of this study, readiness is considered as willingness to engage in the process of switching process from conventional insurance to Takaful. Readiness to participate in the Takaful scheme is indicated by individual action seeking for information and negotiating on terms.

Methodology

A qualitative methodology was chosen in this study because study on switching costs in insurance has not been fully explored. It is believed that the interviews were consistent with the notion that customers might have positive and negative feelings about Takaful. Further in-depth interview methodology was expected to be helpful in discovering the switching costs dimensions to Takaful readiness as it has never been addressed in Takaful research. The primary population of interest comprised only conventional life insurance policyholders. A purposive sampling technique was used, whereby the sample thought to be relevant to the research topic was chosen. The data collection targeted selected users who meet the criteria of this study. Only those meeting the criteria were interviewed further. The selected participants had a range of ages working as an executive and above.

To qualify in this study, the respondents needed to have a conventional life insurance policy holder for at least 1 year. Those eligible will then be interviewed further. The respondents interviewed must at least an executive position or a professional by their nature of work. This criteria is taken into consideration based on the previous research on Takaful study that individual earned below certain of income not interested to take up insurance due to their financial constraint and as they do not see the importance of having an insurance cover for themselves or their family. Professional inclination of respondents influence attitudes towards insurance (Yusuf et al., 2009). From the total individual of thirty, twenty were conducted over the phone and ten were conducted in person.

The interviews were initiated with a brief and broadly stated explanation of the study. The respondents were ask few basic questions such as age range, income range, current policy provider, the source of information about the insurance and few others. However, respondents profile is not reported in this study. The interview average range in length is about 20 minutes per session. Since this study is exploratory in nature, no rigorous statistical technique was used in analyzing the result.

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Results

List of questions asked is tabulated in Table 1 below.

QUESTIONS	*ANSWERS*
Do you have life insurance or Family Takaful?	*Respondents confirmed that they have conventional Life insurance*
Do you deal with the insurance company directly or through agent?	*"Yes, I deal direct with the insurance company"* *"No, I was approached by agent"*
Do you go to the agent or the agent comes to you?	*"The agent call me and explain to me"*
Do you have any relationship with the agent?	*"Yes, the agent is my sister"* *"Yes. My friend"* *"No, I was introduced by a friend"*
Do you prefer to deal with the Malay agent or you are ok if they are not of the same race as you?	*"Race does not matter to me"* *"I don't think so"* *"No, I prefer somebody that I trust"*
What is your reason for taking up life insurance?	*" For savings and investment".* *" I took up for my children education"* *"It's for my retirement"*
Have you heard about Family Takaful?	*"Yes, it is the same as conventional life, right?"* *"I only heard about Motor Takaful"* *"Yes, somebody mentioned about the Education plan Islamic way".*
Would you switch to Family Takaful?	*" I do not mind switching if my agent proposed"* *"I will switch if it does not incurred any cost"* *"I want to continue with my current insurance, I don't see a different between conventional and Takaful"* *"I don't want to switch, conventional gives me better return for my investment"* *"I don't think I want to switch, I think conventional is more established, they can pay my claims and give good return to my policy investment"* *"I will consider if the package is attractive"* *"I don't think I want to switch, I will consider buying another plan"* *" I will switch due to the Islamic factor of Takaful"*
Do you wish to find out more information about Takaful ?	*"No"* *" No, because I already have life insurance"*

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	"No, what for? It's the same, the different is just Takaful is Islamic insurance just like the Islamic banking and conventional banking"
Do you think it will cause so much hassle to switch to Takaful?	*" I have no idea"* *"Maybe"* *"I certainly feel it will create so much problem"* *" I am not sure about the procedures, I will leave it to my agent to decide what is best"*
Will you consider Family Takaful if the agent approached?	*"I might consider provided the agent is somebody that I know well"* *"I will not consider it at all"* *"I prefer to maintain what I already have"* *"I might consider participating in Education Takaful which I have not yet take up"*
Do the service provider (in this case insurance company/Takaful operator) of which you are insure with important to you?	*"Yes, it is important as it will guarantee that the company will be there to pay for my claims in the future"* *"Yes, conventional is more established compared to Takaful"*

Table 1: Interview questions

The questions about the race of the agent asked as Hendon Redzuan et al. (2009) posits that individual form social connections with person of the same race.

Researcher obtained varies answers for question on intention to switch. From the interviews, we also identify that majority of the respondents take up the children education plan policy followed by for savings purposes.

It was notable that this group of respondents prefer to deal with somebody that they know at the same time concern about the establishment of the company. They will be considering Family Takaful as an additional policy on top of the conventional life insurance policy they already have.

Lack of knowledge about Takaful leads to low participation. Respondents do not really keen to gather more information about Takaful. They rely most to their agent to feed them with the information about life insurance. Agents play a vital role in disseminating the knowledge about insurance to the policyholders.

Theoretical Framework

From the above results, researcher is proposing the following theoretical framework.

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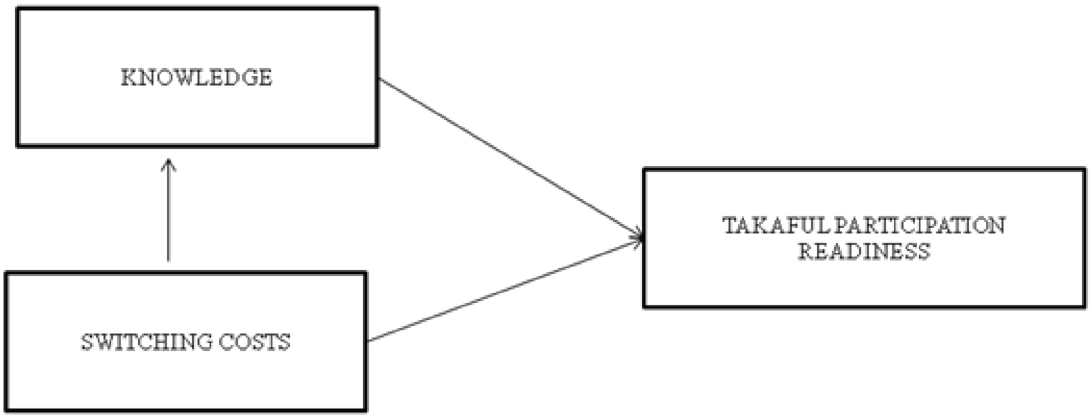

This proposed theoretical framework is adopting the research framework based on the Theory of Reasoned Action (TRA) developed by Fishbein and Adjzen 1975. It modifies the TRA by including switching costs and knowledge variable. Knowledge has been one of the factors contributed to the low Takaful penetration from the previous research findings. We believed that if the Muslims have more knowledge about Takaful, the penetration rate will increased. However, it will also be influenced by the switching costs.

Conclusions

The exploratory studies on switching costs which relate to Takaful readiness do not discover any results that are difference from the categories previously found in the literature. However, some categories have more influence compares to the other dimensions of switching costs and some seems do not relevant to Takaful.

The study reveals that life insurance cannot be separated from agent. The relational cost in insurance is divided into 3: whether the agent has blood relationship whether the agent is friends and whether the agent is introduced by a friend. The results of this study suggest that the relational cost has influence Takaful participation readiness the most. Relational cost as defined from the literature as personal relationship loss costs which involves psychological or emotional discomfort to the loss of identity and the breaking bonds. In other words, the respondents are very concern of their relationship with the person whom services them.

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THE EFFECT OF STRUCTURAL DESIGN ON EXPORT STRATEGY IN THE WINE INDUSTRY

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Abstract

The purpose of this paper is to present the different perspectives on pursuing this research. The author explains the reasons for choosing the research topic and implementing a specific approach to fulfill the research objectives. A variety of different approaches are analyzed and presented of how effectively could be used to support the researcher's position. A comparison analysis in different sections shows the advantages and disadvantages of each approach. Non quantitative and non qualitative are only some of the approaches studied for the construction of this paper. An interventionist approach in conjunction with the factors that might affect export strategy is studied to support the researcher's choice for a specific research approach and epistemological position.

Keywords: Action Research, Structural Design, Wines, Exports, Interventionist, Qualitative

Introduction

Action research is the study of a subject where participants are actively involved in the research design and process. According to Meyer (2000) action research was first used in 1946 by Kurt Lewin, a social scientist concerned with intergroup relations and minority problems in the United States. Its strength lies in its focus on generating solutions to practical problems and its ability to empower practitioners to engage with research and subsequent development or implementation activities. Also Meyer (2000) supported that action research incorporate three important elements; its participatory character, its democratic impulse, and its simultaneous contribution to social science and social change.

The wine industry is a sector in the national economy that needs considerable support to gain a place in the international market. Private institutions and the government need to support the large and small wine companies to promote and to establish their wine brands overseas. Brand awareness is a powerful promotion tool for the wine businesses to use in order to increase product sales. The consumers' product recognition might help to the selection and purchase of Cyprus wines from retail shops and other shopping places. Also the managers of wholesale businesses would probably choose Cyprus wines by knowing their value and quality in the international market. Brand building, reduction of purchasing cost, improvement of quality and distribution are only some of the factors affecting the exportation of Cyprus wines overseas. The structural design of the wine businesses is also a factor that might affect the deployment of an export strategy. The businesses' emphasis on the

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allocation of resources to search for prospective international markets is a crucial step to form an export strategy. The placement of skillful personnel to specialized posts such as marketing officer for exports, salesman for international market, risk assessor by the management might lead to a stronger international presence of the wine brand. The researcher will also investigate a variety of factors that contribute to the limited international wine access but more specifically the structural design in order to make recommendations to the affected businesses. A recommended well thought strategic approach would most probably benefit the owners, executives and the society as a whole to succeed entering the international wine market.

According to Vrontis, Paliwoda (2008) the last few years regional wineries were also developed close to where the grapes were produced to avoid the quality problems associated with transportation over long distances. These actions reveal that Cyprus is seeking to become internationally competitive both in terms of quality and price. Branding has progressively become more and more important to the Cyprus wine industry as a means of differentiation and competitive advantage. Beside businesses' attempt to improve branding, quality and price; there are also some other factors that affect executives' decision to engage in the foreign trade such as commitment of resources, acquisition of knowledge, employment of specialized personnel, investment and implementation of information technology among others. As previously stated the structural design of these wine companies might also play a vital role to the success entering the international market. Most of the wine businesses in Cyprus followed an informal or loose design scheme due to the fact that family members are involved in the businesses.

A recent consulting project with a large wine company that was undertaken by the author shed some light concerning the structural design and its influence on export strategy. The arrangement of the departments in the company reveals the lack of dedicated and specialized personnel to form and to implement a corporate export strategy. The organizational arrangement with limited resources contributes to a blurry international focus of the specific wine business. A collective decision making to shape an accurate strategy might be a necessary step to enter the international trade stage. The absence of specialized personnel might be substituted by drawing expertise from managers of different posts such as marketing, logistics and sales. The contribution of these managers could support the development of an export strategy of the specific large wine business. Nevertheless the creation and deployment of specialized departments can not be substituted in the long term by a temporary selected group of managers. The reason is that the dedicated personnel know well the search and promotion methods in the international market. Another factor of ineffective international marketing is the promotion of wines produced by foreign vine varieties and therefore they can not compete over traditional classic wines. Also the marketing department might play a major role when collaborating with the executive management to design a pricing policy for the export strategy.

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Bjorkman, Sundgren (2005) stated that the traditional action research methodology initially proposed by Lewin (1973) incorporates the researcher in a collaborative context which includes problem-solving, collaborative cycles of planning, taking action and evaluating in an organization. The researcher and the participants attempt to identify the problem, recognize the actors, suggest and implement solutions to potential problems. First, the action research methodology involves some kind of change experiments on real problems in organizations. Second, it aims to provide assistance using a number of iterative cycles such as problem identification, planning, acting and evaluating. Third, action research aims to challenge the status quo from a participative perspective and is thus concerned about the change intended. Finally, action research intends to contribute simultaneously to basic knowledge, which not only includes knowledge for the academy, but also the creation of actionable knowledge for the client organization and social action in everyday life.

The structural design problem of the wine business involves many actors that they might be able to shape the corporate export strategy. Therefore the philosophical and the action research approach to this research is the adaptation of constructivism. It is a position that supports the collection, analysis of data field and the formation of a theory. The use of interview as a research tool could possibly support the construction of a theoretical framework. The collection of data, organization of thoughts and presentation of the findings and outcomes to the interested wine businesses might provide an innovative pathway to the international market. In contrast to relativism that supports no difference among countries and wine industries constructivism emphasizes the need to investigate further the differences. Also positivism as a position emphasizes the objectivity of the research. The difference between constructivism and positivism is the engagement with the affected parties (subjectivity) of the former ontological position.

Non Action Research Qualitative Approach

Interpretivism is a research approach in social science that can be considered as a non action case research qualitative approach. According to Walsham (1995) interpretive methods of research adopt the position that our knowledge of reality is a social construction by human actors. In this view, value-free data cannot be obtained, since the enquirer uses his or her preconceptions in order to guide the process of enquiry, and furthermore the researcher interacts with the human subjects of the enquiry, changing the perceptions of both parties. Walsham (1995) stated that interpretivism contrasts with positivism, where it is assumed that the "objective" data collected by the researcher can be used to test prior hypotheses or theories.

Walsham (1995) and Lee (1991) support that positivist and interpretive approaches are not opposed and irreconcilable. Lee (1991) suggests three "levels of understanding," namely the subjective understanding of the human participants in any social situation, the interpretive understanding of the researcher arising from the researcher's in-depth contact with the participants, and the positivist

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understanding arising from formal testing in an "objective" way by the researcher. Lee then argues that the levels of knowledge are complementary, and that positivist and interpretive approached can be combined. He declares that "an interpretive organizational researcher who needs to choose among competing interpretive understandings might narrow down the possibilities with the help of the empirical and logical rigors of positivism. Based on each of the interpretive understandings, the interpretive organizational researcher could develop alternative positivist understandings and then rule out the ones whose consequent predictions are disconfirmed through controlled empirical testing".

Positivism supports that the research must be undertaken in a value-free way (Saunders et. Al 2007). According to Saunders et al. (2007) the researcher' resources would be external to the process of data collection taking into consideration that little can be done to alter the data collection. Positivism focuses on the generation of research by developing hypotheses. "The hypotheses will be tested and confirmed, in whole or part, or refuted, leading to the further development of theory which then may be tested by further research"(Saunders et.al 2007 p:103).

Also constructivism is an ontological position that asserts that social phenomena and their meanings are continually being accomplished by social actors (Bryman, 2004). A constructivist assesses the situation in the environment and develops a possible solution to an existing problem. The understanding of the surroundings and contribution to the findings are two key components of constructivism. Analysis of the economic environment in the Cyprus wine industry is the first step of this research. Robson (2002) states that constructivism supports that reality is socially constructed and also constructivist researchers consider that the researcher is to understand the multiple social constructions of meaning and knowledge.

The author of the paper on **The effect of structural design on export strategy** is concerned with the understanding and development of a theoretical framework that is constructed from the research findings. The collection and analysis of accurate data taken from wine executive teams is one of the main activities of this research. The participation of executives would probably provide recent and valid information about the structural design of their organizations and the exportation of wines overseas. It is essentially important to understand the design of their organizations and its effect on the promotion of wines abroad. The formation of a structural design where the executive management dedicates human and technological resources to achieve international market penetration is worth investigating. Index A and Index B at the end of this paper support that the executives would probably provide some valuable insights to the decline of the export sales. A verification and validation of the information would greatly support the analysis and development of this research study.

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Non Action Research Quantitative Approach

A non action research quantitative approach for the selected case topic is the application of relativism. Relativism is an ontological position supporting that "there is no external reality independent of human consciousness; there are only different sets of meanings and classifications which people attached to the world" (Robson 2002). This philosophical position belongs to social science and supports that the existence of an external reality independent of our theoretical beliefs and concepts is denied. Also Sankey (2012) stated that "truth relativism is the claim that a non-indexical claim, e.g. an empirical claim about a contingent matter of fact, is true relative to the context within which the claim is endorsed or asserted. Here context is not to be construed as the immediate physical environment of the speaker, but the broader cultural or historical setting within which the speaker is situated". Both researchers agree that relativism is true and acceptable by people where a subject is related to their knowledge and their living setting. Nevertheless both researchers support that a further investigation is needed in order to find the true meaning of a subject. The deployment of hypotheses would support the foundation of relativism that uses quantitative methods.

On the other hand a successful qualitative research and more specifically grounded theory, requires unique information processing abilities in order to make constant comparisons, collect data and analyze it simultaneously, create categories that "may have 'subcategories' and associated 'dimensions' and 'properties', which are gradually elaborated and refined as specific incidents are examined, systematically coded, and compared" (Langley, 1999). Also Langley (1999) added that qualitative research aims to attract people whose information processing abilities include interpretive abilities, paying attention to multiple cues and considering broad categories of information.

The adaptation and implementation of relativism and quantitative methods is a way to investigate the structural design of the wine businesses and its effect on export strategy. The realization of the actual situation and identification of the factors contributing to the limited exportation of Cyprus wines to other countries is important to this research. The selection of an ideal ontological position would probably provide a valuable insight about the current situation in the wine industry. The development of a set of hypothesis might pave a way to identify and resolve problems that prohibit wine businesses to engage in the international trade. A hypothesis scheme with a testing theory is an approach that many researchers use to draw a conclusion to their research. Relativism uses many quantitative methods such as survey, questionnaires that are easily measurable. The case study of the wine business might be researched with questionnaires and surveys to employees, management, suppliers and wine consumers. The answers of these methods could be run on SPSS software tool to generate some results.

Even though relativism is an ontological position that offers many methods to measure the factors of structural design that affect exportation of wines the researcher would probably use a constructivism

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position. The collection and analysis of data is a main concern for this research. It is imperative to select data that is relevant to the wine industry in Cyprus. Some of the parameters for this research are the vine growing areas, professional expertise, design of the organization's departments and communication. An adoption of constructivism would support the analysis and development of a theory about the weakness of wine businesses to promote their wines abroad. Relativism might not support the researcher's logic to develop a theoretical framework and practical methods to fill in the gaps in the Cyprus wine environment. The limited wine research by Cyprus researchers and institutions creates a void of knowledge and practical implementations in the Cyprus wine industry.

Research Findings and Outcomes

The researcher with an in depth study could propose some solutions concerning the obstacles faced by the wine businesses. A thorough investigation of the structural design and verification of the factors contributing to the limited access to the international wine market is essential for the Cyprus wine industry. The research might contribute to the academic and business communities and at the same time cover the theoretical and practical gaps. The tracing of gaps in the academia concerning the methods of forming a successful export strategy in the wine sector might introduce an innovative way for the executives in the wine industry. The formation of a theory and recommendation of practical methods would greatly benefit the professionals and institutions in the country. One of the researcher's aims is to cover the practical gaps by introducing practical and flexible ways to enter the international wine market. For example social networking and electronic commerce websites are some of these practical methods to promote the wines overseas. Further analysis and presentation of the practical methods to fill the gaps will be introduced on an ongoing research development. Also the grounded theory method would support the harvesting of data and formation of a conceptual framework for academic review.

In order to meet the research objectives it is desirable to engage the actors; businesses, employees and business partners. This involvement might create a three dimensional perspective of the failing reasons to deploy a successful export strategy. The comments, suggestions and recommendations by the actors might support the formation of a scientific framework. The importance of professional experiences to this research is a key element. The collection of thoughts and experiences would probably create a three dimensional image of the situation. By mentioning a three dimensional perspective or image I mean the construction of a platform with inputs from professionals, businesses, employees and customers. The detailed data analysis and construction of a theory would create a complete framework.

A possible achievement of businesses to promote Cyprus wines abroad could lead to a worthwhile study of their export strategy. A thorough design and execution of a plan by the management would

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probably promote the products overseas. Therefore the *expected research findings and outcomes* of this case study are provided below:

Research findings:

- The structural design of the wine business does not support the exportation of wines
- Inadequate marketing methods to promote wines overseas
- Limited human capabilities and technical resources to export wines abroad
- There is no blue print for a thoughtful and solid export strategy

Research outcomes:

- Formation of a corporate export strategy
- Implementation of a structural design that supports the exportation of wines abroad
- Synchronization and improvement of the marketing and management activities to export abroad
- Improvement of the partners' network overseas
- Promotion of good quality wine brands to prospective customers
- Increase export sales with improved marketing techniques

These are some of the prospective findings and outcomes of the research. It should be considered that this is an ongoing search for the factors affecting the exportation of Cyprus wines abroad. The factors found must be compared to those of successful wine export countries. The researcher must be open to investigate all factors affecting the export strategy and especially those that are related to the structural design. The author believes that the structural design might influence the formation and execution of the export strategy of the wine businesses.

Interventionist vs Non Interventionist Approach

The philosophic and paradigmatic discussion of interventionist research has its roots in the anthropological field of culture studies in social science (Westin, Roberts, 2010). Intervention is an approach where a researcher deploys mechanisms to change an existing situation. The evaluation of a condition and the implementation of solutions are all parts of these mechanisms. The choice of the researcher to intervene in a situation proclaims an intention to set the guidelines of the outcome. Also Ikeda (2004) supports that the theory of interventionism, the use of political power to intervene into the market process generates a dynamic that ultimately causes the actual outcome of that intervention to diverge significantly from the intended outcome. According to Westin, Roberts (2010) the aim of intervention research is to meld theory and practice together, two kinds of imprints that express an

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entity of use and of explanation as the two sides of the same coin. They both agree that if a researcher succeeds to combine theory and practice then he/she would make a full epistemological contribution. They also support that the combination of theory and practice can create an explanation of why and how practical matters, or actions taken, are appropriate. There is a fit between theory and practice and we can further elaborate the matter theoretically on solid ground.

The survey of the economic and political environment in Cyprus would greatly contribute to the development of a theory concerning the exportation of goods. To be more specific the political decision making process in the country and the economic situation of the wine businesses might provide a valuable insight of the reasons why Cyprus lacks behind traditional and new countries on wine exportation. The generation of knowledge from researching and work experiences in the wine sector could support the formation of a well designed theoretical framework and practical recommendations to the Ministry of Commerce and the wine businesses. The emphasis is on the structural design of wine businesses and its effect on the export strategy. The evaluation of the structural design and the creation of knowledge by performing research would provide the necessary tools to make recommendations and present a credible research. The arrangement of the departments, the allocation of resources, the abilities of the personnel are only some of the aspects that will be investigated and further analyzed for the purpose of this research. The quality and ability of management personnel in each department and the communications are also factors that would be analyzed in order to form a complete set of recommendations.

Westin, Roberts (2010) and Kolb (1984) supported that there are two primary sources available to create meaning and knowledge of practice, according to the experiential learning model. The first source is a construct originating from the concrete experiences of practice, while the second source is as an abstract conceptualization expressed by the spoken or written word. Taken together, they constitute the input of understanding, which could be used mentally for building theory and/or to produce concrete practical insights through active experimentation. In addition to these statements the adaptation of grounded theory on the research on structural design would strengthen the argument about its effect on executive decision making on the exportation of wines. The harvest of verbal data by interviewing executives and written data by working in the wine industry would create a solid knowledge mix. Both Westin and Roberts (2010) noted that knowledge and experiences are enriched and adapted in practice by human interaction and communication. Learning is one of the key issues in obtaining knowledge from research, not solely as a quest of learning from research but, most important from the researcher's point of view, how to learn to formulate a trustworthy explanation of "what is going on here," the latter specifically when practice is constantly moving and changing. It is agreeable that the changing conditions in the economic environment play a major role to the construction of knowledge. The researcher has to be prepared to understand the variable

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factors and to be alert to foreseen and unforeseen consequences that can change the framework of knowledge and set of recommendations. An example of these variable factors is the quality of Cyprus wines that had been improved in the last 10 years. This is a main factor to convince foreign traders to purchase the product at a certain amount of money. Nevertheless if the executive management does not decide to expand abroad then there will not be able to generate income from overseas markets.

According to Westin, Roberts (2010) the dynamic world of interventionist research implies continuous participation in doing research in practice, to be at the centre of events to learn and know "what is going on" because, as Hastrup (2005, p. 141) suggests, "We cannot get in touch with reality without making ourselves part of it." On the research on structural design might be necessary for the researcher to intervene in order to prove the validity of his findings to government officials and wine industry executives. And especially the sensitive matter of structural design and resource allocation to specific departments in order to shape an export strategy to capture part of the international wine market. Also the structural design types such as hierarchical, horizontal and hybrid are part of the main investigation of the variables that affect the formation of an export strategy. The hierarchical design involves all business managers in the export strategy process that slows the decision making process. The horizontal design simplifies the decision making process in shaping an export strategy. The hybrid design combines partial hierarchical management structure and flexible decision making that might be the ideal model for the wine businesses in Cyprus. It is therefore necessary to study further and recommend a structural design type that is suitable for the Cyprus wine businesses.

Nevertheless a direct involvement of the researcher is vital to the verification and validation of the findings of this research. An idle situation concerning political and executive decision would not support the wine businesses or the wine industry as a whole. The investigation of the factors and development of a set of recommendations would probably support than harm the wine businesses.

A non-interventionist approach could be applied by a researcher when the situation is positively affected without interference. A researcher must evaluate a situation in order to decide whether to intervene or not. For example traditional wine producing countries like France, Italy and Spain do not need to begin a research concerning the difficulties involved with the exportation of wines overseas. These countries have already developed a brand in the world wine market with quality wines. Their efforts paid off by capturing a large market share of the international wine market without significant promotion. Needless to say that the wine businesses in these countries would probably investigate the success factors in wine exportation without intervening in the market as such. Concerning the situation in the Cyprus wine industry is quite different compared to the traditional and new wine producing countries. A research must be contacted to investigate the reasons that Cyprus wine businesses are not as successful as French wine businesses or Italian wine businesses. A non-intervention approach in the Cyprus wine business environment would not support the attempt to

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build a brand name in the international market but also to promote the Cyprus wines in the international market. If a researcher retains the current economic stage of the Cyprus wine industry he/she would probably contribute little or nothing to the academic and business sectors. Therefore a researcher should intervene in the Cyprus wine industry in order to support their efforts to capture a share of the world wine market. The investigation of the structural design of the wine business is a step forward to indentify the root factors for failing to entry the foreign markets. It is desirable to begin a research about the exportation of Cyprus wines. A successful entry in foreign markets would generate income not only for the wine businesses but also for the country as a whole.

The role of researcher values

The researcher's ethical contribution to this paper is vital to the professional development. The implementation of a professional coding system concerning the commitment to research could create transparency and accuracy on the findings and outcomes. According to Meyer (2000) the research design must be continually negotiated with participants, and the researchers need to agree an ethical code of practice with the participants. This is especially important as participation in the research, and in the process of change, can be threatening. Conflicts may arise in the course of the research: outside researchers working with practitioners must obtain their trust and agree rules on the control of data and their use and on how potential conflict will be resolved within the project. The way in which such rules are agreed demonstrates its democratic impulse. In addition to Meyer (2000) statements the researcher could design an ethical coding system involving all actors; business, employees and business partners that are abide by the rules. As previously stated the introduction and observation of the rules of the coding system would promote transparency, accuracy and a valuable contribution to the academic and business communities.

The prevention of personal and professional conflicts could lay out a strong foundation for the research. A close understanding and collaboration with all involved parties could create a well studied research. The main concern of the researcher is the participation of the actors that would contribute unbiased data concerning the case topic. Of course it is the responsibility of the researcher to recognize and verify the data in order to draw concrete conclusions. The selection criteria for the participating businesses on this study are equally important. A more freely and voluntary participation of wine businesses would greatly support the study. For example a good choice of wine businesses are those interested in exporting wines overseas but they do not have the necessary human and material resources. A weak choice of wine businesses is the selection of businesses that are opposed to international promotion of wines for their own reasons. Professionals that are selected to participate at the research must have adopted work ethics and are well respected in the wine industry.

An ethical research approach could provide a valuable contribution to the academic and business communities. A clear vision, objectives and understanding of the purpose of this study are also

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important to the completion of this research. The researcher's values and ethics would probably set a solid framework. The researcher's role is extremely important to the selection of the participants; wine businesses, employees and professional and also to the evaluation of the selected data. It is imperative to verify and validate the information and the research sources. The selected sources and data are chosen with accuracy and must be unbiased in order to construct a well accepted research paper. Also the researcher's ethical coding system might be implemented on the proposed academic study and the recommended solutions.

Required skills needed for different methods

The adoption and use of constructivism philosophical position could present a different view of the problems faced by the wine businesses. The understanding of the different levels of this multiplex situation by the researcher would possibly help him introduce a new theory to export wines abroad. The inductive nature of qualitative research "involves researchers working back and forth between the themes and the database until they establish a comprehensive set of themes" (Creswell, 2007, p. 39). In addition to this statement the researcher of this study would apply grounded theory to construct and present a theoretical framework to the affected parties. The selection and verification of data with different methods would greatly support this effort. The continuous quality improvement of the study must be set as one of the foundation elements. The genuine participation of the actors and the adaptation of methodology are also strong elements. Langley (1999) supported that the information processing task for qualitative researchers involves attending to multiple items at one time – data and theory, collection and analysis, themes and sub-themes. Further, the data collected in qualitative studies have characteristics identified by Langley that make them hard to analyze and manipulate: they deal with ambiguous events, involve multiple units and levels of analysis, are temporally imprecise, and are eclectic. As stated before the researcher would apply a grounded theory as a qualitative method to collect data. The researcher's ability to gather data by interviewing executives and to analyze the most important information is a key skill for the completion of this study. The use of technology such as a digital recorder and Nvivo software would support the gathering and analysis of the primary data. The technical skills of the researcher are also essential to the collection and verification of the information. Also the critical skills of the researcher would play a crucial role on the implementation of the qualitative method.

The research will be better supported with the use of triangulation method. As stated earlier the adaptation of constructivism position and the application of a qualitative method such as grounded theory will be the primary approach to this research. Nevertheless the use of a quantitative method such as questionnaires and analysis of secondary data from the Cyprus Statistics Agency and the Cyprus Wine Products Council are to be considered as an advantage to this study. The combination of the qualitative and quantitative methods would probably produce more accurate and credible

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results. The verification and validation of the factors affecting the export strategy can be performed with the triangulation method. The use of a quantitative method requires the analytical skills of the researcher. The ability of the researcher to perform mathematical functions and statistical graphs would strengthen the argument of the research concerning the effect of structural design on export strategy. The combination of the analytical and critical skills is a solid way to provide practical solutions and a theoretical framework to the interested parties.

Reflections on the choice of research approach

The choice to research the structural design will be an exhausting but hopefully a rewarding effort. The main idea is to explore the business' structural design that might affect the outward looking for foreign markets by executives to promote the Cyprus wines. The understanding of the way of thinking of the wine businesses' executives is a key element for analyzing the business structure. Even though so many factors affect the exportation of wines the researcher will focus on the business organization of the departments and the managers' abilities to engage in the international wine market. An attempt to compare wine businesses or businesses in other sections might shed some light for the success reasons on exportation.

The intention of the researcher is to intervene in the wine industry by interviewing executives and constructing a theoretical framework. There will be an attempt to analyze the present situation and make recommendations for a successful exportation of wines from Cyprus. The selection of constructivism philosophical approach would provide a strong argument concerning the reasons that the wine businesses do not engage on foreign exports. The deployment of a triangulation method to the research might provide solid evidences and conclusions about the factors affecting foreign trade. Interviews and questionnaires are some of the methods to be used on accessing data from the wine businesses. The selection of a qualitative and a quantitative method will fulfill this approach.

The researcher will construct a theoretical framework and develops a set of recommendations for the wine businesses. The triangulation method is the main venue to collect and analyze data regarding the structural design, export strategy and the wine industry. It is a huge attempt to research, evaluate, and develop a platform that the Cyprus wine businesses and academic institutions will benefit from the outcomes.

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INDEXES

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Cyprus Statistical Service

ΠΙΝΑΚΑΣ 14 (συν.). ΠΩΛΗΣΕΙΣ ΒΙΟΜΗΧΑΝΙΚΩΝ ΠΡΟΪΟΝΤΩΝ ΚΑΤΑ ΕΙΔΟΣ, 2005-2008
TABLE 14 (cont'd). SALES OF INDUSTRIAL COMMODITIES BY TYPE, 2005-2008

Κώδικας Προϊόντων / Commodity Code	Προϊόν	Μονάδα Μέτρησης / Unit of Quantity	2005		2006		2007		2008		Commodity
			Ποσότητα Quantity	Αξία Value (€000's)	Ποσότητα Quantity	Αξία Value (€000's)	Ποσότητα Quantity	Αξία Value (€000's)	Ποσότητα Quantity	Αξία Value (€000's)	
11.02	**Παραγωγή οίνου από σταφύλια**			**36.433**		**33.948**		**32.127**		**28.901**	**Manufacture of wine from grape**
11.02.11	Αφρώδη κρασιά (σιαμπάνια κλπ)	'000L	77	376	41	207	21	106	12	60	Sparkling wines of fresh grapes
11.02.12.17	Κουμανδαρία	"	288	1.340	195	967	225	1.128	285	1.500	Commandaria
11.02.12.19	'Αλλα κρασιά	"	28.520	33.924	25.580	31.941	18.838	29.431	15.400	26.951	Other wines of fresh grapes
11.02.12.30	Σιέρρυ	"	290	342	450	569	335	627	146	299	Sherry
11.02.12.50	Μούστος (γλεύκος) σταφυλιών	τόνος/tonne	589	451	233	265	815	836	81	91	Grape must
11.05	**Ζυθοποιία**			**40.138**		**41.119**		**45.548**		**44.070**	**Manufacture of beer**
11.05.10.00	Μπίρα	'000L	37.707	40.138	37.410	41.119	39.819	45.548	42.693	44.070	Beer made from malt
11.07	**Παραγωγή αναψυκτικών, παραγωγή μεταλλικού νερού και άλλων εμφιαλωμένων νερών**			**90.792**		**83.807**		**87.233**		**92.262**	**Manufacture of soft drinks, production of mineral waters and other bottled waters**
11.07.11.30	Εμφιαλωμένο νερό	'000L	57.800	12.116	64.830	13.360	67.004	13.805	71.126	17.052	Mineral water, bottled
11.07.19.30	Αναψυκτικά	"	66.613	70.130	58.269	64.293	62.465	65.991	62.889	66.501	Soft drinks
11.07.19.50	Λεμονάδα, πορτοκαλάδα,τριαντάφυλλο, κρύο τσάι και καφές κλπ.	"	5.880	8.546	4.241	6.154	4.640	7.436	5.770	8.709	Lemon and orange squash,rose cordial, ice tea and coffee etc.
12+19	*ΠΑΡΑΓΩΓΗ ΠΡΟΪΟΝΤΩΝ ΚΑΠΝΟΥ ΚΑΙ ΠΡΟΪΟΝΤΩΝ ΔΙΥΛΙΣΗΣ ΠΕΤΡΕΛΑΙΟΥ*			*131.947*		*35.764*		*10.506*		*9.013*	*MANUFACTURE OF TOBACCO PRODUCTS AND REFINED PETROLEUM PRODUCTS*
12.00+19.20	**Παραγωγή προϊόντων καπνού και προϊόντων διύλισης πετρελαίου**			**131.947**		**35.764**		**10.506**		**9.013**	**Manufacture of tobacco products and refined petroleum products**
12.00.11.50+ 19.20.18.10	Τσιγάρα και λιπαντικά λάδια	...	...	131.947	...	35.764	...	10.506	...	9.013	Cigarettes and lubricating oils
13	*ΠΑΡΑΓΩΓΗ ΚΛΩΣΤΟΫΦΑΝΤΟΥΡΓΙΚΩΝ ΥΛΩΝ*			*23.642*		*26.051*		*28.457*		*26.372*	*MANUFACTURE OF TEXTILES*
13.10	**Προπαρασκευή και νηματοποίηση υφαντικών ινών**			**449**		**367**		**921**		**708**	**Preparation and spinning of textile fibres**
13.10.29.00+ 13.10.31.00+ 13.10.32.00	Κοκκοφοίνικας για στρώματα, πολυέστερ (για κατασκευή κλωστών), συνθετικό βαμβάκι για την κατασκευή στρωμάτων και ακρυλικά νήματα (για πλεκτά)	...	...	449	...	367	...	921	...	708	Coire fibre (raw material of mattresses), polyester (for manuf. of sewing thread), artificial cotton for manufacturing of mattresses and acrylic yarn (for knitting industry)

(συν.-cont'd)

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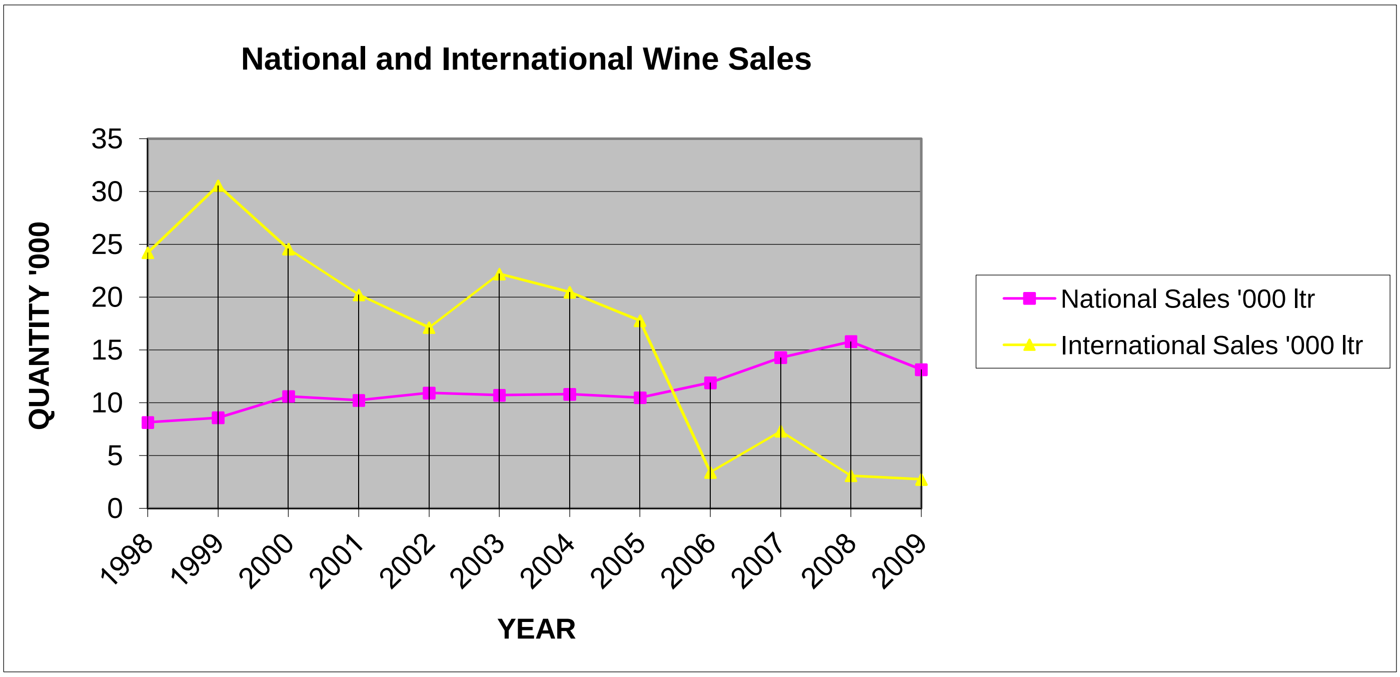
Graph generated by the Cyprus Wine Products Council - Annual Report 2009



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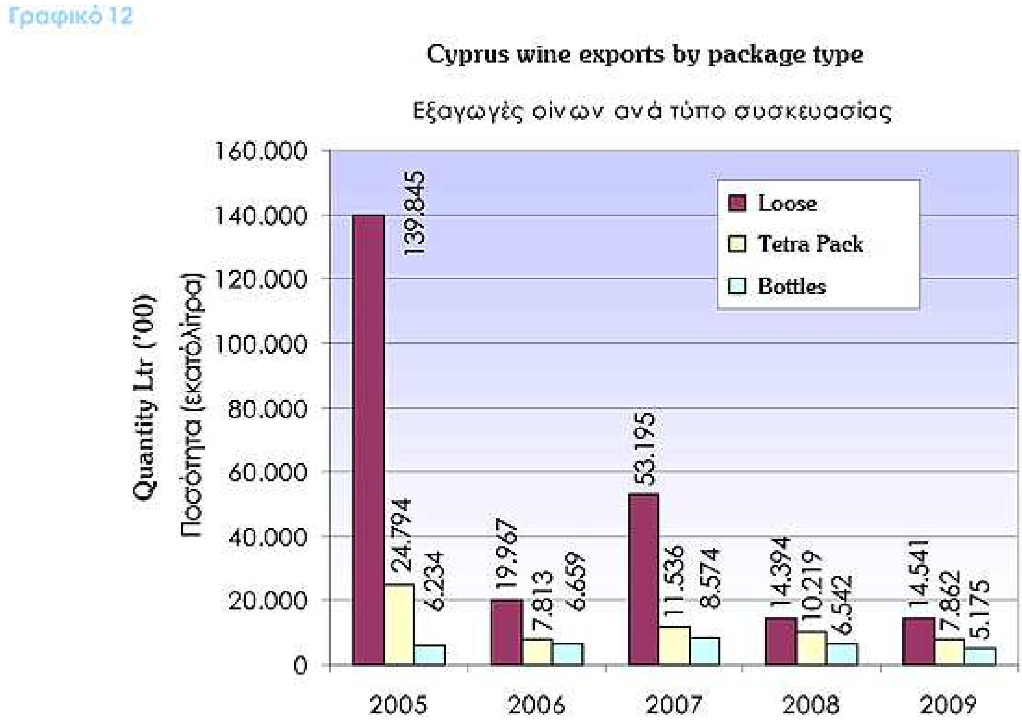
Graph generated by the Cyprus Wine Products Council - Annual Report 2009



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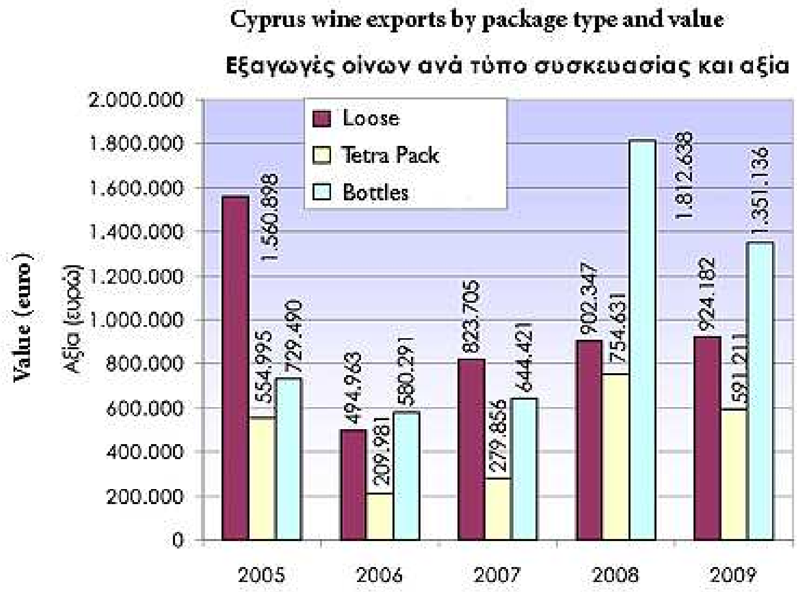
Graph generated by the Cyprus Wine Products Council - Annual Report 2009

Γραφικό 13



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ASSESSING THE IMPLEMENTATION OF E-GOVERNANCE IN ARAB COUNTIES

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Abstract

This is an exploratory study aimed at assessing the implementation of e-governance in Arab countries and to review and analyze the current status and challenges facing those countries in e-governance implementation. E-governance is a concept aimed at building better relationship with the public with purpose to achieve efficient, speedy, transparent and accountable government. This paper reviews data on global ranking of Arab countries performance on e-governance and analyze data and information extracted from relevant literatures on e-governance. The data reveals discrepancies in performance among Arab countries on all indices used in this study. On the e-participation index, with exception of few countries such as Bahrain, Egypt and Tunisia, the average score of most Arab countries is only 0.10 out of the maximum score of 1.0. The result indicates that Arab countries do not place emphasis on e-participation. The state of the E-Governance Readiness of Arab Countries is explained through the force-field diagram.

Key Words: E-government, E-governance, Governance, Arab Countries, ICT

Introduction

E-government is an institutional approach focuses on carrying out decisions related to the use of information and communication technology (ICT) to transact the business of government and promising better delivery of its services to citizens, improved interactions with businesses and empowering citizens through access to information. It uses (ICT) to transform the traditional public sector by making it more accessible, transparent, effective and accountable. The end result of the adoption of e-government is to create a more satisfied picture of government business processes. E-government is not only putting a computer on the desk of bureaucrats, rather, it aims to change the mentality of those bureaucrats so that they treat citizens as valued customers of government or important participants in decision-making (Shakya & Sigdel, 2007). E-governance is wider concept which reflects the relationships between government employees, elected or appointed, and the wider society. As interpreted by Heeks (2003) e-governance goes beyond the provision of simple service and builds an external interaction with the diverse stakeholders of government. E-governance means building positive relationship between the governing and the governed through the integration of people, processes, information and technology to achieve governance objectives. Successful implementation of e-governance requires the movement from passive information society to an active

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engagement of citizens. While the definitions of e-government and e-governance overlap (UN Global E-Readiness Reports, 2005; Gartner Group, 2003; Adeyemo, 2011; Fraga, 2002), there is a significant differences between the two terms. E-government involves using ICT, especially the Internet, to improve and transform the traditional way of providing government services to citizens, businesses and other government agencies, while E-governance is wider concept which goes beyond the simple provision of services through the use electronic mean by building an external interaction with diverse stakeholders in the external environment. E-governance involves the usage of ICTs at various levels of government and public sector organizations for purpose of enhancing governance (Heeks, 2003; Holms, 2001, Bin Salamat, Bin Hassan & Bin Muhammad, 2011).

There is a need for understanding the developments of e-governance initiative of the Arab countries. I investigated the current performance of the Arab Countries in e-government development and e-participation. The United Nations E-Government Survey 2005, 2008 and 2010 has been used as the main reference document in writing this paper. The Author uses some indices of E-Government Development (EGDI) to shed light on how far Arab Countries have used the information and communication technology to facilitate an efficient, speedy and transparent process of disseminating and exchanging services and information to the public and other organizations. The paper seeks to provide an assessment of the implementation of e-governance in Arab countries. In addition, semi-structured interviews with a sample of Arab expatriates working in the field of academia were conducted to gather additional information on obstacles facing Arab countries in their endeavor to achieve the e-governance objectives. This paper is organized as follows. First, a discussion of the meaning and benefits of e-governance is presented followed by the literature review of extant literature. Then, the current performance of Arab countries in three indices which constitute the backbone of the e-governance practices is presented alongside the e-participation. Towards the end, the analysis of realities and the obstacles of e-governance in Arab countries is presented along with the force-field model of the E-Governance Readiness of Arab Countries.

Meaning of E-Governance

E-governance nowadays becomes the mantra and the key success factor for governments in the presence of increased citizen's expectations, evolving societies, fiscal demands and fierce competitive era. E-government is the use of internet by public sector organizations with aims of better access and delivery of services to its clients. It marks the most revolutionary shift in governance and the fundamental institutional change of the way government operates and transforms its relationship with citizens, businesses and other governments. Government bureaucracies are typically described as rules, processes, and input oriented. E- Government has been perceived as a reply to such issues. Accenture, a leading consulting, technology, and outsourcing, viewed e- governance as using new technologies to strengthen relationships with citizens. E-governance defines and assesses the impacts

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of ICT on the practices, attitudes and behaviors on different spectrum of the society. E-governance is not only concerning the provision of services through the application of electronic means but rather entails building external interactions (Heeks, 2001), enhancing democracy and trust of the political institutions of government (Lenihan 2002, The Gartner Group, 2003). According to UNESCO, "E-governance is the public sector's use of information and communication technologies with the aims of improving information and service delivery, encouraging citizen participation in the decision-making process and making government more accountable, transparent and effective. The UN Global E-government readiness report (2005) provides broad definition of e-government. E-government according to this report entails not only the process of services and information delivery but also include the involvement and empowerment of the public through better access and participation in decision making process. E-governance involves new styles of leadership, new ways of debating and deciding policy and investment, new ways of accessing education, new ways of listening to citizens and new ways of organizing and delivering information and services.

E-governance is generally considered as a wider concept than e-government, since it can bring about a change in the way citizens relate to governments and to each other. E-governance can bring forth new concepts of citizenship, both in terms of citizen needs and responsibilities. Its objective is to engage, enable and empower the citizen. It is assumed that the adoption of information and communication technology by government organizations can enhance the practice of e-governance. E-Governance integrates the human and the human side of technology. It integrates people, processes, information, cultural, and environment in achieving the governance objectives. Through this integration, e-governance can contribute towards enhancing the democracy, transparency, accountability and respect of the rights of the citizens. E-governance is the continuous improvements of service delivery, citizens' engagement and governance by providing new information flows from citizens to government. The government through the adoption of ICT can provide its citizens, as consumers of public service, with details of public sector operations and therefore provide more legitimacy to its existence (Heeks, 2001). The e-governance can support and sustain good governance by providing all stakeholders (citizens and businesses) of better public service delivery, a better transparent information and easier access to the political authorities. E-governance may be seen as a wider concept that goes beyond the simple service provision to build external interactions. The principal indicators of e-governance are efficiency, effectiveness, and rule of law, trust, participation, democracy, transparency, accountability and respect of human rights. The main aims of e-governance are to make public administration more transparent, speedy and accountable, while addressing the society's needs and expectations through efficient public services and effective interaction between the people, businesses and government (Farooquie, 2011).

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Governance was defined as the process by which individuals and institutions, public and private, manage their common affairs (United Nation, 2002). It is a collective process resulted from the interaction of the public sector and civil society for purpose to simplify governance for government, citizens and businesses. E-Governance is a wider concept that encompasses all forms of governance that can be undertaken not only by government authority but by businesses, non-governmental organizations and citizens (Keohane & Nye, 2000). There are various features which describe the good governance. Good governance is participatory, consensus oriented, accountable, transparent, effectice and efficient, equitable and inclusive and follows the rule of law (Sardi and Mlikota, 2002). E-governance is the application of ICTs at various levels of government and by various public and private agencies for purpose to achieve governance objectives. The most important utilities of e-governance in developing countries include features such as accountability, transparency, participation, equity, promotion of the rule of law and decentralization (UN e-government survey 2008, 2010). The adoption of information and communication technology (ICT) has added value to the practices of good governance. With emergence of ICT it is possible to locate service centers closer to the clients. Some authors contend that E-governance may be seen as a wider concept that goes beyond the simple service provision to build external interactions. It is an integrated approach that not only integrates the internal processes of government but also people (citizens, Businesses, Non-government organizations) in the service of achieving good governance objectives (Howard, 2001 and Bannister and Walsh, 2002). E-governance promises to deliver to all citizens improved services, reliable information and greater knowledge in order to facilitate access to the governing process and encourage better citizen participation.

E-government has broken the barriers within the government and between the governments. The rise of digital economy and the globalization of information knowledge, compel governments around the globe to meet new expectations and priorities of citizens and businesses. E-governance should help in empowering citizens, businesses, and workers.

Literature Review

There is a paucity of research exploring E-Governance in Arab countries. Many authors have pointed out digital divide (Chatfield & Alhujran, 2009) and also underlined various others impediments such as highly bureaucratic nature of government agencies and rarely trained human resource (Al-Nuaim, 2008). The study conducted by Al-Nuaim (2009) also found that Arab municipal Web sites were not citizen centered, suffered from fundamental problems and had limited interactive services. Ciborra and Navarra (2005) examined the early design of e-government solutions in Jordan and found that implementing a general standardized ICT portfolio to support good governance proved to be a difficult task. Awan (2007) studied the government-to-business (G2B) aspect of Dubai

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e-government and found that businesses often didn't use e-government services for business transactions. One of the reasons include that online response to business queries was very slow.

Chatfield and Alhujran (2009) conducted a cross-country comparison of e-government websites and portals in 16 Arab countries. It was revealed that Arab countries lag behind more developed nations in terms of e-government service delivery capability. A wide digital divide was found among the Arab countries in terms of advanced e-government services. Zaied, Khairalla, and Al-Rashed (2007) investigated the perceptions of towards the IT environment in public organizations in Kuwait and found that less than half of the participants agreed that their organizations had adequate appropriate connectivity, infrastructure, and IT human skills to implement the e-government system. Belwal and Al-Zoubi (2008) assessed the public centric e-governance in Jordan and highlighted many impeding forces such as digital divide, corruption, social bottlenecks, lack of marketing to stakeholders, citizen's lack of adoption of technology.

The review of above studies underscores the challenges faced by Arab countries with regard to the e-governance readiness. Though there is debate on the factors which restrain the e-readiness of Arab countries, however, there is a need to take a consolidated view of the state of the Arab world e-readiness. The current study presents a conceptual model (see Figure 1) in order to improve our understanding of restraining and driving forces which may impede or facilitate the Arab world e-readiness.

Method

The current study draws upon both secondary and primary data. The sources of secondary data include reports published by the United Nation Survey (2005, 2008 & 2010), the Department of Economic and Social Affairs (DESA) in order to assess the e-governance readiness of the governments of Arab World. Another purpose of this approach is to use this assessment as a benchmark tool to monitor the advancement of Arab governments in implementing e-governance services.

Interview Protocol & Data Analysis Procedure

The sources of primary data include semi-structured face-to-face interviews with professional expatriates and locals in the UAE. A total of thirty individuals were interviewed. The interviewees included IT Director, project managers, operational staff, and academicians. Each interview lasted on an average of one and half hour. An interview protocol was developed containing a variety of open-ended questions. The questions were developed considering different dimensions of e-governance readiness. The data were collected over the period of two months during Jan and Feb 2011. During the interview, detailed notes were taken.

In order to assess the e-governance readiness of Arab world, a thematic analysis of interview transcripts was performed in order to find common themes. Thematic analysis helps in identifying

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common themes through in-depth examination of data (Gifford, 1998). The review of the interview transcripts revealed statements that linked to the identified themes.

Selected Indices

The following indices were some of E-government development indices (EGDI) which were chosen to shed light on how far the application of information and communication technologies among Arab States has improved accessibility of services to citizens, improved the transactions with citizens and business, and the involvement of citizens in public policy through better access to information:

- E-Government Readiness
- Web Measurement Assessment
- E-Participation

E-government Readiness Index in Arab World

The use of modern information and communication technologies (ICTS) in the public sector has created new perceptions about government and governance. Governments are looking for e-government to provide support for public sector reforms and good governance. E-government as a concept integrates the internal and the external components of connected governance. Internally, it has helped of creating more efficient functioning of government operations and externally had improved the interaction with citizens and businesses (United Nation Survey, 2008, 2010). Because of such promising benefits of e-government, this study has added this indicator for purpose to provide a comparative analysis of the extent by which the application of ICTs among Arab governments has contributed to building a better system of service delivery, improved transactions with citizens and businesses, and the empowerment of citizens through better access to information. In this section, I divide the Arab countries by Sub region and provided evidence of their readiness toward the interaction and transaction with citizens and the private sector.

The E-government index of Arab countries in Tables (1,2, and 3) is shown by two groups, the Western Asian Arab countries and the North African Arab countries. The E-government index (EGI) of the Western Asian Arab countries increased from 0.4384 in 2005 to 0.4857 in 2008 and then declined slightly to 0.4757 in 2010 (Table 3). As a group they are above World average (0.4267, 0.4514, and 0.4406) of the same period. When compared to World average in 2010, 7 out of 11 Western Asian Arab countries managed to exceed the World average. The EGI of the North African Arab countries also increased during the same period but their averages were below their Arab counterpart in Western Asian and World average (Table 3). The breakdown of e-government readiness Arab countries by these two Sub regions is shown in Table 1 and 2. Within those two sub regions, there was significant gap between countries in e-government readiness index. United Arab Emirates (UAE), Bahrain,

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Jordan, Kuwait and Saudi Arabia showed significant progress compared to other Arab countries in the same Sub region and their scores in EGI exceeded the World average (Table 1). Arab countries within the North African Sub region showed inconsistent progress, with exception of Egypt which shows better score compared to rest of countries in that Sub region (Table 2). Contrasting Arab countries by region, Table 3 shows significant gap in performance with Arab countries located in Western Asian outperform their counterpart in North African region by more than (10) points. Most Arab countries in the Western Asian Sub region improved their e-government readiness indexes for aforementioned period with exception of Syria, Iraq and Yemen. Among the Arab North African Sub region only Egypt and Tunisia show good progress in score compared to World average score in e-government readiness. The EGI for both countries in 2010 was 0.4518 and 0.4826 respectively. Tunisia and Bahrain are the most prominent countries among all Arab list to move up 58 positions and 39 positions respectively from their 2008 ranks of 124th and 42nd. The data in Tables (1,2,and 3) indicates that most Arab countries have recognized the essential role of using technology to modernize the public sector's view of the needs of the citizens and the private sector. In order to document the real transformation of the public sector in Arab countries from a bureaucratic form to a people-centric view, the next section assesses the national web sites of these countries and evaluates their online service delivery index.

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No.	Country	Index 2005	Index 2008	Index 2010	Global Ranking in		
					2005	2008	2010
1	UAE	0.5718	0.6301	0.5349	42	32	49
2	Bahrain	0.5282	0.5723	0.7363	53	42	13
3	Jordan	0.4639	0.5480	0.5278	68	50	51
4	Qatar	0.4895	0.5314	0.4928	62	53	62
5	Kuwait	0.4431	0.5202	0.5290	75	57	50
6	Saudi Arabia	0.4105	0.4935	0.5142	80	70	53
7	Lebanon	0.4560	0.4840	0.4388	71	74	93
8	Oman	0.3405	0.4691	0.4576	112	84	82
9	Syria	0.2871	0.3614	0.3103	132	119	133
10	Iraq	0.3334	0.2690	0.2996	118	151	136
11	Yemen	0.2125	0.2142	0.2154	154	164	164

Table 1: Western Asian Arab Countries e-government readiness index 2005/2008/2010

No.	Country	Index 2005	Index 2008	Index 2010	Global Ranking in		
					2005	2008	2010
1	Egypt	0.3793	0.4767	0.4518	99	79	86
2	Tunisia	0.3310	0.3458	0.4826	121	124	66
3	Libya	0.3091	0.3546	0.3799	000	120	114
4	Algeria	0.3242	0.3515	0.3181	123	121	131
5	Morocco	0.2794	0.2944	0.3287	138	140	126
6	Sudan	0.2370	0.2186	0.2542	150	161	154

Table 2: North African Arab Countries e-government readiness index 2005/2008/2010

	2005	2008	2010
Western Asia Arab Countries	0.4384	0.4857	0.4757
North African Arab Countries	0.3098	0.3403	0.3692
World Average	0.4267	0.4514	0.4406

Table 3: Comparison of e-government readiness index 2005/2008/2010

Web Measure and Online services

The strategic objective of web measurement assessment is to measure the online presence of government national websites. It is intended to provide governments with a comparative ranking on their abilities to deliver services to its citizens. There are a couple of models that have proposed to

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capture the evolution of e-government services (Benchmarking e-government, 2002; Matthias and Gaelle, 2003; Kaaya, 2004; Okot-Uma and Rogers 2004). In order to demonstrate the ability by which national Arab States provide online services to their citizens, this study has adopted the five stage of e-governance model of the United Nations e-government surveys 2005, 2008 and 2010*. These surveys provides a comparative assessment of the performance and ranking of 192 United Nations Member States on how the public sector has responded to the demands of citizens for excellent services and products through the use of the most innovative ICTs (Kerby, 2010). To assess the online presence of national websites and to meet the growing needs of citizens for different types of information and services, the author gathered and displayed two types of data. Table 4 shows the scores and ranking of Arab States by web Measure index and Table 5 presents the percentage and points of utilization and ranking of online service delivery. Table 4 shows the progress made by Arab States in Web Measure Index. Most Arab States with exception of Lebanon, Iraq and Yemen, have made good improvement on the online presence of their national Websites. Some Arab countries have made good improvements in Web Measure Index and climbed in their positions in 2008 compared with 2005. Those are UAE, Bahrain, Jordan, Qatar, Kuwait and Oman. UAE followed by Jordan lead other Arab States in this index. Based on United Nations e-government survey of 2008, the Highest Score in this Index is 1.0 which has obtained by USA. This survey shows that UAE and Jordan have scored (0.7157), (0.6054) respectively in Web measure index and this means that both have undertaken a good renovation of their national portal since the last survey in 2005. Other Arab States which reflect renovation in their national portals in 2008 in descending orders are Bahrain (0.5201), Oman (0.4849), Saudi Arabia (0.4649), Kuwait (0.4147), Qatar (0.3913) and Syria (0.2408). These improvements can be interpreted of the good efforts by the governments of these countries in investing in infrastructure, education, citizen-friendly portals and online applications. As 2010 e-government survey by UN contains no data on Web Measure Index, I used the online service index to show the ability of Arab States of providing online services to their citizens. The data were extracted from E-government development index which was measured by four components which all together have been summed to 1.0. One of these components was online service. The Republic of South Korea got the highest score in the World of (0.3400), and accumulated 0.8785 in e-government development index. South Korea scored full mark of (1.0) in online services based on 2010 UN e-government survey. Countries with highest scores in online services reflect their strengths in online service provision, social networking with citizens, engaging and empowering them to be part of the governance process. Three Arab States Bahrain (0.2883), Jordan (0.1813) and Kuwait (0.1565) maintained good presence of online data and information to their citizens (table 4 & 5). Although the data in Table 4 & 5 showed some modest progress of some Arab States, but overall Arab States still lagging behind the World trend toward more and better interaction with their citizens.

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No.	Country	Index 2005	Index 2008	Online service Index 2010	Global Ranking in		
					2005	2008	Online service 2010
1	UAE	0.6115	0.7157	0.0853	29	12	95
2	Bahrain	0.4192	0.5201	0.2483	53	44	13
3	Jordan	0.4346	0.6054	0.1813	68	28	22
4	Qatar	0.3269	0.3913	0.0950	62	53	89
5	Kuwait	0.2500	0.4147	0.1565	75	57	36
6	Saudi Arabia	0.3769	0.4649	0.1058	80	60	67
7	Lebanon	0.3423	0.3913	0.0907	71	74	85
8	Oman	0.1731	0.4849	0.1252	112	52	56
9	Syria	0.0654	0.2408	0.0140	132	119	170
10	Iraq	0.0538	0.1070	0.0518	118	151	122
11	Yemen	0.0962	0.0736	0.0162	154	164	168

Table 4: Western Asian Arab Countries Web Measure Index & Online Service Index 2005/2008/2010

No.	Country	Index 2005	Index 2008	Online service Index 2010	Global Ranking in		
					2005	2008	Online service 2010
1	Egypt	0.4462	0.6054	0.1803	99	28	86
2	Tunisia	0.1538	0.1304	0.1641	121	124	66
3	Libya	0.0000	0.0803	0.0464	000	120	138
4	Algeria	0.2462	0.3515	0.0335	123	121	145
5	Morocco	0.2385	0.2074	0.0810	138	140	99
6	Sudan	0.1615	0.0635	0.0529	150	161	127

Table 2: North African Arab Countries Web Measure index 2005/2008/2010

No.	Country	2005		2008		2010	
		% of Utilization	Global Rank	Points of Utilization	Global Rank	% of Utilization	Global Rank
1	UAE	58.03	32	214	12	25.08	99
2	Bahrain	39.78	67	155.5	44	73.02	8
3	Jordan	41.24	63	181	28	53.33	22
4	Qatar	31.02	79	117	81	27.94	90
5	Kuwait	23.72	103	124	73	46.03	36
6	Saudi Arabia	35.77	73	139	59	31.11	75
7	Lebanon	32.48	77	117	80	26.67	93
8	Oman	16.42	128	145	52	36.83	55
9	Syria	6.20	161	72	125	4.13	170
10	Iraq	5.11	168	32	155	15.24	131
11	Yemen	9.12	153	22	161	4.76	167
12	Egypt	42.34	59	181	29	53.02	23
13	Tunisia	14.60	139	39	149	48.25	30
14	Libya	0.00	185	24	160	13.65	135
15	Algeria	23.36	104	67	128	9.84	148
16	Morocco	22.63	106	62	133	23.81	104
17	Sudan	15.33	135	19	171	15.56	129

Table 5: Online Service Index

- The UN e-Government survey 2005 contains data on Web Measure Index and Ranking.
- The UN e-government survey 2008 contains data on Web Measure index. The ranking is calculated by the Author.
- The UN e-government survey 2010 contains no data on Web Measure Index and ranking. The UN replaced the Web Measure Index with Online service Index. The Author used Online Service index as approximate measure of the ability of Member States to deliver online services to their citizens and calculate the online service index ranking.

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E – Participation

E-participation opens the gate toward knowledge sharing attitude on the part of government employees and the citizens' rights for information. E-participation is meant to assess the quality, usefulness and relevancy of the information and the willingness of governments to involve citizens in public policy making through the use of e-government initiatives (Kerby, 2008). It is not only to locate service centers and to carry out decisions related to service provisions but to simplify governance for government, citizens and businesses. While the Web Measure index assesses the availability of information and services to the public, e-participation measures the usefulness of these services to fulfill the public's needs and expectations and to facilitate a speedy, transparent and accountable government administration. E-participation index contains three benchmarks, namely E-information, E-consultation, and E-decision making. Taken together, these benchmarks measure the degree of the country strength in e-participation. E-information measure the extent to which the national government provide information on the internet to be used as the basis of citizens' participation. E-consultation is the back and forth interaction between the government and its citizens. The focus is on the stakeholder interaction. E-decision making provides evidence of the real changes in public policies as resulted from citizens' inputs and feedback (Kerby, 2008; Adeyemo, 2011). This section uses the UN e-participation index (UN e-government survey, 2005, 2008, 2010) as an important and valuable means to provide an overview of the current performance of the Arab countries in e-participation. Breakdown of data on each component of e-participation are only found for specific selected countries and most of them are Western countries and therefore the data are not shown a breakdown by these three benchmarks rather it shows one single score referring to e-participation index. The author uses UN, EPI (E-Participation Index) for the above period to gauge the best performing Arab countries on this index with the reference to the best practices found in other countries.

Table (6) below shows how Arab governments have performed in EPI in 2010 compared to 2008 and 2005. The highest value of EPI is 1.0 and was earned by the Republic of South Korea in 2010 and came second in 2008 after USA. Most European countries, including, Canada are among the top 20 countries in EPI in 2008 and 2010. Bahrain is the only Arab countries stand out for embracing the concept of e-participation and show a remarkable move in the global ranking and moved 25 steps in EPI between the period 2008 and 2010. Bahrain leaded other developing countries and Arab States and climbed from 36 to 11 globally in this index. As can be seen in Table 6, about 65% of the Arab countries surveyed in this study were found in the score ranges between 0.00 and 0.20 in 2010. This percentage was shrunken in 2008 by the margin of more than 25% of the majority of Arab countries. In 2005, the highest score in EPI was recorded by UAE and it was 0.1270. In this same year, almost all Arab States were showing a poor score in EPI and they were far from incorporating the online services tools to promote the participation and engagement of their citizens in public policy process (See Table 6). The

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number of the Arab countries in the score ranges 0.20 – 0.29 has dropped by 7 countries in 2010 compared to 2008. Despite of the overall decline in EPI in most of the Arab countries in 2010 compared to 2008, however there were remarkable achievements of some Arab countries. The top 6 Arab countries measured by EPI global ranks from 2008 to 2010 are compared over time in Table 6. The range of the 2010 EPI global ranks of the Arab countries in Table 6 is between 11 (Bahrain) and 53 (Kuwait). The number of Arab countries in the top 6 EPI performers list which showed strong performance by climbing in a range of 7 positions (Egypt) and 113 positions (Tunisia) between 2008 and 2010 is 6; whereas, 11 countries recorded declines between 5 positions (Algeria) and 75 positions (Iraq) in their global ranks in the same period. Among the Arab countries in the top 6 EPI performers list, the most attractive-attention performance came from Tunisia by rising 113 positions from 152nd place in 2008 to 39th place in 2010, followed by Kuwait which climbed 63 positions from 116th place in 2008 to 53rd in 2010. When the EPI Global rank changes of the Arab Countries from 2008 to 2010 considered; only 7 out of the 17 countries surveyed increased their ranks. The remaining 10 out of 17 recorded falls in their ranks. Table 6 also reveals that there is no association between the financial position of the country and the EPI. With exception of Bahrain, Kuwait, most oil rich countries such as (Iraq, UAE, Saudi Arabia, Qatar, Oman, Libya, and Algeria) have not fare well in EPI.

No.	*Country*	*2005*		*2008*		*2010*	
		Index Value	*Global Rank*	*Index Value*	*Global Rank*	*Index Value*	*Global Rank*
1	*UAE*	*0.1270*	*36*	*0.2955*	*41*	*0.1286*	*86*
2	*Bahrain*	*0.0476*	*41*	*0.3409*	*36*	*.06714*	*11*
3	*Jordan*	*0.0476*	*41*	*0.5455*	*15*	*0.2857*	*42*
4	*Qatar*	*0.0476*	*41*	*0.1818*	*71*	*0.1286*	*86*
5	*Kuwait*	*0.0000*	*44*	*0.0682*	*116*	*0.2286*	*53*
6	*Saudi Arabia*	*0.0635*	*40*	*0.3182*	*38*	*0.1000*	*102*

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7	*Lebanon*	*0.1111*	*37*	*0.4091*	*28*	*0.2714*	*45*
8	*Oman*	*0.0159*	*43*	*0.2045*	*60*	*0.1571*	*76*
9	*Syria*	*0.0000*	*44*	*0.0455*	*135*	*0.0143*	*157*
10	*Iraq*	*0.0000*	*44*	*0.2045*	*60*	*0.0429*	*135*
11	*Yemen*	*0.0000*	*44*	*0.0000*	*170*	*0.0429*	*135*
12	*Egypt*	*0.0794*	*39*	*0.2500*	*49*	*0.2857*	*42*
13	*Tunisia*	*0.0000*	*44*	*0.0227*	*152*	*0.3000*	*39*
14	*Libya*	*0.0000*	*44*	*0.2045*	*60*	*0.1714*	*68*
15	*Algeria*	*0.0317*	*42*	*0.0227*	*152*	*0.0143*	*157*
16	*Morocco*	*0.0317*	*42*	*0.0000*	*170*	*0.1286*	*86*
17	*Sudan*	*0.0317*	*42*	*0.2045*	*60*	*0.1000*	*102*

Table 6: E-participation Index in Arab Countries

E-Governance in Arab Countries: Reality and Challenges

This section discusses and analyzes two issues of e-governance in Arab countries. The current status of e-governance in Arab countries which relies on data and information published in relevant articles and UN reports of 2008 & 2010. The second issue covers the challenges which are extracted through face to face interaction with some professional expatriates and locals in UAE.

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With advent of information age, the rise of digital economy, and the globalization of knowledge, governments around the World are modernizing themselves to meet the new expectations of citizens and businesses. The UN broad definition of e-government emphasized the dynamics role of governments to meet not only the citizen's need of information and services but their active engagement and participation on EG initiative. Most of developing countries in general and Arab States in particular have enacted of an e-government policy focusing mainly on service delivery process with almost complete ignorance to the role of the public on decision making process (Bin Salamat, Bin Hassan and Bin Muhammed, 2011, UN Report, 2010). The establishment of a democratic culture means creating institutional framework that encourages day-to-day interactions between both the public and private institutions to better mange the resources of a country at all levels, national and local. In a study by D. Kaufman, et.al., from the World Bank (2001) of the Mediterranean countries which include 8 Arab States, has constructed six indicators of such culture, namely: voice and accountability; political stability; government effectiveness; regulatory quality; rule of law; and control of corruption. All Arab countries under this study scored low in all indicators. According to this study, political participation is limited and citizens' ability to participate in the selection of the government is restricted. As Tables 1 through 5, reveal some good efforts made by few Arab countries in e-government readiness and web measure index but this does not commensurate with the performance of Western democratic countries and some well practices of some developing countries and at the same time does not guarantee the real involvement of the public in decision making process. This finding is substantiated in Table 6 which reveals that most Arab countries have showed low penetration of the public in e-government initiative. With exception of Bahrain, none of the Arab countries reached the level of 0.6 in e-government readiness index. The Web Measure Index which reflects the five stages of e-government model reveals that some progress made by few Arab countries such UAE, Bahrain, Jordan, Qatar, Oman and Egypt where government services and information are now delivered, but again the delivery of services without encouraging participatory deliberative decision making means that Arab Websites are still not fully integrated. With exception of UAE, and Egypt, the scores of most Arab countries ranged between 0.06 Sudan and 0.52 Bahrain (United Nations Survey, 2008).

Another index used by UN to measure the online presence of the home pages of government institutions is Online Service Index (OSI). In 2010, the OSI was substituting the formerly known index called "Web Measure Index". This index is one among three components of the E-Government Development Index (EGDI). South Korea held the first position by scoring a full mark of (1.0000). The top 20 countries are all from Western countries, except Singapore, Malaysia beside South Korea. A country strength in online service provision correlates positively with its use of e-participation or what some literature call e-dormancy, e-consultation or online public engagement (Whyte & Macintosh, 2002; Coleman & Gotze, 2001; Bin Salamat, Bin Hassan and Bin Muhammed, 2011). Table 5

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exhibits the Arab countries in term of their OSI rank changes from 2005 to 2010. Of the 17 Arab countries, 8 of them managed to move their positions upwards, while the other 9 recorded decline in their online presence performance. From the 9 countries recorded increase in OSI, four countries have made remarkable recognition, namely, Bahrain, Jordan, Egypt & Tunisia. The last three countries are not among oil rich Arab countries. Bahrain is the only Arab country in the Top list which has global rank of 8 in 2010. Bahrain was cited by UN E-government survey of 2010 among the seven countries in which citizens can pay registration fees, fines, etc. via transactional e-services that cater to many segments of its society. Other cited examples of online payments were the e-dirham initiative in UAE and e-payment gateway in Jordan (Sha'ban, 2006). Jordan, Egypt and Tunisia are also among Arab countries which showed good improvements in the online services and ranked 22nd, 23rd and 30th respectively. Tunisia is the most notable climber in the top 10 list to move up 119 positions from 149th in 2008 to 30th in 2010. Despite the enactment of e-payment in the some Arab countries, however, the percentage of the transactions conducted through the e-services is low. In UAE only 9% of the total transactions are performed using e-services (UAEInteract, 2009). Some Interviewees attributed this low level of utilizing online transactions to the lack of regulations for electronic payment or data transfer and to the role the public sector marketing in enhancing the awareness and the trust among the users of the e-transactions. With exception of few countries noticed above, the global United Nation reports of 2005, 2008, and 2010, cited a static to low achievement of Arab States from the perspective of people participation. In 2005 the highest score in EPI was 0.12 and in 2010 the average score of more than 65% of Arab Countries was only 0.10. According to one scholar, most Arab countries have tried to deliver their services to citizens through ICT, however, the implementation focused on publishing information and services with little actual transactional services. The non exhaustive infrastructure in term of access facility and lack of awareness were cited as the obstacles that complicate the delivery of a service and prevent the people feedback of government e-services. Good governance should proceeds the application of ICTs and technology should be used as a means of achieving governance objectives. According to one interviewee, governments in Arab countries are still far behind a normative framework of good governance. Lack of stable politics, unclear macro-economic policy, and the dominant of the personalized leadership and the marginalization of legislative and judicial branches are among the cited obstacles for full utilization of e-governance. The recent events demonstrate that there is gap within Arab countries in e-governance and good governance. In other words, the public in these countries are far from real engagement in policy formulation and decision making process and there is a need for using ICTs as a tool for reengineered information systems to meet the governance demands (Sardi & Mlikota, 2002). Few Arab countries have been cited to utilize the e-participation as integral part of e-government and by creating a transparent and an open public administration systems. According to A. Fadi Salem, the Director of the Governance and Innovation Program at Dubai School of Government, only two countries namely,

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Bahrain and UAE are utilizing the participatory technologies or social networking in governance. Mr. Salem has cited the changing of mindset towards both engaging citizens in policy making and public service delivery as the main obstacle of using technologies in interactions between societies in Arab countries and governments (Moore, 2011). The other cited challenge to e-governance, according to another interviewee is "lack of back-office capability in most Arab public sector organizations". According to another interviewee, public administration workforces lack the required ICTs skills to support accessibility, trust and citizens confidence of e-government initiative. Some Interviewees have casted doubt in staff readiness to handle well the new duties stipulated in e-government projects. According to them, agencies' staffs were not properly trained to use and digitize the available information and make it accessible on-line. Therefore, there is a need to change the internal operations of government organizations for purpose to support the core process of information and service providers and facilitate the interaction between government and both citizens and businesses. Some examples of such accompanying process changes are integrated human resources and payroll system, integrated financial management systems, web-based data resources to improve decision making and intranet system to improve information flows within governmental institutions. The support of back-office and the creation of agile and adaptable workforces were recognized as precondition for developing online services and e-participation (Sardi & Mlikota, 2002; Janowski, 2005). Al-Hiram reported of the slow pace of e-government transformation (UAEInteract, 2009) "…. With the exception of high performing nations, on average less than 50 per cent of all internet users access eGovernment data and less than 20 per cent undertake online transactions….." Such slow pace can also be inferred in Humaidan's statement that "…. We aim to include more government departments and agencies in Dubai and achieve integration in the delivery of services through a unified platform, which we believe will contribute significantly to realizing the Dubai Strategic Plan 2015." This is a problem that can and must be addressed, in our view, by extensive skilling of public sector marketing in the UAE in particular and region at large.

Another challenging issue in most Arab countries is the absence of legislation and rules that specify citizens' rights with the respect to information provision and request. In most Western countries, the public access to information and the duties of agencies to inform citizens about processing personal information was well stipulated in laws and regulations Garson, 2006), while n most Arab countries, according to some interviewees, there is either an absence of such laws and most citizens are not aware of their rights and duties with respect to the provision or request of information. Citizens of these countries are ignorant about their rights of asking the government agencies to rectify data concerning them or requesting data related to economic, social or securities issues. Therefore, institutions wishing to have personal information or using such information must inform individuals of the use of these data. Another related which missing in Arab countries is the role of national parliaments in establishing a website to inform and engage citizens in the democratic process. Some interviewees have raised concern about the lack of citizens' engagement in public policy process. In Arab countries, according to them, the citizens have little awareness about their parliaments; have no direct participation in boards' discussions; and with exception of few countries individuals' voice are never heard. Rectifying such challenges will definitely, enhance the public trust with rule of law, bring more legitimacy of government decisions and provide support for public sector reform.

It appears that in most of the Arab countries, there is clear absence of laws which allow the general public to gain online access of government deliberation of public policies. The weak parliaments and strong executive leaders in most developing countries and particularly in Arab nations render to the ineffectiveness of the information systems to better represent and connect with the general public. The information systems should be designed within the context of the law to make top-level decision-making process rely on the online environment and to leave space to change these systems in years later. Other challenges to e-governance or in other words to citizen participation and engagement are:

Proposed Model- Force-Field Diagram

The proposed model draws upon the force-field analysis approach discussed by Palmer, Dunford, and Akin (2009). The force-field analysis is a model which underscores the factors which could hinder or facilitate change. The hindering forces are labeled as restraining forces and forces which facilitate change are named as driving forces. The main force-field arrow (see Figure 1) underpins the issue of e-governance readiness of the Arab countries. Drawing upon the secondary and primary data, I have compiled the list of restraining and driving forces as shown in Figure 1. Each restraining and driving forces carries an assigned number which depicts the strength of each force. If the number is high, it means that the factor is stronger and if the assigned number is low, the relative strength of that factor is weak.

As shown in the figure 1, the restraining forces are stronger and driving forces are relatively weak. This has resulted in low e-readiness of Arab countries. Potentially, the proposed model will trigger future debates on the restraining and driving forces with particular focus on Arab countries. It suggests actions that can be taken by Arab governments such as decreasing restraining forces increasing driving forces.

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Figure 1: Force-Field Diagram of E-Governance Readiness of Arab Countries

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THE QUALITY OF FINANCIAL SERVICE DELIVERY IN KUWAIT'S FINANCIAL INSTITUTIONS

Alghanim, Bashar

Abstract

Service quality has become an important issue internationally in business, and the improvement of financial services quality is considered an important challenge facing the financial service providers in Kuwait. Lusch et al. (2004) acknowledged, services are deeds, processes and performances; therefore, everyone performing a service is a marketer, and must take notice of the shortcomings of their business in order to improve the quality of service delivered.

The development of Kuwait's financial industry will cultivate its economic growth. And the development in service and transparency will improve allocating people's investments efficiently. Countries with enhanced financial systems direct people investments to its most fruitful utilization, which will eventually experience swift economic growth.

Essentially, continuous service quality enhancement in Kuwait's financial industry is considered a necessity, especially at times when the financial sector is undergoing an extraordinary rate of transformation in products and service delivery. The sustainability of various effective service delivery methods is vital to the success of financial institutions.

Customers' expectations are subjective on service quality, since the escalation level of services provided develops into standardized expectations; however, customers' embrace expectations with higher confidence. Therefore, the expected service quality delivery from financial institutions has considerable results on customers' commitment towards the business.

Keywords: service quality, customer satisfaction, financial services, financial institutions, financial regulation.

Introduction

Customers most often drive the market and customers everywhere are becoming increasingly sophisticated in their expectations with services delivered. These expectations are based on their previous service and cumulative life experiences, as been affirmed by Berry et al. (2001: 35) "...it is the customer's definition of quality, not management's that counts."

According to Verma (2003) in 'Customer Outrage and Delight', service quality is a key business issue in every business sector in the global marketplace and has come to occupy a top position in the economy. It is common knowledge in the financial sector that customer satisfaction is the ultimate differentiator between a successful financial outcome of a commercial venture and a poor one.

Financial service providers are a significant market because of the multi-billion dollar profits this business generates. In essence, the financial industry emphasizes on conducting financial activities that are generated by the economy demands. Financial institutions provide different services that ease the operations between the service provider and the customer in the economy.

Customer satisfaction and service quality are persuading the consideration of all financial institutions around the world, and Kuwait is not an exception, since outstanding service quality is fundamental to the business profitability and effectiveness. Panda (2001) acknowledged that “the success of a business enterprise is guided by the strategic orientation of the organization towards its customers, competitors and internal customers (employees) and the relationship between these significant components.”

Nowadays the significance of service quality is changing. Excellent service quality delivery back then was intended to verify output requirements set by the service deliverer. In the present days, the perception of service quality is developing to signify consistency of perfect service quality outputs that have values instigate by the customer.

The Importance of Customers’ Satisfaction

The financial service industry is generally customer driven, and their continued existence primarily depends on the quality of financial services provided to their customers, where their satisfaction, retention and acquisition are the main key factors. Therefore, financial institutions must be insightful to their customers’ satisfactions when they provide services to them.

Customers now a day start to lose confidence in Kuwait’s financial services sector, poor experience of financial services and products led many customers to stop using financial services. Financial service providers must be aware that investors’ satisfaction is mainly based on service quality delivery; as Siddiqui and Sharma (2010) affirmed, “assurance of the service quality is the most important predictor of satisfaction.”

Nevertheless, the financial sector generally requires a long-term relation between the investor and the service provider, where the quality of the service delivered has a predominantly considerable burden on investors’ satisfaction. Hence, service quality magnitudes influences customer satisfaction based on functional services with the service provider, which eventually, has an impact on overall satisfaction, Siddiqui and Sharma (2010).

More to the point, if clients are disappointed or inconvenient with their service provider, the entire relationship will be jeopardized; and failing to understand the client’s requirements will cause major competitive disadvantages to the business. Murtagh (2008) stated that “see your customers as they are, not as you wish them to be. Ail customers start with an awareness of a need.”

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Many successful businesses have strategies that cater for the needs and satisfaction of esteemed clientele in a variety of ways, through emphasizing quality of service to facilitate customer retention while raising profits. However, service quality performance should be measured in order to recognize the factors that drive it.

In recent times, both business managers and academics have become interested in developing methodologies to evaluate customer satisfaction as a way to shape marketing strategies. Frei et al. (1997) agreed that "when the dimensions or performance of a service output exceed allowable limits, the variation needs to be identified so the problem can be corrected." It is now considered important to assess customers' perceptions and expectations concerning quality of service in different ways on a regular basis in order to improve service in all areas relevant to a company's business concerns.

Domazet et al. (2010) confirmed, "clients are increasingly focusing on strategic selection of providers of financial services." For financial institutions to have a perfect service quality delivery, it must focus on developing customer satisfaction, and on augmenting the clients' perception of high service quality.

In order to continue to exist and compete effectively, financial institutions must be acquainted with the customer insights of the service quality, by that, the management will have the impetus to identify problem areas in their business practices, and be able to quickly solve them. It is therefore of the fundamental nature that companies should focus on winning service quality issues, in order to drive high levels of customer satisfaction, Ouyang (2010).

The stability of the financial system will endow to the basis of economic expansion, and can therefore succeed to its development. Quintyn (2007) acknowledged that "financial institutions play a key role in attaining and preserving a country's financial stability, generally accepted as an important public good." Therefore, financial institutions should be more conscious and have to constantly develop and add new services in order to maintain and attract new customers.

Furthermore, Llewellyn (2006) stated that "a stable and efficient financial system has a potentially powerful influence on a country's economic development not the least because it may have an impact on the level of capital formation, efficiency in the allocation of capital between competing claims, and also the confidence that end-users (consumers) have in the integrity of the financial system." Therefore, it is essential to recognize how the entire financial system in Kuwait functions, and how a problem in one area can have an effect on the stability of the financial system somewhere else.

The Ineffectiveness and Failure of Financial Service Providers in Kuwait

In the last few years, Kuwait's financial sector encountered many impacts. The failure of financial institutions activities is increasingly evident; it has spread beyond the heart of the country's economy; the latest financial crises caused many investment companies in Kuwait to default on their debts.

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Domazet et al. (2010) elaborated that the "effectiveness and efficiency have become an indispensable criterion of market economy that caused organizations, especially in financial sector, to direct their marketing activities on developing relationships with their customers and on analyzing their needs and wants. To become successful in the dynamic financial services market, companies must deliver superior service to targeted customers, which are becoming more demanding over time."

Emerging Markets Monitor (2010) announced in their report of Kuwait on 15 March that "the Investment Dar (TID), was the first GCC financial to default in the wake of the global recession, having announced its inability to repay a US$100mn sukuk back in May 2009."

Financial institutions in Kuwait have large debts with foreign creditors, and those creditors are unwilling to extend credit or restructure debt to defaulted companies. Abotalaf (2011) confirmed that "the global financial crisis caused many firms in Kuwait to default. Also, many companies in Kuwait had outstanding debt with banks and financial institutions in Europe." And Dawber (2008) affirmed, "GIH, Kuwait's sixth biggest company, is the first borrower from the region to default on a debt facility provided by western banks." Financial institutions in Kuwait now cannot have new financiers, and creditors out of Kuwait are reluctant to restructure debt to defaulted companies; they have rejected their requests for additional funding to pay their debts.

Furthermore, many investment companies did not publish their financial results after the crises; they are now threatened to be delisted from Kuwait Stock Exchange, in which the associated risk to investors has increased. Saleem (2012) affirmed that "most firms to be delisted are investment companies that have struggled to meet debt obligations since the global financial crisis and their shares have been suspended for failing to report earnings on time." And Saleem (2012) also confirmed that "International Investment Group, which defaulted on a $200 million Islamic bond in April 2010, is another ordered to delist."

The ineffectiveness of any financial institution will result in destructive consequences for clients who rely on their services. Therefore, investors need to be guaranteed the sentiments of security that come from power and resources; because if people's money is at risk, then their security eventually is at risk. Ultimately, Kuwait needs to implement the necessary scheme in order to build a robust and resilient financial system.

Customers' satisfaction and low service quality standards in Kuwait's financial sector are undoubtedly evident. Investors' satisfaction with financial services is the principal determinant of the relationship with service providers; at the same time as, clients primarily want these services to be provided to them competently. Customers insist on flexible resolutions and changeable options associated to their investment options, and accordingly they want the offered services to be tailored in an efficient manner relative to their changing preferences.

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The Need for Financial Regulation and Supervision in Kuwait

Nowadays investors are more conscious, they demand financial regulation, and this demand must be rational by providing complete information. Moreover, customers insist on assurance of transactions conducted within their service providers, which was based on previous bad experiences. Customers want to be prevented from risky actions by financial institutions, they need their activities to be monitored. Thus, to pursue a more sound, competitive, and efficient financial system, is to have a regulatory authority in Kuwait that enhances consumers' confidence.

In order to have prudent financial services, there is a need for regulation, which can be accomplished by making certain that the financial sector have an effective system that detects and reports suspicious financial transactions; because there is a need to re-establish the public's confidence in the financial sector. Lumpkin (2010) stated, "prudential regulation, thus, serves the dual objective of maintaining the integrity and stability of the financial system and protecting consumers of financial services."

The objective of financial stability is a general purpose of both regulation and supervision; in which regulation should have the intention of safeguarding a stable financial system, and at the same time securing investors assets, making Kuwait's financial institutions subject to prudential regulation and supervision. Beck (2006) stated that "stability is a prerequisite for financial development and a first building block for an effective financial system." Hence, identifying potential risks or vulnerabilities is vital, given that financial stability requires continues monitoring.

Furthermore, there are many frustrated investors in Kuwait's financial sector, there are many complaints expressing dissatisfaction with the existing structure of the market reliability. Business Monitor International (2011) asserted, "the troubled state of the financial services sector has also had a negative impact on Kuwait Stock Exchange."

Hence, the conduct of financial businesses in Kuwait requires regulation that is designed to create rules and guiding principles concerning appropriate practices in dealing with customers. Quintyn (2007) stated that "better regulatory governance principles lead to better supervisory practices which have a beneficial impact of financial sector soundness." Thus, clients that invest their money need to be indulgenced with fairness and honesty, in order to achieve higher level of satisfaction that have a tendency that encompasses greater value and closer investor's awareness.

To ensure a superior service quality delivery and investors' satisfaction, the regulatory authority in Kuwait should work with international regulatory and financial bodies to gain expertise that will offer overall protection to investors. Alexander et al. (2006) avowed, "without such international regulatory efforts, the failure of domestic regulators to require financial firms to properly price risk will provide fertile ground for the generation of more international financial crises."

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For the ultimate customer satisfaction and a fruitful service delivery, there is an essential and critical need to create a regulatory authority whose principle is to guard customers from risky financial proposals. The latest financial damage accentuates the need to come across methods that need to make Kuwait's financial system more secured. The current economic system is not critically dependent on sound financial institutions. Crotty (2008) consented to this assertion that "financial institutions were increasingly successful in evading regulatory constraints, in large part because political commitment to a strong regulatory system had weakened over the decades."

It is therefore essential for Kuwait's financial sector to have a regulatory authority with the best assortment of rules, sanctions, compulsory disclosure requirements, the establishment of principles and guidance of orderly conduct financial transactions, and the monitoring of financial institutions activities.

The Essence of Transparency and Discipline

The financial system in Kuwait is fragmented, and it has lacked transparency and sufficient accountability, it had led investors to uncertainty, undermining their investments confidence. According to Abotalaf (2011) "transparency standards in Kuwait are weak in comparison to international standards." Hence, transparency is the necessary corollary to market discipline.

On March 27, 2012, the Central Bank of Kuwait board has ruled to remove the Chairman and Vice Chairman of "Noor Investment", and the Chairman of another investment company "Athman", and no longer consider them active members of the board of directors. The Bank has prevented them from future positions as board members, so as not to tamper with the interests of the company and its shareholders. The decision was based after the Central Bank has conducted routine inspection on these two companies, where it was founded many irregularities and violations of ethical business conducts, Argaam (2012).

The government cannot impose market discipline, but it can enhance its effectiveness by promoting transparency, it will lessen uncertainty and thereby promotes stability to the entire financial system. Therefore, financial institutions should be held for a greater standard of care to clients, which calls for them to identify sound and sufficient financial positions, and accordingly recommend them to their clients. Cho and Haiyan (2009) stated, "a consumer's evaluation of the service quality plays a key role in his/ her perceptual judgments and behavioral intentions involving a transaction, such as satisfaction and intention to come back."

However, not succeeding to present greater financial services may not be readily perceptible to customers. It is by all means that the assessment of processes of all financial products would have to be experimented prior to selling them to customers. Frei et al. (1997) stated, "an individual customer is herself an important input to the delivery of services."

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Furthermore, clients' preferences of financial service providers are increasing, and they probably choose a provider that offers the best return on their investment. Today, there is a large range of financial products in Kuwait's financial sector, and therefore financial institutions are now endowed with a different array of information sources that give them the competitive advantage. Bresser-Pereira (2010) stated that "money depends essentially on confidence or trust. Trust is the cement of every society, but when confidence loses a standard or a foundation, it becomes fragile and ephemeral."

Nevertheless, new financial products and services are complex, and therefore should be dealt with prudence. Because in today's world of financial services extraordinary customer service is a rarity, Murtagh (2008) acknowledged, "long-term companies should invest in service and quality improvements that increase repeat business." Therefore, customers need to notice the differentiated services and products that appeal to their desire in order for them to have repeated services.

The Importance of Preserving Customers

Grewal et al. (2008) recognized that "customer satisfaction is a dynamic market asset, shaped over time by the actions of firms and customers in the marketplace." Therefore, customers' satisfaction is the principal for preservation, and thereby financial service providers should progress their products and services quality for a better delivery. Significantly, service providers must become skilled at the primary rule of customer satisfaction, because customer satisfaction is the input for success of any business, and today investors in the financial sector, becoming familiar with the experience they encounter with services delivery.

It is acknowledged that business augmentation and shareholder significance are set based on investments intended to attain and preserve clients. Therefore, for financial institutions and investment banks to be successful, they must have the tendency to maintain strong relations with their stakeholders. These businesses when they conserve the relationship, they will reinforce their competitive advantage, and thereby can maintain success in the financial industry. Thus, the quality of service is the basis for competition, and competition is the motivating factor that results in innovative technology and promotional ideas that benefit the consumer.

In order to retain customers, financial institutions should have excellent services that satisfy them, which can be generated by improving courtesy and timeliness. Frei, et al. (1997) realized that "the financial performance of a financial service institution is driven to a large extent by its ability to attract and retain customers." Essentially, customers need to be valued by the way service is provided to them, they need to be cared; they want their problems to be resolved quickly, and be provided with adequate information when requested.

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Financial services amount to a large and increasing sector in Kuwait's economy, in which the value and success of the provided financial service are the backbone of a vigorous economic system since the last decade. Yet, the stream of financial services and products has been increasing swiftly among the materialization of innovative and developing institutions in Kuwait. This was sustained by the transformation of revolutionized financial instruments liberalization, with the support of prolong drives and rewards towards business growth.

Listening to clients needs and analyzing them will enable service providers to gain clients recognition. Therefore, financial institutions need to know that their workforce are the one who makes the business work; and accordingly they need to treat them well and endow them with the essential tools for efficient and utmost productivity. By that, the client's opinion of the service quality will certainly be associated with his level of reliance to the service provided, because higher levels of trust, eventually, will be related to higher levels of commitment to the relationship with the service provider.

Yet, experienced employees are essential to the client's satisfaction. Employees who meet clients' needs by being knowledgeable, cooperative, and reactive to clients' demands are major factors to expand and preserve the business. Therefore, progressing clients satisfaction is the primary motivation from employees, rather than increasing revenue or profits, because satisfaction leads towards high positive clients' response.

Furthermore, financial service people serving investors do not put all their efforts every time. Financial service providers in today's competitive environment cannot continue to exist without appealing on service; they should progress their awareness on high levels of service quality delivery. No matter how good the business products or services are, the level of client's satisfaction will be drastically diminished if the delivery of the service is poor.

However, for some investors, better right of entry to, and selection of financial products and guidance will indicate that they will gradually be competent, to recognize products and services that correspond to the best value for the money; this will also be relevant to their preference of service provider. Allen and Higgins discussed the pivotal factors that motivate research into quality of service: "Customers are growing more service-oriented in that they are demanding a much smoother and better experience from the companies they choose to do business with" (Allen and Higgins, 2006: 5).

Essentially, financial institutions depend on two major determinants for the accomplishment of triumphal financial services. They are clients' satisfaction, and the quality of products offered, in order to satisfy their clients' objectives.

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Hence, building clients' relationship and sustaining the competitive advantages should be apparent, in order to recognize the main aspects of an excellent service quality. Ouyang (2010) substantiated, "service quality had a direct significant effect on "trust", moreover, service quality had an indirect significant effect on "customer loyalty" via "trust". This also confirmed that "service quality" played an important role in client-firm relationships." Accordingly, clients who differentiate service quality should be recognized, in which they can build greater relationships and have competitive advantages for the business.

Conclusion

Investor's satisfaction and protection depends on the distinction between expectation and experience. It is extremely vital to align clients' expectations and institutions principles in this regard, because businesses accomplishments typically depend on how effectively it meets its clients' needs, where retaining investors has its exigent circumstances.

Effectively, the survival of financial businesses today, depends on client's satisfaction as the ultimate goal, based on a number of studies in the financial industry that substantiates service quality, and it is the predecessor towards customer satisfaction. Because service quality expectation, is generally influenced by the character of the financial services provider, and the risks correlated with it.

Thus, to augment investor's satisfaction and protection, financial service providers in Kuwait should utterly evaluate and develop the approaches of prudent service delivery. As well, it is compulsory that financial institutions establish search measures for the significant quality magnitudes in the financial sector.

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IN THE SHADOW OF OFFSHORING: AN EXPLORATORY STUDY OF THE EXPECTATIONS OF PROVIDERS

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Abstract

Offshoring strategies are an emerging trend in the context of global business. Although the literature on this subject is vast, very scarce research has been made to understand the providers' perspective of an offshoring relationship. The goal of our study is to fill this gap in the literature through an exploratory research based on grounded theory, enabling us to understand the expectations of providers when they started working with foreign firms and compare those expectations with their perceptions of reality. A purposive theoretical sampling technique was used to select 7 Portuguese offshoring providers, from different sectors, sizes and ages. Data collected was then coded and analysed using and three broad categories of expectations and perceptions of reality emerged: business-related, firm-related and client-related. Creation of business and acquisition of skills were the most referred categories, both as expectations and as perceptions of reality. However, several expectations don't match the providers' perceptions of reality, as well as some perceptions weren't part of the providers' initial expectations.

Keywords: Offshoring, Offshore Outsourcing, Providers, Expectations

Introduction

Multinational organizations are continuously transforming themselves into nimble, global competitors, through a process that is enabled by the practice of outsourcing and offshoring strategies (Couto et al., 2008).

Offshoring refers to the completion of business tasks, functions or processes outside the firm's home country, but it is no longer just a labour arbitrage strategy. For more and more companies, offshoring is turning into a means to gain access to qualified personnel and to increase organizational flexibility and competitiveness (Farrell et al., 2006; Lewin and Peeters, 2006; Lewin and Couto, 2007; Bunyaratavej et al., 2007; Manning et al. 2008; Couto et al. 2008; Lahiri and Kedia, 2011).

Despite the extant literature, to our best knowledge, the complex dynamics of this phenomenon is not well understood (Manning et al. 2008). Although providers play a crucial role determining the success of an offshoring partnership (Lahiri and Kedia, 2009; Lahiri et al., 2012), most of the published

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research is focused on the clients' perspective and unnoticed the dimension of the providers (Mao et al., 2008; Lahiri and Kedia, 2009; Aundhe and Mathew, 2009; Lahiri et al., 2012).

Considering this gap in the literature, the goal of our research is to analyse the context of the Portuguese providers, which is particularly pertinent after the identification of the country as one of the eleven developed countries better prepared to receive globally sourced services in the IT sector1. Particularly, we would like to analyse the expectations of these providers, when they engaged in offshoring activities.

Given the absence in the literature of formal theories addressing the particular case of the expectations of offshoring providers we propose an exploratory approach, based on Grounded Theory.

This paper is divided into five main sections. In Section 1 we introduce the research subject. In Section 2 we make a literature review on Offshoring: first by defining its key concepts (2.1), and then by analysing the main aspects framed in the literature (2.2). In Section 3 we present the methodological approach we propose to apply in our research; in Section 4 we describe our main findings; and in Section 5 we conclude.

Literature Review on Offshoring

Definition of key concepts

Globalization has been influencing the competitive behaviour of firms in their different aspects: supply chain, marketing, corporate strategy and organizational structure (Bunyatarajev et al., 2007). Particularly, the increasingly competitive global business environment led companies to focus on cost-cutting strategies, such as offshoring (Lewin and Peeters, 2006). However, nowadays reducing labour costs is no longer the single strategic driver behind offshoring implementations, and other factors like assessing pools of highly-skilled workforce, or increasing organizational flexibility are gaining importance (Farrell et al., 2006; Lewin and Peeters, 2006; Bunyaratavej et al., 2007; Lewin and Couto, 2007; Manning et al. 2008; Couto et al. 2008; Lahiri and Kedia, 2011).

Likewise, literature has revealed that companies are increasingly recurring to outsourced activities to create value and to fuel their accelerated innovation needs (Couto et al. 2008; Manning et al. 2011), and therefore outsourcing "has expanded rapidly in recent years, offering client firms the opportunity to select from a range of full-service and specialist providers for specific needs" (Manning et al., 2011, p. 382).

[1] Source: Gartner, Inc., Gartner's 30 Leading Locations for Offshore Services, 2012, Ian Marriot, January 16, 2012.

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Thus, these two concepts, offshoring and outsourcing, are occasionally confused (Bunyatarajev et al., 2007; Manning et al. 2008). While offshoring denotes the performance of tasks and business functions across national borders (Manning et al., 2008); outsourcing consists on the delivery of products or services of the firm by a specialist third-party provider, within or outside of the firm's national border (Manning et al., 2008; Lahiri and Kedia, 2009).

In this work we propose to analyse providers whose foreign clients have outsourced their activities in Portugal. This means we will be dealing with the concept of offshore outsourcing, which according to Manning et al. (2011, pp. 382) "means that client companies choose to source functions and processes supporting domestic and global operations from outside their home countries, using third-party service providers".

Considering that the goal of our study is to gain further understanding of the offshoring phenomenon through assessing the expectations of the providers, the analysis of the concept of expectations is also of crucial importance.

The concept of expectations is greatly studied in the marketing literature about service quality, since service quality has been defined as the difference between the perceptions and the expectations of service level (Parasuraman et al., 1985; Parasuraman et al., 1988; Brown and Swartz, 1989; Carman, 1990; Teas, 1993; Parasuraman et al., 1994; Donthu and Yoo, 1998). Considering the gap in the offshoring literature with regards to the conceptualization of expectations, we analysed the service quality literature, aiming to find a definition of expectations to be used in the context of our study.

If we analyse the service quality conceptualization of expectations under the light of the thematic of our study, we reach our own definition of providers' expectations. Thus, providers' expectations may be defined as believes, predictions, desires or wants of providers, i.e., what they feel an offshore outsourcing relationship should offer them or what are the desired attributes of that relationship. These expectations function as standards or reference points against which performance is judged. Plus, providers may form their expectations either on the basis of their own past experience, or by observing or being informed about other provider's experience in offshoring.

The definition of these two key concepts, offshoring and expectations, play a very important role in the subsequent sections of our study. First, because we limit our concept of offshoring to offshore outsourcing, that is, to the performance of outsourced activities by a third-party supplier located outside the home country. Second, because from now on we bear in mind that the expectations of the providers are believes, desires and standards that emerge both from the provider experience and also from observation and exchange of experiences with other providers. We should take this into account in our following literature review.

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Main aspects framed in the literature

This section continues our literature review, by analyzing the main aspects framed in the offshoring literature. Our goal is first to investigate the generic literature about offshoring, identifying the seminal aspects and the more recent trends; and then to give a special attention on the scarce literature focusing on the dimension of the providers.

Offshoring research has given place to extent literature (Lahiri and Kedia, 2009). Farrell et al. (2006) point out that this subject causes controversy among policy makers, business executives and thought leaders. Much has been said, for instance, about the past, the present and possible future of offshoring and the drivers behind its decisions (Lewin and Peeters, 2006). Lewin is also the lead principle investigator at Offshoring Research Network (ORN), an annual survey conducted since 2004, that collects firm-level data on the offshoring experiences of companies across industries, aiming to track: the drivers behind offshoring decisions, the impact on employment, the drivers behind location choices and the risks firms perceive before and during their engagement in offshoring activities (Lewin and Couto, 2007).

But the scope of literature is wide. Other questions, like the factors that contribute to the location choices (Bunyatarajev et al., 2007); the unbalanced dynamics for supply and demand for offshore service talent (Farrell et al., 2006); the use of offshoring to globally source Science and Engineering talent (Manning et al., 2008); the stability of offshoring relationships (Manning et al., 2011); or the impact of trust (Lee and Choi, 2011) and control (Mao et al., 2008) in offshore outsourcing relationships, have also been deeply analyzed. Although these studies have dealt with relevant aspects of offshoring, Manning et al. (2008) claim that the complex dynamics of this phenomenon is not well understood. A fact that stands out is that most of the published research has focused on the clients' perspective and unnoticed the dimension of the providers (Mao et al., 2008; Aundhe and Mathew, 2009; Lahiri and Kedia, 2009; Lahiri et al., 2012). Table 2, gives us an overview of the reviewed literature about offshoring.

From Table 1, we understand that the offshoring literature focusing on the providers is not only scarce, but it is also somehow disintegrated, making it difficult to find connections between researchers.

For instance, some authors (Lahiri and Kedia, 2011; Lee and Choi, 2011; Manning et al., 2011) chose to analyse both the dimensions of the client and the provider to understand the offshoring phenomenon. While Lahiri and Kedia (2011) developed a framework to explain the co-evolution of institutional and organizational factors in offshoring, Lee and Choi (2011) focused on the impact of trust in IT outsourcing relationships, and Manning et al. (2011) analysed the role of relation specificity and client control.

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In the same vein, Mao et al. (2008) had already focused on the impact of trust and control in offshore outsourcing, but in this case the authors analysed only the vendor's perspective. Also, the remaining authors who focused only on the perspective of the providers, analysed unrelated subjects: while Lahiri and Kedia (2009) investigated the impact of resources and partnership quality on the provider's performance, Aundhe and Mathew (2009) shed light on the risks in offshore IT outsourcing, and Lahiri et al. (2012) assessed the impact of management capability on the performance of offshoring providers.

This disintegration and shortage of literature about offshoring focusing on the dimension of the providers increases the relevance of our study, and supports the conduction of an exploratory approach.

However, to refute this tendency in the literature, in 2008 the Offshoring Research Network launched a report based on a survey conducted in the previous year to offshoring service providers. It was "the first comprehensive examination of offshoring from the service provider perspective" (Couto et al. 2008).

Following the same line of thought, Lahiri and Kedia (2011) also suggest that more than simply analysing the drivers behind offshoring, it is of crucial importance to study the factors that are present both on the client and on the provider side, that together explain the decisions to engage and continue offshore outsourcing activities. Therefore they developed a framework based on the coevolution perspective aiming to explain how institutional and organizational factors coevolve and contribute to the engagement in offshore outsourcing (both for clients and providers).

Their position is that clients and providers are interdependent actors and their behaviour influences and is influenced by the interaction of environmental determinism resulting from institutional and organizational factors.

If we use these insights of Lahiri and Kedia (2011) to shed light on the focus of our study that is analyzing the perspective of the providers, we recognize that providers must continuously evaluate their client's environment to track changes, specific requirements and needs. This allows them to improve its own resources and capabilities and to take corrective actions, based on the feedback and on the knowledge transferred through client interactions, in the constant attempt to be the clients' dependable business partner.

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Reference	Topic	Year	Thematic	Unit of analysis	Methodology
Lewin, A. Y., and Couto, V.	*Drivers of offshoring decisions and location choices, impact on employment and risks perceived by firms (ORN Survey Report)*	*2007*	*Drivers, Location, Impacts*	*Client firms in the U.S., U.K., Germany, Netherlands and Spain*	*Quantitative - Exploratory*
Couto, V., Mani, M., Sehgal, V., Lewin, A. Y., Manning, S., and Russel, J. W.	*Examination of offshoring service providers (ORN Service Providers Survey Report)*	*2008*	*General Overview of providers*	*Service Providers in the U.S., Europe, India, China, Brazil and other countries*	*Quantitative - Exploratory*
Bunyaratavej, K., Hahn, E. D., and Doh, J. P.	*Drivers of location choices of service offshoring*	*2007*	*Drivers, Location*	*Client firms in the U.S*	*Quantitative - Causal*
Lee, J. N., and Choi, B	*Bilateral perspective on the impact of trust in IT outsourcing*	*2011*	*Trust*	*Service receivers and service providers*	*Quantitative – Causal*
Manning, S.; Lewin, A.Y.; Schuerch, M.	*The role of relation specificity and client control on the stability of offshore outsourcing relationships*	*2011*	*Relationship and Control*	*Service Providers in the U.S., Europe, India, China, Latin America and other regions*	*Quantitative – Causal*
Mao, J. Y., Lee, J. N., and Deng, C. P.	*The impact of vendor's trust and client's control on the vendor's performance*	*2008*	*Trust and Control*	*Offshored Information System Projects in China (from Japanese clients)*	*Quantitative – Causal*
Lahiri, S., and Kedia, B. A.	*The impact of internal resources and partnership quality on the performance of offshoring providers*	*2009*	*Resources, Partnership*	*Indian Business Process Outsourcing Providers*	*Quantitative – Causal*
Lahiri, S., Kedia, B. A., and Mukherjee, D.	*The impact of management capability on the performance of offshoring providers*	*2012*	*Management Capability*	*Indian Business Process Outsourcing Providers*	*Quantitative – Causal*
Lahiri, S., and Kedia, B. A.	*Co-evolution of institutional and organizational factors in explaining offshore outsourcing (both for clients and providers)*	*2011*	*Institutional and Organizational factors in the Relationship*	*Indian Business Process Outsourcing Providers*	*Quantitative – Causal*
Aundhe, M. D., and Mathew, S. K.	*Risks in offshore IT outsourcing from the perspective of service providers*	*2009*	*Risks*	*IT Service Providers*	*Qualitative – Case Study*

Table 1: Overview of the empiric literature about offshoring.

Source: own elaboration

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Nonetheless, in 2012, Lahiri et al. still argue that "very little attention, however, has been accorded to understand the context of offshore service providers" (Lahiri et al., 2012, pp. 1). In the same vein, we can argue that very little attention has been accorded to understand the context of offshore providers in general, which further enhances the relevance of our study.

To fill this gap in the literature, Lahiri and Kedia (2009) and later Lahiri et al. (2012), intended to broaden the understanding of offshoring, through analyzing the factors that allowed providers to better respond to their client's needs.

It is their belief that offshore providers contribute to the value creation mechanism of their clients and that the success of offshoring relies on their performance. Particularly, they analyzed the effects of internal resources of the company, such as human capital, organizational capital and management capability, and its interaction with partnership quality (between client and provider) and measured their impact in the performance of the company (Lahiri and Kedia, 2009; Lahiri et al., 2012).

Thus, we may conclude that, first Lahiri and Kedia (2009), and then Lahiri et al. (2012), considered that it was important to fill the gap in the literature about the offshoring providers, through assessing the factors that affect the provider's performance.

Previously, Mao et al. (2008) had already analyzed the impact of the vendors' trust in their client and the client's control over the vendor affecting the vendor's performance, in a study conducted with Chinese outsourcers working for clients in Japan. They claim that the interactions between clients and providers are of crucial importance to determine the success of an offshore outsourcing relationship. Likewise, we can argue that the expectations of the providers may impact their performance.

Mao et al. (2008) researched the practices and behaviours that influenced a vendor's perception of trust and identified a number of trust building mechanisms: information sharing, communication quality and inter-firm adaptation. They argue that the client's willingness to be open in sharing domain and process information (information sharing); the importance the client's personnel attach to the communication with the vendor (communication quality); and the efforts of the client in adapting to the vendor's constraints (inter-firm adaptation) influence the vendor's perception of the relationship and have a positive impact on the vendor's trust in the client.

The findings of Mao et al. (2008), about the impact of trust and control on the performance of the suppliers, make us believe that to fully understand the complexity of the offshoring phenomenon, multiple dimensions should be looked at, which enhances the relevance of studying the expectations of providers and the role they play.

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Another of these dimensions framed in the offshore outsourcing literature is the risk involved in offshoring partnerships. Given our focus on the providers, the work of Aundhe and Mathew (2009) about the risks in offshore IT outsourcing on a provider perspective is particularly relevant.

Aundhe and Mathew (2009) believe that "outsourcing partnerships carry risks as evidenced by reported failures of such engagements" (p. 419). These risks are mostly caused by the assumptions (or expectations) taken into account in the definition of outsourcing contracts, that carry a limited understanding about the future. Therefore, the success of offshoring engagements will depend on the understanding of the risks involved in the partnership and on the strategies to attenuate those risks.

To prove this belief, Aundhe and Mathew (2009) collected data from five Indian providers, which allowed them to identify three categories of risk faced by the offshore service providers: project specific, relationship specific and macroeconomic risks.

Aundhe and Mathew (2009) argue that it is important to understand the categories and contents of risk involved in offshoring, because only through that comprehension it is possible to draw the above mentioned risk mitigation strategies, with significant managerial implications. We may argue that the importance of studying the expectations of providers in offshoring is based on the same belief.

Research Method

To the best of our knowledge, not only has very few attention been drawn to understanding the provider's perspective in offshoring, but also their expectations when engaging this type of partnerships haven't been analysed at all. For this reason, we conducted an exploratory approach based on Grounded Theory (GT), which is "used to generate theory where little is already known or to provide a fresh slant on existing knowledge" (Goulding, 1998, p. 51).

A purposive sampling technique was applied to select the firms to be approached and finally seven were interviewed. This selection aimed to include companies from different sectors, from different sizes and from different ages. One of the interviewed firms had already ceased its activity. Two of the interviewed firms were also producing for their own brands, while the others devoted all their production to outsourcing clients. Since our goal was to study the Portuguese providers, we restricted our analysis to companies totally owned by Portuguese capital, who had been providing offshore outsourcing activities for foreign clients for at least 3 years, which was the period used by Aundhe and Mathew (2009).

Data was collected via unstructured interviews to the managers of each firm. However, a protocol was employed to ensure the same themes were covered on each interview. The aim was to assess what were their previous expectations and their perceptions of the current reality of their firms. After seven interviews, theoretical saturation was reached: no new or relevant categories of data emerged

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from the final interview. For triangulation purposes additional information was collected via alternative sources, such as news in the press. The characteristics of the firms are presented in Table 2.

	Sector	Year of Establishment	No. of workers
Alpha	*Plastic Injection*	*1993*	*60*
Beta	*Textile*	*1972*	*250*
Gamma	*Footwear*	*1947*	*108*
Delta	*Pharmaceutical*	*2001*	*180*
Epsilon	*Textile*	*1997 (ceased activity)*	*30*
Zeta	*Textile*	*1984*	*490*
Eta	*Health & Beauty car and packaging*	*1965*	*3680**

Table 2. Firms' characteristics

**887 in Portugal + 2793 worldwide*

Our analysis procedure consisted on the content analysis of the transcription of each interview, using QSR NVivo9 software. Initially, data was classified into nodes, corresponding to categories of expectations and perceptions of reality. The categories resulting from this initial coding were then grouped into broader categories: business-related, firm-related and client-related.

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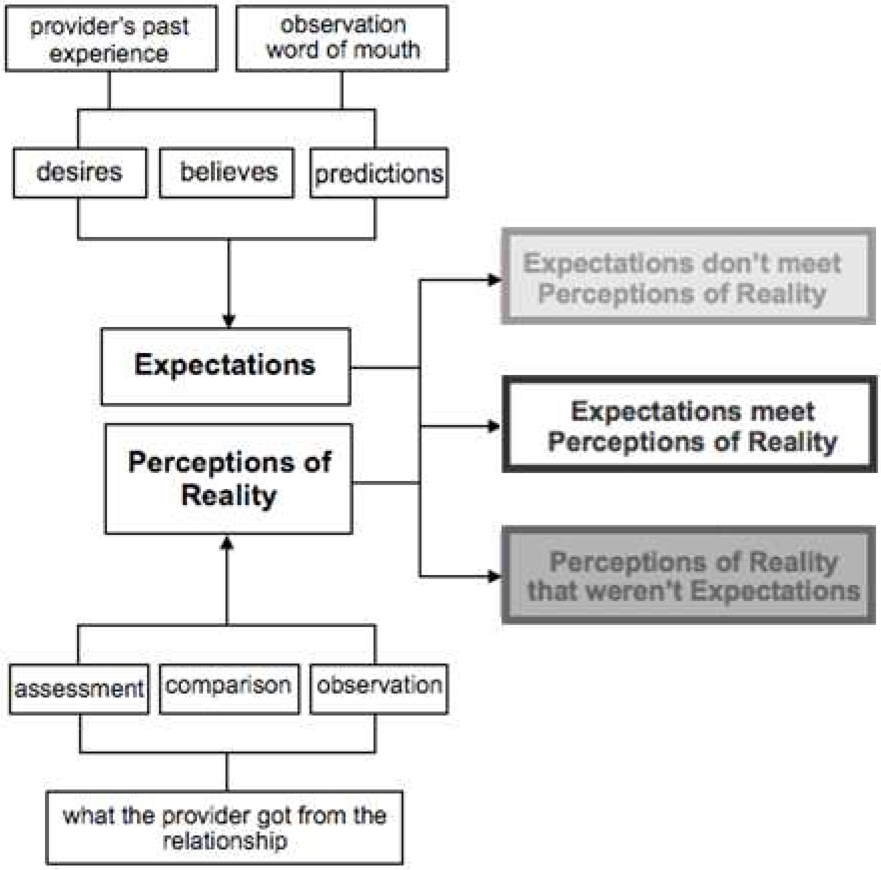

Figure 1. Framework for comparison between expectations and perceptions of reality

Following these coding, we then compared the expectations and perceptions of reality of each category, to assess which ones matched or not, but also to identify the perceptions of reality that the providers didn't have has initial expectations. Figure 1 represents the framework used for this comparison. This framework was then applied to the three categories of expectations and perceptions of reality.

Research Findings

The major expectation revealed by the firms we interviewed was to create business. This was what they most expected when starting an offshoring relationship with a new client. Figure 2 shows comparison framework applied to the business-related categories.

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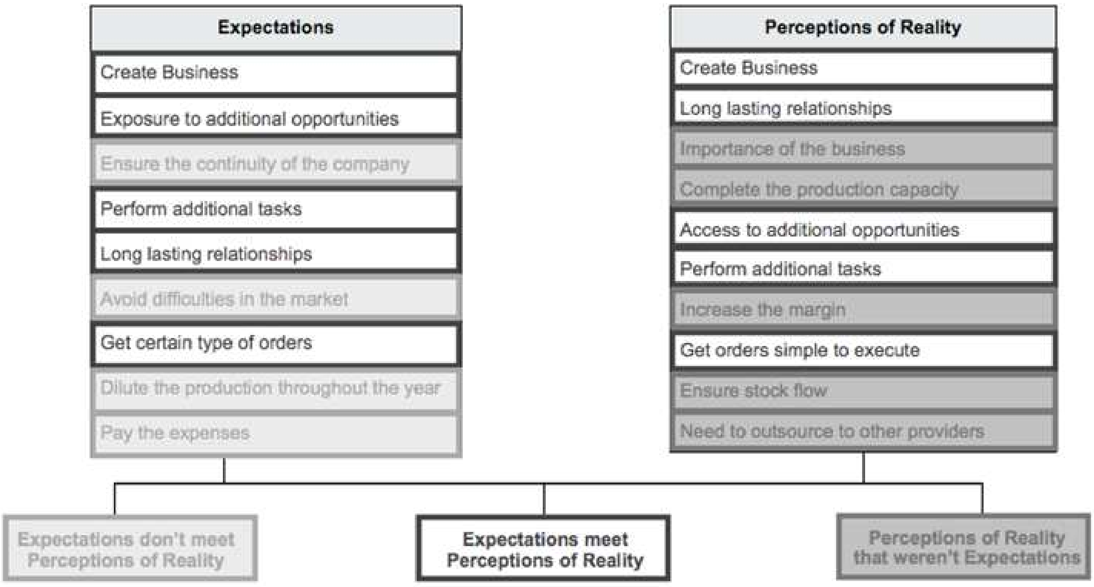

Figure 2.

Comparison between business-related expectations and perceptions of reality

Other significant nodes emerging as business-related expectations are the exposure to additional opportunities, the performance of additional tasks and to have long lasting relationships. These expectations, along with getting certain types of orders, are the ones that meet the perceptions of reality.

Although the expectations to avoid difficulties in the market and to dilute the production throughout the year don't meet the perceptions of reality, these nodes have only few references. We stress the fact that only one firm identified the insurance of the continuity of the company and the payment of expenses as expectations for new offshoring relationships. This was firm Epsilon that eventually ceased activity, and these expectations didn't meet any perception of reality.

The creation of business is also the more relevant perception of reality from all three categories. Besides, firms reveal that the offshoring relationships have allowed them to have important business, to complete their production capacity, to increase their margin, to ensure stock flow and to outsource their production to other suppliers. These were aspects that they didn't initially expect.

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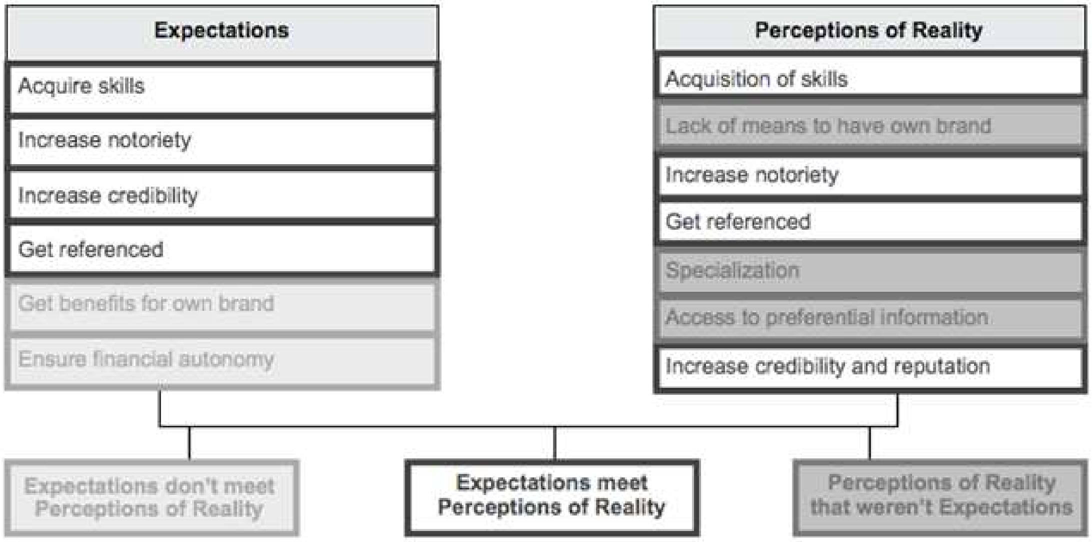

Figure 3. Comparison between firm-related expectations and perceptions of reality

On the firm-related level (Figure 3), the acquisition of skills was the expectation and perception that was referred the most. Firms revealed the belief that they would become a more capable company if they worked as offshore outsourcing providers and, looking back, this is something they perceive as having achieved. This expectation, along with the notoriety and credibility increase, and the reference to other clients, are the ones that meet the perceptions of reality.

While the insurance of financial autonomy was an expectation that wasn't mentioned as a perception of reality, the hope for benefits for own brand, mentioned by the two firms that had own brands, might be indirectly represented in the perceptions of acquisition of skills, increased notoriety and credibility, get references and access to preferential information, that may benefit an own brand, although this wasn't directly mentioned as a perception of reality.

Plus, although a few firms revealed lack of means to have a brand, only firm Epsilon mentioned an increase in its degree of specialization.

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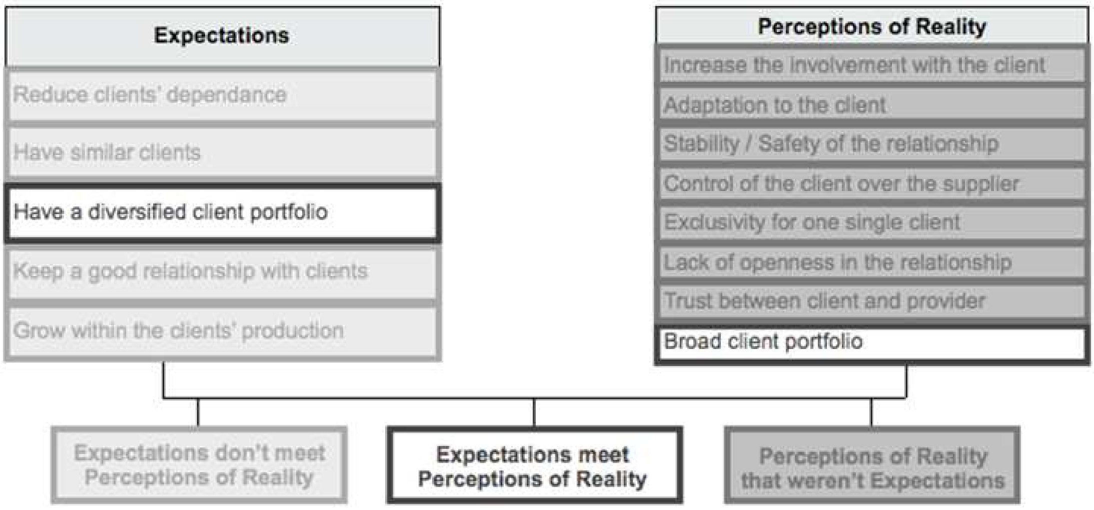
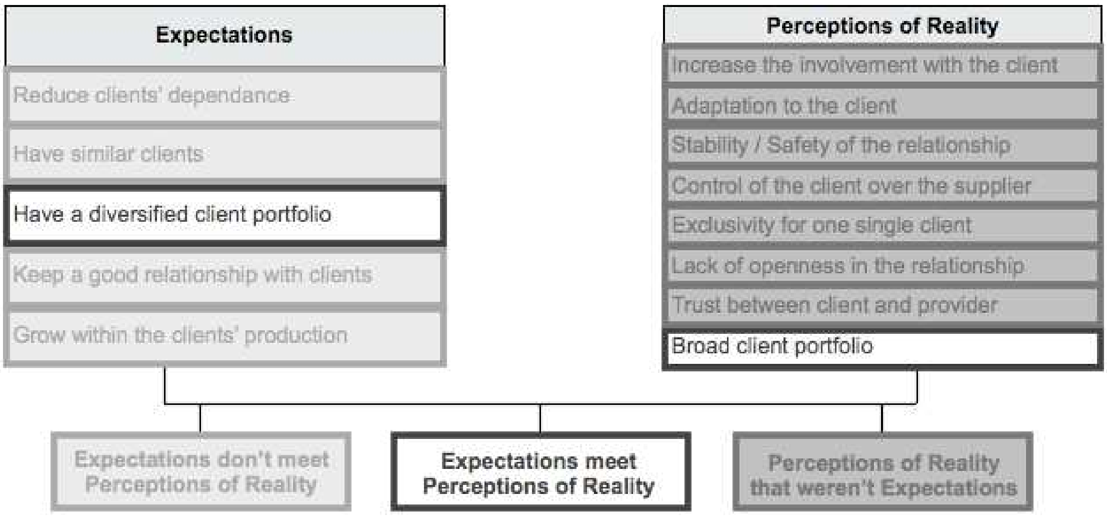


Figure 4. Comparison between client-related expectations and perceptions of reality



The client-related (Figure 4) category is the one where there is less matching between expectations and perceptions of reality, only one category matches: having a diversified client portfolio.

Still, we believe that although the expectations of reducing clients' dependence, having similar clients, keeping a good relationship with clients and growing within the clients' production don't show up as perceptions of reality, this doesn't mean they didn't happen at all, but only that providers don't perceive them, or didn't mention them.

However, several perceptions of reality that weren't initial expectations emerge; most mentioned being the increased involvement with the client. Besides, some of the other perceptions that appear may be considered divergent: adaptation to the client, stability/safety of the relationship, control of the client over the supplier, exclusivity for one single client, lack of openness in the relationship and trust

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between client and provider. This may happen because of the different typology of clients each case had.

Conclusions and Implications

The goal of our research was to fill that gap in the literature regarding the impacts of offshoring in a provider-perspective. Specifically, we would like to assess the case of Portuguese providers, following Lahiri et al. (2012) suggestion of future research, in the form of a qualitative study.

Given the absence of formal theories in the literature regarding this subject, we carried out an exploratory approach on the expectations of providers and compared them with their perceptions of reality, aiming to extend the literature about this matter. We identified three broad categories of expectations and perceptions of reality: business-related, firm-related and client-related.

Our study revealed that both on the business-related and firm-related categories, there isn't a major gap between expectations and perceptions of reality, with a considerable number of matching categories. From these, we highlight the creation of business and the acquisition of new skills, as the more significant categories emerging in the data.

On the other hand, on the client-related categories, there is one single match, in an inexpressive category: diversified client portfolio. By contrast, the more significant category of expectations for providers starting new offshoring relationships was to reduce their dependence to their current clients. However, interviewees revealed an increased involvement with their clients as their main perception of reality in client-related category.

The implications of these findings are wide: offshoring providers may be a source of competitiveness for one economy, since they are bringing business and promoting the acquisition of skills in the country and so, Governments may want to stimulate this business model.

However, it would be interesting if further studies could research the reason why some expectations don't meet reality: are there gaps of communications between clients and providers? Or is it a matter of perception and management of expectations? We believe a clear empirical investigation of these aspects would give us an even broader understanding of the offshoring phenomenon in the provider-perspective.

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TIME VALUE MANAGEMENT IN THE ITALIAN HEALTH SYSTEM: PROBLEM ANALYSIS AND ECONOMIC BUSINESS PROSPECTS

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Abstract

In the last decades, at the center of the debate and the political and institutional framework of the European Union and our country, there are the growth trends of late payments by the Public Administration in respect of companies which supply goods and services, even more accentuated in the health sector. The payments are delayed, partly as a consequence of a pathological financial dysfunctionality of management of the system for the protection of the health of regional health deficits (Amatucci, Borgonovi, Lecci, 2007; Ricci, 2010; Cuccurullo, Lega, Longo, Ferrè, 2010) and of a structural imbalance in public sanitary spending generally (Meneguzzo, Fiorani, 2008; Marsilio Mele 2010), partly the result of bad practices or practices now dominant bad and blurry, of professional and organizational shortcomings, of weaknesses in the governance of certain regions (especially southern ones); of uncertainties in the legal traffic produced by a frantic regulatory isomorphism by the legislator at the central level and asynchronous managerial paradoxes locally. The establishment of the so-called financial outlook (Giannessi, 1982), also produces more damage in terms of a blurry and distorted reading of reality and of the decisions to be implemented, overestimating the financial performance and neglecting economic ones (Poddighe, Madonna, 2006). The paper aims to highlight - in a context of predictive changes of economic and financial equilibria (Gertstenberg, 1928), resulting from lack of financial resources and of optimal choices for their allocation - the logic and tools of local governance and of interinstitutional relationships with the market of local suppliers throughout the time of payment such as strategic levers of market distortion in favor of certain business entities and / or groups, organizations, parties, clans, patronage for the promotion, protection and preservation of the interests at stake and of electoral support by public decision makers.

Keywords: time value management, financial crisis, public health

A first stretch of the conceptualization. Theoretical outlines, dynamics, evolutionary trajectories of the search path.

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Administration in respect of companies which supply goods and services, even more accentuated in the health sector.

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The first part of the research, the first two paragraphs, in the first place wants to offer a conceptual frame work on *causae causarum* of "late payments" of the National Health System, through an 'analysis of the economic business literature and of public management, useful for the second part where will be discussed a *discrepancy* analysis between norms and behavior detected, with particular reference to the forthcoming federal structure and the existing disparities in terms of time for payment of services and medical supplies to private companies operating in the sector of the NHS (Court of Auditors, 2010), in the different regions surveyed. DiS.p.A.rities which emerge from the Italian regions with delays in payments more than double those of other countries in conflict with the EU willing and full risk of default and *loss given default* for the companies involved (Zanda, 2007)

The second part of the work (paragraphs 3, 4 and 5), will be dedicated to the presentation of preliminary results of an empirical survey trying to assess the main determinants of regional sub-regional and interterritorial differences of time of payment of supplies of goods and services rendered by the local health authorities to the health sector companies, through a comparative analysis of the

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regional DSO (Days Sales Outstanding) of the last twenty years until May 2011, which allows a taxonomic representation of the conditions examined.

This part of the work still in evolution has been developed by analyzing the generic and specific determinants of delays in time of payment by the Campania Region and needs further investigation.

In the following analysis of the research that will involve all the regions covered by the Repayment Plan of health deficits, the detection of emerging practices will aim to investigate in detail each of the regional cases of the selected sample, to provide a clue even partial, about the critical determinants of the time delays of payment and of the effects of strategic choices of the various *economic actors* involved in national and regional level (Ricci, 2010).

The methodological approach adopted for the research is theoretical/deductive through the systematization of the theories, empirical tests will be conducted on the evolution of the models adopted by Local Health Authorities, on the coping of the "management of the time delays of payment", to define new possible paradigms and perspectives (Ricci, 2010).

The European and national regulatory framework about timing of payments of the national government body

The Directive of 16 2011/7/UE 02 2011 strengthens the protection of companies against late payment in commercial transactions. Among the positive developments (OECD, 2011) we point out the duty of the public administrations within the EU to provide for payments to businesses within a maximum standard of 60 days. The directive must be transposed by Member States by 16 March 2013 and will replace the EU Directive 2000/35/EC.

European legislation

Directive 2000/35/EC, implemented in Italy by Legislative Decree 231/2002, applies to commercial transactions between companies or between companies and public administrations. For commercial transaction means the supply of goods or the provision of a service against payment of a price.

Directive 2000/35/EC does not provide harmonized or peremptory terms of payment within the EU. However, within the EU has introduced the right of creditors to increased interest in the event of late payment, without the need for a reminder.

If the date or period for payment is not fixed by contract, such interest accrues after 30 days from the date of (Article 3, paragraph 1):

- receipt of the invoice or equivalent request for payment

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- receipt of goods or provision of services if the invoice or request for payment are ahead of delivery of goods or of the provision of services or the date of receipt of such documents is not certain
- acceptance or verification of conformity of goods or services provided by law or by contract, if the debtor receives the invoice prior to the date of such acceptance or verification of compliance.

The parties may agree contractually longer payment periods.

The rate of arrears paid by the debtor are equal to the rate applied by the European Central Bank to its most recent main refinancing operations, the first working day of the reference period, plus at least 7 percentage points (Article 3, paragraph of Article. d). Although the possibility for Member States to set a higher rate, Italy has transposed into its legislation the rate of arrears (periodically published in the Official Gazette by ministerial decree), except for the payment of perishable food products whose interest on arrears shall be increased by nine percentage points and is mandatory (Article 4 of Legislative Decree no. 231/2002). The Directive aims to improve the current framework 2011/7/UE principally for the benefit of SMEs, less equipped to cope with delays in payment of their customers, especially in periods of recession (World Bank, 2011). The new Directive provides for a separate discipline:

- for payments in commercial transactions between companies
- for those between public administrations and enterprises.

In commercial transactions between companies, the new directive reproduces the provisions of Directive 2000/35/EC without providing for a payment term harmonized within EU. The new directive states that it is desirable that the terms of payment agreed upon by contract between the companies generally do not exceed 60 days and that any agreed longer terms are seriously unfair to the creditor pursuant to art. 7 of the new Directive ("Recital" 13).

In transactions between businesses and public administrations are expected to hand a real European harmonization of payment terms and the introduction of a binding maximum period of 60 calendar days for contracts with public administrations of Member States (Article 4 , paragraph 6), after which interest shall accrue to firms. In the absence of a contractual provision, the term of payment is instead of 30 days (Article 4, paragraph 3).

Companies remain free to determine the extent of the contractual interest on arrears in their commercial transactions. Any contractual terms or practices that would exclude the application are invalid, however, as grossly unfair to the creditor (Article 7, paragraph 2). In addition, they may be declared grossly unfair (and therefore invalid) the terms or practices that differ from the legal rates of

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interest on arrears for late payment without an objective reason in favor of the debtor (Article 7, paragraph 1, lett. C) .

The late payment in commercial transactions between companies and public administrations will qualify without a reminder, a legal interest on arrears corresponding to the rate applied by the European Central Bank to its most recent main refinancing operations, the first working day of reference period, plus at least 8 percentage points (Article 2, paragraph 6). This, provided that the creditor company is to have fulfilled the contract and the payment delay is attributable to the debtor Public Administration (Art. 4, paragraph 1).

Compared to the Directive 2000/35/EC, the creditor firm is entitled, in addition to interest of late payment, even to pay the costs of recovery within a minimum lump sum of 40 euros, except for reimbursement of the cost of activities entrusted to lawyers or debt collection company. We assume grossly unfair contractual practices or agreements that exclude the compensation for such costs (Article 7, paragraph 3).

Member States and the European Commission will ensure appropriate publication of data on applicable legal rates of interest on arrears. Member States should encourage a culture of prompt payment, including the publication of lists of good paying ("Whereas" No 30). In addition, as previously mentioned, the new directive strengthens both in court and in administrative offices, including by means of associations of undertakings (Article 7, paragraph 5), the creditor protection against unfair terms or unfair (Article . 7 and "whereas" paragraphs. 28-29) practices designed to extend the payment period and to exclude or limit the interest for late payment or compensation for recovery costs of credit.

Like the previous, the new directive states that the EU creditors may enforce the retention of title clause in the contract they agreed upon before the delivery of goods unless the same is valid under the national provisions of applicable law according to the private international laws (Article 9).

Moreover, in addition to the Community instruments for the protection of the recovery of credit (in particular EC Regulation No 1896/2006 on the European order for payment), each Member State must ensure an accelerated national procedure that allows the creditor to obtain an Enforcement normally within 90 days of submission of claim or demand, if not disputed the claim or procedural aspects (Article 10).

In Italy, the creditor can already obtain from the judge, within 30 days of the filing of the appeal, an injunction for the amounts specified therein (if available and supported by written test). In general, the injunction is enforced 40 days elapsed from the notification that the debtor has not opposited. The Italian procedure should therefore already complies with the requirements at Community level by the new directive.

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The management of '"financial unsustainability" and the planning of equalization policies.

The purpose of this research is precisely to investigate in detail some regional cases, to describe in details health public organizations in the eight regions covered by Regional Repayment Plans and make a contribution, albeit partial, to the study of the determinants of the relationship between time of payment delays and the same deficits that contribute in feeding a vicious circle of financial asphyxia able to generate insolvency conditions and *decoction* of *domino effect.*

The invoices are paid after many months. The record belongs to Calabria with 912 days of average in delays.

Figure 1: Debts of Regions for medical supplies - Assobiomedica, 2011

Companies that provide electrical-medical devices to hospitals and local health authorities record strong delays in payment. In particular, the higher levels of delays belongs to Calabria with 912 days of average delays, with 765 followed by Campania and Lazio with 403 days.

The claims of the companies amounted to 5 billion and 350 million euros. Small and medium-sized enterprises are forced to avoid bankruptcy to require discounts bills to the bank choosing so to cash quickly, despite the renunciation to the collection in less than 3 percent of their loans.

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The dynamics on the delays in payment, however, appear to be atypical in the same region. In Emilia, for example, as Reggio Emilia mantains almost virtuous trend , in Modena the situation worsens.

The findings of Farmindustria, however, at the end of December 2010 show an overdraft of around 4 billion with an average of 224 days late (+11% over December 2009), but with peaks of 607 in Molise and 604 in Calabria . The regions that increase the time of payment worth 75% of the public market of the pharmaceutical industry. And still on the slope of the drugs, then, there have been delays in the payment of private pharmacies.The overdraft in March 2011 is 1.33 billion, which focuses on all five regions as shown by the next box.

- *Box*
- Calabria (180 mln);
- Campania (480 mln);
- Lazio (400 mln);
- Molise (15 mln);
- Sicilia (255 mln).

A "overview" of the findings of the decision-making and strategic determinants of the speed of payment

The delayed payments are partly a consequence of the structural imbalance of Italian public accounts, that is of the enormous debt accumulated in past decades.

For another part they can be attributed, as appropriate, to inefficiencies, procedural *bad practices*, organizational shortcomings of many health care companies, as well as to weaknesses in the governance of certain regions. Certain regions and health care companies still glimpse the delayed payment of its suppliers a convenient way to finance themselves at costs systematically downloaded on suppliers, thanks to the fact that they can count:

- On the one hand, on interventions of extrema *ratio* which the rules *ad entem* of some time ago, and especially on the most recent block of foreclosures;

- The long time of civil justice that characterize our country (410 to 460 days for an injunction to become immediately enforceable; Istat, 2006, 2010).

In this way we got to the point that the total debt of the public health system now amounts to over 40 billion euros (about 60% of the total debt of the PA, estimated at 70 billion euros); of this debt, at

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least 5 billion is to suppliers of diagnostic and biomedical technologies. And these firms are among the suppliers of goods and services, those who suffer more from delayed payments of late payment of health facilities, having in the health care system their principal if not the only target market.

From the tables analyzed in the previous paragraph, it appears that the "debt management" means management of delays in time paying of suppliers, which in some cases reach very high values. It 'was then carried out a' survey of average time of payment.

In particular, an indicator was analyzed, consisting of the average time of collection (DSO - Days of Sales Outstanding), which represents the more sensitive measure of the effectiveness in debt recovery, since it expresses the actual deferral granted to customers.

This indicator is usually calculated as the ratio of total loans to a certain date and the turnover achieved in the twelve previous months:

$$D.\ S.\ O. = (Loans/turnover) \times 365$$

The D.S.O. measures, in essence, the average time it takes to repay the company of its exposure to commercial loans, ie how many days on average elapse between the date of the invoice charge to the customer and the date of discharge due to collection (how many days, the turnover of the company becomes flush). This measurement is performed on the total commercial loans of the company, or on significant sub-aggregates, but do not make much sense to apply the system to measure the performance of individual customers.

This methodology is the subject of strong concern in economic business literature (Gazzaniga, 1998); (Coronella, 2003); (Poddighe, 2001); (Poddighe, Madonna, 2006); (Amatucci, Borgonovi, Lecci, 2007).

The DSO can be applied in a simplified analysis, if the object is a company with known data only from the budget and therefore the values of sales and loans, with no information on the dynamics of turnover.

Analysis of the Sector Study

The analysis of time to pay suppliers was carried out with specific focus on the supply of medical devices, favored by the strong focus on the reconstruction of data provided by the Center for Studies in Assobiomedica through a series on the average time of payment of the last twenty years (source used even by the Judiciary accounting). Reconstruction useful for the analysis of the research topic, considering also the absence of a public database on time delays in payment by the PA.

The analysis focused in a first step is an overview of the average time of payment in the eight regions covered by the Health Plans to reduce the deficit.

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Figure 2: Regions with repayment plans

First, you should look at the national and regional level in the last decade, from 1991 until 2011 (the updating data refers to June 2011) of the eight regions that are subject to Ministerial monitoring for compliance with the regional repayment health plans of Health Deficits.

In the Piedmont Region, there is a reduction in the time of payment after 2007, however it is not less than 228 days.

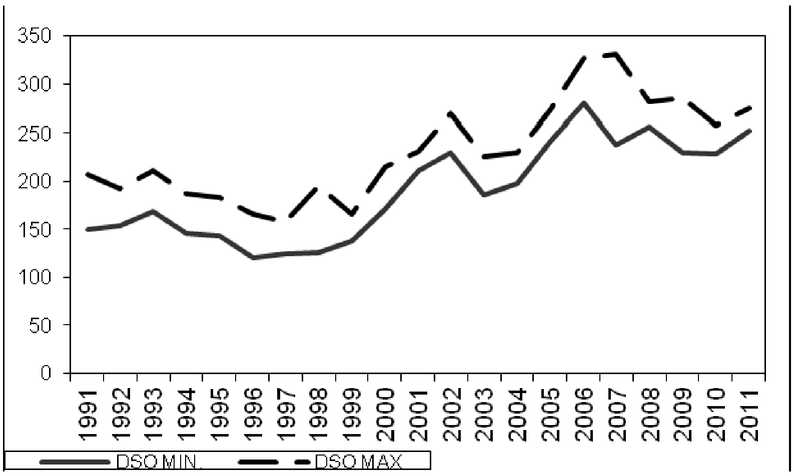

Figure 3: DSO - Piedmont Region

The average time vendor payments increased by100% in the Lazio region, despite the significant

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decrease from peak recorded in 2000 and 2007.

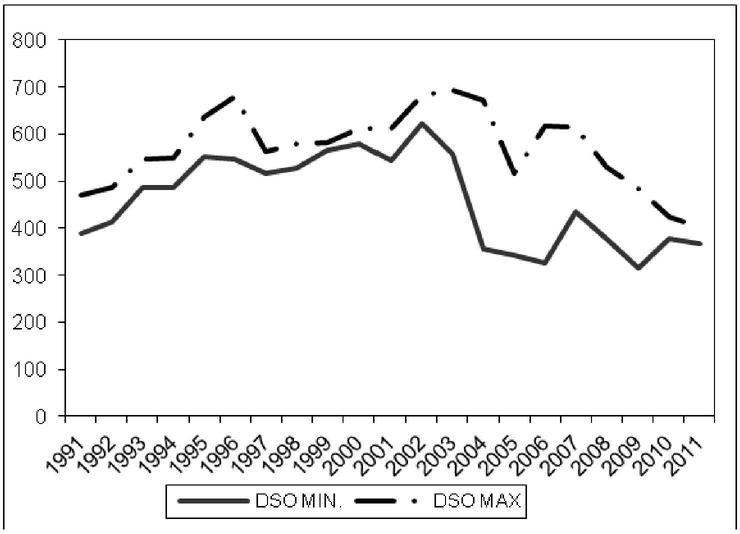

Figure 4: DSO - LazioRegion

In Campania the situation is serious: here "times" are double compared to EU countries in default (like Greece); the highest point of the delays, amounting to 755 days (more than two years), was recorded just during the commissioner in October 2010. Note, however, the reduction from 859 days of 2007.

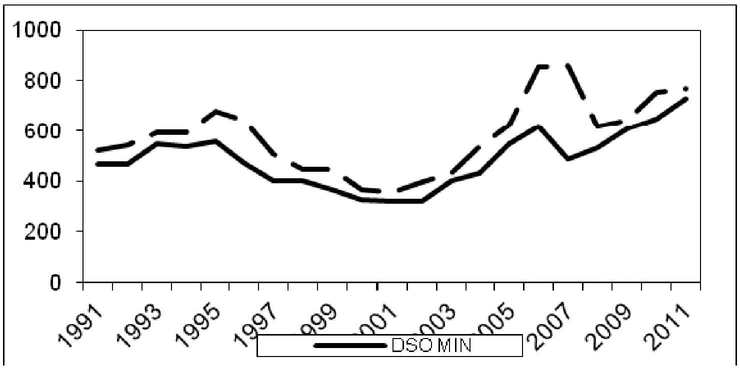

Figure 5: DSO – Campania Region

Even worse than the situation in Campania is the case of the regional Health Organisation in Calabria with "931 days" of late (almost three years) just recorded in June 2011, also in violation of the "incipit" set by the repayment plans established for the various regional deficit

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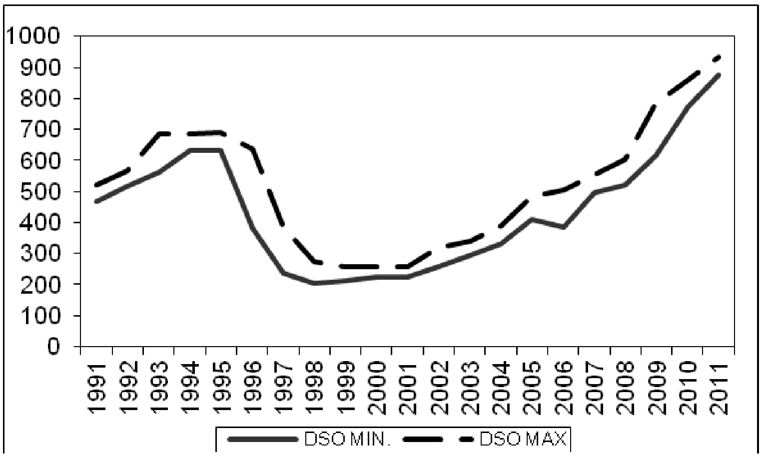

Figure 6: DSO –Calabria Region

Although time delays in payment are serious in the Sicilian Regional Health Organisation, they have almost halved compared to the nearly 500 days of the mid-90s.

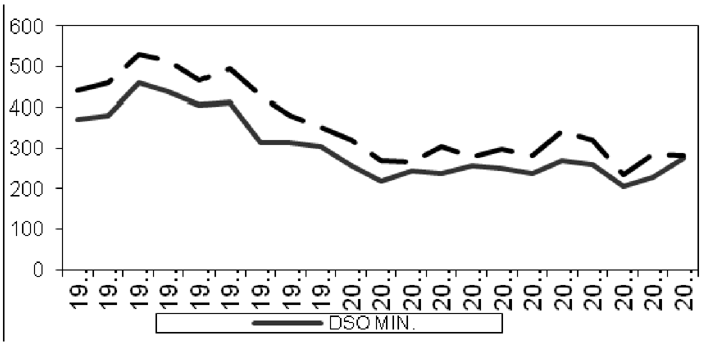

Figure 7: DSO - Sicily Region

In Molise region suppliers of NHS local businesses times of waiting are more than two years , equal to 830 days of delays, despite the reduction compared to the 920 days of time in 2008.

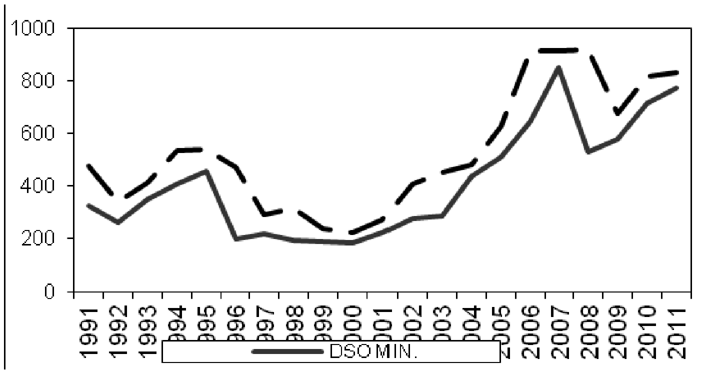

Figure 8: DSO - Molise Region

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Are largely "outside" the EU legal regulations of 30 days in respect of payments to local suppliers, the Local Health in Puglia region with their 300 days of delay; however, they have almost halved the delay of the early 90s.

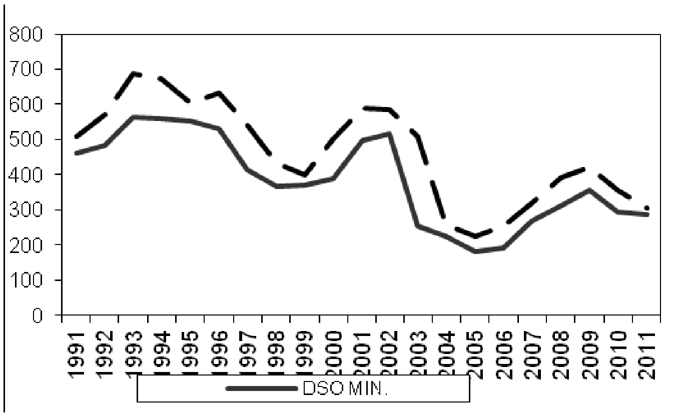

Figure 9: DSO - Puglia Region

Among the Regional Governments, subject to monitoring by the Repayment Plans of Regional Healthcare Deficits, the days of delay time for payment of Health Organisation in Abruzzo Region, appear to be just over six months, drastically reduced compared to the 590 days in 2005.

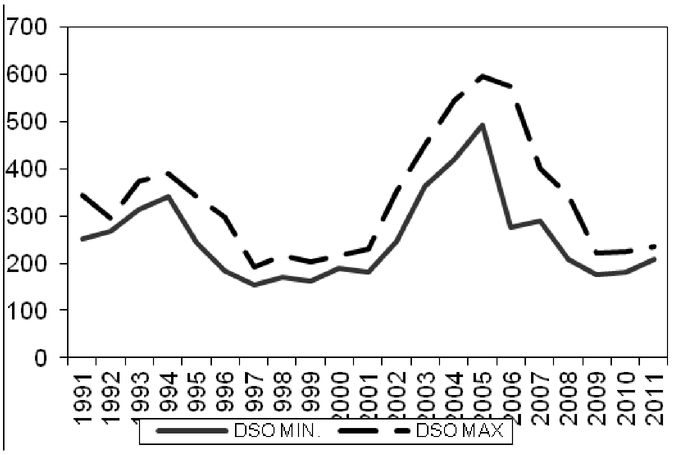

Figure 10: DSO - Abruzzo Region

Conclusions

From the examination of the facts of the case of Campania, emerge "not yet conclusive observations" on the determinants of a dramatic situation with regard to "time delays of payment" that the southern regions such as Campania, have almost twice as high as the EU countries in default such as Greece (Calabria, Campania, Molise).

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These delays are in complete violation of the European "incipit" and constraints of containment of public spending set by the Regional Plans Repayment to Regional health deficits, through the activity of the strong and consistent ministerial monitoring.

The analysis of the sector study conducted shows that late payments are in part a consequence of a *pathological financial dysfunction* of managing the system to protect the health of regional health deficits (Amatucci, Borgonovi, Lecci, 2007) and of a structural imbalance of public health spending in general (Meneguzzo, 2008), partly the result of *bad practices or practices* now *dominant bad and blurry*, of professional and organizational deficiencies (Amatucci, Borgonovi, Lecci, 2007), of weaknesses in the governance of certain regions (especially southern) ; of uncertainties in the legal traffic produced by a frantic regulatory isomorphism by the legislature at the central level and managerial asynchronous paradoxes locally.

The establishment of the so-called *financial outlook* (Giannessi, 1982, p. 16)., However, produces more damage in terms of focus and distorted reading of reality and the decisions to be implemented, overestimating the financial performance and neglecting economic ones (Poddighe, Madonna , 2006).

With the introduction of D. Of Decree 23 June 2011 No. 118 and the "incipit" willing to Title II, a solution to the stages of business decoction from time delayed payment by the government body of the NHS, could be the *clearing house* activities - State \ Regions of compensation claims from suppliers of the NHS and local tax liabilities accrued over the years and enrolled in part, subject to the tax claim by the various local collection agents.

This situation reveals the conditions created by financial asphyxiation generated by the vicious circle of bad "debt management", whose structural and pathologists robust delays in payment, are only the tip of the iceberg and how a "defective" financial self-supply system at the central level and injuries by domino effect, falling in particular:

a) on industries that do not qualify for deferred taxation and VAT until the suspension of payments;

b) on the employees which are not subject to contribution and social security payments every 30 days;

c) on State that is the subject that actually keeps track of the major delays in the average payment by the companies (ordinary taxation - sales and advances) or even the absolute insolvency;

Self-supply does not find, today, in the progressive deferred tax (VAT suspension, for example) or evasive activity of the companies involved directly and / or indirectly from delays, its ability to meet the financial sustainability of the government system of health protection.

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Analysis of the mechanisms for determining the balances of public finance at the regional level (internal Stability Pact) shows the exclusion from the calculation of health spending. Hence, two new Research Questions:

RQ1: How does the *temporal asynchronous paradox* take place between Internal Stability Pact and the Stability Pact for the determination of public finance balances considering the exclusion of the share of health care?

RQ2: How is it that despite the health expenditure is not subject to the "rules" and "management and accounting trick '(move out of the financial output of the cash in subsequent years) of the Internal Stability Pact, in Regions such as Campania times payment of local NHS providers reach close to three years time (in spite of 60 days in regions such as Trentino, Valle D'Aosta or 100 days for Lombardia?)

These research questions, will help us in the following research to focus on different determinants of the time delays of payment such as:

a) criteria for determining the National Health Fund to be distributed to different regions in a new federal framework (choice of economic entities);

b) analysis of the temporal determinants of delays in the transfer of resources derived from the State to finance the Regions (choices of the Economic Entity and institutional relationships between various economic entities ideologically "assonant" or "dissonant";

The determinants on the delays in the average time of payment should be also identified in the inability of the few financial resources resulting from a regional division of the Regional Health Fund or too less compared to a gigantic historical expenditure consolidated in the last twenty years.

In this analysis, it is not possible to offer some concluding remarks. The perimetral area of the research to patrol will be characterized by the development of such distortionary dynamic in a new federal framework (*pay or perish*) with a country at different speeds (or countries) and a multifaceted differentiation in the protection of the rights to health and protection competitiveness and to competition in favor of the market and of the State.

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CONSUMERS' REACTIONS AFTER CRISES IN THE HOTEL INDUSTRY: BEING ABLE OR SOCIAL RESPONSIBLE?

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Abstract

The authors investigate the role of corporate associations, Corporate Ability (CA) and Corporate Social Responsibility (CSR), after a crisis situation in the hotel industry. The findings of an experimental study indicate that hotels characterized by CA will have higher visiting intentions, lower negative and higher positive word-of mouth after a crisis situation than hotels described as protagonists in CSR initiatives. On the other hand, socially responsible hotels will enjoy higher sympathy than hotels characterized by CA. The study has important strategic implications for hotel's corporate branding since it sets the priority to CA corporate associations, not only in routine and everyday situations but also crisis situations.

Keywords: Crisis, Corporate Associations, Hotels

Introduction

Imagine that you are reading a newspaper article under one of the following headlines: Customers of well-known hotel complain about food poisoning; Child drowns in hotel swimming pool; Customers hospitalized with serious injuries after hotel fire; Two customers die after fatal hotel gas leak. All the above mentioned headlines can illustrate real tragic events able not only to break the everyday routine operation of a hotel, but also to pose a threat to customers' life and health and finally ruin the customer's holidays. In other words, all the aforementioned events are crises and it is a matter of time for an organization to face one (Kash and Darling, 1998).

When it comes to the tourism industry, it is widely argued that all parts of the tourism system are very vulnerable to crises such as economic downturns, natural disasters, epidemic disease, and international conflicts (Somnez at al. 1999). Especially, in the hotel sector the inevitability of more or less severe crisis situations is reinforced by the fact that service sectors are considered to be more crisis-prone than the sectors dealing with the tangible goods (Martin, 2005). Despite the importance of this topic, our understanding of how consumers react after hotel crises is limited. Therefore, the aim of this paper is to attempt to fill this gap in empirical research relating to consumer reactions after crises in the hotel industry by exploring the impact of corporate associations on various important variables, such as consumer emotions, brand evaluation, visiting intentions and negative and positive word-of mouth (WOM).

Conceptual Background

Crisis is defined by Fearn-Banks (2007, 8) as a "major occurrence with a potentially negative outcome affecting an organization, company, industry, as well as its publics, products, services, or good name". There are many factors that influence consumer reactions after a crisis but the most explored and one of the most influential is the public's perception of the company. It has been found that corporate reputation (Coombs and Holladay, 2006) and CSR (Klein & Dawar, 2004) can affect consumers' reactions positively. Likewise, in the context of tourism and hotel sector researchers have emphasized the positive role of hotel reputation and favorable images created by the media (Henderson, 2003). Correspondingly, Vassilikopoulou et al. 2009 suggest that consumers will have a more positive impression of highly reputable hotels after incidents such as fires.

Generally, it is widely argued that the way the public perceives a company is decisive in determining its success (e.g. Brown, 1998). This is also true for the hotel sector whereas it has been suggested that reputation influences consumer behaviour and especially purchase intentions (Christou, 2003). It should be emphasized that, over the past twenty-five years, the value of branding has been warmly embraced and accepted as an essential component of the marketing strategy (Dev et al. 2009). Indeed, hotel brands have been shown to play an important role in creating value for guests by helping to assure them of a uniform level of quality and of added value to both guests and hotel companies, in large part because they foster brand loyalty (O'Neill and Xiao, 2006). In support of this, O'Neil and Mattila (2010) observed that long-established brands such as Hilton, Hyatt, InterContinental, Marriott, and Wyndham have all grown through brand extensions over the past two decades.

Accordingly, the popularity of CSR is rising nowadays among customers, stakeholders and investors (Du et al. 2007). The travel industry could not be an exception, especially because it depends heavily on environmental and cultural resources (Sheldon and Park, 2011). Recently, the literature on CSR has increased by exploring various issues of tourism sustainability considering not only the hotel units but also the other important components of the tourism system such as tour operators, travel agents and means of transportation. Particularly, the hotel sector has drawn the attention of many researchers who have observed that the level of commitment, structures, policies and amount of invested money among hotels is different (McGehee et al. 2009; Holcomb et al. 2007). From another perspective, according to Henderson (2007), hotels should be ready to contribute with various CSR

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initiatives to the recovery of communities after natural disasters as in the case of hotels in Phuket during the Tsunami in 2004.

It is obvious from the relevant literature that it is undeniably positive for a company to be regarded by the public as reputable, capable and corporate responsible. But what is the answer when it comes to the following dichotomous question: "*Being Capable or Responsible?*" In crisis management literature, there is not a clear answer on that question and our paper hopes to give some first results. In order to explore the aforementioned question, we use the conceptual framework of corporate associations. Corporate associations as defined by Brown (1998) are the cognitions, affects, evaluations (attaching to specific cognitions or affects), summary evaluations, and/or patterns of associations (eg, schemata, scripts) with respect to a particular company. According to the seminal work of Brown and Dacin (1997), corporate associations can be of two basic types: CA and CSR. CA refers to a firm's capability to produce quality products, while CSR associations are related to the firm's commitment to its societal obligations.

We conceptualize and test our hypotheses against previous research which compares corporate associations. The initial empirical evidence that CA has an almost four times greater effect than positive CSR on the company evaluation comes from the seminal work of Brown and Dacin (1997). From another perspective, Kim et al. (2009) explored the effectiveness of CA and CSR messages in crisis responses. The authors prove that CA-focused responses reduce the attribution of responsibility, when the crisis is for a high-tech product but when it comes to food positioning crises, CA-focused responses reduce the attribution of responsibility only if the crisis is an accident and not a transgression. Likewise, Whalen et al. (1991) found that in cases of unethical behavior, consumers firstly consider their personal interests and secondly the consequences on the well-being of their society. Therefore, the abovementioned results leads to the following hypotheses:

H1: Angry will be lower for the Hotel with CA association than CSR

H2: Sympathy will be higher for the Hotel with CA association than CSR

H3: Brand Evaluation will be higher for the Hotel with CA association than CSR

H4: Buying Intention will be higher for the Hotel with CA association than CSR

H5: Negative WOM (NWOM) will be lower for the Hotel with CA association than CSR

H6: Positive WOM (PWOM) will be higher for the Hotel with CA association than CSR.

Methodology

In keeping with the objectives of this study and with the aim to explore discussed literature gaps, an experimental approach was used. In order to compare the impact of CA and CSR on consumer reactions after crises situations in the hotel industry, two different scenarios were designed. First of

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all, the following background information about the company was presented to two treatment groups: *"The following information is about a real and well known hotel in a very famous Greek island. For the purposes of this study we call the hotel as Hotel A"*. The first scenario included the following description of hotel's CSR performance: *"In 2010 Hotel A ranked 1st among the major hotels on CSR Index. This index illustrates how the companies understand and meet stakeholders' expectations and the environmental protection policies employed. Indeed, in 2010 a series of actions, which required the use of new environmentally friendly systems, was undertaken to protect the environment, which has reduced water and electricity consumption by 35% and 25% respectively"*. The second scenario included the following description for hotel's CA performance: *"In 2010 Hotel A was selected for sixth consecutive time as the Best Hotel in Greece from the most reliable international magazine of tourism industry, the Best Hotels in World. Hotel A is a customer oriented organization and always aims to offer services that meet and surpass customers' needs and desires. For the last 6 years, the Hotel A has always been within the top hotels list in Greece in Customer Satisfaction Research"*.

After the background information, the crisis situations were printed and presented as short news published in a national and highly circulated Greek newspaper under the following headline: "*52 People with Food Poisoning at Hotel A*". Food poisoning was selected as the main crisis because after a exploratory internet research it was found that it is a very common and frequent crisis in the hotel sector. The following description was presented to both treatment groups: "*52 members of a tourist group staying at Hotel A complained about symptoms of food poisoning. The 52 tourists, including 5 children, suffered from symptoms of diarrhea and vomiting, whereas 18 of them had to be treated at the island's hospital. The causes of the poisoning are not clear whereas the tourist group had a number of meals not only at the hotel restaurant but also at other restaurants on the island. The Hotel A's spokesperson responded that there was no problem whatsoever with the hotel restaurant and that the food poisoning was probably caused by a meal that the group had enjoyed elsewhere"*.

Having read the information about CA and CSR associations of the hotel and the crisis, respondents answered questions concerning anger, sympathy, brand evaluation, buying intentions and positive and negative word of mouth (WOM). With regard to anger and sympathy, the measures used were adopted from Jorgansen (1996). Cronbach's alpha were .883 and .707 respectively. Brand evaluation and buying intentions measures were identical with Klein and Dawar's (2004) study and positive and negative WOM similar with Coombs and Holladay's (2008) study. For the above questions, 7 point semantic scales were used.

We randomly assigned 200 undergraduate and post graduate students of one of the biggest Greek business schools to one of the two experimental groups. On average, 10 minutes were needed to complete the questionnaire. Having eliminated the invalid questionnaires, 196 valid questionnaires were analyzed. Of the respondents, 40.8 % were male and 59.2 % were female; 72 % of the sample were undergraduate students and the rest postgraduate.

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Results

The manipulation checks provide strong evidence that the subjects did not have any difficulty in identifying intended situations. Subjects in the CA condition rated the hotel as more able than socially responsible whereas the opposite happened in the case of CSR condition ($F=4648.88$; $p<0.001$, $F=2706.27$; $p<0.001$ respectively). The analysis of variance (ANOVA) was used to examine and determine respondents' reactions (anger, sympathy, evaluation, visiting intention, negative and positive word of mouth) regarding the Company's prior CSR and CA corporate brand associations. Hypothesis 1 (H1) predicted that consumers' anger will be lower for the hotel with associations based on CA than the hotel with CSR associations. However, the hypothesis was not confirmed [F (1,083); p=.299]. H2 anticipated that sympathy will be higher for the hotel with CA associations than CSR. As revealed by the analysis of variance, the respondents in CSR condition expressed more sympathy (m= 3.54) than did the respondents in the CA condition (m= 3.10) [F (6,007), $p<0.05$]. This leads us to reject H2 because the result contradicted what was foreseen. Contrary to our expectations, H3 is not supported, because the results for brand evaluation indicate no significant differences between the CA and CSR hotels for store attributions [F (2,311), $p > 0.05$]. Concerning H4, the results confirm that visiting intention will be higher for the hotel with CA associations (m= 4.34) than the hotel with CSR (m= 3.77) [F (6,999), $p<0.05$]. Hypotheses 5 and 6 predicted that the NWOM will be lower for the hotel with CA association than CSR and PWOM will be higher for the Hotel with CA association than CSR. Consistent with H5, respondents for the hotel with CA association expressed less intention for NWOM (m= 3.53) than the CSR (m= 4.16) [F (6,997), $p<0.05$]. Finally, as expected, PWOM will be higher for the Hotel with CA (m= 4.15) than CSR (m= 3.65). [F (4,921), $p<0.05$].

Discussion & Conclusion

The point of departure for this study is the desire among researchers to move beyond one-dimensional examination of the way people perceive a company and its role in crisis situations. To the best of our knowledge, this study is the first to examine the impact of CA and CSR on consumer reactions after crisis situations in the hotel industry. Overall, this study replicates, in the hotel industry and under crisis situations, the pattern found in the Brown and Dacin (1997) study that CA has higher impact on consumer reactions than CSR.

The results clearly show that after a crisis situation CA focused hotels tend to have better consumer reactions than the CSR focused. Brown and Dacin (1997) indicated that CA has an almost four times greater effect than positive CSR on the company evaluation; our findings support this notion while we have also found evidence that CA has greater effect than CSR even after a crisis situation. This is also reasonable given the fact that visiting intentions will be higher for the hotel described by CA than CSR information. Furthermore, our research indicates that PWOM will be higher and NWOM will be lower for hotel with CA associations than CSR. Therefore, it seems that generally the halo effect of CA is

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stronger not only in routine situations but also in non routine ones such as crises. Kim et al. (2009) hypothesized that the stronger impact of CA could be explained by the consumers' belief that CA decreases in direct proportion to the investment of corporate money in CSR initiatives. The only case wherein the CSR is more effective than CA is when it comes to the emotion of sympathy. It seems that social responsibility initiatives work better in increasing or keeping the positive consumer emotions for the company in a good level.

The broadest managerial implication arising from this study is that the marketing managers of hotels should take into consideration the fact that consumers react more positively to corporate ability than social responsibility, especially when the social initiatives are focused on the general well being of the society. These findings indicate that companies should firstly build their corporate brands on CA and secondly on CSR. However, it should not be disregarded that CSR is first of all a societal obligation for the companies and our results do not suggest that the companies should not be involved in CSR initiatives.

Limitations & Future Research Directions

The most significant limitation encountered in this study is the simultaneous act of reading about a company's corporate associations and passing judgment when a crisis arises. In a real world, consumers tend to evaluate company's associations over time and use this evaluation as a halo effect when and if a crisis erupts. However, this is a common problem in experimental studies with fictitious organizations and events. Thus, the limitations regarding the external validity of our results can be overcome in a future research by using real hotel brands and other types of crises. Another limitation emerged is the implementation of convenience sampling. Moreover, research is needed to bring the impact of other significant variables such as crisis response strategies, crisis severity and customer loyalty to light. Finally, new promising avenues to further research can be opened by exploring important moderator variables such as the level of consumers' CSR skepticism and CSR importance and other important travelers' characteristics such as travel experience, risk attitude and risk perception.

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DESTINATIONS UNDER ATTACK: THE IMPACT OF DIFFERENT TYPES OF TOURISM CRISES

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Abstract

The objective of the present research is to uncover the impact of different crises on various destination image elements, the general destination image and attitude, visiting intention and Word of Mouth (WOM). The contribution of this paper primarily lies in the empirical confirmation that tourism destinations suffer from serious decreases in all the aforementioned variables after a crisis. However, the impact on travelers' perceived image elements is less negative after an airplane crash or an earthquake than in crises characterized by more generalized impacts such as terrorist attacks or epidemics. Furthermore, responders perceive a destination as slightly more friendly after an airplane accident. Finally, the results demonstrate that the crisis type that leads to the highest decrease in visiting intention is an epidemic.

Keywords: Crises, Tourism Destinations, Consumer Behaviour

Introduction

Tourism is one of the fastest growing industries in the world. In 2011 alone, its total contribution to the global Gross Domestic Product (GDP) is expected to reach 9.1% (6 billion), employing approximately 99 million people (World Travel and Tourism Council, 2011). Tourism contributes significantly to the development of many places, comprising for some of them the only prime mover of economic growth and welfare. At the same time, tourism is highly vulnerable to crises such as economic downturns, natural disasters, epidemic disease, and international conflicts (Sönmez, Apostolopoulos and Tarlow, 1999). During the previous decade, tourism industry has faced a series of crises such as the 921 Earthquake, the terrorist attack of 9/11 in New York and Washington, the Bali bombings in 2002, the tsunami of 25/12/2005 and many other natural disasters or political crises. Most recently, the Icelandic volcanic plume and the political instability in the Arabic world strongly confirm that tourism industry should prepare to operate under many different types of crises.

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Therefore, the knowledge of travelers' behaviour during and after crises should be an essential tool in the destination crisis management. In the relevant literature, it is widely argued that the aforementioned crises have significant effects on the destinations, in terms of travelers' destination image, visiting intention and Word-of-Mouth (WOM). However, despite the importance of this topic, the experimental researches that prove the causality of the previous statements are limited. In addressing this void, the current experimental research measures the impact on various travelers' destination image elements, the general destination image, the attitude, visiting intention and WOM, following the most common tourism crises such as terrorism attacks, riots, transportation accidents, epidemics and earthquakes.

Conceptual Background and Research Questions

Pauchant and Mitroff (1992, p. 15) define crisis as a "distortion that physically affects a system as a whole and threatens its basic assumptions, its subjective sense of self, its existential core". According to Faulkner (2001), a crisis is a triggering, fluid, unstable, dynamic event that surprises an organization while at the same time challenges its survival, needs urgent decisions, creates the perception of inability to cope and finally, gives pressure and occasion for changes. Generally, tourism's vulnerability to different types of crisis is higher than that of a simple organization, resulting from the great tourism sensitivity to internal and exogenous changes (Laws, Faulkner, and Moscardo, 1998). Indeed, Hall (2010) anticipates that the crisis negative effects on international tourism are enhanced due to the increased tourism hyper-mobility and the operation in a highly globalized economy.

Henderson (2007) proposes that tourism crises are triggered by economic, political, socio-cultural, environmental and technological events. Natural disasters, terrorist attacks, transportation accidents, political instability and severe health issues such as epidemics or pandemics are among the most common tourism destination crises. First of all, natural disasters such as hurricanes, typhoons and cyclones, earthquakes, storms, volcanic eruptions and torrential rains have a severe impact on tourism infrastructure and consequently influence the safety and security image of the tourist destinations (Beirman, 2003). Moreover, terrorist attacks, dramatically increased the last two decades in number and consequences, constitute a crisis type that has seriously hurt many tourism destinations. Many authors have argued that it is not coincidental that terrorists target more often than before tourism destinations, since by targeting tourists terrorists achieve strategic and ideological objectives (Hall and O'Sullivan, 1996). The example of September 11 attacks in the US underlines the negative impact that terrorism has on tourism, especially shortly after the event. Finally, other types of crises like riots, civil wars coups or strikes, reveal how much tourism can be impacted by political instability (Alsarayreh, Jawabreh and Helalat, 2010).

It is widely held that destinations hit by a crisis face a significant decrease in the number of tourist arrivals. As Sönmez, Backman and Allen (1994) point out, tourism destinations suffer from a

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downturn in terms of tourist arrivals and expenditures after crises, given that *"travelers will shy away from afflicted areas"* (Sönmez et al. 1999, p.14). An extensive literature has arisen showing that tourists substitute risky destinations with safer choices. Indeed, Ioannides and Apostolopoulos (1999) support that tourist destinations plagued by political instability or terrorism are less popular among visitors. For example, due to the terrorist attacks which began in 1992 in Egypt, the contribution of tourism on the Egyptian economy was decreased by 43% the first years (Wahab, 1996). Generally, if a crisis involves body harm or loss of life, it will affect the tourism industry of a destination, and tourist arrivals will decline. It should be emphasized that because of SARS, Singapore's business and leisure travelers demand was decreased to the half (Henderson and Ng, 2004). Generally, SARS hit all the tourism industry sectors and contributed to a major downturn in tourism in several places during the first semester of 2003 (Mason, Grabowski, and Du, 2005). Nevertheless, it seems that in times of pandemics tourism demand declines, while in times of terrorist activity, Taylor (2006) argues, tourists shift rather than cancel destination plans.

It has to be noted, however, that the negative impact of a crisis does not confine only to tourist arrivals, but it has wider impacts on destination image and attitude. There is evidence from both research and practice clearly suggesting that destination images can be negatively biased after negative political, social, or natural events occurring at that destination. (Dimanche and Lepetic, 1999; Mansfeld, 1999; Milo and Yoder, 1991). As Sommez et al. (1999) point out, the destination image of safety is the first destination image element that suffers from a mismanaged crisis or disaster. Most interestingly, destinations should sometimes anticipate apart from short-term negative effects, a long-term damage to their destination image (Baral, Baral and Morgan, 2004). Having pondered all that, we can reach to the conclusion that though it is hard for a destination to build its destination image, it is quite easy to have it damaged by a crisis. As Sönmez et al. (1999, p.16) note, *"it is imperative for destinations to augment their crisis management plans with marketing efforts, to recover lost tourism by rebuilding a positive image."*

Tourists are the main destination customers and it is undeniably valuable for crisis management and DMO to know what their reactions are after crises. Huang, Tseng and Petrick (2008) highlight the pivotal importance of understanding tourist perception after crises, in order to transmit promotional messages that address tourists' concerns, change false perceptions, and reinforce positive ones. Additionally, Ritchie's (2004) strategic crisis management framework for tourism destinations emphasizes the importance of understanding and collaborating with stakeholders such as tourists. Therefore, this research aims to enhance the knowledge that we have on travellers' behaviour after crisis situations, by trying to answer two research questions: *RQ1: Does a crisis situation have an impact on consumers' perceptions and reactions towards a destination; RQ2: Do different types of crises have the same or different impact.*

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Methodology

An experimental approach was used to explore the foresaid research questions. Egypt was selected as the tourism destination facing crisis situations, since it is one of the most important tourism destinations, that has been hit several times by different types of crises in the past. Another reason for that selection was the respondents' high familiarity with Egypt, allowing the measurement of destination image. The main research idea was to measure several destination image elements, the general destination image and attitude, visiting intention and WOM, before and after different types of crises had occurred. Therefore, we selected five different scenarios referring to the most common crises types. More specifically, we described crisis situations such as terrorist attacks, riots, an earthquake, an airplane accident and an epidemic.

All the crisis scenarios started by the following description: "*The Ministry of Health announced that 68 people died and 527 remain in hospitals for treatment in the capital of Egypt....*" The epidemics scenario continued with the following description: "*...after the outbreak of a new type of flu that hit the country. The authorities say that this is the greatest epidemic in the last decade*». The earthquake scenario continued with the following description: "*...after yesterday's disastrous earthquake. The epicentre of the earthquake that was measured above 7.0 in the Richter scale is near the capital of Egypt, Cairo. At least 150 buildings have undergone severe damages and the city has entered a state of emergency".* The riots scenario continued with the following description: "*...during yesterday's conflicts between police and anti-government demonstrators in the capital of Egypt, Cairo. The episodes began yesterday between protesters requesting the resignation of the government".* The terrorist attacks scenario continued with the following description: "*...after yesterday's terrorist attacks from extremists in the capital of Egypt, Cairo. The suicide attacks targeted buildings of multinational corporations".* The airplane crash scenario continued with the following description: "*...after the crash of Egyptian Airlines' aircraft close to a touristic area of Cairo. Cause of tragic crash seems to be a blackout in the Control Tower of the Airport*». All the scenarios shared the closing sentence: « *Apart from Cairo, emergency is also extended to other major cities of Egypt in fear of similar problems/events. The situation has raised the international attention of the Media and a warning has been issued by the Greek Government for the Greek tourists".*

The respondents initially evaluated Egypt's various destination image elements and the general opinion in terms of image and attitude. Furthermore, two behavioral intentions were measured, the visiting intention and the intention to speak positively for the destination. After presenting the scenarios, the questions were repeated in order to compare the impact of each crisis on their general opinion. We used the Russell's (1980) four bipolar affective items and the Ong and Horbunluekit's (1997) 17 bipolar cognitive image items as those were modified by Hosany, Ekinci and Uysal (2007) in order to measure the elements of destination image. We adopted the measures for general destination image and attitude, visiting intention and WOM from Hosany, et al. (2007). We randomly assigned

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330 undergraduate and post graduate students of one of the biggest Greek business schools to the five experimental groups. It should be clarified that the research was conducted in September 2010, before the highly publicized political turbulence in Egypt and other Arabic countries. After eliminating the invalid questionnaires, 300 valid questionnaires were analyzed and in our sample, 43.9 % of the respondents were male and 56.1 % were female; 49.7% were undergraduate students and the rest were postgraduate.

Results

We employed a series of paired samples t tests in order to evaluate the decreases on various destinations image elements, the general destination image, attitude, visiting intention and WOM towards the destination after the crisis. At this stage of analysis we didn't compare the differential impact of each crisis type but we globally analyzed the results. As expected, the results confirm that almost all the elements of destination image decrease after a crisis situation. Exception to that norm are the destination image elements of easily accessible, sparse, simple and poor which haven't statistically significant decreases after the crises. The highest decrease is noted in gloomy/exciting and unpleasant/pleasant bipolar questions. Egypt appears as a less exciting destination after a crisis situation, with a total mean difference reaching the -1.26. Likewise, Egypt's image of pleasant destination has the highest observed decrease (-1,30). Moreover, the crises have significant negative impact on destination image, attitude, visiting intention and WOM. Table I shows in detail the means before the crisis, the means after the crisis, the mean differences and t values.

Moreover, in order to explore the second research question, we conducted a series of analyses of variance (ANOVA) with the crisis types as the independent variables and the destinations image elements, destination image, attitude, visiting intention and the WOM as the dependent ones. The crisis type has a significant impact on the destination image elements of relaxing, pleasant, friendly and safe. The accident crisis type seems to have less strong impacts than the other types on the aforementioned destination image elements. More specifically, as revealed by LSD post-hoc tests, respondents' perception of Egypt as a relaxing destination decreases less after an airplane accident than after a terrorist attack, while their perception of Egypt being a pleasant destination decreases more after an epidemic or an earthquake (-1,58 and -1,64 respectively) than after an accident (-0,75). Likewise, Egypt's image of safety after an accident doesn't decrease at the same level as after other types of crises. On the other hand, Egypt's image of a friendly destination is slightly enhanced after an airplane accident but without significant differences with the other crisis types, according to LSD post-hoc test. Accordingly, terrorist attacks seem to create the strongest impact on the general destination image and attitude (-1,52 and -1,49 respectively), contrary to an accident and an earthquake that have significant lower impacts. Finally, visiting intention falls less when the crisis is an accident or riots, especially when compared to an epidemic which results to the highest decrease in visiting intention.

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	Before crisis		After crisis		Mean Differences		t
	M	SD	M	SD	M	SD	
Distressing-Relaxing	4,25	1,323	3,63	1,463	-,62	1,445	8.054**
Gloomy- Exciting	5,35	1,432	4,09	1,788	-1,26	1,687	14.046**
Sleepy- Arousing	4,99	1,374	4,39	1,481	-,60	1,373	8.200**
Unpleasant- Pleasant	5,22	1,312	3,90	1,815	-1,30	1,755	14.002**
Dirty-Clean	3,28	1,443	2,97	1,341	-,31	1,232	4.764**
Isolated-Easily Accessible	4,37	1,531	4,40	1,495	,03	1,608	-.365
Cold-Friendly	4,34	1,385	4,10	1,581	-,21	1,512	2.956*
Hostile-Harmonious	4,51	1,360	4,01	1,620	-,49	1,564	5.988**
Sinful-Innocent	4,21	1,277	3,94	1,348	-,27	1,408	3.640**
Boring-Interesting	5,55	1,638	5,01	1,666	-,54	1,636	6.198**
Stagnant-Lively	5,09	1,499	4,78	1,544	-,31	1,511	3.850**
Artificial-Natural	5,36	1,420	4,93	1,473	-,44	1,336	6.115**
Overcrowded-Sparse	2,83	1,481	2,92	1,592	,09	1,502	-1.172
Ugly-Pretty	5,33	1,498	4,80	1,657	-,53	1,607	6.213**
Noisy-Quiet	3,44	1,533	3,09	1,494	-,36	1,662	4.015**
Sophisticated-Simple	4,81	1,334	4,74	1,345	-,07	1,351	.987
Old-New	2,75	1,328	2,83	1,363	,07	1,290	-1.076
Underdeveloped-Overdeveloped	3,41	1,175	3,13	1,217	-,28	1,196	4.374**
Upmarket-Poor	4,58	1,315	4,62	1,297	,04	1,202	-.622
Unsafe-Safe	3,30	1,302	2,75	1,502	-,54	1,498	6.727**
Very touristy-Not at all touristy	2,77	1,536	3,46	1,708	,69	1,779	-7.263**
Image	4,99	1,203	3,98	1,531	-1,00	1,524	12.328**
Attitude	5,17	1,318	4,18	1,690	-,99	1,392	13.384**
Visiting Intention	4,99	1,606	3,83	1,907	-1,16	1,867	11.605**
Wom	4,85	1,626	3,66	1,905	-1,18	1,696	13.063**
** $p<0.001$ * $p<0.01$							

Table I: Means Before and After Crises, Mean Differences and t-values

Discussion, Limitations & Future Research Directions

This study offers empirical confirmation of the generally expressed opinion that crises have negative impact on destination image, attitude and behavioral intentions such as visiting intention and WOM. Results also indicate that consumers' reactions vary according to the crisis types. Generally, the crisis type that has the lowest negative impact on consumers' reactions is transportation accidents. A possible explanation is that transportation accidents such as airplane crashes are severe events that don't have an impact that could be generally affect the destination. On the other hand, terrorist attacks have the highest impact, maybe because severe terrorist attacks have occurred with great frequency during the last decade, with the known destructive consequences. When it comes to visiting intention,

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the epidemic is the crisis type that leads to the lowest intention, given that such a crisis has direct impact on tourists' health. The limitations of the method used in this study should not be disregarded. The experiment is characterized by high internal validity and low external validity at the same time. Finally, future research should focus on the confirmation of these results regarding other destinations. Possibly, the most promising avenue for future work is to investigate other variables that could explain the tourists' behaviour during and after crises, formulating in that way an integrated model.

Type of Crisis	*Relaxing*	*Pleasant*	*Friendly*	*Safe*	*Image*	*Attitude*	*Visiting Intention*
F-Value	*2,632**	*2,878**	*2,433**	*2,416**	*3,408***	*3,860***	*2,823**
Terrorism	*-,93*	*-1,32*	*-,21*	*-,73*	*-1,52*	*-1,49*	*-1,39*
Riots	*-,70*	*-1,20*	*-,39*	*-,60*	*-,89*	*-,99*	*-,87*
Accident	*-,24*	*-,75*	*,28*	*-,04*	*-,69*	*-,62*	*-,68*
Epidemic	*-,78*	*-1,58*	*-,32*	*-,67*	*-1,11*	*-1,01*	*-1,58*
Earthquake	*-,43*	*-1,64*	*-,41*	*-,62*	*-,78*	*-,84*	*-1,23*
Total	*-,62*	*-1,30*	*-,21*	*-,54*	*-1,00*	*-,99*	*-1,16*
** p<0.01 * p<0.05							

Table II: Crisis Mean Differences between Crisis Types and F-Values

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THE INNOVATIVE MODEL OF QUALITY MANAGEMENT IN TELECOMMUNICATION SERVICES SECTOR

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Abstract

Today the increasing number of constant consumers is a strategic aim for any organization which is possible to be achieved only under condition of continuous perfection of organizational activity quality. If the service representation doesn't correspond to the consumers' expectations they lose their interest to the service organization, if it does correspond or surpass their expectations they probably would readdress to service provider. For this reason the service organization should more precisely reveal consumers requirements and expectations, namely provider should constantly measure its service quality.

In the given work approaches by the Russian and foreign researchers in the field of quality management are studied and analyzed in details, namely:
- Approaches to the « service quality» definition;

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- The basic components of service quality management process;
- Service organization quality model.

The purpose of research work consists of ISQM (Innovation System of Quality Management) model creation taking into account features of TCS providing, which, in turn, is targeted on TCS company purposes achievement in the field of quality by means of:
- setting the control values of TCS quality indicators;
- measuring of the reached results and their comparison with expected results;
- effective management decision making as a result of carrying out the analysis of managerial activity in the field of quality on the basis of the report containing recommendations for the company activity improvement, prepared due to the results of measuring and collecting quality indicators.

Keywords: Innovative activity, innovation, quality management, organizational processes, service provided, consumer.

Introduction

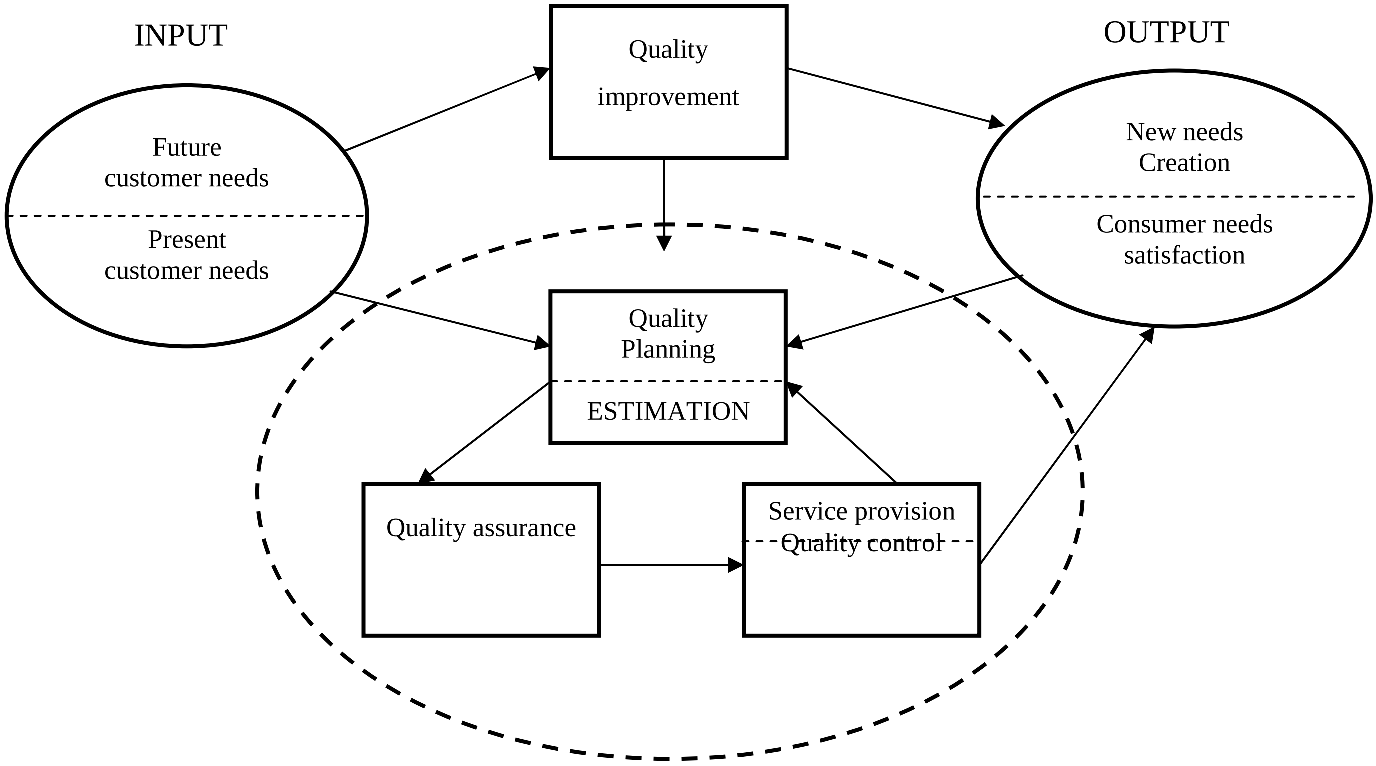
Each organization enters the market for the further development purpose. In due course it can pass to a policy of the won market share deduction or protection. However, in both cases competitors' actions can prevent these organizational purposes realization (J.O. Shonessi, 2002). In order to cope with the given situation, it is necessary either to satisfy current requirements, or to surpass consumers' expectations for goods (and/or services) made (and/or provided) by the organization. Today the increasing number of constant consumers is a strategic aim for any organization which is possible to be achieved only under condition of continuous perfection of organizational activity quality. If the service representation doesn't correspond to the consumers' expectations they lose their interest to the service organization, if it does correspond or surpass their expectations they probably would readdress to service provider. For this reason the service organization should more precisely reveal consumers requirements and expectations, namely provider should constantly measure its service quality (A. P. Chelenkov).

«Quality of services» is considered as a set of service characteristics defining its ability to satisfy established or prospective consumer needs and requirements. In addition the quality level is defined by the degree to which the integral properties (attributes) of service, desired by the consumer, are revealed and included in service process, and the degree in which desirable attributes levels are perceived by the consumer as reached (R. Johnston, 1995).

Considering the importance of systematic approach to quality management in the organization, it is not enough just to know what types of activity are necessary to be engaged. Actions of the organization within the limits of each element of management should be identically oriented and should not cause internal contradictions.

For this purpose it is necessary to submit data elements within the limits of uniform consecutive process where each element logically follows the previous one.

The authors suggest to be guided by the following service quality management process model (fig.



1):

Fig. 1. Service Quality Management Process.

The offered quality management process model shows that interested parties – consumers - provide organizations with the requirements as the input data. At the quality planning stage the given requirements are estimated and transformed into the quality purposes of the organization in whole (the purpose hierarchy is constructed). In order to provide objects achievement service rendering standards are developed, the system of the specified standards documentation is accepted. The standardization of service rendering process corresponds to the quality maintenance, i.e. provides internal and external interested parties with confidence that the purposes are understandable and achievable. Considering such service feature as inseparability, it is important to notice that quality should be monitored simultaneously with service rendering process. It is impossible to return service after reception, therefore the executor should take care of the established requirements realization, and also immediately react to discrepancies occurrence. The authors have defined the consumer satisfaction with rendered service as an output of quality management process, since it is a quality

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management ultimate goal. All revealed discrepancies should be not only corrected, but also considered at the further service rendering by means of plans/purposes updating, that provides quality management process recurrence. Besides, it is important to consider consumer satisfaction with the rendered service at system transition to the second cycle and repeated realization of quality planning stage. The «quality improvement» element is expedient for being endured beyond the sequence frameworks, because quality improvement is a stage standing on higher level. Not current but future/expected consumer requirements would be considered as an input of quality improvement process. The definition of the future requirements should be constructed not simply on the basis of clients current requirements estimation, but on the basis of forecasting taking into account a current situation and possible changes. The improvement purposes also should be transformed to specifications, and realized within the service rendering process. The consumers expectations anticipation and new requirements formation are considered as an output of quality improvement process.

In practical sense, the priority direction definition in quality management should be based on consumer opinion research results with application of various methods of qualitative and quantitative estimation and the subsequent analysis of the received information.

From the point of view of service quality planning, the quality estimation means an estimation of quality degree, i.e. definition of the degree in which the service characteristic, desirable for the consumer, are revealed and included in service process, and the degree in which the desirable attributes levels are perceived by the consumer as reached. Besides, the estimation consists in comparison of individual indicators of estimated service type quality to corresponding indicators of the base sample – expected service.

The quality management process model presented in work has found practical application in an example of TCS organization activity. As a result of the given model application the necessity for working out of universal quality control system model for the organization has been revealed, which has allowed to carry out a high-grade TCS quality estimation.

The creation of innovation control system assumes the system approach application on the basis of coordination and integration of all kinds of activity of the organization. In this connection, there is a necessity of continuous perfection of the organizational processes presented in management models.

The information, data and the results received by means of ISQM application allowed to start the process directed on strengthening the competitive advantages of the TCS organization, through introduction of the innovations, satisfying the requirements of all interested parties.

The main task of innovation control system is in organization transfer from its present condition in the desirable future.

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It is expedient to present the Innovation Control system in the service organization as set of results of its various levels activity with purposeful influence on organizational processes as a whole, and with a view of new products (and/or the services) creation corresponding to the organization external and internal environment requirements (Fig. 2).

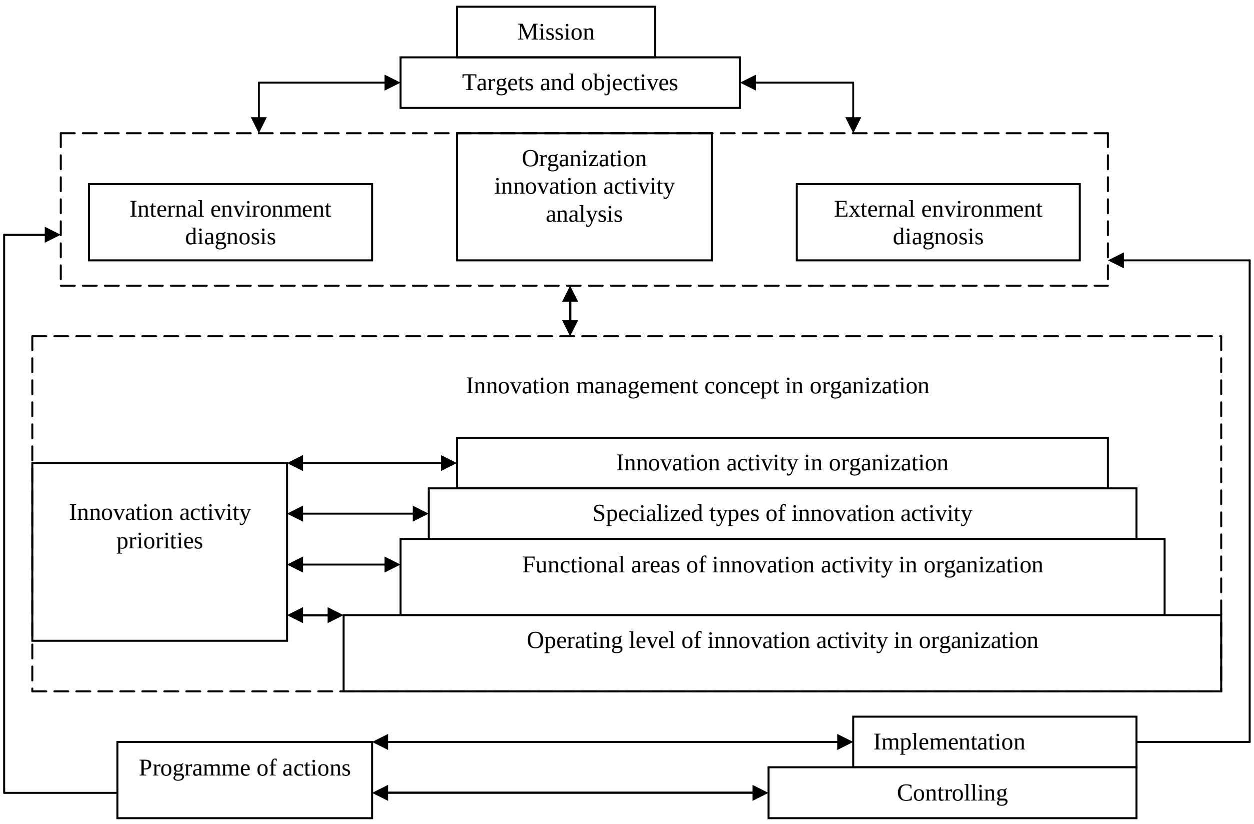

Fig. 2. The Innovation Control System at all organizational levels.

Organizational innovative activity is aimed at creation of the innovations which allows the company to get global competitive advantages shown in lower costs and distinctive quality.

Nowadays functioning of the TCS organizations occurs in dynamically developing branch that demands constant innovation introduction in their activity for the purpose of their competitiveness maintenance on the basis of continuous quality management process.

Telecommunication service is a product of operator activity including reception, transfer, signal and other types of information processing through telecommunication networks (V.I. Bitner, G.N. Popov, 2004).

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It is necessary to underline that telecommunication services have peculiar features and characteristics inherent from their economic nature and branch specialty.

It is accepted to understand telecommunication service quality as a «set of the specific parameters defined by network activity quality which characterize service consumer properties in terms, clear to users, and which do not depend on the assumptions concerning internal network structure» (B.I. Kurk, V.P. Shuvalov, 2003).

Specific features of telecommunication services providing are considered by authors at ISQM (Innovation System of Quality Management) model creation, which in turn, is targeted on TCS company purposes achievement in the field of quality by means of:
- setting the control values of TCS quality indicators;
- measuring of the reached results and their comparison with expected results;
- effective management decision making as a result of carrying out the analysis of managerial activity in the field of quality on the basis of the report containing recommendations for the company activity improvement, prepared due to the results of measuring and collecting quality indicators.

The essence of ISQM consists in calculation of actual values of service quality indicators, and in correlation of these indicators with standard values, while the large or small deviation shows a service quality level. Thus, ISQM defines the system of TCS quality indicators, and also an order and formulas of actual values of indicators calculation.

All quality indicators according to Gronroos model have been divided on two basic groups: technical and functional.

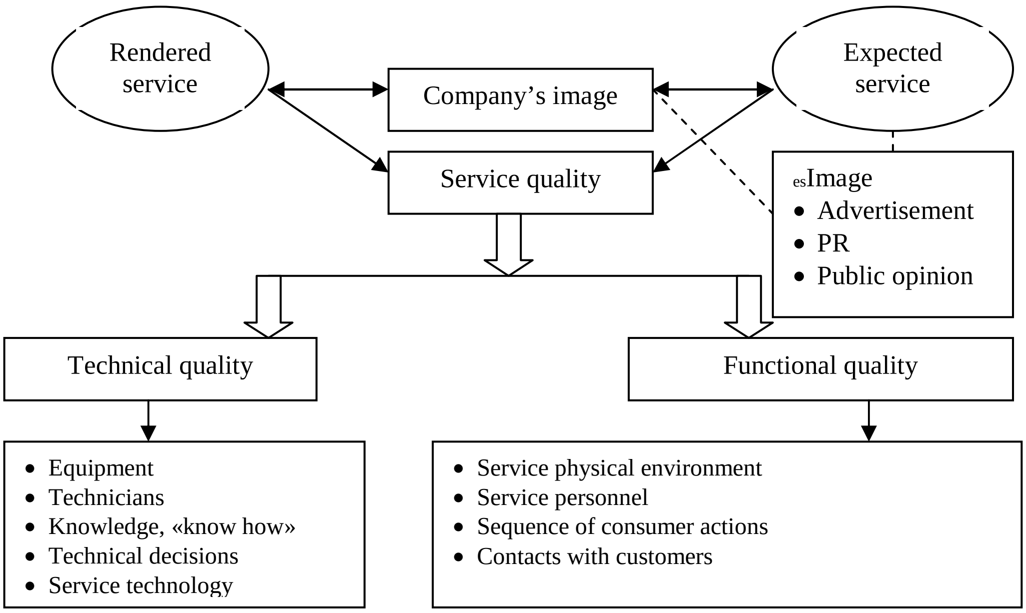

Fig. 3. Gronroos Quality Model (C. Gronroos, 1982).

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Gronroos defined technical quality as what consumers receive from interaction with service firm. The technical component of quality represents an invisible part for the consumer, containing the equipment, cars, tools, the premises, special knowledge, technologies, and also technicians which are necessary for service realization. Thus, technical indicators are used in estimating equipment work quality and quality of the TCS providing processes.

Functional quality explains how consumers receive services. Functional quality can be estimated objectively, hence it represents part of service quality which directly provides interaction with the client (service contacts). It is a visible component for the consumer. It concerns the service material/physical environment, the service personnel directly serving the consumer, consumer actions, and also the process of service rendering in which the consumer participates. Functional indicators allow considering consumer opinion on the service quality.

All criteria in the *Technical Indicators* group can be conditionally divided into five basic subgroups:

1. preliminary service quality, which underline actual maximum time for the answer about technical possibility from the service organization starting from the filing the TCS reception application by the user;

2. TCS connection quality, which underline an actual maximum subscriber waiting time for access granting starting from the moment of the TCS granting contract conclusion and-or payment for connection receipt from the subscriber;

3. Availability – quality of technical support service work organization;

4. Reliability – quantity of technological discipline infringements that has caused service downtime/lay-up;

5. The termination of service granting.

According to the ISQM the initial data for technical indicators of rendered service quality calculation are daily indicators of networks equipment self-diagnostics, the operative information given by operational administration service, quarterly and other forms of the reporting, the data of marketing researches received by means of telephone surveys, questionnaires fillings by users in places of service selling, the central repair bureau information, the technical support service data on users references.

Five groups of technical indicators in model are supplemented with two groups of functional indicators which assume the consumer opinion taking into account. The first group allows to estimate the degree of consumer satisfaction of given services, and another – quantity and the importance of consumers claims on unsatisfactory quality of telecommunication services.

The first group «The satisfaction degree» includes four basic indicators of users satisfaction degree:

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- of service quality within interaction with the personnel;
- of information and material maintenance quality;
- in technical parameters of service quality;
- of technical support service quality.

The second group estimates consumers claims and includes following indicators:

- a share of well-founded references on TCS quality in total amount of references,
- a share of answers to written references, given with control terms infringement in total amount of written references answers in a quarter,
- a degree of consumers' satisfaction of quality of company's work with subscribers claims.

The indicators described above are considered in calculation of the aggregated TCS quality indicator. The aggregated indicator value is in direct ratio with TCS quality degree (high value – high level, low value - low level). Accordingly, on the basis of aggregated indicator the quality of organization structural divisions activity assessment is carried out, which directly defines the size of employees awarding. The dependence of the size of the employees award on service quality indicators allows to stimulate workers to achieve the organization quality purposes that in turn raises a service quality degree and as a consequence increases consumer satisfaction.

Thus, the achieved research results have allowed to create systematic approach in quality management which begins with requirements to organization activity promoted by consumers. These requirements are the entrance data of service quality planning process. The data in the subsequent are transformed into the organizational quality purposes. The quality purposes afterwards are transformed into the organizational specifications, realized in providing services to the consumer with constant high quality maintenance, assuming continuous process perfection on the basis of a constant result estimation on the separate service process stages. As an output of service quality improvement process the consumer expectation anticipation and formation of new requirements are considered, that lead to the further organizational plans and purposes updating and provide the recurrence of quality management process. Thus, there is the system transition into the second cycle that assumes repeated realization of all basic stages, begging with planning and finishing with service quality improvement.

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LEGITIMACY AND REPUTATION: KEY FACTORS FOR CORPORATE SOCIAL STATUS AND COMPETITIVE ADVANTAGE

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Abstract

This paper aims at filling a gap we think exists in scientific literature with relation to the notions of legitimacy and reputation, in order to contribute to the discussion on the current role of companies, seen both as parts of a context and as vital systems that survive thanks to their competing skills.

This work is based on an effort that is both methodological and interdisciplinary, and takes into account Institutionalist and Neo-Institutionalist theories, the Viable System Approach, the Stakeholder Theory and Organizational Branding studies within the broader line of Corporate Branding.

The conceptual basis of our work is the assumption that both legitimacy and reputation can become 'institutions', ie conditions useful to acquire both social status and competitive advantage, that are key factors for corporate survival.

We shall try to clarify the notion that legitimacy is not, both in theory and in practice, synonymous with reputation, like many works suggest, but it is instead a condition that can support the company's social survival and the creation or the consolidation of its reputation, in turn an essential competitive factor.

We think that acknowledging the substantial difference between legitimacy and reputation becomes important when carrying out governance activities and when planning segmentation and positioning strategies, which are essential to corporate marketing and communications policies referred to the different stakeholders, either social or economic ones.

Keywords: legitimacy, isomorphism, reputation, corporate/organization branding

Literature Review – Introduction

Parsons (1956, 1960) and then Weber (1978) wrote about legitimacy, defining it as congruence towards laws, rules and social values. Afterwards, scholars of social theory, organization, and Resource-Based View Theory introduced the notion of legitimacy in their theories (Johnson et al., 2006; Ruef and Scott, 1998; Suchman, 1995; Salncik and Pfeffer, 1978).

In the late '70s pioneers of the Neo-Institutional approach, such as Meyer and Rowan (1977) and Zucker (1977), while analyzing the ability of an organization to achieve survival, wrote about the importance of expressing behavioral patterns conform to standards, rules and beliefs of the reference context, in addition to more established factors such as organizational efficiency. In fact from Meyer and Rowan onwards, all scholars belonging to the neo-institutional school argue that organizations that shape their behavior to moral rules and regulations of their reference context can be defined as *legitimate*.

This condition, within the constant search for contextual conformity and survival, may shield the company from any behavioral change (eg introduction of technological innovations) that could induce sanctionary reactions (eg strikes, etc.) in context members (Brown, 1998). The proper meaning of legitimacy, for the purpose of our study, is expressed by two scholars, namely Scott and Suchman.

Scott (1995, p. 45) argues that 'legitimacy is not a commodity to be possessed or exchanged but a condition reflecting cultural alignment, normative support, or consonance with relevant rules or laws'. Suchman (1995), moreover, defines legitimacy as 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions'.

This last definition marks our goal: legitimacy, as an expression of conformity to rules, norms and social beliefs is an essential factor both to the social acceptance of the company and to the implementation of reputation strategies towards the achievement of survival. These considerations highlight the existence of a gap in the line of studies regarding

corporate/brand reputation. According to this line of study, which includes Van Riel and Fombrun among its main authors, the corporate image that stakeholders develop as a result of communication activities carried out by the company, refers to the four domains (product, social, financial and employment) and it is aimed at facilitating the identification of the company among its many competitors (Van Riel and Fombrun, 2007, p. 41).

These assumptions consider therefore conformity of the company to rules, norms and cultural values of the reference context, as a behavior merely aimed at standing out in the competitive scenario. Such approach overlooks the fact that a behavior consistent with context requirements also allows the company to simply reach a perceptive positioning in constituences' minds (cognitive legitimacy) and not necessarily results in the elaboration of distinctive evaluations compared with other competitors, with a consequent effect on financial results (Suchman, 1995). There are in fact many place marketing studies saying that an organization, whether it complies or not to social expectations, plays a strong role within its territory up to the point of reinforcing or

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reducing its attractiveness (for example, companies that do not meet environmental standards make the area in which they operate perceived as highly polluted and therefore not economically, socially and/or touristically attractive) (Chiu, 2011).

This means that the company holds a dual (economic and institutional) behavioral approach towards its reference context.

Our work shows that in the first case, when the corporate behaviour is merely geared towards profit, reputation is only seen as the capacity to produce and/or cause results related to competitiveness.

The institutional approach, however, takes into account the role, either positive or negative, the company plays within its reference context, and therefore is also about how the company itself is seen by the community it either directly or indirectly interacts with (Rindova, et al., 2005).

Differences between legitimacy and reputation

Some researchers described the firm as either a *social* (Kogut and Zander, 1996) or a *discursive* (Tsoukas, 1996) community, or as a *community of practice* (Constant, 1987; Kreiner and Lee, 1999). In addition, scholars like Anderson et al. (2008), Araujo et al. (2008), and Kjellberg and Helgesson (2006) have developed suggestions that markets are co-created (performed) as actors engage in market and/or social practices (Storbacka and Nenonen, 2008).

Recurring actions, defined as social practices, undertaken by individuals and social organizations within a social system, make possible the establishment of relations between social players. Such relations will evolve towards the adaptation of social actors' respective activities, that will contribute to change within the reference contexts involved and will be in turn affected by them. (Giddens, 1984). This phenomenon marks a process of *reflexive self-regulation*, typical of social integration phenomena, expression of relational reciprocity among actors in a position of co-presence (Staber and Sydow, 2002).

Berger and Luckmann (1967) argued in fact that organizations eventually mirror their environment as they reflect socially assembled realities.

Constant search by the company for the state of consonance in the creation and/or maintenance of its relationship with the individual/consumer, and mutual adjustment/change of practices and behavior employed by social players, therefore express the existence of a continuous adaptation process in which the company, in order to survive under uncertain conditions, looks for opportunities to establish relations and interactions with the individual/consumer. In such a dynamic business scenario, the corporate system constantly looks for players with which to create and maintain lasting relations, through the development of a state first of consonance, and then of resonance, based on compliance with rules, regulations and social beliefs (classic examples are on

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the one hand the banking, tax and labor systems, and on the other hand the legal system in general). Consonance, as previously mentioned, is a condition that is achieved when the relevant players (corporate system and context members) identify a common language, while resonance marks a relational evolution in which the players create opportunities to reach common goals (Barile, 2006; Golinelli, 2010).

As to the relations between business and individual, the latter can hold the status of social recipient (constituence/audience) and/or of economic recipient (target/consumer) of corporate behavior. The individual expresses relational consensus following an assessment of corporate conduct. That is shaped in turn by corporate skills and abilities, which are expression of both conformity to social norms, values, rules and meanings operating within the reference social systems, and of

firm-specific features, aimed at making the individual/target discriminate between different companies, due to the perception of either tangible or intangible specific assets (Hirsch and Andrews, 1984; Parsons, 1960; Hawley, 1968; Tolbert and Zucker, 1996; Thornton, 2002).

The company that meets standards, rules and values can either present itself as a value tile within its context (industry, place, etc.) together with the other players (constituence/audience), or as a system whose survival goals are the result of differentiation towards its competitors (Golinelli, 2010).

At evaluation stage (awareness, evaluation, judgement), not necessarily aimed at purchasing, the individual/social actor can on the other hand consider the organization in question as acceptable, when the latter is compliant with legal and cultural norms and usages, that are typical of the social context shared by both (Rao, 1994).

Acceptance is achieved by a rational organization that complies with laws, rules and social practices so as to fit in the reference context, this way expressing its values, within an evaluation process carried out by the stakeholders involved. First institutionalist and then neo-institutionalist theories have defined such mimetic approach as *isomorphism* (Di Maggio and Powell, 1991; Di Maggio and Powell, 1983).

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Legitimacy and isomorphism

As to isomorphism, neo-institutionalist scholars define institutions as 'historical accretions of past practices and understandings acquire the moral and ontological status of taken-for-granted facts which, in turn, shape future interactions and negotiation' (Barley and Tolbert, 1997; DiMaggio and Powell, 1991; Jepperson, 1991; Leblebici et al., 1991; Meyer and Rowan, 1977; Zucker, 1977).

These scholars also maintain that the notion of isomorphism is the key to understand why companies that operate within the same institutional/social context take decisions and follow behavioral patterns that are usually very similar.

According to Meyer and Rowan (1977), the notion of isomorphism implies that:
- organizations should meet rationality criteria set by the institutional context in order to be considered efficient, to maximize legitimacy and resources, and their ability to survive;
- isomorphism processes are determined not only by the tendency to conform to the external environment, but also by the action of the environment itself that leads to the creation of new organizations consistent with the rational myths (institutionalized rules, norms, procedural ceremonials) it has produced;

- to every new myth that consolidates correspond new organizations, created to meet the needs the myth itself has produced (an example is that of followers, that is of companies that adopt imitative behaviour with relation to pioneer companies and/or market leaders);

- the best way to manage the conflict between internal rationality criteria and environmental pressure is to develop two parallel structures, one formal, consistent with myths and ceremonials, the other informal, aimed at gaining competitive advantage (Meyer and Rowan, 1977).

Rational behavior, that is aligned to normative and cultural expectations of social context members, especially individuals, gives the company social legitimacy, which could also support the creation and/or maintenance of a favorable reputation for the company itself and its members (employees, managers, consultants, owners, etc.) (see Fig. 1).

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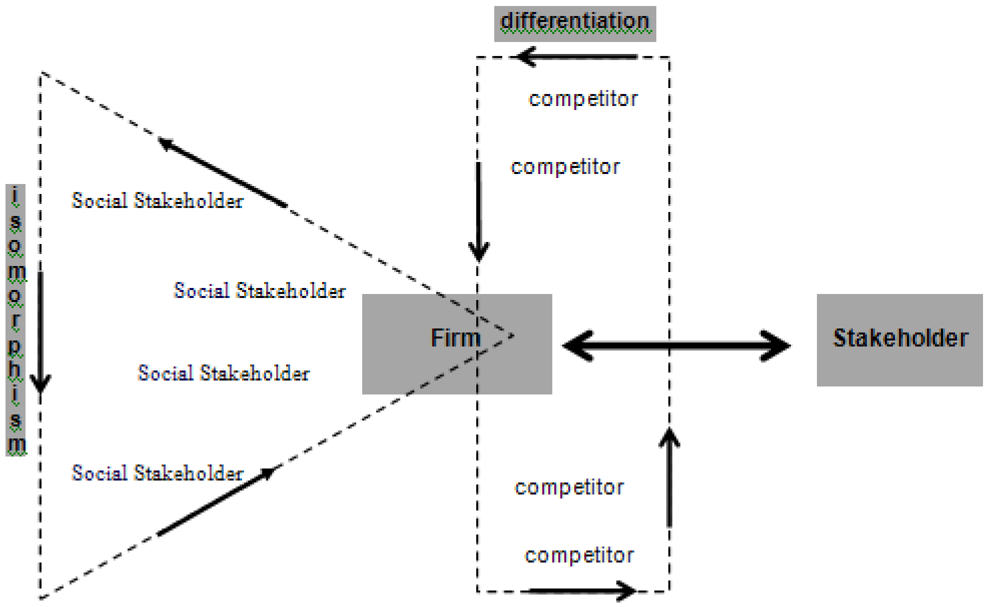

Fig 1: Isomorphism and differentiation

Isomorphism, therefore, tends to have different connotations depending on if it evolves according to cognitive (social beliefs), normative (existence of scarce resources whose acquisition is essential to survival) and/or coercive conditions (existence of rules essential to social and economic activity) (Leydesdorff, 2000; Di Maggio and Powell, 1983).

Cognitive or mimetic isomorphism (by adaptation or selection) is characterized by a spontaneous process of imitation and/or interpretation in which the interaction between actors and relevant messages is processed and turned into cultural meaning (Rao, 1994; Bridwell, and Mezias 2012).

In addition, the prevailing existence of rules and resources leads to the identification of other forms of isomorphism based on:

1. awareness of the importance of acquiring new know-how and practices in order to survive: Normative Isomorphism

2. pressure factors such as laws, regulations etc, that lead to compliance: Coercive Isomorphism (Golinelli, 2010)

Normative Isomorphism is found in company-context interactions in which is often present a greater ability, knowledge and/or possession of intangible assets (facility = ability/capacity), so as to define a condition of preeminence of one towards the other.

An example of this is the financial, economic and legal behavior that the company is forced to adopt in order to comply with European standards (Basel III, for instance, regarding conformity to evaluation standards set by the banking system).

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Coercive Isomorphism is also found in interactions between actors, every time it becomes necessary to identify rules and/or standards useful to determine how a social actor should behave in order to gain legitimation.

An example of this is the effort to adapt corporate behavior to environmental and social ethics or to accountability procedures, in order to get to a condition of congruence with the social actors involved and to achieve social survival.

The relationship between players and context can therefore be seen as a continuous and mutual adaptation that depends on environmental determinism and the ability of the company to influence its reference context. While the former affects and constrains corporate activities, the latter is intended to influence context entities and to establish the autonomy of the corporate system towards the surrounding reality (Golinelli, 2010).

Isomorphism therefore takes place when- or wherever a player conforms to the expectations of another player (partial expression of the suprasystem), this way developing a mutual cultural similarity.

Legitimacy and isomorphism, as described, display something quite useful to the development of this study: legitimacy is based on the notion of contextual homogenizing aimed at establishing conformity and congruence, and therefore non-rivality, against the entire reference context and/or members of it.

Reputation, being known and being known for something

If homogenizing/harmony are the predominant social conditions in the case of legitimacy, a different assumption can be made with relation to reputation (Baccarani and Golinelli, 1992). According to the most popular definition, reputation is the expression of corporate conduct aimed at differentiating the company against competitiors in the perception of the individual/consumer, supporting competitive rivalry.

Reputation is therefore that set of aggregate perceptions and evaluations, developed by stakeholders and induced by the process of *corporate branding*, that favor the company against its competitors (Fombrun, 1996).

Roberts and Dowling (2002) define corporate reputation as '... a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all its key constituents when compared to other leading rivals ...'.

For the purpose of our study we can therefore take into account the approaches, seemingly different, proposed by Fombrun and Rindova. Indeed, while the first holds that compliance with rules and social practices may be what actually favors the establishment of competitive differences between the compliant company and its competitors, Rindova, et al. (2005) argue that a perceived high quality of products means a greater business prominence in the minds of the stakeholders involved.

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It is therefore clear that the reputational state, also due to contextual conformism, tends to add value to the corporate brand, so to become the pivot of competitive evolution, allowing the company to offer products with higher (reputational) quality at higher prices.

Corporate branding planning aims therefore at:

- reducing information asymmetry with relation to target evaluation;
- reducing the degree of purchase risk faced by the individual/consumer;
- reducing unawareness, by the target, of corporate features that are beyond the products/services on offer (firm specific).

For the purpose of this work, it is important to consider the adoption of a symbolic approach which considers reputation as a conformity aimed at competitiveness, representing on the one hand its resources and dynamic, and on the other hand current results and future ambitions (Love and Kraatz, 2009; van den Bosch, de Jong, and Elving, 2005).

As part of the symbolic approach, the notion of conformity does not express only the semantic adaptability that the company displays towards the relational partner (individual/consumer/target) through communication activities in which the company itself shares the same language with the reference target, but also a cognitive, emotional and cultural adjustment in terms of structures and practices (Love and Kraatz, p.316).

Symbolic representation, aimed at conformity, can be therefore seen as the process of creation/ maintenance of corporate reputation, which covers both spontaneous and planned communication activities.
Spontaneous communication results from corporate behavior seen as expression of values, culture and corporate personality.

Planned communication (corporate identity) is on the other hand the symbolic representation (visual identity) of what the company is (corporate brand) and of what it offers in terms of values and culture (product brand) (Fombrun and van Riel, 2003).

Van Riel and Balmer (1997) define corporate identity as 'the way in which an organization's identity is revealed through behavior [and] communications, as well as through symbolism to internal and external audiences' (van Riel, and Balmer, 1997).

The *process of corporate identity* is that set of marketing and communication activities undertaken by the company in order to build favorable associations and positive reputation towards all stakeholders (Hatch, and Schultz, 2008).

The creation of a corporate identity, either of brand or of product, is aimed at achieving a high level of recognition by relevant stakeholders and at developing the ability to transfer value to them. Corporate identity has therefore the purpose of helping the individual/evaluator to develop his perceptions by reducing the risk linked to the purchase of company products.

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We can say that corporate brand is a 'script' that simplifies the decision-making process while associations, developed on the basis of expectations, are about cognition, affection, evaluations. Such evaluations (corporate image) represent the result of perception that stakeholders, as recipients of corporate behavior, develop either towards the distinctive/competitive capabilities of the company (with relation to finance, organization, production, sales, etc.) or towards the corporate essence compared to that of other companies (van Riel and Fombrun, 2007; Rindova et al, 2005; Barnett and Salomon, 2006).

Fombrun (1996) defines reputation as an asset that, according to the resource-based view (Barney, and Arikan, 2001), is expression of inimitable distinctive capabilities the company holds compared to its competitors, although it must be stressed that reputation is, unlike other assets, a resource stored in the mind (image) of the targets of corporate behavior/signals.

According to such principles the firm, both through planned and spontaneous marketing and communication activities, tends to create, maintain and develop its reputation on the basis of two main goals: being known and being known for something (Lange, Peggy and Dai, 2011). The *being known* goal is about stimulating and developing stakeholders' awareness in order to make the company/organization/brand prominent compared to its competitors, with relation to both social behavior and corporate essence, the latter considered in a holistic perspective.

Being known for something, on the other hand, is about the intention of the company to be perceived by stakeholders as different from its competitors, as a result of specific features of the product/service offered (see Fig. 2).

In order to achieve survival in increasingly competitive markets, the company needs to deliver features that allow observers/stakeholders to assess qualities and essence compared to its peers. Such assessment develops over time and with relation to skills and qualities expressed/ communicated by the organization towards a target audience, and set out to differentiate the company from other competitors.

The evocative/communicative process, therefore, brings clearly out the importance of a symbolic approach aimed at creating cultural consonance with the reference target/audience (Rao, 1994; Staw and Epstein, 2000; Love and Kraatz, 2009).

It is important to emphasize how the socially compliant behavior of the company has implications not only in terms of social legitimacy, but also in terms of reputation, and therefore of competitive differentiation.

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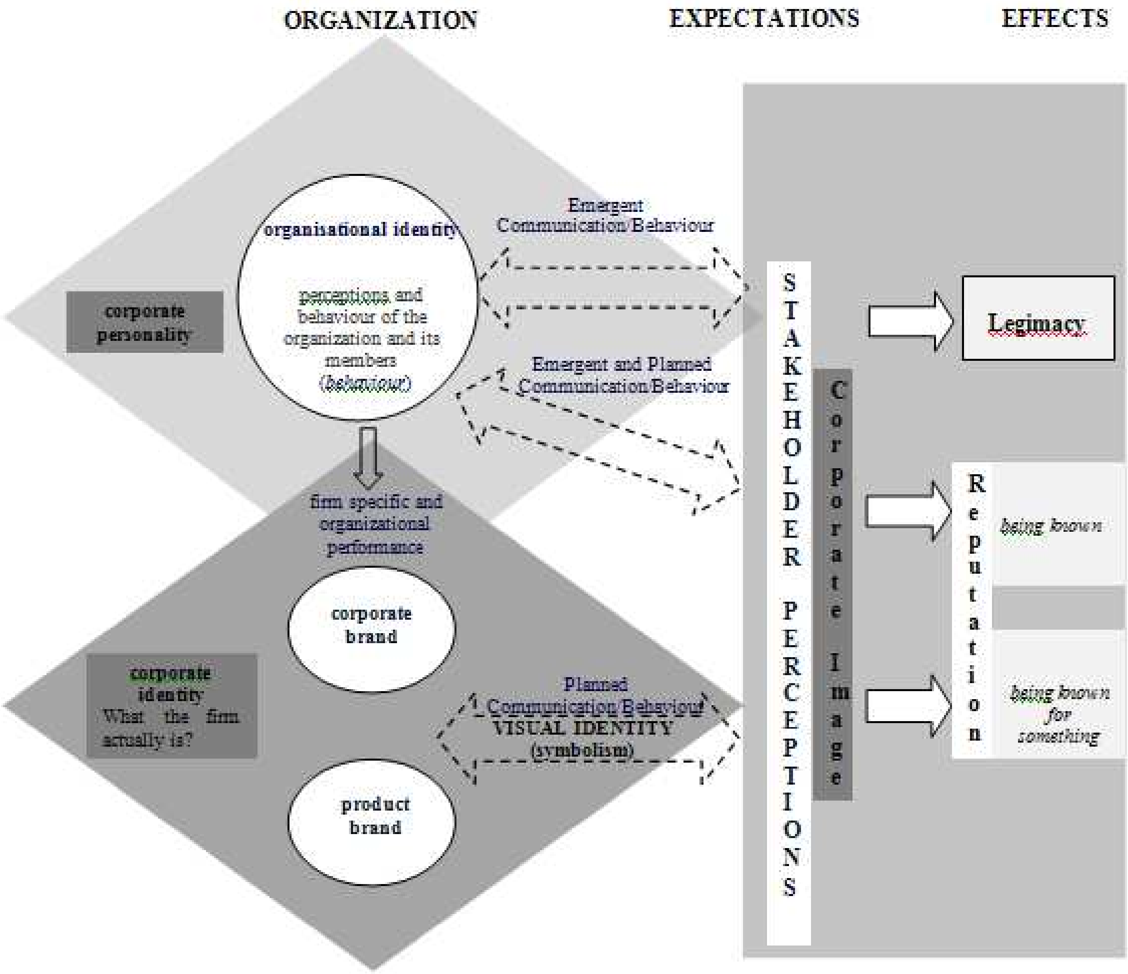

Fig 2: Reputation and Legitimation Process

The support that legitimacy provides to reputation takes place either when the company adopts a behavior aimed at purely economic ends, or when the stakeholder's behavior has evaluative purposes aimed at differentiating the company according to cultural and/or qualitative criteria. In this regard it is useful to refer to a study by Staw and Epstein (2000) that provides a compelling example of this proposed 'symbolic conformity mechanism'.

They found that firms enhanced their reputations by adopting various popular management practices (e.g. total quality management, employee empowerment, and teams). They argued that this effect occurred because these practices embodied the normative values and cultural beliefs of the audiences who *ascribed* the reputations.

In conclusion, conventional thinking holds that legitimacy is a requirement of all organizations whereas reputation is a desirable, but not essential property.

Conclusions and future research directions

In a historical moment like the current one, where internationalization strategies seem to be paramount to corporate survival, developing and maintaining a state of legitimacy in new markets/

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territories is a crucial step both to build idiosyncratic elements that enable competitiveness and to contribute to the enhancement of the contexts/territories in which the company becomes a value element.

This work aims to provide scholars with new insights for further research about the identification of corporate behavior affecting either legitimacy or reputation of the company, and its potential development.

As to practitioners, the main goal of the work is to stimulate a reflection on planning awareness, both strategic and operational, and on marketing and communication behavior, aimed at competitive challenge and at displaying the social role the company plays towards a territory/context/community. In the strategic phases of segmentation and positioning, it becomes therefore important to take into account both social and economic stakeholders, in order to better plan corporate behavior. We may conclude this work by emphasizing the mutual relationship existing between reputation and legitimacy.

Such relationship gives the company greater visibility and credibility, also against its competitors, when it behaves according to social expectations.

On the other hand, reputation tends to affect legitimacy when competitive behavior is carried out according to contextual standards, values and beliefs.

Finally, it is important to consider that the condition of legimacy may represent an added value to the context, either spatial or industrial, where the company operates. In order to stimulate future research, it may therefore be interesting to evaluate how perception within the reference contexts is affected by corporate legitimacy, in terms of either territorial or industrial development.

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Do Firms Manage their Social Network Reputation? An International Facebook and Twitter Study

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Abstract

Social networks are increasingly becoming a dynamic force in firm or brand reputation management. There are numerous examples of how single voices using viral systems have, in a matter of days, reached out to millions about poor service or flawed products. Managing social networks is, however, not without cost (financial or time) and thus it is reasonable to assume that larger companies would have better defined strategies for social network reputation management than smaller ones. These strategies would result in their responding more rapidly and in a more meaningful manner than medium or small companies. The research explores this assumption and offers an integrity management model to replace prior more company focused ones. The social network activities of 189 different size companies taken from the three major world stock markets representing North America (NYSE) and Asia (Hong Kong/HKSE and Japan/TSE) Results supported that larger companies are slightly more responsive but smaller firms seem to respond more quickly. Of interest was (1) the number of firms (of all sizes) without social media site, (2) The high number of firms that failed to respond to site postings and (3) the length of time it took firms to respond. Given the potential negative impacts to brand and company image there appears to be a pervasive lack strategic framework as most firms in the study were not monitoring, integrating or leveraging social media adequately.

Key words: social networks, reputation management, business continuity, company image management, brand image, Facebook, twitter

Introduction

The fears of companies, resulting from numerous actual incidences over the past few years, and the often disorganized responses to them, have resulted in an increased awareness of the need for corporate social network business continuity programs designed to mitigate threats to the brand and company image. Previously the major responsibility of business continuity programs was to assure that a firm could operate after facing supply chains disruptions, damaged manufacturing facilities or critical human resources disturbances. It is clear now that in order to mitigate threats monitoring and responding to the highly interactive social network environment must be added to the list of a firm's business continuity activities.

Recognition of the importance of brand and company image, how that image is established as well as factors that might influence the bond (to include word of mouth campaigns, catastrophic events and product recalls) is of increasing importance. This is highlighted by such recent events as: Nestlé's

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(2010) forced adoption of a new policy to identify companies linked to deforestation after a social network expose by Green Peace, the negative social network postings when hackers obtained personal information about millions of Sony's (2011) game station users, McDonald's (2012)Twitter ad campaign which backfired causing consumers to express anger through the social media site and Verizon wireless (2012) having to drop plans to charge a fee for customers paying their bill online after an online social network petition, which massed 100,000 signatures, called on individuals to drop Verizon. Each of these occurrences resulted in significant negative image effects and serves as a reminder that the nature of a consumer relationship, and how it is developed or maintained, can directly affect whether it will withstand short term disruptions. With the increasingly popularity of social online communities it is clear that companies need to take cautionary measures in protecting reputations and brands.

Prior to social networking (SN) consumer's word of mouth (WOM) complaints were normally isolated leaving the dissatisfied individual a single and ineffectual voice. With the aid of viral networks these single voices now have the ability to quickly garner the attention of millions. It is clear that in less than a decade advanced technologies have developed a global communications network that has redefined social interaction. As in society in general not all individuals are of equal influence. According to Brown and Duguid (2002) the ability to develop a social network reputation is essential if one is to exert influence or power. They believe that feedback from members of a social network is essential in the formation of a digital reputation and acts collectively in allowing others to assess if a person possess the knowledge, experience and expertise he/she claims to have and whether the creation of a strong tie with that individual would be advantageous.

The idea that social interaction can be a powerful marketing force is not new. Kozines (March, 2010 p.71) calls attention to Ryan and Gross's 1946 statement six decades ago that, "conversations among buyers were more important than marketing communications in adoption" as one of the first articles addressing consumer interaction. While firms have been striving to understand how to best use influencers of social networks to their marketing advantage it is important to additionally appreciate that these same powerful systems can turn against a firm and possess the ability to damage productivity and reputation. These instant communications of social networks have made it possible, due to widespread and low cost information, for rapid disruptions to a firm's image to occur for legitimate, or less than legitimate, reasons. Such disruptions can put long term pressures on the company-consumer relationship by altering consumer perceptions of the brand and/or the company. Firms that appreciate this new force can often avoid, or lessen, the impact of potential social network damage.

The importance of including social networks in an overall business strategy plan as well as in a firm's business continuity programs cannot be overstated. Consider that in 2008 sixty sixty-one percent of business stated that the emergence of blogs and social media had changed the way their organizations communicated. Only a year later this figure had risen to 73 percent (Wright, D. & Hinson, M. 2009).

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Many firms have social network programs (such as Facebook and/or Twitter) in place. Simply having a social network is, however, not sufficient as firms must be engaged with those sites through active monitoring, timely responses and contantly seeking ways to develop consumer trust and loyalty. One of the critical aspects in developing a social network relationship relates to trust. Invoke Solutions (2010), a social media research company, "found that the most trusted information was posted by people respondents knew, "people like them"—their friends, family and other online peers. Blog posts were more likely to be trusted "completely" than posts on Facebook and trust dropped off sharply when it came to Twitter. Twitter streams were trusted less than other media, even amongst friends" (MacAlpine, 2011). The result of a broad research project by Invoke Solutions also yielded several insights into the features that are important in developing trust. It is interesting to note that the most significant factor in developing trust was not the size of the reader base, or the how long a person had been engaged with the company's social media, but whether the site was open to dialog (meaning both positive and negative postings) and if there was high level quality of the content. This observation clearly highlights the importance of not just having a SN site but maintaining an active free environment for users while professionally monitoring and being responsive to site postings.

In the era of social media, marketing managers' control over the content, timing, and frequency of information is being severely eroded. In the new paradigm, information about products and services also originates in the marketplace. This information is based on the experiences of individual consumers and is channeled through the traditional promotion mix. However, various social media platforms, many of which are completely independent of the producing/sponsoring organization or its agents, magnify consumers' ability to communicate with one another. This ''groundswell'' (Li & Bernhoff, 2008) has profoundly affected all aspects of consumer behavior, and has bestowed consumers with power they have not previously experienced in the marketplace (p 360).

Consumers' ability to communicate with one another limits the amount of control companies have over the content and dissemination of information. Christopher Vollmer and Geoffrey Precourt (2008) underscore this in their book, Always On. As they note, in the era of social media ''consumers are in control; they have greater access to information and greater command over media consumption than ever before'' (p. 5).

In the new communications paradigm marketing managers need to recognize the power and critical nature of the discussions being carried on by consumers through social media. Of particular importance to corporations is that social media is perceived by consumers as a more trustworthy source of information regarding products and services than corporate-sponsored communications transmitted via the traditional elements of the promotion mix (Foux, 2006 p. 360)

Robert Kozines (March, 2010 p.71) in a historical perspective of word of mouth (WOM) research offers a series of models to explain how WOM, and the company reactions to it, have changed over time. In one the earlier WOM stages, The Organic Interconsumer Influence Model, Kozines notes that what is involved is action by one consumer to another without direct prompting, influence, or measurement by marketers. According to Kozines this stage was followed by the Linear Marketer Influence Model where marketers attempted to influence consumer WOM. It was during this stage that companies began to recognize the concept of the opinion leader and how these individuals could be used to sway consumer preferences.

The importance of including social networks in an overall business strategy plan as well as in a firm's business continuity programs cannot be overstated. Consider that in 2008 sixty sixty-one percent of business stated that the emergence of blogs and social media had changed the way their organizations communicated. Only a year later that figure had risen to 73 percent (Wright, D. and Hinson, M., 2009).

Network social groups obtain their power in the same manner that Inter-networks do. Robert Metcalf's law, designed to illustrate how connected computer networks on the LANS and WANS derived their value, is equally valuable in helping to appreciate how social network derive theirs. Metcalf's law states that the "value" or "power" of a network increases in proportion to the square of the number of nodes on the network (Hendler, J. and Golbeck, J. ,2007). This means that as the number of people in a network grows the value of the content they share grows exponentially. For example, if there are 10 people in a social net the power of the structure is 102 or 100 . If the number is, however, increased by simply one member the power now becomes 112 or 121. This explains why viral networks can be so dangerous by quickly engaging thousands of members/viewers. With this in mind it becomes clear that a firm must be proactive with social network communities establishing and maintaining strong communication ties. Jolly (2001) refers to company's choice of communication styles as either "dialogue" or "monologue" noting that companies traditionally have had a one way communication channel to their consumers. Companies now must establish interactive communications with the many social platforms consumers use to exchange ideas, cooperate and even to seek advice from consumers in what is considered as "social casting" (Jones, B.,Temperley, J. and Lima, J., 2009). Companies must have well-conceived online social network strategies that call for implicit collaboration between a company and the social network environment in order to shape and protect their image. In response to the recognition that social network members can significantly influence the value (positively or negatively) of a company brand or image it is essential that firms actively, and passively, monitor social sites in search of potential threats.

Mangold and Faulds (2009) have noted that the social media communication paradigm now requires many important changes in company attitudes and assumptions about how to manage communications strategy as consumers are responding to social network information in ways that directly influence all aspects of consumer behavior, from information acquisition to post-purchase expressions of satisfaction and dissatisfaction. This consumer to consumer interaction means that managers who have been accustomed to exerting a high level of control over company-to-consumer messages must move away from the old models toward understanding relationship building to influence the discussions taking place in the social media space.

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The need to influence social networks, to the degree possible, is highlighted within The Rising CCO III Shandwick (Jamison,G. & Gaines-Ross, L. 2010) an annual survey conducted by global executive search firm Spencer Stuart and global public relations firm Weber. The survey found that 34 percent of global chief corporate communications officers (CCOs) report that their companies experienced a social-media based reputation threat during the previous year. That firms have yet to incorporate social networks into their monitoring or business continuity plans is clear as the same report noted that approximately thirty-three percent of the companies stated that they were not prepared for managing social network reputational threats. This low figure raises questions as without a defined strategy firms remain vulnerable to attacks and can only operate in a defensive manner. The ease with which social networks seem to be dismissed as significant business threats, in spite of the clear examples, is troublesome.

While social networks pose threats to all size firms one would assume that large companies, by virtue of their resources, would be more prepared and active than smaller ones. A recent study (McCann, 2010) conducted by communications firm Burson-Marsteller noted “65% of the largest global companies have Twitter accounts, 54% had Facebook fan pages, and 50% have YouTube video channels” The study also noted that while financially significant for large firms a social media campaign can be “less than 1% of their overall marketing budget. The study while, discovering that a number of firms had accounts, did not investigate if the firms use these tools or if they were part of a organized communications strategy. It also left unanswered the fundamental questions of:

- Who monitors and controls the company social media sites?
- Who is responsible for observing what people are saying on the internet (chats, ratings and SNs)?
- How are posts noted and what are the guidelines for response?
- What is in place to monitor and act to influence reputation externally?
- What kind of information is collected and how/to whom is it forwarded for consideration?

The authors have developed a new model which expands the concepts of Kozines’ Linear Marketer Influence Model to reflect the new reality that consumers (prosumers) have assumed a power base which operates external to company influence. While Kozines recognizes the importance of monitoring the social environment his model continues to focus power to the firm. The authors believe that a model of company/brand reputation management needs to reflect the continual interplay and accumulation of the many consumer networks as a dynamic ongoing and interconnected process. In the Consumer Initiated Integrity Model the marketer recognizes the geometric growth and power of Web Word of Mouth (WWOM) and continually monitors Internet postings while providing a meaningful and engaged relationship with the consumer (Figure 1)

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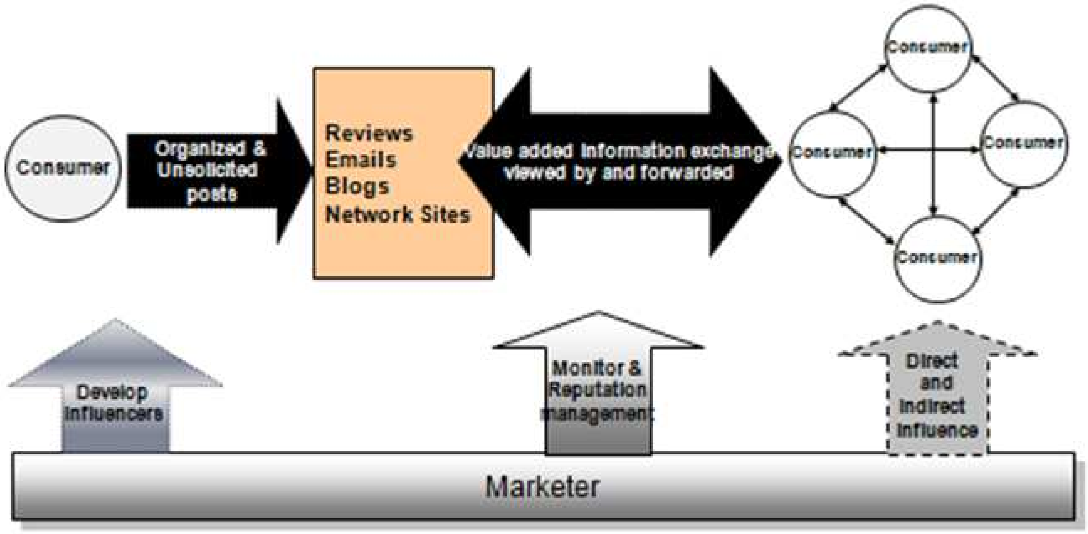

Figure 1 . Consumer Initiated Integrity Model

The research addressed the Consumer Initiated Integrity Model's aspect of social media monitoring by directly monitoring the responses to the postings to company sponsored social networks sites (Facebook and Twitter). The purpose of the research was to explore the tenets that: (1) large firms would have more active presence in social media activities than small firms, (2) that these large firms would recognize the importance of an ongoing vigilance of their sites and (3) large firms would be in a better position to respond in a more value added manner. Facebook and Twitter postings were made to company social media sites to determine:

- The if large, medium and small size firms have social network platforms in place
- If these SN platforms are monitored and responded to
- The length of time to took a firm to respond related to the firm's size

To this end the following three hypotheses were formulated:

Hypothesis 1: Large firms will respond to social network (Facebook and Twitter) posts at a greater frequency than small firms.

Hypothesis 2: Large firms will respond more quickly to social network posts (Facebook

and Twitter) than small firms.

Hypothesis 3: Large firms will post more positive category posts than small firms.

Research Methodology

Firms studied

One hundred and eighty-nine companies were selected in a random manner. 99 companies (33 each size) were from the Fortune 500, NSE midsize capitalization and the NSE small capitalization listings (2010 listings) and 45 companies (15 each size each stock market) were from listings (2010 listings) of

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the large capitalization, midsize capitalization, and small capitalization on the Hong Kong (HKEX) and Japanese (TSE) exchanges. A post was made to the Facebook page of each firm and to the firm's twitter site. Responses were classified into three categories: active, neutral and no response. Companies were considered to have responded to researchers actively if they not only replied to the post but also offered further help are considered "active response." If a firm responded with a value added contribution (e.g. "interesting research", "can I help more") the response was considered active. A firm that responded with simply doing what was requested (note the posting) was considered neutral and firms that failed to respond were classified, no response.

The time of the posting was noted as was the time of a response (if there was one). The Facebook site and the Twitter site of each firm was monitored every five minutes for the first hour and then on a systematic basis for a total period of seventy-five hours. The posting on each company site was standard. The posting on Facebook was "Boston University Research Project in Reputation Management. Could the company Facebook site manager respond to let us know this post was seen. Thank you." and the posting to the Twitter site was "Boston University Research Project in Reputation Management. Could you respond to let us know this post was seen. Thank you.' The Twitter posting was slightly different than the Facebook posting due to the limit of 140 characters.

	NYSE Facebook Ownership		*TSE Facebook Ownership*		*HKEX Facebook Ownership*	
L	*92 (92%)*	*30%*	*19 (37%)*	*33%*	*2 (4%)*	*2%*
		30 out of 99		*15 out of 45*		*1 out of 45*
M		*33%*		*4%*		*2%*
		33 out of 99		*2 out of 45*		*1 out of 45*
S		*29%*		*0%*		*0%*
		29 out of 99		*0 out of 45*		*0 out of 45*
N.F	*7 (8%)*	*7%*	*28 (63%)*	*63%*	*43 (96%)*	*96%*
		7 out of 99		*28 out of 45*		*43 out of 45*

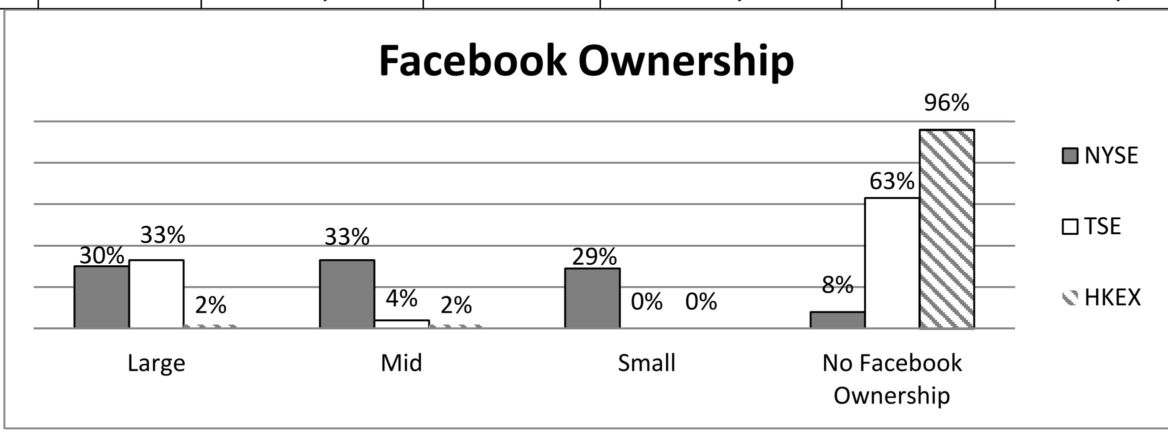

Figure 2. Facebook Ownership by Exchange

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Results (By Country Index)

Figure 2 is a demonstration of 99 firms listed on the NYSE, 45 firms listed on the TSE and 45 firms listed on the HKEX. The percentage of total Facebook ownership is as follows: 92% (92 out of 99) of firms listed on the NYSE, 37% (19 out of 45) of firms listed on the TSE and 4% (2 out of 45) of firms listed on the HKEX. As for large sized firms listed on the three different stock markets with Facebook ownership, 30% (30 out of 99) of large sized firms listed on the NYSE, 33% (15 out of 45) of large sized firms listed on the TSE and 2% (1 out of 45) of large sized firms listed on the HKEX have Facebook ownership. As for medium sized firms listed on the three different stock markets, 33% (33 out of 99) of medium sized firms listed on the NYSE, 4% (2 out of 45) of medium sized firms listed on the TSE and 2% (1 out of 45) of medium sized firms listed on the HKEX have Facebook ownership. As for small sized firms listed on the three different stock markets, 29% (29 out of 99) of small sized firms listed on the NYSE, 0% (0 out of 45) of small sized firms listed on the TSE and 0% (0 out of 45) of small sized firms listed on the HKEX have Facebook ownership. Firms listed on the three stock markets with no Facebook ownership are as follows: 8% (7 out of 99) of firms listed on the NYSE, 63% (28 out of 45) of firms listed on the TSE and 96% (43 out of 45) of firms listed on the HKEX don't have Facebook ownership.

	NYSE Twitter Ownership		*TSE Twitter Ownership*		*HKEX Twitter Ownership*	
L	*90 (90%)*	*32%*	*16 (35%)*	*31%*	*0 (0%)*	*0%*
		32 out of 99		*14 out of 45*		*0 out of 45*
M		*30%*		*2%*		*0%*
		30 out of 99		*1 out of 45*		*0 out of 45*
S		*28%*		*2%*		*0%*
		28 out of 99		*1 out of 45*		*0 out of 45*
N.T.	*9 (10%)*	*10%*	*29 (65%)*	*65%*	*45 (100%)*	*100%*
		9 out of 99		*29 out of 45*		*45 out of 45*

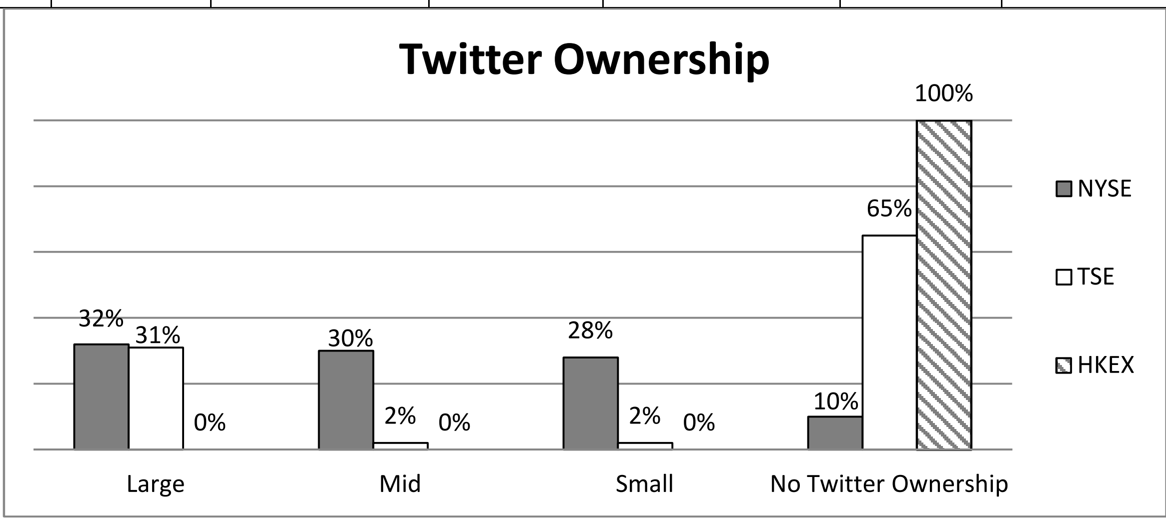

Figure 3. Twittership by Exchange: NYSE, TSE, HKEX (Large: L, Medium: M, Small: S, No Twitter: N.T)

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Figure 3 provides information relating to the Twitter ownership of 99 firms listed on the NYSE, 45 firms listed on the TSE and 45 firms listed on the HKEX. The percentage of Twitter ownership is as follows: 90% (90 out of 99) of firms listed on the NYSE, 35% (16 out of 45) of firms listed on the TSE and 0% (0 out of 45) of firms listed on the HKEX have Twitter ownership. As for large sized firms listed on the three different stock markets with Twitter ownership, 32% (32 out of 99) of large firms listed on the NYSE, 31% (14 out of 45) of large firms listed on the TSE and 0% (0 out of 45) of large firms listed on the HKEX have Twitter ownership. As for medium sized firms, 30% (30 out of 99) of medium sized firms listed on the NYSE, 2% (1 out of 45) of medium sized firms listed on the TSE and 0% (0 out of 45) of medium sized firms listed on the HKEX have Twitter ownership. As for small sized firms, 28% (28 out of 99) of small sized firms listed on the NYSE, 2% (1 out of 45) of small sized firms listed on the TSE and 0% (0 out of 45) of small sized firms listed on the HKEX have Twitter ownership. Firms listed on the three stock market with no Twitter ownership are as follows: 10% (9 out of 99) of firms listed on the NYSE, 65% (29 out of 45) of firms listed on the TSE and 100% (45 out of 45) of firms listed on the HKEX.

	NYSE Facebook Response		*TSE Facebook Response*		*HKEX Facebook Response*	
L	*26 (29%)*	*33%*	*3 (18%)*	*20%*	*1 (50%)*	*0%*
		10 out of 30		*3 out of 15*		*0 out of 1*
M		*30%*		*0%*		*100%*
		10 out of 33		*0 out of 2*		*1 out of 1*
S		*21%*		*0%*		*0%*
		6 out of 29		*0 out of 0*		*0 out of 0*
N.R.	*66 (71%)*	*71%*	*14 (82%)*	*82%*	*1 (50%)*	*50%*
		66 out of 92		*14 out of 17*		*1 out of 2*

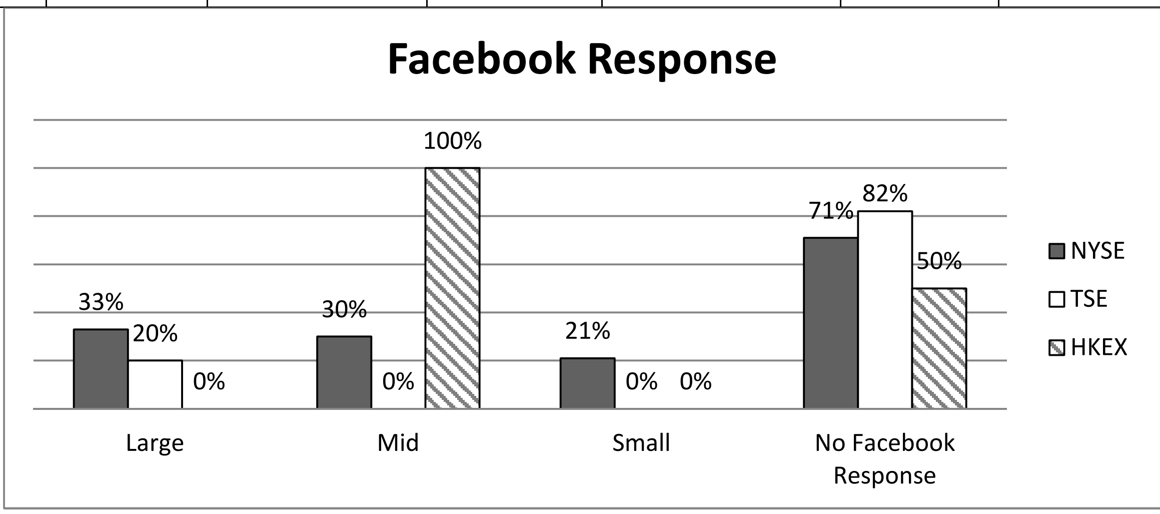

Figure 4. Total Facebook Response: NYSE, TSE, HKEX (Large: L, Medium: M, Small: S, No Response: N.R.)

Figure 4 is a depicts the Facebook responses of firms listed on the NYSE, TSE and HKEX.Out of the 92 firms listed on the NYSE with Facebook ownership, 29% (26 out of 92) responded while 71% (66 out of 92) did not respond. Out of the 17 firms listed on the TSE wi h Facebook ownership, 18% (3 out of 17) responded while 82% (14 out of 17) did not respond. Out of the 2 firms listed on the HKEX with

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Facebook ownership, 50% (1 out of 2) responded. As for large sized firms listed on the three different stock markets, responses to Facebook were as follows: 33% (10 out of 30) of large sized firms listed on the NYSE, 20% (3 out of 15) of large sized firms listed on the TSE and 0% (0 out of 1) of large sized firms listed on the HKEX responded. As for medium sized firms listed on the three different stock markets, responses to Facebook were as follows: 30% (10 out of 33) of medium sized firms listed on the NYSE, 0% (0 out of 2) of medium sized firms listed on the TSE and 100% (1 out of 1) of medium sized firms listed on the HKEX responded. As for small sized firms listed on the three different stock market, responses were as follows: 21% (6 out of 29) of small sized firms listed on the NYSE, 0% (0 out of 0) of small sized firms listed on the TSE and 0% (0 out of 0) of small sized frims listed on the HKEX responded.

Figure . Facebook Responses

	NYSE Twitter Response		*TSE Twitter Response*	
L	*39 (44%)*	*47%*	*4 (25%)*	*29%*
		15 out of 32		*4 out of 14*
M		*50%*		*0%*
		15 out of 30		*0 out of 1*
S		*32%*		*0%*
		9 out of 28		*0 out of 1*
N.R.	*51 (56%)*	*56%*	*12 (75%)*	*75%*
		51 out of 90		*12 out of 16*

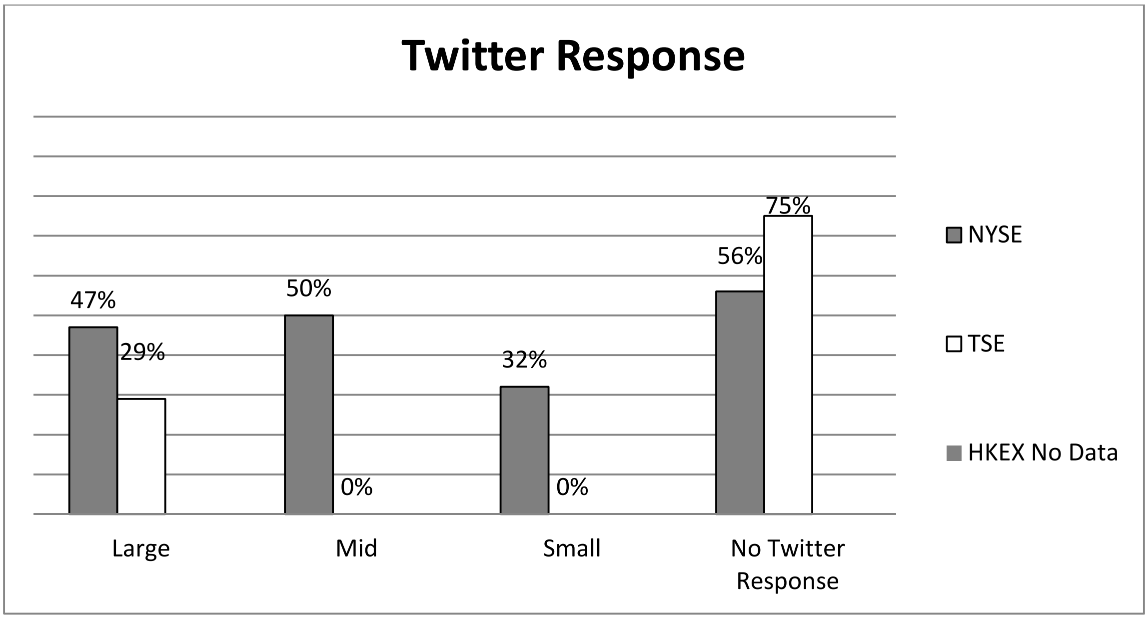

Figure 5. Twitter response: NYSE, TSE, HKEX (Large: L, Medium: M, Small: S, No Response: N.R.) (HKEX has no Data / No Twitter ownership)

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Figure 5 demonstrates the total Twitter responses of the firms listed on the three different stock markets. Out of the 90 firms listed on the NYSE with Twitter ownership, 44% (39 out of 90) responded while 56% (51 out of 90) did not respond. Out of the 16 firms listed on the TSE with Twitter ownership, 25% (4 out of 16) responded while 75% (12 out of 16) did not. Firms listed on the HKEX had no Twitter response because they had no Twitter pages. As for large sized firms listed on the three different stock markets, responses to Twitter were as follows: 47% (15 out of 32) of large sized firms listed on the NYSE responded while 29% (4 out of 14) of large sized firms listed on the TSE did. As for medium sized firms, responses to Twitter were as follows: 50% (15 out of 30) of medium sized firms listed on the NYSE responded while 0% (0 out of 1) of medium sized firms listed on the TSE. As for small firms, responses to Twitter were as follows: 32% (9 out of 28) of small firms listed on the NYSE responded while 0% (0 out of 1) of small firms listed on the TSE did.

	NYSE Attitudes of Tonality			*TSE Attitudes of Tonality*			*HKEX Attitudes of Tonality*		
	Active	*Neutral*	*No Response*	*Active*	*Neutral*	*No Response*	*Active*	*Neutral*	*No Response*
L	*45%*	*35%*	*32%*	*100%*	*100%*	*85%*	*0%*	*0%*	*100%*
	10 out of 22	*15 out of 43*	*37 out of 117*	*1 out of 1*	*6 out of 6*	*22 out of 26*	_	*0 out of 1*	*1 out of 1*
M	*55%*	*30%*	*32%*	*0%*	*0%*	*12%*	*0%*	*100%*	*0%*
	12 out of 22	*13 out of 43*	*38 out of 117*	*0 out of 1*	*0 out of 6*	*3 out of 26*	–	*1 out of 1*	*0 out of 1*
S	*0%*	*35%*	*36%*	*0%*	*0%*	*4%*	*100%*	*0%*	*0%*
	0 out of 22	*15 out of 43*	*42 out of 117*	*0 out of 1*	*0 out of 6*	*1 out of 26*	_	*0 out of 1*	*0 out of 1*

Figure 6 presents the Attitudes of Tonality for the firms listed on the 3 different stock markets. . As for Large sized Firms, attitudes of tonality were as follows: NYSE large sized firms were, 45% (10 out of 22) active, 35% (15 out of 43) neutral and 32% (37 out of 117) had no response. TSE large sized firms were, 100% (1 out of 1) active, 100% (6 out of 6) neutral and 85% (22 out of 26) had no response. HKEX large sized firms were, 0% (0 out of 1) active, 0% (0 out of 1) neutral and 100% (1 out of 1) had no response. As for medium sized firms, attitudes of tonality were as follows: NYSE medium sized firms were 55% (12 out of 22) active, 30% (13 out of 43) neutral and 32% (38 out of 117) did not respond. TSE medium sized firms were, 0% (0 out of 1) active, 0% (0 out of 6) neutral and 12% (3 out of 26) had no response. HKEX medium sized firms were,0% (0 out of 1) active, 100% 91 out of 1) neutral and 0% (0 out of 1) had no response. As for small sized firms, attitudes of tonality were as follows: NYSE small sized firms were 0% (0 out of 22) active, 35% (15 out of 43) neutral and 36% (42 out of 117) had no response. TSE small sized firms were, 0% (0 out of 1) active, 0% (0 out of 6) neutral and 4% (1 out of 26) did not respond. HKEX small sized firms were, 100% (1 out of 1) active, 0% (0 out of 1) neutral and 0% (0 out of 1) had no response.

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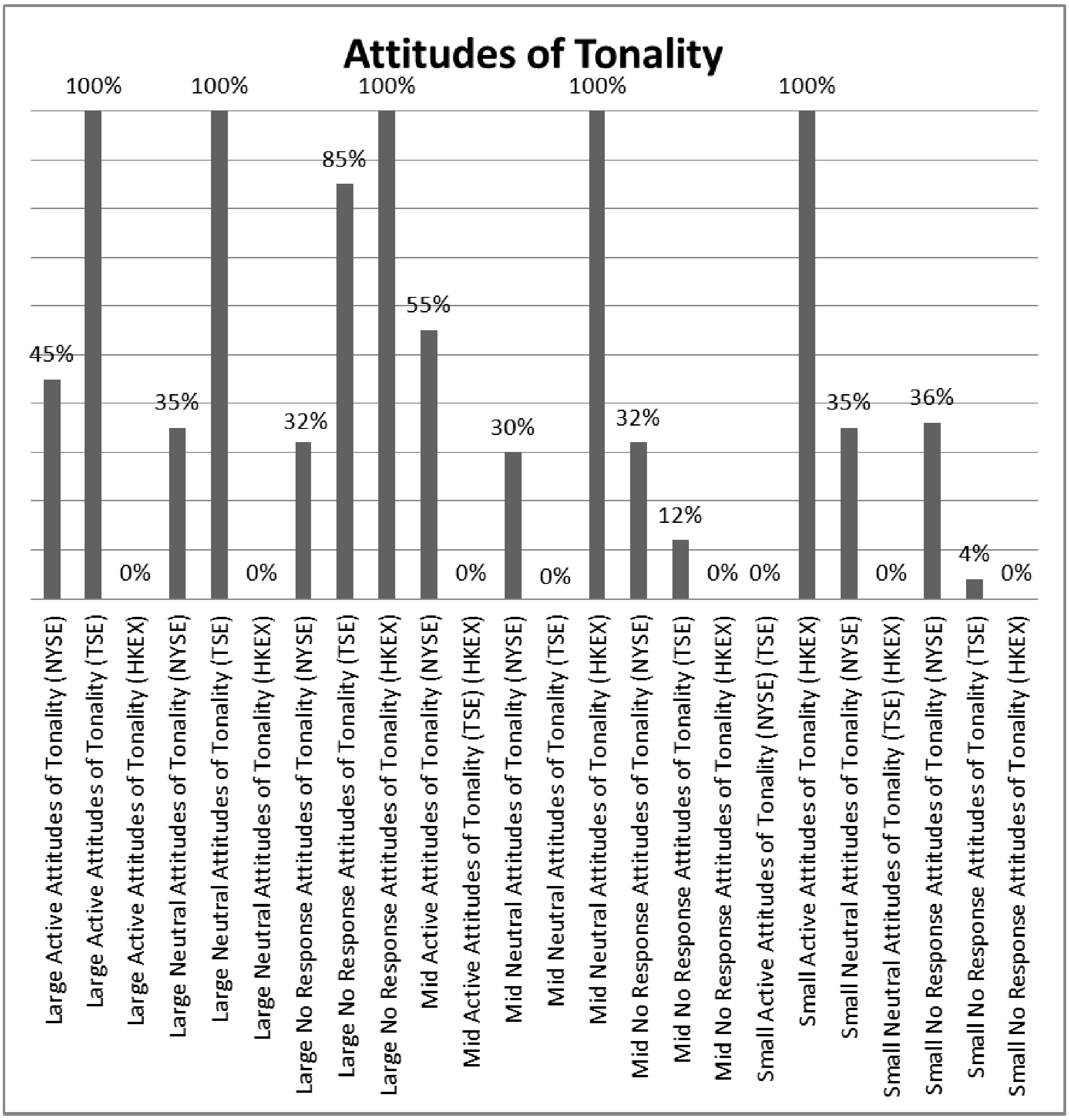

Figure 6. Attitudes of Tonality: NYSE, TSE, HKEX (Large: L, Medium: M, Small: S)

Figure 7 demonstrates the average time of reply for firms listed on the three different stock markets. As for firms listed on the NYSE and TSE, the average time to reply was as follows: 10 large firms listed on the NYSE replied in 7.66 hrs while 3 large firms listed on the TSE replied in 3.56 hrs. As for medium firms listed on the NYSE and the HKEX, 10 medium sized firms listed on the NYSE replied in 3.53 hrs while 1 medium sized firms listed on the HKEX replied in 2.0 hrs. 6 small sized firms listed on the NYSE replied in 2.80 hrs. As for Twitter responses for firms listed on the NYSE and TSE, responses were as follows: 15 large sized firms listed on the NYSE replied in 8.71 hrs while 4 large sized firms listed on the TSE replied in 0.50 hrs. As for Twitter responses for medium sized firms listed on the NYSE, 15 medium sized firms replied in 5.53 hrs. 9 small sized firms listed on the NYSE replied in 1.27 hrs.

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	NYSE Average Time of Reply		TSE Average Time of Reply		HKEX Average Time of Reply	
	Facebook hr	*Twitter hr*	*Facebook hr*	*Twitter hr*	*Facebook hr*	*Twitter hr*
L	*7.66 (10)*	*8.71 (15)*	*3.56 (3)*	*0.50 (4)*	_	_
M	*3.53 (10)*	*5.53 (15)*	_	_	*2.0 (1)*	_
S	*2.80 (6)*	*1.27 (9)*	_	_	_	_

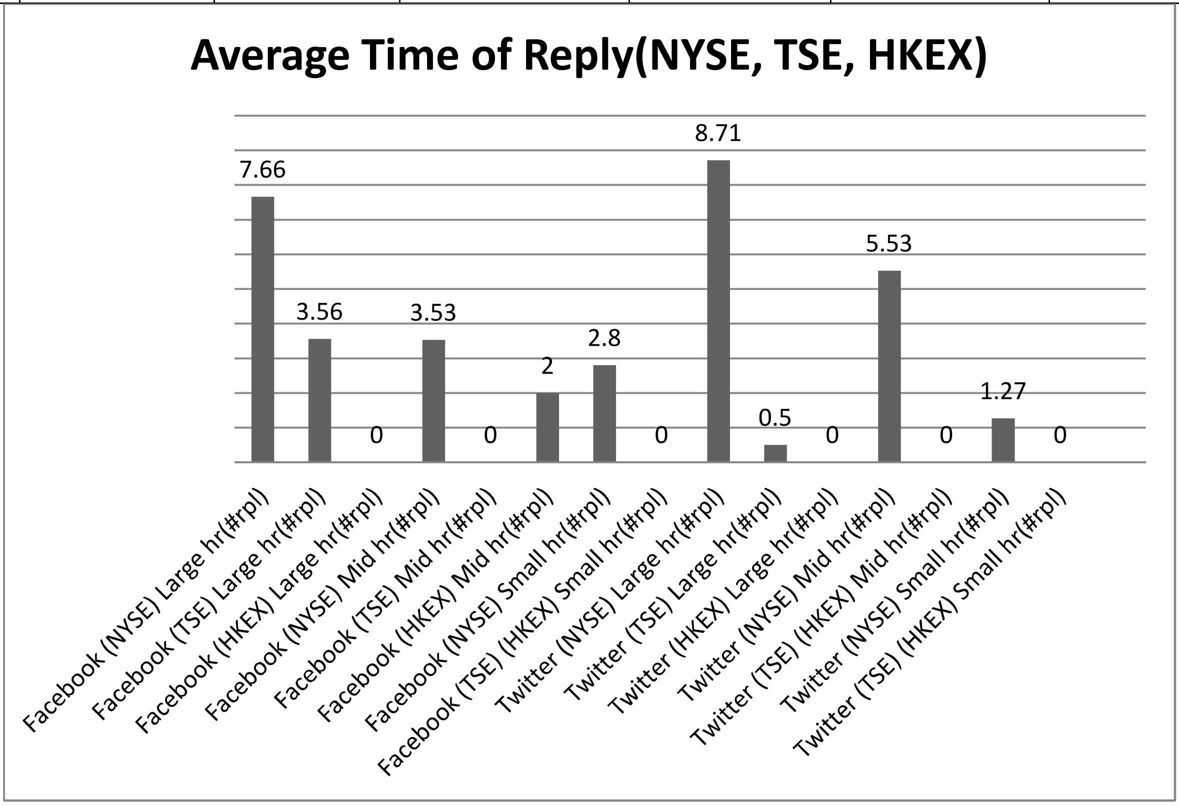

Figure 7. Average Time to Reply: NYSE, TSE, HKEX (Large: L, Medium: M, Small: S)

Conclusions

The purpose of the research was to investigate the social media sites of three different size firms and how the management of the sites could relate to maintaining a company's online reputation. It is interesting that in some of the areas investigated companies behaved in a similar manner regardless of size and in some areas there was a difference. In contrast to Twitter which remained open (when available) to posts by consumers, almost all companies imposed controls on their Facebook pages. For an individual to post a comment on most the company sites surveyed one first had to "like" or become a "fan" of the company. A significant number of companies would not allow individuals to comment directly on their home Facebook pages and when they did the

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comments normally went to a second level page. Most of the small and medium cap companies acted the same as Fortune 500 companies by not allowing individuals' comments to be posted on their Facebook pages. In our investigation, regardless of capitalization size, companies listed on NYSE were dominant in number of Facebook and Twitter page ownership. The majority of NYSE firms had Facebook (92% F) and Twitter (90%T) sites. This number, however, fell significantly when reviewing Japanese ownership (36%F /35%T) FSE) and became essentially nonexistent with firms on the HKEX (only 4%F /0%T). This indicates that while a true international phenomenon and the majority of Facebook members outside the United State worldwide companies, unlike their consumers, have not embraced social networks.

The first hypothesis that large firms would respond to social networks at a greater frequency then small firms was supported. The relative size of the firm was related to the frequency of response as large firms had the most responses, followed by medium with small firms having the fewest. United States firms had the greatest number of responses in each of the three categories and only large firms on the TSE responded (HKEX is discounted as only two firms of the 45 questioned responded).

The second hypothesis that large firms will respond more quickly to social network posts (Facebook and Twitter) than small firms was not confirmed and the opposite was observed. It is interesting that when small firms responded they did so quicker than large firms and tended to use Twitter. This finding is limited to NYSE firms as only large firms responded on the TSE and only medium ones on the HKEX. Companies respond faster on their twitter pages than they did on their Facebook pages. The reason could be that the twitter instant-message environment encourages more immediate communication. The use of Twitter might account for the lack of value added responses as fewer characters (140) are available to respond. It might also point to the use of mobile devices for small firm monitoring which makes longer messages more cumbersome and thus less likely.

The third hypothesis, that large firms will post more positive category posts than small firms was supported as the large size firms of the NYSE and TSE both had more positive responses than the small firms (the HKEX discounted due to only one response). While small companies tended to respond quicker than large companies, the quality of their response (judged by tonality) was less. Given that no small firm provided anything other than a neutral response (or no response) might further indicate that small size firms may not be devoting resources to maintain a professionally trained staff so as to quickly and personally reply to social network posts. In the United States (NYSE) there was a higher percent of active mid-size company responses. One might wonder if medium firms are better positioned for social network activities (responses) having more funds to devote to social network activities than small firms but are, at the same time, not as encumbered with massive slow moving bureaucratic processes as the larger ones.

The results indicate that while the business world is aware of the power that social networks can yield, companies of all sizes remain naïve as to how to establish truly interactive consumer

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relationships. While this may appear surprising, the general lack of appreciation for the increasing importance of social networks is not new. Murphy (2006) found an overall lack of either presence or response to sites pointing out that some traditional marketers believe that they have nothing to gain from customer empowerment. Sing (2008) provided some insight into why many firms have taken a rather passive approach to social networks stating that ,"Marketers have been accustomed to telling the customer the message they want the customer to hear, rather than the message the customer truly cares about" (Singh, et. al, 2008 pp. 282). Without providing for consumer interaction one could question if most company social network sites are not merely extensions of the firm's static webpages. It seems that while many firms in Japan and the United States have recognized the need to establish social network sites most, however, do not know what to do with them.

Generally there appears to be a lack of a strategic framework as most firms were not monitoring, engaged, integrating and leveraging social media adequately. Mangold and Faulds (2009) have noted that the social media communication paradigm now requires many important changes in company attitudes and assumptions about how to manage communications strategy as consumers are responding to social network information in ways that directly influence all aspects of consumer behavior, from information acquisition to post-purchase expressions of satisfaction and dissatisfaction. Unfortunately it appears that few firms have seriously responded to Jones (2009) observation that firms need to have well-conceived online social network strategies that call for implicit collaboration between a company and the social network environment in order to shape and protect their image.

The study clearly points out that while growing globally each year companies have yet to incorporate social networks into their monitoring or business continuity plans. An unexpected finding was the number of non-monitored social networks and that, regardless of category; few firms were actively involved with their own social media to the extent one would expect. An overall observation was that firms appear unclear how to properly use social networks as a significant number did not respond to postings on the firm's Facebook or Twitter sites. The high non response rate for both small and large firms indicates that all size firms have yet to seriously focus on the use of social networks as a part of an overall integrated communications strategy. This is a worrisome finding given importance of social networks to the development and maintenance of a brand or company image.

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MONEY KNOWLEDGE AMONG MALAY CHILDREN: AN EXPLORATORY STUDY IN MALAYSIA

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Abstract

The purpose of this paper is to explore children awareness of currency notes and coins, source of money knowledge among children and to investigate the knowledge of money among children.

Based on structured interview of 53 children from IIUM Educare, descriptive analysis was conducted on items designed to measure children's awareness towards money including source of money knowledge for children.

Results indicate that children recognize currency notes more accurately as compare to coins. As well as for many children mothers are main source of money knowledge. Through this paper it is also revealed that children actively participate in grocery shopping.

These results are important for parents and marketers. As parents are key players in the life of children and they can be considered as an effective source of knowledge. The role of children is also evident from this research in grocery shopping.

Keywords: Education, money, knowledge, children, parents, Malaysia

Introduction

The sixth internationally agreed Education Goals adopted in Dakar Framework for Action 2000-2015 aim to meet the learning needs of all children, youth and adults by 2015:

Goal 1: Expand early childhood care

Goal 2: Provide free and compulsory primary education for all

Goal 3: Promote learning, life skills for young people and adult

Goal 4: Increase adult literacy by 50 %

Goal 5: Achieve gender parity by 50 %

Goal 6: Improve the quality of education

(World Education Forum Dakar, Senegal, 2000)

It can be inferred from above mentioned goals that during 2000-2015 main emphasis will be on improving literacy rate. But this increase in literacy rate will not be at the cost of quality as it is mentioned in Goal 6. Under the light of Goal 1 and Goal 2 educating kids at a very early stage is of primary objective.

Islam also elaborates importance of education through Quran and *Sunnah*. And this is also evident from the life of Prophet Muhammad (Peace be upon him) and *Sahabah* that education is integral for every society. The very first revealed word of Holy Quran was "Iqra" which means READ! Seek knowledge! Educate yourselves! Be educated. (Holy Quran, Surau 96)

This importance of education is very well understood by western world and according to Melinda Gates (2009) in an interview "A great education sets a kid on a really fantastic. But the public school system serves only about one-third of kids really well. We know how much we both benefited from an incredible education. That's something every kid ought to have."

Quality Education

If one limits education only to get children into school then it is only half of the battle. The rest is getting quality education and one that fits in his/her life and interests and aspirations as well as those of his/her families (Jensen et. al. 2008).

But as this is era of globalization so the role of information technology and media is enormous nowadays so at elementary level, educating children about money is integral and most critical than ever before. Parents should start establishing awareness of money among children at early age whereas teachers at school should teach children about money so the importance, value and its use can be recognized. These early lessons will help them about spending and saving of money.

Why children?

The total population of United States of America in July 2010 was 310 million out of which almost 20% are up to the age 14 years where as the population of European Union is 491 million. From this 491 million 15% fall within the age of 14 years. Australian population is 21 million and almost 17% are under the age of 14 years. The Malaysian population is 26 million and 31 % population is under the age of 14 years (CIA World Factbook, 2010). So this important group should be targeted in such a dynamic way that after ten to fifteen years they can be fruitful for Malaysia. After reading this we, the authors, decided to study about money awareness of children who are in the age bracket of 5 and 6 years in Malaysia.

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Research Objectives

Following are the main objectives of research:

- To explore whether children are aware of denomination of currency notes and coins.
- To identify the source of money knowledge among children and their shopping behaviour.
- To investigate if health claim can shift their food preference towards healthier food.

Money Education for Children in Malaysia

After going through the literature it is revealed that in Malaysia so far no study has been conducted through which the money awareness among children can be judged. So authors started research paper to fill the mentioned gap. The authors intend to explore the money knowledge among Muslim children in Malaysia. Under the light of above mentioned objectives authors intend to study the money knowledge it into four dimensions. In the very first phase denominations of coins and currency notes were asked followed by asking that who is the main source of money knowledge for them. In the third step children were asked about their participation in grocery shopping with parents. In the last step their preference with stimuli and without stimuli is surveyed.

Literature Review

Definition of Children

Definition of child is prominently defined in Laws of Malaysia Act 611 under Child Act 2001 and it is clearly mentioned in the following words "Child means a person under the age of eighteen years". In the later part of the same act it has been written that Child is not only a crucial component of Malaysian Society but also key to its survival, development and prosperity. Under the light of mentioned act so much stress is given on families and guardians to give proper attention to children in order to secure the future of Malaysia.

Money

Definition of "Money" given by www.businessdictionay.com is anything of value that serve as

- Generally accepted medium of financial exchange
- Legal tender for repayment of debt

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- Standard of value
- Unit of accounting measure
- Means to save or to store purchasing power.

The one aspect and which is of great importance for parents is Understanding of Money by Children. To create sensible awareness of money worth is the top most concern among parents. (Mitchell et al., 2003). Living standard and spending pattern of family has an enormous impact on children's perception about money. Teachings about managing money effectively starts well before school age so that a foundation can be laid for wise usage of money by children. *(*Mitchell et al., 2003*)*

Knowledge

There is no exact definition of knowledge. However many experts are unanimously agreed that knowledge is an organized combination of ideas, rules, procedures and information (Bhatt, 2000). The word of knowledge can be defined as range of one's information or understanding. (http://www.merriam-webster.com/dictionary/knowledge)

So from above mentioned definitions it can be inferred that knowledge is exploring and knowing something. It can be by experience, practice or by some practitioner or expert.

Awareness of Money among Children

Many books appeared to help parents regarding establishing awareness of money, about jobs and about the economic world (Godfrey, 1994; Rendon & Krantz, 1992). The importance of education is also evident from Quran and Sunnah. According to National Child Education Conference and Exhibition 2009 "Preschool education is an economic investment not to be underestimated. It is the cornerstone for higher education, it promotes a child's self esteem and gives your child the edge needed for lifelong success".

A report of UNICEF in 2009 instructed that in times of crisis or periods of peace, in cities or remote villages, we are committed to realizing a fundamental, non-negotiable goal: quality education for all.

Money Awareness by Education

Infact the education of a child starts by parents. When start discussing things, or buy toys for them or take them to supermarkets for grocery shopping or even while driving or at any park the child as an observer ask questions and register all the activities of his/her parents. During playing games adults may have opinion that children are playing but genuine, significant work is happening. (Rivera, 2009).

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According to Toye (2007) in an article written by him in NH Business Review in 2007 title "Teach Your Children Well About Money" said that that financial matters of family should be discussed with children although they are not earning but they are affected by financial decisions by parents.

Allowances and Children

Early researchers like Marshall (1964) and Marshall et. al. (1960) mentioned that allowances given by parents to the children has nothing to do with the money knowledge of children. But it is mentioned by Stipp (1988) that ghildren's main source of money are allowances given by parents and gifts. In 2001 Furnham investigated and found that 91% of parents believe that children should get allowance and it should be in "S" shape means it should be increased gradually. This allowance should be started from the age of 6 Years. Periodic allowances should be given to children so that sense of spending, sharing and habit of saving can be institutionalized in kids (Kimberly Vanderbeek, 2000). Amount of allowance varies with age. As the child grew older the amount of allowance should be increased accordingly which gives sense of responsibility to children (Mitchell et. al., 2003). Guidance of parents regarding spending of allowance is of great importance. At times siblings or relatives or gift money can also be source of allowances.

Simultaneously during grocery shopping parents should involve children so they can realize the worth of money while purchasing goods. As shopping also educates them about the financial position of their parents so while purchasing they can make wise decisions.

Money Education and Schools

Education becomes more sophisticated and structured at the age of 3 or 4 or 5 when children are admitted to school so that they can be able to interact with other classmates, teachers and learn how to be successful. According to an article title *The Truth About Kids* by Peg *Tyre* written in 2009 that pre kindergarten lesson should be regarding value of money which can be done by sorting change into coins. But the teachers expectation to children at this very lesson should be very low. But during early elementary school, children should be told about currency name, denomination of currency notes or coins. So these lessons by teacher and parents should be continuous. The idea of money box really served good. Through these money boxes children can keep putting money in that box which can be opened by them at any time. By doing this they can be able to understand the worth of small denomination notes or even coins that when they keep on putting small currency notes or even coins it become big after certain period of time.

If parents dole out money to children then their exposure towards currency will remain limited and can hamper in establishing their understanding about money (Mitchell et al., 2003). And they can be more dependent on this doll system.

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Sources of Money for Children

Sources of children's money are allowances, earnings, gifts and money given by parents. This money is either given for required family spending or as incentives or for extracurricular activities (Caplow 1982; Dunsing 1956; McNeal 1979). This pocket money, allowances and even earnings can educate the children more about money.

The role of parents is evident from above discussion and it can be inferred that they are major source of money. But regarding money knowledge teachers can also play their role in establishing awareness of money among children.

But there are certain other sources of money education or even sources of money for children for example relatives which include siblings, uncles and aunts. On birthdays, Eids, Christmas or at any other special occasion children receive money from their beloved ones. At times when students get good grades in exams they receive gifts in shape of money so they can be encouraged.

Sources of Money Awareness for Children

Teachers and parents are contributing towards money education to children. Economic lessons are becoming more vital now than ever before. (Peg Tyre, 2009). Wise mentors and teachers know the importance of "play" which can also treated as international language of learning. So by introducing different games in kindergarten or school students and children can be educated regarding value of money. Children can also be allowed to make payment at grocery store, put the money in parking meter or they can be involved in similar kind of experience. (Vanderbeek, 2000).

This education of money to children can be termed as **EduKioMoney** (Asif et. al. 2009). In fact teachers at school and parents during shopping and at home can play their role in establishing understanding of money for children.

The research was done by structured Interviews to school going children. The age group will be from 5 years to 7 years. They will also offered certain things and their priority will be assessed that whether they go for expensive goods or cheaper ones. Then on the basis of this analysis authors will infer about **EduKioMoney** that how well the kids have understanding about money.

They were also shown coins and currency notes and it has been observed that whether they are familiar with the denominations or not.

Population and Sample Size

The sample included the children who are in the age of five and six years. For experimentation and observation purpose authors contacted to IIUM Educare where children from different

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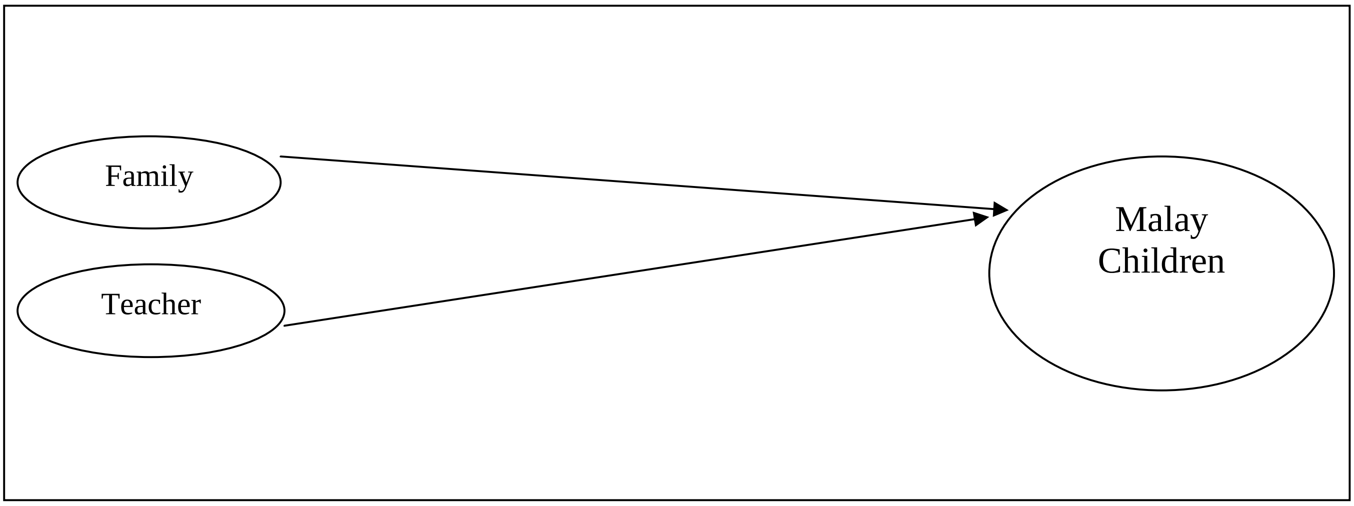
countries are studying. Total fifty three students participated in the experiment and were observed as well. Twenty two boys and thirty one girls were participated in the data collection procedure. Whereas the age of twenty eight student was five years and twenty five students were in the age of six years.

Conceptual Framework



Design

First of all a letter was send to the parents of students to get permission to include their child in experimentation and observation. Through that letter the education level and the income of parents was asked. Almost fifty one percents parents did not mention the their income. As far as education is concerned more or less fifty percent did not mention their education level.

In the experiment students were shown 5 cent, 10 cent, 20 cent and 50 cent coins. They were also shown currency notes of Rm1, Rm 5 and Rm 10. In this phase their understanding about the currency was judged.

In the second phase they were asked about the source of money education and were asked that whether they go with their parents for grocery shopping or not. And tried to inquire about their response during shopping like whether they participate in shopping or not and what kind of item they purchase if they were allowed to purchase something.

In the last phase the students were asked about their response with and without stimuli.

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Instrument

As sample size was too young so authors keep on asking from the students about the denominations, source of money information, their response during grocery shopping and whether they themselves purchase anything or not. Later on two same pencils with different prices were shown and it was observed that whether they go for cheap one or expensive one. In the last they were shown two pencils of same price and there response was judged.

Procedure of Data Collection

After getting permission from the Management of IIUM Educare it had been decided that on one day students who were five years of age will be interviewed whereas on the very next day students of six years of age will be interviewed.

The teacher was asked to help the authors and send the students one by one so that all phases of experimentation can be completed for all students.

So the students came turn by turn and they were asked about the denominations of coins (5, 10, 20 & 50) and currency notes (1, 5 & 10). Later on they were asked that who told them about money followed by the question that whether they participate in grocery shopping with their parents or not. They were also asked that whether they buy something from supermarket or not.

In the last phase there response with and without stimuli was observed and noted.

Data Analysis Method

Descriptive Statistics was run through SPSS to analyze the data. The frequencies and responses all were calculated through descriptive analysis.

Logistic regression also be done to study the pattern of money knowledge among children.

Results and Discussions

For this particular research study title " Money Knowledge Among Muslim Children: An Exploratory Study" authors have selected IIUM Educare. Total 53 students were participated in survey. Out of 53 students 28 were 5 years old whereas 25 were in the age of 6 years. Total 22 boys and 31 girls were participated in this study.

Objective 1: Children awareness about coin and currency note denomination:

The responses which authors got after showing coins and currency notes are shown in the table below. It can be inferred that as compare to coins, students are very well aware of the currency notes. The trend or the correct responses in case of currency notes observed more as compare to coins. 85% students correctly recognized 1 Ringett, 77% of the students correctly identified notes of Rm 5 and Rm 10. So this trend shows that may be students/children recognize the notes on the basis of colour or any other feature.

Coins/Currency Denominations	*Response Type*	*Frequency*	*Percent*
5 Cent	*Correct*	*28*	*53%*
	Incorrect	*25*	*47%*
10 Cent	*Correct*	*36*	*68%*
	Incorrect	*17*	*32%*
20 Cent	*Correct*	*34*	*64%*
	Incorrect	*19*	*36%*
50 Cent	*Correct*	*22*	*42%*
	Incorrect	*31*	*58%*
1 Ringett	*Correct*	*45*	*85%*
	Incorrect	*8*	*15%*
5 Ringett	*Correct*	*41*	*77%*
	Incorrect	*12*	*23%*
10 Ringett	*Correct*	*41*	*77%*
	Incorrect	*12*	*23%*

Gender Based Comparison

When gender based comparison was done then it is revealed that except in case of Ringgit 1 the correct currency recognition in case of girls was higher as compare to boys. In case of Ringgit 1 the percentage of boys who correctly recognized is higher than girls. It shows that girls are not only showing more correct response towards coins but as well as currency notes.

The above mentioned response by girls shows the careful attitude and a high sense of responsibility. The correct recognition of currency shows that they are more responsible in spending the money.

Objective 2: Identification of Money Knowledge Source

The second objective of this Study was to explore the source of money knowledge among children. It was revealed that the students who were in the age of 5 years, response of 9 students was that their father is source of money knowledge whereas 12 students responded that their mother teach them about money. Only one student replied that her uncle teach her about money. 6 students were unaware f the fact that who teach them about money.

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	Gender	*Correct*	*Incorrect*	*Correct Response Percentage*
5 Cent	*Boy*	*9*	*13*	*41%*
	Girl	*19*	*12*	*61%*
10 Cent	*Boy*	*14*	*8*	*64%*
	Girl	*22*	*9*	*71%*
20 Cent	*Boy*	*13*	*9*	*59%*
	Girl	*21*	*10*	*68%*
50 Cent	*Boy*	*8*	*14*	*36%*
	Girl	*14*	*17*	*45%*
1 Ringett	*Boy*	*19*	*3*	*86%*
	Girl	*26*	*5*	*84%*
5 Ringett	*Boy*	*16*	*6*	*73%*
	Girl	*25*	*6*	*81%*
10 Ringett	*Boy*	*16*	*6*	*73%*
	Girl	*25*	*6*	*81%*

The students who were under the age of 6 years, 10 of them identified their father as source of money knowledge, 13 responded that their mothers tell them about money where as 2 were not confirmed that who teach them about money.

Money Knowledge Source

	Father	*Mother*	*Others*	*Do not Know*	*Total*
5 years	*9*	*12*	*1*	*6*	*28*
6 Years	*10*	*13*	*0*	*2*	*25*
Total	*19*	*25*	*1*	*8*	*53*

	Father	*Mother*	*Others*	*Do not Know*	*Total*
Boy	*10*	*10*	*0*	*2*	*22*
Girl	*9*	*15*	*1*	*6*	*31*
Total	*19*	*25*	*1*	*8*	*53*

When this trend was studied on the basis of gender, researchers came to know that 10 boys responded that their father is main source of money knowledge for them. 10 said that their mother teach them about money where as 2 boys were do not know that who tell them about money.

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Above calculations showed that a greater number of students learned about money from their mother. As far as some are concerned, their fathers teach them about money. But only few (8 students) do not know that who teach them about money. Only one student mentioned that his uncle is the source of money knowledge. .

Objective 3: Children attitude towards grocery shopping

In order to study the third objective of this research when students were asked that whether they participate in grocery shopping or not. 22 students who were 5 years old mentioned that they participated in grocery shopping whereas 6 mentioned that they do not participate in grocery shopping. All students who were in the age of 6 years mentioned that they participate in grocery shopping.

Participate in Grocery Shopping

	Yes	*No*	*Total*
5 years	*22*	*6*	*28*
6 Years	*25*	*0*	*25*
Total	*47*	*6*	*53*

20 boys and 27 girls acknowledge that they participate in grocery shopping whereas 2 boys and 4 girls said that they do not take part in grocery shopping.

Participate in Grocery Shopping

	Yes	*No*	*Total*
Boy	*20*	*2*	*22*
Girl	*27*	*4*	*31*
Total	*47*	*6*	*53*

Buy anything from Supermarket

	Yes	*No*	*Total*
5 years	*22*	*6*	*28*
6 Years	*25*	*0*	*25*
Total	*47*	*6*	*53*

It has been observed that many students no matter they are in the age of 5 year or 6 year they participate in grocery shopping and participate in the decision making made during shopping. This participation gives a great exposure to money as well the products purchased by family. This attitude and liberty by parents to children give children understanding about products

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denominations of coins and currency notes as well as establish sense of responsibility in spending money.

22 students of 5 years old and all 25 students who were in the age of 6 years mentioned that they buy something from the supermarket.

When this trend is studied on the basis of gender it is revealed that 20 boys and 27 girls replied yes they do purchase something from supermarket whereas 2 boys and 4 girls replied negatively.

Buy anything from Supermarket

	Yes	No	Total
Boy	20	2	22
Girl	27	4	31
Total	47	6	53

22 students of 5 years old and 14 students of 6 years of age identified that they used to purchase food item whereas 3 students who were in the age of 5 years and 11 students who were in the age of 6 years mentioned that they purchase non-food items during shopping. Only 3 students were said that they do not know that what kind of items they purchase from supermarket.

Items purchased from supermarket

	Food Item	Non-Food Item	Do Not Know	Total
5 years	22	3	3	28
6 Years	14	11	0	25
Total	36	14	3	53

16 boys and 20 girls have identified that they purchase food items whereas 5 boys and 9 girls said that they shop non food items. Only 1 boy and 2 girls said they do not know that whether they buy food items or non food items.

Items purchased from supermarket

	Food Item	Non-Food Item	Do Not Know	Total
Boy	16	5	1	22
Girl	20	9	2	31
Total	36	14	3	53

In order to analyze the independence in shopping by the students they were asked that whether children themselves do shopping or not. It has been observed that it is identified majority of the students purchase food items but some buy non-food items as well. This food items shows that

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the awareness by students to purchase something which consumer instantaneously but some also go for non food item. One students categorically mentioned that she purchase shoes. So this activity shows that participation of children in shopping activity give learning and pleasure simultaneously.

In the later part of study students were shown two identical pencils of same value. The response was as under:

Preference without stimuli

	First Option worth 20 cent	*Second Option worth 20 cent*	*Total*
5 years	*14*	*14*	*28*
6 Years	*7*	*18*	*25*
Total	*21*	*32*	*53*

Preference without stimuli

	First Option worth 20 cent	*Second Option worth 20 cent*	*Total*
Boy	*10*	*12*	*22*
Girl	*11*	*20*	*31*
Total	*21*	*32*	*53*

In the same study students were shown two identical pencils of different values and they were asked to choose one. 15 out of 28 students who were 5 years of age selected pencil worth 20 cent where as 13 had chosen second option worth 50 cent.

Preference with Stimuli

	First Option worth 20 cent	*Second option worth 50 cent*	*Total*
5 years	*15*	*13*	*28*
6 Years	*10*	*15*	*25*
Total	*25*	*28*	*53*

	First Option worth 20 cent	*Second option worth 50 cent*	*Total*
Boy	*9*	*13*	*22*
Girl	*16*	*15*	*31*
Total	*25*	*28*	*53*

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Conclusions and Implications:

Following are some major conclusions which are revealed after completion of this research:

- Students recognize currency notes more accurately as compare to coins. This may be because of colour of currency notes or may be children use currency notes more as compare to coins.
- For many students mother is the main source of money knowledge but some students mention that their father teach them about money. Only one female student mentioned that her uncle teach her about money.
- Children not only participate in grocery shopping with their parents but they also did some purchase from the supermarket of their own choice.

The above study reveal the fact that it is requirement of the time that money knowledge should be shared with the children. Because as soon as they become aware of the denomination they will show the sense of responsibility in spending the money. Their close interaction with parents enable them to participate in spending decisions which can teach them about the quality of products as well as wisdom of using money.

This wisdom bring lot of convenience in their life as well as it is also the requirement of time. The early lessons about money establish sense of responsibility, institutionalized saving money and even it can also help them in their future how, when and where to use the money.

The good spending sense of money can bring prosperity not only to one family but also to a nation.

Future studies can be conducted to compare the children of dual family career versus children whose father/mother are only source of income.

When the above data was summarized following result can be deduced.

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	Response	*Number of Students*
5 Cent	*Correct*	*28*
	Incorrect	*25*
10 Cent	*Correct*	*36*
	Incorrect	*17*
20 Cent	*Correct*	*34*
	Incorrect	*19*
50 Cent	*Correct*	*22*
	Incorrect	*31*
1 Ringett	*Correct*	*45*
	Incorrect	*8*
5 Ringett	*Correct*	*41*
	Incorrect	*12*
10 Ringett	*Correct*	*41*
	Incorrect	*12*
Preference without stimuli	*First Option worth 20 cent*	*21*
	Second Option worth 20 cent	*32*
Buy anything from supermarket	*Yes*	*47*
	No	*6*
Participate in Grocery Shopping	*Yes*	*47*
	No	*6*
Money Knowledge Source	*Father*	*19*
	Mother	*25*
	Others	*1*
	Donot Know	*8*
Item purchased from supermarket	*Food Item*	*36*
	Non-Food Item	*14*
	Do Not Know	*3*
Preference with stimuli	*First Option worth 20 cent*	*25*
	Second option worth 50 cent	*28*

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FOREIGN OWNERSHIP AND FINANCIAL INFORMATION

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Abstract

We examine the foreign ownership patterns in local stocks in an emerging capital market, i.e. the Istanbul Stock Exchange (ISE), to derive insights into the linkage between foreign investors' equity-level preferences and the information provided by the corresponding firm's financial statements. Our data consists of foreign ownership share in non-financial stocks over the period 2004 – 2008, during which foreign investors held on average 61% of the free-float equity in the ISE. Our analyses suggest that foreign investors are more likely to hold shares in firms with larger market capitalization and those with low leverage and book-to-market ratios. Overall, the results provide suggestive evidence on the asymmetric information hypothesis between local and non-local investors and, accordingly, useful insights into the equity home bias puzzle.

Keywords: foreign investors; foreign ownership; emerging markets; Istanbul Stock Exchange

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Introduction

The country irrelevance proposition set forth by standard models of international portfolio choice typically lack of empirical support as investors continue to systematically hold a large part of their wealth in locally traded assets. Hence, the so-called *home bias puzzle* runs counter to both the mainstream theoretical prediction as to the efficiency of the global market portfolio of risky assets[2] and the well-established case supporting the relative advantages of holding internationally diversified portfolios over domestically diversified ones.[3]

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2 See, among others, Solnik (1974) and Adler and Dumas (1983).

3 The literature on the gains from international portfolio diversification is huge. A number of recent studies include, among others, Baele and Inghelbrecht (2009), Chiou (2009), and Driessen and Laeven (2007).

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Beside the interest in examining investors' aggregate foreign portfolio allocations at the country-level, a parallel and still growing literature deals with investors' firm-level foreign portfolio allocations. Mostly depending upon the availability of relevant data, studies falling in this strand of literature investigate the factors motivating agents in financial markets to hold a particular firm's shares traded abroad instead of holding the market portfolio of the foreign country of interest.[4] In line with this body of research, the present study also tackles this issue by providing new evidence on the firm-level determinants of foreign ownership of local stocks in an emerging stock market, namely, the Istanbul Stock Exchange (ISE).

Our objective is to examine whether firm-specific financial information derived from the firm's financial statements affects the foreign ownership in the corresponding firm's shares in the stock market. We focus on the patterns of stock-level foreign ownership instead of country-level portfolio allocations by means of a unique and, therefore, not exploited dataset to date. We also believe that the research context (i.e. the ISE) provides a suitable environment to investigate the potential factors driving the foreign ownership to the extent that there are any binding constraints on transactions issued by foreign investors within the ISE. Therefore, the ownership patterns should directly reflect foreign investors' preferences. Indeed, since the issuance of the Decree No. 32 in August 11, 1989, foreign investors (both institutional and individual) are allowed to purchase and sell all kinds of listed shares in the ISE and repatriate the proceeds. Although the Turkish economy experienced severe economic and financial downturns during the last two decades, the ISE had not exerted any restrictions

on capital flows issued by foreigners. There is also no tax discrimination between local and non-local investors. Furthermore, the ISE constitutes an interesting context for the purposes of this research given the high foreign participation to the stock market in Turkey: Over the period 2004 to 2008, foreign investors held, on average, about 61% of the free-float equity in the ISE.

Based upon an empirical model specification relating foreign ownership to an array of firm-specific financial ratios, we find that foreign investors mostly prefer larger firms, with low degrees of leverage and low book-to-market ratios. The effect of the firm size on foreign ownership is substantial. A simple, random-effects specification using the full set of explanatory variables suggests that one unit increase in the firm's size, gauged by the natural logarithm of the total assets, induces almost 10% in foreign ownership in the corresponding firm's stocks. This result is robust to alternative econometric specifications including non-linear regressions, and to different years of the data used for the estimations. This finding is consistent with prior studies like Kang and Stulz

[4] See, among others, Diyarbakirlioglu (2011), Rhee and Wang (2009), Aggarwal et al. (2005), Lin and Shiu (2003), Dahlquist and Robertsson (2001), Kang and Stulz (1997).

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(1997), Dahlquist and Robertsson (2001) or Lin and Shiu (2003), who also provide similar evidence about the relation between size and foreign ownership. Thus, our results support the conventional view that the firm size is a good proxy of the degree of familiarity by foreign investors vis-à-vis the stocks, which they consider to hold. Moreover, the signs of the coefficient estimates of leverage and market value variables suggest that foreign investors prefer to hold more shares in firms with less financial risk and higher growth potential.

The paper proceeds as follows. Section two provides a review of related studies. Section three describes the Istanbul Stock Exchange in brief, by focusing especially on the development of foreigners' investments. The data and methodology are described in section four. Section five then presents the empirical results, and section six concludes the paper.

Related Studies

The basic normative portfolio result stemming from pioneering studies such as Solnik (1974) and Adler and Dumas (1983) states that in a perfectly integrated global capital market populated with rational investors, one should hold the global portfolio of risky securities where each country's weight is proportional to its relative world-market capitalization weight.[5] Therefore, according to the standard theories of international portfolio choice, there should be no reason to expect any causal relation running from either country- or firm- specific factors to the observed patterns of investors' cross-border asset holdings. However, this is rarely the case since many studies have so far documented a strong preference towards domestically traded assets despite the well-documented benefits of global portfolio diversification, coined all together by the *home bias puzzle*.[6] Parallel to this literature, the issue of how investors allocate their existing foreign assets among different foreign markets or stocks traded in these markets has generated a joint and growing literature.

In a frequently cited study, Kang and Stulz (1997) examine the ownership of Japanese stocks by non-Japanese investors for the period 1975-1991. Their results are twofold. First, they report that foreign investors in Japan do not hold the market portfolio of local stocks, and that they prefer to hold disproportionately larger shares in Japanese firms with large market capitalization. Second, they show that the firm size explains much of the variance in the data even after controlling for various firm characteristics including leverage, current ratio, return on assets, beta, residual variance, excess return, market value and book-to-market. They interpret this size bias by non–Japanese investors vis-à-vis large domestic firms as being consistent with Merton's hypothesis[7]

5 See Brealey et al. (1999) for a review.

6 Lewis (1999) and Karolyi and Stulz (2003) are the two most cited literature reviews on the home bias puzzle.

7 See Merton (1987).

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stating that investors tend to hold more shares in firms which they know more about. This result is also robust to liquidity and export ratio in that small firms with higher export to sales ratio have greater foreign ownership.

Dahlquist and Robertsson (2001) provide further evidence for the size bias. They analyze the determinants of foreign ownership in Swedish firms, for the period from 1993 to 1997. First, they reject the hypothesis that non-residents invest according to the market portfolio of Swedish stocks. Then, they investigate the link between foreign investors' preference and an array of firm characteristics mainly used by Kang and Stulz (1997). They also use four additional proxies for firm recognition and investor influence, namely, the export rate, turnover rate, ownership concentration and a dummy for foreign listing. The authors find that foreigners prefer large firms paying low dividends and having large cash positions on their balance sheets, and that they overweight firms with widespread ownership, a feature common to large firms in general.

Lin and Shiu (2003) investigate foreign ownership in the Taiwan stock market from 1996 to 2000 and empirically provide evidence that foreign investors seem to favor large firms and

low book-to-market stocks. Their results show also that foreign investors have a preference for firms with high export ratios and hold more shares of high beta stocks than of low beta stocks for small firms. Regarding the impact of the export-to-sales ratio on foreign ownership, the authors note that these firms are likely to be well known internationally, and that foreign investors hold more shares in such firms.

Jiang and Kim (2004) conjecture that (i) greater transparency increases the level of information asymmetry in the market, which, in turn, reduces liquidity and increases cost of capital, and that (ii) foreign investors prefer equity shares of firms with lower information asymmetry between the firm (inside managers) and the market (outside investors). Using firm-specific data on foreign equity ownership of Japanese firms for the period 1976-1994, they show that foreign investors tend to hold more shares in large firms with better accounting performance and low leverage as in Kang and Stulz (1997). Overall, their results suggest that foreign (institutional) investors are likely to be efficient processors of public information and are attracted to Japanese firms with low information asymmetry.

Aggarwal *et al.* (2005) take the perspective of US mutual funds investing in 30 emerging market equities after the market crises of the 1990s. Unlike the studies cited above, Aggarwal *et al.* (2005) investigate the effect of both country- and firm-level disclosure and institutional policies on US mutual funds' portfolio preferences. Controlling for various firm-level attributes including the market capitalization, quality of financial reporting, return on equity, dividend yield etc., they note that US mutual fund investment is positively associated with the firm-level policies fostering

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transparency and better disclosure standards. In turn, disclosure is likely to alleviate a country's other institutional deficiencies, which would potentially affect foreign institutional investment in the country of interest. More recently, Rhee and Wang (2009) put forward the liquidity impact of foreign ownership in emerging stock markets, considering the case of Indonesia for the period from January 2002 to August 2007. They control for stock characteristics, trading activities, persistence in liquidity and foreign ownership and find that foreign ownership has a negative impact on liquidity.

The Istanbul Stock Exchange and Foreign Ownership

The securities exchange market in Turkey (ISE), began to operate as an autonomous and professional institution in January 1986. Table 1 contains the major annual data such as the traded value, the traded number of stocks and the number of companies traded for the ISE since its inauguration. As shown in the table, while only 80 companies' stocks were traded in 1986, this figure increased to 321 by the end of 2009.

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Year	Traded Value (US$ million)	Annual Change in Traded Value (%)	Traded Number of Stocks (nominal '000 TL)	Annual Change in Traded Number of Stocks (%)	Number of Companies Traded on the ISE Markets
1986	13	-	3	-	80
1987	118	807,69	15	400,00	82
1988	115	-2,54	32	113,33	79
1989	773	572,17	238	643,75	76
1990	5.854	657,31	1.537	545,80	110
1991	8.502	45,23	4.531	194,80	134
1992	8.567	0,76	10.285	126,99	145
1993	21.770	154,11	35.249	242,72	160
1994	23.203	6,58	100.062	183,87	176
1995	52.357	125,65	306.254	206,06	205
1996	37.737	-27,92	390.924	27,65	228
1997	58.104	53,97	919.784	135,28	258
1998	70.396	21,16	2.242.531	143,81	277
1999	84.034	19,37	5.823.858	159,70	285
2000	181.934	116,50	11.075.685	90,18	315
2001	80.400	-55,81	23.938.149	116,13	310
2002	70.756	-12,00	33.933.251	41,75	288
2003	100.165	41,56	59.099.780	74,16	285
2004	147.755	47,51	69.614.651	17,79	297
2005	201.763	36,55	81.099.503	16,50	304
2006	229.642	13,82	91.634.552	12,99	316
2007	300.842	31,00	116.824.185	27,49	319
2008	261.274	-13,15	114.793.157	-1,74	317

Notes: Prepared using data from the ISE web site, www.imkb.gov.tr

Table 1. Main indicators about the ISE since its inauguration

The liberalization movement, started in the mid-1980, has dramatically modified the structure and the regulation of financial markets in Turkey. In the ISE, foreign institutional and individual investors are allowed to purchase and sell all kinds of listed shares and repatriate the proceeds since the issuance of the Decree No. 32 in August 11, 1989. There is also no tax discrimination between local and non-local investors. In 1992, the World Federation of Exchanges (WFE) granted to ISE the full membership. Just one year later, in

1993, the U.S. Securities and Exchange Commission (SEC) recognized the ISE as a "Designated Offshore Securities Market". Afterwards, in 1995, the Japan Securities Dealers Association (JSDA) recognized the ISE as an appropriate foreign investment market for private and institutional Japanese investors. Not only foreign legal entities, but also non- resident individuals may purchase or sell all sorts of securities and other capital market instruments in the ISE, without restraint. Nonetheless, orders and transactions must all go through a local intermediary institution. The share of total equity held by foreign investors, at the end of each year for the period 2005-2009, is displayed in table 2.

Year	Domestic investors' shareholdings (%)	Foreign investors' shareholdings (%)
2004	48.15	51.85
2005	48.24	51.76
2006	27.72	72.28
2007	32.58	67.42
2008	32.66	67.34

Notes: Data for 2006 is calculated based on the number of stocks. For other years, the ownership percentages are calculated using the market value of stocks.

Source: Authors' compilations using data from the Central Registry Agency's annual reports.

Table 2. Descriptive statistics, raw dataset

Data and Methodology

Data description

In order to investigate the relation between firm-level financial ratios and foreign investors' holdings in the corresponding firm's stock traded in the ISE, we make use of a unique, hand-collected panel dataset. The sample consists of yearly observations for 165 firms over the period 2004-2008. Because the data availability for each firm differs across years and the number of firms is quite high compared to the number of periods, the dataset is an unbalanced short (micro) panel. For comparability purposes across entities and to ensure the adequacy of the interpretation of different firms' financial ratios, we only include manufacturing firms into the sample and exclude all financial stocks. Besides the percentages of foreign ownership for each firm, we collect firm-level indicators for each firm from the ISE's website (www.ise.org). The firm-level indicators consisting of financial ratios can be classified as follows:

1. *Size:* There is extensive evidence in the literature demonstrating that foreign investors prefer large firms. Therefore, we include the asset size (SIZE), defined as the natural log of the firm's total assets.

2. *Liquidity:* The current ratio (CUR), defined as the ratio of current assets to current liabilities, is used as a measure of the ability to meet short-term creditors' demands.

3. *Asset turnover:* (i) the receivables turnover ratio (ART), defined as the ratio of net sales to accounts receivable, measures the firm's efficiency in collecting its sales on credit; (ii) the inventory

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turnover ratio (INT), defined as the ratio of cost of goods sold to inventory, is used to gauge for the efficiency of the firm in managing its inventory.

4. Leverage: The financial leverage is estimated by the debt ratio (FINLEV), which is defined as the ratio of total liabilities to total assets. This ratio allows one to measure the firm's ability to meet its financial obligations.

5. Profitability: We employ three different measures to control for the firm's profitability. First, the return on equity (ROE), defined as the ratio of net income after tax to shareholders' equity, is used to measure the level of profit the firm is able to generate given the resources provided by its shareholders. Second, the return on sales (ROS), defined as the ratio of operating income to net sales, is used to measure the firm's operational efficiency. Third, the rate of growth of net income (GNI), defined as the annual percentage change in net income, helps one to determine if the firm is growing at a sustainable rate.

6. Market value: The following proxies are used as the firm's market value indicators: (i) the earnings per share (EPS), defined as the ratio of net profit to outstanding shares; (ii) the earnings to price (EPR), defined as the ratio of earnings per share to market value per share; and, (iii) the book to market ratio (BM), defined as the ratio of the book value to the market value.

Tables 3 and 4 provide short descriptions of these explanatory variables and some descriptive statistics, respectively.

Methodology and econometric issues

Our methodology simply consists of the regression analyses of the foreign ownership of Turkish stocks on an array of firm-specific financial characteristics. Specifically, we estimate the following equation:

$$Y_{it} = c + \alpha(Size)_{it} + \beta(Liquidity)_{it} + \gamma(Asset\ Turnover)_{it} +$$
$$\delta(Leverage)_{it} + \theta(Profitability)_{it} + \lambda(Market\ Value)_{it} + e_{it} \qquad (1)$$

where, the dependent Y_{it} is the foreign ownership in stock i (in percentage values) observed at the end of year t, e_{it} is the composite error term, and α, β, γ, δ, θ and λ are unknown parameters. Thus, we conjecture that the foreign ownership in a given stock can be explained by firm characteristics including proxies for size, liquidity, asset turnover, leverage, profitability and market value. When it comes to choose the econometric specification, we opt for both panel and cross-sectional regressions. Panel regressions use both the cross-sectional and the time-series information in the data, while cross-sectional regressions estimate the model for each year of the

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dataset. Although panel regressions are likely to be more appropriate than those run separately for each time unit in the dataset, it will be shown that the estimation results neglecting the time-series dimension are qualitatively convergent to panel regression results given the short time span of the data relative to the number of cross- sectional units (large *N* vs. small *T*).

Category	Indicator	Symbol	Definition
Size	ln (total assets)	SIZE	natural log of total assets
Liquidity	Current ratio	CUR	ratio of current assets to current liabilities
Asset turnover	Receivables turnover ratio	ART	ratio of net sales to accounts receivable
	Inventory turnover ratio	INT	ratio of cost of goods sold to inventory
Leverage	Debt ratio	FINLEV	ratio of total liabilities to total assets
Profitability	Return on equity	ROE	ratio of net income after tax to shareholders' equity
	Return on sales	ROS	ratio of operating income to net sales
	Rate of growth of net income	GNI	annual change in net income
Market value	Earnings per share	EPS	ratio of net profit to outstanding shares
	Earnings to price ratio	EPR	ratio of earnings per share to market value per share
	Book to market ratio	BM	ratio of book value to market value

Table 3. Description of explanatory variables

Regarding the choice of estimator in panel regression models, a first option is to run the model by pooling the observations across time and subjects. This approach, however, is subject to severe criticisms since it typically leads to omitted-variable bias problem in most cases. A second option is to implement a fixed-effects estimator by adding year dummies to the traditional OLS procedure and estimating a least-squares dummy variable (LSDV) model instead. The objective in including dummies for years into the traditional OLS estimator is to control for the effects of unobservable year-specific shocks to the data. In regressions not reported here, the significance of these year dummies is controlled via incremental *F*-test and the null hypothesis could not be rejected, suggesting that adding year-specific fixed-effects is not appropriate in our case. We have also controlled for the accuracy of the fixed-effects estimator by adding dummies to each stock. Beside the non-rejection of the incremental *F*-test for stock-level dummies, this procedure is also hard to

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advocate since it consumes too much degrees of freedom due to the micro-panel structure of the dataset.

	Mean	Standard deviation	Minimum	Maximum
Dependent				
Foreign ownership	0.222	0.278	0.000	0.980
Size				
(ln) Total assets	19.034	1.423	15.650	23.200
Liquidity				
Current ratio	2.329	2.057	0.320	24.980
Asset turnover				
Receivables turnover ratio	33.222	167.795	0.420	2103.830
Inventory turnover ratio	8.138	14.980	0.540	168.390
Leverage				
Debt ratio	0.454	0.281	0.020	3.780
Profitability				
Return on equity	-0.035	0.480	-5.140	1.170
Return on sales	0.040	0.196	-3.090	0.590
Growth of net income	-0.384	6.391	-76.290	26.620
Market value				
Earnings per share	0.742	3.034	-6.050	32.860
Earnings to price	-0.015	0.356	-3.330	1.450
Book-to-market	1.054	1.065	-8.620	6.750

Table 4. Summary statistics

We implement two linear estimation techniques. First, we use a random-effects estimator. In contrast to the frequently used fixed-effects estimator, this procedure attributes a random intercept drawn from a common distribution to each unit in the data. Indeed, in case of large- N vs. small-T panels, the random-effects estimator is likely to be more efficient than the within estimator. Second, we use the between-effects estimator to fit the regressions. This is equivalent to taking the mean of each variable for each case across time and running a regression on the collapsed dataset of means. As such, the between-effects estimator essentially uses the information content found in the cross-section dimension of the data.

Empirical Results

Panel regressions

Tables 5 and 6 show the results obtained from the random-effects and between-effects specifications, respectively.

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Explanatory variables	(1) All	(2) Size	(3) Liquidity	(4) Asset turnover	(5) Financial Leverage	(6) Profitability	(7) Market
ln(total assets)	0.097*** (10.547)	0.086*** (9.330)					
Current ratio	-0.005 (-1.814)		-0.002 (-0.742)				
Receivables	0.000 (0.007)			0.000 (0.482)			
Inventory turnover	-0.001*** (-3.611)			-0.001** (-2.626)			
Debt ratio	-0.105* (-2.498)				-0.014 (-0.358)		
Return on equity	0.001 (0.090)					0.001 (0.113)	
Return on sales	0.088** (3.584)					0.104*** (4.488)	
Growth of net income	0.001 (0.866)					0.000 (0.493)	
Earnings per share	-0.000 (0.065)						0.002 (0.931)
Earnings to price	-0.034 (-1.292)						-0.011 (-0.571)
Book-to-market	-0.037*** (-5.037)						-0.021** (-3.038)
Intercept	-1.528*** (-9.111)	-1.416*** (-8.395)	0.224*** (10.540)	0.225*** (10.876)	0.225*** (7.949)	0.216*** (10.971)	0.237*** (10.701)
N	720	720	720	720	720	720	720
Nb. of groups	169	169	169	169	169	169	169
R^2 (overall)	0.391	0.346	0.017	0.000	0.000	0.037	0.011
$\chi2$	170.431	87.050	0.550	7.396	0.128	20.772	11.673

Notes: The table reports panel regressions results of foreign ownership on predictor variables using the random-effects specification. The numbers in parentheses below the coefficient estimates are *t*-statistics obtained using heteroskedasticity-consistent standard errors. Statistical significance at 5% (respectively 1% and 0.1%) is denoted by * (respectively ** and ***).

Table 5. Panel regression of foreign ownership, random-effects model

In tables 5 and 6, we run the regressions using different sets of the explanatory variables to separate out the likely effects of each predictor category on the dependent variable. Hence, the first column shows the estimates using the full set of predictors. Besides, columns (2) to (7) report the estimation results involving other groups of the firm-level financial characteristics as outlined in the previous section. The *t*-statistics displayed below the parameter estimates assess the statistical significance of the coefficient estimates. Looking at columns (1), it can be stated that regressions using the full set of predictors capture a good deal of the variance in the data. Yet, most of this explanatory power is due to the size variable: A random-effects specification using only the natural logarithm of the firm's total assets explains about 35% of the total variance.

Generally speaking, the estimation results suggest that foreign ownership is negatively related to debt ratio and the ratio of book value to market value, and positively related to firm size. Across tables 5 and 6, estimated coefficients on inventory turnover, current ratio and return on sales are also significant in some cases. Specifically, foreign ownership of local stocks is negatively related to

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inventory turnover as shown by the random-effects model, and to current ratio in between-effects model. The return on sales variable is significant in the first column of table 5 and 6, bearing the expected positive sign.

Explanatory variables	(1) All	(2) Size	(3) Liquidity	(4) Asset turnover	(5) Financial leverage	(6) Profitability	(7) Market
ln(total assets)	0.111***	0.114***					
	(9.433)	(10.291)					
Current ratio	-0.047***		-0.022				
	(-3.697)		(-1.813)				
Receivables turnover	0.000			0.000			
	(0.526)			(0.299)			
Inventory turnover	-0.000			0.001			
	(-0.363)			(0.546)			
Debt ratio	-0.369***				-0.056		
	(-4.057)				(-0.957)		
Return on equity	-0.091					0.065	
	(-1.357)					(1.038)	
Return on sales	0.040					0.267*	
	(0.360)					(2.013)	
Growth of net income	0.003					0.007	
	(0.492)					(1.063)	
Earnings per share	0.004						0.002
	(0.762)						(0.317)
Earnings to price	0.105						0.239**
	(0.989)						(2.773)
Book-to-market	-0.093***						0.016
	(-3.647)						(0.826)
Intercept	-1.524***	-1.940***	0.268***	0.209***	0.245***	0.217***	0.205**
	(-6.313)	(-9.226)	(7.933)	(8.532)	(7.081)	(10.551)	(7.592)
N	720	720	720	720	720	720	720
Nb. of groups	169	169	169	169	169	169	169
R^2 (adjusted)	0.444	0.384	0.013	-0.010	-0.001	0.052	0.032
R^2 (between)	0.480	0.388	0.019	0.002	0.005	0.069	0.049
F statistic	13.200	105.907	3.287	0.205	0.916	4.084	2.854

Notes: The table reports panel regression results of foreign ownership on predictor variables using the between-effects model specification. The numbers in parentheses below the coefficient estimates are *t*-statistics obtained using heteroskedasticity-consistent standard errors. Statistical significance at 5% (respectively 1% and 0.1%) is denoted by * (respectively ** and ***).

Table 6. Panel regression of foreign ownership, between-effects model

Taking into account the full set of results, the most salient one is the positive linkage between size and foreign ownership. Regardless of the set of predictors and the estimator choice, the variable *ln(total assets)* is always statistically significant and correctly signed: The coefficient estimate is around 0.1. Moreover, this result is only slightly affected when we exclude other predictors from the model. This finding is in line with previous studies (Kang and Stulz, 1997; Dahlquist and Robertsson, 2001; Lin and Shiu, 2003), as well as consistent with the theoretical argument provided by Merton (1987), who state that investors prefer to hold securities which they are more familiar with. In particular, the relationship between the firm's size and investor's degree of familiarity with the firm of interest mainly goes through its value as an information variable.

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On the other hand, the debt ratio is significantly and negatively related to foreign ownership, as expected. This result indicates that foreign investors in the ISE do not prefer firms with high leverage, like the foreign investors in Japan as reported by Kang and Stulz (1997) and in Sweden as reported by Dahlquist and Robertsson (2001). Finally, we also note that foreign ownership is negatively related to the book-to-market ratio, suggesting that foreign investors prefer growth firms having lower book-to-market scores as it has been previously highlighted by Dahlquist and Robertsson (2001) and Kang and Stulz (1997).

Cross-sectional regressions

In addition to the previous results, we also report in the next tables the estimation results obtained from cross-sectional regressions run for each year of the data.

Year	(1) 2004	(2) 2005	(3) 2006	(4) 2007	(5) 2008
ln(total assets)	0.110***	0.115***	0.119***	0.112***	0.128***
	(8.307)	(8.993)	(8.782)	(8.546)	(9.000)
Current ratio	-0.028***	-0.016	-0.039*	-0.037**	-0.012
	(-3.964)	(-1.745)	(-2.402)	(-2.780)	(-0.929)
Receivables turnover	0.000*	-0.000	-0.000	0.000	-0.001**
	(2.154)	(-1.066)	(-0.068)	(0.629)	(-2.855)
Inventory turnover	0.001	-0.001	-0.000	-0.000	-0.001*
	(0.672)	(-1.909)	(-0.420)	(-0.427)	(-2.020)
Debt ratio	-0.395***	-0.045	-0.278	-0.400***	-0.077
	(-4.678)	(-0.355)	(-1.947)	(-3.440)	(-0.561)
Return on equity	-0.135*	-0.000	0.077*	-0.125**	-0.039
	(-2.033)	(-0.004)	(2.588)	(-2.883)	(-0.782)
Return on sales	0.139	0.042	0.121	-0.005	-0.068
	(1.210)	(0.325)	(0.525)	(-0.125)	(-0.429)
Growth of net income	-0.001	0.001	-0.001	0.003	0.003
	(-0.250)	(0.693)	(-0.687)	(1.702)	(0.746)
Earnings per share	-0.005*	-0.000	-0.001	-0.006	0.004
	(-2.104)	(-0.001)	(-0.204)	(-0.791)	(0.654)
Earnings to price	0.065	0.012	-0.164*	0.062	0.026
	(0.752)	(0.112)	(-2.257)	(0.481)	(0.444)
Book-to-market	-0.125***	-0.206***	-0.173***	-0.093***	-0.040*
	(-4.783)	(-5.044)	(-4.805)	(-3.804)	(-2.405)
Intercept	-1.538***	-1.745***	-1.652***	-1.555***	-2.082***
	(-6.432)	(-7.221)	(-6.323)	(-5.602)	(-7.701)
N	154	149	139	146	132
adjusted-R^2	0.398	0.427	0.463	0.385	0.371
F statistic	12.148	11.921	15.362	14.472	9.817

Notes: The table reports the results of OLS regressions of foreign ownership on predictor variables. *t*-statistics obtained using heteroskedasticity-consistent standard errors are shown in parentheses below the coefficient estimates. Statistical significance at 5% (respectively 1% and 0.1%) is denoted by * (respectively ** and ***).

Table 7. Cross-sectional regression estimates of foreign ownership, OLS estimations

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To check for the robustness of our results we implement two additional estimation procedures. Table 7 shows the results of the traditional OLS procedure, while the table 8 reports the results obtained from the robust regressions. We regress the dependent variable on the full set of predictors, whence the parameter estimates are comparable to those reported in columns (1) of the previous tables.

We notice that the coefficient estimates obtained from year-by-year regressions broadly support the previous results of panel regressions. Estimated coefficients suggest similar patterns with respect to the firm-specific factors affecting the foreign ownership of local stocks in the ISE. Both the statistical and economic significance of the predictor variables remain qualitatively the same even though we neglect the time-series information in the data. The book-to-market is negatively signed each year, with statistically significant coefficients. The return on equity ratio is significant too, particularly in columns (4). However, its coefficient changes of sign depending on the year of the data as well as on the estimation method, rising doubts about the explanatory power of the return on equity on the dependent variable. The current ratio is likely to have some explanatory power. Yet, the positive effect of size on foreign ownership is well captured by the corresponding firm's total assets. The size proxy is statistically highly significant in all cases, regardless of the choice of estimator and year of the data.

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Year	(1) 2004	(2) 2005	(3) 2006	(4) 2007	(5) 2008
ln(total assets)	0.108***	0.115***	0.125***	0.111***	0.122***
	(9.562)	(10.136)	(8.702)	(8.951)	(8.073)
Current ratio	-0.020*	-0.014	-0.033*	-0.024*	-0.048**
	(-2.246)	(-1.261)	(-2.059)	(-2.115)	(-2.632)
Receivables turnover	0.000	-0.000	-0.000	0.000	-0.001
	(1.144)	(-0.313)	(-0.292)	(0.436)	(-0.994)
Inventory turnover	0.001	-0.001	-0.000	0.000	-0.001
	(0.899)	(-0.796)	(-0.112)	(0.120)	(-1.500)
Debt ratio	-0.289***	-0.078	-0.283*	-0.343**	-0.282
	(-3.846)	(-0.754)	(-2.063)	(-3.237)	(-1.887)
Return on equity	-0.115	0.081	0.064	-0.156**	-0.081
	(-1.455)	(1.110)	(1.424)	(-3.027)	(-1.963)
Return on sales	0.133	0.026	0.124	0.009	-0.197
	(1.130)	(0.175)	(0.595)	(0.151)	(-1.251)
Growth of net income	0.000	0.001	-0.001	0.002	0.004
	(0.053)	(0.392)	(-0.576)	(0.951)	(0.936)
Earnings per share	-0.002	0.005	0.000	-0.005	0.005
	(-0.520)	(0.561)	(0.007)	(-0.625)	(0.960)
Earnings to price	0.056	-0.059	-0.153	0.060	0.105*
	(0.711)	(-0.485)	(-1.521)	(0.484)	(2.060)
Book-to-market	-0.095***	-0.153***	-0.161***	-0.074**	-0.042*
	(-4.032)	(-3.952)	(-4.336)	(-3.162)	(-2.535)
Intercept	-1.615***	-1.812***	-1.806***	-1.655***	-1.797***
	(-7.399)	(-7.995)	(-6.279)	(-6.280)	(-5.882)
N	154	149	139	146	131
adjusted-R^2	0.444	0.493	0.463	0.413	0.394
F statistic	12.101	14.070	11.821	10.259	8.695

Notes: The table reports the results of robust regressions of foreign ownership on predictor variables. *t*-statistics are shown in parentheses below the coefficient estimates. Statistical significance at 5% (respectively 1% and 0.1%) is denoted by * (respectively ** and ***).

Table 8. Cross-sectional regression estimates of foreign ownership, robust regressions

Concluding Remarks

Although the opening of equity markets in Turkey is relatively recent compared to those in more developed and mature exchanges, the Istanbul Stock Exchange provides the market participants with a highly liberalized and technologically advanced trading environment. Thus, the foreign participation in equity ownership reflects the growing interest of non- residents to the ISE, especially during the last decade. Besides, the absence of any discrimination between local and non-local investors implies that either the market-wide or the firm-level foreign ownership percentages should directly capture foreign investors' portfolio preferences in Turkish stocks. This is an important feature, among others, making our research context an interesting one because examining the patterns of foreign ownership of local stocks would directly contribute to our understanding on the determinants of cross- border portfolio holdings, in general, and the reasons of the persistent home bias worldwide, in particular.

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Bearing these motivating facts in mind, this paper explores a unique, hand-collected dataset on firm-level share ownership by foreign investors in Turkish stocks. The data has a micro-panel structure and have been collected for 165 firms on annual frequencies over the period 2004-2008. The analysis consists of examining the link between the patterns of foreign ownership and various firm characteristics including size, liquidity, asset turnover, leverage, profitability, and market value.

Among the full set of explanatory variables used to proxy these firm-level characteristics, estimations point out to firm size as the major covariate of foreign ownership. A between- effects model using the (natural log of the) firm's size as the explanatory variable captures almost 40% of the variance in the data. Regardless of the econometric specification used, the effect of the firm's size is well captured by economically and statistically significant coefficient estimates. The book-to-market ratio has also some explanatory power, suggesting that foreign investors are likely to hold more shares in growth stocks with lower book-to- market ratios. For the remaining variables, the results remain generally inconclusive, albeit statistically significant in some cases. As such, our results can be considered as complementary to those obtained in Kang and Stulz (1997) and Dahlquist and Robertsson (2001), who also find a significant relation between foreign ownership and the firm size and the book-to-market ratio in Japanese and Swedish markets, respectively. Obtaining such findings close to those reported for more developed and mature economies like the Japan and Sweden, is likely to be interesting (or surprising) on one hand, and reasonable on the other hand. In fact, it seems that, whatever is the width or depth of the stock market, foreign investors prefer being safe to being sorry later on, by holding more shares in companies taking less financial risk and relatively more familiar to them.

One important avenue for future research would be to examine the respective performances of domestic and foreign investors in the ISE. As long as one admits that foreign investors' preference toward large firms undergoes an asymmetric-information story, one should also expect domestic investors to outperform their foreign counterparts by materializing their informational advantage. Empirically, evidence on the respective performances of local and non-local investors is relatively mixed (Kalev *et al.*, 2008; Dvorak, 2005; Malloy, 2005). Theoretically, mainstream models of cross-border portfolio flows and holdings, which assume asymmetric information between domestic and foreign investors, predict a positive relationship between foreign purchases of local stocks and the firm's size or the returns on the market (Brennan *et al.*, 2005; Brennan and Cao, 1997). Therefore, the comparison of relative performances of local investors and foreign investors, who are supposed to be less well informed about Turkish stocks, remains an open and uninvestigated issue.

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MULTINATIONAL FIRMS R&D CENTERS IN PIEDMONT

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Abstract

In the actual scenario of high technological competitiveness and environmental complexity, MNEs focus the attention on the R&D activities. The context is more and more dominated by a strong and growing competition between companies among their global forcing organisations to move the focus of competitive advantage from the classical sources to new strategies. More specifically, the choice of locating in a specific place may have important consequences on the general performance of the group.

This paper focus on foreign MNEs that have decided to start their own R&D activity in Piedmont, one of the 20 regions of Italy. These companies choose on the strength of several drivers. This paper goes beyond the existing literature analyzing the level of satisfaction that MNEs give after the settlement. 51 MNE in Piedmont were analyzed and most of them revealed to be generally satisfied. This result has been confirmed by the high level of presence after 3 years from the settlement. At the end improvement areas were found, such as utilities available and bureaucracy level.

Introduction

Multinational Enterprises (MNE) are increasingly adopting a global strategy for their activities of research and development (R&D); therefore, academics have shown growing interest in reference to this phenomenon since the '90s.

The most debated topics about this domain appear to be about some principal areas of interest, such as the classification of the activities made abroad (Kuemmerle, 1999; Sun, 2003), the choice of the place where to locate R&D centers (Belderbos et.al., 2008; Dougherty et al., 2003), the organization of R&D's network all around the world (Alfaro and Chen, 2009) and the strategies carried out by MNE in order to run global R&D process (Arora et al., 2001; Chesbrough, 2003; Ernst, 2005).

This paper has a dual purpose: first, to investigate why multinational enterprises chose to localize themselves in Piedmont, one of the 20 regions of Italy with an area of 25,402 square kilometres and

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a population of about 4.4 million, and the drivers of this choice; second, to investigate the satisfaction of the firm which chose to locate their R&D activities in Piedmont.

Literature review

The hypercompetition made the R&D function more and more important as a driver of success; hence, in the last years it has been noted that MNE are spreading these activities beyond national borders. As a first consequence, the literature about the globalization of R&D increased, analyzing some time the evolution of the R&D internationalization process, other time the localization choice of R&D centers, still other time the organization of R&D activities and the presence of networks.

However, the focus of this paper is on the MNE R&D localization choices. There are two main models proposed by academics to explain these choices: (a) the rational choice model and (b) the behavioural imitation model. According the first model, places chosen for the activities of R&D came out from a deliberate decisional process pushed by the analysis of the external environmental and the internal organization. The second model, instead, is based upon the theory that R&D's localization process is cumulative and path-dependent.

Rational model studies

During last years, many studies supporting the rational model were proposed. Siedschlag et al. (2009), for instance, through the analysis of 446 location decisions of foreign affiliates in the R&D sector incorporated in the European Union over 1999-2006, suggest that on average, the location probability increases with the size of demand, agglomeration economies, low production cost, R&D intensity, flexibility of labour markets, access to skilled labour and information technology infrastructure.

Cantwell and Piscitello (2005) through their studies stated that the location of foreign R&D centers were most influenced by spillover and externalities.

Serapio and Dalton (1999) analysed 701 R&D foreign centres in the U.S.A, finding out that the 75.2 % of those structures were located in the 11 principal States of the country. Those data support the theory that there is a strong trend towards concentration of these activities in certain areas characterized by particular features; this thesis has been endorsed by other academics such as Cappellin (2010).

Dunning (1998) identified some variables influencing the location of value added activities by MNEs in the 1970s and 1990s depending on four different type of FDI (resource seeking, market seeking, efficiency seeking and strategic asset seeking). Tellis et al. (2008) showed that the grade of attractiveness of a geographical area is closely linked to the number of PhD in Science and Engineering available in that country.

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So, according these authors, firms choose their location not to gain from a transfer of knowledge (a direct or indirect transfer), but simply to grant themselves an access to asset they can only find in a specific location (such as qualified human resources, specific know-how and facilities,…)

Moreover, another important localization driver is the capacity to maintain the R&D results. The studies on this specific topic, generally state that the probability rises where the use of intellectual property protections is high (Branstetter et al., 2006).

Finally, MNEs often chose to locate R&D centers close to their other functions such as production, marketing and sales, in order to easily control communication, resources sharing, coordination (Malecki, 1980).

Behavioural model studies

According to the behavioural imitation model the MNEs location process is cumulative and path-dependent. This approach asserts that there are controversial results in traditional research, and that often the degree of concentration cannot be convincingly explained by the conventional rational choice model that relies mostly upon factors such as market size, labour costs and infrastructure, among others. On the contrary, site location decisions are also the product of imitative behaviours among decision makers faced with uncertainties and multiple risks. (Sun et al., 2006; Sun and Wen, 2007).

Information uncertainties lead people to follow signals from others, sometimes even without questioning the rationales. When companies look for R&D locations, they look at other companies to see where similar R&D facilities have been set up. In other words, prior decisions by other firms in the same industry to locate R&D in the same state/country actually cause an otherwise identical firm to locate its own R&D in the same place.

Other studies

There are several studies which study R&D location choice not only from the drivers point of view, but also from the organization point of view. They try to investigate how a MNE organizes its R&D activity in order to better find a compromise between the necessity to be global and the need to be very close to the local market with its subsidiaries.

Bartlett and Ghoshal (1990) identified four modes of R&D organization in MNEs: central-for-global (centralized development of technology at home for the global markets), local-for-local (decentralized development of technology for the local markets), locally-linked (development of specified technology at each location for the global markets), and globally-linked (development of technology through R&D cooperation in different countries for the global markets).

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Then, the recent literature (Alfaro and Chen, 2009), instead, put increasing attention to the establishment of internal and external network by MNE. The studies of Narula and Zanfei (2005) are very interesting in this analytical perspective, by analysing the processes of globalization. Other authors, such as Arora et al. (2001), Chesbrough (2003), Ernst (2005) and Tardivo (2008), emphasized the importance of open system of innovation and the knowledge sharing network importance.

Finally, other authors put in evidence the importance of the presence of R&D facilities in foreign seats. The pioneering studies of Ronstadt (1977) about technologic activities inside American MNE identified four structures: Technological Transfer Unit (TTU), Indigenous Technology Unit (ITU), Global Technology Unit (GTU) and Corporate Technology Unit (CTU).

However, most researchers divide the motives to undertake R&D in foreign countries into two categories: knowledge exploiting and knowledge augmenting (Ambos 2005; Belitz 2006; Kuemmerle 1997, 1999).

Finally, Sun (2003) indicates an alternative approach based on two different categories: strategic or tactical – according to their relevance. Strategic R&D gives more importance and relevance to the MNE global markets and it has a long-term aim. Tactical R&D, on the contrary, has a short-term relevance and focuses on local markets.

Methodology

This research has a double purpose. On one hand, the aim of investigate the reasons why MNEs choose a specific localization for its R&D activities; on the other hand, it looks for the return of this choice in terms of satisfaction. In order to achieve these purposes, an empirical enquiry has been made on Piedmont-based foreign MNEs. Piedmont is a very interesting case due to its geographical position and its vocation to R&D – there are more than 200 R&D public and private centres, 380 laboratories, 4 universities, 6 scientific and technological parks, 12 innovation clusters and 6 incubators). Yet, Piedmont alone represents 8% of the Italian GPD. 412 Piedmont-based foreign companies were selected analyzing the database "R&P-Politecnico di Milano" combining with data from "Centro Estero per l'Internazionalizzazione del Piemonte (CEIP)" and other databases (Cerved-Lince, AIDA-Bureau Van Dijk, Hoover's-D&B). From the list are excluded companies linked to the hotel industry, to personal services and all those companies without a local executive manager. Finally, a structured questionnaire was sent during the second half of 2011 to the 181 companies of the sample. 51 companies responded with acceptably completed questionnaires (a successful response rate of 28 per cent).

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The research analyzed the drivers which make Piedmont a suitable place for basing R&D activities and at the same time the level of satisfaction of the investigated MNEs concerning their choice. Moreover, it investigates the relations between MNEs and the local environment (potential spillovers) underlining possible critical situation and improvement areas.

The empirical analysis

Home countries of the analyzed MNEs are reported below (Figure 1)

Home country	*%*
USA	*25.88%*
Germany	*18.42%*
France	*14.29%*
UK	*9.43%*
Spain	*5.39%*
Japan	*5.12%*
Sweden	*4.58%*
Switzerland	*4.00%*
Netherlands	*3.50%*
Other eu countries	*4.00%*
Other extra-eu ountries	*5.39%*
Total	*100.00%*

Figure 1 -MNEs of the sample by home countries (%)

Source: personal elaboration

The subsidiaries interviewed run several activities/function: 56.90% of them is present with an entire BU, 66.7% of them with a production unit, while 64.7% has a commercial office; 45.1% based in Piedmont an independent unit fully focused on R&D.

Function	*MNE*	*%*
Business Unit (BU)	*29*	*56.90 %*
Production units	*34*	*66.70 %*
R&D center	*23*	*45.10 %*
Representative office	*12*	*23.50 %*
Technical center (tecnica assistence)	*21*	*41.20 %*
Commercial office	*33*	*64.70 %*
Warehouse	*21*	*41.20 %*
Other	*3*	*5.90 %*

Figure 3 - functions of the local branches

Source: personal elaboration

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Findings

The research revealed four decisive drivers leading companies to base in Piedmont their R&D activities. More specifically those are: a) quality and flexibility of the human resources b) facilities c) integration with the local environment d) infrastructures (i.e. streets, railways, …)

For each of these drivers the MNEs expressed a qualitative opinion about the difference between what they expected - before the settlement – and what they really found – after the settlement.

More specifically:

Quality and flexibility of the human resources

Human resources preparation are considered by the companies below expectations in 14% of the cases, while 78% of the MNEs consider them according to expectations (or partially even better than expected). More specifically companies gave a positive opinion on the professional training, university and post graduate education (over 2/3 consider themselves more than satisfied).

Facilities

In this case the analysis puts in evidence two main results.

On one hand, there is huge satisfaction for the "Piano Pluriennale Competitività". This is a project financed by Piedmont Region allocating 500 million Euros with the aim of starting a new era of reforms in supporting innovation, business and development. On the other hand, there is a bad feeling as far as utilities and bureaucracy are concerned. Half of the interviewed companies expressed a negative opinion on the quality -considered low – and the availability – considered restricted and inadequate – of the utilities; a slighter percentage underlines dissatisfaction for the price/quality ratio of the services.

Finally, the analysis shows that 40% of the interviewed MNEs is not satisfied at all with the bureaucracy; more than one half highlights problems in getting urban concessions and authorization. These procedures would need to be simplificated, defined and a very strict timing, and more contacts between MNEs and local authorities.

Integration with the local environment

The most positive result emerges with reference to this driver. The process of embeddedness in the area is lead by the incidence and the quality of the relations among local entities. Data (Figure 4) attest that 74% of the MNEs develop R&D activities in cooperation with some partners (Universities and the Politecnico of Turin - 75%; innovation clusters - 21% and other companies outside the group - 63%). The most relevant data is provided by utility/service companies, 61% of which develops R&D activities joint exclusively to enterprises from Piedmont.

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Sector	No cooperation	Piedmont	No Piedmont	Both
Manufacturing	41,00 %	9,00 %	0,00 %	50,00 %
Service	14,00 %	61,00 %	8,00 %	17,00 %
Total	26,00 %	40,00 %	4,00 %	30,00 %

Figure 4 – collaboration in R&D

Source: personal elaboration

The embeddedness in the territory is also confirmed by the fact that 32 foreign MNEs are joining the innovation clusters through the contributions in projects and activities together with other companies from Piedmont and that 7 other MNEs have decided to fully join a cluster alone.

Moreover, regarding the type of research activity (Figure 5), the results show that more than 60% of the MNEs develop both industrial and experimental kind of research. This percentage grows when analyzing only the data of the service companies.

Sector	Industrial research	Experimental research	Both
Manufacturing	9.00 %	39.00 %	52.00 %
Services	7.00 %	22.00 %	69.00 %
Total	8.25 %	31.50 %	60.25 %

Figure 5 – type of R&D done by local unit

Source: personal elaboration

Finally, concerning the grade of dependence from the parent company on the R&D issue, the survey reveals that only 28% of the local subsidiaries in Piedmont does R&D activities exclusively for its parent company -i.e a good level of autonomy is guaranteed - while 25% does them for other companies and the other 47% for itself.

Infrastructures

MNEs look pretty satisfied of the infrastructures. In particular, they gives a sufficient evaluation of logistics in general, as well as the highway system. On the contrary, they give a negative opinion on the the rail system and the public transport.

The main local commercial airport (Torino Caselle) has been positively valuated concerning the accessibility and negative valuated regarding the lack of international links.

Conclusions

The research has perfectly put in evidence that MNEs include structures that tend to be more flat and flexible. The increase of mobility, not just in terms of capital, but also of human resources, has widened the geographical spaces setting the companies on a comprehensive plan, also facilitated by

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the information revolution that overturned all the physical constraints of the various processes in different divisions/countries.

For this reason, the MNEs analyzed are trying to avoid the risk of inactivity, or simply the lack of response to changing external environment. In fact, in order to survive in the economic environment described above, organisations must be able to use tools of various types and levels to become more profitable and competitive.

In the last decades many factors stimulate the internationalization of business R&D and the beginning of the globalization of innovation. In this scenario, MNEs are driven to an extreme internationalization of their R&D activities. Many researchers investigated the main drivers leading the decision of a MNE to choose a specific location for its R&D centres. Thanks to the sample analyzed, this paper, according with the literature, found confirm about these four drivers, but at the same time goes beyond providing an evidence of the satisfaction of MNE referring the drivers.

So, data reveals in general a positive evaluation confirmed by a 76% rate of still presence on the territory after the first 3 years from the initial settlement. Nevertheless, the research shows some critical points which should be taken into consideration by whom is in charge of regional policy of attracting FDI. Even if efforts made by the Piedmont (i.e. Institutions) for putting into action the "Piano Pluriennale Competitività", there are still areas of enhancement. Utilities, bureaucracy and some infrastructures should all be developed trough regional support. In this way the territory should be more attractive, expanding the number of companies staying in the area and attract more and more foreign MNEs.

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THE DETERMINANTS OF PERFORMANCE IN THE ITALIAN HOTEL INDUSTRY. AN EMPIRICAL ANALYSIS.

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Abstract

In the recent years, the importance of services has steadily grown while the importance of goods has somewhat declined. In this contest, tourism services are immensely important and also of growing importance in several countries.

As there is a diversity of services in the tourism sector, the paper concentrated on the hotel industry one, that includes a set of companies that is homogenous in production and in competitive setting. In this contest, the aim of this paper is to investigate the relationship between performance and his determinants in the Italian hotel industry. The findings aim to verify whether variables as the size, the category and the variety of the service provided positively influence the performance of the hotels.

In the first part, the paper includes a literature review on the subject, with special focus on the concept of performance in the hotel industry. In the second part, the paper describes the empirical research; finally, the results put in evidence a clear relation between the category and the performance, while it does not seem to be present a link between the size and the variety of the services provided and the performance.

Keywords: Hospitality Industry, Hotels, Performance, Italy.

Introduction

During recent decades, the importance of services to the global economy has steadily grown while the importance of goods has somewhat declined. In fact, the service industries comprise approximately more then 70% of aggregate production and employment in the Organisation for Economic Cooperation and Development (OECD) nations (OECD, 2012).

Hotel industry and tourism services are immensely important and also of growing importance in many countries. The latest World Economic Impact Report by World Travel and Tourism Council

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(WTTC, 2012) shows that world travel and tourism continues to grow in spite of continuing economic challenges.

The hotel industry is a key sector within the tourism industry since it is fundamental to the provision of all other tourism services, being the most basic requirement of the tourist after they reach their destination (Orfila-Sintesa, Crespi-Cladera, & Martinez-Ros, 2005). Consequently, this study chooses the hotel industry as a suitable setting for the service economy.

As there is a diversity of services in the tourism sector (Tremblay, 1998), we concentrated on the hotel industry one that includes a set of companies that is homogenous in production and in competitive setting.

This study focuses on the determinants of performance in the hotel industry, and presents an empirical evidence of the contribution of determinants on performance. That is, the goal of this study is to investigate the relationship between the determinants of performance and hotel performance.

Terminological Definition and Contextual Framework

A distinctive feature of hotel management concerns the complexity arising from the range of diverse activities undertaken (e.g., rooms, food and beverage, laundry, etc.) in a building where service provision coincides with customer service consumption.

Although there has been attention directed to hotel outsourcing management issues in professional-oriented periodicals (e.g., Hotel and Motel Management, Lodging Hospitality), and recently greater interest shown by hospitality researchers (Goldman and Eyster, 1992; Hallam and Baum, 1996; Hemmington and King, 2000; Paraskevas and Buhalis, 2002; Espino-Rodrıguez and Padron-Robaina, 2004, 2005; Lam and Han, 2005; Lamminmaki, 2005, 2006, 2007), to date, there has been limited accounting research interest shown in hotel management issues. The few exceptions to this observation include Brignall et al. (1991), Collier and Gregory (1995a,b), and Guilding (2003). Chenhall (2003, 2007) notes a growth in the importance of service industries and specifically cites the hospitality and tourism sectors as providing opportunities for future research.

Determinants of performance in the hotel industry

Firm’s performance is due both to external and internal factors: external, because firms compete in sectors and markets which influence strategy and results; internal, because firms have to decide every day the correct way to operate, to allocate resources, etc in order to manage business functions and reach goals.

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In the service firms, "performance" is not just related to balance sheet, financial data (Ghalayini and Noble, 1996), but also to human resources, quality, image, brand awareness. Studies of performance indicators are discussed in the literature and measured largely by the firm's financial outcomes; however, in the last 25 years, there has been a revolution in performance measurement (Neely and Bourne, 2000).

Measurement approaches that relied just on financial results are now being replaced by more integrated systems that combine financial and non-financial indicators (Bergin-Seers and Jago, 2007). The most important consequence is that performance can not just be quantified in money terms, most of all if it relates to customer satisfaction and quality (Ghalayini and Noble, 1996).

By this new approach, performance in the hotel industry has been studied linking the performance to both external and internal factors. By the first point of view, some authors tried to find a correlation between performance and external factors (Tang and Jang, 2009; Arslanturk et al., 2010; Brida and Monterubbianesi, 2010; Brida et al., 2011). By the second point of view, other authors looked for a correlation between performance and internal factors (Gursoy and Swanger, 2007; Sainaghi, 2010a), while other authors analyze internal variables related to several firm functions, processes and operations, with a strong focus on strategy (Ingram, 1996; Ingram and Baum, 1997; Bresciani et al., 2012), marketing (Kim and Kim, 2005), production (Sigala 2004; Barros 2004), organization (Øgaard et al., 2008).

So, it appears very clear in the literature that indicators used to measure these variables can be clustered in two main groups: balance sheet indicators and competitive/strategic indicators. Within all these studies, our work focuses on the determinants of the revenue per available room (RevPar), a performance metric in the hotel industry, which is calculated by dividing a hotel's total guestroom revenue by the room count and the number of days in the period being measured.

The Italian case

Hotel performance in Italy shows a generally favourable view, as measured by year-on-year percentage change for the year-to-date 2011 for the key performance indicators of occupancy, average daily rate and revenue per available room, according to data.

The "Sesto rapporto sul sistema alberghiero in Italia" (Federalberghi, 2010) revealed that 20% of Italy's hotels are more the 100 years old, 80% more than 30 and that the majority of the hotels are small. On the other hand the quality has risen; in 1990, 1500 were 4 or 5 star, in 2010 there were 5445.

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The latest Travel & Tourism Economic Impact 2012 - Italy (WTTC, 2012), puts in evidence that the direct contribution of Travel & Tourism to GDP in 2011 was EUR 51.4bn (3.3% of GDP). Moreover, in 2011, Italy generated EUR 30.5bn in visitor exports.

According to World Tourism Organization Network (WTON, 2011), with more than 43.2 million tourists a year, Italy is the fourth highest tourist earner, and fifth most visited country in the world. People mainly come to Italy for its rich art, cuisine, history, fashion and culture, its beautiful coastline and beaches, its mountains, and priceless ancient monuments, completely spread throughout the territory.

Developing the Hypotheses

Which products and kind of service to provide is a critical decision that each hotel has to take. To measure the choices made, the literature suggests the importance of monitoring the category (i.e. number of stars), the size (i.e. number of rooms), to be part of a chain, the services provided (i.e. meeting/congress spaces), the location/destination.

Several authors looked for a relation between dimension, economies of scale and performance (Israeli, 2002; Barros, 2004; Pine and Philips, 2005; Claver-Cortés *et al.*, 2007; Assaf and Cvelbar, 2010; Claver-Cortés *et al.*, 2010). For these reasons, it is possible to formulate the following hypothesis:

Hp1: it exits a positive correlation between hotel dimension and performance.

Star rating has used as a determinant of performance by several researchers, who have often found positive correlation between the number of stars and performance (Ingram and Roberts, 2000; Israeli, 2002; Danziger *et al.*, 2006; Tarì *et al.*, 2010). As a consequence, it is possible to formulate the following hypothesis:

Hp2: it exits a positive correlation between the stars number, and so quality, and performance.

Some authors use the presence of meeting rooms, congress spaces and other conference facilities as a measure of performance (Claver-Cortés et al., 2006; Urtasun and Gutíerrez, 2006). Following these authors, it is possible to formulate the following hypothesis:

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Hp3: it exits a positive correlation between the service provided and performance.

		RevPar	Stars	Size	Chain	Congr
RevPar	Pearson Correlation	1	,932**	,551**	,027	,375**
	Sig. (1-tailed)		,000	,000	,392	,000
	N	104	104	104	104	104
Stars	Pearson Correlation	,932**	1	,593**	-,033	,398**
	Sig. (1-tailed)	,000		,000	,372	,000
	N	104	104	104	104	104
Size	Pearson Correlation	,551**	,593**	1	,026	,341**
	Sig. (1-tailed)	,000	,000		,397	,000
	N	104	104	104	104	104
Chain	Pearson Correlation	,027	-,033	,026	1	,072
	Sig. (1-tailed)	,392	,372	,397		,234
	N	104	104	104	104	104
Congr	Pearson Correlation	,375**	,398**	,341**	,072	1
	Sig. (1-tailed)	,000	,000	,000	,234	
	N	104	104	104	104	104

***. Correlation is significant at the 0.01 level (1-tailed).*

Figure 1: correlation matrix

Source: personal elaboration

Finally, many authors (Baum and Mezias, 1992; Baum and Haveman, 1997; Urtasun and Gurierrez, 2006; Shoval et al., 2011) uses variables as “location” or “destination” to look for a relation with performance. The hotel industry generally recognizes the advantages of a central district location, resulting in higher demand, pricing ability, and profitability, but in other cases put in evidence the negative effects of agglomeration and competition among centrally located hotels (Seul Ki and SooCheong, 2012). The case of Italy, however, is special because all the attractions are completely spread throughout the territory. For this reason it has no sense to look for a correlation between location and performance.

In the same way, as the Correlation Matrix (Figure 1) does not show a correlation between “Chain” and RevPar, we do not look for a correlation between these two variables. In fact, in general the empirical evidence shows at time a positive relationship between to be affiliated and the

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results (Ingram and Roberts 2000; Yeung and Law 2005), sometimes any link (Damonte et al., 1997; Israeli 2002).

Research Methodology

The data used are taken from "World Economic Impact Report" by World Travel and Tourism Council (WTTC, 2012) and "Sesto rapporto sul sistema alberghiero in Italia" (Federalberghi, 2010). The research was conducted in two separate phases. In the first phase a sample of 450 hotels was selected, including only those which are representative of the region and which have a star rating of 3 or more (on a rising scale of one to five). In the second phase a structured questionnaire was sent during 2011 to the 500 hotels of the sample. 208 hotels responded with acceptably completed questionnaires (a successful response rate of 41.60 per cent).

This research applies a revisited version of the model of analysis used by Sainaghi (2010b). The author identified revenue per available room (RevPAR) determinants of individual firms located in a destination analysing a sample of 72 hotels operating in the 3-5 star range

The model is consequently synthesized using size (Size), star rating (Stars) and services provided (Congr) as Dependent Variables and revenue per available room (RevPAR) as Independent Variable. So:

$$RevPAR = \beta_0 + \beta_1\,Size + \beta_2\,Stars + \beta_3\,Congr$$

where:

- *RevPAR (*revenue per available room) = a performance metric in the hotel industry;
- Size = number of available rooms;
- Stars = number of stars of the hotel – category;
- Congr = binary variable which detects the presence of meeting rooms and congress spaces (1 = yes; 2 = no);

Sevaral studies use RevPar as indicator of the hotel performance (Kim and Kim, 2005; Cho and Erdem, 2006; Namasivayam *et al.*, 2007; Campos Blanco *et al.*, 2011) due to the fact that it is not an economic variable and it catches the importance of competitive/strategic indicators.

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Research Results

Thanks to the questionnaire, it has been possible to collect data on dimension, category, and services provided. Figure 2 shows the characteristics of the 208 hotels answered the questionnaire.

Independent variables		
Size (Size)	*Hotels number*	*%*
Less than 50 rooms	*126*	*60.6%*
From 50 to 79 rooms	*56*	*26.9%*
More than 79 rooms	*26*	*12.5%*
Total	*208*	*100.0%*
Category (Stars)		
5 stars	*6*	*2.9%*
4 stars	*48*	*23.1%*
3 stars	*154*	*74.0%*
Total	*208*	*100.0%*
Services provided (Congr)		
Congressual hotels	*114*	*54.8%*
No Congressual hotels	*94*	*45.2%*
Total	*208*	*100.0%*

Figure 2: hotels

Source: personal elaboration

The data (Figure 1) show some significant correlations between independent variables. However, it has been decided to maintain these variables in the model because these kind of correlations are typical of the hotel industry. To confirm this choice a multicollinearity test was conducted. In particular, it was found: a Variance Inflation Index (VIF) of 1.65, which is under the level (3.0) suggested by literature (Hair *et al.*, 2005); a Condition Index of a maximum of 20.43, which is, also in this case, under the level (25.0) suggested by literature (Belsley *et al.*, 2004).

Model Summaryb

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	*,932a*	*,868*	*,864*	*7,5917*

a. Predictors: (Constant), Congr, Dim, Stars

b. Dependent Variable: RevPAR

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ANOVAb

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	37930,303	3	12643,434	219,373	,000a
	Residual	5763,436	100	57,634		
	Total	43693,739	103			

a. Predictors: (Constant), Congr, Dim, Stars

b. Dependent Variable: RevPAR

Figure 3: tests of significance

Source: personal elaboration

Applying the model, it was possible to find significant statistical results (P = .000) which explains 86.8% of the RevPar variability (R2 = 0.868). This means that the three independent variables (Size, Category and Services provided) together explain 86.8% of the variability of the performance (RevPar) of the hotels. Moreover, the ANOVA test shows an acceptable result (P < 0.0001) (Figure 3).

Figure 4 puts in evidence the results of the regression.

The columns B and Beta put in evidence the sign of the correlation between the independent variables and RevPar. Category (Stars) and Services provided (Congr) are positive correlated to performance, which means that the higher the category and services provided, the better the performance. On the contrary, there is a negative sign for the dimension (Dim).

However, looking at the Sig. column it is possible to note that just stars is a useful variable to explain the variability of RevPar. So, it is possible to assume that the results positively answer Hp2 i.e. that there is a positive correlation between the stars number, and so quality, and performance; on the contrary, it does not find a significant correlation between size and performance and between services provided and performance, so Hp1 and Hp3 have to be rejected.

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-47,524	5,255		-9,044	,000		
	Stars	37,236	1,866	,932	19,956	,000	,605	1,652
	Dim	-,003	,038	-,003	-,075	,940	,636	1,573
	Congr	,227	1,647	,006	,138	,891	,825	1,212

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	Stars	37,236	1,866	,932	19,956	,000	,605	1,652
	Dim	-,003	,038	-,003	-,075	,940	,636	1,573
	Congr	,227	1,647	,006	,138	,891	,825	1,212

a. Dependent Variable: RevPAR

Figure 4: regression results

Source: personal elaboration

Conclusions

The results put in evidence category (Stars) as the only determinant of hotels performance. The category has a positive correlation with performance, this means that the hotels of greater quality level exhibits a higher capacity to handle the employment and prices, yielding a value higher in RevPAR.

Pointing out the strong correlation between the stars and the size (0.593) it can be stated that the hotels of a higher category also tend to be larger and show greater efficiency. The stars have also a high correlation with the conference services (0.398), allowing a more efficient management of employment and prices.

It is now interesting to pass rapidly through the assumptions that have not been verified by the analysis and in particular the absence of a significant correlation between size and performance (Hp1), and between services provided and performance (Hp3).

The dimension does not show a significant correlation with performance. One possible explanation is due to localization. The larger structures tend to be located in areas not central or, often, very remote.

Finally, services provided has a positive correlation but not significant with the performance. This evidence is rather unique. Indeed, it is reasonable to expect that this type of aid appeal to seasonally adjust employment and revenue growth, generating an improvement in RevPAR and therefore not only the sign is positive, but that the correlation is significant. One possible explanation may be related to difficulties that hotels are using these facilities during the low season.

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Generally speaking, from data collected in the study, it was evident that quality is a key cultural factor pervading a hotel's management philosophy and approach to operations. This factor is underscored by the importance of the hotel star rating system. The star rating system signifies that hotels are independently branded with respect to their quality. A priori, it is to be expected that higher quality hotels will have more sophisticated management systems to support their higher quality service delivery. As maintenance of a high quality of service is expected to be more important to higher star rating hotels, it follows that high star rating hotels will implement relatively sophisticated systems to assist in the decision-making process and to control the quality of service provided by subcontractors.

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REASONS FOR THE LOW ACCEPTANCE OF ETHICALLY SUSTAINABLE INVESTMENTS – AN EMIRICAL STUDY

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Abstract

A majority of the western population seems to be very much concerned about ethics and sustainability. Hence one should assume that the ethical correct and on sustainability focussed human being of today would keep an eye on ethics and sustainability in regard to his investments. Surveys show that this is not the case. Only a very small portion of the investment market goes to ethically sustainable investments. The purpose of this paper is to find out what might be reasons for the low acceptance of ethically sustainable investments and what needs to be done to attract further investors. Thereby, the focus of the investigation lies on private investors in German speaking countries. Through an extensive literature review and the conduction of expert interviews it is concluded that main reasons for the low acceptance of ethically sustainable investments are a lack of transparency and standardization, deficiencies in regard to certification, shortcomings in terms of financial advice and reservation about the performance. The complexity of ethically sustainable investments leads to the fact that there is no simple solution to the problem of acceptance, because the different expectations which are put on these investments cannot be met by a unified solution. Nevertheless different approaches to the solution are presented in this paper, like a clear and transparent communication of the selection criteria used in the creation of the investment products, professionalization of marketing and sales, and fortification of a public debate combined with the transfer of investment basics and the communication of results of performance studies.

Keywords: investment, sustainability, ethics

Introduction

Ethics and sustainability are very important topics nowadays. Accounting scandals, the subprime crisis and the use of green energy are among the issues often discussed. Climate change, environment protection and social responsibility are also hot topics. The oil disaster in the Gulf of Mexico and the Fukushima catastrophe refocused our attention on the issue of sustainability. The former German President Christian Wulff resigned because of an investigation by the German prosecution authorities into allegations of corruptions. A majority of the western population seems

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to be very concerned with ethics and sustainability. People want accountability in the economic, ecological and social spheres for people in positions of power and also for businesses.

Just as consumers want to influence the behaviour of large corporations through the purchase of sustainable products, there are more and more investors who want to assume responsibility and take a closer look at what happens with their money once they invest it in a bank or investment company (Werner, 2009, p. 37; Fricke, 2010, p. 8). Furthermore, the financial system has major economic importance and therefore has a large influence on businesses and the sustainability debate (Hübner, 2010, p. 169). In this context, ethically sustainable investments play an increasingly important role.

The interest of private investors in sustainable investments is growing steadily. A survey by Imug (Institute for Market-Environment-Society) on 1,000 German households in 2004 revealed that nearly 30 percent of the respondents found sustainable investments attractive or very attractive (Imug, 2004, p. 13). However, only 2.6 percent of the respondents had already made such investments (Imug, 2004, p. 16). According to a survey by DZ Bank in the autumn of 2009, every second investor is interested in ecological investments, and one out of three in ethical ones (DZ Bank, 2009). However, in 2009, the share of sustainable investments in the total volume of managed assets in Germany was only 0.8 percent (Tober and Vögele, 2010, p. 19). Consequently, there is a gap between the expressed interest and the actual acceptance of the market. This gap could be caused by supply and demand, but surveys have already shown an increasing number of sustainable investment funds with a growing amount of money being invested (SBI 2011). Hence, this paper focuses on the demand side of such investments.

The purpose of this study is to identify factors that explain this gap and with it the low dissemination of ethically sustainable investments in the German investment market. This will involve investigation of the reasons for the low acceptance of ethically sustainable investments as described in the literature and of the causes of this as described by experts given their practical experience. In addition, this paper aims to present possible measures to attract further investors.

In answering the questions, there is no claim for completeness. Hereinafter, the focus is placed on ethically sustainable investments in Germany or German-speaking countries in particular. Developments in other European countries and the United States are not part of this study. Moreover, the emphasis is placed on private investors and not on institutional investors. Despite the comprehensive literature review, the results cannot be seen as representative. Only a few experts have been interviewed. Further research could involve an empirical standardized survey based on a certain number of participating investors, which could result in more representative results.

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Ethically Sustainable Investments

To align investments fulfil not only financial but also moral criteria has a long tradition going back to the beginning of the 20th century (Werner, 2009, p. 27, and Ristau and Gewalt, 2010b). In the U.S., Christian-influenced investors, especially Methodists and Quakers, maybe were the first to focus their investments on the basis of ethical and social motives. They refrained from investing in so-called "sin stocks", including companies in the arms, drugs and gambling industries. This form of investment was adopted by a large number of people during the 1960s and '70s as part of the protest movements against the Vietnam War and the apartheid regime in South Africa (Wissenschaftliche Arbeitsgruppe für weltkirchliche Aufgaben der Deutschen Bischofskonferenz, 2010, p. 9). In addition to private investors, more and more churches, universities and foundations also considered ethical criteria in their investments (Werner, 2009, p. 28).

Since the 1990s in particular, ecological (e.g. no nuclear power) and social (e.g. no child labour) aspects have increasingly been taken into account in ethically sustainable investment, which is often called sustainable investment, ethical and ecological investment or socially responsible investment (Rudolph, 2010, p. 445 and Wissenschaftliche Arbeitsgruppe für weltkirchliche Aufgaben der Deutschen Bischofskonferenz, 2010, pp. 9 and 10). In English-speaking countries, the term SRI (Socially Responsible Investment or Sustainable and Responsible Investment) has been widely adopted. However, no consensus on the definition of this term has been reached.

Meanwhile, almost all financial institutions also offer ethically sustainable investment products. There are also alternative banks (ethical-ecological banks), which have an ethical, ecological and/or social criteria for their businesses (Fricke, 2010, pp. 13-49). Loans may be granted only under strict criteria and their own investment in the capital market also has to meet high standards, which exclude involvement in certain activities such as arms or genetic engineering. In addition, alternative banks try to work more transparently than traditional banks by reporting the projects to which they grant loans. However, the degree of transparency differs even among these alternative banks.

The ethically sustainable investor can rely on a wide range of investment products similar to that of the conventional investor (Fricke, 2010, p. 10). Choices range from call money accounts, stocks and various funds to types of insurance. Particularly in the area of funds, a very large variety of different ethically sustainable funds exist (Gerth, 2008, p. 98). A distinction can be made not only between equity, bond and balanced funds, but also in terms of investment focus. Thus, there are several themed funds, which are tailor-made to specific target groups, but the boundaries between the differently themed funds are often not clearly defined (Werner, 2009, pp. 124 and 125).

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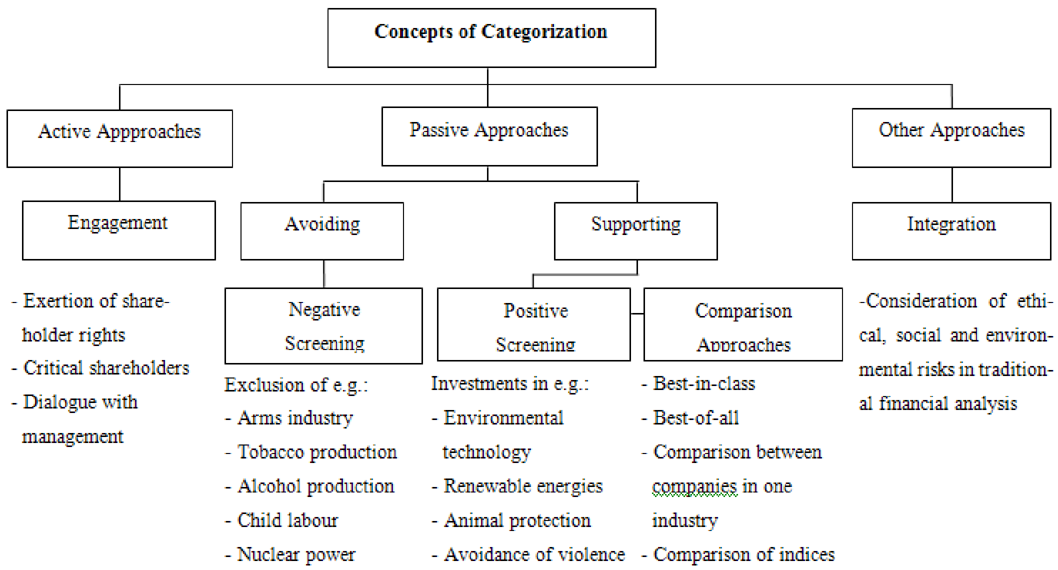
The vendors of ethically sustainable investments define sets of criteria that can be used to identify promising companies that could fit into a portfolio (Gerth, 2008, p. 74). There are no rules and no consensus on what is to be regarded as ethical or sustainable. In addition to traditional metrics such as sales and profit, management, production and the products are also tested according to environmental, ethical and social criteria. The providers use this additional information to select from the range of eligible companies those that best meet their needs.

The concepts for categorizing ethically sustainable investments can be divided into active and passive approaches (Schäfer, 2009, p. 68 and Flotow, Häßler and Schmidt, 2002, p. 77). In the active approach, the investor intentionally influences the management by utilizing his or her shareholder rights (so-called engagement approaches). In the passive approach, the investor limits him or herself to expressing values by making specific investments (supporting) or by not making specific investments (avoiding). The following figure gives an overview of the different concepts used to categorize ethically sustainable investments.



Source: Own diagram based on Werner, 2009, p. 47, and von Flotow, Häßler and Schmidt, 2002, p. 78.

Various studies on ethically responsible investments have been conducted (Pinner 2008); for example, these include Mill 2006, Sparkes 1995, Camejo 2002, Mackenzie 1998, Havemann & Webster 1999, Cooper & Schlegelmilch 1993,Gregory 1997, Kempf & Osthoff 2006, diBartolomeo & Kurtz 1999, Klassen & McLaughlin 1996, Gunthorpe 1997, Cowton 2004, McWilliams 2000, Derwall et al. 2005, Webley & More 2003, Barnea et al. 2004, Heinkel et al. 2001, Sparkes & Cowton 2004, Orlitzky et al. 2003, Schröder 2005, Schröder 2003, Guerard 1997, Diltz 1995, Goldreyer et al. 1999, and Benson et al. 2006. However, we could only find one study – Mächtel 1996 – asking questions

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similar to those dealt with in this paper. Mächtel analysed the key success-related factors in ecological-orientated investment funds in German-speaking countries. A number of studies on ethically responsible investments can be found online (http://www.sristudies.org).

Empirical Study – Design, Methodology, Approach

In order to identify the causes behind the low acceptance of ethically sustainable investments and what measures are proposed to increase the spread of these investments, both a literature review and expert interviews are carried out. To identify the opinions and experiences of experts, qualitative interviews are conducted and subsequently analysed. As such, it must first be determined who is an expert and shall be questioned. In some way, the status of being an expert, which is limited to a specific domain, is subjectively determined awarded by the researcher (Meuser and Nagel, 1991, p. 73). An expert is someone who is in some way responsible for designing, implementing or controlling a method of problem solving, or who has privileged access to information about groups or decision-making processes (Meuser and Nagel, 1991, p. 73). Hence, in this study, the following people are considered experts: those who work in the financial sector, including but not limited to those who specialize in the field of ethically sustainable investments. By interviewing experts who are not focused on ethically sustainable investments, the range of views on possible reasons for the low acceptance of ethically responsible investments and possibilities to overcome them can be expanded. In this study, only experts of the supply side are interviewed. Potential investors are not questioned.

Through the interviews, a variety of individual experiences of experts shall be analysed, but there is no claim for this selection to be representative. Simply, the opinions of actors of different activities in the financial sector are included in the investigation. Typical sample sizes for a hermeneutic interpretation range from n=6 to n=120 (Helfferich, 2009, p. 175). In this study, six experts are interviewed. Five of the six interviews involve personal conversations. One involves a telephone interview.

The interviews are problem-centred interviews, which include only open, semi-structured questioning (Mayring, 2002, p. 67). The interview allows the respondent to speak as freely as possible, but it is centred on a specific issue, which the interviewer introduces, and to which he returns consistently. The specific issue has been analysed previously by the interviewer; he has developed certain concepts related to it, which are compiled in an interview guide and addressed by him in the course of the conversation (Mayring, 2002, p. 67). Therefore, within the scope of the interview, the theoretical assumptions are compared with the real world, reviewed and changed (Lamnek, 2010, p. 349). The interview guide is created using the following steps (Helfferich, 2009, pp. 182-185):

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- Collect questions in terms of a brainstorming session
- Check the questions in order to reduce the list to a few important and useful questions
- Sort the questions according to content
- Subsume individual aspects to the superior questions

The result is an interview guide with core questions that all the experts are asked, as well as additional questions that can be used flexibly depending on the course of the conversation.

There is no standard instrument for the analysis of qualitative interviews. Rather, the content analysis has to be adapted to the material and designed to the specific research question (Mayring, 2010, p. 49). In this study, the following analysis steps are conducted in order to filter interesting aspects out of the totality of the material. (The analysis steps are based on the analysis option described in Lamnek, 2010, pp. 369-370.)

- Transcription The interviews are taped and transcribed. Then, the transcriptions are sent to the interviewees for review, so that they can express any requests for changes and approve the use of the text for the analysis in this paper.
- Development of thematic progressions Generic terms for the topics mentioned in the conversation are written next to the corresponding paragraphs in the transcription. This creates a chronological overview of the various aspects raised.
- Create a matrix of topics The matrix is produced by adding all relevant topics and personal opinions mentioned (e.g. endorsing a measure) to a list. By checking the mentioned themes and statements of each interviewee, it is ensured that personal opinions can still be assigned to the right person. In a second step, the statements are sorted by superior subject areas, whereby the subsequent analysis is facilitated.
- Identification of new themes and divergent opinions The matrix of topics helps to compare the causes and solutions covered in the literature with the causes and solutions mentioned in the expert interviews. In this way, new and as yet unmentioned topics can be identified, as can areas where the experts disagree.
- Summary A summary of the experts' opinions, experiences and assessments is made.

Findings

Both, the literature review and the expert interviews lead to the conclusion that a major reason for the low acceptance of ethically sustainable investments is a lack of transparency. Owing to the growing range of ethically sustainable products and the use of a variety of different and not clearly

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defined terms, it is increasingly difficult for investors to orientate themselves in this area (Hagedorn, 2011, Schäfer, 2009, p. 64 and Fricke, 2010, p. 8).

The concept of ethically sustainable investments is complex and requires more and specifically tailored information than that of classic investment because the investment analysis has to be extended to non-financial aspects such as ethical, ecological and social factors (von Rosen, 2009, p. 89). In the literature, the sustainability assessment, which is usually carried out by specialized research and rating agencies, is seen as another reason for the low acceptance of ethically sustainable investments because there is no standardized method for assessing sustainability (von Flotow, Häßler and Schmidt, 2002, p. 52); as such, the research and rating agencies depend to a high degree on the willingness to provide information of the companies to be evaluated (von Flotow, Häßler and Schmidt, 2002, p. 95). In addition, this is because the assessment methods and associated weightings of individual criteria are not transparent enough to be retraced from the outside (Fricke, 2010, p. 59). The interviewed experts, however, do not see the assessment of sustainability performance as a major problem for the acceptance of such investments and are against standardization in this area.

With regard to the communication of the product providers, improvement is also needed. Investors need a lot of information on ethically sustainable investments in order to ensure that they can maintain their orientation because of the great variety of products and different concepts of categorization that exist in the market. Often negative criteria are used for the categorization so as to exclude certain activities such as arms or nuclear power (Tober and Vögele, 2010, p. 38, and Werner, 2009, p. 46). Positive criteria are based on the fact that certain selection criteria must be fulfilled by the investment (Fricke, 2010, p. 56). The concept of positive criteria includes the controversial best-in-class approach, where the most sustainable industry representatives are selected, without excluding specific sectors like the oil and automotive industries (Fricke, 2010, p. 57, and Weber, 2010, p. 52). In addition, more recent concepts of categorization such as the integration approach, in which ethical, social and environmental risks are taken into account in traditional financial analysis, make it increasingly difficult for investors to distinguish ethically sustainable products from conventional investments (Tober and Vögele, 2010, p. 37, and Eurosif, 2010, p. 60).

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<table>
<tr><td colspan="2">F1. Explanation of the interview process</td></tr>
<tr><td colspan="2">· Taping, Transcription, Review, Publication
· Assure anonymity
· Reasons for the low acceptance of ethically sustainable investments - Possibilities to improve acceptance
· Experience, attitudes, etc., of experts
· Assessment of the influence of recent catastrophes or other events</td></tr>
<tr><td colspan="2">F2. Personal data of the expert</td></tr>
<tr><td colspan="2">Name:</td></tr>
<tr><td colspan="2">Function:</td></tr>
<tr><td colspan="2">F3. Reasons and potential solutions</td></tr>
<tr><td>Core questions</td><td>Additional questions</td></tr>
<tr><td>1. What might impede people from making ethically sustainable investments despite the fact that surveys show that such investments are considered attractive and interesting?</td><td>o Variety of terms and product names
o Lack of comparison of sustainability performance
o Lack of transparency (research, rating)
o Selection criteria, composition of the funds
o Knowledge of the investor
o Knowledge and quality of the advisor
o Prejudice about a poorer performance</td></tr>
<tr><td>2. What are the most important reasons?</td><td>o Bring them into an order of importance</td></tr>
<tr><td>3. What are very important means to increase the acceptance of ethically sustainable investments?</td><td>o Unified typology
o Standardization of criteria
(GRI-guidelines, Sustainable Development Key Performance Indicators according to Axel Hesse; KPI for ESG of DVFA → how many indicators?)
o Standardization of research and rating
o Assured quality standards
(e.g. CSRR-QS 2.1)
Rating agencies
o Audit of agencies and ratings
o Binding application of the Eurosif-Transparency-Guidelines
o Rules, certificates, logos</td></tr>
</table>

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	o Strengthening of public debate *o Education, information, training of the financial advisors* *o Inclusion in the advisory process* *o Communication of the performance studies*
4. What are the most important ones?	*o Bring them into an order of importance*
F4. Influence of recent events and catastrophes?	
Core questions	*Additional questions*
1. Has the oil disaster in the Gulf of Mexico or the nuclear disaster in Fukushima affected sustainable investments? If yes, how?- Has the economic and financial crisis affected sustainable investments? If yes, how?	*o Increased demand?* *o Weighting of oil/nuclear shares?* *o Modification of best-in-class approach* *o Exclusion of certain branches/shares* *o Mechanisms of faster asset realignment?*
2. What is your experience of the performance of ethically sustainable investments during the financial crisis?	*o Similar/better/worse than benchmark*
3. What do you think are the future prospects of ethically sustainable investments?	*o Distribution?* *o Demand?* *o Sustainable Investment = short-term trend or long-term value change?*
F.5 Thank you	
Further people to speak with?	

Another reason for the low acceptance of ethically sustainable investments seen in the literature and by the experts is the investors' lack of knowledge about ethically sustainable investments and the basics of sustainability. Psychological factors such as convenience, inertia and habit often cause investors, even those with special knowledge, not to make the last step to actual investment. The experts and the literature also agree that there is some reservation about the performance of ethically sustainable investments among investors and consultants (Pinner, 2008, p. 91). However, there have been many studies generally concluding that the selection of investment options using ethically sustainable criteria does not lead to a level of performance significantly above or below the benchmark level (Detlefs, 2010, p. 58, and Schröder, 2005, p. 19).

According to the experts, another weak point is the distribution channel because most financial service providers are not interested in an active sale of ethically sustainable investments and, for the consultants, there is no incentive to deal with this complex issue and to explain and sell it to customers.

Practical Implications

Approaches for improving the acceptance of ethically sustainable investments in particular should try to improve transparency, information and communication in this area. This includes the elaboration of terms and definitions such as 'sustainability' and the creation of uniform typologies of ethically sustainable investments (von Flotow, Häßler and Schmidt, 2002, pp. 78-80) in order to achieve a common understanding of this investment type (Eurosif, 2010, p. 21). Furthermore, especially in the literature, standardization of reporting formats and indicators for social and ecological performance of companies is requested to ensure better comparability (von Flotow, Häßler and Schmidt, 2002, pp. 52, 53).

There is agreement to the effect that financial institutions should communicate clearly what they mean by ethically sustainable investments and which criteria they use when creating their ethically sustainable investment products (Ristau and Gewalt, 2010a). In this context, transparency guidelines already exist for mutual funds with an associated transparency logo, which were designed by Eurosif and are voluntary in nature (Pinner, 2008, p. 117, and SBI, 2011). In some countries, labels or certificates are used for ethically sustainable investments, which facilitate the orientation for investors (Pinner, 2008, p. 117, and Oekom Research AG, 2010, p. 11). The interviewed experts see great difficulties in this regard because the definitions of eligibility criteria and tolerance limits endanger the diversity of products, which is needed to fulfil the various personally and culturally conditioned desires and needs of investors.

Regarding the lack of knowledge of investors, there should be a greater public debate about ethically sustainable investments, in which in addition to the generally required basic knowledge of these investments, results of performance studies should also be communicated in order to eliminate the widespread reservations about their performance (Karch, 2009, pp. 190, 1991).

In addition to good products with a competitive performance, it is important to improve the acceptance of ethically sustainable investments by ensuring the continued professionalization of marketing and sales in this area (Rat für Nachhaltige Entwicklung, 2010). This includes consultants having to obtain knowledge of ethically sustainable investments during their initial training formation or in subsequent courses (Eurosif, 2009, p. 16). The introduction of a question on the attitude of customers regarding sustainability as a compulsory part of their consultation is proposed in the literature and supported by almost all experts interviewed in this study (Rat für

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Nachhaltige Entwicklung, 2010). Furthermore, conventional financial institutions should also actively sell ethically sustainable investments, and specific marketing and sales campaigns by the major vendors, such as DWS Investments and Union Investment, could strongly promote the distribution of ethically sustainable investments.

Outlook

Both the literature and the interviewed experts predict further growth for ethically sustainable investments (Eurosif, 2010, pp. 18, 19). However, how quickly their acceptance will increase and whether ethically sustainable investments will become mainstream is still uncertain.

Since their origins in the early 20th century (Werner, 2009, p. 27), ethically sustainable investments have gone through a strong period of development and are no longer just for idealists who are willing to give up returns for moral considerations. Ethically sustainable investments are of interest to more and more private and institutional investors. They are enjoying ever-increasing volume and achieve remarkable returns, including over a longer period (CRIC, 2009, p. 62).

Nevertheless, this investigation has shown that there is still great need for improvement in order to increase the proportion of ethically sustainable investments among the total invested capital in Germany. In particular, the transparency, communication and information need to be improved so that more investors and advisors obtain sufficient knowledge and make conscious choices to undertake such investments. Whether one of the measures identified in this study to improve the acceptance will ultimately become binding or if the increase of transparency and knowledge in this area will be due to voluntary initiatives remains an open issue. It is important, however, that a change in values takes place in society, that the awareness of sustainability continues to increase and that people are clear about their personal influence and take responsibility for their own actions. Only if customers of conventional banks demand more sustainability and responsible action will successful integration of the concept of sustainability into the financial industry occur. This is particularly relevant in the context of the economic and financial crisis, which showed how much of a focus there has been on short-term profit maximization and how little comprehension and reflection there is regarding this selfish behaviour.

Ethically sustainable investments are on the right track towards greater acceptance among institutional and private investors, but the actors in this area must proceed vigilantly and carefully so that dubious suppliers and products, who are drawn in by the increasing attractiveness of this market, do not destroy the credibility of this sector as a whole. In addition, the boom in this area must not lead to basic characteristics of ethically sustainable investments being given up by, for example, making the content of the products arbitrary, simply in order to generate volume or by seeking only top yields in the sustainability area.

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VALUE-BASED MANAGEMENT IN SMEs – A CRITICAL ANALYSIS OF THE APPLICABILITY AND DETERMINATION OF THE COST OF CAPITAL

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Abstract

In consideration of the characteristics of small and medium-sized enterprises (SMEs), this paper deals with the application of value-based management (VBM) in SMEs and the theoretical background to the cost of capital within VBM concepts. Furthermore, this paper presents different approaches to determine the cost of capital and in particular the cost of equity in SMEs by comparing the pros and cons of these methods. The applicability of these approaches is schematically illustrated by a concluding case study.

Keywords: value-based management, SMEs, cost of capital, WACC, case study

Introduction

Although previously neglected, small and medium-sized enterprises (SMEs) have become an increasingly important research subject. The concept of value-based management (VBM) in particular, as a key management philosophy (Britzelmaier, 2009, p. 11), has been dealt with in several reports (e.g. Krol, 2009a; Tappe, 2009; Khadjavi, 2005). However, various obstacles can be identified that limit the application of VBM in SMEs. These can be explained with the lack of specific knowledge and limited financial and personnel resources (e.g. Krol, 2009b, pp. 18-19). In addition, the determination of the cost of capital, in particular the cost of equity, leads to a central barrier in practice. Mainly developed for large publicly traded companies, common approaches of determining the cost of equity, such as the Capital Asset Pricing Model (CAPM) and the Arbitrage Pricing Theory (APT), assume a capital market orientation, which is mainly not given in SMEs. Therefore, several approaches have been developed to try to overcome this problem by comparing privately held SMEs with comparable traded companies or using qualitative risk estimations for the determination of the cost of equity.

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The following paper deals with the above-described problem and presents alternative approaches for the determination of the cost of equity. The discussion is followed by a brief case study.

Characteristics of Small and Medium-sized Enterprises

The economic importance of small and medium-sized enterprises in Germany and Europe as a whole is now undisputed (e.g. Schauf, 2009, p. 15; Tappe, 2009, p. 22; Mac an Bhaird, 2010, p. 8). This can be illustrated by considering different economic dimensions, for example, the public finances, the labour market, innovation and competition (Hamer, 2006, pp. 33-39; Tappe, 2009, pp. 22-23). Mac an Bhaird showed that, in 2008, 99.8% of all enterprises in the European Union could be categorized into the SME sector (Mac an Bhaird, 2010, p. 3).

SMEs were long seen as a marginal scientific subject (Julien, 1993, p. 157). Through various initiatives, such as the foundation of SME-related institutes and the implementation of specialized courses of study, the research gap to large companies has been reduced, albeit not eliminated (Behringer, 2004, p. 5; Mac an Bhaird, 2010, p. 1).

Although the relevance of SMEs in public and science is accepted, the definition of SMEs is still controversial and not standardized. Already in 1962, Gantzel identified 190 different approaches to define SMEs (Gantzel, 1962, pp. 293-310). This complexity is increased by the fact that there are a wide range of definitions in different countries (Krol, 2007, p. 3). The aim is not to find a single definition but to distinguish SMEs from other groups by using an appropriate definition for a particular research target (Behringer, 2004, p. 7).

SMEs can be typically defined by using qualitative and quantitative criteria (e.g. Tappe, 2009, p. 12; Krol, 2009a, p. 12). Commonly used quantitative criteria are the average number of employees, gross revenue and total assets. Therefore, the European Commission designates companies as SMEs when they have less than 250 employees, an annual turnover of less than EUR 50 million and a balance sheet that does not exceed EUR 43 million (European Commission, 2003). Although a definition set by quantitative measures is clearly quite simple to understand and apply, diverse criticisms of this approach can be found in the literature, such as the overlapping of different measures (Kayser, 2006, p. 38) and the determination of thresholds (Krol, 2009a, p. 15). Quantitative criteria cannot describe the plurality of SMEs (Britzelmaier et al., 2011, p. 334); therefore, the integration of qualitative criteria is advantageous (Khadjavi, 2005, p. 55).

In the literature, different qualitative criteria to describe SMEs have been reported (Krol, 2009a, p. 15). These include the unity of ownership and management (Britzelmaier et al., 2011, p. 334; Krol, 2009a, p. 15; Tappe, 2009, pp. 15-16), the absence of capital market orientation (Khadjavi, 2005, p. 56; Pfohl, 2006, p. 20), the central position and importance of the entrepreneur (Khadjavi, 2005, p. 57) as

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well as the specific finance and organization structures (Tappe, 2009, pp. 17-18). While differentiation of SMEs from large companies is possible using qualitative criteria, the operationalizability is the common point of criticism (Krol, 2009a, p. 15).

Recent publications about value-based management in SMEs define the research subject by using a combination of quantitative criteria to demarcate small SMEs and qualitative criteria to distinguish them from large companies (Khadjavi, 2005, pp. 54-58; Tappe, 2009, pp. 20-21). The consideration of VBM requires on the one hand a minimum of personnel resources and the implementation of an adequate controlling system, which is often absent in SMEs (Britzelmaier et al., 2009, p. 346). On the other hand, companies exceeding the thresholds can show the characteristics of SME; therefore, a qualitative demarcation is needed (Schauf, 2009, p. 9).

The Application of Value-based Management in SMEs

The creation, the continuous improvement and the measurement of the value of a company form the centre of value-based management (Dillerup and Stoi, 2011, p. 147). On the basis of the concept of Shareholder Value as reported by Rappaport in 1986 (Rappaport, 1986), other approaches like the Economic Value Added® and the Cash Flow Return on Investment were developed (Britzelmaier, 2009, p. 12). Besides the globalization of capital markets and increasing M&A activities in the 1980s, the main reasons for this development were the weaknesses of profit-oriented performance measures and the principal agent problem (e.g. Britzelmaier, 2010, p. 40; Dillerup and Stoi, 2011, p. 148; Tappe, 2009, pp. 75-78). Today, VBM is seen as a key management philosophy (Britzelmaier, 2009, p. 11) that is broadly accepted in practice (Weber et al., 2004, p. 5). Although long-term development is a target of SMEs (Piontkowski, 2009, p. 357) and VBM is principally valid for SMEs (Arbeitskreis (AK) Wertorientierte Führung in mittelständischen Unternehmen, 2003, p. 526), the applicability of VBM to SMEs is low compared with that for large companies (Britzelmaier et al., 2011, pp. 343-344).

Various factors that support the application of VBM to SMEs can be identified. These include:

- VBM helps to ensure the going concern and competitiveness of a company in a constantly changing environment by the consideration of risk-adjusted profitability and increasing awareness of strategic issues (Krol, 2009a, pp. 110-111; Tappe, 2009, p. 50; Beck and Britzelmaier, 2010, p. 20).
- VBM supports the fulfilment of the stricter rating requirements of Basel II through reconciliation of rating criteria and the aims of VBM (Beck and Britzelmaier, 2010, pp. 20-21).

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- Owing to the special significance of meta-economical, non-financial goals in SMEs (Krol, 2009b, pp. 5-6), the orientation on VBM ensures the rationality of the management (Krol, 2009a, p. 122). Independently from that, value orientation explicitly implies ecological, ethical and social goals and prevents these issues being neglected (Britzelmaier et al., 2011, p. 334; Krol, 2009a, p. 58).

Reasons for the lack of application are manifold. Hirsch et al. states that the lack of application of VBM (in family businesses) is supported by the scientific practice. The majority of publications on VBM implicitly refer to large traded companies (Hirsch et al., 2007, pp. 635-636; Schomaker and Günther, 2006, p. 217). A more practical and empirically proven barrier for the avoidance of VBM is that SMEs are confronted with limited financial and personnel resources as well as a lack of knowledge about VBM. SMEs link the implementation of VBM to the extension of their IT systems and the hiring of additional staff, both of which may result in higher costs (Krol, 2009b, pp. 18-19; Britzelmaier et al., 2011, p. 347).

Another more practical barrier to the applicability of VBM in SMEs, which is focused on in this paper, is the determination of the cost of capital (Khadjavi, 2005, p. 193). The fundamentals and the resulting obstacles in the determination of the cost of capital are described below. Subsequently, possible alternative approaches for SMEs are discussed.

Fundamentals of the Cost of Capital

As explained above, the concepts of value-based management were originally developed for large publicly traded companies against the background of increasing globalization of the capital markets (e.g. Britzelmaier, 2009, p. 12). All concepts have in common that they compare the return of the company with its cost of capital. Modifications are mainly associated with the different usage of cash flow or profit-oriented figures (Britzelmaier, 2010, p. 41). Investors expect a specific hurdle rate of return, which can be defined as the cost of capital (Pfister, 2003, p. 9). The underlying concept for the definition of cost of capital is based on the concept of opportunity costs. An investor forgoes providing the capital to the next best alternative investment that has a comparable risk structure and duration (Pratt and Grabowski, 2010, p. 3; Hostettler, 2002, p. 157; Khadjavi, 2005, p. 194; Stewart, 1999, p. 431).

The determination of the cost of capital is essential because it involves assessment of the relevance of the value-based management concept (Männel, 2006, p. 81) and is the most difficult part in the calculation (Roztocki and Needy, 1999, pp. 2-3). In the above-mentioned main concepts of VBM, the cost of capital is in the centre of the calculation (e.g. Rappaport, 1986, p. 55). Weber et al. showed that, in all considered approaches, the Weighted-Average-Cost-of-Capital (WACC) is used for the determination of the cost of capital rate (Weber et al., 2004, pp. 50, 72 and 84). The WACC

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summarizes the cost of debt and the cost of equity to the cost of capital of the business (Pratt and Grabowski, 2010, pp. 4-5). The WACC is calculated using the following formula (e.g. Dillerup and Stoi, 2011, p. 161):

$$WACC = r_{(equity)} \frac{equity}{equity+debt} + r_{(debt)} \times (1-t) * \frac{debt}{equity+debt}$$

WACC = Weighted-Average-Cost-of-Capital

$r_{(equity)}$ = cost of equity rate

$r_{(debt)}$ = cost of debt rate

t = company tax rate

The WACC is calculated on the basis of the financing side of the balance by using market values instead of book values. Market values represent the actual financing conditions and therefore should be the basis for the evaluation of future projects and the whole company. This argumentation corresponds to the described opportunity principle (Hostettler, 2002, pp. 169-170). In addition, a target capital structure is frequently used (Anderson et al., 2000, p. 385). A company is anxious to reach the respective financing condition in the long run on the one hand, and on the other hand, through the usage of a target capital structure, the circularity problem can be avoided (Hostettler, 2002, p. 170; Copeland et al., 2002, pp. 252-253; Pfister, 2003, p. 282).

The cost of debt can be determined by using the contractually agreed interest rate or, for bonds, the rate of return observed in the market (Töpfer and Duchmann, 2006, p. 33) and is therefore basically easy to verify (Pfister, 2003, p. 263; Stewart, 1999, p. 434). In the absence of a quote for their bonds, rates for companies with a similar credit rating can be used as an indicator (Stewart, 1999, p. 434). The formula of the WACC indicates that the tax effect of the cost of debt has to be deducted. This is caused by the fact that interest rates reduce the tax payments (Ward, 1999, p. 289). Although, in the cost of debt, various specifics have to be considered, especially for alternative financing products (e.g. Copeland et al., 2002, pp. 259-264), this topic will not be considered in the following discussion.

The cost of equity represents the expected return of an investor in comparison to that from alternative investments with a similar risk and payment structure (e.g. Hostettler, 2002, p. 157; Khadjavi, 2005, p. 194). Different models add a risk premium to a so-called risk-free yield. These models include the following (Britzelmaier, 2009, p. 73):

- Capital Asset Pricing Model (CAPM)
- Arbitrage Pricing Theory (APT)
- Market-derived Capital Pricing Model

- Dividend Discount Model

Although the APT has several advantages over the CAPM (see Pfister, 2003, p. 32), the CAPM is the most frequently used model for estimating the cost of equity in practice (Dillerup and Stoi, 2011, p. 158; Pratt and Grabowski, 2010, pp. 103-104). It is also recommended in the literature (e.g. Copeland et al., 2002, p. 264). The bases for the CAPM are the portfolio theory of Markowitz and the separation theorem of Tobin, and it was developed by Sharpe, Lintner and Mossin (Britzelmaier, 2009, p. 74). The basic idea is that, in an equilibrium, the cost of equity is equal to the yield of a risk-free investment plus a risk premium, whereby the risk premium is equal to the market risk premium multiplied by the company-individual risk, the so-called beta (Vélez-Pareja, 2005, p. 2). The equation is expressed as follows (e.g. Britzelmaier, 2009, p. 76):

$$r_{(equity)} = \underbrace{r_{(risk-free)}}_{\text{risk-free yield}} + \underbrace{\left(r_m - r_{risk-free}\right)}_{\text{market risk premium}} \times \underbrace{\beta}_{\text{company-specific risk}}$$

As with many other models, the CAPM is based on different assumptions (e.g. Britzelmaier, 2009, p. 74), which result in some limitations (Pratt and Grabowski, 2010, pp. 103). In practice, $r_{(risk-free)}$ and $r_{(m)}$ can be relatively easily derived from long-term government bonds or market indices, respectively; hence, the evaluation of the company-specific β is the crucial factor in the calculation (Steinle et al., 2007, p. 205). For companies that are not publicly traded, relevant capital market figures cannot be derived (Günther, 1997, p. 180) and such approaches are therefore not valid for these types of companies without adjustments (Vélez-Pareja, 2005, p. 3). Similar problems arise by the determination of company divisions that are typically not publicly traded independently (Pfister, 2003, p. 67). Therefore, the following section will discuss alternative ways to determine the cost of equity and, in particular, the beta for SMEs.

Approaches for the Determination of the Beta in SMEs

In the literature, there are several reported methods that can be used to determine the β and therefore the cost of equity for SMEs without access to the capital market. These include analogy approaches as well as analysis or qualitative approaches.

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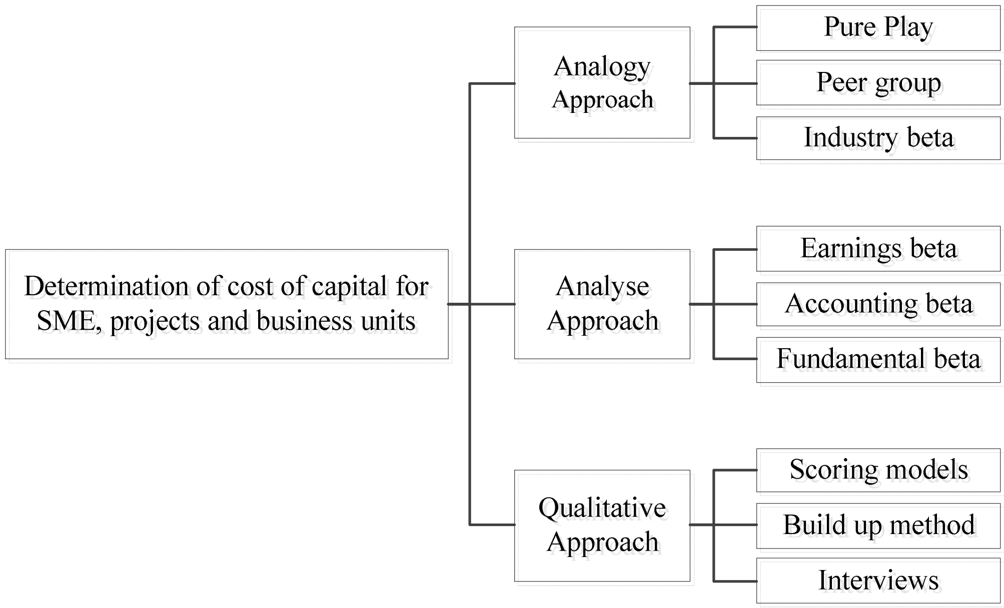

Figure 1: Alternative approaches to determine the beta for SMEs
(own illustration based on Peemöller, 2005; Pfister, 2003)

Analogy Approaches

The main characteristic of analogy approaches is that traded reference companies are used as a benchmark (Pfister, 2003, p. 85). In Germany, research activities on analogy approaches are mainly carried out on the specific problem of determination of β for business units. These approaches are also valid for the determination of the β of non-traded SMEs (Pfister, 2003, p. 85). Within the analogy approach, which is widely used in the Anglo-American region, there are various methods that basically differ in terms of the considered number of reference companies (Steinle et al., 2007, p. 206).

The pure play technique compares the underlying company with a single reference company whose beta factor can be derived from market data (Pfister, 2003, p. 88; Bufka et al., 1999, p. 117). The underlying assumptions are that the systematic risk of the reference company has to be equal to the risk of the considered company and that both companies have similar financing structures (Pfister, 2003, p. 88). If these requirements are not fulfilled, adjustments have to be made (AK Finanzierung, 1996, p. 552). Alternatively, Günther recommends calculating an unlevered β before adjusting it with the actual financing structure of the company, called relevered β (Günther, 1997, p. 181; Copeland et al., 2002, pp. 372-373). The main challenge in the pure play technique is to find an appropriate company that is comparable in terms of the characteristics of risk, size and capital structure (Palliam, 2005, p. 339). Nevertheless, the calculated beta of the pure play technique can serve as a good first indicator (AK Finanzierung, 1996, p. 552).

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In contrast to the described technique, the difference to the peer group approach and the industry beta is that the beta is determined by means of a group of reference companies or a specific industry, respectively (AK Finanzierung, 1996, pp. 552-554). The industry beta approach is based on the assumption that the business risk is mainly determined by the business field in which the companies are active (Pfister, 2003, p. 98). These industry betas can be observed from published data or calculated on their own (AK Finanzierung, 1996, p. 553). If different companies are allocated to groups that do not inevitably belong to the same business field, but that show similar characteristics, they can be defined together as a peer group (Pfister, 2003, p. 95).

The main advantage over the pure play technique is the reduction of statistical estimation errors (AK Finanzierung, 1996, p. 553). Nevertheless, all approaches have weaknesses in the identification of appropriate companies (Pfister, 1997, p. 97) or the existence of reliable information (Steinle et al., 2007, p. 207). Through the insufficient quotation on the stock exchange of middle-sized companies, especially in Germany, larger companies have to be considered to find an appropriate reference group, which impairs the comparability (Schütte-Biastoch, 2011, p. 186).

Analysis Approaches

In the absence of capital market information, different analysis approaches exist. In Germany in particular, it is often difficult to find adequate reference companies (Peemöller, 2005, p. 33). The underlying approaches are the earning beta, the accounting beta and the fundamental beta. They try to connect accounting data, mainly on the basis of financial statements, with the market beta (e.g. Steinle et al., 2007, p. 207), a stock beta coefficient derived from market information (Palliam, 2005, p. 339). The concept is based on the assumption that accounting data are influenced by information and events, which would also be the basis for the market prices (AK Finanzierung, 1996, p. 556). The various methods differ in terms of the number of considered measures. While in the earnings beta, only the profit is taken into account to describe the systematic risk and therefore a connection is doubtful, in the accounting beta concept, the determination is based on a broader data sample through integration of additional, accounting-related risk measures (Peemöller, 2005, p. 34; Steinle et al., 2007, p. 207). In contrast, additional economic factors are integrated in the fundamental beta (Peemöller, 2005, p. 34; Steinle et al., 2007, p. 207).

The main advantages of the analysis approach are related to the avoidance of the use of empirical stock returns (Schütte-Bistoch, 2011, p. 187) and the ease of use of the earnings and accounting beta (Pfister, 2003, p. 166). However, this approach is characterized by several disadvantages. Empirical studies on the earnings beta and accounting beta show different results, thus a consistent statement cannot be made (Pfister, 2003, pp. 166-167 and 196). In addition, accounting-based figures are exposed by the accounting policy and are therefore designable (Peemöller, 2005, p. 34). Financial

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data do not reflect the overall risk situation of SMEs and therefore have to be expanded using other non-financial factors (St-Pierre and Bahri, 2006, p. 556). Sophisticated models like the concept of *Barra* for estimating fundamental betas are complex and conflict with the typical lack of resources already mentioned for SMEs (Peemöller, 2005, p. 34).

Qualitative Approaches

The described approaches presuppose the availability of adequate data. Qualitative approaches consider subjective appraisals for the risk estimation instead of objective generated reference data (Pfister, 2003, p. 221).

Scoring models like the model of the *Boston Consulting Group (BCG)* and the model of *Fuqua Industries Inc.* (see Pfister, 2003, pp. 226-233; Bufka et al., 1999, pp. 118-120) are now popular for practical applications (Steinle et al., 2007, p. 207). The *BCG* model was primarily developed for the VBM concept to determine the cost of capital for different business units (Bufka et al., 1999, p. 118). The considered criteria (control, market, competitors, products, market entry barriers and cost structure) have to be evaluated by the management (Pfister, 2003, pp. 226-227). Although scoring models convince through the simple application (Peemöller, 2005, p. 34), barriers can be found in the subjectivity of the selection and evaluation of criteria (Pfister, 2003, p. 244).

Another method that is frequently used in practice is the build up method (Pfister, 2003, pp. 226; Hostettler, 2002, p. 173). On the basis of the yield of a risk-free investment, subjective quantified charges for the risk premium are added (Pfister, 2003, pp. 223-225). The components for the risk premium could be a general equity risk premium, a small-company risk premium or a company-specific risk premium (Pratt and Grabowski, 2010, pp. 87-88). For SMEs, a premium for the company size should be taken into account, especially if the company has a size that is not recognized on the market (Pratt and Grabowski, 2010, p. 95). Although this method offers advantages in terms of practicability and therefore in terms of acceptance (Pfister, 2003, p. 225), it has been subjected to substantial criticism given the subjectivity and the arbitrariness of the quantified risk components (Pfister, 2003, pp. 225-226).

Copeland et al. stated that “a crude but often effective way of estimating betas is to elicit the help of management” (Copeland et al., 1996, p. 342). In SMEs in particular, the involvement of the management in the determination of the cost of capital is essential (Pfister, 2003, p. 222). A possible procedure recommended by Copeland et al. is that the management team provides a list of business areas for which betas are known. They select a business field that corresponds to their own business. If a consensus is reached, this corresponding beta can be used for their own company (Copeland et al., 1996, p. 342; Pfister, 2003, p. 222).

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In the described approaches, it is assumed that the determination of the risk-free yield and the market yield is known or can be derived from the market accordingly. Taking into account that the market risk premium significantly differs for large and small publicly traded companies, there are doubts about whether the market risk premium of a small privately held company is comparable to these figures (Roztocki and Needy, 1999, p. 3). Peemöller pointed out that unsystematic risks that result, for example, from competitive disadvantages for SMEs are not recognized in the CAPM standard model and therefore have to be considered in the market risk premium (Peemöller, 2005, p. 34). Müller argues that owners of a private company have invested a significant amount of their net worth in the company, which exposes them to an idiosyncratic risk due to a lack of diversification; therefore, they require higher returns (Müller, 2010, pp. 30-31).

Another possible approach could result from a direct survey of the investors (Damodaran, 2010, p. 15). The cost of equity represents the expected return of an investor (e.g. Hostettler, 2002). In contrast to large traded companies with a diversified owner structure, SMEs are characterized by a small number of owners with generally homogeneous expectations and high commitment to the particular company (Tappe, 2009, pp. 15-17). Against this background, it seems reasonable to determine the yield expectation by interviewing the shareholders. Moro et al. argued against the effectiveness of this procedure owing to the fact that investing in a company occurs as a result of various factors, including benefits from the social recognition obtained from having done so (Moro et al., 2010, pp. 2 and 11).

After discussing the different approaches for determining the cost of equity and in particular the β, the following section provides a practical example.

Case Study for the Determination of the Cost of Equity in SMEs

The above-described approaches are used for the determination of the cost of equity for SMEs. The following case study schematically illustrates how some of these approaches can be used in practice. The basis for this case study is a project in cooperation with a privately held enterprise that exceeds the quantitative thresholds indeed but shows the typical qualitative characteristics, namely, the absence of capital market orientation and therefore limited financing possibilities. The case study is based on exemplary measures in order to assure confidentiality.

The calculation of the cost of capital was based on the CAPM. For reasons of simplicity, taxes are only considered on the company level in this case study. The different components for the CAPM were determined as follows:

- The basis for the risk-free yield is the 10-year federal securities with annual coupon payments. To eliminate errors resulting from a specific reporting date, the arithmetic

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mean of the last five years (on a monthly basis for 2007-2011) was used as risk-free rate. The result was 3.49% (Deutsche Bundesbank, 2012).

- The market risk premium, the difference of the market return and the risk-free yield, was defined as 4.5%. This assumption is based on the recommendation of the German Institute of Public Auditors (Peemöller, 2005, p. 34).

For the determination of the company-specific beta factor, a combination of analogy and qualitative approaches was used. In the first step, traded companies, as well as industry fields, that are comparable in terms of the product range were selected. The beta factor was calculated on the basis of MSCI World Index (MSCI, 2012) and adjusted according to the capital structure of the company. For the industry beta, MSCI industries were evaluated. As a result, the pure play method, the peer group method as well as the industry beta showed similar figures; therefore, the decision was made to use a beta of 0.95%. In the second step, the cost of equity was adapted to the specific risk situation of the owner due to the unlimited liability with respect to the build up method. This risk extension was considered with an additional 3.0%. This represents the individual risk situation of a privately held company, which is not given in a traded company with a heterogeneous owner structure and limited liabilities.

$$r_{(equity)} = 3.49\% + 4.5\% \times 0.95 + 3.0\% \cong 10.8\%$$

The basis for the cost of debt (4.0%) was the contractual agreements or historical data. The WACC based on the target capital structure of 70% equity and 30% debts was thus calculated as follows.

$$\boldsymbol{WACC = 10.8\% \times 70\% + 4.0\% \times (1 - 30\%) \times 30\% \cong 8.4\%}$$

The calculated WACC of 8.4% is the basis for the calculation on the group level. For associated companies or different business units within the company, adaptations are made.

Conclusion

After illustrating the fundamentals of SMEs, VBM and the importance of the cost of capital, this paper showed several approaches to determine the cost of equity in the particular case of SMEs and provided detailed discussions of them.

The discussion revealed that the determination of the cost of equity is still an obstacle that SMEs are confronted with when applying VBM. The disadvantages of the described methods are multifarious and refer mainly to the subjectivity or the limited empirical evidence. Nevertheless, these concepts can be beneficial with regard to the determination and can therefore be considered as a starting point. The described opportunities for VBM of SMEs are essential and shall not be overweighed by the difficulties with regard to the determination of the cost of equity. It is crucial that the used approach is transparent for the management, in order to gain acceptance. As

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illustrated in this case study, the authors recommend using a combination of different approaches to avoid a biased and subjective estimation. It is desirable to expand the research activities in this field and to introduce the available approaches in practice to support the applicability of VBM in SMEs.

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CULTURAL TOURISM IN WORLD HERITAGE SITES: AN EMPIRICAL STUDY ON AN ITALIAN MARGINAL AREA

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Abstract

Marginal areas are characterized by a poorly developed economy often focused on the primary sector, a strong depopulation, poor infrastructure, environmental and structural problems. These areas, however, are also characterized, due to their features, by a strong relationship with their heritage and local identity. These are key factors on which territories can base their competitive advantage; tourism based on these assets may activate processes of local development.

The purpose of this paper is to individuate strategies and marketing tools able to strengthen the tourist attractiveness of a UNESCO World Heritage Site located in an Italian marginal area. The focus is on the UNESCO site Sassi di Matera - in Southern Italy - a marginal area in geographic and economic terms, with a high cultural and tourist potential not adequately developed.

A questionnaire-based survey has been conducted on 780 tourist of Matera to study their behaviour of visit and individuate the strengths and weaknesses of Matera. The data collected provides policy tools useful for decision makers to reduce the negative effects of marginality and obtain competitive advantages based on local heritage and identity.

Keywords: Cultural tourism; Marginal area; World Heritage Sites; Empirical survey

Introduction

Marginal areas are characterized by unfavourable social and economic conditions, which generate a situation of delay and backwardness in the development, compared to the external environment (Antolini and Billi, 2007): they have an unfavourable geographical location, problems of accessibility and particular geo-morphological features (Landini, 2005); in addition, these areas are characterized by a poorly developed economy often focused only on the primary sector, a strong depopulation, poor infrastructure, environmental and structural problems (Hohl and Tisdell, 1995).

It should however be considered that these areas are also characterized by an identitary heritage still strong and authentic. This is a key factor on which they can base their competitive advantage.

In this context, tourism is the most effective strategic instrument to make known the identity, history, culture and local traditions, and to avoid that these resources may be lost because not economically significant (Gualerzi, 2006). Tourism in marginal areas may be an opportunity to activate the processes of development and to revitalize these uncompetitive areas.

In Italy, the main strength of the tourism sector is related to the natural, historical, artistic, and cultural heritage of the Country. The value of Italian heritage is recognized worldwide and it attracts each year more than 40 millions of tourists at international level (Tourismonitor, 2011). In Italy there are 24 National Parks inscribed in the Official List of Protected Areas; more than 3.400 Museums and 2.000 Archaeological Sites. Italy has also the largest number of sites in the world under the protection of UNESCO (47 sites are inscribed in the UNESCO World Heritage List).

Comparing the Regions of Italy, however, there are strong imbalances in the tourism market; in particular, the South of Italy is still poorly developed - with the exception of few destinations. Many areas of Southern Italy, in fact, although their significant tangible and intangible cultural heritage, present a strong economic marginality and lack of infrastructure. Cultural heritage should be used as strategic tool to strengthen the tourist competitiveness and attractiveness, and to activate the local development. The restoration of cultural and identitary heritage of a territory, in fact, is now recognized as a fundamental process for the development of weak areas (Nicolosi et al., 2009); ever more territories focus on the enhancement of their heritage to attract tourists, preserve the local culture, and activate the socio-economic development.

Starting form these considerations, the purpose of the paper is to individuate strategies and marketing tools able to empower the tourist attractiveness of a marginal area in Southern Italy.

The focus is on Sassi di Matera in Basilicata Region, a marginal area in geographic and economics terms, but inscribed in the UNESCO World Heritage Sites List and with a high cultural and tourist potential not adequately developed. A survey has been conducted on 780 tourists of Matera to study their behaviour of visit. Results allowed to individuate marketing tools, policies and guidelines useful for decision-makers and private economic actors interested in strengthening the tourist competitiveness of the area.

The paper is structured as follows: section 2 is a brief reflection on marginal areas and tourism development; section 3 profiles the Research context; section 4 describes the Research design. Section 5 presents field research results, and section 6 details the Conclusions.

Tourist Development in Marginal Areas

Tourism as factor of development of marginal areas allows to (Antikainen et al., 2006; Belletti, 2001, 2010; Manente, 2005): create new employment opportunities, stimulating and ensuring high

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involvement of local people; start new businesses even with limited private investment, through new sources of income, the diversification of typical local activities, and the participation of new investors; create and improve products and services not only for tourists (accommodation, transport, attractions and other activities); enhance, restore and protect identitary resources that might be lost; attract high quality tourists able to generate positive effects on local activities.

An advantage of marginal areas compared to the more developed destinations is the strong bond with their heritage and identity. Tourism can be the right tool for the enhancement of tangible and intangible heritage of these territories, generating advantages both for locals and tourists: local heritage can be considered a strategic factor able to differentiate and give a competitive advantage to the destination (Urry, 2001). This is true especially considering that tourist demand is increasingly oriented toward non-traditional destinations, more sensitive to cultural and social values related to the local identity (Richards, 2007; Staniscia, 2006). Tourists want to learn new cultures, develop authentic relationships with the residents (Fusco Girard, 2008), and discover the identity of places (Thimothy and Boyd, 2006; Sistu, 2007). Tourism based on local identity draws a development strategy that influences the growth also in related sectors, highlighting the distinctive features of local communities (Palmer, 1999; Pritchard and Morgan, 2001) and strengthening the local identity of the inhabitants (Ashworth and Larkham, 1994). Cultural heritage, therefore, is one of the main strengths of marginal areas and their delay in development can be an opportunity to avoid the risks and damages related to the commodification of culture and the invasive use of resources.

Institutional bodies and local communities should be the key actors to enable and promote the processes of development in marginal areas (Bimonte and Punzo, 2003). The creation of a system of relations between public institutions, with the involvement of local community, is fundamental to define integrated supplies able to attract tourists throughout the year. The cooperation between local actors can define a shared project of development, which takes into account all the local resources and considers the territory an integrated supply system (Amin, 1998). The enhancement and promotion of cultural heritage and local identity can be transformed into a powerful engine of development difficult to transfer or imitate.

Research Context

Matera is a heritage town in Basilicata Region - Southern Italy. The town is famous worldwide thanks to its historical centre and its neighbourhoods – I Sassi - recognized World Heritage Site by UNESCO since 1993. Sassi di Matera - divided into Sasso Barisano and Sasso Caveoso - are an outstanding example of a rock-cut settlement, perfectly adapted to its geomorphologic setting and its ecosystem and exhibiting continuity over more than two millennia. They represent a traditional

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human settlement and land use showing the evolution of a culture that has maintained over time a harmonious relationship with the natural environment (ICOMOS, 2006). Matera presents a very high density of monuments, churches and cultural resources: the town is full of signs related to its historical condition, considering that the majority of houses and churches in Sassi di Matera are caves excavated in the tufa rock.

Despite Matera has a rich cultural heritage, characteristics of geographic, demographic, economic, and infrastructural marginality are evident:

Geographical marginality.

Matera is predominantly rural in accordance with the Organisation for Economic Co-operation and Development - OECD classification (Regione Basilicata, 2008); most of the Basilicata Region is considered rural area with comprehensive development problems according to the National Strategy Plan for Rural Development - NSP (Regione Basilicata, 2008) (Figure 1).

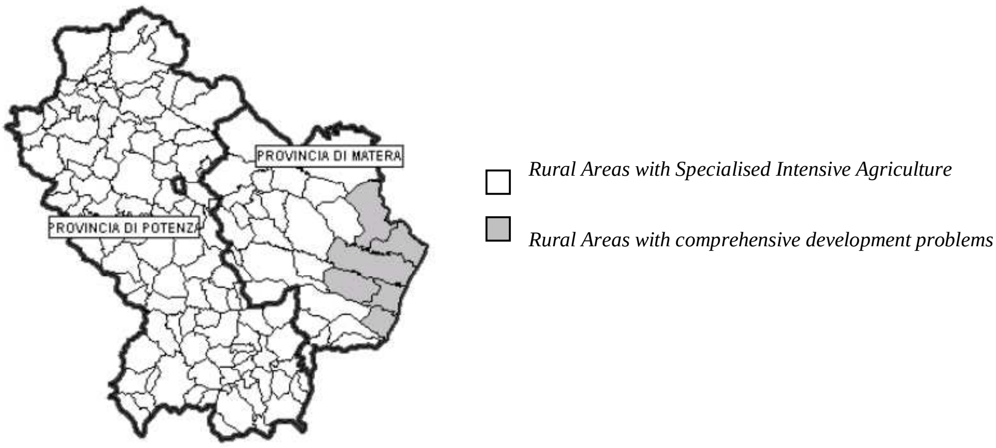

Figure 1: Typology of rural areas - Basilicata Region
Source: Regione Basilicata, 2008

Demographic marginality

Between 2001 and 2010 the population of Matera has grown less than 10% (+5.2%): the inhabitants rose from about 58,000 to 60,800. Moreover, the percentage of elderly is higher than that of the young: in 2010 the residents with + 65 years are 17.6%, while the young -15 years are 14.6% of the population (ISTAT, 2010).

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Economic marginality

The local economy is mainly based on agriculture, small business and the production of living room furniture, mainly sofa. This sector, however, is in crisis since 2006 (Formez, 2006).

Infrastructural marginality

Matera is not connected by rail; road network is still very weak, and buses are not frequent. The nearest airport is located in the Puglia Region, 60 km away. The town may be reached only by car or bus.

The marginality of Matera is a critical situation, but also leads to an important advantage, which is connected to the authenticity and uniqueness of the area. The inscription into the UNESCO World Heritage List, in fact, is also due to the fact that ICOMOS (1993) has recognized Sassi di Matera as "the best surviving and most complete example of continuity in the Mediterranean region of this type of settlement, which developed in close harmony with the ecosystem". Matera has a still very strong link with its culture and traditions, an uncontaminated environment, cultural and artistic heritage expression of local identity, typical products (food and wine, handicrafts, etc.) not affected by globalization. The marginality of Matera can therefore be considered an opportunity for the local development: its uniqueness and its heritage are factors on which Matera may base a distinctive competitive advantage.
In this context, lasting and sustainable tourism policies based on a right enhancement of the local heritage and of the local identity can, for example, facilitate the recovery of ancient works that would otherwise be lost, spread the ancient traditions, and stimulate the production of typical products (Urry, 2001, Richards and Wilson, 2006).

ICOMOS has recognized also the crucial role that cultural tourism can play in the development of Sassi di Matera , and has given recommendations related to a proper tourism able to enhance the area without damaging the local heritage. In the Periodic Reporting of 2006, ICOMOS underlined that a problem that needs careful attention was tourism, which should be controlled in accordance with a visitor management plan so as to avoid a type of development which can ruin the ambience.

An analysis of tourism in Matera through statistical data (ISTAT, 2011; APT Basilicata, 2011) revealed that tourism in the town is effectively increasing in recent years; for this reason, considerations by ICOMOS and the need to define policies of cultural tourism in accordance with to the historical features of Matera acquire a weight increasingly important.

From the demand side, Matera received more than 115.800 national and international arrivals and 182.000 overnight stays in 2011. An increase in arrivals and overnight stays of both domestic and international tourists in the period 2008-2011 is registered. In particular, the arrivals of Italians

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increased by 48% and the arrivals of foreigners increased by 58,2%; the overnight stays have increased by 43% for Italians and +45% for foreigners. The analysis of tourist flows per month of the year highlights four periods of maximum intensity in 2010 (April, August, September, and December) for the Italian tourists, and two different peaks for the foreigners (May and September). The leaner periods are in January, February and November for Italian tourists; January, February, November and December for foreigners. Most of tourists of Matera come from Italy (72,6%in 2011), especially from the nearest regions: Puglia (17%), Lazio (13%), and Campania (12%). In the last years, however, also has increased the number of tourists from Northern Italy: tourists from Lombardia, for example, were 11% in 2008 and 12% in 2011. Also the number of foreigner tourists increased from 2008 to 2011 (+0,3%); the most visitors come from USA (15,2%), France (12,8%), and Germany (12,7%).

Research Design

A survey on tourists of Matera has been conducted to assess whether the local cultural and identitary heritage is properly enhanced and to individuate the right tools to strengthen the tourism in the area. Visitors-based marketing interventions, in fact, allow to increase the awareness of the distinctive features and promote all the distinctive assets of the area.

Methodologically, interviews to a sample of 9 official tour guides of Matera have been conducted in June, 2010. The interviews were realized through a structured form to investigate the targets, the timing of the visit and the proposed itinerary. Furthermore, the tour guides have expressed their opinions about the problems and opportunities of the territory. The information gathered from interviews were used to structure a questionnaire with closed questions, which was administered in different locations in the centre of Matera to 780 visitors (647 Italians and 133 foreigners) between June 23 and July 9, 2010.

The questionnaire has analyzed the behaviour of visit of tourists and revealed the strengths and weaknesses of Matera. The results of the survey allow to define specific strategies and marketing policies able to improve the tourist competitiveness of the area.

Findings

The respondents have a high education level: 43% have some college education, and 31% obtained a degree. 28% of interviewers are employees; 15% are professionals or entrepreneurs. The most representative age classes are 46 - 60 years (38%) and 31 - 45 years (35%). Italian tourists come from the nearest regions: Puglia (18%), Lazio (14%), and Campania (12%); 55% of Italians are from the other regions. Foreigners principally come from France (15%), USA (12%), Germany (11%), Japan (11%), and UK (6,3%).

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In most cases, the visit of Matera is organized with partner (28%), family (28%) or friends (18%). 8,6% of respondents used the services of tour operators or travel agencies. The tours organized by tour operators and travel agencies usually consider Matera as a short destination within tour packages that include the main attractions of Puglia and Basilicata; these tours generally propose the overnight stay in Puglia Region.

The main strength is the uniqueness and attractiveness of *Sassi di Matera* . The historical importance of *Sassi* is recognized at international level and the area is the first site of Southern Italy to be inscribed in the UNESCO World Heritage List. This recognition is known by 95% of the sample (97% of Italians and 94% of foreigners): questionnaire results highlight the success of a proper institutional communication of the UNESCO brand. The *uniqueness of Sassi di Matera* is also the main reason to visit the city (38%), followed by *curiosity for a famous city* (19%) and *suggestions by friends* (12%) (Figure 2).

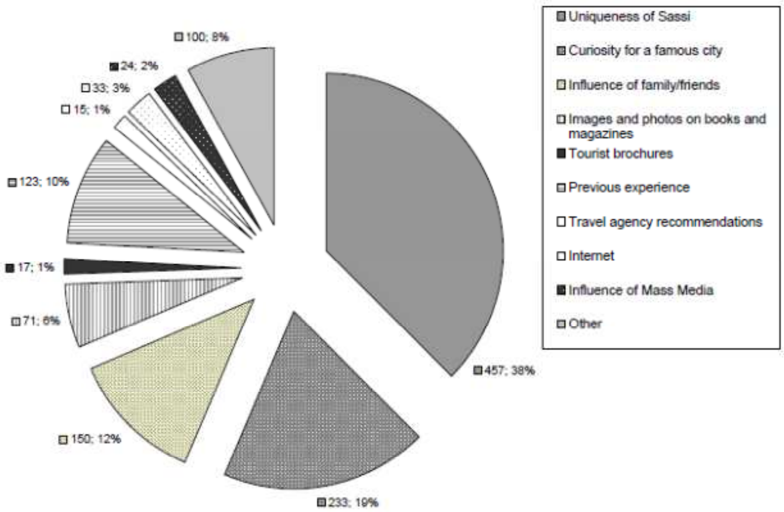

Figure 2: Why have you chosen to visit Matera? (Max 3 answers)
Source: our elaboration

The attractions that respondents considered most interesting during their visit were, in the order: Sassi, Churches and historic buildings, History and traditions of the town. Also these results show the importance and the attractiveness of Sassi (Figure 3). Most of the sample, however, did not visit museums, attended shows and events, or visited the neighbourhood of the town.

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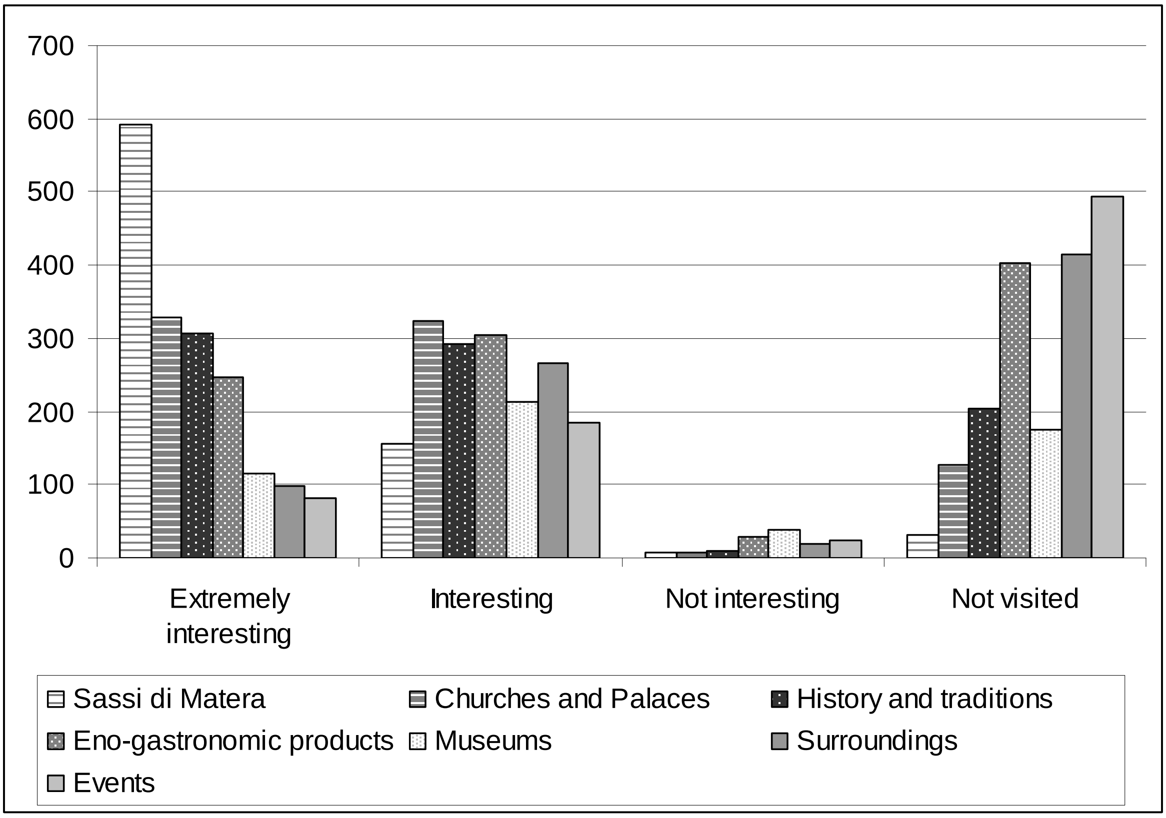

Figure 3: During the visit of Matera, how do you think are interesting the following factors?
Source: our elaboration

Furthermore, respondents expressed a general satisfaction about the visit of Matera. In particular, 49% of Italians and 47% of foreigners is satisfied with the experience of visit; 30% of Italians and 40% of foreigners is extremely satisfied (Figure 4).

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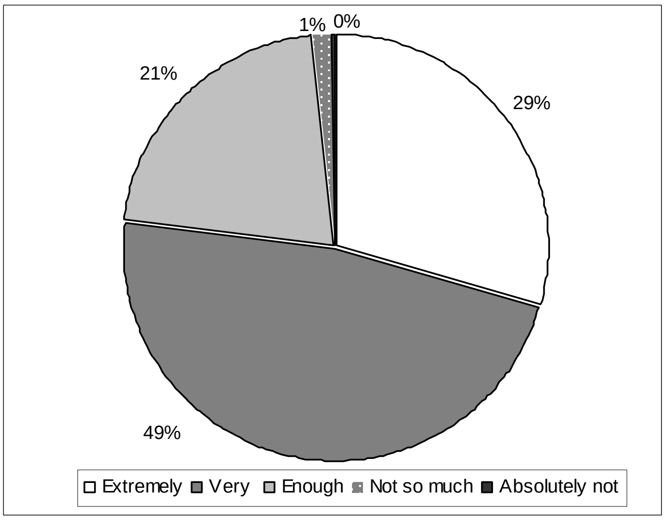
Italians



Foreigners

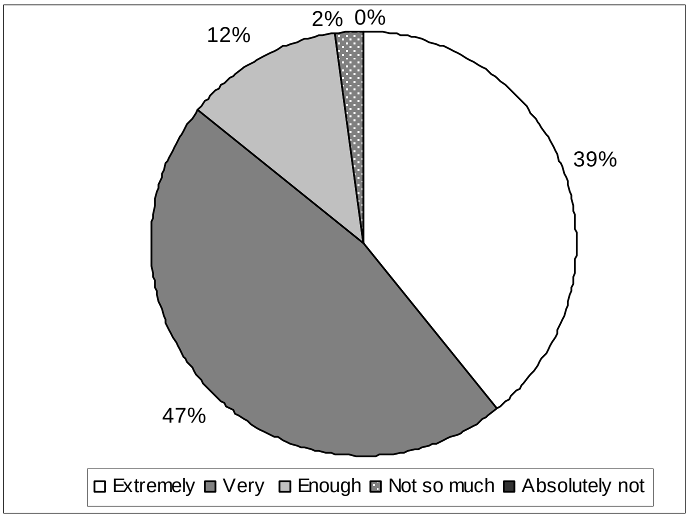


Figure 4: Are you satisfied of your travel experience in Matera?
Source: our elaboration

The attractiveness of the city is also confirmed by the fact that 30% of respondents had already visited Matera in a previous trip; in addition, 89% of the sample said they would return to visit the town and 99% would recommend a visit in Matera to relatives and friends.

The analysis has also revealed weaknesses of tourism in Matera.

The first weak point is related to ineffective communication of the real potential of the destination. The empirical survey, in fact, showed that the visit of resources was above the

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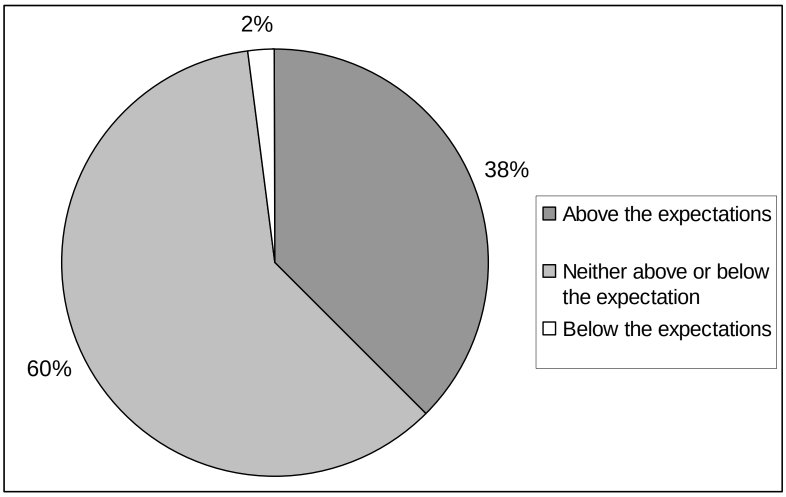
expectations of tourists for 60% of foreigners and 42% of Italians. These results show that tourists are not perfectly informed about the quantity and quality of the resources in Matera until they reach the town (Figure 5).

Italians



Foreigners

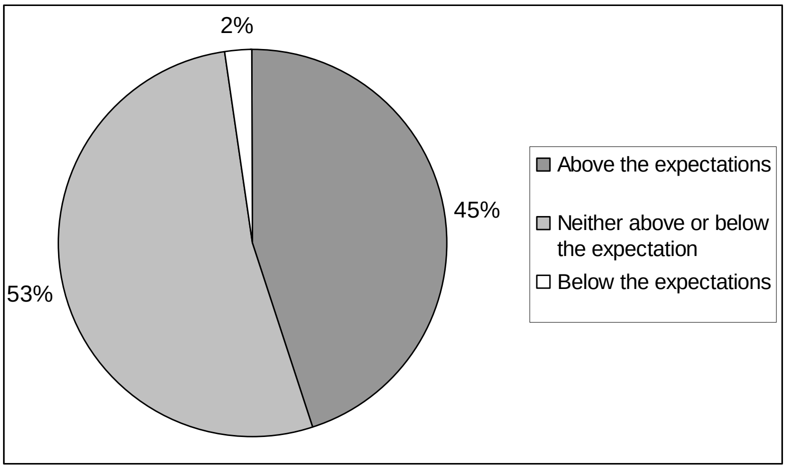


Figure 5: How do you rate your visit in Matera?

Source: our elaboration

This weakness in the communication of the tourist supply of Matera induces tourists to spend a little time in the town, often visiting Matera in half-day, without booking hotels for the night. 38% of the total sample, in fact - 39% of Italians and 28% of foreigners - not spend the night in the city; 25% spend one night, and only 28% of respondents stay for 2-3 days (Figure 6). The favourite accommodations are three-star hotels (22.8%), four-star hotels (21.4%), and bed & breakfast (23.6%). A large number of cave-dwellings in the Sassi, in fact, have been restored and converted into bed &

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breakfasts, offering visitors unique experiences, which are preferred to the traditional services offered by hotels.

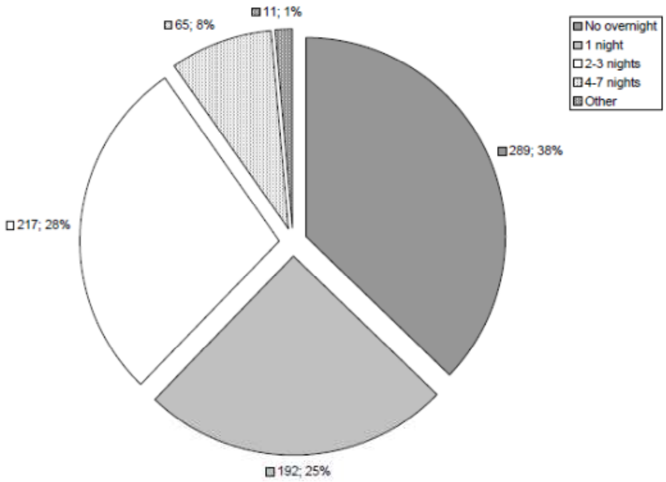

Figure 6: How much time will you spend in Matera during this trip?
Source: our elaboration

The analysis shows that tourism in Matera is mainly related to day-trippers; this is a great critical point, because the city is instead equipped with a large number of accommodations able to serve the tourist demand. Matera has the 17% of the Regional accommodation and the number of hotels and other establishments is constantly arising over the years. In particular, there are 24 hotels in Matera in 2011 - most of them four stars hotels - and 100 other establishments; between them, 76 are bed & breakfasts (APT Basilicata, 2011). Public funding and incentives in recent years have, in fact, allowed to increase the number of guesthouses and bed & breakfasts: between 2008 and 2011 these structures increased by 32 additional units.

The limited time devoted to the visit of Matera is linked to a further weakness of the tourism: the potential, the number and attractiveness of cultural resources of Matera, in fact, are not known until the visitor reaches the city.

Only when the tourist reaches the destination, he/she realizes how many resources worthy of attention are in the town.

The idea of spending more than a day in Matera, however, is generally not considered during the planning of the journey: for 40% of the total sample, Matera is considered a destination to visit within a wider circuit, which includes stops in other areas of the Basilicata Region, Puglia Region, or the entire South of Italy. This is true for Italian tourists (59%), but even more for foreign tourists: 85% have visited or will visit other places in Italy during their trip (Figure 7).

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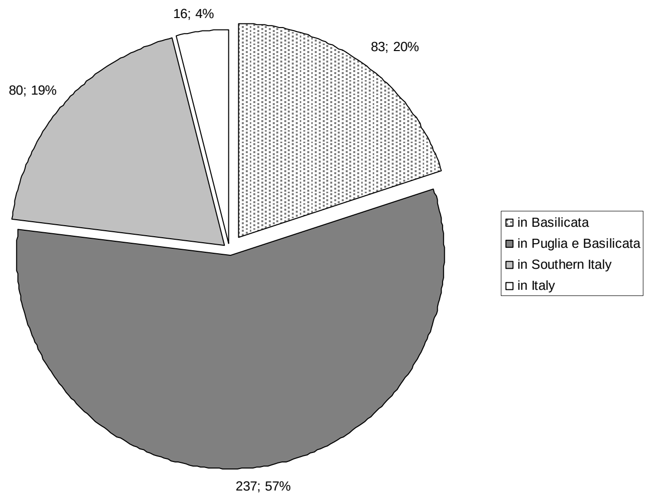
Italians



Foreigners

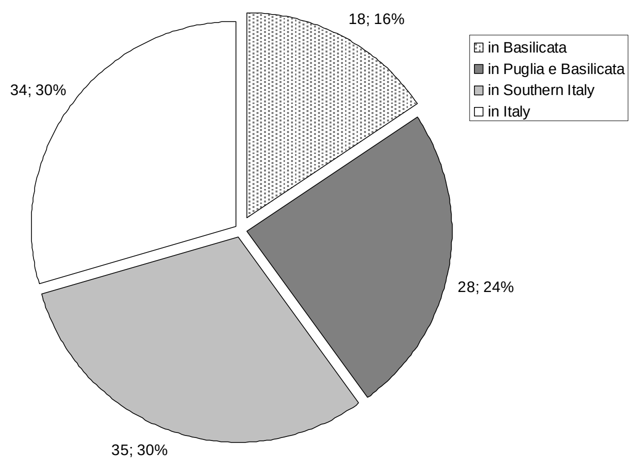


Figure 7: The journey in Matera is part of a tour:
Source: our elaboration

The inefficient transport infrastructure to reach the town is another limit for the tourist development of Matera: as shown in the previous paragraph, in fact, the geographical and infrastructural marginality are two important weaknesses. The railway network, in fact, is currently not adequate to the needs of tourists, and most visitors use their car (68% of Italians and 51% of foreigners), or the service bus to reach Matera (20% for both Italians and foreigners).

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Some strategic actions can be implemented to reduce the weaknesses of the tourist system of Matera, and to make resources and cultural identity of the town the main factors to develop tourism and overcome the current situation of marginality.

In particular, respondents are interested in staying longer in the town if there was a wider range of cultural and gastronomic events (20%), adequate transport infrastructures to reach Matera (14%), and if they had the opportunity to visit the surroundings (13%) (Figure 8).

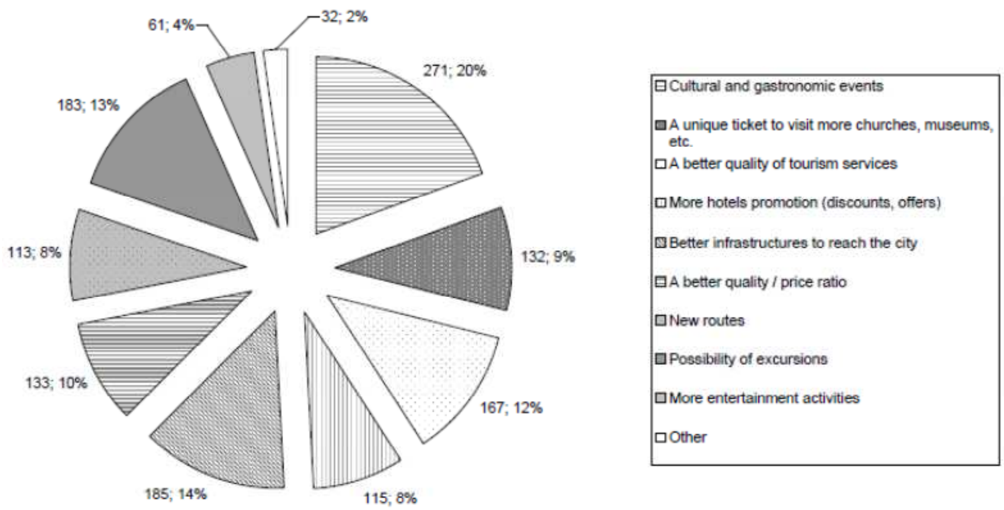

Figure 8: Would you be interested in staying longer in Matera if there was: (Max 3 answers)
Source: our elaboration

Visitors could be encouraged stay longer in Matera through the improvement of road and rail network, and the planning of tourist routes able to link the visit of Matera with the visit of its surroundings.

Other strategic actions to enhance and promote tourism in Matera are related to the definition of well-structured tourist routes along the Sassi; the organization of real and virtual circuits that stimulate also the visit of minor and peripheral sites; the promotion of intangible heritage of Matera, such as its myths, legends and traditions; the introduction of cumulative tickets to visit more resources. The survey, in fact, showed the strong interest of tourists for the history and traditions of the city, and cumulative tickets could encourage also the visit of museums in the town, that are important but not known and visited by tourists, such as the Museum of Contemporary Sculpture in Matera – Musma - and the Domenico Ridola National Museum.

Matera should be promoted as an integrated tourist product that combines food and wine, local traditions, historical, cultural, and landscape resources. In this context, a central role can be played by the brand UNESCO, which is still not widely used and shows to have strong potential.

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Conclusions

Tourism in Matera has some structural competitive limitations due to problems to reach the area; furthermore, it presents a high prevalence of day-trippers - although foreign tourists who stay more days in the town are increasing in recent years. Day-trippers cause problems to the competitive growth of the destination: a half-day tourism produces an increase in the number of visitors which, with the same total expenditure, causes a greater consumption of resources; furthermore, the effect of crowding has a negative influence on satisfaction of tourists who spend more time in Matera.

To define territorial marketing policies and to reduce the negative effects of marginality, Matera and its surroundings must be managed in a integrated perspective, taking into account also museums, cultural events, and the most important resources that are in the area near Matera (rock-hewn churches, cave-dwellings, Byzantine paintings as the famous Crypt of Original Sin). The local cultural heritage and the identitary resources of Matera have a great potential to allow the development of tourism in the town, but tourist policies are necessary to enhance them and strengthen their competitive value.

This study is at an early stage of research and the analysis needs to be extended to Sassi di Matera also in the future. Moreover, it should be replicated in other marginal areas in order to strengthen the findings. Several marginal areas are attempting to determine the most appropriate ways to activate a positive tourism development, enhancing their heritage and, at the same time, preserving their culture and identity. This paper could result in a deeper understanding of those strategic actions that lead to competitive advantages in tourism of marginal areas.

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TECHNIP'S INTERNATIONALIZATION TOWARDS MECS AND SMCS. THE KEY ROLE OF CULTURAL COMPETENCE

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Abstract

The increasing environmental turbulence and the high competition push firms to enlarge their markets and to research new opportunities to implement and successfully develop their products. Internationalisation becomes more and more a learning strategy, aimed at exploring opportunities and to consolidate existing advantages. According to this perspective, managers' capability to understand diversity is fundamental to guarantee leaning efficacy. Above all in emerging markets, such as Middle East Countries (MECs) and Southern Mediterranean Countries (SMCs) and Middle East, cultural distance can limit firms' success, by precluding learning and reducing firms' capability to interact with local stakeholder. This paper aims at exploring the concept of cultural competence and to highlight its value for European firms entering SMCs and Middle East. The empirical analysis is focused on the case study of Technip Italy, a world leader in engineering, technologies and project management for the oil and gas industry, successfully operating in the area.

Keywords: Internationalization, cultural competence, SMCs, MECs

Introduction

Because of the increasing global competition, firms need continuously to look for new markets both to reach higher market shares, and higher level of efficiency. On the first side, Western firms have to reduce the threats coming from the entropy of their markets and look abroad not only to sell, but to revitalize their businesses and products. On the other side, Western firms face competitors coming from emerging markets and advantaged by cheaper coasts. They have consequently the need to become more efficient, by delocalising their activity in more convenient contexts.

While attractive and necessary, internationalization poses big challenges for firms. Entering a new market implies the necessity to face with a different and sometimes distant cultural context, where different rules exist (Weber et al., 1996; Altman and Baruch, 1998; Melin, 1992; Adler, 1986). Peoples are influenced by different values and social dynamics. In order to succeed, firms have to take into account diversity, they should adapt their behaviours and, much more important, they should be aware of cultural differences (House et al., 2004; Morosini et al., 1998). If manager understand the reasons of diversities, they can actually transform cultural differences from barriers into factors of success. The firms, which better adapt to distant markets, which organise their activities in order to reduce the perception of the distance are actually those, which get the highest success (Barkema et al., 1996; Barkema and Vermeulen, 1998).

International strategies are successfully if based on learning (Barkema, Vermeulen, F., 1998). Firms have to learn about the host market because they have to understand its rules, to highlight the key stakeholders, to attract local customers. Learning goes even beyond: If firms are learning oriented, internationalisation helps in finding new opportunities, it promotes innovation and it improves firms' adaptation capability (Torbiörn, 1994; Tung, 1998; Jun, et al., 2001). However learning from diversity is possible only if people are able to recognise and evaluate diversity. That is internationalisation results are strongly dependent on cultural knowledge (Boisot, 1998) and on cultural competence, too (Mendenhall et al., 2002; McCall & Hollenbeck, 2002; Stroh & Caligiuri, 1998; Caligiuri, 1997).

Meant as the capability to combine the home and the host culture in the most suitable way, cultural competence is fundamental to catch the best opportunities to combine cultural knowledge. It influences people's openness towards diversity, and consequently their inclination to accept others' idea, information, and technology (Stier 2009, 2003).

This paper aims at investigating the role of cultural competence, meant as the capability to use cultural knowledge in the best way. Cultural knowledge and cultural competence are key factors of firms' success: cultural knowledge is an intangible resource, it refers to managers' consciousness about cultural differences, which is the base for adaptation. Our hypothesis is that cultural competence can create bridges between different cultures, reducing the perception and effects of cultural distance. We have explored the value of these concepts through the case study of the multinational Technip Italy successfully internationalised in SMCs and MECs.

The value of cultural competence

The increasing environmental turbulence and the high competition push firms to enlarge their markets and to research new opportunities to implement and successfully develop their products. Particularly Western firms, which have to face competitors coming from emerging markets and advantaged by cheaper coasts, look at emerging markets in order to reach higher level of efficiency and to revitalize their businesses.

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Internationalisation is more and more meant as a learning process aimed at highlighting the best combination of existing resources and the best way to acquire new resources and to combine them. According to the resource-based view (Mitchell et al., 2000; Peng, 2001), firms decide to internationalise when they feel to have exceeding resources or when new opportunities emerge in different geographical markets. As far as market and resource seeking are the main reasons why firms invest abroad, more and more firms follow different perspective: operating abroad is no more a consequence of the opportunities emerged in the new market, but a way to acquire new knowledge, to increase their resources in order to get new competitive advantages or to consolidate the existing ones.

As far as internationalization is a must, firms have to be aware about the risks they can meet in foreign markets. While entering new markets, firms meet with different cultures. Peoples are influenced by different values and social dynamics and, in order to succeed, firms have to evaluate and adopt behaviours, which can fit with the rules existing in the host cultural context (Morosini et al., 1998; Shenkar, 2001). The more the distance between the home and host culture, the higher is the necessity to develop cultural competencies. Firms can learn about the new market only if they are able to establish effective communication, to highlight the potential barriers to knowledge transfer and sharing.

Boyacigiller But what is culture? According to Hofstede (1980), individual culture is the result of collective culture, national cultural, and individual experiences. In his opinion, individual behaviours depend on the education individuals receive and on the social inputs they get. Culture is not something stable or fixed across time, but something that change, according to the individual experiences and to the social and historical changes that a society experience during its life.

Looking specifically at international firms, Tadmore (2006) underlines the importance of acculturation strategy and recognises culture as a key aspects of global competitiveness. In his opinion, globally competent employees are a key resource for international firms: they can successfully span the boundaries of their host and home organizations by guaranteeing the integration between the firm and the host market (Caligiuri, 1997).

Mendenhall et al. (2002) recognise the importance of international assignments for the development of cultural skills. However the cultural knowledge deriving from international experience is itself a result of expatriates' cultural competence. International assignments produce results in terms of learning, only if expatriates are able to recognise, understand, and evaluate diversity (Stroh & Caligiuri, 1998). Expatriates' contribution to organisational learning is strongly dependent on their capability to understand and respect cultural differences (McCall & Hollenbeck, 2002), i.e. on their cultural competence.

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Cultural competence is probably one of the main competencies of international firms: it impacts on individuals' inclination to knowledge transfer and sharing, on the way individuals decide to share knowledge, on their capability to recognise and evaluate key information (Magala, 2005). Above all if we look at emerging and developing countries, which become more and more attractive for firms, the increasing degree of dynamism and unpredictability requires firms to be ready to accept and promote changes (Hitt et al., 1998).

To succeed internationally, firms need flexible structures, which can facilitate coordination and collaboration across countries. A culture that values innovation will reinforce organizational learning which is strongly dependent on individuals' capability to accept changes and to valuate them as something positive for the organisation. Learning is change (Masalin, 2003). It occurs when exploration and exploitation are combined in an optimal way (Weick and Westley, 1996) and in an uncertain and unstable environment it is possible only if a cultural competence exists, that is if individuals are inclined to accept risks and to explore diversity.

The linkage between culture and knowledge is not new in the economic-business literature. Boisot (1998) talks about cultural knowledge and considers it as a main intangible resource of modern firms. According to the author, even if cultural knowledge is difficult to evaluate, because embedded in social processes and tacit knowledge of how to conduct them, it is a key aspect of internationalisation. Culture operates at many level of aggregation through institutional structures, which influence people's capability to recognise and use knowledge assets. It refers to individuals such as to organisation, regions or countries, and at each level it substantially contributes to the way information and knowledge is transmitted. In this way, it is possible to distinguish between cultural knowledge (Boisot, 1998), and cultural competence, namely the capability to combine the existing knowledge in the best way to fit with receivers' culture.

National culture influences individual culture and together with individuals' practical experiences, it contributes to build the prevailing culture of an organisation (Weber et al., 1996). Firms' capability to manage diversity is consequently the result of both the organisational culture prevailing in it, and of the national culture, which manifest its effects through the individuals who work within the organisation.

This perspective is useful to explain why within a multinational, different subsidiaries achieve different results. Organisational culture is not sufficient to explain organisation's attitudes toward culturally distant context. It has to be completed by national culture (Weber et al., 1996). Individuals manage relationships and share information, and their culture should be coherent with the need of flexibility and adaptation, which are the key for success, above all in culturally distant markets.

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Together with risks, cultural distance creates some advantages, too. In the long term, the coexistence of cultural differences increases firms' capability to face uncertainty and to evaluate new systems of analysis and problem solving (Boyacigiller and Adler, 1991). However these advantages are possible only if the organisation is able to be opened towards diversity and if no forms of ethnocentrism affect firm's inclination to face with diversity. According to this need, culture is fundamental to reach a competitive advantage: relationships are positive only if based on respect and reciprocal trust, that is if people are ready to compare with other and they are inclined to manage comparison through a profitable dialogue more than through contrasts, diversities can enrich the organisation and the capability to learn form the other can create the basis for a long term competitive advantage.

Given that national culture influences people's inclination to face diversity and to learn from the outside, it is an important competence of international firms. If firms are able to combine diversity and to adapt their behaviour, they are able to create a fruitful relationship and consequently to build a competitive advantage, which is more and more based on the capability to acquire and transfer knowledge. If we look at partnership between firms coming form advanced markets, such as Europe, and firms coming form emerging markets, the success of inter-firms relationships depend more and more on the capability to explicit the reciprocal advantages deriving for a two-way learning process: European firms need local partners in order to acquire market knowledge, that is to understand and catch local customers, and to overcome the low transparency of laws and social rules. At the same time, local firms need European partners in order to acquire the technological knowledge necessary for their development.

The key-role of learning inclination and consequently of cultural adaptation which is its sine qua non condition, is well depicted by the experience of the MNC Technip in Southern Mediterranean Countries (SMCs) and Middle East.

European investment in SMCs and Middle East: a cross-cultural perspective

As far as firms' interest towards South Mediterranean Countries (SMCs) is increasing, little is known about local culture and on its impact on firms and consumers. The most important contributions focus on the great influence of Islam, as a religion that rules many aspects of the social and economic life in this area.

Al-Khatib et al. (2002) underlines the importance of interpersonal relationships and the strong feeling of loyalty towards the group and the colleagues, which according to the author depend on Islamic values and which can represent a strong barrier for the outsider. As noted by Cone (2003) Islam is much more than a religion, it is a conduct of life. The greatest part of Koran is dedicated to the economic and social conduct, and each human action is evaluated according to the Koran

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teachings. A first basic concept is the din, that is the total submission to Allah. Another basic concept is the Unmah, which refers to the extremely importance Muslims recognize to the participation to the Community life. The importance of the community (Unmah) enforces the feeling of belonging and can create prejudice towards people coming from different cultural contexts and following other religions.

The importance of religion is testified by the respect of Shar'ia. Even if not imposed by the law, Shar'ia is still very important in the most of countries, and some cultural traits find their roots in the Shar'ia's main economic and social precepts are (Cone, 2003). The first precept is Unity, that is Allah is the element that unifies the Universe and everybody finds his place in the Universe by respecting the Koran principles. The second one is Responsibility, which means that everybody must care about the world they live in. The third one is Equilibrium, according to which people have to preserve a balance between their own necessities (and desires) and those of the Community. Last but not least, the Free Will, meant as people rule to do their best in every kind of situation (Gaardner et al., 1999 and Filoramo et al., 1998).

SMCs have not been studied in the main cross-cultural researches. However both House et al (2004), and Hofstede (2001) look at some Arabic countries, highlighting some characteristics which look to be coherent with what discussed above. Particularly in the GLOBE project (House et al., 2004) 8 the cluster Middle East embraces the most of Islamic Countries studied by the Authors and is characterized by the following values (Should be scores):

- a high level of power distance, that is the acceptance of an unequal distribution of power, and a high respect of power positions;
- a high level of uncertainty avoidance, that is a low inclination to changes and to face risks;
- a high level of institutional collectivism, that is the degree to which organizational and societal practices encourage and collective distribution of resources, and collective action;

[8] House et al (2004) conceptualized 9 dimensions to study the different perception and acceptance of leadership within each context. The nine dimensions are: power distance, uncertainty avoidance, institutional collectivism, in-group collectivism, gender egalitarianism, performance orientation, future orientation, human orientation, assertiveness. They collected their data by what is known as The Global Leadership and Organizational Behaviour Effectiveness Research Project (GLOBE). The Globe Project is a multi-phase, multi-method project in which researchers investigate 62 countries, grouped into ten cultural clusters, in order to analyse in depth their different cultures. Each dimension is studied at two levels in order to understand the practices and the values prevailing in each context, in order to highlight the main cultural tendencies emerging within them.

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- a high level of future orientation, that is individuals' inclination to engage with long-term oriented behaviours, such as planning, investing in the future, delaying gratification;
- middle level of in-group collectivism, that is the degree to which individuals express pride, loyalty towards their organizations or families;
- a middle level of humane orientation, which refers to individuals' inclination to encourage and reward fairness, altruism, friendship, charity and generosity;
- a low level of assertiveness, that is the degree to which individuals in organizations or societies are assertive, confrontational, and aggressive in social relationships;
- a low level of performance orientation, which refers to the extent to which an organization or society encourages and rewards group members for performance improvement and excellence.
- a low level of gender egalitarianism, that is the tendency to minimize gender role differences.

All the mentioned dimensions look to be coherent with Islam precepts. The importance of the group is coherent with the value of the Unmah, while uncertainty avoidance and power distance can be connected to the total submission to Allah. The low level of performance orientation, and assertiveness are coherent, too: People tend to respect others, and moral obligation as much more important that legal obligation or richness.

The linkage between religion and culture becomes even clearer if we consider the values on which the construct of Islamic family relies (Patai, 1979), that is: a) courage, which refers to the ability of self-control in stressing and emotional situations; b) bravery, which is meant as the individual readiness to take risks in order to save his fellowmen; c) hospitality, which is strongly related to others' respect; d) generosity, which is meant as the inclination to give to others through personal and family sacrifices; e) honour and dignity, both related to defence of social image, respect of honour and traditions, and unlimited loyalty to the family; f) Islamic identity, that is God is everywhere. The former values explain well Islamic countries inclination to collectivism, their low level of assertiveness and future orientation. While the last one seem to fit well with the strong uncertainty avoidance, and the low performance orientation.

Overcoming cultural distance

Looking at the Globe findings, the Middle East cluster presents a high cultural distance with regards to Europe, just a little bit lower with respect to the European countries involved in the Latin cluster. In addition, the importance of culture is testified by the great value local people recognise

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to tradition, and by their strong feeling of belonging. However, cultural distance is not a problem itself. What represents a barrier is managers' avoidance to face with diversity, to value what they perceive as too different from their own cultures. If managers perceive the host culture as too distant, they can assume inertial behaviours. In the same way, if people in the host market perceive firms' culture as too distant, they can distrust foreigners and avoid relationships.

The importance of perception is very well explained by the sociological theory of identity (Haller, 2003), according to which pride and shame impact on people emotions, with strong effects on relationships between people coming form different cultural contexts. During a cross-cultural relationship, when one's identity is perceived as relevant pride emerges. On the contrary, if one's own identity is rejected or denigrated, shame emerges. Pride and recognition have positive effects: they enable effective relationships by holding partners together. Degradation and shame have a total different effect: they take to distrust and create the basis for social conflicts. Pride and shame are related to fie important factors: the evaluation people have of themselves and the perception of their evaluation by others; the necessity to keep consistent images of themselves and the others; the social experiences people live with others and the significance they give to cultural dissimilarities, such as languages, religions and so on.

If we look at SMCs and Middle East, with respect to Europe, they are characterized by different economic systems, different social structures and divergent degrees of socio-economic development. These socio-economic differences, together with the heritage of the colonialist dominations and of the more recent wars explain locals' perception of Europeans as people coming from very different cultural contexts, even if closer than US. In addition, colonialist domination doesn't help in developing equal relationships and increases locals' tendency to feel oppressed and to perceive European managers' behaviours as dominant and opportunistic. Previous research showed actually SMCs people's preference to interact with Italian businessmen, more than with French or US ones (Calza et al., 2010). At the same time the exigencies for French multinational (MNC) to involve local managers or expatriates from less distant culture has emerged, too (Calza et al., 2009).

When cultures are perceived as distant, firms need to find the way to change people's perception. Cultural distance cannot be eliminated, but choosing the right social leverage, firms can reduce it perception as a problem. In order to overcome the distance, European firms should aim at building cultural bridges, that it social mechanism able to improve local peoples' trust towards the organisation. In the case of foreign direct investments, cultural bridges have to be built up within the organisation, for example by choosing the right persons to act as interface between the home and the host market (Calza et al, 2009). The choice of the right people enable firms to build up cross-cultural bridges, that is strong linkages between the home and the host cultures, which enable a

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more effective and fast knowledge transfer between the partners. Expatriates' competence, namely cultural competence, is fundamental to build cultural bridges (Fig. 1). Expatriates have to be inclined to accept and respect diversity because this is crucial to establish profitable and long term relationships. The capability to understand the context is crucial to read and satisfy clients' need, but even to overcome the socio-political instability, which can stop any phase the advancements of the projects.

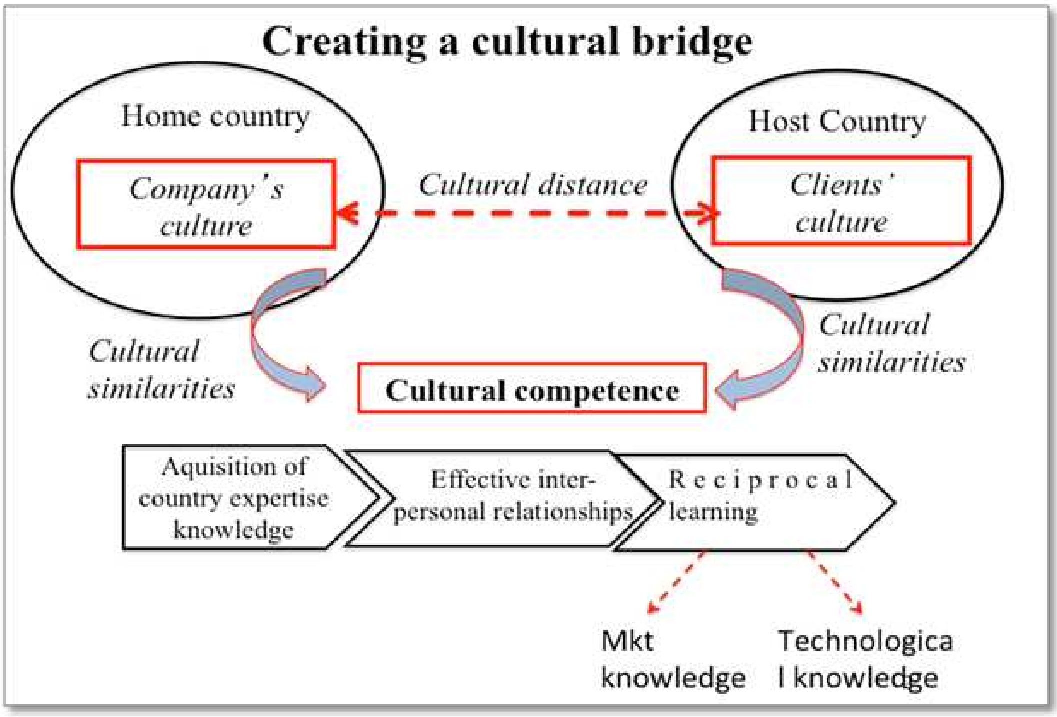

Figure 1: Cultural competence as cultural bridges
Source: Adapted by Calza, Aliane, Cannavale, 2010

Cultural bridges are important in contractual relationships, too. They help to reduce the distance between the partners and can be represented by a key sponsor, familiar to the host market stakeholders, or by an organisational unit, which has high cultural competencies, and is able to use the cultural knowledge it has got on the context to build profitable relationships. Market knowledge is easier to acquire and expatriates find lower difficulties in understanding diversity. At the main time, expatriates can establish better communication mechanisms and choose the most suitable communication styles, in order to make technological knowledge transfer easier. The reciprocal learning process is helped by culture: people are more inclined to listen at each other, and understanding is easier when "languages" are less distant. The good interpersonal relationships create trust, thus enabling once more a profitable cooperation among partners.

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This is the case of the French Multinational Technip (Fig. 2), which has charged its sister Technip Italy of the main businesses the group has in the SMCs and Middle East. Technip is specialised in realising energy infrastructures, a step-by-step project, which requires a high degree of flexibility, and a deep knowledge of the context. Knowledge transfer is critical for success, local managers and technicians have to learn how to use the infrastructures, and the way they are built strongly depends on authorities' desires. Cultural distance plays a big role: it can cause misunderstanding with clients and workers, thus limiting performances in each phase of the project. According to Technip's experience, the choice of Italian managers is successful: Italian managers are able to establish fruitful relationships; they show higher degree of technical flexibility, which is very appreciated by local customers. Local workers show a more friendly approach with Italian managers, whom they perceive as less domination-oriented than their French colleagues.

Technip Italy success in SMCs and Middle East: a case study analysis

Technip Italy is a sister company of the French MNC Technip, a world leader in engineering, technologies and project management for the oil and gas industry. The group has more than 50 years of experience and thanks to the expertise and know-how of its teams, Technip is a key contributor to the development of energy technologies and sustainable solutions all over the world.

Technip has 23,000 employees and operates in 48 countries. Each area of the world contributes substantially to its revenue: the main market is represented by Europe, and Central Asia (27%), followed by Americas (24%), Middle East (23%), Africa (14%), and Asia (12%). Given the wide spread of its activities, Technip faces strong cultural challenges. It has to manage international relationships with clients dispersed all over the world, and cultural differences can strongly impact on the starting of new relationships, and on the knowledge transfer which represent the core factors of these relationships. Technipe core business is actually represented by the oil and gas market, and particularly in three segments: Subsea (44%), Onshore (47%), and Offshore (9%).

As sister company of the group Technip, Technip Italy has gained a worldwide reputation as a highly reliable and creative partner, sustaining its clients with maximum flexibility, providing innovative technological solutions, customizing contractual arrangements and guaranteeing full achievement of all project targets, while observing the highest human and environmental safety standards. It employees 2500 people and has realized more than 500 projects in 60 countries. Its activities concern the best known industrial areas, such as Europe, Middle East, North Africa, Latin America, as far as more unusual or inaccessible sites Vietnam, Malaysia, Southern Africa, Central America, P.R. China, Canada. Some of its key realizations include actually a fertilizer complex in Vietnam, the Isla Refinery at Curaçao, and the Horizon Oil Sands Project in Canada.

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Technip Italy is a construction-oriented international engineering company. It boasts consolidated experience in assisting customers along the whole "life" of a plant: feasibility studies, conceptual design and licensors evaluation, basic design and detail designs, start up and plant optimization, debottle-necking. The company applies a “learning from analysis” process, based on its success is due to continuous feedback from successful projects and critical review techniques. It pursues a rigorous control of health, safety and environment parameters, all over the world. The implementation of innovative techniques and materials enables good international relationships, based on reciprocal advantages and trust even in more distant and unstable countries.

Technip Italy has been executing operation & maintenance (O&M) contracts for over 20 years. At the same time, Technip Italy has set up a dedicated department to carry out commissioning activities in a timely and orderly manner. It involves three divisions: commissioning, maintaining, and training, all strongly related to learning and knowledge transfer.

As far as the high level of technological techniques and engineering is part of the knowledge heritage of Technip group as a whole, Technip Italy seems to have a strong advantage in culturally distant markets. Technip’s main clients are indeed: BP, Saudi Aramco, Sasol, Sabic and ENI, ENI Gas, ENI Gas BV Libyan Branch, Western Libya Gas. The high percentage of Arabic clients is due to the global organization of the group, which took to a specific geographical orientation of each company. Technipe Italy has been charged with Southern Mediterranean Countries, Middle East, and Easter Asia clients.

Technip Italy is competitive advantage finds is root more in soft aspects, than hard technical factors. Local customers prefer cooperating with Italian team, more than with the French one, for the strong flexibility and the high inclination to knowledge transfer of the Italian company. Italian project managers are inclined to accept uncertainty, they show a low level of assertiveness, which makes local workers and customers feel confortable. They are ready to change their projects according to local clients’ demand. On the other side, Italian managers appreciate local customers: they pay always on time and relationships are long-term oriented.

The importance of cultural similarities is highlighted by another cultural dimension, too. Italian technicians show a low degree of performance orientation, lower that their French colleagues. Paradoxically, the low performance orientation represents another cultural advantages in Islamic countries, where the value of relationships and interpersonal loyalty are fare more important than objective results and rapidity.

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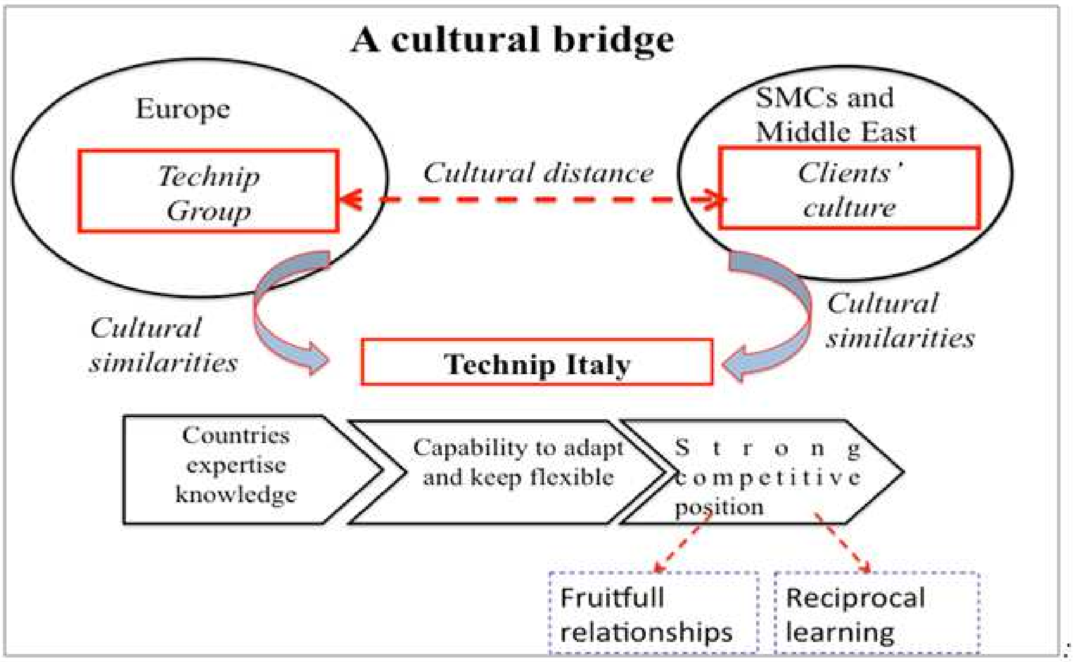

Fig. n. 2. The role of Technip Italy's cultural competence
Source: our elaboration

All these aspect have clearly emerged during the interview of an Italian project manager frequently engaged with projects in SMCs and Middle East. The project manager has underlined the learning orientation of Technip Italy and its strong attention towards clients and their contexts. The Italian team takes all the decisions concerning the implementation of the project together with local customers. Arabic clients are used to change their orders, and Italian technicians' flexibility is perceived and evaluated as a core competence of the Italian firms. Italian managers know that local clients are ready to pay for the changes they ask and are not afraid to change their plans and to adapt their design and projects if this can better fir with clients' needs and desires.

According to his experience, the key aspects are the long-term relationship with the local sponsor, who is very important to enable trust from local stakeholder, and to overcome social instability, and the low transparency of the context. The relationship is first of all an inter-personal relationships based on trust and reciprocal respect. Reciprocal advantages have to be clarified both with the sponsor, who take important economic advantages, and with clients who look for new technologies and infrastructure, but above all for a relationship based on intent to satisfy their needs.

At a corporate level, the choice to charge Technip Italy with Islamic clients is due to a specific strategic aim: the optimization of customer relationship. This decision poses on cultural issues: the Italian team looks to be more flexible and customer oriented and this fits better wit Islamic clients,

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who are used to vary their projects and to ask for technical improvement once that works have started. Italian managers look to be more culturally competent in SMCs and MECs, and this can be connected to several reasons.

First of all, a lower cultural distance, with respect to their colleagues, could facilitate Italian managers, while operating in SMCs and MECs. According to the GLOBE, Italy belongs to the Latin Cluster, which is less distant from Middle East than other clusters. That is, Italian people's facilities to interact with locals are coherent with Globe's dimensions. Second, the reciprocal perception of a low cultural distance can be reconnected to an important social construct that is to religion, with some important social constructs as the family values and the tendency towards paternalism and authoritarianism, which is typical both of Catholicism and Islam (Gaardner et al., 1999 and Filoramo et al., 1998).

Together with cultural similarities, perceptions play an important role. Italy had a minor role in the colonialist imperialism in the area, and consequently Italians do not face prejudices and feeling of shames, which can be connected to this kind of historical heritage. Italian firms are not perceived as threats to their identity, thus reducing the risk of shame feeling and contrast. In addition, Italy has a long historical heritage in common with many Arabic countries and strong commercial relationships, such as FDI have already during the 60, made in Italy had a strong success in the countries, above all in the building sector.

Technip Italy entered Islamic countries for market reasons. They represent a huge market for their products, and they give the possibility to come in contact with foreign firms of the building sector, which can open the door towards Asian countries. Moreover, the Qatar subsidiary enables to exploit important tax advantages, too.

Conclusion

National culture has a big impact on international business. On behalf of a company, it influences managers' capability to face diversity and more properly the way through which they evaluate and interact with diversity. On behalf of the host market, it influences stakeholders' inclination to interact with foreigners, to accept their products and knowledge.

Internationalisation represents more and more a learning strategy. Above all towards emerging countries, internationalisation is often due to a reciprocal need of learning: international firms look for the best way to use their resources and to find new ones. Firms and clients of host markets usually look for new products and services, in order to reach higher degree of social and technological development.

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Learning is strongly influenced by culture. In order to learn, people have to be inclined to doubt of their knowledge and to transfer to others what they know. A participative and cooperative style is necessary to establish a profitable knowledge sharing, and transfer is quite more effective if people are able to understand each other. International learning relies on a key competence – namely cultural competence, which is recognised by many authors as the main advantages deriving from international assignments.

As far as cultural competence is often mentioned by literature (Magala, 2005; Stier, 2006, 2003; Selznick, 1957; Kilmann et al., 1986; Smircich, 1983), only a few contributions focus on cultural competence as a key aspect of internationalization (Mendenhall et al., 2002; Stroh & Caligiuri, 1998; Caligiuri, 1997). This paper aims at filling this gap, by giving a contribution on the difference between culture as a resource and cultural competence. In addition, it applies the concepts of cultural competence to international strategies with the aim to better understand the linkage between cultural competence and firms' international success. Cultural competence is explored and recognised as the foundation of cultural bridges (Calza et al., 2009) that is of those social mechanisms able to reduce the perception of cultural distance and to positively influence international relationships.

If we look at relationships between European firms and SMCs or Middle East, cultural distance can become a huge barrier to knowledge transfer and international investments. On one side, foreign firms have to be aware of different social and economic rules. On the others, local should be opened towards different managerial cultures and ready to accept the knowledge they receive from foreigner. In such a situation, the capability to understand others and to respect diversity is fundamental to establish and preserve relationships. An additional competence is required, together with technological and market ones: that is cultural competence. If foreign firms want to find profitable markets in Islamic countries, they have to be able to successfully interact with local stakeholders. Knowing local cultures is the first step to understand locals' behaviours. But more deeply, foreigners have to understand those social rules, which can deeply impact on reciprocal perception, and acceptation.

When investors, either entrepreneurs or managers, are able to embed in the context, relationships are fruitful and loyal, with huge revenues for European firms. This is the case of Technip, a French multinational very successful all over the world and particularly in SMCs and Middle East. In order to overcome cultural distance, Technip has relied on the cultural knowledge and cultural competence of Technip Italy. Technip Italy's strong orientation towards learning and knowledge transfer, together with the capability to adapt and to stay flexible seem to be the main roots of the competitive advantages the company is gaining in the area. This sister company represents for

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Technip the cultural bridge necessary to perception of cultural distance and to optimize in the host markets.

The paper has some important limitation, too. The concept of cultural competence relies mainly on the wider concept of competence explained by the resource-based view, but it should be further explored and better defined. In addition, to be generalized as a factor of competitive advantage, cultural competence should be studied and tested through a wider analysis. A single case study is not sufficient to explore the practical implication of cultural competencies and cultural bridges. Nevertheless it is an interesting starting point to go deepen in this field of research.

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TOWARDS A CONCEPTUAL DEFINITION OF ACADEMIC ENTERPRENEURSHIP

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Abstract

Without a unanimously accepted definition, the subject of academic entrepreneurship looks chaotic and the studies are hardly linked in order to provide a powerful theoretical framework which would foster new researches. This paper intends to bring some light to the current debates relating to the ways in which academics can act entrepreneurially by surveying the literature and suggesting a definition which allows it to be distinguished from other forms of entrepreneurship. The proposed definition is meant to cover all the angles by looking at value producing activities for external actors as the main basis for entrepreneurial academic initiatives. The definition is then used as the main pillar on which to build a distinct characterization of academic entrepreneurship and to disentangle this notion from the knot in which many entrepreneurship threads have been entangled: academic, commercial, social, scientific entrepreneurship and intrapreneurship. The main point of separation is the existence of a distinct impact on the knowledge production and diffusion in the case of academic entrepreneurship which sets it apart from any other entrepreneurial forms. This dialogical knowledge brings forth issues of authorship, scientific autonomy and measuring the value of knowledge created and imparted between the academic and the external environment. However, the suggestion that academic entrepreneurship represents a new way of working with knowledge implies a paradigm shift which can be initiated only by providing a definition of this practice in the light of the proposed change which is what this paper sets out to do.

Keywords: academic entrepreneurship, commercial entrepreneurship, social entrepreneurship

Existent Definitions of Academic Entrepreneurship

When the term academic entrepreneurship was first conceived, it referred simply to an extension of business entrepreneurship to academia, a mere differentiation between companies founded based on academic knowledge and the others. As its popularity grew and more and more disciplines and institutions got involved in entrepreneurial activities, it started to borrow the discourse of the social entrepreneurship which is also a rising thread of inquiry in social sciences today. Based on the different views of entrepreneurship, the scholars involved in the study of academic entrepreneurship can be integrated into three main categories expressing the

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extensiveness of the definitions they use: commercial definitions, knowledge transfer definitions and value creation definitions.

The prevailing definitions of academic entrepreneurship start from the idea of for-profit business creation and talk about university spin-offs, the companies started by academia (Shane, 2004; Wright et al., 2009). Some authors have created a more detailed taxonomy and separated the businesses created by academics on the basis of their own research from those created by other means, talking about general academic entrepreneurship and research-based entrepreneurship (Goel and Grimpe, 2011). Others have looked only at academic businesses set up using venture capital (Zhang, 2007), while others took into consideration any business created on the basis of intellectual property generated inside universities, irrespective if the entrepreneur was part of the academia or not (Hayter, 2011). These definitions refer only to pure entrepreneurial intentions, but leave out other means of obtaining money through knowledge transfer that the academia has at its disposal and also the fact that monetary value is just one type of value that can be created through entrepreneurial means. The next two categories of definitions broaden their scope and take the issues mentioned above into consideration.

The authors who choose to regard academic entrepreneurship as a means of transferring knowledge from the university environment to the market extend the definition so that it includes all the contacts that the academics have with business entities which are the basis of monetary value creation. Under this paradigm we can talk about soft and hard academic entrepreneurial activities (Philpott et al., 2011). Those activities which have the more tangible results are introduced in the category of hard activities: patenting, licensing and spin-off formation and they can be viewed as more entrepreneurial in nature and introducing compatibility issues with the traditionally accepted academic role (Louis et al. 1989 cited in Phillpott et al., 2011). At the other end of the spectrum we encounter the softer activities such as academic publishing, grant seeking and contract research, which are far more acceptable for the academic culture.

The third stream of definition embraces the view of entrepreneurship as creation of societal value, without necessarily putting emphasis on monetary value in particular and it will prove particularly worthy of attention as it was developed by social sciences scholars. This view is mostly encountered in social sciences and humanities discussions of the entrepreneurial dimension of the academic activities and it broadens the scope in order to fit with the realities of these fields of study. For Botes (2005), a scholar concerned with community development in Africa, entrepreneurship is related to risk taking, the ability to see opportunities where others see chaos, and the creation, renewal and enhancement of value not merely for owner, but for all stakeholders. Thus, academic entrepreneurship is proven by choosing the right methods of research. The talk revolves around the concept of community-based learning which is achieved when the academic perspective is merged

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with real-life community-based experiences resulting in something more than simple volunteer activity. As Winfield (2004) says, “the work in the community makes the academic study relevant and the academic study directly informs the work in the community” (p. 9). The application of this teaching method leads to what Kingma (2011) terms community engagement: “Faculty, as entrepreneurial thinkers, seek new ways to engage with the community to create value, and this value creation within a local community establishes the university as an anchor institution” (p. ix).

Based on the aforementioned definitions and taking into consideration their blind spots, the following definition has been conceived: academic entrepreneurship is a practice performed with the intention to transfer knowledge between the university and the external environment in order to produce economic and social value both for external actors and for members of the academia, and in which at least a member of academia maintains a primary role.

This definition includes a part of the category of the commercial definitions because it stresses the importance of the academic entrepreneur to be the one who initiates the transfer of knowledge as business creation and excludes those companies created on the basis of university knowledge but not by academia. Thus, the academic entrepreneur is the initiator of the entrepreneurial practice and it has to remain the main shaper of the practice in order for the activity to fit into what is called academic entrepreneurship. As this is one of the main features which distinguishes academic from corporate entrepreneurship, this is crucial to be present at all times. Consequently, the definition allows for academic entrepreneurial practices to transform naturally into either business or social activities when the academic involvement reduces its intensity as the scientist(s) redraws from the activity.

Moreover, by putting an emphasis on value creation and not solely monetary results, the proposed definition fits nicely with the discourse of the authors from the value creation stream of thought and is large enough to comprise social entrepreneurial activities. Social entrepreneurship is taken to mean an ”innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors” (Austin et al., 2006:2). However, in contrast with social entrepreneurship which is motivated by the existence of a certain problem in the environment, academic entrepreneurship can be a lot more proactive and anticipate problems as well as working in fields in which there are no apparent social problems.

The definition also stresses the need for the activity to produce value for external actors and not only for academia, thus distinguishing academic from scientific entrepreneurship as a means to achieve a higher rank inside one’s profession. Scientific entrepreneurship refers to the activities performed by academics with the view of gaining professional capital such as a promotion in the

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university hierarchies (e.g. publishing articles and books, participating in conferences, participating in administrative activities, becoming members of professional communities).

The fact that the definition mentions the creation of value as the intended result of the academic entrepreneurial practices places the assessment of the success or failure of the academic initiative outside the economic realm driven by profits and into the subjective one in which value is obtained in a transactional mode. Even if the action does not have the intended consequences, it still produces something and that result merits its own investigation. Every action has a result, even though it may not be the one intended and in the case of academic entrepreneurship the intention matters as much as the result. This is true because academic entrepreneurship is an emerging field in which there are no certain recipes for success. The field is in continuous formation, and any entrepreneurial attempt brings value to the whole entrepreneurial ideology whether it succeeds or not.

Academic, commercial and social entrepreneurship

As presented so far, it is clear that academic entrepreneurship combines different elements from commercial, social, scientific and intrapreneurship and thus it needs to be disentangled from these knots and presented as a distinct thread. The change which occurs in the domain of research and knowledge creation as entrepreneurship becomes part of the academic environment is the main pillar on which we can build the distinction among academic, commercial and social entrepreneurship that will be detailed in the next section. This analysis will be based specifically on what sets academic entrepreneurship apart from other types of entrepreneurial activities, focusing on these characteristics and not on those of social or commercial entrepreneurship which have been described in other articles (Austin et al, 2006; Archer, 2008; Santos, 2009).

Opportunity identification and creation

According to Austin et al. (2006) the difference which makes the most importance lies in the opportunity dimension which enacts the fundamental differences in missions and responses to market failures of the two ends of the entrepreneurial continuum, commercial and social entrepreneurship. Even if academic entrepreneurship can fall inside both categories, it does provide a particular layer in its mission as it involves the creation and dissemination of knowledge between the university and the external environment. What academic entrepreneurship brings is a new layer in the communication patterns between the knowledge creation institutions of education and the market/society, a pattern which is based on a continuous dialog.

The central drive of academic entrepreneurship is linked to the transfer of knowledge in a more direct way between the academic world and the external environment in which it is activating. Although the university is not profoundly separated from its environment, academics have in the

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past been accused of having retreated inside an ivory tower, of being distant and not interested in what happens outside the walls of their institutions. The nascent practice of entrepreneurialism amongst academics is said to be the cure to this said aloofness which was professed by major scholars as Merton (1973) or Humboldt (Albittron, 2006).

Thus, what the most important opportunity needed to be taken by academic entrepreneurs is that of the dialogue which increases the dialogic literacy (Bereiter and Scardamalia, 2005) of the academia and the external actors which get involved. This literacy is defined as “the ability to engage productively in discourse whose purpose is to generate new knowledge and understanding” (p. 11) and it is considered to be the fundamental literacy for a knowledge environment. Thus, while in the case of commercial entrepreneurship the emphasis is placed on the economic returns provided by a certain activity and in the case of social entrepreneurship on social innovation, in the case of academic entrepreneurship the accent is on producing knowledge for the external partners and the academia through a meaningful dialogue. While social entrepreneurship identifies opportunities by focusing on neglected positive externalities which result from market and state failures (Santos, 2009), entrepreneurs from academia seek opportunities by looking for partners for dialogue that have something to give and something to receive from the academic environment. The knowledge producing dialogue can lead to commercial or social opportunities, or a combination of both, but as long as it remains a mutual exchange of knowledge between the academia and the external partners, it will fit under the definition of academic entrepreneurship.

Context

The context refers to the general social, economic, legal and political environment which has a bearing on entrepreneurial activities. In the case of universities, the shift to a knowledge-based economy in which the higher education institutions are invited to become part of the triple helix alongside the government and the industry (Etzkowitz, 2003) and to become a mode 2 knowledge producer (Gibbons et al., 1994), all these representing external pressures towards increased academic entrepreneurship.

The emphasis falls on the nature of the action, on its directedness and lack of mediation: the academic scientist in person goes out of the university and establishes fruitful interactions with his/her environment, as compared to the situation in which only the products of his/her labor (students, research, knowledge) get to the environment and have to be activated by others in order to produce value. As such, academic entrepreneurship is full of potentialities.

Among these potentialities we can also encounter tensions inside the academia and between the academia and the external actors which are derived first of all on the different claims on the knowledge which is produced. The dialogic knowledge creation brings forth issues of intellectual

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property rights and authorship. The two worlds have different ways of handling knowledge, the academic one is based on knowledge dissemination and use by others as a way to prosper, whereas the business world is based on tight protection of the knowledge through copyrights and trademarks. These issues are most prominent in the case of academic entrepreneurship than in others. But, as Murray (2006) has shown, academics have proven that tensions can be handled at the institutional level by boundary work and by rewriting the rules so as to accommodate the two distinct logics of academic science and commerce.

Academic entrepreneurship also comes with its own ideological and ethical problems. Its detractors sustain the view that it is a perverse intrusion of the market inside the 'ivory tower' of the academia where knowledge teaching and producing was done autonomously and for truth's sake in the past. And these are also voices from inside the academia which hold that this shift has meant giving over the reins of the research to business and communities. Thus neither academic, nor commercial entrepreneurship have escaped the scrutiny of the public without them being discovered to have some dark spots.

Regarding the external context which is outside of the decision of academic entrepreneur, an important dimension is represented by the legal environment which limits or enlarges their entrepreneurial possibilities. As an example, in France, the academic scientist who starts a business can be involved in it just for a limited period of time and there are other constraints as well stemming from the fact that a large number of academics especially in Europe are employed in state universities and have to obey the laws concerning civil servants (Manifet, 2008).

The development of academic entrepreneurial activities is mostly dependent either on state or commercial money, making it highly sensible to the economic conditions and to how the commercial entrepreneurial activities are doing. However, by having many different sources of financing, academic entrepreneurship is perhaps able to be more flexible and adaptive than other types of entrepreneurship. The fact that the main goal is to produce and use knowledge allows entrepreneurial academics to shift between commercial and social practices according to the characteristics of the external environment.

But in the case of academic entrepreneurship there is another context which has great bearing on the successful implementation of the entrepreneurial intention and that is the organizational context of the higher education institution in which the potential entrepreneur works. Although there are cases of commercial entrepreneurship which is born inside already established firms, there is also the distinct possibility of beginning the entrepreneurial practice outside the framework of an already existing organization. The same is true for social entrepreneurship. But, if in these cases it is just a possibility, in the case of academic entrepreneurship the existence of an already

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formed set of ideas and practices is axiomatic. The academic entrepreneur is already part of an organizational culture and she has already been socialized in respect to certain practices which may make the entrepreneurial shift harder or easier depending on the entrepreneurial orientation of the university. For example, the university could have an in-house transfer office, a business incubator and could provide entrepreneurship courses to the academia outside business studies in order to promote the linkage between society/market and them.

People and Resources

Academics who want to become involved in entrepreneurial activities seem to be disadvantaged by their lack of business and community connections and by their lack of access to funds. Whereas commercial entrepreneurs have at their disposal well known avenues for obtaining financing for their ideas and social entrepreneurs work closely with the philanthropic sector, the average academic only has direct access to his/her peers and the students enrolled in the institution he/she is affiliated to.

However, the academics also have access to the resources of their institutions and to the connections established by it and can transform that capital into financial capital or people capital, such as in employees or partners for their initiatives. The access to these institutional resources comes with certain constraints and demands, in the form of financial rewards or image promotion required by the university. Also, the academic has to maintain the close connection with the institution he/she was affiliated at the start of the initiative to remain inside the academic entrepreneurship paradigm and to continue to have access to resources. The need to remain involved in academic activities puts time constraints on the entrepreneurial ones, as the academic can't put aside his/her teaching and university research aside.

Deals

The kind of value promoting the link between the entrepreneur and the people with which he/she works can be based on the exchange of financial rewards or intellectual rewards such as those obtained by being involved in activities which create values which can then be used in order to be entrepreneurial in a scientific way and further the academic career. The motivations of the academic entrepreneur are born out of the difference between the academic and the external environment which provides them with new problems and different perspectives related to their research work.

Most of the time, entrepreneurial activities can involve students as well and they create a dynamic learning environment. The value exchanged with students is the validation of their studies by practical assessment and also the establishment of future job opportunities through the academic networks which are set up by entrepreneurial activities. The university is interested in promoting

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entrepreneurship among its faculty members because this implies an increase in image capital and also economic capital, but at the same time, too many entrepreneurial activities can become a threat to the quality of educational activities and also a threat of losing valuable academic scientist to commercial and social enterprises.

The efficiency of the dialogue intended to produce and diffuse knowledge is not easily done and the focus is not necessarily on the results, but on the existence of the intention toward entrepreneurial behavior on behalf of academics. Although the universities themselves are the directly interested in promoting this type of behavior, the requirements for society/market linkages are not widely used as promotion criteria inside university ranks which could indicate the elusiveness of the results and the current experimental stage of the field.

Where Does This Leave Academic Entrepreneurs?

The answer to this question starts from Carayannis and Formica (2006) who believe that the entrepreneurial scientist has two character profiles: (1) that of homo scientificus, breaking away from convention to search for ground-breaking discoveries, and (2) that of homo economicus, with a special acumen for marketing and sales. Applied to academic entrepreneurs, this framework requires the addition of a third character profile: (3) that of homo empathicus (Rifkin, 2009). Understood in the academic context, homo empathicus refers to the attitude of producing knowledge by participating, not by being objective and detached and also of sharing the knowledge producing activities with others by engagement, interactivity and interdisciplinary. This empathic dimension is entangled with all the activities that a faculty member performs (teaching, research and entrepreneurship), and it is the development of all these characteristics that sets academic entrepreneurs apart from their peers. However, this empathic dimension is crucial in orienting the attention of the academic scientist towards environments governed by different logics such as the commercial, governmental or philanthropic and it is also the ability which guarantees that once an interaction was initiated it will have large chances of success. The greater the ability of academics to empathize with people belonging to other islands of meaning (Zerubavel, 1991), the better their chances to become successful academic entrepreneurs.

The support for this framework comes from the literature concerned with the motivations and determinants of academic entrepreneurship. The study conducted by Morales-Gualdron et al. (2008:21) in Spanish universities revealed that academic entrepreneurs who set up university spin-offs are primarily motivated by the search for scientific knowledge which the creation of a company facilitates: "The higher accumulation of knowledge coupled with the desire to apply that knowledge and continue advancing in their development are the elements that 'pull' the actions of these entrepreneurs, and possibly determine most of the decisions they make through their academic careers." This implies that academic entrepreneurship can be seen as a means to achieve scientific entrepreneurship, being another way to finance research and develop ideas. This view is sustained by the results presented by Shane (2004) in his book regarding the academic entrepreneurs' decision to sell equity or finance through debt their university spin-offs. This need to be in control can be linked to the way in which we defined academic entrepreneurship as a practice performed primarily by a member of the academia, which supposes that the outside influence is not the primary decision factor. Also, the link between academic entrepreneur and his/her homo scientificus side also hints at the need to maintain the university connections because the university is the primary environment in which new research results are disseminated.

On the other hand, Landry et al. (2007) discovered that focusing on user needs leads to greater implication in knowledge transfer activities in the case of natural sciences and engineering university researchers. Moreover, Olmos-Penuela et al. (2011) have extended this conclusion to humanities and social sciences academia concluding that the common variable positively related with the engagement in the different knowledge transfer activities analyzed was the focus on the social utility of the research. Also, those activities which increase social capital such as professional mobility, prior business experience, consulting activities have been shown to contribute to the promotion of academic entrepreneurship (Krabel et al., 2009; Mosey and Wright, 2007; Goel and Grimpe, 2011).

Based on which dimension manifests more prominently, we can analyze which type of entrepreneurship the member of academia is involved in: if the homo economicus is the primary decision making actor than the activity will fit into the commercial entrepreneurial practices, whereas if the homo empathicus is the one providing the drive behind the intent, then it is a socially entrepreneurial practice. Nonetheless, what this framework reinforces is the idea that all three character profiles coexist in the same person and that they can choose to manifest in one situation in a certain degree and in another situation in a totally different combination. These idiosyncratic manifestations are influenced by personal characteristics and existing cultural features (Tuunainen and Knuuttila, 2009).

Conclusions and Future Research

The same as Austin et al. (2006), we can conclude that there is no totally commercial entrepreneurship and no totally social entrepreneurship even in the academia, and that all entrepreneurial practices have to combine elements of both. What needs to be investigated further is the change in cultural features which allows contemporary academic entrepreneurs to become more socially aware and engaged, meaning more homo empathicus and if these are the same features which allowed them in the past to become more homo economicus.

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Academic entrepreneurship is an unruly subject which defies the boundaries between concepts and requires a treatment not based on any previous knowledge. It is an uncanny practice which is best viewed in its own merits and not as a part of either commercial or social entrepreneurship. It is meant to create an uncomfortable sensation in the researcher that seeks to explore the nature of these activities as they span across different fields of knowledge and produce their specific results. Stretching the conceptual limits, we could say that academic entrepreneurship resembles the uncanny as described by Freud "a feeling of something not simply weird or mysterious but, more specifically, as something strangely familiar."(Royle, 2003: vii) The familiarity is provided by the societal context which seems to be fraught with discussions regarding academic entrepreneurship and the entrepreneurial universities and by the fact that we have already been acquainted with commercial and social entrepreneurship. However, this does not represent a clear case of either and it can be thus called uncanny.

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IS CELLAR DOOR AN OPPORTUNITY FOR BAG-IN-BOX? A CONSUMER PREFERENCES ANALYSIS IN THE ITALIAN WINE MARKET

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Abstract

In Italy, the cellar door activities are being transformed. The local, daily and low involved consumer, purchasing bulk wine, is slowly being replaced by the consumer-tourist. This research focuses on the role of packaging for the consumers who purchases wine from the cellar door, in order to understand the benefits they expects to obtain. It also analyzes how consumption behavior influences the packaging choice. Most marketing studies on wine packaging focus on the glass bottle, on design strategies and on consumer perception. Few studies analyze the consumer perception towards new packaging options.

A direct survey through questionnaire was carried out by the consumers-tourists at the cellar door of an Italian winery.

Three Logit regression models have been applied, in order to estimate the probability that consumers will buy wine in the three different packaging options: bottle, demijohn and bag-in-box. The results of the regression function for the demijohn confirm that the choice for this packaging is linked to a traditional consumption model and to the local production; for the bottle the role of "Age and Information", "Wine, Food and Environment", "Image" emerges. The probability to choose bag-in-box is given by "Image", "Wine and Outside Meal Effect" and "Intrinsic Attributes of Wine".

This study highlights that there are some development opportunities for the bag-in-box in Italy, given by the increasing consumers attention toward new packaging benefits, and linked to the wineries, that should fill up the consumer information gap and include bag-in-box in an integrated vision of marketing mix.

Keywords: Bag-in-box, cellar door, consumer behavior, wine, Italy

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Introduction

In Italy, the cellar door activities are being transformed. Bulk wine is no longer widely sold to the local, daily and low involved consumers. This consumer segment is slowly being replaced by the consumer-tourist. Research highlights that the consumers-tourists are different from the traditional consumers: they are wine involved, prefer typical wines of medium-high quality, and are also interested in the cultural and social aspects of wine. They want to improve their knowledge of wine production process and the terroir, by establishing direct contact with the winemaker and living an unforgettable experience (Bruwer and Alant, 2009; Charters and Ali-Knight, 2002).

Also the Italian wineries are gradually developing to offer new experiential contents; in particular, they should implement new product strategies, involving packaging, to provide functional and hedonistic benefits. Starting from this consideration, this research focuses on the role of packaging for the consumers who purchase wine from the cellar door, in order to understand the benefits they expect to obtain. It also analyzes how consumption behavior influences the packaging choice.

The reduction in bulk wine purchases is caused not only by the decrease of per capita consumption, but also the need of service benefits. From this point of view, consumers, producers, and researchers have focused on the glass bottle as the only way to create added value. However, the heterogeneity of wine productions on the one hand, and the market segmentation on the other hand, may stimulate the interest toward alternative packaging options, considering the wine characteristics, the distribution channel, the consumption situations and the expected benefits.

From the technological point of view, researchers highlighted that the glass bottle did not always outperform the other packaging. The choice of the packaging should be carried out according to the characteristics of the wine, and its use functions, commercialization forms and usability, which may make different packaging options more convenient than the glass bottle, both in technological and economic terms. Furthermore, the impact of the packaging disposal on the environment, global warming and greenhouse gases increase has aroused the attention of consumers and wineries toward new "green" packaging, as lighter weight glass bottles, PET bottles, TetraBrik and bag-in-box(Buiatti *et al.*, 1997).

Besides being environmental friendly, these packaging have specific technical and technological characteristics. Some bag-in-box advantages are the following: materials and closure perform better than TetraBrik, its high tech functions maintain the sensory qualities of the wine longer than the glass bottle when opened, it is easily stored, recycled, and biodegradable.

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The interest of wineries towards bag-in-box is growing in the Italian market. This phenomena involves the wineries focused on direct sales, especially the cooperatives. They are suffering from the reduction of bulk wine sales, sold for example in demijohn, and react by proposing bag-in-box as an alternative with new service benefits. However, many wineries are still hesitant to adopt this packaging in the domestic market, because its acceptability by the consumers is poorly known. The consumers are reluctant to use this packaging because they are not familiar with its potentialities, confuse it with the TetraBrik, widely distributed by retail chains, and consider wines in bag-in-box as low quality wines. Also the legislation limited its uses: only from 2008, the Italian producers can package denomination of origin wines in bag-in-box.

The situation in other markets is quite different. The Italian wineries make extensive use of bag-in-box wines for foreign markets, especially in Northern Europe. For example, in recent years it has overtaken the bottle in Norway and in Sweden, partly because of the lower taxation than glass bottle. In France, it is one of the few growing areas in the declining domestic market. In Australia, the role of bag-in-box is evolving in a completely different way. For many years it has been one of the most important packaging options in the domestic market, qualifying the wine as a commodity. Nowadays, the consumer's attention towards premium wines is causing its decline (Mueller and Umberger, 2009).

Literature Review

Packaging is one of the wine quality cues for the consumer, and not only for those less expert. Previous studies stated that the intrinsic attributes are more important than extrinsic attributes for utilitarian products and, extrinsic cues as brand name and packaging prevail on intrinsic cues for products of image (De Chernatony and Knox, 1990). Instead, for wine quality is determined by a very wide and diverse set of attributes, and the role of extrinsic and intrinsic ones is still being studied.

Starting from this multidimensional concept of quality, Charters and Pettigrew (2007) have investigated how the marketing elements, including packaging, enter the evaluating process of the quality, and are themselves quality. They act in different ways, depending on the consumer segment. The packaging transmits an image that is directly linked to price to the low involved consumer. The authors suggest a “triadic relationship” between packaging (label particularly), price and reputation, very relevant in situations of personal achievement and sociality. The medium or high involved consumers perceive the marketing package “as integral to the concept of quality”.

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According to Orth and Malkewitz (2008), packaging is a communication vehicle for brand managers. The packaging, the bottle shape and color, and its label, determine the look of a wine, create a distinction from the competitors and offer more "shelf appeal" (Jennings and Wood, 1994).

Therefore, the impact of packaging and consumer involvement are strongly connected, and since the involvement is powered by the purpose, also the assessment of the product and the packaging is closely related to the reason to buy. Starting from the purpose, the consumer chooses not only the wine, but also the packaging, the design, the value for money, as well as its usability and functionality. These expected benefits should be taken into account by firms in setting product strategies.

Therefore, it is obvious that the new packaging options affect the quality of the product, not only through the technological performance, but also through the impact on the consumer in terms of image, consumption situation to satisfy, and expected services. The literature analysis reveals that the studies about the impact of bottle and label on product assessment by the consumer are numerous and arouse increasing attention (Mueller and Lockshin, 2008; Rocchi and Stefani, 2006). But the studies about the relations between new packaging options, the consumer characteristics and the purchase and consumption behavior are almost absent (Mueller and Umberger, 2009).

Also studies about the role of packaging from the producer point of view are lacking. The effort to broaden the product portfolio with bag-in-box wines is underestimated. The article of Santini *et al.* (2007) studies the market opportunities of the bag-in-box in the United States.

Objective and Methodology

This study aims at contributing to fill gap in knowledge in the analysis of the relations between packaging choices, consumer characteristics and consumption patterns.

The focus is on consumer-tourist at the cellar door, because this segment may be potentially interested in alternative packaging options, able to replace the purchase of bulk wine in demijohn, in the sharp decline by the modern consumer. In particular, this research will explore the opportunities that the wine SMEs can obtain from bag-in-box in the cellar door. Another innovative aspect of this research comes from the comparative assessment by the consumer of the three types of packaging suitable for direct sales, namely the bottle, the demijohn and the bag-in-box.

A direct survey through questionnaire was carried out by the consumers-tourists at the cellar door of a winery that lies in the province of Fermo, in Marche region. The questionnaire was developed to gather five types of information: i) socio-demographic characteristics of respondents; ii) beverages consumed in the different consumption occasions; iii) choice and consumption

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behavior for wine; iv) purchase behavior and preferred packaging options for wine (bottle, demijohn, bag-in-box); v) advantages and disadvantages of the three packaging options.

The questionnaire was submitted to 150 consumers-tourists. Table 1 shows the socio-demographic characteristics of the sample.

The sample is not representative for the population, but it is significant if compared to the cellar door custom of a wine SME that is interested in enhancing its direct sales and the visitor experience.

After describing the consumers-tourists characteristics and the benefits that they expect from the three packaging options, the analysis aimes at verifying the relationship between packaging and consumption behavior. Therefore, three Logit regression models have been applied, in order to estimate the probability that consumers will buy wine in the three different packaging options. The dependent variables are dichotomous, with value 1 if the respondent buys wine in bottle, demijohn or bag-in-box respectively, and 0 otherwise. The independent variables consist of the socio-demographic characteristics of the consumer, the consumption and purchasing behavior, the consumption situations and the importance associated to wine attributes. These variables have been identified through the principal components factor analysis, to avoid dependence among variables and to reduce the number of variables at the same time. This analysis highlights latent dimensions that are the independent variables for the Logit regression analysis. The factor analysis has also played an explanatory role, selecting the latent variables able to discriminate the respondents behavior. The dimensions with eigenvalues greater than one have been selected and rotated by varimax method.

Discussion of Results

Consumption behavior

The wine plays an important role by respondents in the different consumption occasions, reflecting the Italian traditional consumption pattern. The wine is drunk during meals at home and outside, with family or friends, often with water (Tab. 2). The other beverages are not able to replace it in these situations, but they are preferred in the occasions outside meal. At home and at friends soft drinks (juice and soda) are favored, while at the bar the alcoholic beverages (beer) prevail.

Among regular consumer, the traditional wine consumption pattern keeps: i) the high consumption frequency (daily for almost two thirds of respondents); ii) the choice of wine based on generic characteristics (color, still/sparkling); iii) the frequent purchase by the winery for regular consumers. Occasional consumers, usually young, differ: they put wine in competition with other

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beverages, especially outside meal, buy wine at the supermarkets and the wine shops, and search information by participating at wine festivals, courses and reviews.

	n	%
Gender		
female	*36*	*24,0*
male	*114*	*76,0*
Age class		
20-29	*28*	*18,7*
30-39	*23*	*15,3*
40-49	*25*	*16,7*
50-59	*33*	*22,0*
more that 59	*41*	*27,3*
Education level		
primary school	*2*	*1,3*
junior high school	*31*	*20,7*
technical school	*5*	*3,3*
high school	*84*	*56,0*
university	*28*	*18,7*
Job		
student	*13*	*8,7*
housewife	*6*	*4,0*
retired	*28*	*18,7*
worker	*19*	*12,7*
employee	*13*	*8,7*
merchant/artisan	*37*	*24,6*
freelance	*34*	*22,6*
Number of household components		
1	*11*	*7,3*
2	*43*	*28,7*
3	*38*	*25,3*
4	*45*	*30,0*
more than 4	*13*	*8,7*

Tab. 1 – Socio-demographic characteristics of the sample (n=150)

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Occasions	Preferred beverages (% of respondents)
at home during meal	*wine 65.3%; water 85.3%*
at home outside meal	*water 70.0%; juice 16.0%; soda 14.0%*
outside home during meals at friends	*wine 94.0%; beer 14.0%*
outside home during meals at the restaurant	*wine 100.0%; water 74.0%*
outside home outside meals at friends	*water 41.3%; soda 30.7%; wine 19.3%*
outside home outside at bar	*wine 46.6%; coffee 41.3%; beer 36.7%; cocktail 17.3%*
festivities	*wine 100.0%*

Tab. 2 – Preferred beverages in the different consumption occasions (n=150)

Pros and cons of the three packaging options

Table 3 shows that the higher the consumption frequency is, the greater is the interest in different packaging options than bottle, and the bag-in-box in particular.

	Occasional consumers (n=14)	***Frequent consumers (n=39)***	***Daily consumers (n=97)***	***Total (n=150)***
bottle	*100.0*	*100.0*	*32.0*	*56.0*
demijohn	*0.0*	*2.6*	*36.1*	*36.0*
bag-in-box	*21.4*	*38.5*	*64.9*	*54.0*

Note: chi-squared test between the variables consumption frequency and packaging options is significant with $\alpha < 0.000$

Tab. 3 –Packaging option in relation to consumption frequency (% of respondents)

Table 4 shows the benefits of the three packaging options perceived by consumers. The bottle is associated with quality wine, recyclability of the glass, and its property to preserve the product.

The demijohn is chosen for its price and the possibility of re-use. The wine is interpreted as a commodity, whose price is assumed to be low. The consumers are not interested in the packaging differentiation elements and therefore they are indifferent about its characteristics.

As for the demijohn, respondents associate bag-in-box to daily consumption, but they are able to discern some of its properties: the ease of transport, the reduction in waste and purchase time, the affordability and its ability to preserve the product. However, they are still reluctant about its recyclability, showing a lack in knowledge. They also incorrectly associate bag-in-box with TetraBrik widely sold by retail chains, doubting of its suitability for quality wine. In fact these consumers buy bag-in-box wine directly from the wineries and prefer local wines, mainly autochthonous. In this case, the bag-in-box is more practical than the demijohn.

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	bottle	*demijohn*	*bag-in-box*
reduction of the purchase time	*41,3*	*9,3*	*44,6*
reduction in waste	*34,6*	*7,3*	*48,0*
reservation capacity	*42,6*	*10,6*	*39,3*
convenience	*47,3*	*10,0*	*52,6*
ease of transport	*36,0*	*4,0*	*51,3*
affordability	*6,6*	*22,6*	*44,0*
recyclability	*72,6*	*22,6*	*7,3*
suitable for quality wine	*55,3*	*11,3*	*28,6*

Tab. 4 – Benefits associated with the three packaging options (% of respondents, n=150)

Packaging preferences

Starting from a set of 43 variables that comprehend the characteristics and the consumption behavior of respondents, the factor analysis extracted 13 dimensions, explaining 71.4% of the variance. Table 5 shows the extracted dimensions, which names come from their associated variables with a factor loading greater than 0.500.

The dimension "Age and Information" (D1) opposes the modern consumption behavior to the traditional one. The former is associated with younger respondents, who want to be informed about wine, are always curious, interested in the novelty and willingness to enrich their cultural background, show awareness in choosing wine through specific characteristics and mostly buy wine at supermarkets. The latter concerns the older respondents, who drink wine at home during meals and buy wine directly from the cellar door.

The dimension "Image" (D2) characterizes respondents who pay attention to the intangible aspects of the product. Factors such as brand reputation, experts' advice, packaging design, label information, denomination of origin, awards and medals are particularly taken into account to assess a wine. The extrinsic sphere of the product plays an important role for these consumers, because it consists in objective factors that can help, or confirm, their ability to assess the tangible characteristics of the product.

The dimension "Wine, Food and Environment" (D3) comprehends the consumers who consider environment respect and organic production important for a wine. It refers to a new philosophy that is gaining ground in recent years, linked to the culture of good and healthy eating, and environmentally friendly.

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Dimensions	Variables with the highest positive factor loadings	Variables with the highest negative factor loadings	Explained variance (%)
D1 – Age and Information	- wine purchased in supermarkets (0.737) - search information about wine (0.722)	- wine consumption at home during meals (-0.904) - importance of wine color at home (-0.859) - consumption frequency (-0.882) - wine purchased from the cellar door (-0.851) - age (-0.798)	15.2
D2 – Image	- importance of brand reputation (0.703) - importance of denomination of origin (0.694) - importance of awards and medals (0.684) - importance of experts' advice (0.660) - importance of packaging design (0.650) - importance of label information (0.581)	-	8.4
D3 – Wine, Food and Environment	- importance of environmental friendly production (0.775) - importance of organic production (0.772)	-	6.2
D4 – Water and Meal Effect	- water consumption at friends' home during meals (0.914) - water consumption in the restaurant (0.855) - water consumption at home during meals (0.521)	-	5.3
D5 – Intrinsic Attributes of Wine	- importance of taste (0.767) - importance of alcohol by volume (0.715)	-	5.3
D6 – Beer and Price Effect	- importance of price (0.642) - beer consumption in the bar (0.502)	- water consumption in the bar (-0.671)	4.3
D7 – Beer and Friends Effect	- beer consumption at friends' home outside meals (0.782)	- wine consumption at friends' home during meals (-0.630)	4.1
D8 – Water and Outside Meal Effect	- water consumption at home outside meals (0.777)	-	4.0
D9 – Beer and Meal Effect	- beer consumption in the restaurant (0.767) - beer consumption at friends' home during meals (0.589)	-	4.0
D10 – Friends' Advice	- importance of friends' advice (0.604)	- importance of wine color outside home (-0.691)	3.8
D11 – Wine and Outside Meal Effect	- wine consumption at friends' home outside meals (0.725) - wine consumption at home outside meals (0.559)	-	3.6
D12 – Point of Sale	- wine purchased in cooperatives (0.807)	-	3.6
D13 – Value for Money	- importance of value for money (0.736)	-	3.5

Tab. 5 –Dimensions extracted by the factor analysis and variables with the highest factor loadings

A group of six dimensions (D4, D6, D7, D8, D9, D11) explains one quarter of the variance, concerns the substitution factors between wine and the other beverages. The dimensions "Beer and Price Effect" (D6), "Beer and Friends Effect" (D7) and "Beer and Meal Effect" (D9) show that the preference for beer is linked to the price, and to moments of sociality and conviviality with friends and outside the home. The dimensions "Water and Meal Effect" (D4) and "Water and Outside Meal

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Effect" (D8) distinguish consumers that pay attention to alcohol content and prefer water to wine both during and outside meal. The dimension "Wine and Outside Meal Effect" (D11) considers consumers who choose wine outside meal, whether at home or at friends.

The dimension "Intrinsic Attributes of Wine" (D5) characterizes the consumers who perceived the quality through the intrinsic characteristics of a wine (taste, alcohol by volume, color and grape variety).

The dimension "Friends' Advice" (D10) differentiates the consumers that follow the suggestions of friends in choosing a wine, because they are considered expert, or as a sign of belonging to a group.

Finally, the dimensions "Point of Sale" (D12) and "Value for Money" (D13) concern the consumer buying process: the first is focused on the purchase of wine from the cellar door, the second on the price affordability.

The thirteen dimensions explained above are the independent variables used to estimate three Logit regression functions for the bottle, the demijohn and the bag-in-box (Tab. 6). The highest goodness of fit is registered for the first function, correctly classifying 89.3% of the cases and explaining 81.7% of the observed variance. This percentage is lower for the function "demijohn" and "bag-in-box"; however they correctly classify respectively 86% and 70% of the cases.

The regression function for the bottle shows three significant independent variables with a positive sign. The dimension "Age and Information" highlights that youth, and wine involvement, linked to the modern consumption pattern, increase the probability to choose wine in a bottle. The dimension "Wine, Food and Environment" is positively associated with the choice of the bottle because it emphasizes the attention to the quality of the product and the production process. The dimension "Image" is connected to the intangible nature of the bottle and to the information content of the label.

Conversely, the attention to the value for money decreases the probability of choosing a wine.

The results of the regression function for the demijohn confirm that the probability to choose the demijohn is linked to a traditional consumption model and to the local production. The choice is led by the attention to the value for money and the daily consumption during mealtime. Therefore, the wine is not preferred in the occasions outside meal, and substituted with other beverages, like beer. The negative coefficients for the two dimensions "Age and Information" and "Image" highlight that the demijohn choice is associated with a low involved consumption behavior: higher age, direct purchases from the cellar door, high consumption frequency, lower interest in information and cultural aspects of wine.

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The regression function for the bag-in-box shows that the probability to choose this packaging is given by the three dimensions "Image", "Wine and Outside Meal Effect" and "Intrinsic Attributes of Wine", that can also be interpreted as development drivers for the bag-in-box.

The dimension "Image", which characterizes consumers focused on the extrinsic attributes of wine, could increase the acceptability of bag-in-box if the wineries improve the design and information of this packaging option.

Independent variables	*Bottle*			*Demijohn*			*Bag-in-box*		
	Coeff.	*SE*	*Sig.*	*Coeff.*	*SE*	*Sig.*	*Coeff.*	*SE*	*Sig.*
D1 - Age and Information	*4.157*	*0.852*	*0.000*	*-2.545*	*0.609*	*0.000*	*-0.655*	*0.197*	*0.001*
D2 - Image	*0.965*	*0.421*	*0.022*	*-1.217*	*0.299*	*0.000*	*0.592*	*0.199*	*0.003*
D3 - Wine, Food and Environment	*1.267*	*0.370*	*0.001*	*-0.381*	*0.283*	*0.178*	*0.202*	*0.184*	*0.274*
D4 - Water and Meal Effect	*0.122*	*0.375*	*0.746*	*0.372*	*0.269*	*0.167*	*0.156*	*0.197*	*0.431*
D5 - Intrinsic Attributes of Wine	*0.228*	*0.327*	*0.486*	*0.096*	*0.293*	*0.743*	*0.325*	*0.193*	*0.092*
D6 - Beer and Price Effect	*0.590*	*0.447*	*0.187*	*-0.071*	*0.275*	*0.795*	*0.271*	*0.188*	*0.150*
D7 - Beer and Friends Effect	*-0.348*	*0.438*	*0.426*	*0.972*	*0.327*	*0.003*	*0.148*	*0.219*	*0.498*
D8 - Water and Outside Meal Effect	*-0.379*	*0.335*	*0.258*	*-0.344*	*0.287*	*0.231*	*-0.258*	*0.199*	*0.195*
D9 - Beer and Meal Effect	*-0.420*	*0.403*	*0.298*	*-0.408*	*0.325*	*0.209*	*-0.044*	*0.192*	*0.820*
D10 - Friends' Advice	*-0.510*	*0.453*	*0.261*	*-0.057*	*0.317*	*0.856*	*0.312*	*0.196*	*0.110*
D11 - Wine and Outside Meal Effect	*0.268*	*0.295*	*0.363*	*-0.613*	*0.327*	*0.061*	*0.441*	*0.254*	*0.082*
D12 - Point of Sale	*-0.006*	*0.312*	*0.986*	*0.282*	*0.244*	*0.247*	*0.066*	*0.184*	*0.720*
D13 - Value for Money	*-1.137*	*0.423*	*0.007*	*0.840*	*0.426*	*0.048*	*-0.017*	*0.190*	*0.929*
Constant	*1.054*	*0.515*	*0.041*	*-2.792*	*0.566*	*0.000*	*0.246*	*0.188*	*0.191*
Cases correctly classified	*89.3%*			*86.0%*			*70.0%*		
-2 Log Likelihood	*64.523*			*94.885*			*174.938*		
Cox and Snell R Square	*0.610*			*0.375*			*0.192*		
Nagelkerke R Square	*0.817*			*0.561*			*0.257*		
Chi-Square	*141.256*			*70.439*			*32.046*		
Significance	*0.000*			*0.000*			*0.002*		

Tab. 6 – Logit regression functions for bottle, demijohn and bag-in-box

The dimension "Wine and Outside Meal Effect" associates the interest in the bag-in-box with outside meal consumption of wine. This could be an opportunity because it can ensure the storage life and product usability also in these situations.

The dimension "Intrinsic Attributes of Wine" is specific to this model. It can reveal the "concreteness" of the consumers who choose bag-in-box for both the product and the packaging properties. They are characterized by high consumption frequency, purchase from the cellar door, and attention to the tangible characteristics of the product (taste, alcohol by volume, color and grape variety). Therefore, bag-in-box performances in maintaining the sensory properties of the wine become an important lever.

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The dimension "Age and Information" lowers the probability of purchasing the bag-in-box wine. It highlights that youth and the interest in the wine may stem the choice of this packaging. This depends from the actual market positioning of the bag-in-box, that leads to associate it with low quality wines, undifferentiated, suitable in domestic consumption situations, packaged in demijohn or TetraBrik.

Managerial Implications

The results of this research confirm that the demijohn is a packaging option in the final stage of its life cycle, with scarce revitalization possibilities (Tab. 7). Furthermore, the analysis shows the specificity of Italian consumer compared to the New World one, meaning that bag-in-box is still in the launch phase in the domestic market.

The comparison between bottle and bag-in-box allows the drawing of interesting opportunities for the latter packaging option. It is certain that the bottle will remain the packaging with the greatest capability to express the quality of a wine, and its identity. Nevertheless bag-in-box could benefit from the current trends in wine consumption, despite it responds to a segmented market in terms of product typology and consumer occasions.

The research highlights that the consumer of bag-in-box is quite different from that of demijohn. The dimension "Age and Information" has a negative impact on both the packaging options, because most purchasers of bag-in-box are daily wine drinkers and not so young. Considering the bottle and the bag-in-box, only the dimension "Image" has a positive impact on both. However, the analysis highlights that there are some development opportunities for the bag-in-box, linked to the consumer attention toward certain packaging characteristics and the information gap, and linked to the wineries, that should include it in an integrated vision of marketing mix.

The strategic development of the bag-in-box can be synthetized in some main guidelines.

The research highlights that the information is a pivotal point. It should be strengthened in two areas: the technological and economic performances, and the information content on the label. Today, the label is absolutely minimal and neglected, designed for a traditional consumer, like the one interested in demijohn. Consequently, today the Italian wineries relegate this form of packaging for basic wines.

Another problem is that bag-in-box is included as a simple extension of the product range for the Italian wineries, without a specific market target. Therefore, the wine portfolio strategy should be revised, considering the bag-in-box in an integrated way, in terms of brand image, target market, communication strategy and distribution channels.

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	Bottle	Demijohn	Bag-in-box
Significant consumer characteristics associated with the packaging options			
Age and Information	++	--	--
Image	++	--	++
Wine, Food and Environment	++	n.s.	n.s.
Intrinsic Attributes of Wine	n.s.	n.s.	+
Beer and Friends Effect	n.s.	++	n.s.
Wine and Outside Meal Effect	n.s.	-	+
Value for Money	--	++	n.s.
Benefits associated with the packaging options			
reduction of the purchase time	***	*	***
reduction in waste	**	*	***
reservation capacity	***	*	**
convenience	***	*	****
ease of transport	**	*	****
affordability	*	**	***
recyclability	****	**	*
suitable for quality wine	****	*	**

Note: n.s. = not significant; ++ = positive coefficient $\alpha \leq 5\%$; -- = negative coefficient $\alpha \leq 5\%$;
+ = positive coefficient $5\% < \alpha \leq 10\%$; - = negative coefficient $5\% < \alpha \leq 10\%$
***** = > 50%; *** = 50%-40%; ** 39%-15%;*
** = <15%, the percentage indicates the consumer quota that consider the packaging characteristic important*

Tab. 7 – Packaging options and importance of consumer and packaging characteristics

In this context, the cellar door sales can become a strategic option to reposition this package.

Another weakness to overcome that generates prejudices about the quality of wines in bag-in-box relates to the legislation, that has allowed to sell denomination of origin wines in bag-in-box only since 2008. However, this implies to modify the production rules that regulate each denomination of origin, and this procedure is long and complex in Italy.

Another important aspect jointly concerns the communication to the consumers and the strategic orientation of the wineries. The existing prejudices lead the wineries to do not pack bag-in-box wine because the consumers experience is negative, and the consumers to do not buy bag-in-box wine because they consider it a poor quality product and its value for money is unfavorable, because they confuse it with TetraBrik.

Solving these problems means to help the bag-in-box to be also appreciated by the postmodern consumer and to find in the cellar door a valorization leverage.

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KNOWLEDGE AGENT FORMATION FOR ORGANISATIONAL LEARNING: A MULTIPLE-CASE STUDY IN A STOCHASTIC DEMAND INDUSTRY

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Abstract

Knowledge agent (KA) is defined as the simplest unitary entity that activates a knowledge process which aims to deal with collective problems or issues within organisations. The Knowledge Agent Theory (KAT) conceptualises the ontology of KAs as a living system with autopoietic characteristics of self producing its components to maintain an identity for learning. In this paper, we examine the boundary functions of KAs with a multiple-case study in a stochastic demand industry. Three types of learning groups are identified. They are: pseudo-, quasi- and unblocked KAs. Only the unblocked KA has complete boundary functions. The findings explain why organisations do not learn. The analysis also shows that neighbourhood relations at the individual and organisational levels between members within a KA set critically bond members together to form a learning entity.

Keywords: Knowledge agent, autopoietic living system, neighbourhoods, boundaries

Introduction

Organisational learning is a relatively new academic discipline to management scholars and practitioners, where the dominant topics are mainly concerned with the process of learning for incremental changes and radical adjustments (Easterby-Smith et al. 2004). In recent years, organisational researchers have started to address the role of team learning as agents to search for solutions to collective problems in organisations (Edmondson 2002). Some of the literature in knowledge management also confirms that engagement of individual members in acquiring and transferring knowledge is the key enabler in activating the knowledge process (Ichijo et al. 1998). Chan et al. (2009) conceptualised that learning groups which execute a knowledge process to deal with collective problems in organisations have autopoietic characteristics that comprise knowledge agents (KAs). KAs are defined as the simplest unitary entity that activates the knowledge process for learning. In this paper, we start with the premise that an organisation learns through actions

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and interactions that take place between members who are bonded together as a KA entity. Through this entity, organisations maintain their existence by internally and externally coping with new environments. Although there is emerging literature on team learning (Edmondson 2002, Wilson et al. 2007), we know little about why organisations change, or fail to change, through knowledge processes carried out by learning groups. To better understand the features of learning groups that act as KAs, an intensive field study has been conducted in a stochastic demand industry.

Knowledge Agent Theory

Knowledge in an organisation is defined as a mix of facts, organised or justified skills, experience, value judgments and beliefs. By acquiring knowledge, an organisation can generate the capacity to act on transforming problems to solutions, transmission of solutions to other parties, predicting the outcomes of processes, making better decisions, and making sense of the signals from the environment (Argyris 1977, Blosch 2001, Ching & Yang 2000, Manjula & Mustapha 2006, Styhre 2003, Sveiby 1997, von Krogh et al. 2000). Knowledge in nature is not a living thing (Birkinshaw & Sheehan 2002, Bukowitz & Williams 2000, McElroy 2003, Wiig 1993). In order to activate organisational knowledge, organisations need KAs to execute knowledge processes. When a group of members gather together to form an entity and take collective actions in learning and contribute created or learned knowledge to achieve a business goal or produce solutions to problems in organisations, they are known as a KA entity. The main feature of a KA entity, however, is to maintain its identity and existence by producing self-components that constitute boundaries. This is an autopoietic system with structural autonomy from its environment for future continuation. In other words, the entity is a living system that self-produces its components in order to maintain an existence. The living system concept was first proposed by Maturana and Varela (1980). It was further elaborated by Luhmann's social systems theory (1995).

In the observations made by Maturana and Varela (1980), one essential feature of a living system is its individual autonomy. The living system has its boundaries and is self-defined by its components. The components give an identity to an entity, which automatically creates its own necessary characteristics and boundaries. Maturana and Varela (1980) labelled this structure-determined single entity as an autopoietic system. The system consists of particular components as inputs and generates necessary components to maintain the identity. The living system is closed and self-produces its components to construct its own boundaries.

Luhmann (2006) asserted that social systems deal with interactions between actors who are in different entities, make decisions with the consideration of premises to absorb uncertainties of external environment in order to stabilise organisational processes and operations. Autopoietic

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systems constitute as self-referential systems such that their existence is enabled through their ability to continue operations within systems. The constitution of boundaries by an entity in order to distinguish itself within its environment is the key element to containing structural autonomy. At the same time, interaction between internal components and the external environment, via structural coupling, occurs. We conceptualised KAT as a living system with self-producing characteristics which have undergone a self-observing and self-referential process to distinguish itself from other operation sectors, such as sub-business units within organisations or one's self-region, to carry out knowledge processes.

Self-producing system

The KA entity is a circular unit. Its operations are continuously generating its own components to maintain a living system identity for carrying out knowledge processes. The outputs produced by the entity comprise two types: (I) knowledge which would be implemented to solve collective problems or change organisations for the better, and (II) memories of experiences in relation to learning processes and applications of new knowledge. The type I outputs eventually become the inputs to operate the organisational business activities. They have positive impacts on organisations. Type II outputs are the inputs of self-referential processes and circularly act in self-producing activities within the KA operating system. Type I outputs are the cognitive resources that make sense to the organisation environment in order to deal with the collective issues in organisations. Type II outputs become the cognitive abilities to support the continuation of the KA entity identity and cognitive evidence to examine the membership with which the entity uses to make sense of its environment. In the event that the existing structure of components may not be sufficient to hold an identity for learning, the entity will structurally couple with outside components that integrate them into KA systems. Otherwise, the original components need to gain cognitive resources to enhance their roles as components of the KA entity. This circular process allows the KA to self-produce its components and constitute boundaries.

Self-referencing

Self-referencing is a reflective activity to examine the likelihood that current components will maintain an autopoietic system for learning. Through this continuous process, it distinguishes itself from its environment to avoid instability and at the same time, examine the existing components to keep its identity with the triggers of its environment. The source of instability is from the different goals of the original location and those that the KA entity expects to be achieved. The self-referencing process is to avoid disintegration of the entity. The need to change the components is purposively determined by the KA entity to retain its identity as learning activists, not an adaptation of its environment. The KA entity is realised through a particular arrangement of

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components in order to be bounded within the boundaries to operate knowledge processes. Any changes that can be undertaken in the structure of components are determined by the particular arrangement that maintains their self-producing nature. All interactions in the system are determined on its own, through self-referencing. This self-referential ability has the means to retain previous interactions and justify the producing of components. So, the outputs of self-referencing are the inputs for self-observing (Bakken &, Hernes 2003).

Self-observing

The purposes of an autopoietic system are to simplify a living system so that an entity could avoid a complex situation which would interfere with its operation systems, and stabilize a living system to self-produce its components. To ensure that entity distinction is not lost from the environment and maintain self-production, a KA entity is a self-observing unit. The distinction as an entity in an autopoietic system guides the observations of the observed observer. That is, the entity observes itself within the boundaries with its self-referential cognitive resources in a recursive manner to develop self-consciousness of its identity. Self-observing is therefore, a nervous system to detect any deficiency of the self-producing inputs which barricade the holding of the characteristics of being a self-living system to produce the self components of an entity. The cognitive resources for self-observing are bounded but unlimited. Through recursive interactions, the things held in an entity may generate new meanings to it to examine its identity is whether the entity holds all the properties of a KA. When the entity observes itself to lack sufficient conditions to maintain its identity with current components, neighbourhood searching within a convex region will allow the commencement of integrating new members, either inside the organisation or from an external source, through structural coupling to interplay the new components. To allow interaction between the existing components of a KA entity and members outside its boundaries, new components may be formed through neighbourhood confirmation (Maturana & Varela 1980). This process is called structural coupling. The change of the structure of components is to maintain identity. At the same time, it gives signals to self-producing mechanisms to produce the necessary components to maintain boundaries. It is the only process in autopoietic systems that allow interaction between the members inside and outside the entity. The new meaning of the experience and outcomes of knowledge processes are recursively applied to its own outputs become the memory which are reused as inputs in self-referential activities.

Boundaries

Boundaries represent a distinction or demarcation between an entity and the environment in which an entity can be identified and explained (Luhmann 2002, Mingers 2006, Checkland 2006). They comprise a region that defines the particular characteristics of an entity. The purposes of

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boundaries are to separate, contain or include different elements or spaces, and regulate the functions and operations that are carried out inside their parameters. The distinction between an entity and the environment is exclusively mediated by meaning, which constitutes boundaries. The outcomes of ongoing processes of including and excluding membership with explicit identities or differences ensure that actions taken by an entity are predictable.

Boundary functions

The boundaries of a KA entity establish three basic properties within its components: (i) cognition to conduct knowledge processes, (ii) willingness to put forth effort on knowledge processes, and (iii) taking of action to plan and implement.

The first property is cognition, which refers to the process of acquiring and using knowledge to solve problems and make decisions (Mingers 2006; Reed 2010). Cognitive activities include information processing, knowledge application, and preference changes. Cognition is a sensory input which corresponds with the external world to make decisions.

The second property is the willingness of individuals to put forth effort towards knowledge processes in organisations; thus they are not forced to become learners. Willingness is an inner drive; it is the taking of actions based on attitudes towards or apart from their beliefs to take part in a knowledge process is the impact of selective exposure and attention processes towards new information which are separate steps in information processing (Fabrigar et al. 1999).

The third property is the commitment of those who have these two properties to create an action plan for knowledge process implementation that deal with organisational issues. KAT has a self-referential nature; if the components see the organisational issues as self-issues, then the knowledge process will take place. However, social individuals hold many characteristics, and even if they have all the said properties, may not be the appropriate components to construct the boundaries as a KA entity. Consequently, double neighbourhood relations could provide the means to overcome this issue.

Double Neighbourhoods

Boundaries separate the external and the internal. In a boundary zone, friction could be reduced if there is a neighbourhood relation between the interior and exterior. Neighbourhoods contain a path that allows the internal and external to connect, when they have commonalities and differences are tolerated. Commonalities are anything in which more than one element from different entities share the same attributes of something (Dietz 2002, Sampson et al. 2002). It is to link elements together to establish a neighbourhood relation to perform a KA role. A KA entity is

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formed in organisations when double neighbourhood relations form between the KA set and two internal parties: (i) potential components who are members of the organisation, (ii) the organisation.

Members of a learning group who have the properties that are determined by KA boundaries potentially become components of the KA entity. The likelihood that an entity becomes a KA to carry out the knowledge process depends on double neighbourhood relationships. The primary neighbourhood is the relation between the KA set and individuals. The KA set is a group of members who hold the three aforementioned basic properties. It becomes a social system because all of the learning activities involve different units within an organisation. So commonalities are needed to link the set and individuals together. If individuals perceive that the outputs of a KA entity conflict with their formal or informal groups in an organisation, the linkage may break. On the other hand, when local interests are tolerated, a neighbourhood relation exists. This is known as a primary neighbourhood relation which links the KA set to individuals. However, a primary neighbourhood is insufficient to allow for the existence of KAs. The secondary neighbourhood at an organisational level is needed. A secondary neighbourhood is an agreement between the KA set and an organisation in which group learning is needed to be performed for changes to happen. Generally, organisations conduct different tasks to achieve different business goals in the short or long term. When an organisation is treated like a single unit, it commits to providing resources for changes and bears short term negative effects during the change process. Then, the organisation holds a secondary neighbourhood relation with the KA set. When both individual and organisational neighbourhood relations occur, a KA entity could exist and its functions would be legitimate. Without a commitment to learning, the secondary neighbourhood at the organisational level cannot be sustained.

Research Methodology

In this study, cross-case participatory observation research has been employed. The soft goods industry with its stochastic demand is selected for the field study. The replication logic (Yin 2009) is used along with the participation of four firms in the textiles and clothing industry. After the collective goals of each participating firm were set at a focus group meeting, a single day operation management training workshop was separately arranged with each firm to collect the observation data on learning behaviour. As well, to collect and validate the primary data, multiple sources of evidence were collected from natural settings which included interviews, meetings, and surveys. More than eighty participants who are at managerial or supervisory levels were observed in the workshops and over one hundred informants shared their learning experiences in interviews and meetings. In this paper, we will limit our discussion on the findings to examine the boundary functions of KA entities which hold autopoietic characteristics.

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Sampling Frame

Four firms were selected to participate in the study. All of the participants are anonymous. The firms are named as Alpha Fashion Manufacturing Ltd., Beta Knitwear Ltd., Gamma Fabric Mill Ltd. and Delta Intimate Apparel Ltd. All of them had conducted knowledge processes for changes in the last twelve months at the time of the field study with the purpose of improving their overall activities related to performance.

Alpha is an original equipment manufacturer (OEM) that makes light weight clothing for fast fashion and youth casual wear retailers in Europe and the US. The productivity had been dropping. In order to improve productivity, Alpha re-engineered its operation systems in production, merchandising and product development.

Beta is a knitwear exporter that serves the high end knitwear fashion market in Japan and Europe. After the global financial crisis in 2008, its order numbers reduced more than one third and the unit price was lowered by 15%. The firm decided to explore new markets in Europe to replace its major customers in the Japanese market. To enhance business competency, Beta plans to integrate its trading unit with a production unit in Shenzhen.

Gamma is a fabric mill with production facilities in Hong Kong. It is a market leader in manufacturing bi-stretch, technical denim and advanced cotton fabrics. Gamma faces the challenge of high labour costs in the production of goods in Hong Kong and has been trying to eliminate total costs in core operations, supportive operations and quality improvement.

Delta is a typical OEM that produces intimate garments for both large and small lingerie retailers in the US. It has been changing its production operations and skills to respond to the changes in the market: short delivery time, smaller quantities per order, and a wide variety of each product collection. The new market environment has caused the company to bear higher production and raw material costs. Their business performance has been below expectations. So the firm works on cutting overall costs in order to maintain competency.

Data collection

The informants at the managerial level from the four firms were first asked to self-weight the yield of desirable knowledge that enabled problem processes to be addressed in their firms in the last twelve months. Focus group meetings were held to observe the ways that the participants addressed and discussed problems that they are facing. The four parts of speech classification in the action inquiry model are adopted (Torbert et al. 2004) to analyse the likelihood that participants will play a KA role. The contents of interview transcripts were classified into four different areas that pertained to experience and affected behaviour: framing, advocating, illustrating and inquiring

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to determine if the primary and secondary neighbourhood relationships occur in the firms. Multi-sources of evidence to validate the observed data in the group learning experiences were collected. The data were stratified according to their intentions, plans, actions and outcomes in the solving of collective problems. The multi-sources of learning experiences triangulated the data to validate the analytic results of the impacts obtained from the knowledge process into three types: no, local and extensive.

Findings

Solution values

When an organisation is assessed as receiving no positive benefits after a knowledge process was conducted, the solution values are defined as having no impact. If the outcomes of the knowledge process bring about a potential positive value at the local level (Edmondson 2002) that cannot be extended to a wider scope within the company to solve problems inherent companywide, it is called local impact. An extensive impact is obtained when the knowledge process generates knowledge which comprehensively benefits in a broader manner. Latent systematic problems, errors that randomly occur in different locations within an organisation without specific causes, will be eliminated or the negative impact caused by external changes will be minimised.

After integrating the self-weighted solution values with observations and survey findings, three types of solution values were identified in the firms in the sample frame. Alpha is the only firm in the sample frame in which the proposed solutions generated from its previous knowledge process failed to bring about any positive benefits or achievement of its collective goals. There are local impacts in Beta and Delta. Gamma is the only firm in the sample frame that has experienced extensive impacts.

Types of knowledge agent

It is assumed that if organisations experience positive impacts, they learn; if organisations learn, then the KA entity exists. The analysis shows that all but Alpha experienced positive impacts on their goals. However, only Gamma has experienced extensive impacts companywide. The solution values for Beta and Delta are at the local level in which issues are settled at the departmental or group level.

We assert that KAs exist if there are positive impacts in the organisations that result from knowledge processes. When learning groups do not have boundary functions and/or the double neighbourhood relations are not completely established, improper KAs form. In the field study, three types of KAs are observed: unblocked, quasi- and pseudo-KAs. Unblocked KAs have boundary functions and double neighbourhood relations. Members in quasi-KAs have boundary

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functions, but the primary neighbourhood relation is not established between the members of the learning group and their local units. So organisations only experience local impacts. Pseudo-KAs, however, are not real learning groups. Most of the time, the members are appointed by organisations without at least one of the three properties that comprise boundary functions. Among these three types of KAs, only unblocked KAs are the proper KAs to carry out learning functions that help organisations achieve collective goals via knowledge processes.

The activity patterns of collective knowledge processes that were observed provide evidence that infer on the type of KA. In Alpha, its experience with the collective knowledge process and outcomes illustrate that the firm has not learned. Its learning group members were appointed by the managing director. The senior staff members who were unwilling to take part in the knowledge process are illustrative of members in a learning group who do not have the boundary functions of KAs. There are some conflicts of interest between the production and merchandising departments which negatively affected the knowledge process during knowledge exchange. With an incomplete neighbourhood relation and insufficient conditions for boundary functions, the learning group at Alpha behaved like a pseudo-KA.

In contrast, the continuous extensive impacts were found in Gamma. The learning group had both boundary functions and double neighbourhood relations. This infers that unblocked KAs exist in the firm to conduct knowledge processes. Delta and Beta were observed to have the learning behaviours of quasi-KAs that only local impacts were found.

Discussion

Regardless whether individuals detected that the outcome of the knowledge process matched or did not match the expectations derived from their collective need, the organisation will have learned (Argyris & Schön 1978). Proper KAs exist. Otherwise, the learning groups in organisations become improper KAs. The cross-case study gives evidence to support this proposition. The learning groups in Gamma have autopoietic characteristics that continuously form different learning groups who are also stakeholders of the collective goals. The outcomes of the knowledge process generate new knowledge to deal with the changes in the business environment. With informants' input, the problem solving process in Gamma is summarised into four steps, in which double neighbourhood relations are found. First, when there is a collective issue that has arisen in the firm, the management team would internally and externally identify the stakeholders and form a working group. Second, the working group lists out the expectations of the benefits attained after the fulfilment of the objectives as well as the conflicts between different stakeholders. Third, the members review the affected operation processes and predict the trade off before any action plans are implemented. In this process, the members compile commonalities among members. At the

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same time, they discuss the likelihood of eliminating or accepting the occurrence of local conflicts of interests. When the conflicts of interest are acceptable or eliminated, a primary neighbourhood at the individual level is formed. Fourth, the core members of the working group seek management support to deal with the issue. After management supports the actions, a secondary neighbourhood at the organisational level is established. The group starts to work on the issue.

In contrast, the learning group at Alpha was appointed by the managing director. The analysis indicated that some members of the learning group are incapable of learning new knowledge. It also revealed the lack of cognitive ability which may be one of the reasons that members showed unwillingness to participate in the knowledge process. As a whole, the learning group does not have boundary functions. It acts like a pseudo-KA. The firm does not learn.

The learning group in Beta basically has quasi-KA learning behaviours. The trading unit places the business risks onto the production unit, but refuses to share the benefits which caused both units to be unable to compromise in reaching a common goal. The conflict of interest between these two units has not been resolved. No secondary neighbourhood relation is established. The observation from Delta also provides evidence that the learning behaviours in the firm are close to those of a quasi-KA: change occurs in local but cannot be extended to other departments. This results in no breakthroughs in overall productivity. Although members have properties of boundary functions, no neighbourhood relations are established.

Conclusions

KAs are theorized as entities that have autopoietic properties and self-produce components for continuation. The members within KA entities have cognitive capacities and circularity of reflecting their experiences to continuously learn. The outcomes of a self-producing system are: (1) positive impact and usefulness for the organisation to make better decisions, (2) experience gained in the knowledge processes which help the KA entity to review needs in learning and justify structurally coupling new members within the KA set. To form an unblocked KA, members of the learning group need to have boundary functions and establish double neighbourhood relations at the individual and organisational levels. An analysis of a study based on multiple cases provides evidence that learning groups can become proper KAs to allow organisations to learn when both boundary functions and double neighbourhood relations hold. The organisational learning practitioners can adopt the KAT to form proper KAs by finding commonalities between the members in the learning group and eliminating their conflicts at least to a bearable level in order to establish double neighbourhood relations to implement knowledge processes.

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FDI IN INDIAN RETAIL-AND ITS IMPLICATIONS

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Abstract

The health of a nation is gauged not only by the quantum of FDI it attracts but also the trend it follows. In turn this is dependent on the economic policies formulated and practiced and the willingness of all concerned to engage with global economic practices. Since the early 1990's when the government embarked on a policy of liberalization it has been observed that FDI inflows showed a steady increase until the last couple of years when in fact there has been a de-growth particularly 2010 over 2009 by almost 30%. On the other hand China has attracted FDI more than 4 times the quantum of India during the same period.

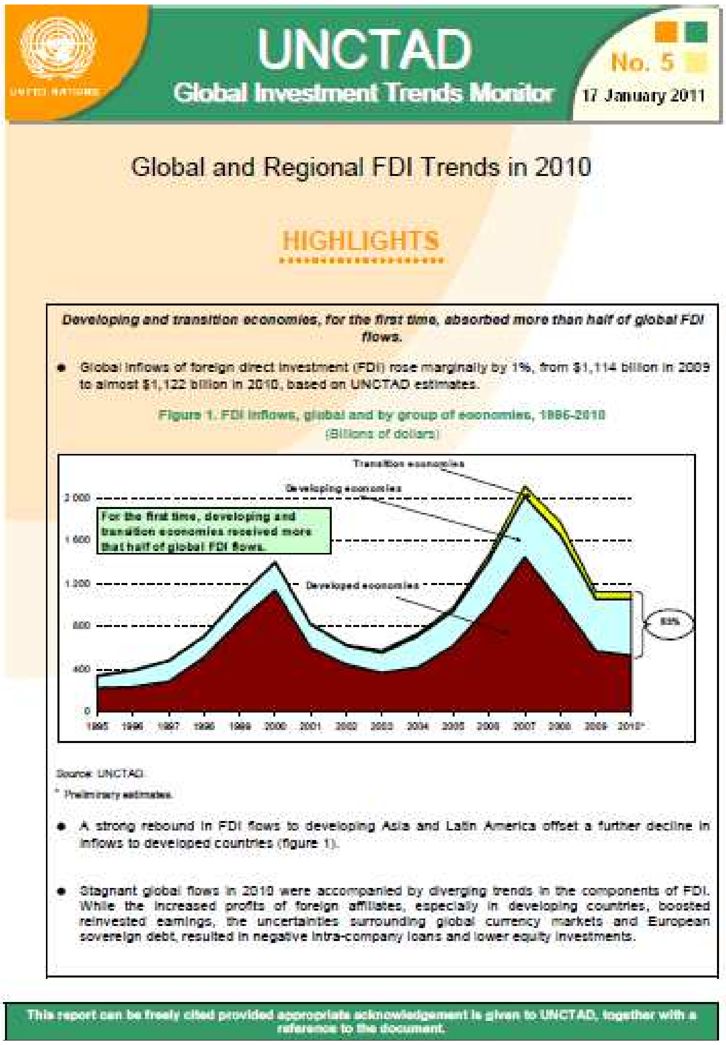
Investors will look to invest in 'opportunities' as they see bearing the most attractive returns within a given frame work considering both the 'home' as well as 'host' country. Facts and figures very clearly indicate the positive impact even in India for certain sectors when FDI has been embraced. On the other hand, India most urgently requires gathering as much as investment as is possible to keep the momentum of growth going and one such opportunity is the organizing of our retail segment which would support development endeavor in a big way. The issue of embracing partial FDI in retail has seen some level of procrastination which requires more urgent and serious attention. Can India afford to lose this opportunity?

This paper attempts to study the implications for this investment as also providing some suggestions.

Keywords: Foreign Direct Investment, Organized retail, Traditional retail, Economic policies, Employment, Infrastructure development.

FDI -A GLOBAL SCENARIO

For the first ever time since this concept of 'FDI'came into existence this world saw the flow of money channelized in the direction it originally was intended to and that is towards economies which are in transition and development. The year 2010-2011in which about US$ 1222 billion flowed has been eventful for the world in every sense in terms of development, both with the financial markets and the political scenario. The two most important factors for any country in its overall development. The data sourced from UNCTAD and encapsulated below (Fig 1) amply illustrates the current position.



UNITED NATIONS

UNCTAD

Global Investment Trends Monitor

No. 5

17 January 2011

Global and Regional FDI Trends in 2010

HIGHLIGHTS

Developing and transition economies, for the first time, absorbed more than half of global FDI flows.

- Global inflows of foreign direct investment (FDI) rose marginally by 1%, from $1,114 billion in 2009 to almost $1,122 billion in 2010, based on UNCTAD estimates.

Figure 1. FDI inflows, global and by group of economies, 1995-2010

(Billions of dollars)

Source: UNCTAD.

* Preliminary estimates.

- A strong rebound in FDI flows to developing Asia and Latin America offset a further decline in inflows to developed countries (figure 1).

- Stagnant global flows in 2010 were accompanied by diverging trends in the components of FDI. While the increased profits of foreign affiliates, especially in developing countries, boosted reinvested earnings, the uncertainties surrounding global currency markets and European sovereign debt, resulted in negative intra-company loans and lower equity investments.

This report can be freely cited provided appropriate acknowledgement is given to UNCTAD, together with a reference to the document.

Fig 1 Global and Regional FDI Trends in 2010

Source: UNCTAD

There are three important observations to be made with the overall global picture of FDI and they are in a way synergizing the very objective/s of this type of investment.

- The flow of FDI into developed and matured economies is declining due to home market saturation.
- Transition economies indicate a halt to their FDI slide with their propensity to adopt more liberal trade attitude and a win-win outcome.
- Developing economies have started receiving better inflows due to huge untapped markets and consumerism besides serving as a profit making opportunity for developed economies

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To add to above factors another aspect of great importance, namely 'The Global Commitment Index `which reflects the mood of leading rich countries is encouraging. A graphical representation is depicted below (Fig 2) which should be read together with the UNCTAD report to understand the great opportunity this type of investment presents to the investor and investee.

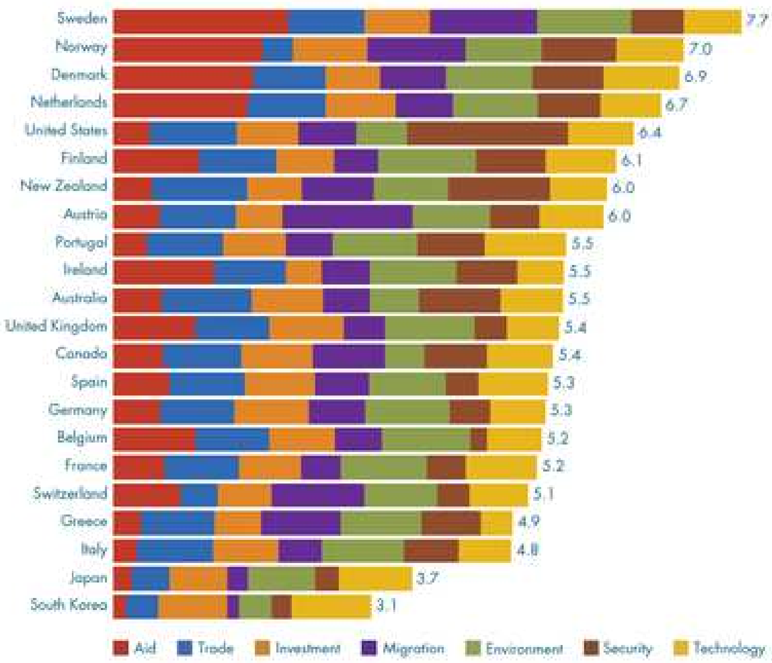

Fig 2-Commitment to development Index 2011
Source: Center for Global Development

at 18 of these 22 countries were above average in their disposition. For the purpose of this paper we stay focused on the first three policy areas, namely, aid, trade and investment (FDI) though the other four policy areas Migration policies, Security policies, Environmental policies and Support for new technology cannot be ignored when actual investment is made. So each of this investing country gets scored on seven policy areas which are averaged for an overall score. While a score of 7 is considered good, the average was 5.

The Indian FDI Scenario

Foreign direct investment (FDI) capital flows into India have increased dramatically since 1991, when India opened it economy to FDI, and inflows have accelerated since 2000. FDI inflows to India reached $11.1 billion in calendar year 2006, almost double the 2005 figure, and continued to increase in the second half of the decade. The Indian government had announced a target of $25 billion in new FDI inflows for the 2007–08 fiscal year .Globally FDI has experienced a corresponding resurgence since 2004, recording year-on-year increase of 29 percent in 2005 and 27

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percent in 2004, after declining for several years in the early 2000s.Consistent with the global pattern, FDI inflows into India declined between 2001 and 2003, before experiencing a resurgence that surpassed average global growth, with year-on-year increases of 45 and 72 percent, respectively, in fiscal years 2004–05 and 2005–06.

Preliminary data for inward FDI for the 2006–07 fiscal year show FDI inflows of $15.7 billion, representing an increase of 184 %, in rupee terms, over the preceding fiscal year. While there is a large percentage increase compared to the global average, the value of inward FDI flows to India relative to developing countries remains small. However, FDI inflows to India surpassed inflows to South Korea in 2006, making India the fourth largest destination for FDI in Asia, behind China, Hong Kong, and Singapore. The only bad period being 2010 when there was an actual dip in the inflow the quantum being US$ billion 24.2 ,a clear downward spiral over 2008 and 2009 and as a percentage a drop of more than 30 percent. However this could be attributed essentially to the upheaval in the global financial scenario besides the domestic political scenario.

India's investment policy does not permit FDI in the following sectors: housing &real estate except development of integrated townships and settlements, retail trading, lottery business, gambling and betting, agriculture (including plantations other than tea plantation). What must be noted here is that FDI up to 100% is permitted in some sectors under automatic route and this includes medical equipments and drugs and pharmaceuticals and pesticides except those requiring industrial licensing. More recently FDI has been permitted up to 51% in single brand retail. This sector is presently in focus and a subject of national debate with three key players involved in the process. The organized retail association, the traditional retail association and the government.

An Overview of India's Economic and Fiscal position:

Slides marked 'a' to 'm': Snapshot Slides .Source- www.dipp.gov.in

a)

Economic Performance a picture of reasonable consistency:

Sustained economic growth

Average last 10 years 6.5%

2004-05 6.9%

Forecast up to 2006-07 >7.0%

Forecast till 2050 – Goldman Sachs 5 % p.a.

2010 Real growth GDP of 10.1%

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Services share in GDP over 50% (52.4% share in GDP in 2004-05)

At mid decade manufacturing sector growth stood at 8.8% in 2004-05 (17.4% share in GDP in 2004-05)

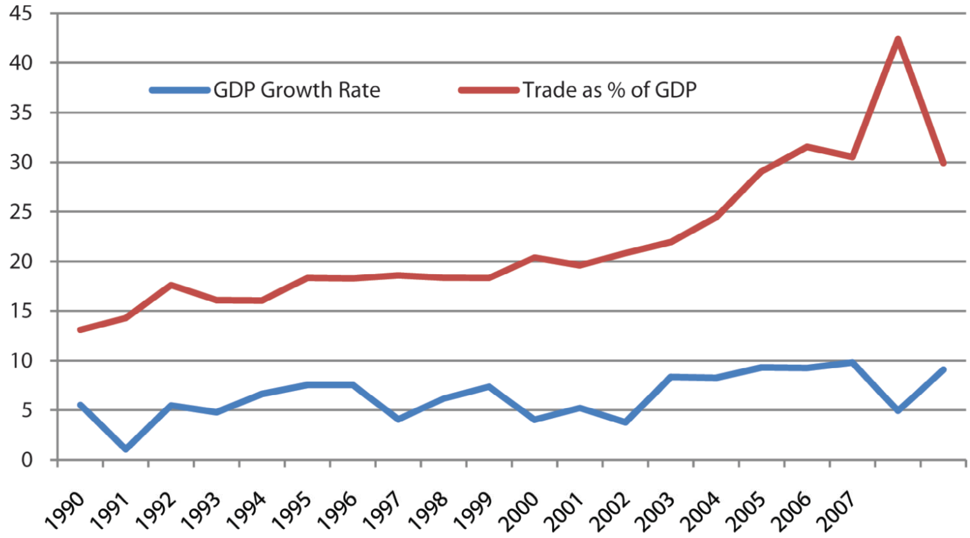

Fig 3-GDP GROWTH RATE (%) AND TRADE AS A % of GDP
SOURCE: COMPILED FROM WORLD DEVELOPMENT INDICATORS DATABASE

Foreign Trade:

Merchandise exports grew by 25% in 2004-05, (US$80 billion) and the 2009-2010 figure stands at US$ 180 billion

Imports grew by 36%, (US$106 billion) during the same period and for 2009-2010 stands at US$280.The figure below clearly depicts these facts.

Investment:

Foreign Investment – over US$14 billion in 2004-05 (FDI US$5.5 billion, FII US$8.9 billion) and for the year 2010 stood at US$ 24.4 billion.

Mature Capital Markets

NSE third largest, BSE fifth largest in terms of number of trades.

A well developed banking system

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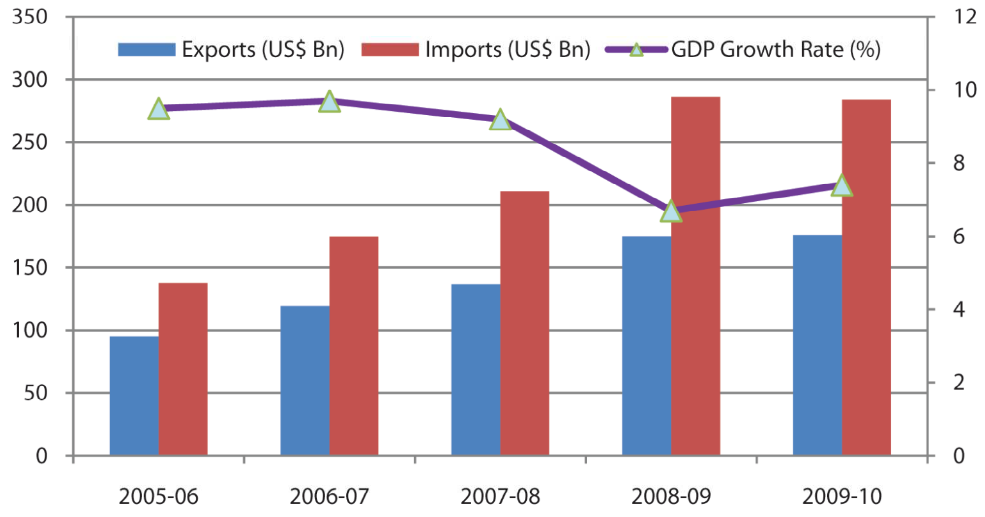

Fig-4 INDIA'S GROWTH, EXPORTS AND IMPORTS (FY 2005-2006 till 2009-2010)
SOURCE: www.ibef.org

b)

Rationalization of tax structure – both direct and indirect

Progressive reduction in peak rates

Peak Customs duty reduced to 15%

Corporate Tax reduced to 30%

Customs duties to be aligned with ASEAN levels

Value Added Tax introduced from 1st April 2005

Fiscal Responsibility & Budget Management Act, 2003

Revenue deficit to be brought to zero by 2008

c)

Industrial Licensing

Progressive movement towards de licensing and deregulation

Licensing limited to only 5 sectors (security, public health & safety considerations)

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Foreign Investment

Progressive opening of economy to FDI

Portfolio investment regime liberalised

Liberal policy on technology collaboration

Trade Policy

Most items on Open General License, Quantitative Restrictions lifted

Foreign Trade Policy seeks to double India's share in global merchandise trade in 5 years

d)

Exchange Control

All investments are on repatriation basis

Original investment, profits and dividend can be freely repatriated

Foreign investor can acquire immovable property incidental to or required for their activity

Rupee made fully convertible on current account

Taxation

Companies incorporated in India treated as Indian companies for taxation

Convention on Avoidance of Double Taxation with 65 countries

E&f

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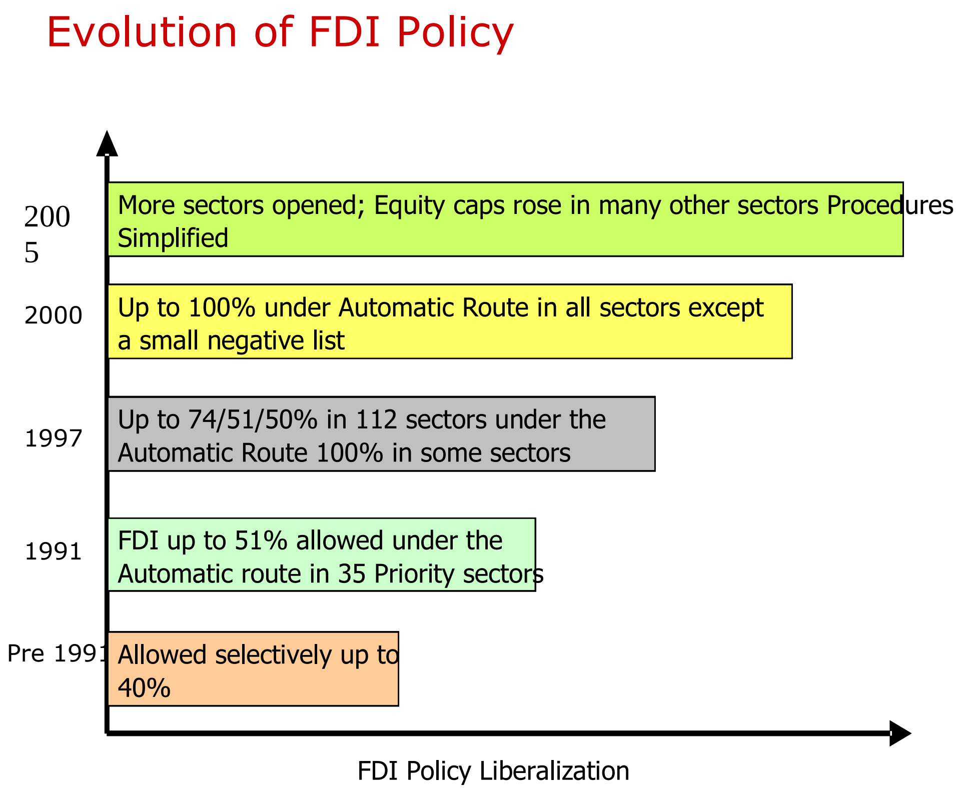

Fig 5 Evolution of FDI Policy

As can be observed from the above diagram(Fig 5) it must be said that India has progressively but cautiously liberalized its attitude towards FDI though we are tempted to ask whether the pace of this liberalization is adequate considering the domestic growth rate projected, the propensity of other developing economies to attract this investment and last but not the least the predisposition of developed economies to invest considering the fact that they see very little growth in their home market at present.

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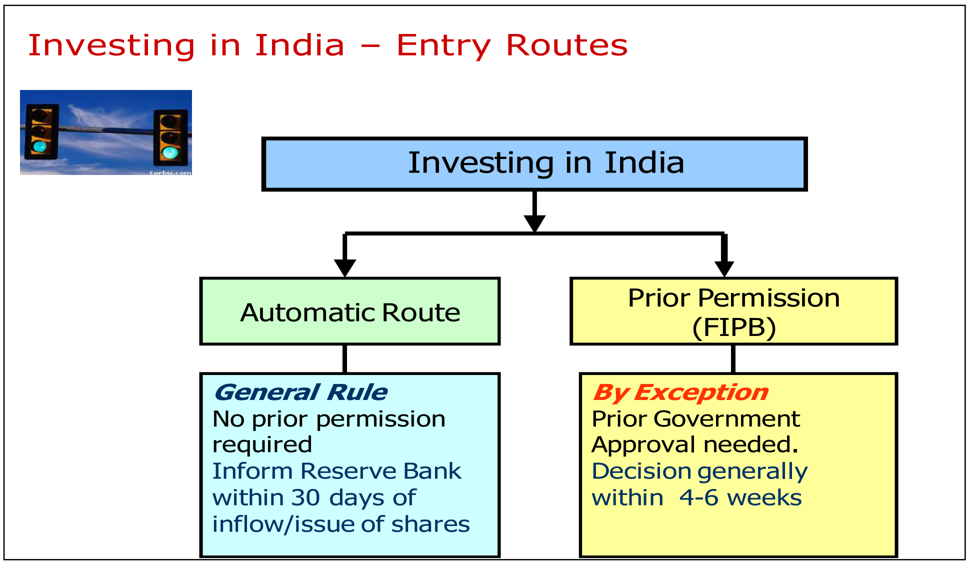

Fig 6 –FDI Entry Routes

G)

New sectors opened to FDI

Defense production, Insurance, print media - up to 26%

Development of integrated townships up to 100%

E-commerce, ISP without gateway, voice mail, electronic mail, tea plantation -100% subject to 26% divestment in 5 years

FDI equity limits rose

Private sector banks rose from 49% to 74%

Drugs and pharmaceuticals from 74% to 100%

Advertising from 74% to 100%

Private sector refineries, Petroleum product marketing, exploration, petroleum product pipelines – 74% to 100%

Procedural simplification

Issue of shares against royalty payable allowed

h)

FDI in domestic airlines increased from 40% to 49%. Automatic route allowed

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FDI up to 100% allowed under the automatic route in development of townships, housing, built up infrastructure and construction development projects

Foreign investment limit in Telecom services increased to 74

FDI and portfolio investment up to 20% allowed in FM Broadcasting. Hitherto only Portfolio investment was allowed.

Transfer of shares allowed on automatic route in most cases

Fresh guidelines for investment with previous joint ventures

A WTO (TRIPs) IPR regime compliant in position since 2005 – Patents Act amended to provide for product patent in pharmaceutical and agro-chemicals also.

I)

FDI up to 100% allowed under the 'Automatic Route' in all activities except for

Sectors attracting compulsory licensing

Transfer of shares to non-residents (foreign investors)

In Financial Services, or

Where the SEBI Takeovers Regulation is attracted

Investor having existing venture in same field

Sector specific equity/route limit prescribed under sect oral policy

Investments made by foreign investors are given treatment similar to domestic investors

J)

FDI equity limit-Automatic route

Insurance – 26%

Domestic airlines – 49%

Telecom services- Foreign equity 74%

Private sector banks- 74%

Mining of diamonds and precious stones- 74%

Exploration and mining of coal and lignite for captive consumption- 74%

K)

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FDI requiring prior approval

Defense production – 26%

FM Broadcasting - foreign equity 20%

News and current affairs- 26%

Broadcasting- cable, DTH, up-linking – foreign equity 49%

Trading- wholesale cash and carry, export trading, etc., 100%

Tea plantation – 100%

Development of airports- 100%

Courier services- 100%

L)

Foreign technology agreements also allowed under Automatic route:

Lump-sum fees not exceeding US$2 Million

Royalty @ 5% on domestic sales and 8% on exports, net of taxes

Royalty up to 2% on exports and 1% also permitted for use of Trade Marks and Brand name, without any technology transfer

Wholly owned subsidiaries can also pay royalty to their parent company

Payment of royalty without any restriction on the duration allowed.

M)

2nd most attractive investment destination among the Transnational Corporations (TNCs) - UNCTAD's World Investment Report, 2005

3rd most attractive investment destination – AT Kearney Business Confidence Index, 2004

Up from 6th most attractive destination in 2003 and 15th in 2002

2nd Most attractive destination for manufacturing

Among the top 3 investment 'hot spots' for the next 4 years

UNCTAD & Corporate Location – April 2004

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Most preferred destination for services - AT Kearney's 2005 Global Services Location Index (previously Offshore Location Attractiveness Index)

The above scenario is clearly indicative of the potentially optimistic outcome for the investee and investor.

Retail Scenario- India.

Retail in India still does not enjoy the status of 'Industry' and is essentially dominated by traditional stores and the latest estimate is that this could be to the extent of 95%. There are a few large Indian corporate houses who have ventured into the domestic retail space with organized format and some of them are well entrenched to capitalize this early entry advantage. This being the broad domestic retail picture the government is under constant political pressure when discussing the issue of permitting FDI in the retail sector. It is estimated that there are more than 12 million traditional stores across all categories of products which together contribute about 8% of the total national GDP besides being the second largest 'employer' only next to the agricultural sector.

The graphical representation (Figure 7) depicted below furnishes a visual picture for different categories together with the expected or forecasted spending well into the year 2015. Again this serves to confirm the potential the country offers. It must be mentioned here that it is interesting to observe the anticipated growth in dollar value terms.

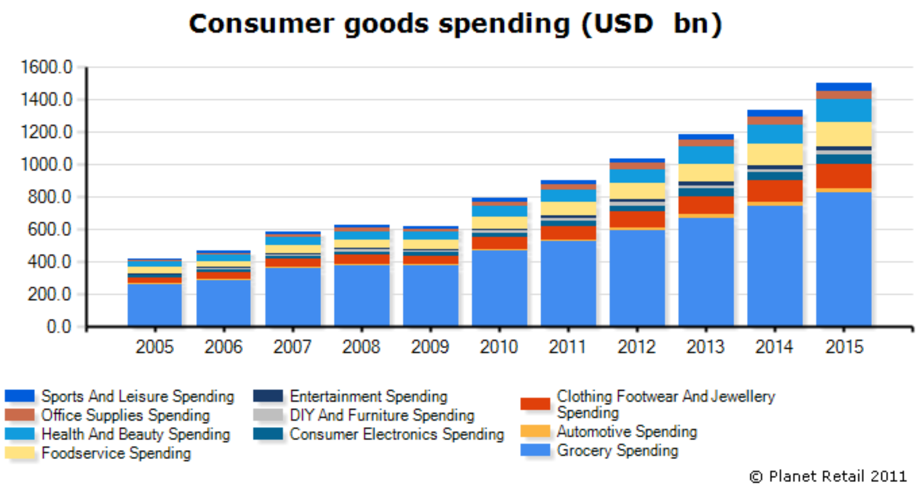

Fig 7-CONSUMER SPENDING SOURCE: Planet Retail

The Indian retail sector is one of the least concentrated in the world. Together the top five domestic corporate retailers have a combined market share that is a single digit. The Indian retail scenario is one of contrasts, fragmentation and heterogeneous with the predominant role still

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played by the traditional set of family run stores and hawkers who through their trade associations are vigorously opposed to the entry of foreign retailers or their investment in this sector.

Despite this resistance there has been rapid growth with some domestic regional players setting up different retail formats leading to a future possibility of retail market getting concentrated and more organized.

Currently the Indian government has allowed 51% FDI in single brand retail and 100% in Cash & Carry that is B2B operation. It must be pointed out that a number of domestic organized players have also entered into collaborative arrangements with international retailers to take advantage of the huge retail market opportunity which the Indian market is projected to throw up. So to say just waiting on the sidelines.

The opportunities arising by virtue of getting organized by inviting international retailers and the consequent implications that this could have on the Indian economy is just one of the compelling factors for this paper.

As per the 'Mumbai Mirror' report dated 24th of February 2009 FDI inflow in 2008-2009 is likely to exceed US $25 billion despite the financial meltdown impacting the global economy. In fact it is expected that this quantum is likely to exceed US $25 billion that came in during 2007 – 2008. To quote N N Prasad Joint Secretary in the Ministry of Commerce, Government of India 'our FDI will be more than US $ 25 billion. It is a very good sign ....'. To make another interesting connection the program of 'Vision 2020' prepared by the Chemical and Fertilizers ministry to make India one of the top 5 global innovation hubs requires huge investment including substantial participation from the private sector under the public –private partnership model. This is what the Chemicals and Fertilizers minister, Government of India Ram Vilas Paswan had to say: 'the present state of infrastructure and R & D of the pharmaceutical industry in the country is rather weak. We need to bolster it immediately. Once this proposal comes through, India will become a global pharmaceutical hub. Five out of ten drugs being discovered in the world will be in India. We will also ensure patenting of our own drugs'. Hence there is a huge potential for FDI in the healthcare sector including its retail element and the policy body should not have any hesitation in permitting the same. When we consider the pharmacy retail there is a temptation to argue that it is a very specialized retail and directly impacts the welfare of mankind but on the other hand a closer look will reveal that all retail is concerned with the end consumer and does impact him one way or the other. Ultimately it is best quality at the most affordable price whether it is a prescription drug or a branded consumer product.

Even for a moment if one does consider organized retail just on healthcare retail front alone a myriad of associated activities are revealed. There is no going back on the fact that there is a dearth

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of educated and trained retailers who will by necessity have to be multi skilled. This in turn will call for competent human resource personal that are not only experts in their domain but in associated skills. A complete new breed of human resource professionals we require to generate.

Getting organized implies addressing the training issues of the existing unorganized employees as well as making provision for future requirements. Issues such as supply chain management very much a part of organized system will throw up huge opportunities both in terms of infrastructure and transportation development, not to underscore the role of information technology which is the very back bone of organized retail. The fact that we get access to modern and latest technology cannot be overlooked which once again would result spawning linked industrial sectors like barcode manufacture, RFID, electronic instruments and gadgets etc. One should not overlook the advantage of 'a learning experience on a golden plate' as these investors have been through the maze. That is a huge experience in different formats and markets is shared which would otherwise take decades and consume valuable time.

With good inflow of FDI in retail sector and the employment opportunities directly and indirectly interlinked it is very likely that the impact of FDI in retail will not be restricted only to the direct retail level but is more likely to be strongly felt by interlinked sectors. As mentioned in the earlier paragraph there will be a large requirement of Information technology professionals, experts in supply chain management and logistics system, transportation and communication besides the core implementation personal from the regulatory side. For example 'Vision 2020' for the pharmaceutical industry mentioned earlier on in this paper talks of Rs 5000-10000 crore being the investment amount and restricts itself with only' drug development' and mentions about 5 lakh jobs being created in 4 years time. India ranks the lowest in terms of per capita total health expenditure as well as per capita government health expenditure. We have a very long distance to go which in itself is an opportunity and will have economic ramifications if this issue is not addressed with urgency(reference to Working paper number 198 ' Impact Of Preventive Healthcare on the Indian Industry and Economy'- Alka Chadha et al). Take the health insurance industry it reveals that there are 800,000,000 individuals not covered by any insurance scheme. Some well know management authors and gurus have referred to this segment as 'the bottom of the pyramid' or simply BOP. If we have a healthcare system which is possible only if the retail is organized where the pharmacy forms part of the system a substantial number of these can be brought into the insurance umbrella with suitable models. A huge opportunity for employment generation due to infusion of funds into retail. In fact employment generation could be exponential as it will not be restricted only to the retail alone.

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In a very recent article in 'Hindustan Times' dated 27th of December 2011 by Pankaj Mullick under the title 'Ready, get set and give retail a go' the potential of this sector if it receives FDI and the treasure trove it is, is revealed. He sums up with the following figures:

- Around $8 billion to $10 billion of fresh investments could come into the country in the next 5 to 10 years
- About 35 million people are hired by the Indian retail industry. Allowance of FDI could add at least another 10 million jobs in the next 5 to 7 years
- Employees at the managerial level in the retail sector can expect their salaries to rise 25% to 40%

Clearly the sectors which have been allowed FDI in the process of liberalization have done well. There is no indication to the contrary in any case. The probable hurdle here would be the future and role of existing retail workers in general. For example there is scope for attracting FDI in the healthcare retail segment alone in excess of US $2 billion taking care of its deployment over a period of time and canalizing the same into specific activities associated with retail (funding JV's with traditional stores, funding training of employees of unorganized segment, funding formal and informal education centers). A time window of 2 to 3 years should be observed to usher in this change. This time frame is essential taking into consideration the social fabric of India. Extending this logically to the balance of retail market would indicate huge opportunities both in terms of lifting the economy and generating employment exponentially.

The government should step forward and take active part in creating awareness for organizing retail at the bottom of the pyramid thus gradually improving the standard of living, leading to encouraging demand and thereby fueling supply.

The time to act is now with India exhibiting a very high global services location index which could enable us to get substantial FDI, useful in upgrading our current living standards while generating employment opportunities exponentially.

Implications for India

As would any investor expect it is only fair that he would take for granted a decent rate of return on investments made with a reasonable assurance of safety coupled with the fact that this return would be for a period which would substantiate the efforts. Embracing this investment would entail embracing the system in totality save the peculiarities related to and impacting the host culture and in turn the return on investments. This implies technology, infrastructure, manpower, and other related or interlinked aspects.

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It is widely believed in the retail sector that for every one person employed directly in retail there are nine others who are indirectly employed like supply chain, cold storage warehouse, transportation, back office support and other activities which actually aid in selling the product to the end consumer. This actually sums up the huge employment potential in this sector though it is beyond this paper to arrive at a specific figure in these related employment opportunities. All these activities would require huge investments which could be attracted as FDI.

In the case of India the problem is neither its lack of attractiveness as a destination for FDI nor the real need for the same. Both these aspects are apparent. But what really are the crunch issues then?

The primary issue is with the introduction of FDI in retail the investor will demand a level of organization of the retail leading to disturbing the existing traditional retail employees and due to the system of operations demanding better productivity which means better or improved margins for the retailer thereby cutting away margin eating activities of the existing system. This implies direct sourcing where the so called middle men (estimated to cost 10 to 15 %) of the total cost will be saved. This can translate into better prices for the consumer. A direct but distinct advantage of the organized chain concept.

Hence being a serious socio-economic issue these implications will need to be addressed if we intend going ahead and taking the reforms in our stride.

Issue 1: Retail sector being the second largest employer in India, close to 35 million people will be impacted directly if we 'do away' with traditional stores. So how do we gainfully engage them and in the process assure them their livelihood?

Issue 2: Will the government be truly supportive of other developmental issues which go to support issue 1?

Issue 3: The impact the above mentioned decisions 1 &2 will have on different stake holders not excluding different political parties.

It must be realized that international retail corporate entering India will have to work in tandem with governmental authorities and other associations for a predetermined timeframe in rehabilitating those individual businesses which are likely to be impacted within a given physical area depending on the location in the host country of the International retailer.

A super store is typically 'a put together' of a number of different stores offering different categories of consumer products under one large format. Whatever the extent of automation there will be a dire requirement of skilled personal and this human resource could be drawn from these existing traditional stores. This implies that such personal while having adequate experience may not have the required professional skills. Here comes the involvement of international and other

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governmental agencies to fully take part in 'retraining' such individuals. One method is to (as part of the permission to permit FDI) set aside a budget for this purpose which could be used in the upgrading of such individuals and the other could be supporting organizations which do so. Modern retailing also requires learning skills not directly involved with retailing, like warehousing, cold storage operations, bulk breaking and logistics. Investments are required here for training and upgrading which could be carried out in a continuous manner. By adopting this strategy a sizeable number of existing traditional stores would get adsorbed and later absorbed into the modern system where their past 'local neighborhood' experiences can be exploited by international retailers. For instance, local choice of brands, sentiments, culture etc…which have often been a huge deterrent to international retailers success in different countries? Examples of failures, Carrefour in South Korea and Wal-mart in Germany. The abundance of traditional store retail employees could very well be a boon to these international operators. This issue requires addressing the interests of different stakeholders involved in the process and work out a suitable and detailed plan. It is an issue of building a 'win-win' situation. For one, the existing employees of the traditional retail outlets could look at opportunities of getting employed formally and acquiring new skills.

On the second issue it is a question of how swiftly the government can and is willing to act. This could be in terms of further freeing up FDI norms in infrastructure development and modernization efforts, technology implementation, swift and committed clearances where required and perhaps looking at special terms for a fixed time period to motivate the investor. The other important issue but hidden from sight is the aversion of the 'next' generation in line to take over and run family owned stores. This is becoming increasingly obvious with rapid growth in technology and the younger generation not following the footsteps of the earlier members of the family. There is an increasing trend for them to educate themselves formally and get better recognized rather than just being 'shopkeepers'. This is in fact a huge social pressure not obviously seen but felt. With more than 60% of its population in the 'young age group' segment it is imperative for the government to address this aspect with the next 5 years in mind. Also it should be noted that the government is indeed having to put up with 'revenue leakage' of substantial proportion as a bulk of such traditional stores do not generate any income for the government on one hand but avail all social services and other benefits expected by any citizen. Hence by formalizing retail such aspects would also get addressed.

This two pronged approach would not only protect the 'interests' of the impacted population but also speed up the development of the nation in many ways. Scientists have long ago formulated laws in Physics (Newton's first law of motion) as well as human resource experts have supporting studies to show and demonstrate the 'reluctance to change'. We have time and again been hearing that 'only change is constant'. The need of the hour is to usher in the introduction of FDI in a

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phased manner taking into concern the issues of direct stake holders in this case the existing traditional retailers without political parties practicing 'vote bank ' politics. The nation's development cannot and should not be held back but in conclusion take care of the 'consumers' offering them the best of choice, price and service which would only be possible with inclusive organization.

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CAUSE-RELATED MARKETING AND STRATEGIC AGILITY: AN INTEGRATED FRAMEWORK FOR THRIVING IN A DYNAMIC ENVIRONMENT.

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Abstract

This article posits a framework that illustrates how the concepts of strategic agility and cause-related marketing are synthesized in order to generate a sustainable competitive advantage through superior brand awareness and positive corporate reputation. This paper reflects how CRM and strategic agility in the context of creating and sustaining a competitive advantage in a hyper-dynamic environment, can complement and magnify each other's traditional context of analysis. Moreover, this article appears to be the first of its kind to theoretically examine the dynamics implied by synthesizing these, so far, distinct concepts. In conclusion, the paper posits a set of research directions designed to enable scholars to further advance the integration of strategic agility and CRM from both problem-driven theory development as well as theory-driven practice management perspectives.

Keywords: strategic agility, cause-related marketing, competitive advantage, brand awareness, corporate reputation.

INTRODUCTION

Both marketing theorists and strategy scholars directly address the currently existing paramount challenge of organizational survival by posing the research question: what generates competitive advantage in a dynamic environment and how can it be sustained (Barney, 1991; Teece, et. al., 1997; Hunt, 2000; Srivastava et al., 2001; Dietl et al., 2009). However, in achieving this objective, strategy scholars have debated the value of formal planning and management research arguing that it has offered inconsistent support for strategic planning to enhance competitive advantage (Slotegraaf and Dickson, 2004). At the core of this debate lies the significance of agility. While strategic planning is valuable to firm performance, there is an underlying concern regarding consequential rigidity. The contribution of agility is that it offers the means of managing uncertainty and micro-macro environmental changes more effectually.

Comprehending the role of flexibility within the perspective of strategic planning, the Agile Manifesto was put forward in 2001, and several principles were created since then (Vidgen, and Xiaofeng, 2009; Gwanhoo and Weidong, 2010). However, the existing literature on agile development is regarded largely naive and prescriptive, lacking empirical research and theoretical foundation to

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support the principles and practices of agile development, especially outside the field of information technology (Conboy, 2009). In parallel to this, marketing faced a serious challenge as to its strategic and organizational roles (e.g., Hayes and Abernathy, 1980) resulting in the perception of uneasiness and uncertainty of the discipline in strategic planning (Anderson, 1982; Mahajan et al., 1987; Achrol, 1991).

The aforementioned two perceptions might have been the cause for the two disciplines to never conjoin until now for the development of a competitive advantage. Interestingly in this respect, the field of CRM as a Corporate Social Responsibility (CSR) related strategy, followed its own path and experienced an unprecedented growth during the last two decades within the marketing paradigm to be used as a feasible business contrivance and a presumable source of sustainable competitive advantage (Porter & Kramer, 2002; Larson et al., 2008). The framework proposed by this paper is designed to increase the firm's competitive advantage and enhance the benefits of synthesizing agility and Cause-Related marketing. When designing the framework the authors were guided by Yadav's (2010) directions of framework development .

In the following section, we initially analyze the role of brand awareness and corporate reputation in the context of gaining a sustainable competitive advantage. Thereafter, we discuss CSR, in particular focusing on Cause-Related marketing. Next, we analyze the field of strategic agility and continue by developing an integrated framework that synthesizes CRM through brand awareness and corporate reputation, and strategic agility for the development of a competitive advantage. Finally, this paper discusses a set of implications for both theory and practice and sheds light on avenues for future research.

THE CONCEPT OF SUSTAINABLE COMPETITIVE ADVANTAGE

Starting with a systematic review of the literature on competitive advantage, two schools of thought emerge: On the one hand, neoclassical economics primarily deal with the industrial organization literature, and they view competitive advantage as a position of superior performance that a company attains through offering differentiated products for which customers are paying premium prices eagerly, or through offering no-frill products at low prices. The Resource-Based View (RBV) orientated theorists contend that organizations can enjoy a sustainable competitive advantage due to resource heterogeneity and the imperfect mobility of such resources and capabilities (Peteraf, 1993; Christensen and Bower, 1996; Cockburn, et al. 2000). The majority of the RBV related scholars define competitive advantage as being conceptualized as the firm's implementation of a value creating strategy, not currently being implemented by any other organization-competitor, that cultivates and exploits a variety of benefits such as cost reduction, neutralization of competitive threats, and/or utilization of market opportunities (Day and Wensley,

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1988; Newbert, 2008). Sustainability is accomplished when the advantage successfully resists competitive erosion by competitors' behavior. In other words, the skills and resources underpinning a business competitive advantage cannot be duplicated by its competitors being very often path dependent (Bharadwaj et al., 1993) and a newly created factor of competitive advantage (Porter & Kramer, 2002). The authors of this paper follow the view of Coyne (1986), as cited in Hall (1993), as it combines the neoclassical economists' and RBV theorists' perspectives suggesting that, in order to have a competitive advantage, the product and/or delivery system attributes need to be important to customers, and to be sustainable, they also need to be the outcome of a capacity differential which will endure.

Sources of Competitive Advantage

In general, researchers distinguish between two broad sources of competitive advantage: assets, also known as unique resources, and distinctive skills (Day & Wensley, 1988; Grant, 1991; Bharadwaj et al., 1993; Adegbesan, 2009; Greve, 2009). Coyne (1986), classifies the sources of sustainable competitive advantage into four categories of capability differential: 'cultural differential', 'functional differential', 'regulatory differential' and 'positional differential'. Implicitly, competitive advantage can derive from any of the four differentials only; therefore, in that purport they are exhaustive. The nature of the four capabilities is examined infra.

Capabilities based on assets

Regulatory capability accrues from the acquisition of legal entities such as contracts, intellectual property rights, trade secrets, etc. Some of these might be accorded a balance sheet valuation all being legitimate.

Positional capability happens in the aftermath of actions which, for instance, have generated a certain configuration of the value chain or a certain reputation with customers, etc. In other words, positional differential is an outcome of previous actions and decisions.

Capabilities based on competencies

Functional capability pertains to the ability of performing specific things; it derives from the skill, experience, and knowledge of employees and others in the value chain such as distributors, stockbrokers, suppliers, advertising agents, lawyers, etc.

Cultural capability applies to the enterprise as a whole. It integrates the beliefs, values, habits and attitudes of the individuals and groups which constitute the organization. Then the organization's culture results in, for instance, an ability to change, to learn, to react to challenges or achieving a perception of high quality standards.

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The first two capabilities are concerned with what a company has, whilst the other two capabilities are concerned with what a company does (Hall, 1993). This article adopts Coyne's model of capability differentials and extends it, as it is shown in figure 1, by integrating brand awareness and positive corporate reputation deriving from CRM practices, as intangibles resources that are associated with the positional differential and strategic agility for the cultural differential. In the following part, we analyze brand awareness and positive corporate reputation, as two intangible sources of competitive advantage

Competitive Advantage and Brand Awareness

Hoyer and Brown (1990) define brand awareness as a rudimentary level of brand knowledge involving, at the very least, identification of the brand name. Awareness reflects the lowest level of a continuum of brand knowledge that fluctuates from simple recognition of the brand name to a highly developed cognitive structure based on circumstantial information. Recognition is interpreted as the process of perceiving a brand as already encountered (ibid.). In this paper, brand awareness is defined as the cognitive process of consumers to recall a brand name at any given point in time.

Furthermore, brand awareness is associated with a variety of potential benefits. Acker (2012) argues that the most unexceptional goal of competition is to win the brand preference fight with a "my brand is better than your brand" strategy, and the majority of marketing budgets are allocated towards this direction. However, the firm that wins the global brand battle must be able to protect and sustain its position in the marketplace from competitors. Therefore, if a company has a high level of brand awareness it creates barriers to the other competing firms, and thus it makes the entry into the market difficult, dear, and highly risky. Moreover, Homburg et al. (2010) state that a serious investment is necessary to build a high level of brand awareness to significantly drive market performance. Most importantly, according to Hoyer and Brown (1990), brand awareness exerts an influence on consumer choice. Specifically, brand awareness is a prevalent choice tactic amidst inexperienced consumers encountering a new decision task, whilst consumers who are aware of one brand in a choice set tend to sample fewer brands when they purchase. In addition, consumers who are also aware of one brand in a choice set tend to choose the most known brand even when it is of lower quality than other brands (Hoyer and Brown 1990; Edelman, 2010; Esch et al., 2010). Accordingly, Day and Pratt (1971) and Strizhakova et al. (2011) argue that brand awareness, specifically when coupled with favorable tendencies or attitudes, represents a competitive advantage that can later be converted into increased sales performance. However, it may be emphasized that, the present awareness formation models in marketing strategy have given little attention to the role of competition (see Mahajan et al. 1984, Naik et al. 1998, Bass et al. 2007, as cited

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in Naik, et. al., 2008). Besides, the existing literature also lacks normative guidelines for the optimal strategies to pursue for invigorating brand awareness (Sasi, and Subhash, 1971; Naik, et. al., 2008).

Competitive Advantage and Corporate Reputation

In the strategy literature, corporate reputation is considered an intangible asset leading to a competitive advantage in the marketplace of products and services (Weigeilt and Camerer, 1988; Hall, 1992; Mahoney and Pandian, 1992; Kor and Mahoney, 2004). In this context, Fombrun (1996), as cited in Roberts and Dowling (2002), describes this intangible asset as reputational capital. Consonant with the Resource-Based View of the firm, reputation may be considered as a valuable resource that should be managed by the organization (Barney 1991; Dowling and Moran, 2012). Roberts and Dowling (2002) define reputation as a perceptual representation of a firm's past actions and future prospects that characterize the company's overall appeal to all its key stakeholders when compared with competitors. As such, they view reputation as a universal perception of the extent to which an enterprise is held in high esteem or regard' (Weiss, et. al., 1999; Roberts and Dowling, 2002).

In order to provide a common language for the following discussion, the authors define the term positive corporate reputation as the consumer's favorable perceptions of a firm's past and current actions, in terms of ethics, esteem and social contributions, that result in a sustainable competitive advantage.

The Benefits of a Good Corporate Reputation

A thorough review of the literature reveals that positive corporate reputation has a variety of potential benefits as to several business functions, such as market-entry-barriers, financial performance, quality management, transaction cost and consumer research (Roberts and Dowling, 2002; Walsh and Beatty, 2007). In that respect, we expect that a firm's good corporate reputation created by its Cause-Related Marketing practices generates and sustains a competitive advantage. In addition, corporate reputation, as experienced by various stakeholders, is an important strategy for reducing transaction costs, and positively influences financial and customer related outcome variables, such as consumer trust and loyalty (Walsh and Beatty, 2007).

Furthermore, a positive corporate reputation may be viewed as a market entry barrier for competitors because a good reputation is hard to replicate (Roberts and Dowling 2002), and if so, it incurs huge financial costs (Barney, 1991). In basic terms, a dominant firm creates a good reputation through several types of investments made in the industry and market it operates in. A rival company who wants to enter the market, would therefore have to assume the costs of building up a comparable or even better reputation in order to reduce its relative competitive disadvantage. As

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such, a powerful corporate reputation offers the leading enterprise with a valuable resource in order to continue to sustain its dominant position in the market (Hall, 1993).

In addition, a variety of potential benefits of good reputation provide the rationale for the relationship between reputation and financial performance (Shamsie, 2003). Against this background, various scholars suggest that firms with a positive reputation have an advantage against their competitors and are likely to attract more customers (Fombrun and Shanley, 1990). As reputation also serves as a sign of the underlying quality of a company's products and services, consumers may pay a premium price for the offerings of such companies (ibid.). Moreover, a company with a good reputation might also possess a cost advantage because employees opt to work for high-reputation organizations, and should therefore work harder and long hours or for lower emolument. Along similar lines, marketing research suggests that a positive reputation enhances sales force performance, new product introductions and recovery strategies in the event of crises (Shamsie, 2003).

Conceptualized as a holistic evaluation, corporate reputation is usually measured as the organization being good, marveled, and held in high regard. In that respect, a good reputation is a source of competitive advantage, as it raises the level of trustworthiness of the seller and the trust of the buyer, thereby reducing risk and the associated transaction costs (Goldberg and Hartwick, 1990; Dowling and Moran, 2012). In addition, according to Hall (2002) and Roberts and Dowling (2002), a firm's reputation is valuable, rare, difficult to duplicate and irreplaceable. The position taken in this paper converges with the aforementioned arguments and states that a good corporate reputation is a valuable intangible asset that allows an organization to achieve a sustainable competitive advantage, as long as it remains positive.

CSR AND CAUSE RELATED MARKETING

Corporate social responsibility is a rapidly expanding theme in today's business society and is being recognized as a core long term business strategy (Hess, et. al., 2002; Lichtenstein, et. al., 2004; Barone, et. al., 2007; Lev, et. al., 2010; Winterich, and Barone, 2011).

A very extensive and systematic CSR literature review revealed that research has focused on two prevalent perspectives: the normative one which is characterized by the notion of doing good for the sake of doing good and the enlightened self-interest perspective which is the business case in which firms are doing good as a tool for advancing their level of profitability. According to Krishna and Rajan (2009), Cause-Related Marketing concentrates on a specific cause that is linked with a firm as a whole or with a specific product or service of the enterprise, known as transactional Cause-Related Marketing.

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Simply stated, Cause Related Marketing is a marketing practice that conflates organizational charity, fundraising for a non-profit organization and social responsibility, for the purpose of furthering the profitability of a business (Ross, et al. 1992; Walsh, 1999; Gourville and Rangan, 2004; Folse, et. al., 2010; Zdravkovic, et. al., 2010). However, unlike traditional corporate philanthropy, cause related marketing practices do not accrue from philanthropic budgets. On the contrary, marketing managers choose to participate in cause marketing campaigns rather than in other promotional strategies (Vlachos, et. al., 2009).

The Benefits of CRM

Varadarajan and Menon (1988) argued that CRM helps to achieve many substantial benefits, such as improving sales performance, strengthening corporate reputation and brand image and expanding the target market of a company. Similarly, Cone et al. (2003) and Wang and Qian (2011) state that corporate CRM may act as a promotional tool for products and enhance brand image, as well as to extenuate the risks of reputational losses and thus, secure crucial resources from stakeholders. In addition, some scholars have argued that corporate philanthropy positively affects a company's financial performance because decisions associated with charitable contributions can be made strategically not only to enhance the firm's image and reputation, but also to raise the value of its moral capital (Godfrey, 2005). Towards this end, moral capital can purvey shareholders with insurance-like protection for a company's relationship-based intangible assets, and therefore, to enhance shareholder wealth (Godfrey, 2005). Furthermore, Barone et al. (2000) state that the results of several studies indicate that corporate philanthropy can positively affect consumer choice. Accordingly, Bloom et al. (2006) stated that exposure to any type of a well-conceived CRM initiative for a brand would lead to more positive feelings and judgments of the brand in a consumer's mind. Concordantly, Hoeffler and Keller (2002) and Keller (2003) have argued that CRM enhances an organization's image and can lead to brand awareness. However, according to Hoeffler and Keller (2002), this area needs further examination by scholars, in that many brands labor to create such effects among their consumers. In conclusion, the end result of doing good is being measured by many enterprises in terms of how much it contributes to a firm's competitive prime (Cone, et al., 2003). In conclusion, based on the previous literature review, the authors expect that Cause Related Marketing practices are positively related to positive corporate reputation and brand awareness.

THE CONCEPT OF AGILITY

According to Sambamurthy et. al. (2003), agility is the ability to recognize opportunities for innovation and grip them by assembling necessary assets, relationships with coup and briskness, and knowledge. In addition, agility incorporates the exploration and utilization of opportunities for market arbitrage, along with the firm's capabilities on customer relationships, enhanced internal

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operations and of its external business partners (ibid.). For the purposes of this study, we define agility as the ability of a company's to quickly adjust, as an entity, with the unanticipated micro and macro environmental changes.

As far as concerns the benefits that arise from agility, Goldman et. al., (1994) delineate an agile organization as, dynamic and having the possibility to enhance a competitive advantage and continues by saying that, in order to be dynamic, a company's competitive strategy must concentrate on knowledge development and agile processes that enable it to reciprocate to the market changes. Similarly, Pascale et. al., (1996), and Dyer and Ericksen, (2005), argue that agile enterprises gain a competitive advantage that add up to success through time. In general, several enterprises value the significance of agility in operating within the business world due to the fact that, it is crucial to the innovation and enhanced competitive performance (Thomke and Reinertsen, 1998; Swafford, et. al., 2006). In addition, through the literature on real options, agility can monitor market risk and uncertainty, therefore, firms can be adjudged to have a wide array of market-response choices (Tallon and Pinsonneault, 2011). Continuing, agility can improve performance by expanding a company’s repertoire of competitive activities and the nature of its feasible responses to market changes (ibid.).

Linking Cause Related Marketing And Strategic Agility: The Notion of "Cause Marketing Strategic Agility" (CMSA)

In the previous chapter, the authors analyzed the concept of agility along with the variety of benefits that arise from being agile. However, according to Cockburn (2011), as cited in Gwanhoo and Weidong (2010), agility is difficult to achieve in practice. It has been stated that only 11% of organizations dealing with Information Systems were able to stand business demands and that 76% failed to cope with market changes. As a consequence, the lack of agility is often accompanied with substantial financial loss (ibid.).

To fill this gap in practice, the authors integrate Cause-Related Marketing within Doz and Kosonen's (2008) framework for strategic agility and they develop an integrated conceptual framework, named as "Cause Marketing Strategic Agility" (CMSA). The rationale behind the integration of these business concepts is the fact that, CRM is based on higher order values such as philanthropy (Carol, et. al., 2003; Godfrey, 2005) which are long-lasting and transcend the quick product or service changes. In addition, based on the aforementioned review of the literature on CRM, it is being recognized by organizations as a core business tool within the firm's long term strategy (Vlachos, et. al., 2009; Winterich, and Barone, 2011) due to the fact that consumers tend to be more demanding in today's era regarding the social consciousness and philanthropic activities of enterprises and predisposes their beliefs about and attitudes toward their products and services (Brown and Dacin, 1997). Thus, the integration of CRM covers consumers' demands for constant corporate philanthropic behaviors,

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an aspect in today's business society that Doz and Kosonen's (2008) framework for strategic agility did not incorporate.

Strategic Sensitivity

"Strategic Sensitivity (both the sharpness of perception and the intensity of awareness and attention) combines early and keen awareness of incipient trends and converging forces with intense real-time sense-making in strategic situations as they develop and evolve. Strategic sensitivity is fostered by the combination of a strong externally oriented and internally participative strategy process, a high level of tension and attentiveness, and a rich, intense, and open internal dialogue" (Doz and Kosonen, 2008, p. 96).

To start with, Doz and Kosonen (2008; 2010), defined strategic agility as the thoughtful and purposive interplay on the part of top management among three meta-capabilities': Strategic sensitivity, Leadership unity and resource fluidity. Their analysis on the foundations of strategic agility and the dynamics of maintaining it, occurred from a detailed longitudinal analysis on Nokia in mobile communications over the past decades. The three meta-capabilities that according to Doz and Kosonen (2008; 2010), provide the foundations for strategic agility, are further analyzed below:

Leadership Unity

"Leadership Unity involves the ability of the top team to make bold decisions fast, without being bogged down in "win-lose" politics at the top. The leadership team's unity allows decisions to be reached at lightning speed once a strategic situation has been understood and the choices it opens or closes have been intellectually grasped. These decisions stick. Commitments are not delayed by personal insecurities and political stalemates at the top; nor is their implementation subject to personal agendas and private disagreements that would slow down or scuttle the effort. Even when wholehearted, commitments are still only as good as the resources put behind them" (Doz and Kosonen, 2008, p. 96).

Resource Fluidity

"Resource Fluidity involves the internal capability to reconfigure business systems and redeploy resources rapidly, based on businesses processes for operations and resource allocation, people management approaches, and mechanisms and incentives for collaboration that make business models and activity system transformation faster and easier" (Doz and Kosonen, 2008, p. 96).

At this point, the authors incorporate to Doz and Kosonens' (2010) strategic agility framework, Cause-Related Marketing as the fourth meta-capability for strategic agility:

Cause-Related Marketing Meta-Capability

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Cause-Related Marketing Meta-Capability combines organizational processes of enhanced profitability along with philanthropic charities that conflates organizational consciousness for social responsibility, for the purpose of fulfilling consumer demands-higher values for socially responsible enterprises in the current customer-centric marketplace and for raising the level of moral capital of the enterprise.

Hypothesis 1: A company's CRM practices will lead to increases in awareness of its brand.

Hypothesis 2: A firm's strong brand awareness resulting from its CRM practices is positively related to the firm's sustainable competitive advantage.

Hypothesis 3: A company's CRM practices are positively related with its positive corporate reputation

Hypothesis 4: A firm's good corporate reputation resulting from its CRM practices is positively related to its competitive advantage.

Hypothesis 5: Sustainable competitive advantage is positively related with higher levels of success when a firm adopts both agile strategy and CRM practices, than when it adopts only one of the two success factor.

Hypothesis 6: CRM reduces the level of required strategic agility as it focuses on higher order values which transcend short term market changes or consumer needs.

In conclusion, with a view to bridge the aforementioned identified literature with the research gabs and to directly asses the link between the various concepts discussed, the following hypothesis are proposed:

The following figure 1, illustrates the synthesized the concepts and integrates the hypotheses as a possible future research landscape for researchers.

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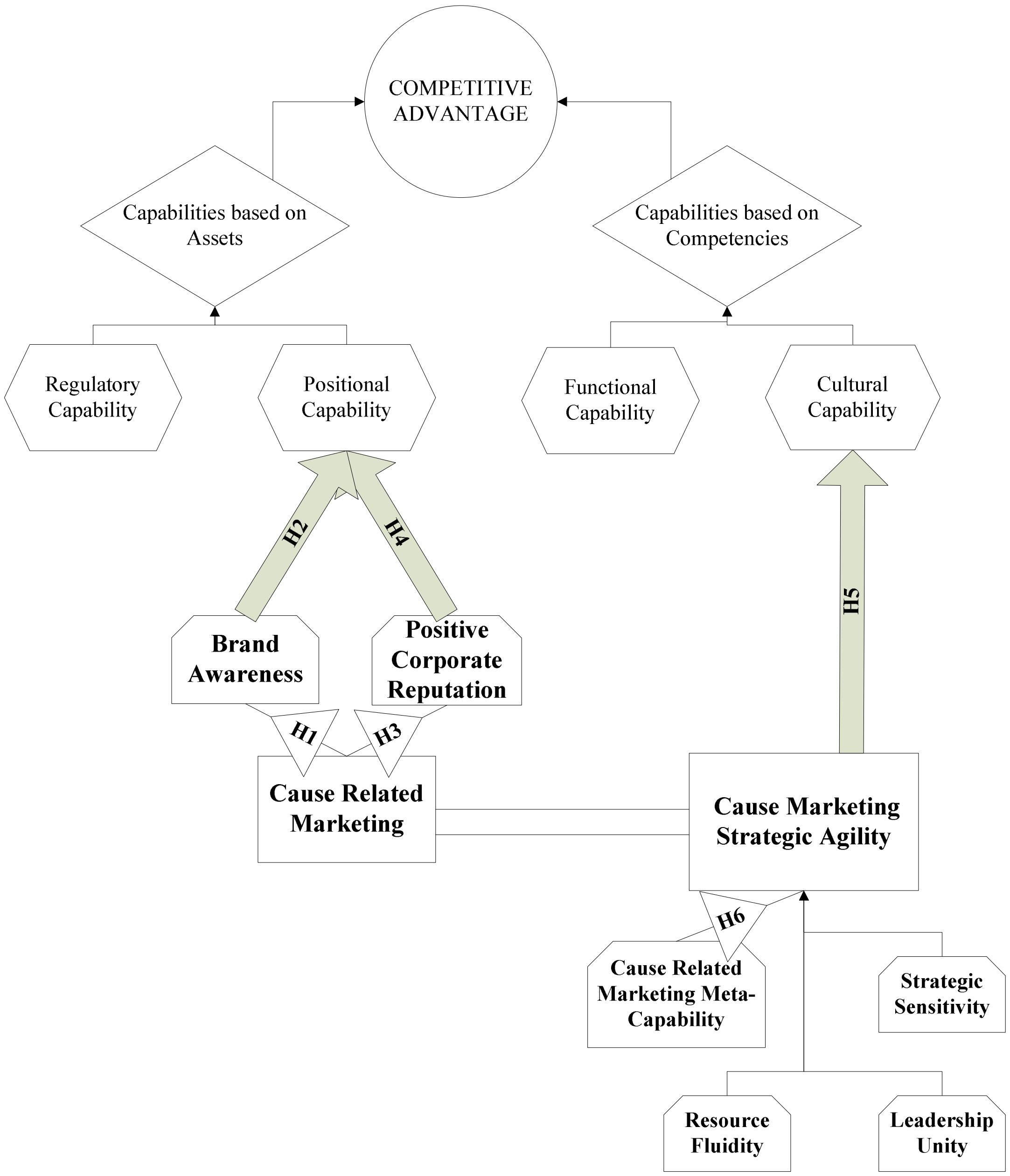
Figure 1



IMPLICATIONS FOR RESEARCH AND PRACTICE

This article contributes to several streams of research and practice. As it is already mentioned, this paper reflects how CRM and strategic agility in the context of creating and sustaining a competitive advantage in a hyper-dynamic environment, can complement and magnify each other's traditional context of analysis. To our knowledge, this study appears to be the first of its kind to theoretically examine the dynamics implied by synthesizing these, so far, distinct business concepts.

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Moreover, the integration of CRM and Strategic Agility makes the business community to be depended in a lesser degree by the second notion, therefore, it comes to close the theoretical gap that was clearly identified by Cockburn (2011), as cited in Gwanhoo and Weidong (2010), when he stated that despite the rise of Agility, the concept has little managerial implications, due to the fact that it is difficult to be applied and it can be justified by the majority of enterprises who fail to keep up with the constant changes of the environment.

Even more importantly, the contribution of this research consists in providing an integrated framework for businesses in order to gain a sustainable competitive advantage not only by being strategically agile, but through their marketing practices.

In prior research, these concepts have been investigated but each in a separate study, leaving the resulting cumulative knowledge disjointed. By weaving these diverse business aspects together, the present framework gives a more holistic picture of developing a sustainable competitive advantage.

Furthermore, to the best of our knowledge, this manuscript introduces for the first time the concept of Cause Marketing Strategic Agility (CMSA). Thus, researchers could evaluate CRM practices and Strategic Agility based on a new conceptual paradigm.

LIMITATIONS AND AVENUES FOR FUTURE RESEARCH

This paper has various limitations that bring to light avenues for future research. First, this study developed a model for gaining a sustainable competitive advantage more successfully, by conjoining CRM practices with strategic agility. Thus, this study can be viewed as a starting point for additional research that needs to be done by the future scholar community, in order to identify other possible routes of gaining a sustainable competitive advantage in today's turbulent competitive environment.

Second, it must be noted that our study focuses on only one key branding dimension deriving from CRM: namely, brand awareness. We focused on this dimension because, as Homburg et. al., (2010) state, brand awareness plays a special role in driving brand equity in business markets where many enterprises limit their branding activities based merely on the dissemination of the brand name and the logo. It may be interesting for future research to explore the effects of other branding dimensions generated through CRM.

Lastly, given that organizations and businesses vary according to size and consequently have different levels of corporate capabilities, it is possible that these realities could influence the way our integrated framework operates. Future research should explore, in detail, and determine if there is a relationship between the integrated model, the size of the company and to record possible

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changes that might occur, so as to adjust the conceptual paradigm in several categories of company-sizes and corporate meta-capabilities.

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LABOUR COSTS AND ECONOMIC DEVELOPMENT IN POLAND IN YEARS 2000 – 2008

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Abstract

Labor costs are an important economic category. It is used in multilateral micro and macroeconomic analysis such as examination of trends in the competitiveness of economies, determining the prospects for reducing unemployment, short-term and long-term economic growth or inflation. High labor costs may be an important factor for incomplete balance in the labor market, becoming one of the sources of the natural unemployment. The relationship between an employment and the labor costs, due to the multifaceted character, is difficult for unambiguous evaluation and belongs to the one of the most complicated relations in economic processes. Because of the direct and indirect connexion between labor costs and different economic categories, determining its influence on specified macroeconomic size becomes almost impossible to examine. It causes a large variety and contradiction of the positions in the field of ideas about impact the labor costs on different macroeconomic categories. Employers interested in reducing costs and maximizing profits, as well as employees who wish to receive the highest possible remuneration for their work, presents the opposite stance. In the public discussion about height of the labor costs in Poland we can hear contradictory opinions. On the one hand, our country's comparative advantage in labor costs in relation to the "old" UE countries is highlighted. On the other hand, proclaimed is the view that height labor costs are the barrier in creating new jobs.

These article presents labor costs analysis, taking into account the problem of its height in Poland compared to the other countries and the changes of its height and structure. Particular attention is given to analysis of the impact of the labor costs on selected macroeconomic indicators such as productivity, inflation, investment an unemployment.

Introduction

Labour costs represent an important economic category used in many multilateral micro and macroeconomic analysis, such as studying trends of changes in the competitiveness of economies, determining perspectives of a drop in unemployment, short- and long-term economic growth levels or inflation. High labour costs may be an important factor in an incomplete labour market equilibrium, becoming one of the sources of natural unemployment. Due to its multifaceted nature, the dependency between employment and labour costs is difficult to evaluate clearly and

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belongs to one of more complex relations in economic processes. Connecting labour costs, directly or indirectly, with various economic categories, makes the determination of their influence on a specific macroeconomic value difficult to investigate. It results in a variety and controversy of views on the effect of labour cost on individual macroeconomic categories. The view of employers, interested in restricting costs and optimising profits, differs from that of employees, who want to get the highest possible remuneration for the work performed. For years contrary opinions are heard in Poland in the public discussion on the extent of labour costs. On one hand, there are those who stress the comparative advantage of our country in comparison to the countries of the "old" EU, on the other hand there is the view that high labour costs are an obstacle in creating new workplaces.

This article presents an analysis of labour costs taking into account the problem of the size of labour costs in Poland as compared to other countries. It shows changes occurring in the size and structure of labour costs. A particular attention is paid to the analysis of the influence of labour costs on selected macroeconomic indicators, such as productivity, inflation, capital outlay and unemployment.

The concept of labour costs

Labour as one of factors of production represents an essential element in the business process. Regardless of the type of business conducted and the number employees, an enterprise incurs expenditure associated with the use of labour in the production process. The value of the labour used in the production of certain goods or the delivery of services is known as labour costs [13, p.7].

In the economic literature the term "labour costs" appeared in the 20-ies of the 20th century. It was introduced by German representatives of enterprise science – F. Litner in 1925 and F. Schmidt in 1930. Acquiring, using and maintaining labour force were presented as elements having a significant influence on an enterprise's economic accounts. F. Litner divided labour costs into two main groups. In the first one he included wages and salaries and benefits paid by employers to employees. The second group covered tax and illness insurance, working clothes, trainings for employees and apprentices, premiums and family allowances [13, p.7].

Starting studies of labour costs in 1932 by the International Labour Office has a significant effect on the development and popularisation of the labour costs concept. It was decided that this category will also include family benefits, social securities and paid holidays. The study continued in 1949 and 1955, covering in its scope seven branches of European processing and mining industries in FRG, Austria, Greece, Turkey, Belgium, France, Italy, Great Britain and Yugoslavia [19, pp. 19-53].

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With time new elements were included in the conceptual framework of labour costs. This was mainly due to employees gaining new social as well as wider use of economic calculations and changes in the corporate management style. More and more attention has been paid to the dependency between the quality of work and profits generated by an enterprise [16, p. 254]. Labour costs became of significance as recording and reporting values.

In Poland, the topic of labour costs was introduced at the beginning of the 60-ties by H. Halama. In his interpretation, the concept of labour costs was limited to the costs incurred by an enterprise in connection with employing white and blue labour workers, including the cost of labour measurement and standardisation as well as the cost of maintaining a personnel office and a social affairs office [10, pp. 176-182].

The subject of labour costs was also addressed by S. Sudoł, who seeing that labour costs are not distinguished, neither in an enterprise accounts not in statistical reporting, developed the analysis and classification of labour costs as well as a methodology for performance thereof [21, pp.8-10]. According to Sudoł, labour costs at an enterprise included all expenditure associated with the current and future state of personnel.

Then, in the 70-ties J. Kordaszewski defined labour costs as the total expenditure of an economic entity incurred on behalf of its employees, their families and apprentices [14, p. 126], whereas K.Górka and S. Chomątowski understood this concept as the total of financial expenditure and costs associated with employing personnel in a certain economic entity, differentiating between expenditure associated with [9, pp. 145-146]:

- safety and hygiene at work,
- social and welfare activities (and social policies),
- recruitment,
- transport to work.

The first questionnaire aimed at measuring labour costs in the Polish industry was proposed by Z. Lonc [17], who used the guidelines of the International Conference of Labour Statisticians. She understood labour costs as the total of remunerations paid to employees for the work performed actually (directly) and the costs (benefits) not associated directly with the work performed incurred by an employer on behalf of an employee, in both monetary and non-monetary form.

In the balance-sheet law personnel costs, defined as employee benefits, were introduces by the International Accounting Standard 19. According to this standard there are four types of employees benefits, presented in drawing 1.1.

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TYPES OF EMPLOYEE BENEFITS ACCORDING TO IAS 19	
Short-term employee benefits	*Remuneration and contributions towards social security, paid holiday leave and sick leave, profit sharing and premiums (if payable within 12 month form the balance sheet day) as well as non-monetary benefits for currently employed workers,*
Post-employment benefits	*mainly pension and other retirement benefits as well as post-employment life insurance and medical care.*
Other long-term employee benefits	*long service leave, sabbatical leave, jubilee awards and other benefits due to long service, disability benefits and profit-sharing, premiums and deferred earnings, if payable within 12 or more month after the end of the period,*
Benefits upon termination of employment	*Employee benefits, payable upon the decision of the entity's manager to terminate the employee's contract before him/her reaching retirement age or upon the decision of the employee to accept the proposed termination of employment voluntary in return for such benefits;*

Drawing 1.1 Types of employee benefits according to IAS 19
Source: Author's work based on IAS 19.

The Central Statistical Office conducts labour costs surveys every four years, as recommended by Eurostat, using a representative method and the form Z-029. The first survey of labour costs in Poland, conducted by the Central Statistical Office in 1993, was an incomplete one, covering only manufacturing and construction activities. According to the Central Statistical Office's definition labour costs consist of a sum of gross wages and salaries (including deductions of income taxes from natural persons and contributions towards compulsory retirement pay, disability pension and sickness benefit, paid by an insured employee) and non-wages expenditures (i.e. contributions towards retirement, pension and accident insurance paid by employers, expenditures on improvement, training and re-qualification of staff) spent in order to acquire, sustain and re-qualify, and improve the staff qualifications. [25]

Costs are an objective economic category, closely associated with business activities. In macroeconomics the most comprehensive category of costs are social costs of production (SCP).

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They represent the sum of human and machine labour costs incurred by a society to produce goods and services in any given time. Thus, the value of social costs of production equals the value of the global social product, manufactured at the time. Therefore, social costs of production may be expressed using the following formula [8, p.42]:

$$\boxed{SCP = c + v + m}$$

where:

c – the value of production means used,

v – the value of a product, manufactured by the labour performed for one's own benefit, expressed in the employees' remuneration,

m – the value of a product, manufacture by the labour performed for the society, the so called additional product.

The above formula shows that the scope of social costs of production arises from the concept of value and is much wider than monetary expressions of human and machine labour cost.

In the classical economic approach the concept of labour costs means the value of labour, measured by the cost of labour used in order to produce certain goods or render services. In the literature, labour costs are called employment costs, labour force costs, personnel costs or personnel expenditure. All the above pertain to the total expenditure associated with the human labour factor involved in a manufacturing process, the level of which is shaped by the employment structure and extent.

The difference in the process of generating costs at the level of an economic entity and the level of the entire economy allows to distinguish the following labour costs:

- labour costs *sensu stricte,* covering expenditure and costs associated with employing personnel, representing an element of accounting for prime costs,
- labour costs *sensu largo,* specifying the total labour costs of an entity, including both, expenditure charged to primary costs and the expenditure covered by profits or subsidies,
- full (social) labour costs, representing a part of social costs of production. These include all expenditure associated with recruitment and are borne by all entities – an economic entity, the state and the social consumption fund [16, p. 255].

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Another definitions states that labour costs represent the total expenditure of the employing entity (i.e. the employer) associated with using the labour factor (human capital) in the economic process [18].

Whereas the International Labour Organisation labour costs as the total remuneration paid out to employees for the work actually performed and the costs (benefits) not directly associated with the work done, incurred by the employer on behalf of an employee in a monetary and non-monetary form [21].

The structure of labour costs is divided into two parts:

- the first part is the gross pay of an employee, which is subject to the deduction of insurance contributions and income tax,
- the second one is the contribution paid by the employer, not included in the gross pay of an employee.

The factors shaping these two parts of labour costs are: internal factors, that is factors existing in the enterprise itself and external factors arising from the enterprise's general environment but having a big influence on the structure of labour costs.

A business entity may shape the extent of labour costs by influencing these factors, the use or size of which depends on the internal need of the enterprise. This role is performed by internal factors, used in managing an enterprise to stimulate labour productivity by motivating employees. The are linked to the enterprise itself and are determined, first of all, by [16, p. 642]:

- size of employment,
- professional and qualification structure of personnel,
- remuneration system and pay policy,
- size of enterprise and the strength of trade unions,
- quality and modernity of production, forcing the level of personnel qualification and thus the level of remuneration,
- modernity of technologies applied,
- pace of the technology progress in the branch.

Amongst the elements, shaped by internal factors are, first of all, remunerations relating to the labour and its effect, non-wage labour costs of both, motivating and social nature as well as the costs of recruitment and vocational improvement.

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Remuneration for work done represents this category of costs which could be decided on independently by the employer The provisions of the Labour Code create the legal framework for the principals of remunerating employees by the employer Art. 78.1 of the Labour Code states that „remuneration for work should be fixed in a manner corresponding, in particular, to the type of work performed and qualifications required for its performance, and shall take into account the quantity and quality of the work performed"[24]. When setting the rate for remuneration for work, directed only by the dispositions of Art. 78 of the Labour Code, the employer may set it at the level which will not guarantee a fair standard of life to the employee and his/her family. Taking into consideration that for an employee remuneration is the main source of upkeep for him/herself and the family and in order to restrict unfair competition, a minimum pay was introduced. Its aim is to guarantee the lowest paid employees remuneration at the level of a certain social minimum.

The minimum wage is mentioned in Art. 13 of the Labour Code, which states that an employee has the right to receive a fair remuneration for his/her work. The conditions for the execution of this law are specified in the provisions of labour law and in the State policy on pay, in particular by establishing minimal remuneration for work.

The basic remuneration is the most important part of remuneration directly linked to work and its effects. The Supreme Court defined the concept of remuneration for work in its resolution of 30 April 1986 as a required benefit of wealth increasing nature, which the employer is obliged to pay to an employee in consideration or work performed by him/her under employment contract [13, pp. 39-40]. The remuneration, understood as a payment for work performed by an employee on behalf of the employer on the basis of an employment contract, represents the basic component of labour costs, the value of which determines the value of other components.

The other components of remuneration include [16, pp. 21]:

- additions to the basic remuneration (long service allowance, position allowance),
- premiums,
- bonuses,

Indirect, non-wage employment benefits in the form of additional benefits for an employee may take the form of [13, p. 42]:

- participation in the enterprise's profits,
- purchase of shares at a preferential price,
- guaranteeing a mortgage,
- leasing a passenger car,

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- purchase of goods or services offered by enterprises at preferential prices,
- health benefits financed by the employer,
- ***employees' children education*** allowance,
- creating employee pensions schemes.

The company's success and competitiveness depends increasingly on the quality of human resources. Attracting and investing in human capital, understood as the extent of professional knowledge, experience and capabilities acquired by an employee which permits to generate higher revenue, requires an efficient human resources management [1, p. 335]. The extent and nature of action undertaken by a business entity in this field depends on the possibilities and internal need of the enterprise.

The costs, generated by a business entity when performing basic personnel functions include:

- costs of recruitment, employment and derecruitment,
- costs of training and developing personnel.

External factors, shaping labour costs, are due to legal requirements imposed on business entities by legislators. The extent and type of solutions applicable in a given country, to a large extent depend on political, legal, social and cultural factors as well as the significance of trade unions.

Additionally, of significant importance are tendencies on the local labour market, associated with the unemployment rate and the demographic structure of the country. External factors, which predetermine the structure of labour costs and which cannot be influenced by the employer, include, first of all [16, p. 32]:

- provisions of the Labour Code,
- social security contributions,
- contribution to the Labour Fund,
- contributions to the Guaranteed Employment Benefit Fund,
- contributions to the Enterprise Social Benefits Fund
- minimum wage rate
- provisions of the Trade Unions Act.

A clear conflict of interest between employers, aiming at minimising costs and optimising profits and employees, expecting the highest possible remuneration for the work performed, resulted in

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the need to determine minimal requirements, obligatory for the employer in relations with employees. In particular, the regulations pertaining to:

- defining employment relationship,
- protecting remuneration for work,
- equal treatment of employees,
- the right to rest,
- guaranteeing safe and hygienic work environment.

It should be pointed out that the provisions of labour law, included in the Labour Code, although specify the duties and right of both, employees and employers, mainly focus on the protection of worker's rights, who always is the weaker party in the employment relationship.

According to the legislator, social security contributions payable from earnings received for work, including home-based work are [25]:

- retirement insurance contribution,
- disability insurance contribution,
- sickness and maternity insurance contribution,
- work ***accidents and professional disease insurance contribution***.

Another group of payments imposed by the legislator are deductions to the:

- Labour Fund,
- Guaranteed Employment Benefit Fund,
- Enterprise Social Benefits Fund,
- Pre-term Pensions Fund.

According to Art. 15 of the Labour Code, "the employer is obliged to provide an employee with safe and hygienic work conditions" [24]. Detailed regulation concerning occupational safety and health issues are outlined in Section X of the Labour Code. This requirement gives rise to the necessity to incur several expenses, in particular [24]:

- costs of adapting work stations to the requirements of work ergonomics,
- costs associated with the purchase of work clothes and protective clothing,
- benefits in the form of regenerative and restorative meals

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- costs of conducting initial and control medical examinations,
- other costs of preventive health care, necessary due to work environment,
- costs of providing appropriate hygiene and sanitary equipment and necessary means of personal hygiene,
- costs of mechanisation of difficult work processes,
- costs of installing air-conditioners in the premises with difficult conditions due to high temperature.

Labour costs incurred to provide safe and hygienic work conditions are aimed at prevention, by restricting occurrence of professional diseases and accidents at work. Such occurrences result in increasing expenditure associated with the loss of work time, payment of sick benefits, compensations or material damages.

Productivity of labour costs

Labour productivity indicators are the measures permitting to evaluate the development level as well as the competitiveness of a given economy. One of the measures is the measure of labour productivity based on gross value added per one employee or worker. It shows the efficiency of using labour in the process of creating value added, by measuring the value actually produced by an employee. Contrary to the productivity indicator, based on gross product, the value of this indicator is not affected by other outlays (such as energy, materials or services). Due to limiting the number of factors affecting its value, this indicator better reflects labour productivity [2, p.28].

Diagram 1 allows to compare the relation between productivity dynamics, measured as gross value added in total economy per in total economy per person employed and the dynamics of labour costs and remuneration. Remunerations, representing the largest percentage of labour costs (approx. 75%) during the entire analysed period, underwent changes similarly to labour costs. The exception is a reduction in the disability insurance contribution, charged to employees in years 2007-2008 from 6,5 % to 1,5 %. This resulted in growing tendency in the dynamics of remuneration and a drop in the dynamics of labour costs. Analysing the examined period, we can see that in the years 2000-2004, labour productivity was growing faster than labour costs. The increase in labour productivity over that period was caused, to a large extent, by a significant drop in employed from 9 354 000 in 2000 to 8 640 000 in 2004 (Table 2). It also led to restricting the dynamics of remuneration due to the stronger position of employers in pay negotiations with employees. In the years 2004 and 2005 there is a slight increase in employment and the dynamics of labour costs and remuneration are at a level similar to that of the dynamics of productivity. A change in tendencies

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in the relation between productivity and labour costs takes place in 2007. Wages and labour costs grow with the increase in employment and the productivity remains at the same level as in 2006. In 2008 the dynamics of remuneration is still growing while the dynamics in the increase of labour costs and productivity drops.

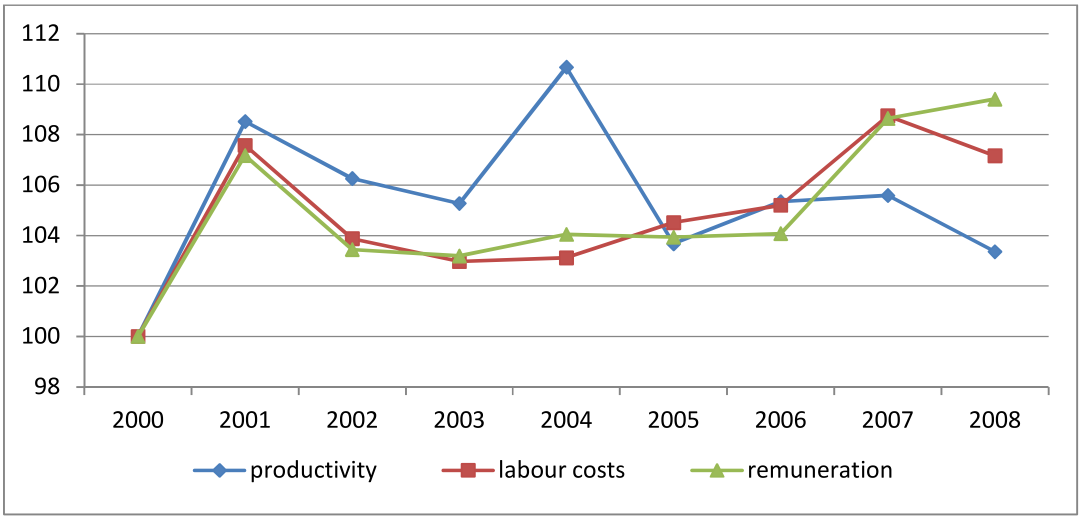

Diagram 1. Dynamics of changes in labour costs, remuneration and labour productivity per one person employed in Poland in years 2000-2008 (previous year =100).
Source: Own work based on: Annual macroeconomic indicators, GUS.

Despite unfavourable tendencies in the relation of productivity to labour costs in the last year of the analysed period, it is clear that when looking at all these years, we see a faster increase of labour productivity in relation to labour costs by approx. 8%, with a relatively small increase in employment, as seen in Diagram 2. The dynamics of productivity, higher than labour costs during the period from 2000 to 2008, speak of increase in the competitiveness of the Polish economy.

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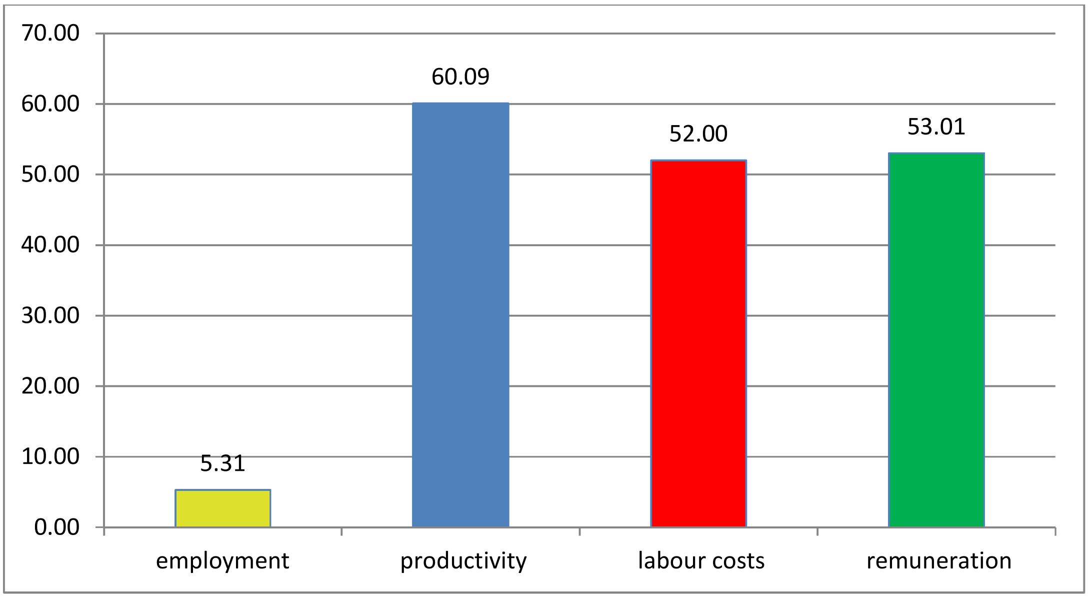

Diagram 4.2 Percentage changes in the size of employment, productivity, labour costs and remuneration between 2000 and 2008.

Source: Own work based on: Annual macroeconomic indicators, GUS.

The high dynamics of productivity in relation to the dynamics of labour costs, continuing for a longer period, leads to reduction in the share of labour costs to GDP. This share represents an index showing the cost of labour unit (one employed) necessary to produce (value) of a product assigned to this unit [3, p.37]. This dependence is confirmed by the data in Table 1, showing the percentage share of labour costs in GDP and the share of gross value added per one employed in the years 2000-2008. In the years 2000 – 2004 we see a clear drop in the share of labour costs in GDP from 39,55 % to 34,89 %. There is no significant changes in the following two years and only in the year 2007 the share of labour costs starts to grow from 34,72 % to 36,95 %. We can see a similar tendency when reviewing the share of labour costs in gross value added per one employee. Here there is also a drop in the share of labour costs in gross value added until 2004, a stabilisation in the years 2005-2006 and again an increase in 2007.

Description	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
% of share in GDP	*39,55*	*39,30*	*38,10*	*37,20*	*34,89*	*34,72*	*34,72*	*35,61*	*36,95*
per gross value added unit	*0,44*	*0,44*	*0,43*	*0,42*	*0,39*	*0,40*	*0,40*	*0,41*	*0,42*

Table 1. Share of labour costs in GDP and gross value added per one employed in the years 2000-2008.

Source: Own work based on: Annual macroeconomic indicators, GUS.

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Thus, it can be noted that in Poland there is a direct connection between productivity, total labour costs and the level of employment. When the level of employment drops there is a drop in the share of labour costs in GDP [3, p.38].

Description	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of employed in thou.	9 354	9 050	8 760	8 662	8 640	8 787	8 966	9 388	9 851
Dynamics of employment (previous year=100)	100,0	96,8	96,80	98,9	99,7	101,7	102,0	104,7	104,9
Gross value added (current prices in ml. PLN)	662224	695255	715072	744357	821665	866392	931179	1029442	1116476
Dynamics of gross value added (previous year = 100)	100,0	105,0	102,9	104,1	110,4	105,4	107,5	110,6	108,5
Productivity in thousand.	70 796	76 824	81 629	85 934	95 100	98 592	103857	109655	113336
Dynamics of productivity (previous year = 100)	100,0	108,5	106,3	105,3	110,7	103,7	105,3	105,6	103,4

Table 2 Employed, gross value added and productivity in the national economy in the years 2000-2008 (previous year=100)

Source: Own work based on: Annual macroeconomic indicators,, GUS.

When comparing changes in the dynamics of labour costs with the GDP per one resident, presented in Diagram 3, we can see that the increase in GDP per capita is higher then the increase in labour costs during the entire analysed period, with the exception of the year 2002.

In order to get a fuller picture of the extent of labour costs in Poland it is necessary to present the data relating to Poland against other countries. This will allow to evaluate Poland's competitiveness in comparison to other European countries. Using indexes published by OECD for the selected EU countries, such as GDP per capita, labour productivity and unit labour costs, adjusted by purchasing power parity, we can get better view of the real level of labour costs in Poland.

Diagram 4 presents the dynamics of the GDP per one resident, expressed in USD in current prices, adjusted by purchasing power parity (PPP). We see that during the analysed period such countries as Poland, Czech Republic, Slovenia and Hungary were characterised by a similar growth in the GDP per capita, amounting to approx. 70%. Only Slovenia noted a higher, in comparison to other countries, growth, exceeding 111%. During that period the GDP per capita in the EU-15 countries increased on average by over 46%. This means that in recent years the GDP per capita in Poland has increased in relation to the EU average, which is synonymous with the convergence taking place, i.e. the equalization of the development level of Poland and the European Union.

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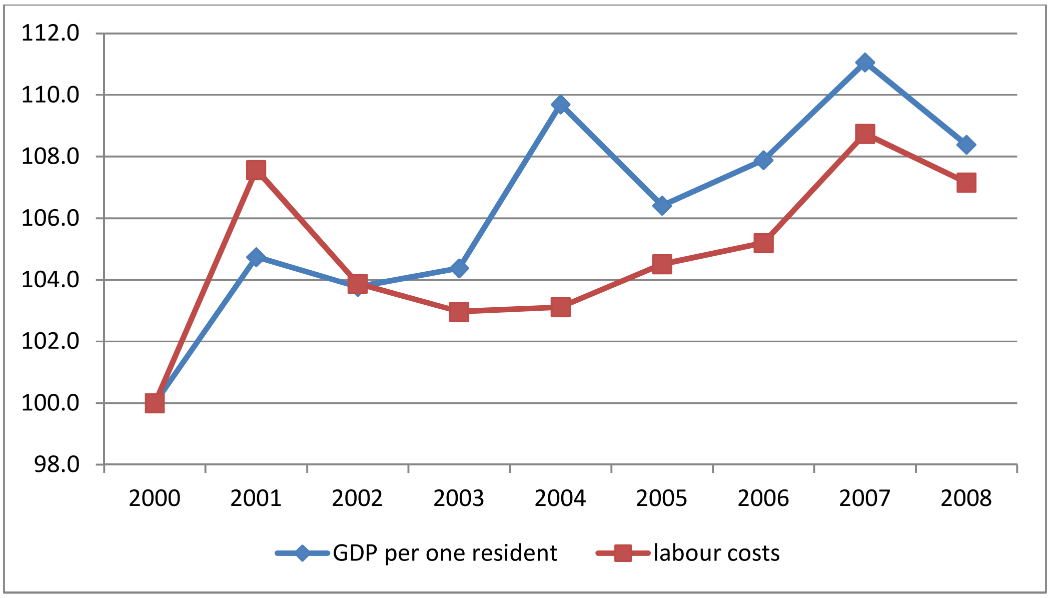

Diagram 3. Dynamics of changes in labour costs and GDP per one resident in Poland in the years 2000-2008 (previous year=100).

Source: Own work based on: Annual macroeconomic indicators,, GUS.

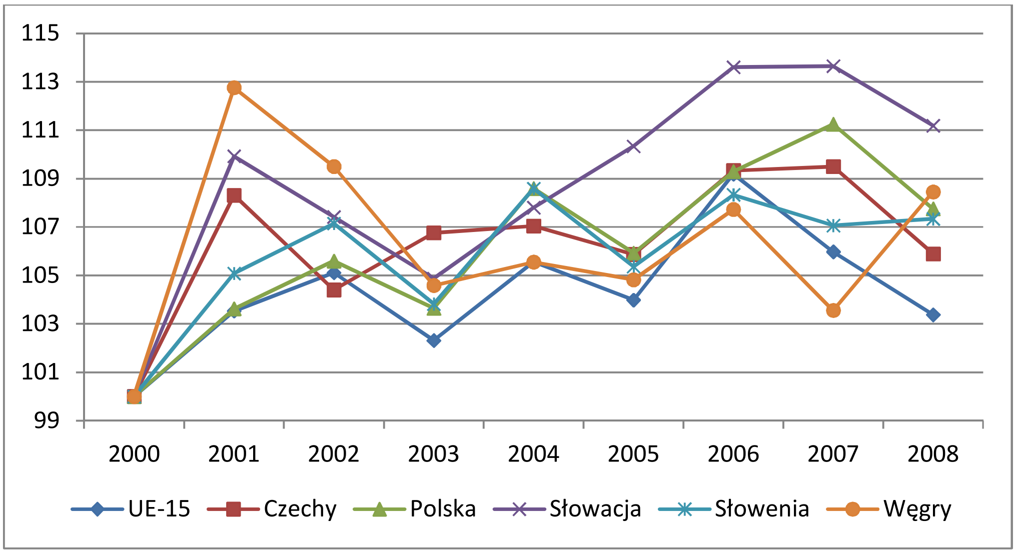

Diagram 4. Dynamics of GDP per capita in Poland, UE-15 and the selected EU countries in the years 2000-2008 (previous year = 100).

Source: Own work based on: http://stats.oecd.org/ (05.10.2011).

Diagram 5 presents the dynamics of labour productivity, defined as the Gross Domestic Product per a unit of Human Resources involved in its production, i.e. per one person employed in the national economy [25]. When we compare the data relating to labour productivity we can see that during the entire analysed period this indicator was lower for the EU-15 than the values noted

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for the countries of our region. In the years 2000-2008 the new members of the EU noted increase in labour productivity on the level of approx. 30%, with the exception of Slovenia, where the increase was even higher and amounted to nearly 46%. Amongst these countries Poland had the lowest increase of labour productivity amounting to 27.82%

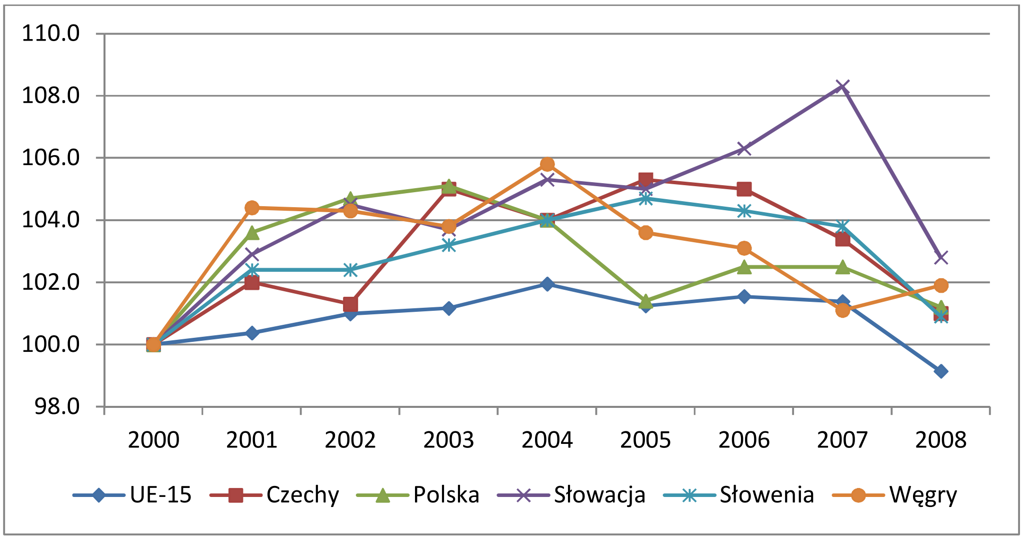

Diagram 5. Dynamics of labour productivity in Poland, UE-15 and the selected EU countries in the years 2000-2008 (previous year = 100).
Source: Own work based on: http://stats.oecd.org/(10.10.2011).

Unit labour costs measure the average cost of labour per unit of GDP. Thus, these costs are linked with labour productivity and labour cost used in producing the GDP. Increasing unit labour costs lead to an increase of the share of labour costs in the output of the entire economy [24].

Analysing Diagram 6 presenting the dynamics of unit labour costs in Poland against other countries, we can clearly see that in the years 2001-2004 from amongst the countries presented in the diagram Poland was the only one where unit labour costs dropped in comparison to the previous period. Other countries noted only a drop in the dynamics of the increase of unit labour costs in relation to the previous period. Looking at the entire analysed period, amongst the presented countries the lowest increase in unit labour costs was in Poland.

The data presented in Diagram 7 indicates that during the years 2000-2008 against the selected Central and Eastern Europe countries and the EU-15 average, Poland had the lowest increase in unit labour costs with the increase in labour productivity and the GDP per capita comparable to such countries as Czech Republic, Slovenia and Hungary. The pace of labour productivity increase higher than that of unit labour costs and the fact that these differences are higher in Poland than the average for the EU-15 and other presented countries mean an increase in the competitiveness of the

Polish economy in the analysed period. Therefore, it would be difficult to agree with allegations that high labour costs in Poland cause a lowering of the competitive position of our economy.

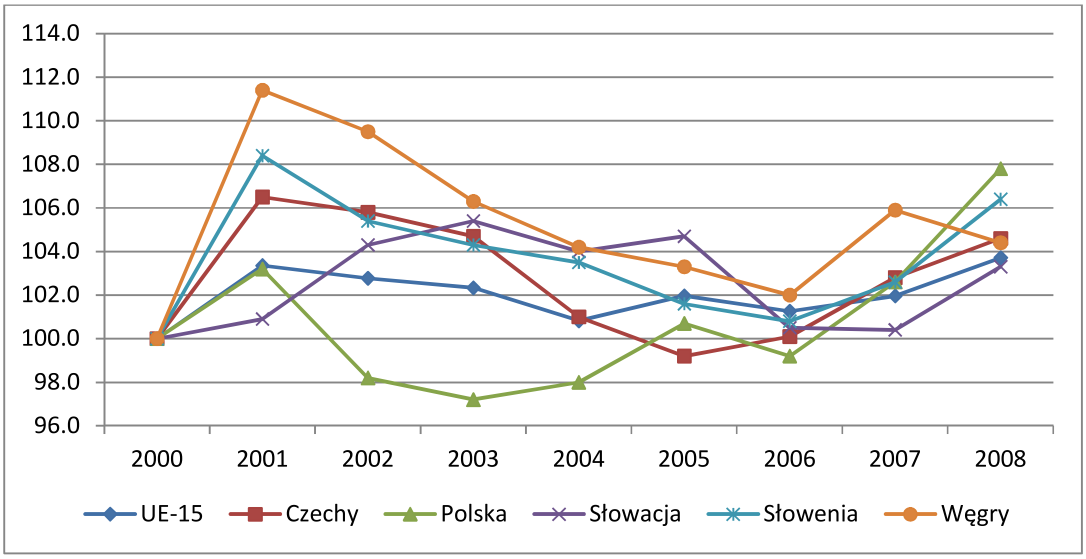

Diagram 6. Dynamics of unit labour costs in Poland, UE-15 and the selected EU countries in the years 2000-2008 (previous year = 100)..

Source: Own work based on: http://stats.oecd.org/ (10.10.2011).

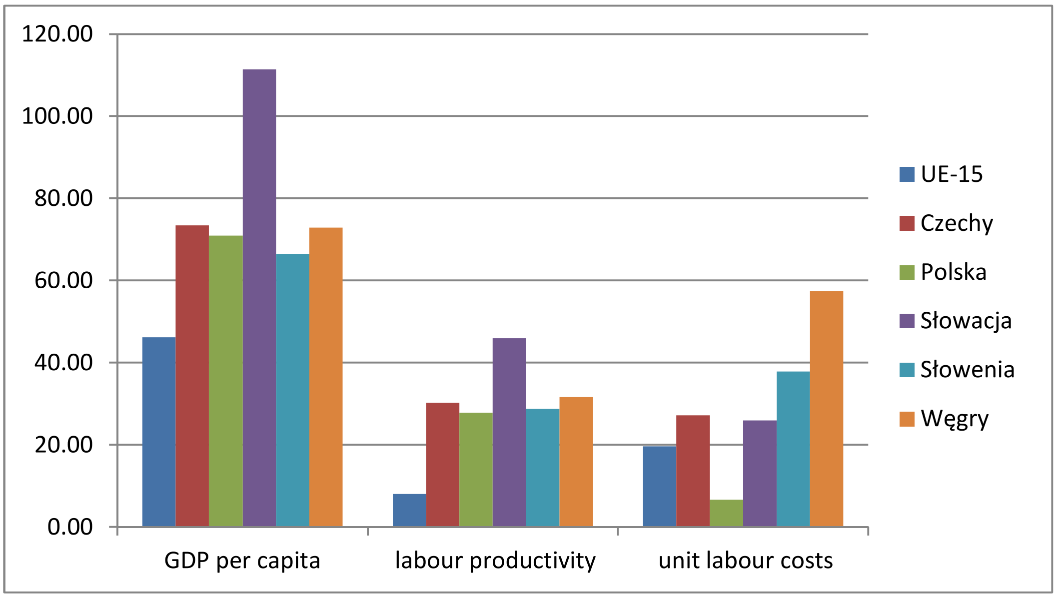

Diagram 7. The percentage change in GDP per capita, labour productivity and unit labour costs in Poland, EU-15 and selected EU countries in the years 2000-2008.

Source: Own work based on: http://stats.oecd.org/ (10.10.2011).

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Labour costs' effect on inflation

Inflation is an increase in the average level of prices and goods in any period [1, p. 252]. Usually, inflation is caused by an increase in remuneration and other earnings of the population, which is faster then the production. Since remunerations represent the largest part of labour costs their excessive growth may lead to an increase in labour costs and that causes an increase in costs of production and contributes to the occurrence of inflation [5, p.529]. This type of cost inflation is called salary inflation.

The graphic illustration, presenting the inflation rate against the dynamics of real wages, labour costs and productivity, shows that from the year 2001 to 2003 all these variables show a linear dependence with a negative slope of the function. Each of the variables notes a slower pace of increase in comparison to the previous year. This is the period, when the number of employed in the national economy was decreasing, which meant a lesser pressure of employees and representing them trade unions to put forward pay demands. Despite the fact that during that period the dynamics of productivity also decreased, that decrease was the smallest amongst the presented variables. During the period between 2001 and 2003, due to the inflation rate maintained at a very low level, we see the pace of increase in real wages higher than in nominal wages. From the year 2004 we see a constant increase in the dynamics of real wages; the same is with the dynamic of labour costs, although in 2008 there is a drop in the pace of increase. During the years 2000-2005 the dynamics of productivity and the inflation rate behave in a similar way, noting a drop or increase of dynamics in the same years.

During the entire analysed period the inflation increased by 23,60 %, and the real wages and productivity by approx. 60 %, with a slightly lower increase of labour costs. Therefore it can be assumed that thanks to balancing the increase in real wages by an increase in labour productivity and a lower increase of labour costs the inflation was not a salary inflation and did not lead to a wage-price spiral, whereby the rise in wages leads to a rise in prices of goods and services, which in turn is a good argument for employees and trade unions to make pay demands.

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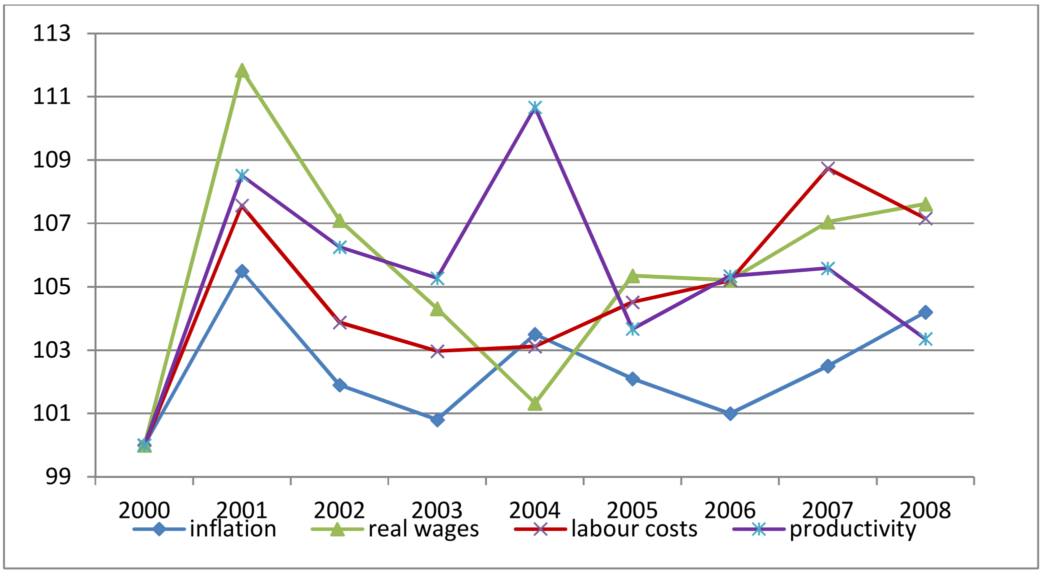

Diagram 8 Inflation rate and the dynamics of real wages, labour costs and productivity in Poland in the years 2000-2008 (previous year = 100).

Source: Own work based on: Annual macroeconomic indicators,, GUS.

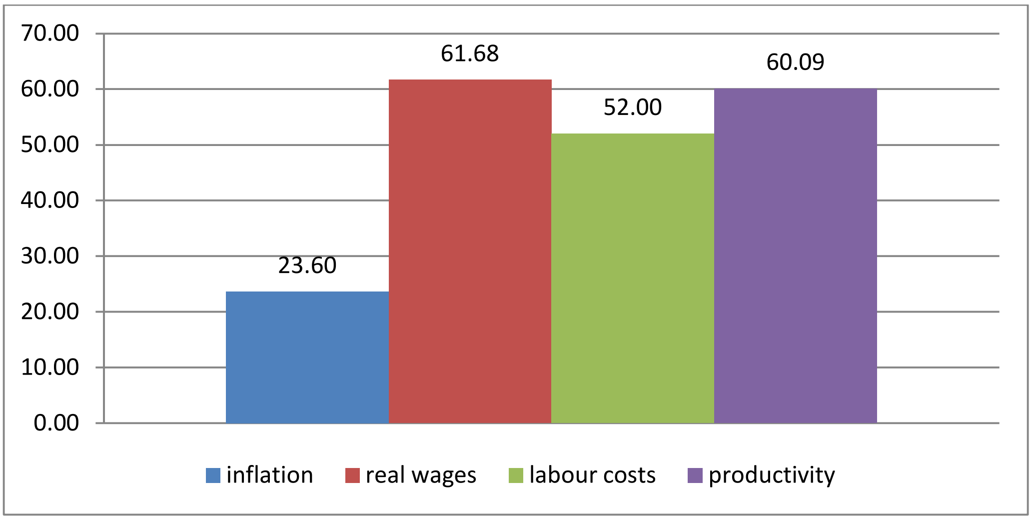

Diagram 9 Percentage changes in inflation rate, real wages, labour costs and productivity in the years 2000-2008

Source: Own work based on: Annual macroeconomic indicators,, GUS.

Diagram 4.10 shows inflation in Poland against other countries. In 2000, Poland, as much as Slovenia, Slovakia and Hungary, suffered a high rate of inflation around 10%. During that time the rate of inflation in the Czech Republic was less than 4% and the EU-15 average was 2.6%. Between 2001 and 2003 the inflation in Poland dropped sharply to 0.7%. During the next years the rate of inflation stabilised at the level similar to the values noted by the Czech Republic and the countries of EU-15.

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When comparing changes in unit labour costs and inflation occurring in the years 2000 – 2008 on the basis of data published by OECD for Poland and other countries, we can see that the average rise in unit labour costs in the EU-15 countries, the Czech Republic and Hungary roughly corresponded to the rise in inflation, whereas in Poland, Slovenia and Slovakia the inflation grew faster than unit labour costs. At the same time, when compared to Slovenia and Slovakia, in Poland both unit labour costs and inflation showed the smallest percentage rise during the analysed period. In this period, the inflation grew, value-wise, to the level noted in the Czech Republic in the EU-15 countries, with a significantly smaller rise in unit labour costs. Therefore, we can presume that the reason for the increase in inflation in Poland was not the rise in labour costs, since this would lead to an increase in production costs, or the effect of this rise was minimal.

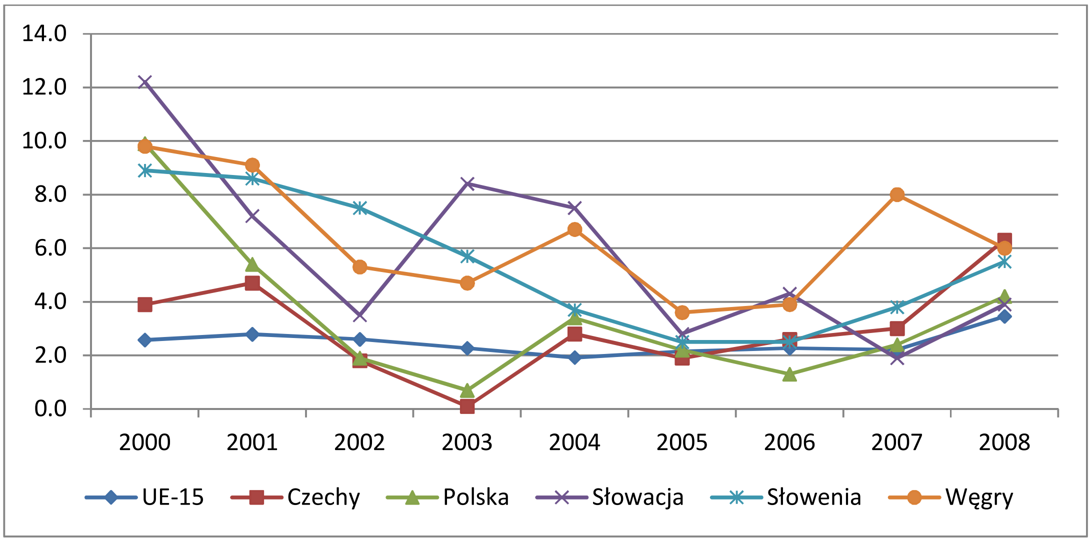

Diagram 10 Rate of inflation in Poland, EU-15 and the selected EU countries in the years 2000-2008 (previous year = 100).

Source: Own work based on: http://stats.oecd.org/ (10.10.2011).

Talking about inflationary character of labour costs in Poland over the analysed period does not seem to be justified. When compared to other European Union countries, neither the analysis of the Polish statistical data pertaining to real wages and labour productivity nor the analysis of labour costs confirm the theory that the high labour costs in Poland cause an increase of inflation.

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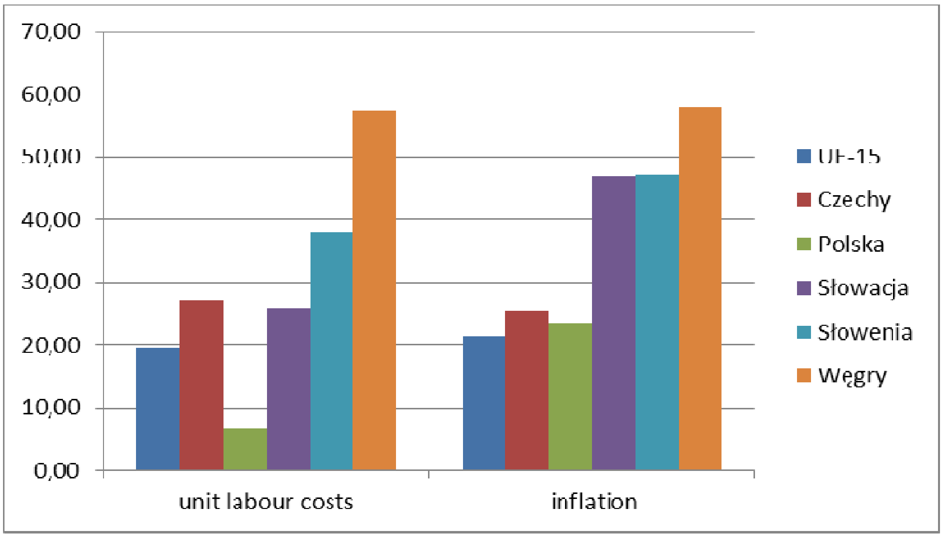

Diagram 11 Percentage changes in the rate of inflation and unit labour costs in Poland, EU-15 and the selected EU countries in the years 2000-2008.

Source: Own work based on: http://stats.oecd.org/ (10.10.2011).

Labour costs and investment outlays

Investment outlays are outlays which aim at the creation of new fixed assets or the improvement (rebuilding, enlargement, reconstruction or modernization) of existing capital asset items, as well as outlays on the so-called initial investments. An increase in investment outlays means that entrepreneurs respond positively to the signals received from the surroundings. An entrepreneur willing to take a risk associated with an investment, assumes that the business outlook and economic situation will remain favourable enough to generate profits from the invested capital

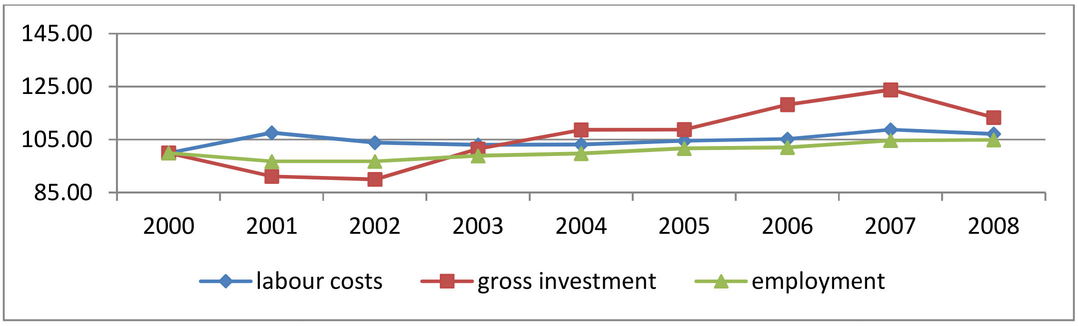

Diagram 12 Dynamics of labour costs, gross investment outlays and employment in Poland in the years 2000-2008 (previous year = 100).

Source: Own work based on: Annual macroeconomic indicators,, GUS.

Changes in labour costs may influence investments through increase in wages, which may be received by entrepreneurs as a risk to their profits and that may cause them to partly withdraw

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from an investment. This will have a negative effect on the national income and through a multiplier effect on employment [21, p. 91].

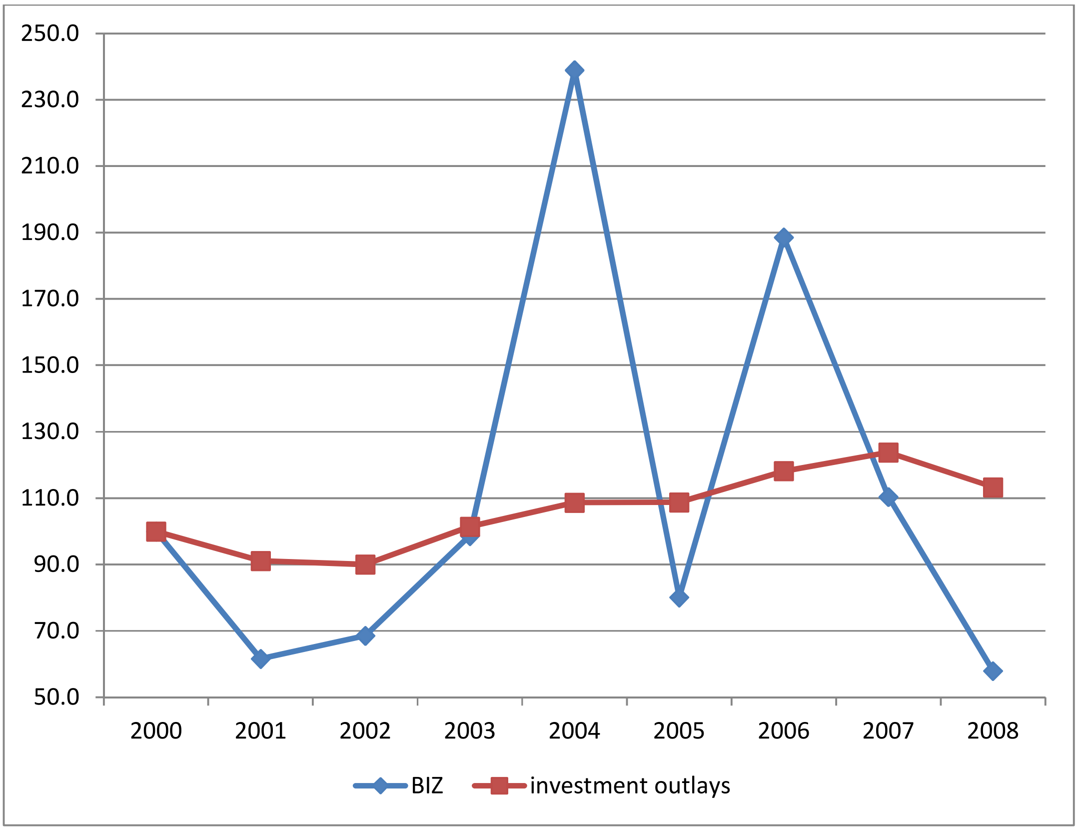

Diagram 13 Dynamics of direct foreign investments and gross investment outlays in Poland in the years 2000-2008 (previous year = 100).

Source: Own work based on: Annual macroeconomic indicators,, GUS, NBP.

Diagram 12 looks at the dependency between the dynamics of labour costs and investment outlays and the number of employed people in Poland in the years 2000-2008. From 2000 there is a noticeable drop in gross investment outlays, connected with the worsening economic situation and insufficient level of national savings, representing the main source of financing. The drop in investment outlays continued until 2002 and was accompanied by a drop in employment. During that period labour costs behaved differently and their dynamics grew. The year 2003 saw a reversal of the trend and the dynamics of the three analysed indicators levelled up. The dynamics of investment outlays grew continuously until 2007. During this period we also see a rise in employment and labour costs but the pace of these changes is much slower. The pace of rise of the analysed indicators slows in 2008, which coincides with the recession suffered by the world economy at that time. The drop in the pace of rise of labour costs in 2008, linked to the reduction of disability insurance contributions charged to earnings did not translate into maintaining the pace of

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increase in the dynamics of investments. During the analysed period there are years when the dynamics of labour costs was close to the dynamics of investment outlays and years when both indicators behave differently.

The concept of “foreign investments” covers “private or public investment outlays realised in a given country by means of capitals originating from another country”. Foreign investments can be divided into portfolio investments and direct foreign investments. When comparing the dynamics of direct foreign investments and gross investment outlays we see a significant convergence of these two indicators, as presented in Diagram 13. The dynamics of direct foreign investment clearly differs in size from the dynamics of investment outlays, but the direction of changes remains the same in the majority of years. It must be stressed that the inflow of direct foreign investments is of clearly cyclic nature and their extent depends strongly on the phase of business cycle and the dynamics of privatisation processes.

The analysis of dependencies between labour costs and investments in Poland and other countries is based on the data published by OECD, namely the dynamics of gross fixed assets outlays and unit labour costs. Gross fixed assets outlays increase the value of fixed assets and involve renovation of fixed assets and increase in intangible assets. They do not include outlays for initial investments or interest of investment credits and loans paid during the implementation of an investment [25]

Analysing the data from the diagram below we can clearly see that contrary to other countries, until the year 2003 Poland noted a big drop in the dynamics of unit labour costs (Diagram 6), with the exception of the year 2001. During this period in the EU-15 countries the extent of gross fixed assets outlays showed a slight rise. In Poland the value of gross fixed assets outlays starts rising continuously since 2004 and in the years 2004, 2006 and 2007 we see a swift rise in the dynamics of outlays, which reach the highest value amongst all analysed countries in the year 2006-2008. The dynamics of unit labour costs in Poland also reaches its highest value in the years 2006-2008. Therefore, we see an increase in labour costs and investment outlays, which seems to contradict the theory about the negative influence of labour costs in Poland on investment decisions made by entrepreneurs.

When comparing the values of percentage changes in gross fixed assets outlays in Poland and other European countries since 2000 until 2008, presented in the diagram below, we can see that during that period the Czech Republic, Hungary and Poland noted a similar rise in the outlays.

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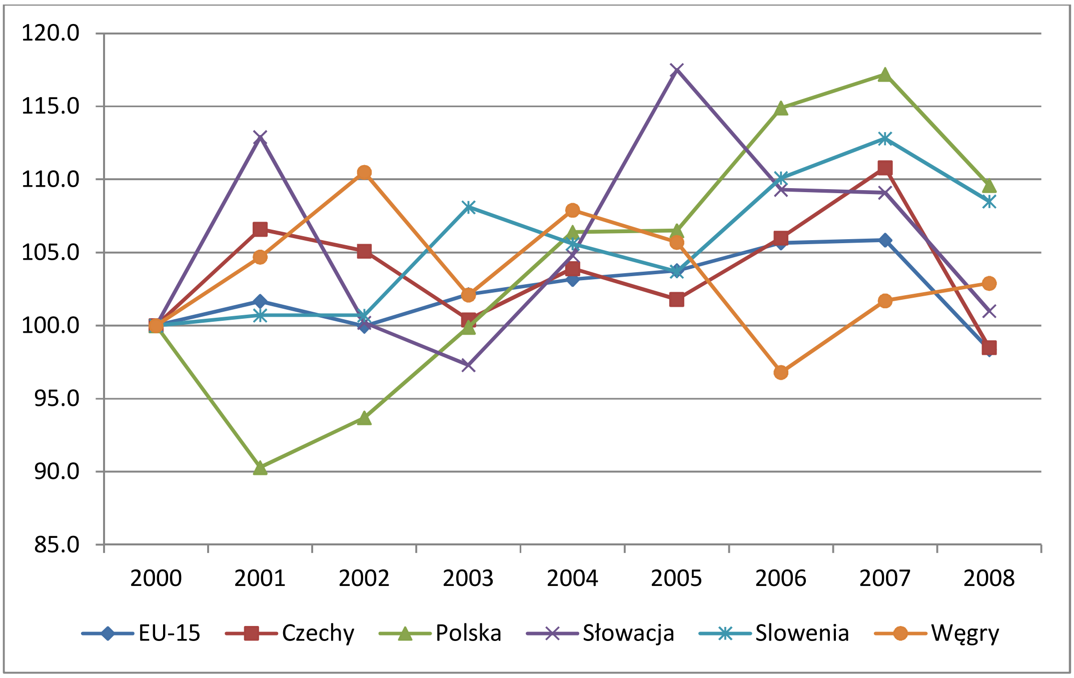

Diagram 14 Dynamics of gross fixed assets outlays in Poland, EU-15 and the selected EU countries in the years 2000-2008 (previous year = 100).

Source: Own work based on: http://stats.oecd.org/ (10.10.2011).

However, the rise in unit labour costs was different in each of those countries, from the lowest, noted in Poland, through a medium rise similar to the average for the EU-15 countries occurring in the Czech Republic, to the highest, noted in Hungary. During the analysed period the highest increase in gross fixed assets outlays was noted in Slovakia, for which the increase in unit labour costs was similar to the level noted in the Czech. Therefore, during the analysed period we have not observed any visible dependency between gross fixed assets outlays and unit labour costs in any of the presented countries. Investments outlays reached similar levels in countries with a very different rise in labour costs.

The statistical data presented herein does not confirm the view expressed by some entrepreneurs that high labour costs in Poland restrict investments thus resulting in restricting employment in economy. Labour costs represent one of many elements considered by entrepreneurs when making investment decision. Some analysts maintain that investments decisions are influenced mainly by labour productivity and not its costs [1]. The dynamics of investment outlays depends, to a larger extent, on the markets' economic situation and is closely linked to the pace of economic growth.

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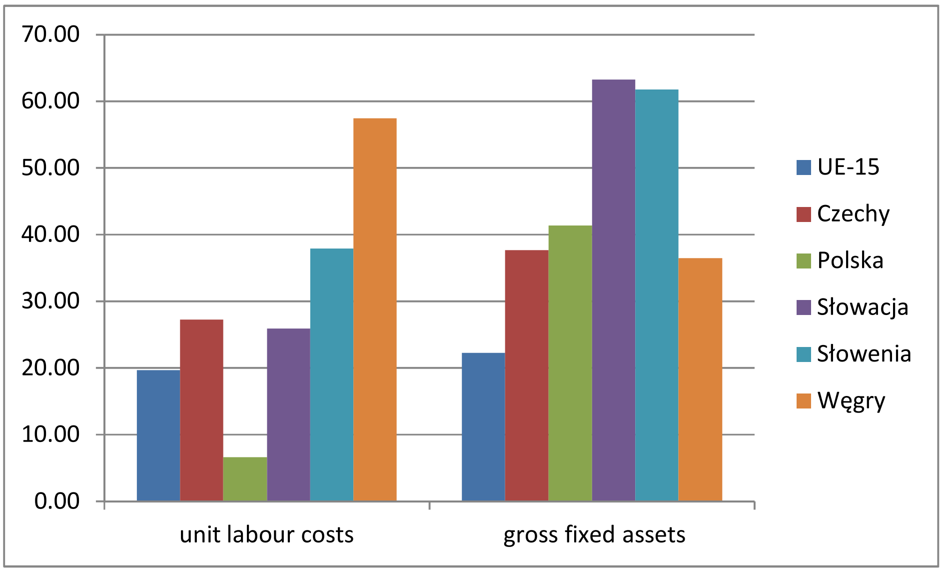

Diagram 15 Percentage changes in unit labour costs and gross fixed assets outlays in Poland, EU-15 and the selected EU countries in the years 2000-2008.

Source: Own work based on: http://stats.oecd.org/ (10.10.2011).

Labour costs' effect on inflation

The relatively high unemployment rate in Poland, remaining fairly stable for many years, is seen by many as caused by high labour costs. Cuts in remunerations and labour costs are seen as the method of reducing unemployment.

Description	2000	2001	2002	2003	2004	2005	2006	2007	2008
Unemployment rate (%)	15,10	17,50	20,00	20,00	19,00	17,60	14,80	11,20	9,50
Nominal salary (PLN)	1924	2062	2133	2201	2290	2380	2477	2691	2944
Dynamics of remuneration (%) (previous year = 100)	12,71	7,17	3,44	3,19	4,04	3,93	4,08	8,64	9,40

Table 3. Unemployment rate and nominal average monthly salary in Poland in the years2000-2008.

Source: Own work based on: Annual macroeconomic indicators,, GUS.

Table 3 shows that in the period between 2000-2003 the drop in unemployment rate from 15.10 % to 20.00 % was accompanied by a drop in the dynamics of rise in nominal average monthly salary in the national economy from 12.71 % in 2000 to only 3.19 % in 2003. This means that during this period the increasing percentage of unemployed translated into a slower pace of increases in remuneration. From 2004 there was a drop in the rate of unemployment, which continued

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uninterruptedly until the end of the analysed period. Despite the drop in the rate of unemployment, the rise in salaries remained at a fairly low level of approx 4% in relation to the previous year. Only in the years 2007 and 2008 the dynamics of rise in salaries reached a rise of approx 8% with the rate of unemployment close to 10%. Comparing the data relating to the dynamics of nominal pay with the dynamics of labour costs we can see that both indicators behaved similarly, noting the biggest growth in the years 2001, 2007 and 2008.

It is clear that the change in the remuneration level was considerably delayed in reacting to the improvement in the economic situation and subsequently the demand. Such a situation is provided for by Keynes, who expected that the level of salaries does not have a great influence on employment and that salaries and prices react to the change in demand with a delay. Potential employees are unemployed since enterprises do to produce a sufficient number of goods and services and enterprises cannot produce more due to too small demand caused by unemployment. He called the combination of these two market a price-wage mechanism [6, p.92].

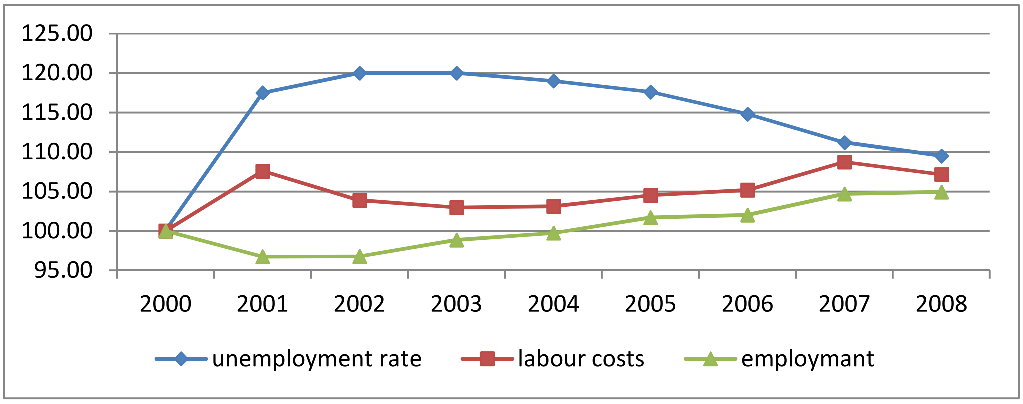

Diagram 16. Unemployment rate, dynamics of labour costs and employment in Poland in the years2000-2008 (previous year = 100).

Source: Own work based on: Annual macroeconomic indicators,, GUS.

According to the theories which put the main stress on the cost side of production, cutting labour costs should lead to increasing the difference between production costs and the amount of revenue. So, following the minimisation of costs the enterprise's profitability should improve and employment should increase. Diagram 16, presenting the unemployment rate and the dynamics of labour costs and employment does not provide arguments for the theory presented above, which assumes a rise in employment together with a drop in labour costs. During the analysed period an inverse dependence was noted in Poland, where the increase in labour costs occurred simultaneously with an increase of employment and a drop in unemployment rate. Only in 2001 the drop in employment was accompanied by a significant increase in labour costs. Therefore, we

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can assume that it is not the labour costs that restrict an increase in employment and a drop in the number of unemployed, but a limited demand for goods and services produced by enterprises.

A harmonised unemployment rate, published by OECD was used to compare Poland to other countries. It is worth noting that in 2005 that the level of unemployment in Poland and Slovakia was twice the size of unemployment in the Czech Republic, Slovenia, Hungary and the EU-15 countries. In case of Poland, we can assume that one of the reasons for such high unemployment was the large percentage of people living in the country and the poor industrialisation of the economy. Since 2005, the employment rates are levelling up, which is attributed to the convergence processes taking place in Europe after the extension of the European Union.

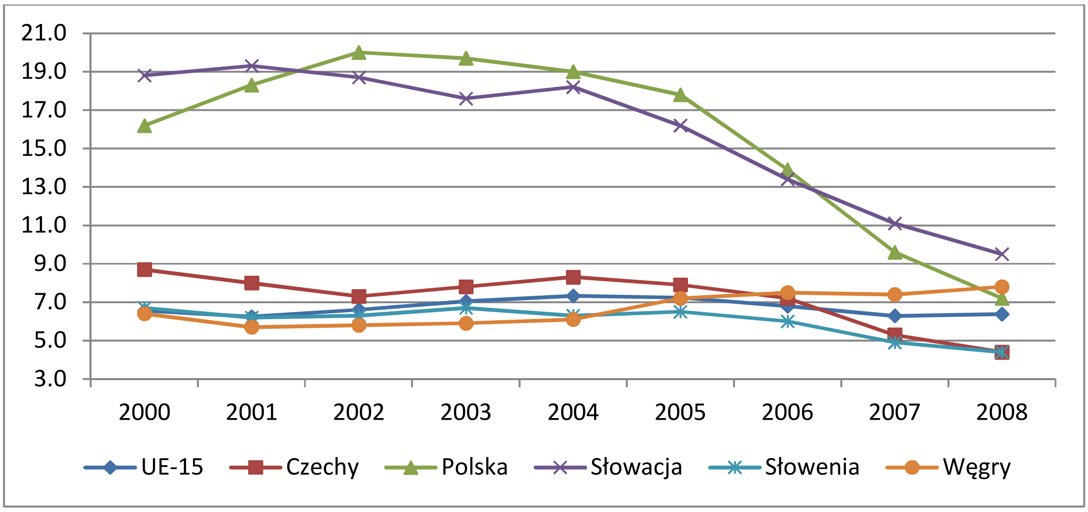

Diagram 17. Harmonised rate of unemployment in Poland, EU-15 and the selected EU countries in the years 2000-2008 (previous year = 100).

Source: Own work based on: http://stats.oecd.org/ (10.10.2011).

Summarising the discussion on the influence of labour costs on unemployment rate in Poland in the years 2000-2008, we may ascertain that saying that high labour costs represent one of the main reasons for high unemployment does not find any confirmation in the presented statistical data.

Conclusion

The lack of a uniform definition of labour costs is caused by their complex structure, the large number of factors influencing them and the fact that they play a vital role in the social and economic life. Various groups of interests, such as employers' organisations, trade unions acting within a given country as well as organisations of an international character try to influence their shape, while the processes of globalisation and integration of economies within the European Union encourage it.

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The detailed analysis of labour costs from the macroeconomic point of view and a comparison with other countries made it possible to refer to many circulating views and statements pertaining to economic development. This concerns such economic occurrences and processes as productivity, inflation, increase of investments or unemployment. As indicated by the research, in the analysed period productivity in Poland grew faster than labour costs and remuneration, which could lead to a drop in the share of labour costs in GDP and gross value added. This means an increase in the competitiveness of the Polish economy during the analysed period. In comparison to other countries Poland is characterised by a relatively low level of labour productivity with low unit labour costs. This situation shows that problem with increasing the competitiveness of the Polish economy lies not in the extent of labour costs but in the technological backwardness of the economy, which restricts the efficiency of management, negatively affecting productivity and therefore the competitiveness of the economy.

The analysis of the influence of labour costs on inflation showed that in the case of Polish economy we cannot speak of the inflationary consequences of shaping labour costs. In Poland, during the analysed period, the increase in real wages and labour costs was balanced by an increase in labour productivity, which helped to avoid the wage-price spiral effect. When comparing Poland with other countries, we see that Poland has a relatively low inflation and low unit labour costs. Therefore, we cannot say that high unit labour costs caused an increase in production costs, which resulted in cost-push inflation. The conducted analyses did not prove that an increase in labour costs had a negative influence on investment processes in Poland. They did not prove clearly that there is a dependence between a reduction in labour costs and a lowering of unemployment. During the analysed period there were years confirming this theory and years when this dependency did not occur. The unemployment rate started falling when Poland accessed the European Union, nearing to the levels noted for the entire Union. So it seems that it was the development incentives following the accession of Poland to the European Union and the convergence processes that had the decisive influence on the change in the unemployment rate.

Summarising the discussion on the influence of labour costs on the economic development in Poland in the years 2000-2009, we may ascertain that the presented data does not confirm the hypothesis about the negative effect of too high labour costs on the economic development of Poland.

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FINANCIAL DIFFICULTIES OF ITALIAN LOCAL AUTHORITIES: PREDICTION AND DIAGNOSIS MODELS

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Abstract

Recently, business management literature has been enriched by numerous contributions on corporate crises and related processes of reorganization or liquidation. The majority of these studies have always been about private sector business. Nevertheless, crisis situations can arise in any type of business (Guatri, 1986; Manes Rossi, 2000), just as the same concept of crisis is intimately related to being firm, which is an open system and, therefore, constantly changing (Manes Rossi, 2000).

Based on these considerations, the analysis of crisis situations is particularly interesting, with specific reference to non-profit public companies (Guatri, 1986) and, more specifically, to local authorities, in view of their significant importance within the public field and the abundant existing legislation, however, completely revamped in recent years.

However, there is one important aspect on which it is necessary to focus our attention about local authorities crisis situations: in fact – given the institutional and public purposes that led to their birth – they cannot dissolve, but they need to live and provide essential community services and goods.

Fundamental problem is, therefore, to identify the early onset of the crisis, before imbalances and inefficiencies will irreversibly affect the company life.

The primary objective in this direction is to create a performance reporting (Borgonovi, 2009) to provide an adequate response capability in situations of difficulty or crisis, leading to the systematic dissemination, even in public, of real and concrete benchmarking techniques, essential for an effective management of local authorities (Ricci, 1998; Savioli, 1995).

Keywords: Local Authorities; Bankruptcy; Crisis condition; Public Administration Default; Crisis Diagnosis; Crisis Prediction

From general phenomenon of crisis to Local Authorities Financial crisis

Recently, business management literature has been enriched by numerous contributions on corporate crisis and related processes of reorganization or liquidation. We evaluated symptoms and

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causes, with various classifications of different types of crisis, and we investigated the possible developments of the phenomenon "crisis".

The majority of these studies have always been about private sector business.

Nevertheless, crisis situations can arise, as well as the doctrine has highlighted (Guatri, 1986; Manes Rossi, 2000), in any type of business, just as the same concept of crisis is intimately related to being firm, which is an open system and, therefore, constantly changing.

In fact (Manes Rossi, 2000),

'the concept of crisis is inherent to being the company that, as a dynamic and open system, is constantly changing and is therefore subject to critical situations, as determined by a non-timely or adequate response to changing environmental conditions or to market demands , and thus to the loss of the economic-financial equilibium, which ensures its survival over time'.

Based on these considerations, the analysis of crisis situations is particularly interesting, with specific reference to non-profit public companies (Guatri, 1986) and, more specifically, to local authorities, mainly because of their significant importance within the public field and the abundant existing legislation, however, completely revamped in recent years.

During the life of every type of company, as a dynamic system that is open to the market, internal and external factors of influence create a system of risks and uncertainties and, consequently, they may show different series of crises: overcoming them, it is possible to find a new equilibrium. Such situations could be considered as a physiological crisis, inherent to the same conditions of a company life.

In contrast, sometimes the company fails to respond adequately to changing environmental conditions and this situation can affect business sustainability, more or less relevant, more or less severe. This can determine a pathological state of crisis and to face them it may require changes in structure, organs or functions. This crisis is sometimes irreversible and leads to the forced dissolution of the company.

However, there is one important aspect on which it is necessary to focus our attention about local authorities crisis: in fact – due to the institutional and public purposes that led to their birth – they cannot dissolve, but they need to live and provide essential community services and goods (Manes Rossi, 2000).

This situation creates a profound difference in the treatment of local authorities crisis, as well as the need for a specific legal framework regarding local authorities bankruptcy which is distinct from the other insolvency and bankruptcy procedures provided for private companies.

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So, if a local authority can never be dissolved, but we should always find its way to a desirable and sustainable recovery, it becomes imperative to understand what are the causes of the crisis, what are the warning signs and, therefore, to identify tools that can monitor the permanently existence of the institution equilibrium. Nevertheless, when crisis situations arise, it is important to look for tools to monitor developments of the next phase of rehabilitation and to ensure the restoration of equilibrium.

At the base of the crisis, are phenomena of imbalance and inefficiency, which may be internal or external source (first stage). If these conditions persist, it may cause losses of varying severity (second stage). With repetition and increasing intensity of the losses, the crisis enters in a third stage, characterized by the insolvency, that is the inability to meet its commitments. At the end, there is the final stage of collapse, defined as the permanent inability to meet liabilities.

However, beyond these observations, the main aspect is that for any type of crisis, the most dangerous threat is represented by possible delay in the intervention. Indeed, history is often marked by belated recognition of the symptoms of crisis, the illusion of excluding the state of crisis or minimize the scope, the fear of adopting measures that are inevitably painful. The net effect of these behaviors is that the process of decomposition and depletion becomes more severe, up to the limit of irreversibility.

Fundamental problem is, therefore, to identify the early onset of the crisis, before the imbalances and inefficiencies will irreversibly affect the life of a company.

In fact the crisis is, apart from rare exceptions, a phenomenon not unexpected, although sometimes it can manifest suddenly. It is a phenomenon that may be present in a latent form, and gradually undermining the financial balance until someone (inside or outside the company) is able to detect it.

Why is it necessary to have the institution of local authorities Bankruptcy Law?

The introduction of local authorities Bankruptcy Law in our legal system has its reasons in an attempt to put a stop to the legal phenomenon of chronic budget deficit of municipalities, provinces and other types of public organizations. With time, this has become absolutely not to be delayed.

The reasons that led to these circumstances are various and of different weights. Among these, we can mention: a steady rise in spending, an increasing pace of deficit (only in small part attributable to investments) and continuous increase of local taxes.

We can identify other causes in:

- political class chronic irresponsibility, regarding financial management of public bodies;

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- case law too precautionary against creditors (Romano et al., 1998).

The notion of local authorities Bankruptcy can be deduced analytically from the reading of numerous provisions of Law, covering a wide historical period. The purpose of this research is not to examine the historical evolution of legislation, but it is important to list the main acts of law that have led to the current definition of local authorities Bankruptcy Law:

- D.L. 2 march 1989, no. 66 then turned into Law no. 144/1989 (art. 25);
- D.L. 18 January 1993, no. 8 then turned (with amendments) into Law no. 68/1993 (art. 21);
- D.P.R. 24 August 1993, no. 378;
- D.Lgs. 25 February 1995, no. 77 and succeeding amendments (D.Lgs. no. 336/1996 and no. 342/1997).

The end result of this sequence is represented by the D.Lgs. 18 August 2000, no. 267: Text of the laws on the local authorities (TUEL).

Therefore, the current definition of the phenomenon of local authority bankruptcy is provided by Article 244 TUEL, which specifies that:

'State of local authorities Bankruptcy occurs if a local authority cannot guarantee the performance of functions and essential services, or there are against it demandable claims which cannot cope with the arrangements laid down in Articles 193 [i] and 194 [ii] TUEL [iii]'.

Unlike the bankruptcy of private enterprises, the declaration of bankruptcy of a local authority is a unilateral act not caused by a creditor request.

The state of instability is, thus, a very serious condition of insolvency, which must be denounced. Furthermore, it is not allowable and is not preventable by the ordinary expedient of financial loan.

In fact, the Law establishes that, if the regional body control becomes aware of any condition of instability, it shall appoint a special commissioner for the declaration of bankruptcy, with the further consequence of the complaint and initiation of a procedure by local Prefect [iv] for the dissolution of the local Council.

From the above definition of local authority bankruptcy, is deduced two fundamental conditions (De Dominicis, 2000):

- the entity's inability to provide essential services (and related compulsory expenditure);
- inability to honor its debts, especially debts below the line, including those "black debts" contracted in previous years without complying the normal procedure of commitment accounting.

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These conditions, as noted above, are due to the structural difficulties that cannot be eliminated by normal recovery tools (provided by Articles 193 and 194 TUEL).

In other words, it is clear that these are conditions or situations that show a certain deficit and serious total financial imbalance, but that may not co-exist and compete simultaneously.

In short, the two aspects of failure – to provide services and to honor debts – which are considered harmful situations disjointed and independent indices of insolvency.

Local authorities Bankruptcy versus Pre-Collapse: differences and similarities

As mentioned earlier, we understand that the financial default does not arise, thus, with a casual deficit, but is related instead to a real and concrete structural imbalance in the local authority financial situation (Mulazzani, 2001).

In this respect, it should be emphasized that in local authorities, while the Budget [v] is the schedule of activities that each administration plans to implement, the Financial Report [vi] (consisting of three tables graphs) represents the summary of the entire past management, by which local authority shows transactions actually occurred during the reference year.

Just in this connection, it must be observed that Article 228 TUEL provides that local authority must set up the Table of Structural Deficits Parameters [vii] and the Table of Performance Management Parameters [viii] for three years.

Therefore, it is only with the Financial Report that we can understand how the budget estimates have been performed and the ability of administrators in treating and managing the public affairs.

More particularly, it should be noted there are tools that may represent, at least, an aid for the measurement of such performance, and they are represented by so-called indicators or parameters.

This system of indicators and parameters is designed to monitor overall activities put in place by local authority, and to direct it toward positive standards, by creating processes of competitive benchmarking.

Such a system of indicators is so important that the Law provides for local authorities not only the need to develop indicators and operational parameters, but - in addition - their inclusion in the Financial Report with the Table of parameters of structural deficits.

To understand the importance of this table, it should be emphasized that, according to the doctrine, when it shows a situation of structural deficit of the local authority, the situation is considered so serious as to talk of "pre-collapse", thus bringing to light how this precarious situation of deficit may lead, under certain conditions, in a situation of real and substantial bankruptcy.

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However, although it is necessary to admit the existence of a physiological link between the situation of structural deficit (or pre-collapse) and a real local authority bankruptcy, it is necessary to highlight that there are important differences between the two conditions.

Indeed, the lack of financial resources may show a deficit situation, but, if promptly addressed (as in the case of local authorities in pre-collapse), it can lead to avoid the extreme situation and the unilateral proclamation of the state of bankruptcy.

Certainly, the situation of pre-collapse, is a condition of emerging structural deficit, and is common to institutions in a state of bankruptcy, but for them the deficit state assumes the objectivity of absolute gravity and solvability, even by the ordinary tools of reorganization and financial maneuvering.

We can argue, therefore, that the difference between situation of bankruptcy and condition of pre-collapse lies in this: in the first case, the declaration of collapse is a starting point and it is aimed to identify specific responsibility on whose basis is then possible to reach a decision of a temporary disqualification for directors responsible, while in the latter case it is not possible any special pronouncement, neither for responsibility nor for disqualification to certain public office due to the facts of pre-collapse.

In particular in a situation of bankruptcy a recent Law [ix] provides that administrators responsible (because judged by the Judicial Organs in charge) of damage in the five years preceding the occurrence of bankruptcy, may not hold significant positions in public and private institutions for a period of ten years, if the Court finds that the circumstances and causes of bankruptcy are derived from acts or omissions of administrator found guilty.

Similarly, mayors and presidents of the provinces that are responsible for the bankruptcy are not candidates for a period of ten years for position of mayor, president of the province, president of the Regional Council and other high offices in the communal, provincial, regional and European level.

However the situation of structural deficit is not without consequences, and involves the sequential subjection to various controls and fulfillments.

Specifically, they are subjected to a series of controls by the Department of the Interior. Moreover, they are obliged to adopt a series of measures in order to allow recovery of deficit and the payment of "black debts" such as:

- hiring freeze;
- reorganization of the staffing plan;

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- increase in cost of services on individual demand etc.

Local authorities Bankruptcy Law: the procedure

Regarding the procedure we must point out that, in previous legislation, the management of events before and after declaration of bankruptcy was assigned within the organization.

This caused many difficulties because the management of pre-existing condition could lead to negative consequences on ordinary activities after the bankruptcy (Danielli and Pittalis, 2010).

For this reason, with subsequent laws we move to a clear separation of powers between the past and the present management. In this way local authority should take care of management of the organization after the bankruptcy, from which to take a new route avoiding to fall back into a new situation of bankruptcy.

Indeed, after the declaration of bankruptcy, all efforts are aimed at enable a balanced management: this phase ends with the preparation of hypothetical balanced and healthy budget which is built by eliminating all causes that led to structural collapse of the situation.

In fact, to ensure that local authority pursues a real and effective rehabilitation, the Law provides for the drafting of this important document which is, basically, a budget for the year following the bankrupt declaration.

Then it must be submitted to the Department of the Interior for his official approval.

As just pointed out, is sufficiently clear that in a state of bankruptcy we have a "dual management", which two actors involved: the Extraordinary Settlement Body [x] and the Council of the local authority.

The Extraordinary Settlement Body mainly deals with local autority's management after the bankruptcy. In particular, it has three main functions:

- Detection of Local Authority's debts;
- Acquisition and management of assets;
- Payment of Local Authority's debts.

The Council, instead, should declare the state of bankruptcy but, in addition, it must also evaluate the generating causes, on the basis of a report prepared by the auditors.

This is because the declaration is not a simple aseptic acknowledge, but the first measure of determination and designation of responsibility.

This declaration produces mainly two kinds of consequences.

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The first of these concerns local authority's creditors: in this case, the declaration determines the freezing of some of their rights and guarantees.

The second consequence of the declaration affects management of the organization and introduces several constraints on expenditure and the income management and lasts until compilation of hypothetical balanced and healthy budget.

In other words, management is not based on the budget of next year (as is usual) but takes as reference the last budget adopted before the bankruptcy [xi].

After the declaration of bankruptcy, local authority is not obliged only to contain costs (as discussed above) but it must take any kind of action aimed at achieving incremental variations of incoming resources. These measures are identified in Article 251 TUEL, and consist, in general, in raising fees and taxes to the maximum extent permitted by Law. This resolution, therefore, is not revocable, and retains its effectiveness for five years starting from the hypothetical balanced and healthy budget.

After approval of hypothetical budget (within 30 days) the next step is to approve the budget for which the hypothesis applies.

This because it is necessary that the hypothetical budget becomes a real budget to legitimate action of the Council.

The duration of the procedure is five years after approval of the hypothesis.

To further facilitate the healing process, the law clarifies that local authorities can get a bank loan only in cases provided by Law (for the duration of the process).

Possible causes of local authorities Bankruptcy

As noted above, local authority bankruptcy takes place because of a financial imbalance that prevents it to perform its functions and its services.

Regarding this aspect, it is important to remember that since the eighties, local authorities are no longer in a situation of financial dependency by the State. This means that while previously, in situations of budgetary imbalance, the Government intervened with its financial resources to cover the situation, now they must develop an adequate system of financial autonomy to become entirely self-sufficient.

In particular, we can argue that local authority Bankruptcy can be caused by the following internal and external dangerous factors:

- mismanagement (e.g. deficit, "black-debts", etc.);

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- management goals are too ambitious;
- short-term management policies;
- mismanagement of cash flows;
- excessive debt exposure;
- inefficient management control system;
- inability to promptly identify potential causes of damage and/or inability to act promptly to remove them;
- uncontrolled increase of expenditure;
- growing deficit (without making investments);
- continuous increase of certain local taxes;
- discontinuity in management;
- lack of business management tools to support management;
- negative events that involve the market.

From these factors we can argue that most dangerous situations can be found mainly from the lack of a systematic vision of the institution.

Results and Conclusions

By analyzing statistical data regarding the phenomenon of local authorities bankruptcy up to now, we can show that it involved a relatively small number of institutions.

Specifically, since 1989, were 448 institutions that have approved the state of bankruptcy (in which only one Province: Napoli) [xii].

On the basis of different rules apply, we can divide bankruptcy as a function of various external financial resources available to cover debts. It appears that:

- no. 414 local authorities have declared their bankruptcy by November 8, 2001, for which the State has guaranteed costs payment of restructuring loan, unconditionally;
- no. 5 local authorities have declared bankruptcy between November 8, 2001 and December 31, 2003. For five of them, was established a State contribution under Article 5 of Law no. 240/2004;

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- no. 29 local authorities have approved the bankruptcy after January 1, 2004. For them it is possible to have an extraordinary contribution of the State (D.L. no. 159/2007 as amended by D.L. no. 248/2007).

One of the most significant considerations - in the opinion of the writer - in analyzing the bankruptcy phenomenon as a function of time. Indeed, as shown in Figure 1, the number of bankruptcies (frighteningly large in the first few years following its introduction) has quickly and steadily reduced over the years, remaining (from 1997 to present) always below the dozen cases reported each year.

In particular, the falling graph shows that bankruptcy Law, in the first five years, has been warmly welcomed by local authorities, when he revealed those with the most difficult financial situations that could lead to a economic and financial collapse of the administrative structure.

Following this "start-up" period, deliberations of bankruptcy (as rightly should be) were taken only in a few cases.

This demonstrates that the aim of transforming this procedure in an exceptional tool (to be applied only when it was impossible to manage the financial collapse) had actually been achieved (despite a discipline, at that time, not fully mature).

However, it is important to point out that the drastic reduction of local authority defaults has another explanation, simple but very persuasive. Until 2001, bankruptcy had its own "convenience" because the deficit was covered by a loan financed directly by the State.

Today, instead, declaration of bankruptcy causes damage to all:

- employees: those who are redundant (compared to the national average ratio employee/population) may lose their jobs;
- suppliers: due to the constraints arising from the declaration;
- citizens (especially): as mentioned earlier, after the collapse there is an obligation to increase local taxes to the legal maximum.

The circumstances outlined above allow us to easily admit that the probability for a local authority in bankruptcy to reach a situation of real and tangible rehabilitation is very difficult without a consistent activity of "support" at State or Regional level.

The problem is that we need to reflect jointly on these two aspects:

- it is vital to assist local authorities in difficulty by a Regional or State support;

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- it is important to avoid systematic safeguards action, to encourage a real and long-lasting recovery will.

The Italian Local Authorities Bankruptcy Law has tried to reconcile these two conflicting requirements.

In this direction, Article 119 of the Italian Constitution establishes that:

'To promote economic development, social cohesion and solidarity, to remove economic and social imbalances, to facilitate the effective exercise of the rights of the person, or to provide for purposes other than the normal exercise of their functions, State allocates resources and performs additional special interventions in favor of specific municipalities, provinces, metropolitan cities and regions.'

It is precisely in the constitutional dictate that we must consider and evaluate rules providing for extraordinary interventions in favor of local authorities in a state of bankruptcy. Thereby, these additional resources would allow, together with the indispensable financial efforts previously described, to reach a real recovery.

It is, therefore, necessary to create a performance reporting to prevent and detect in time any pathological situations, ensuring a growing economic culture in local authorities, which is considered a structural factor to be protected and developed.

The performance reporting can arise as a tool for prediction of the crisis, by comparing estimated parameters and empirical facts. This makes it possible to reveal the onset of the crisis, but also identify its causes, allowing appropriate action to address them (Booth, 1993).

In this way, nowadays, benchmarking experiences are spreading at various levels (Camp, 1991), especially in local authorities, who decide to rework some of the indicators in order to make comparisons.

The benefits that may arise from the implementation of benchmarking techniques in a variety of local authorities (Padovani, 2000), including:

- Formulate realistic achieving goals, as already experienced by other institutions;
- Regular and systematic review process in pursuit of continuous improvement;
- Consensus-building process in the formulating targets;
- Easy identification of critical areas of management.

However, we emphasize that any wrong use of benchmarking can lead to marginal improvements or harmful consequences, given that it requires, of course, considerable money,

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manpower and time to be performed successfully. It is important, therefore, to give particular attention to the choice of critical services to be improved, or the identification of benchmarks and performing comparisons.

Ultimately, we can say that it is not easy to come to a complete and unambiguous conclusion on topic of local authorities bankruptcy law.

If it is true that many are betting on the actual value of the recovery process, considering it capable of producing a true 'cultural revolution and modernization of the bureaucracy' favoring 'the establishment of collaborative relationships between Central Government and local authorities' (Danielli and Pittalis, 2010), we found a widespread view (including that of many "experts") who are opposed to the same evaluation of this tool.

In support of positive evaluation there are mainly empirical findings related to some statistical analysis on bankruptcy phenomenon (Figure 1).

However, many evaluate the effectiveness of the recovery process very differently.

In this case, the most effective argument used is represented by another empirical fact: many entities in bankruptcy are back in a new situation of financial default. For example, Arpaia (in the Province of Benevento), Lungro (in the Province of Cosenza) and Soriano Calabro (in the Province of Vibo Valentia).

The key issue is try to determine whether they are simply exceptional cases compared with a prevalence of stable rebalance, or examples that demonstrate the ineffectiveness of bankruptcy Law to produce a real recovery. In this perspective, the procedure would be seen not as a definitive solution, but as a mere palliative, because it can only provide a temporary benefit, a "breath of fresh air", to local authorities in crisis.

In this way, probably, is more clearly explain the recent trend aimed at making stronger control over local authorities by the Court of Auditors, by widening of documents submitted to it. In fact, the most significant concerns the power assigned to the Court of Auditors to transmit documents to local Prefect in cases in which occur: if differing behaviors emerge from financial management, or there are accounting irregularities or budget imbalances that can cause bankruptcy, local Prefect may appoint a special commissioner for the

In other words: <u>the prevention would be better than cure</u>.

In this sense, we can express a clear appreciation for Italian Constitutional Law no. 3/2001. It established (unlike in the past) that local authority may use a financial loan only for investment: it achieved the intention to remove the connotation of systematic assistance tool (created by the practice), replacing it with the role of special intervention measure.

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These considerations highlight the extreme difficulty in expressing an overall opinion on the topic. So, probably the crucial point is another. Perhaps - I believe - we can argue that it is not possible to express an overall opinion.

Of course we can improve this tool but, at the same time, his exceptional character reduces the need of wanting to make it perfect and flawless in every circumstance, because in view of the complex situations that it is facing, it is very difficult to think about its universal effectiveness.

Finally, it is essential a reflection in the international context.

In Italy local authorities Bankruptcy Law (as previously described) provides an essential function: a local authority can never "fail" because it have to provide its essential services to the community. Even temporarily.

In other countries, instead, the situation is quite different.

In the United States of America, for example, the procedure requires the preparation of a restructuring plan. However, if this is not approved by creditors of the City, the situation is particularly confusing, because the Bankruptcy Judge could impose (in theory) a tax increase, cost cutting and asset sales. But this, in fact, never occurred. In very few cases discussed in the literature (White, 2002), U.S. Courts have rejected the restructuring plans by appealing to the coercive power of local authorities to collect taxes.

Indeed, the U.S. framework is more complex.

New York City, for example, has legislation which provides, in case of financial loss, replacement of the mayor with a special commission and the payment of the deficit entirely by the citizens.

Even more "interesting" is the case of the city of Chicago. On August 17, 2009, Mayor Richard Daley has been forced to declare the "closure" of the City. It is undoubtedly an extreme measure, but necessary, because of lack of funds recorded in the budget of the City and that has allowed, through the imposition of a mandatory day off and not paid, a savings of $8.3 million.

But there are other examples.

In California, in 2010, the debt reached a record $24 billion, and so were estimated cuts of $4.7 billion, but above all, it was decided the closure of most public offices for three days a month [xiii].

Beyond the examples, the comparison with these experiences undoubtedly puts in evidence the social value of the Italian local authorities Bankruptcy Law, capable to guarantee the permanent presence of the Public in providing functions and services to citizenship and, especially, apart from any financial difficulties in which it might incur.

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Figure 1. Italian Local Authorities Bankruptcy over the years (till 21/06/2011)

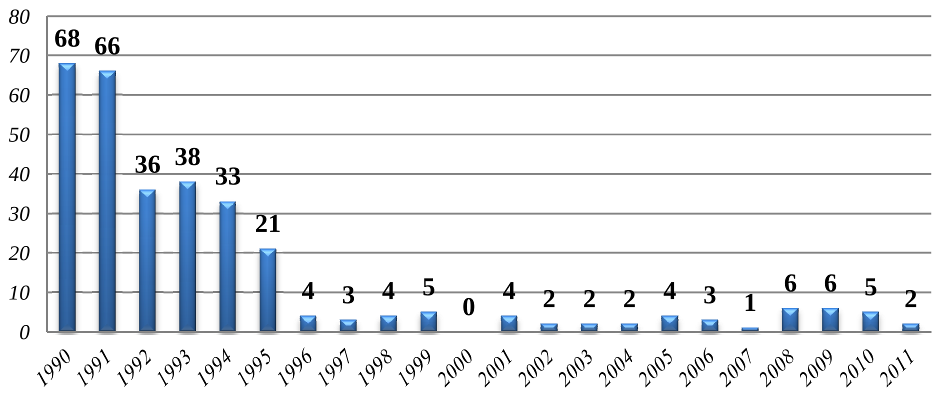

Figure 2. Italian Local Authorities Bankruptcy by Regions (till 21/06/2011)

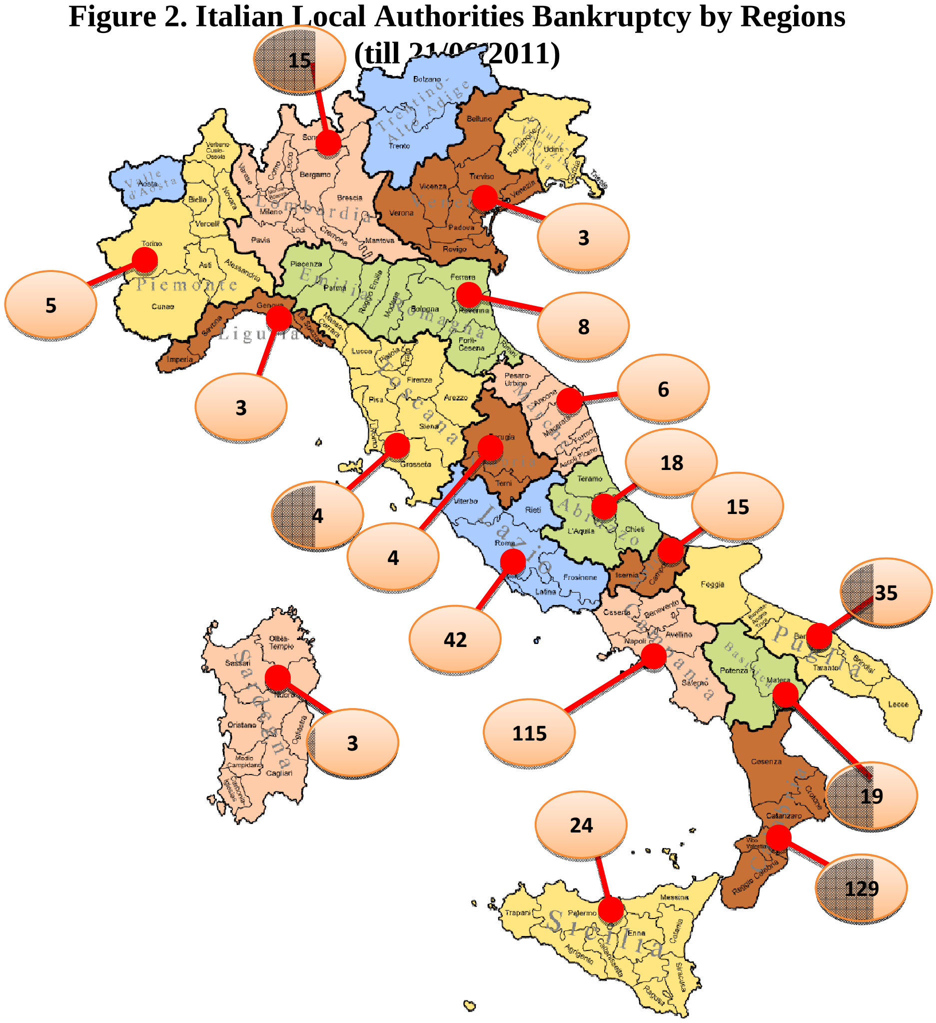

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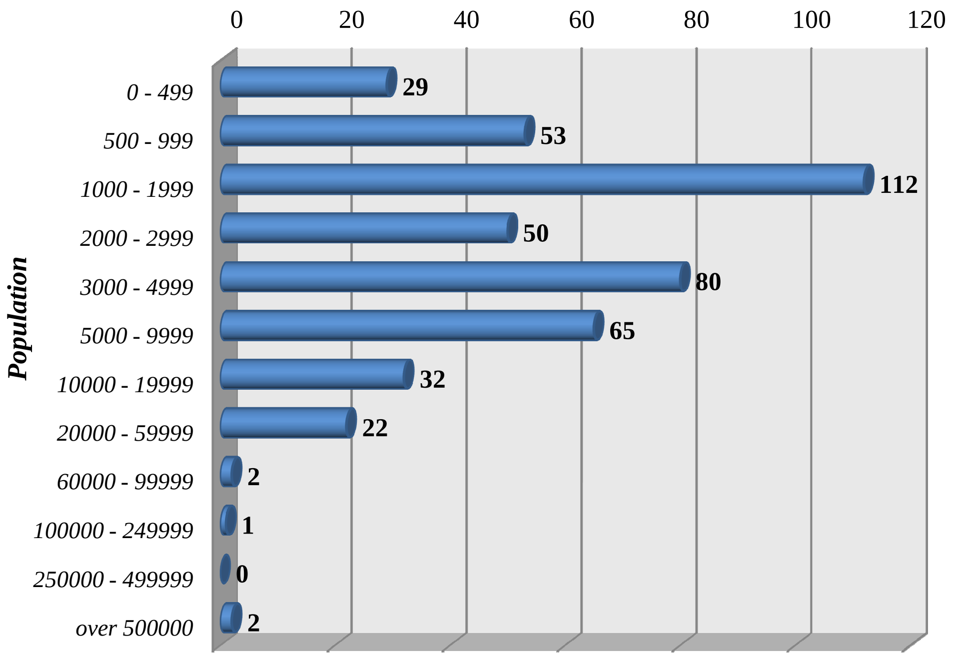
Figure 3. Italian Local Authorities Bankruptcy by class population (till 21/06/2011)



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PRIVATIZATION OF STATE-OWNED ASSETS THROUGH THE LENS OF ACCOUNTING: COMPARING GREEK GOVERNMENTAL ACCOUNTING STANDARDS AND INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

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Abstract

The present paper examines the accounting principles relevant to the privatization of state-owned property through the sale and lease of assets under the Greek governmental accounting standards and the International Public Sector Accounting Standards (IPSAS). More specifically we explore the accounting information quality and availability as well as the accounting methods and practices that are adopted in order for an asset's value to be reliably presented before entering in the privatization process.

The comparison analysis reveals crucial differences between the two accounting frameworks in terms of asset recognition and valuation. More specifically, the Greek governmental accounting standards appear to present limited information in the cases of asset registration, measurement after recognition, determination of depreciation charges and assessment of impairment losses, which in turn, significantly affect the quality of the information regarding assets' condition. Even though, the newly Greek governmental accounting system seems to be influenced by the International Financial Reporting Standards (IFRS) and differs, in several cases, from the Greek Accounting Standards for the private sector is does not sufficiently account for information relevant to privatization decisions.

The study explores a very timely issue, that of state-owned property privatization, which is of high interest not only for the Greek government, but also for other countries, which mainly due to the global debt crisis are currently in the process of privatizing state-owned property. We try to shed light on how accounting could assist governments in better informing their decision-making processes.

Keywords: Privatization, IPSAS, modified cash basis, Greece

Introduction

During the last thirty years public sector accounting has undergone considerable changes the most significant of which may be considered the general trend towards migrating to accrual accounting (Christiaens and Rommel, 2008; Carnegie and West, 2005). Within this realm, several stakeholders ask for high quality accounting information in order to inform their decisions and accounting standard setting bodies had developed standards aiming at satisfying their needs. Nevertheless, there is not yet a unanimous view on which accounting standards or paradigms better suit the public sector (Lapsley et al. 2009). In this paper we focus on the possible effects of accounting on privatization decisions.

The Greek government has recently decided to proceed in privatizing part of the state-owned property. Apart from the public utilities that are to be sold, the privatization program includes the sale and lease of several assets (land and buildings). In order for these transactions to result into beneficiary outcomes to the government and consequently to the public, the use of proper accounting methods is necessary. Especially when it comes to issues that precede the sale or lease, such as the asset's identification and valuation, which are considered to be particularly problematic in the public sector (Blondal, 2004). Several cases of underpricing and undervaluation during the process of privatization have been witnessed internationally (Grout et al, 2004). As stated by the International Consortium on Governmental Financial Management (1997), the absence of the appropriate accounting framework could result in failing to generate the desired results from the privatization. At the same time, potential investors/buyers demand accounting information of higher quality and reliability, before deciding to proceed to investments, and the public demands transparency in every transaction. Consequently, in cases of sale or lease of state-owned assets, the quality of the accounting framework, deriving from the accounting treatment and the relative disclosures, is of crucial importance for both central government and investors.

The present paper analyses the accounting framework related to privatization of property, through the sale and financial lease of assets. This study however does not examine the accounting treatment during the process of privatization, but it rather explores the accounting information quality and availability, and the accounting methods and practices that are adopted in order for an asset's value to be reliably presented, before entering into the privatization process. Having privatizations as the starting point, the following issues are examined: the asset's initial recognition and measurement after initial recognition, the depreciation charges and impairment losses, the treatment of finance lease and sales and leaseback and the provided disclosures.

More specifically, a comparison is conducted between the existing accounting methods adopted by the Greek central government, and the accounting treatment under International Public Sector

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Accounting Standards (IPSAS) for the same issues. The purpose is to compare Greek governmental accounting practices and disclosures to accrual (IPSAS) that are considered to promote best accounting practices in the public sector (IFAC, 2011). The importance of the analysis presented in this paper lies on the fact that the Greek government has recently adopted the modified cash basis of accounting. We strongly believe that the examination of the two approaches in contrast will reveal significant implications for governmental decision-making. These implications could have a particular value for other countries which apply a similar to the Greek, governmental accounting system, and which might (or already) face an urge to proceed in privatizing state-owned property. Additionally, the European Commission's (E.C.) decision to assess the suitability of IPSAS for the member states until the end of 2012, gives another dimension to the examined issue.

The rest of the paper is organized as follows: in the next section the special characteristics of governmental accounting and the two accounting systems of IPSAS and GGAS are presented. In section three the comparison between the accounting treatments for property is conducted. We finally conclude with remarks and future research proposals.

Literature Review

Governmental accounting has to satisfy the needs of a number of different users (Hernández and Pérez, 2004). Internal users of financial information include, among others, politicians, public managers, employees while external users include citizens, voters, taxpayers, suppliers, banks, rating agencies. These users should be able to base their decisions on reliable and relevant information about the financial position, financial performance and cash flows of the government. According to the National Centre for Education Statistics (NCES) (2003, p.27) in order to meet the varied needs of this wide range of users, governmental accounting has to "provide more relevant information that will result in greater accountability by state and local governments and enhance the understandability and usefulness of the annual financial reports to users of these reports to enable them to make more informed economic, social, and political decisions".

Nevertheless, governmental accounting presents fundamental differences between -and within-countries (Grossi and Soverchia, 2011). These differences range from the recording systems to the measurement rules and the disclosures (Luder and Jones, 2003; Jones, 2007). Traditionally, countries like the United States, Australia, New Zealand, U.K. and Ireland are characterized as oriented to the Anglo-Saxon approach, and their accounting for the public sector is influenced by the privatistic model. On the other side, continental European countries like Germany, France, Portugal, Italy, Spain and Greece adopt a different orientation, where the influence of the private sector accounting is basically absent (Grossi and Soverchia, 2011). Depending on the specific needs of different countries, four different bases of accounting have been developed and adopted. The cash basis and

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the accrual basis of accounting constitute the two opposite poles, while the other two bases that are recognized in between are the modified cash basis and the modified accrual basis of accounting.

Accrual accounting in the public sector

According to Christiaens *et al*. (2010) accrual accounting was introduced to improve the financial information system of public sector entities. In general, under accrual accounting, transactions and other events are recognized when occurred and not only when cash is received or paid. The International Monetary Fund (IMF, 2001) considers the accrual basis as superior compared to other models, since it is more comprehensive and consistent. Moreover, accrual accounting is considered to improve comparability of the financial performance between jurisdictions and provide a greater accountability of public resources, as the financial data will become more transparent (Guthrie, 1998, Christiaens *et al*, 2010). The accrual financial statements are viewed as simpler and easier to understand (Ball *et al*, 1999; Brumby *et al*, 1999), and harder to manipulate (Buti *et al*, 2002). Furthermore, accrual financial statements are believed to provide a richer set of information for analyzing the sustainability of fiscal policy and the quality of fiscal decision-making (IMF, 2001). More specifically, accrual accounting provides disclosures in supplementary notes, which include information on contingent liabilities and commitments (IMF, 2001b), provide a longer-term perspective for judging policy impacts (Athukorala and Reid, 2003) and better information for managing liquidity (IMF, 2001). All the above are believed to lead to better information for planning, financial management and decision-making (Athukorala and Reid, 2003; FEE, 2007).

The IPSAS

The IPSAS project was introduced in 1996 and is heavily influenced by the International Financial Reporting Standards (IFRS). Although IFRS were issued for the private sector, they are reviewed and amended so that they can be applied to the public sector. However, a lot of debate has been taking place whether standards that were developed for the private sector are suitable for the public sector (e.g. Chan, 2003; Christensen, 2007; Johansen and Lapsley, 2005). The IPSAS Board though, supports the notion that the ultimate objective of financial reporting is the same for both sectors. Moreover, many international organizations which promote sound financial management and accountability (e.g. OECD, NATO, United Nations, European Commission) and support the modernizing of the financial information system, have adopted an accrual accounting system compliant to IPSAS (Harthorn, 2008; Christiaens et al, 2010). Despite this support, though, Christiaens et al.'s (2010) survey concluded that IPSAS do not play a significant role in the majority of the local and central government accounting reforms in Europe. What is more than that is the fact that many of the examined countries that are planning to introduce accrual accounting, are not going to use IPSAS. According to International Federation of Accountants (IFAC, 2008) although

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accrual accounting practices are spreading within the public sector, the majority of the governments adopting IPSAS, choose the cash basis IPSAS. Nevertheless, although IPSAS provide a more uniform, transparent and commonly accepted standard that could help the public sector to operate with integrity and professionalism (UNESCO, 2008) there is still a lack of empirical research that would indicate that the benefits of a transition from the cash to the accrual basis, outweigh the relative costs (Wynne, 2007).

The Greek governmental accounting model

The Greek government has recently adopted the modified cash basis of accounting. The Presidential Decree that governs the accounting standards for the central government passed on March 2011 and is effective from the 1st of January 2011. Previous to that, the accounting basis used by the central government was the cash basis of accounting. According to the Greek Ministry of Finance (Budget 2009, p. 105), the basic advantage of preparing the financial statements under the cash basis of accounting is the reliability of the provided data, since the latter derive from transactions (receipts and payments) that are measurable and unchallengeable. But this is not the whole truth. For example, public hospitals accumulated arrears to suppliers around 1.3% of the Greek Gross Domestic Product (GDP) over the period 2001-2004 and 1.6% of Greek GDP for the period 2005-2008 that were eventually assumed by the government (OECD 2009, p.69). By the end of 2009 the arrears to suppliers by Greek hospitals was about € 5.6 bil. This amount approximates to 2.4% of Greek GDP (Budget 2011, p. 115). The corresponding expenses were not evident in the cash budgetary system. Therefore the financial statements could have been easily manipulated even under the cash basis of accounting.

Greek government following recommendations made by international organizations (IMF, OECD) regarding the modernization of the governmental accounting system, resulted into adopting the modified cash basis in 2011. Nevertheless, many institutions of the public sector, including local governments, institutions of social security and public hospitals had to apply accrual accounting which was introduced by sectoral accounting plans for years.

At first it is very important to distinguish between the cash basis and the modified cash basis. The modified cash accounting system recognizes transactions and other events on a cash basis, but also takes into account the unpaid accounts and the receivables at year's end, by keeping the books open for about a month after the end of the year (IFAC PCS, 2000). The modified cash basis captures all financial assets and liabilities and the flows related to such assets and liabilities, but excludes physical assets (current and non-current) and also all intangible assets. Therefore depreciation and amortisation are excluded and replaced with the actual cash flows involved in acquiring and

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disposing of assets avoiding thus, major complexities of the generally accepted accounting principles (Hiltebeitel, 1992).

According to literature (Hiltebeitel, 1992; Parry, 2010), the modified cash basis presents several advantages, since it is broadly in line with the approach currently adopted by most governments, extending common practice by also identifying and disclosing additional information (on government borrowing and lending and on current and contingent liabilities), which are required for fiscal management and for control improvement. At the same time, many of the technically complex issues of valuation and measuring flows associated with the application of full accrual are avoided.

More specifically, the Greek Ministry of Finance (Budget 2009, p.108) highlighted as the most important advantages of the newly adapted method the fact that the modified cash basis transfers in a future period several of the problems that many of the countries, which tried to modernize their fiscal management through the adoption of accrual accounting, had -and might still have- to face. Such problems mostly refer to the initial registration and valuation of assets of the central government, as well as the amount of the accumulated receivables and liabilities of the Greek public sector.

Accounting for State-Owned Property

In order to compare the provisions found in the GGAS to the IPSAS in relation to state-owned property, we focus on IPSAS 17 (Property, Plant and Equipment) and IPSAS 13 (Leases).

State assets' identification and valuation, is often the most time-consuming and difficult task, since governments have traditionally not kept accurate and up to date registers of them (Blondal, 2004). Greece could not be an exception from the rule, since, according to the Bank of Greece (2010, p. 182), "the Greek government does not know the exact size of the state-owned property, mainly due to the non-existence of a complete and accurate cadastre."

Asset's measurement

The most significant issues that arise when comparing GGAS to IPSAS in terms of assets' measurement could be summarized in the following three directions: The registration issue, the revaluation issue, the depreciation and impairment assessment issues.

Regarding the registration issue, unfortunately, none of the two accounting systems provide guidelines for the accounting treatment of complicated cases, such as the violation or claim by third parties, of the state-owned property. More specifically, as already mentioned Greece does not have a complete and accurate cadastre. What is more than that is the fact that the non-existence of a cadastre for the public property has led to a continuous violation of the property by third parties,

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while, the long lasting legal claims block the exploitation of a great part of the property (Bank of Greece, 2010). According to estimations conducted by the Hellenic Public Real Estate Corporation in 2009, only 13.47% of the public assets are entirely free, while the 40% is violated and the rest of the property is engaged to other legal and/or technical issues. According to ELIAMEP it appears that the majority of the Greek state owned non-financial assets counts somewhere between 70.000 and 110.000 pieces, are engaged with complex legal and technical issues, and thus cannot be exploited (ELIAMEP public debate, 21.02.12).

Subsequently, it is very difficult to estimate the value of the Greek public property. Former estimations, present a total value that ranges between 270 and 300 billion euro, although IMF's 2009 report (IMF, 2009) provides an indirect estimation of the Greek state-owned property by calculating the public sector's net capital stock (the sum of all buildings, highways, infrastructure, land, etc.) at approximately 124 billion euros. Nevertheless, according to the chief executive of the Hellenic Republic Asset Development Fund (HRADF), due to the previously mentioned difficulties there is no reliable estimation of the public property's value (ELIAMEP public debate, 21.02.12).

For those assets that have been normally registered, the initial recognition under both systems is at historical cost. In cases where an asset in not registered, GGAS distinguish two cases: assets with significant value are recognized at fair value estimated by certified valuators, while assets of insignificant value are registered at nil value.

An important difference between GGAS and IPSAS arises when it comes to the revaluation issue. Concerning P.D. 15/2011 no reference is made to measurement after initial recognition. On the other hand IPSAS 17 allows two alternative models. The cost model defines that an asset shall be carried at its cost less any accumulated depreciation and impairment losses, while the alternative, revaluation model, allows the systematic revaluation of the asset, in order to ensure that the carrying amount does not differ materially from the fair value.

Moreover, under the modified cash basis of accounting adopted by the Greek government, no depreciation is conducted except for these cases related to 'expenses of perennial depreciation'. IPSAS 17 recognizes depreciation charges and defines the allocation of the depreciable amount of an asset on a systematic basis over its useful life. Concerning the existence of any impairment losses, P.D. 15/2011 does not provide any requirement to assess whether there is an indication of impairment. On the other hand, IPSAS 17 defines that an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. Either IPSAS 21 "Impairment of non-cash generating assets" or IPSAS 26 "Impairment of cash generating assets" will be applied depending on the nature of the asset, but only for the assets that are carried at cost, since the assets that are carried at revalued amounts do not materially differ from their fair value. Finally, P.D.

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15/2011 provides a significant amount of requirements concerning disclosures, which are the same with IPSAS's requirements. Surprisingly enough, the requirements for disclosures include information about revaluations, depreciation charges and impairment losses, for which no reference is made throughout the rest of the P.D. 15/2011 text.

The importance of the differences between the two approaches, and the complexities which could arise, can be further highlighted by providing a very simple example. Let's assume that the state had constructed a building Y years ago with a construction cost of X euro. During year 20XX the building is included in the privatisation programme. According to GGAS, during the Y years no depreciation is charged on the building cost and furthermore no impairment test is conducted. And of course, no revaluation is conducted. Since there are no accurate data of the asset's current value, an estimation has to be performed by certified valuators in order to conclude about its value. It is obvious that the government does not posses any type of reliable information, from the asset's records, regarding its value, and therefore a misjudgement about its value is likely when deciding to privatize the building.

On the other hand, if IPSAS 17 were applied, after the initial recognition the government would be able to decide whether to use the cost or the revalued model for the purposes of measurement after recognition. In the first case, the depreciation charges would have been counted during the Y years on a year basis. Furthermore, the depreciation method, the residual value and the useful life would have been reviewed systematically. Moreover, the asset would have been tested for impairment losses, ensuring that at the time of the sale the nominal value of the asset would be reliable and accurate. If the government chose the revalued model, the systematic revaluation of the asset, would again ensure that the carrying amount would not differ materially from the fair value. Both cases provide the government the opportunity to keep track of the asset's value and to have better information long before entering into the sale negotiations.

Accounting for privatisation

The differences between GGAS and IPSAS are not extensive as regards to the registering of the proceeding of the transaction. The privatization of state-owned property can be executed either by disposing the asset by sale or by financial lease. Moreover, as stated in the 2010's interim report of the Bank of Greece, in order to proceed with the utilization of the Greek property, the emphasis should be presently given to modern tools of management, such as the sale and leaseback and lease and leaseback techniques.

Concerning sales, the accounting treatment followed by GGAS, recognizes the outcome of the transaction directly in income. Whether the sale price is above (below) the residual value, the difference is immediately recognised as gain (loss) from asset disposal. IPSAS 17 on the other hand,

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does not recognize any revenue, but instead it treats the outcome of the transaction in the surplus/deficit when the item is derecognized.

In the case of lease, GGAS, distinguishes operational from financial lease, and provides specific recognition and measurement requirements for each type. The treatment deriving from IPSAS 13 "Leases" is comparable to what provided by GGAS, although more informative and analytical in some instances. The disclosures that are required regarding finance leases are the same for both accounting models.

The P.D. 15/2011 recognises four different cases for the sales and leaseback commitment. The accounting treatment is similar for the two accounting models. The estimation of the fair value necessary for assessing the values of the asset to be the subject of a financial lease is conducted by certified valuators.

Conclusion

The scope of this study is to explore the accounting treatments suggested by the P.D. 15/2011 and IPSAS in relation to privatisation of property by sale and financial lease. It aims at comparing the Greek practice with the relative accounting promoted by the IPSAS. IPSAS are considered to promote best practice from the international experience in the form of guidelines, and thus we believe that they constitute an interesting benchmark to the Greek governmental accounting standards.

Although the modified cash basis developed in Greece turned out to be influenced in several cases by the IFRS, the brief overview of the two accounting bases, presented above, highlights the substantiality of their differences. When it comes to the issue of privatizing a state-owned asset, either by sale or finance lease, the differences between the two approaches are crucial, mainly to what is related to the recognition and valuation of the assets.

It is evident that the accounting treatment as described in GGAS for state property is neither useful nor informative for privatisation decisions from several fronts. Therefore, Greek accounting standard setters and policy makers should take into account the provisions of IPSAS in order to improve the information content of the disclosed data related to state-owned property. Such an approach coincides with the philosophy applied so far as to the development of GGAS. In several parts of P.D. 15/2011 the legislator has borrowed principles from IFRS or from Greek Accounting Standards applicable to the private sector. Accounting information could become a powerful tool to the hands of Greek government in order to proceed with exploitation decisions for the private State property that would be beneficial for the public economy and therefore the citizens. Relying solely on ad- hoc valuation of property only in cases that an asset is to be sold does not help towards

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registering the value of state –property that would help Greece to enforce its bargaining position during public debt negotiations. Moreover, this valuation is not technically, at least in principle, difficult to be performed as the state property under question does not include heritage assets or collections which in the international literature (e.g. Carnegie and West, 2005) consist controversial issues

Nevertheless, although IPSAS appear to be significantly more informative compared to the Greek standards, there appears to be an information gap on the issue of registration. The Greek cadastre is considered to be incomplete and inaccurate and the grand majority of the state-owned assets are unknown, violated and claimed, leaving only a small percent of registered assets (Bank of Greece, 2010). Therefore, we believe that guidelines on the accounting treatment of such cases provided by accounting standards would be very helpful in order for the state to keep track of a potential part of the state property. After all, the "Registration Guidebooks" issued for the local and regional governments provide specific provisions for each of these cases.

As a next step, we believe that by conducting interviews with executives who hold key positions in the central government we will gain a better understanding of certain choices of the government and different perspectives on the treatment of the examined issues may be revealed. Moreover, we believe that the analyses of the way other countries have proceeded in registering their state property and overcoming legal problems like the ones Greece experiences will provide useful input in deciding the most proper way to move on dealing with them.

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THE EFFECT OF EMIRATI CULTURE ON WESTERN COSMETICS BUYING DECISION: A STRATEGIC MARKETING ANALYSIS

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Abstract

In this paper we study the effects of Emirati culture on the buying behavior of cosmetics for women in the UAE. We argue that cultural categories act as stable parameters in which national identities are constructed by facilitating recognition and assimilation of established values. Little research, however, has been done in knowing what constitutes the process of institutionalization of new cultural categories or in other words, how new values enter traditional categories. We address this gap in research by offering an in-depth study of how Emirati women portray their identity through the use of cosmetics and more specifically Western brands. The foundations of the different perspectives in marketing research addressing the complexities and the dynamic relationships between consumer actions, organizational performance and cultural meanings are set as a conceptual framework of reference. We show that through the use of Western brands in cosmetics eventually Emirati women prefer to focus on aspects related to eye and lip make-up, following international trends while also remaining faithful to the predicaments of Islam. We conclude by highlighting how this study confirms the expectations regarding the relationship between the Emirati cosmetics consumption and the transitioning towards Global Consumer Culture Positioning (GCCP).

Keywords: Emirati Culture, Cosmetics, Brand management, Intercultural communication, Consumer Culture Theory

Introduction

"The culture of the past is not only the memory of mankind, but our buried life, and study of it leads to a recognition scene, a discovery in which we see, not our past lives, but the total cultural form of our present life" (Frye, 1973, p. 346).

Professional practitioners as well as scholars in the field of marketing and in particular advertising, and the related social sciences have shown that distinct cultural categories play a vital role in shaping market strategies as well as successful plans of action (Bartlett & Goshall 1997) (Bartlett & Ghosbal 1997) (Eckhardt 2005) (Frith et al. 2005) (Ghoshal & Nohria 1993) (Grafton-Small 1993) (Cherrier et al.) (Klein 1935) (Souiden 2002) (Meyer & Bernier) (Jarillo & Mart_anez 1990) (Rugman & Verbeke 2003). In what Arnould and Thompson (2005) define as "consumer culture theory" (CCT), the foundations of the different perspectives in marketing research addressing the complexities and the dynamic relationships between consumer actions, organizational performance and cultural meanings are set as a conceptual framework of reference. The main tenet of this paradigm revolves around the heterogeneity rather than homogeneity of culture as a system in which values, norms, habits, lifestyles and basic assumptions are not neatly shared by national groupings but rather represent distributed meanings over a continuum that can nicely create overlaps across populations. In that sense, values are nothing else but propositions which can be compared, contrasted and even opposed. Provided cultural categories influence purchasing behavior, adapting advertising campaigns as well as marketing efforts to the local socio-cultural context accomplishes many things: it generates shared understanding about the identities of products and services and the group of consumers purchasing them (Baalbaki & Malhotra 1993) (Baalbaki & Malhotra 1995); (Jain 1989) (Ozsomer & Simonin 2004) (Sorenson & Wiechmann 1975); it defines boundaries for inclusion that are more easily accessed by actors of the different industries depending on their generic business strategies (Shanklin & Griffith 1996); and it sets the basic expectations of organizational success in complex markets where adoption rates may vary according to compatibility and relevance to the given consumption groups (Ozsomer & Simonin 2004). Cultural categories act also as extremes of the spectrum in which to position unique attributes and competitive sources of strategic significance for companies indulging in global marketing campaigns the impact of culture on consumer***.

Nonetheless, since the seminal piece by Levitt (1983) on the globalization of markets, the debates on whether to standardize or to localize have been raging (Birnik & Bowman 2007a). Recent marketing and organization research on the standardization movement has primarily focused on the difficulties to globalize especially when considering those countries that exhibit distinct cultural values, traditions, religions and economic policies (Barkho 2007a) (Sheth, J. 2011). More studies are seeing the light on the front of the differences that clearly distinguish markets and therefore require market strategies and advertising campaigns to locally adapt in such adhocracies. To just name the principal sources of uniqueness, we consider market heterogeneity, sociopolitical governance, chronic shortage on resources, unbranded fierce competition and inadequate transportation or mass communication media infrastructure to constitute the fundamental characteristics defining the rules of the game in emerging markets versus the more industrialized capitalist societies (Sheth, J. N. 2011).

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On the other hand, systematic review of the literature on marketing mix standardization practices in multinational corporations identifies evidence that there are clearly two key benefits to standardization. The initial studies (Levitt 1993); (Douglas & Wind 1987) (Ohmae 1989) focused on strategy anchored around standardized products that would take both advantage of increasingly homogeneous customer preferences on a global scale thus increasing customer base, while at the same time reinforcing brand name and product characteristics. One fundamental argument however remains. We cannot treat all markets in the same way since cultural categories play an important role in the evolution of marketing strategies. The reverse however, also holds true and studies on the impact of advertising campaigns in their local context have pointed to a range of ways in which communication channels bring socio-cultural changes. Having concluded the above, in this paper we are interested in the cultural categories that are affected most by visual advertisings and marketing mix campaigns since one of the key criticisms addressed against the existing literature on marketing standardization refers to the lack of the interdisciplinary studies and we believe that CCT constitutes the right entry point bridging the gap. More specifically, this study addresses three crucial questions: How are new cultural categories established in the syncretic approach offered by the Emirati setting, where traditional and Western values meet? Furthermore, what are the key implications for multinationals in the fast-growing cosmetics industry operating in the oil-rich Arab gulf states? And finally, how does the process of establishing shared meanings in an emerging category relate to the creation of new symbolic forces and boundaries that structure personal and national consumer identities?

To address these questions, we take a consumer-centric approach that studies the relationship between advertisements in the cosmetics industry --- for Western luxury brands promoted in the UAE, which constitute a different contemporary local context identified as a new cultural category in 2012 but focusing on different generational groups. The smallest unit of investigation being the personal identity of an Emirati woman, we find individual make-up and sensory choices to reflect a person's conception of social, gender, and religious identification. Accordingly, cosmetics promote means with which to ascertain one's deeply-seated patterns of personal identity construction and conception of brands.

It is particularly interesting to note that under the broad banner of Islamic teachings, women as well as men should not exhibit sexuality in public. In other words traits that denote one's sex-appeal ought to be veiled or at least not underlined. Clearly, other proscriptions apart from the suggesting attires include tattoos, plastic surgery, wigs or hairpieces as well as, and most significantly explicit make-up and perfume (Belk et al. 2008). We find that Emirati men and women with the growth of petrodollar-fuelled wealth and the profound integration through trade into the global economy have experienced a concomitant shift in discourses on beauty, modernity in the

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media and cultural acceptance from the traditional integrity values as well as a new affirmation of national identities. In line with (Kalliny & Gentry 2007a) findings that contrary to common notion, U.S. culture and the Arabic culture are not vastly different, we chronicle how Western luxury and specifically beauty brands have been precursors and significant actors in the transition while quickly capitalizing on the changing scented winds and cultural landscapes. These constructs based on appearance not only delineate modern Emirati styles, but also serve as a basis for judgments on what Emirati society needed to explore, build upon and aesthetically revise for the continued growth and wellbeing of the region. In sum, it provides the ground for a re-evaluation of a larger set of categories that have institutionalized over time and are in the stage of transforming the deeply seated meanings of Arab culture. Analysis of qualitative data expressing the relation between Emirati and Western cosmetics products shows the increasing convergence towards a communal understanding of public consumption that stresses status and wealth, versus a more religious prohibitive constraint which, through this interaction, is rendered less authoritative and more permissive.

THEORETICAL FOUNDATIONS & RECENT RESEARCH

Cultural categories establish meaning systems which in turn affect consumption behavior. Several studies provide strong evidence that advertisements which are congruent with a cultural value system create a higher impact on consumers' responses (Boddewyn et al. 1986) (Treise et al. 1994) Buzzell, 1986. In a nutshell, actors in the markets cannot be engaged in the modern discourses of marketing and advertising campaigns unless cultural categories are devised and respected. Researchers have demonstrated the relevance of the cultural arena in studies that range from wine industry (Zhao 2005), to mutual funds and financial services (Lounsbury & Rao 2004), automobiles (Rosa et al. 1999) and art (DiMaggio 1987) (Khaire & Wadhwani 2010). Cultural distance as a category including the cultural and economic factors is considered to be a critical variable in international marketing (Singhapakdi et al. 2001), while paired comparison in cross-cultural research provides useful insights into marketing practice (Albers-Miller & Gelb 1996).

In addition, design parameters specify a possible type of intervention that can be used by practitioners in a determined context in which the decision has to be made. This idea can be assimilated to actionable knowledge discussed by Argyris (1996), whereby the generalization is actionable if it allows users to apply it beyond those settings in which it was initially created. In relation to marketing mix standardization, three design parameters can be highlighted: 1) deciding on the overall approach and then assessing which markets to include; 2) focusing on the standardization of either the marketing processes or the programs; 3) investigating to what extent standardization is to be implemented within the sub-elements of the marketing mix (Birnik & Bowman 2007b). The focus of our research paper, however, lies with the way in which through

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adaptation of local marketing campaigns multinational cosmetics brands affect the transition of cultural categories. A clear migration on consumption patterns in the UAE has denoted the emergence of modern behaviors associated with Western lifestyles and this constitutes the core of our analysis over time in relation to the visual stimuli provided by advertisements and the textual content. This research adds to the growing call for research on the contemporary Arab consumers as markets where materialism is exhibited as much as in non-Arab settings (Al-Olayan & Karande 2000) and where there exists a higher level of vanity expressed regarding physical appearance and concern for achievement (Cherrier et al.). In a recent study by the Dubai Chamber of Commerce & Industry (DCCI), women in the UAE spend 38% more on make-up than their counterparts in France, a market and a culture home to the biggest and most popular beauty brands. Only between 2003 and 2010, imports of such product category has risen from $381 Million to $1,115 Million in the UAE alone. Dubai is the center and strategic transit hub with its reward-winning Duty Free Stores. Dr. B. Rettab, senior director at the DCCI's Economic Research & Sustainable Business Development sector says that cosmetics in the region and well-being products are often considered a daily necessity, especially when sales are driven by a young population and a sizeable middle class.

With hindsight, it makes sense to acknowledge that despite the disciplinary turmoil undergone in consumer research during the decade of the 80s in the West (MacKenzie & Lutz 1989) (Belk & Pollay 1985) (Belk et al. 1989) (Holbrook & Batra 1987) experiential and cultural dimensions of consumption were neglected, but most importantly became later the source of novel, in-depth insights (Arnould & Thompson 2011) (Peter & Olson 1983) (Zaltman 2000). These missed opportunities in turn became the focus of research informing different constituencies including the social scientific, managerial and public policy communities which were seeking more-socially grounded understandings of consumers' behavior. CCT is particularly interesting for its emphasis on the symbolic aspects of purchasing experiences related to the product's brands, image, and marketing mix that unfold over the consumption cycle, including acquisition, utilization, possession and disposition processes. Over the last two decades, CCT has identified and forged four main research areas in which scholars have sought to avoid the reification error by addressing holistically the purpose of re-evaluating what to know and what is known. We will briefly review these in the interest of those who may not have followed the development of the theory and as an integrative frame of reference for those who have.

Personal Identity Projects.

If we accept the premise that consumer theory roots its concerns on cultural aspects of consumption, whereby business organizations engage customers with their marketing endeavors and in turn, see customers co-produce useful and relevant meaning, then a corollary argument

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consists in assuming that people in the process, construct narratives of identity (Belk 1988); (Hill 1991); (Holt 2002); (Levy 1981). Interestingly, this type of projects is goal-driven but the objectives and real motivation of consumers may be tacit in nature, then it is equally important to recognize that they may be interrupted by internal contradictions, ambivalence and ambiguity, points of hesitation and entangling dilemmas. Sometimes they may even be marked by pathology (Hirschman 1992); (Mick & Fournier 1998); (Ozalp 2008). What matters to scholars is the possibility to map positions in the complexity of markets that allow consumers to inhabit symbolic, cognitive structures that offer valuable benefits. The combination of these interactive and heuristic processes produces scripts or stories which reinforce the institutionalization of cultural categories that are enacted on the global stage. (Kozinets 2001) for example examines the construction of meanings and practices amongst Star Trek fans and describes it as "sacralizing articulations" which commit fans' selves quite heavily in the produced discourses. In turn, it also reveals the affective investment of followers who are hungry for a space in which to consume semi-mythological narratives as by-products of commercialization efforts carried out by business enterprises. **Of particular interest to this study we find the acts of non-conformism ((**Holt 2002**)) to play a fundamental role in establishing new cultural categories while also placing individuals back into the spotlights of personal sovereignty.** In the UAE, and Dubai more consistently, using vibrant colors to make-up as well as strenuous scents to perfume one-self have turned into non-subversive exhibition of a society geared towards the assimilation of newly shaped and accepted collective perceptions belonging to the process of globalization.

Marketplaces, Malls Cultures and also City Centers

At the intersection between the spaces created by and with customers engaging in marketing stimuli lies the study of what is produced at the meso-level of interaction. A whole group of scholars in CCT have devoted their efforts to unravel the processes with which consumer blueprints are generated and this for the different broad geographical areas of North America, Africa, Asia and Eastern Europe. Interestingly, this stream addresses feelings of solidarity amongst consumers who re-create cultural worlds through the pursuit of similar purchasing habits. Notice that like in the personal identity or "self" projects, the insights in this genre of CCT produce results that revolve around the idea of "neotribalism" (Maffesoli 1996). According to the French sociologist the forces of globalization erode the so-called traditional bases of conviviality and instead encourage a dominant logic of individuality. In such transformative structures, consumers participate in rituals of collective identification while sharing common consumption interests and leisure avocations (Firat & Venkatesh 1995) (Muniz Jr & O'Guinn 2001) that carry more meaning even than the brands themselves (Fournier & Lee 2009).

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UAE's culture and sub-cultures, especially in the Dubai Emirate can no longer be considered as a traditional unit of people shopping in small boutiques, *souqs* and local shops. The rapid and astounding rise of shopping malls has offered spaces where to connect and mesh with brands from the remainder of the globe. Multi-cultural restaurants or retail stores like "Les Galeries Lafayette" within those spaces, in this case the Dubai Mall, represent only a sample of possibilities. The retail sector is strengthening and Dubai is vying with London for top spot as the world's leading shopping destination. Whether Mall of the Emirates or the iconic "City Centres" across the region featuring amongst an ever-growing portfolio, real estate experts are guiding investors on the right track.

Accordingly two schools of thought have developed whereby, in the tradition of marketplace subcultures, youth and youth approaches to consumption have been more pervasive. On the one hand, it seems that UAE university students are more influenced by factors of gender, income levels, family size and father's occupation rather than purchasing habits (Simadi 2006). On the other, although teenagers create temporary consumption communities, it is also shown that localized meanings are sought (Kjeldgaard & Askegaard 2006), in stark contrast to the global cultural capital or the dominant lifestyle norms, as the traditional garments and attire denote. Re-negotiation is therefore constantly at play between the styles and systems exhibited by global, iconic brands and the more intrinsic nature of Islamic predicaments embodied by UAE consumers.

Socio-historic Approaches: Is there a Consumer Society & How does it transit through time?

As Arab consumers oscillate within the flows of traditional versus modern value systems, the domain of CCT addressing socio-historic events is concerned with the institutionalization mechanisms informing the consumer society. Class hierarchies, as the core structures in which societies evolve, represent the primary concern. In this vein, post-assimilationist consumer research suggests that local acculturation becomes hypercultural (Askegaard et al. 2005) (Blanchflower & Oswald 1999), rendering the quotidian (costume, Arab foods, crafts and music) consumable, in other words part of the meta-system in which transactions occur. **Our study reinforces this view by seeking to provide evidence around the concept of assimilation of cosmesis as a means to enhance UAE culture and elevate it to the standards of global requirements, whereby wealth attitudes are revealed rather than veiled.** Accordingly, the concept of materialism and vanity associated with the bestowing of bodily beauty is of particular relevance to cultural categories as they have been historically affiliated to Western values ((Burroughs & Rindfleisch 2002) (Mick 1996) and need special attention in the context of how institutionally, these become integral parts of a new Emirati identity.

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Ideologies of the Mass Media Embedded in Consumers Behavior

Islamic identity is certainly fundamental under this approach whereby ideologies are considered large sets of values and norms affecting material realities. Folklore and popular culture texts represent the sources of ideals which are adopted as much as they are coveted by viewers and listeners of these mall-marketplace narratives.

With Islam acting as the binding factor, the culture across the entire Middle East can be said to be very much similar. The adaptability and acceptance of other women from the region to Western cosmetic trends has thus been facilitated by this general ideological framework in which the UAE has immersed itself since it decided to go global.

For the purposes of this research and in seeking to demonstrate Hypothesis 2 described in the methodology, we showed to our interviewees four images of elegantly made-up women. See Collage-1 below. These were selected from cosmetic advertisements in local fashion magazines which portray different ethnic styles related to make-up styles that clearly differ in their characteristics. In addition, these photos got edited to eliminate all brand names of the marketed products.

Collage-1.

What we found is that the most preferred image for ladies originating out of other Middle Eastern countries was image #4. This specific representation of beauty is noticeably more akin to international make-up trends and is diametrically opposite to the make-up style of Emirati ladies. However, the next preferred image was image#2, the one that was popular with the Emirati ladies. In case of the Emirati ladies, the next preferred image was image # 4. This could be attributed to the fact that the younger generation of the Emirati ladies are now not only opening up to the western cosmetic brands but are also embracing western cosmetic approaches. Test Statistics, provides the actual result of the Chi-Square Goodness-of-Fit test. We can see from the numbers that our test statistic is statistically significant: $\chi^2(3) = 18.290$, $p < .0005$. See Exhibit-B. We can, therefore, reject the

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null hypothesis and conclude that there is a considerable relation between culture and women's preference towards the complexion of the model. Majority of Emirati ladies selected image #2, even though image #1 had a make-up style that the Emirati ladies could perfectly relate with. Finally, this shows how a multi-layered system of aesthetic values is being understood, processed and then lifted to relatively new systems of global interaction.

CONTEXTUAL FRAMEWORK FOR CULTURAL CATEGORIES IN UAE

There are many misconceptions about doing business in the Middle East and it's only by doing your own research and by actually experiencing it for yourself that you can begin to break down some of the myths and stereotypes that surround Middle East culture which after all, is so diverse that one country's approach to business is likely to be somewhat different from another's. As an example, take the prohibition in the Kingdom of Saudi Arabia for women to drive compared to the easiness with which a European lady can access to an Emirati driving license. Amongst the more culturally fundamental values eliciting curiosity, the importance of Islam holds a predominant position. The Islamic faith is not simply restricted to times of prayer. On the contrary, it transcends all areas of life in the Islamic world including values, guidance on how to conduct your life, community relations and the way in which people do business, as well as what is acceptable and what is not in terms of attire and embellishments, including cosmetics and perfumes. One needs to firstly understand that Muslims are obliged to pray five times a day and whilst some Muslims do not necessarily pay a daily visit to a mosque to do this and will pray in the home or office, any commercial activity such as ads times will still need to be planned around prayer times.

From doing business in the Arab world to embracing the role of cosmetics and their changing significance over the years there is only a thin line. Traditional modes of using make-up in fact originated during the Middle Ages when the women of Europe borrowed from the cosmetics first prepared by the Egyptians, Syrians, and Phoenicians. Some of these included lipsticks, nail polishes, eye shadow, eye liner (kohl), perfumes and powders, hair dyes (henna), body lotions and oils, even wigs. A symbol of the vanity of the medieval ladies of European courts was the high peaked, pointed cap with its trailing veil of silk. Much of Western contemporary jewelry also is a result of inspiration from adornments of the ancient and medieval Arabs (Al-Sadi et al.). By highlighting participants critical interpretation of today' Western beauty brands' meanings this study extends prior theorizations that construe consumer activism as an ethos founded on the Quran, the understanding of good citizenship and the will to reconcile apparently incongruent cultural propositions under the banner of global citizenship.

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Modernism within Traditional Heritage

Traditional societies are considered to be static, with relatively little specialization, low levels of urbanism and literacy, while also supporting themselves on hierarchical structures and authoritarian political styles (Cheng & Schweitzer 1996), in opposition to modern societies bound by a focus on democracy or high citizens' participation. By this description, overall Arab societies although not homogeneous, can be considered traditional in many respects. Hospitality is a core concept exhibited by such culture whose century-long Bedouin tribes have been known for graciously inviting the foreigner into their generous offerings. In addition, heritage is fundamental and based on the precept that the Quran is immutable over time as well as intrinsically intertwined with any Muslim's life. Accordingly, one would expect the focus on the past to be more prominent in Arab culture, which could be the case for some countries but not for the UAE and their constant emphasis on futuristic visions of what the seven Emirates will become. This transformative effort can be read repeatedly in Government's messages. This excerpt from the document on *Vision 2021* is illustrative:

Emiratis will be confident citizens, steadfast in carving out their **future** in a spirit of entrepreneurship and responsibility, engaged in the course of their nation and embracing moral values for richer fulfillment.

In many surprising ways, the emphasis on work ethic and moral concerns as integral part of a future to come where clenching to tradition for the sake of it completely disappears, nicely dovetails with a Western, whether American or European, world-view. Modernity and progress are highly valued in the UAE. In the publication of "The Rise of a Nation" (2011) Arabic images and footage from the UAE have been collected under the banner of Gulfimages.com to precisely graphically record the fast changes experienced in all realms, from architecture, to engineering, commerce and trade and social or political arenas. In it, Senior Gulf News editors Francis Matthew and Najla Al Rostamani recount the process of compiling the images that are showcased in the stunning Gulf News publication. This amazing photo book tells the story of the United Arab Emirates through 1600 photographs captured over 30 years and clearly demonstrates the important structural and aesthetic transformation undergone in the UAE.

METHODOLOGY

A total of 69 usable questionnaires were obtained from surveys administered to Emirati women between February and March, 2012. We selected a right mix of local Emirati women and women from other Middle Eastern countries. Ideally, we wanted a higher proportion of local women in our survey which eventually comprised nearly 50% of our respondents. There were also a few

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respondents from other countries like India and Malaysia, who formed a very small fraction of the overall pool of respondents.

For our survey, we made an attempt to target women from different age groups. This has helped us get a holistic and truly representative picture of the perception of the local Emirati women towards cosmetics. However, our inability to converse in the local language was an obstacle. Hence, the younger college-going generation, who we could communicate with, formed a major portion of our respondents. Respondents were aged between 16 and 34, 18% were younger than 18, 65% was spread almost equally for those between 18 and 21 and 21 and 25, and women above age 28 formed a small percentage of 10% only.

The survey was not restricted to the rich and affluent Emirati women. Rather, the views have been incorporated from the low and mid income groups as well. The dominant income range for our survey was 15–20,000 AED per month (approximately between 4.200 and 5.500 USD), yet 22% of women were having monthly family income of less than 10,000 AED (2.800 USD), with an equal percentage constituted from people with an income between 10-15,000 AED (2.800 and 5.500 USD), 32% were in income bracket of 15-20,000 AED, 17% comprised from 20-25,000 (5.500 and 7.000 USD) and a small segment of 7% above monthly income of 25,000.AED.

The results showed that nearly 65% of the respondents preferred Western cosmetic brands over the local brands. This clearly implies that Western cosmetic brands have gained popularity amongst the local women. According to an expert interview, the brand advertisements worked only as a retention tool and not as an influencing factor for the buying decisions of local population. However, opinion about advertisement influences the buying decision was shown by nearly 50% of the respondents.

The main question body consisted of several Likert scale based questions. The respondents had to answer whether they agreed, disagreed or were neutral to each statement. The responses were then recorded and tested for factor analysis. The initial number of factors was the same as the number of variables used in the factor analysis. However, not all 14 factors were retained. In this study, only the first four factors were used.

In order to decide how many components to retain and which items to keep within each component, the communality of each item was checked to see how it contributed to the extraction of factors. Extraction method was a principal component analysis (PCA) with rotation method as Varimax with Kaiser normalization. The cut-off point was fixed at 0.6 for item extraction to judge the item as having a high communality and worth retaining. If the item extracted was less than 50% (i.e. communality less than 0.5) it was rejected from the outputs. Second, the percentage of the explained variance of each of the extracted factors was examined to decide on the number of factors

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to retain. Finally, the loading of each item on the factors retained used to decide on the number of items to use for each factor was verified.

The cut-off point was fixed at 0.5 for item extraction to judge the item as having a high communality and worth retaining. If the item extracted was less than 50% (i.e. communality less than 0.5) it was rejected from the outputs. Likewise, we fixed the cut-off point of 0.55 for the loading of the item on the factor retained. Items with loading of less than 0.55 were rejected. Fixing a high cut-off point for item loadings on factors was necessary especially for scale items like the ones used in this research. Kaiser-Meyer-Olkin Measure of sampling adequacy came to be 0.689, and Bartlett's Test of Sphericity shows level of significance was much less than .05. See Exhibit-A. The items retained and the content of the components were then further used for testing the following four hypotheses.

Hypothesis #1: *There is a positive relationship between the consumption of facial color cosmetics by an Emirati woman and the influence of her social circle*.

Emirati women are astute and experienced shoppers. The social circles in which they engage highly affect the way these women shop. It is also quite clear that there is a strong connection between the younger generations who wish to demarcate their inclusion in the latest fashion trends showing a noticeable interest in the inclusion rather than segregation, from what takes place on the scene of fashionable beauty, stylish expression of aesthetic values and modern lifestyles. This is why most mothers take interest in every opportunity to educate their daughters in the best ways to shop, including recommending versus condemning brands. In that sense, society and social circles give utilitarian tips that motivate purchasing behavior and become a clear case of word of mouth that constantly keeps communication going round. While this generation becomes more and more comfortable with shopping habits, companies need to get closer to them by providing focused offerings, especially in fashion, health and beauty products and services. Emirati women are also superb communicators and share their shopping experiences with their friends, whether in person or online on the many Arab media platforms. Accordingly, in order to validate these perceptions, a few questions relating to susceptibility of informational and normative influence with friends, enjoyment of shopping with relatives, in turn related to sentiments towards shopping tendency, were asked. We rated them on Likert scale from 1 to 5.

Social circle influencing buying decisions in cosmetics was strongly shown by approximately 49% of Emirati ladies. In this case, the respondents agreed with each question and every question related to the importance of the social circle. Then there were 31% of the Emirati ladies who said they were neutral to the influence of social circle with respect to their buying decisions. In this case, respondents agreed with certain questions while they disagreed to or were neutral to some other

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questions. Thus the net result rendered them neutral towards the social circle and its importance. Lastly, 19% of the Emirati ladies strongly disagreed to the fact that social circle had any influence on their buying decisions. In this case, the respondents either disagreed to or were neutral to every question. Thus the net negative effect of these respondents resulted in them being independent minded. We conclude that the hypothesis was proved and show there is a positive relationship between the consumption of facial color cosmetics by Emirati women and the influence of their social circle.

Hypothesis #2: *There is a positive relationship between the consumption of facial color cosmetics of an Emirati woman and her perception of beauty portrayed through images*.

As discussed above, this hypothesis was proved and it constitutes a solid piece of evidence in favor of the importance for organizations to pay heed to word of mouth as well as to use assimilative values from the West. Something we will take further into the discussion. Hereby, a description of the images:

Image1: The image had a model with loud and heavy eye make-up and lip make-up. This was similar to the make-up style of the Emirati ladies. However, the model had a darker complexion as compared to the Middle Eastern ladies.

Image2: The image had a model portraying a make-up style that was exactly similar to the style of the Emirati ladies. The model selected for this advertisement had facial features and complexion that were similar to the local ladies, but was not a Middle Eastern model.

Image 3: The advertisement had a Middle Eastern model but the make-up style used was very different. It did not have heavy eye make-up or lip make-up. There was no particular feature of the face that was standing out in the image.

Image 4: The advertisement had a western model and exhibited a make-up style that was very different from the one the local ladies have. The make-up style bordered on the lines of a natural look but still had different facial features standing out.

Hypothesis # 3: An advertisement that addresses the health concerns of a woman has a positive co-relation with the consumption of the facial color cosmetics by an Emirati woman.

See Exhibit-D. To prove this hypothesis, Likert scale based questions (1, being strong inclination towards health concerns) helped us understand if scientific claims had a positive impact on the buying decision of Emirati women. The two questions that were used to prove this hypothesis were:

- I prefer cosmetics that are backed by “scientific claims”

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- I tend to purchase products that are "Allergy Tested"

These questions then came together to form a factor. A two sample analysis was then run on the data based on the respondent's age. See Exhibit-A.

The first sample included responses from women who were below the age of 28 years. The second sample included respondents who were above the age of 28. The two samples were run at a significance level of 95%. $t(67) = 2..5173$, $p = .0071$.

Participants below age 28 ($M = 2.645$, $SD = .893$) than those with age above 28 ($M = 1.783$, $SD = .267$). The results stated that the age group below the age of 28 years was neutral to scientific claims, i.e. that scientific claims in advertisements and product information or allergy tested products would not influence their final buying decision. The second sample tended to agree that they would be influenced by scientific claims and would be influenced to buy products that were scientifically backed.

Through our survey we also tried to understand the brand consumption pattern of the local women in three different segments and the result of each of them are shown in Table-1. In addition, according to the expert interviews, Emirati women spent maximum in the skin cosmetics segment. The main products are foundation, concealer and powder. MAC was a clear winner in this segment with the highest number of votes, followed by Clinique and L'Oreal. After skin cosmetics, eye cosmetics are next most heavily consumed. The main products in this segment are Kohl (Kajal), eyeliner, eye shadow and mascara. In this segment there was a close competition amongst MAC, L'Oreal and Christian Dior with MAC topping the segment by a small margin. Finally, the experts say that lip cosmetics are the fastest growing sector in facial color cosmetics. The main products in this segment are lipstick, lip gloss and lip liner. MAC again was a clear winner in this segment with no other brand in close competition.

Hypothesis #4: *There is a positive co-relation between the spending on facial color cosmetics and the ageing of an Emirati woman.*

This hypothesis was run based on our literature study and our expert interviews. They stated that as women age they consume more of cosmetics, thus spending more on the purchase of facial color cosmetics. To prove this hypothesis we ran a cross tab analysis, based on the usage of cosmetics and spending on cosmetics as one base parameter and compared this with responses from different age groups.

Exhibit-C: When readings these computations we are interested in the results for the Continuity correction. We can see here that Chi-square (1) = 26.398, **P** = 0.049.This tells us that statistically there is significant association between Age and Consumption. That is consumption of cosmetic for

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Emirati women get affected with changing age, but we reject our hypothesis, as it is higher within age 18 to 25 and subsequently reduces with advancement of age.

The results of the cross tab analysis showed that as the Emirati woman ages, her spending on facial color cosmetics decreased. Her frequency of shopping also saw a dip and so did the usage of facial color cosmetics.

QUALITATIVE ANALYSIS

Data and Methods

Content analysis is considered to be most appropriate in applying a methodology meant to examine whether patterns in visual media support the research questions. We focus primarily on two aspects of the ads --- first, we seek to collect information about the categories that relate to cosmetics, perfumes and the relevance of the attributes of these to the notions of beauty, luxury and social success. Due to the nature of the research, however, we then investigate the presence of categories that have to do with the traditional versus modern content of the ads.

Advertising is considered the most visible component of the marketing mix to the vast public, whereby figures support this statement. Coulter (2002) indicate that on average U.S. consumers are exposed to between 3,000 and 5,000 advertisements, and most of the time consumers feel overwhelmed by the cluttered messages. This arguably involves addressing the issue of advertising as having two broad effects on society: an economic and a social impact. In the UAE, as reported by Barkho (2007b) the advertising cycle indeed exaggerates the economic cycle impacting growth rate of ad spend across to three to four years. Advertising revenues, particularly in this part of the Middle East, are projected to surpass current figures while the trends in the Cosmetics Industry already underpin buoyant growth of consumption.

With it, the need for media support is visible in the structural developments implemented in the broadcasting industry, whether in the print media as favorite display, television and radio, and online with the technological platforms. Research findings have been mixed regarding the attitude of viewers with respect to the information content of ads. Nonetheless, Richins (1991) finds that young Emirati audiences like college students are more prone to thinking of ads as an important source for beauty tips, which help them select fashion items and engage with personal care as well as cosmetics. In addition, students were reported to have more favorable opinions about the value of advertising in providing them with social role models and symbolic imagery than did adults (Pollay 1993). The literature spanning over the last two decades on the societal effects of advertising include negative criticisms related to corruption of values through the promotion of stereotypes (Wills Jr & Ryans Jr 1982), and the encouragement of unnecessary consumption and purchases Anderson et al., 1978; Andrews, 1989 (Reid & Soley 1982). Given the cultural emphasis of this

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paper, it is worth noticing that consumers tend to exhibit higher negativity depending on their national identities. Accordingly, Russian (Andrews et al. 1994) or German (Witkowski & Kellner 1998) consumers are less inclined to such views than U.S. consumers who are highly sensitive to these negative social consequences. This again could be due to the high exposure to advertisements and the imagery conveyed by the bombastic messages.

Consumer behavior researchers have also employed photographs as stimuli to elicit consumers' subconscious thought processes and, including, to develop theories (Belk et al. 1989) Coulter et al., 2001; (Holbrook & Batra 1987), (Wallendorf & Arnould 1991). Furthermore, the recent developments in the mind and brain sciences support the view of thought processes being orchestrated by images which form in the algorithmic approach involving memory, current stimuli and the amalgamation of the neuronal artifacts.

In case of the sample population we were testing, the Emirati ladies were well-travelled and well versed with the international brands. In general, the Emiratis are big spenders and have a tendency to indulge in brands. They look at brands as a way of life and not as luxury. However, we wanted to understand if the brand consumption was influenced by the status and standing of an individual in the society. Thus we tried to understand the pattern of consumption of the cosmetic brands by the Emirati ladies and whether this consumption pattern was related to their status and income. In the survey, we had questions that addressed the average monthly income, average monthly spending on cosmetics and the brand consumptions in different segments of cosmetics.

Here, Dolce and Gabbana, Christian Dior, Chanel and Estee Lauder were the high end brands in the varied cosmetic segments. MAC, L'Oreal, Clinique and Lancôme were the low end brands. We tried to establish if there was a particular brand consumption pattern in each income bracket. The initial assumption while doing this analysis was that higher the average monthly income the greater would be the consumption of high end brands, and thus higher the average monthly spending on cosmetics. The ones with higher average monthly income would thus tend to indulge more in higher brands, thus trying to assert their status and position in the societal rank.

However, having analyzed the spending patterns across the different income segments, we realized that there was no particular pattern that could be established about the brand consumption. All the cosmetic brands had a presence irrespective of the income level. The ones with low monthly income would indulge in high end brands like Chanel as well as consume low end brands like L'Oreal. Similarly there were no defined brand consumption patterns in the high income level. This segment too indulged as much in high end brands as they did in low end brands. This can also be confirmed by the fact that MAC was the most preferred brand across all different cosmetic segments. MAC was a clear winner across all the income levels too.

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Thus it could be concluded that in the case of Emirati ladies, cosmetic brand names didn't play an important role. Brands, as a status symbol, were not a major influencing factor in the buying decisions of the Emirati ladies. In the particular instance of cosmetics, brands were not considered a means of expressing an individual's standing in the society nor was it related to self-esteem. The brands had spearheaded their presence across all the income brackets. The consumption of the products was according to the brand loyalty and product preference. It was thus interesting to notice that consumption of a cosmetic brand was not a matter of status for Emirati ladies.

Standardized versus Localized Cultural Value Systems

Value systems include the set of beliefs, norms and attitudes to which a given culture subscribes by ensuring reward and punishment mechanisms that stabilize the inherent tensions. Without a thorough understanding of such values, marketers lose grasp of what promotes a given consumption pattern (Durgee & O'Connor 1996) (Durgee et al. 1996). Then again, as Margaret Mead (1928) reminds us:

Courtesy, modesty, good manners, conformity to define ethical standards are universal, but what constitutes courtesy, modesty, and definite ethical standards is not universal. It is instructive to know that standards differ in the most unexpected ways.

Therefore, although value systems exist in all societies, they may differ significantly in terms of what each represent. For example, Indian and Egyptian society is considered to be fatalistic as well as communitarian, versus Denmark or Holland perceiving greater value in being individualistic and having control over external phenomena. Thus, by taking into consideration the dimensions in which opposite propositions of value systems are expressed, we argue that priorities, rules and principles can be built to assist group members in adapting to the cultural environment. In this context, for this piece of research we are particularly interested in the dimension between **collectivism versus individualism** mediated by the cosmetics industry in the Emirati culture and which spans over the period of the last fifteen years.

Many factors affect the advertisement content. Culture is one such significant factor. Numerous descriptive studies have been done on the content analyses of advertisements in culturally sensitive regions (Okazaki et al. 2010). However, very few have a practical or a desirable outcome. While analyzing, one needs to understand the perspective of the consumer and the nature of the product. The advertisement needs to communicate the right message to the right segment of the audience. If the advertisement fails to strike the right chord with the right audience, the sheer purpose of the advertisement fails. To strike the right chord, the advertisement needs to have the correct mix of the "hard sell" and "soft sell" appeals.

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To codify participants' interviews, we selected a group of five cultural categories: **Tradition, Beauty Enhancement, Harmony with Others, Thriftiness**, and **Attitude towards Enjoyment**, based on the results of previous seminal work in the field (Kalliny & Gentry 2007b). Although this group of values should not be seen as conclusive, it represents a solid base to test consumers' attitude in the cosmetics category vis-à-vis the main cultural dimensions as per the preceding discussion.

In this part of the study, we had ten visual advertisements with different products being showcased in each. We edited the advertisements by removing the brand names in certain cases or by removing the product image in other instances. These edited visuals were then put in front of ten respondents from different nationalities and these respondents were asked to answer questions based on each of the ads. The questions basically tested the ease and confidence with which the respondent could identify the product that was being advertised in the edited visuals. Given below are the outcomes of the three main printed ads that signified the importance of the right mix of hard sell and soft sell appeals so as to strike the right chord with the audience.

From the responses, a few very important conclusions were reached. In the first example, the edited advertisement was devoid of the brand name. Yet it very clearly indicated that the product being announced was the bag pictured between two ladies pulling its handles. Even though there was no description of the advertised product nor was there any information related to it, the totality of the respondents could identify the product easily. Since the population in Dubai is well versed with brands, they know what products to look out for in an advertisement once the brand name is given. However, in the case where the image had been edited to remove the perfume bottle, it was the product image that made the difference and made it easy to identify the product that was being advertised. Thus we concluded that at times where the umbrella brand encompasses numerous items, such as apparel, accessories, leather goods and cosmetics, the presence of brand name in the visual helps to shortlist the products but cannot pinpoint exactly which product being promoted.

Accordingly we advise to balance out such printed ads by giving further information regarding the product. In this case, the product image provided the required hard sell appeal. In the third evaluation, we used an ad with strong emphasis on the soft sell aspect that is the subtle, indirect and more intuitive type of appeal. Again the brand name was removed but that was enough to only receive two out of ten proper answers on what the message was, and even that, with relatively more hesitation than in other cited tests. Eventually, the tag line providing indication on what was promoted needed to be present for respondents to reach out onto the message.

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DISCUSSION

Legislation in the Arab world pertaining to the regulation, lawmaking or censure of ads content is practically inexistent. Accordingly, advertising professionals need to draw guidelines from the cultural cues and categories to ensure proper assimilation of their publicized message.

The lucrative beauty and cosmetics industry is set to get even bigger in the region, with some industry experts expecting beauty sales to exceed $3 billion by 2010. This is the prediction of Epoc Messe Frankfurt, organizers of BeautyWorld Middle East, an annual trade fair for beauty products, cosmetics and perfumery held in Dubai. "Almost 60 per cent of the GCC population is under 25 years old, ensuring a high growth rate in the beauty market. The beauty products and services market is worth more than Dh7.3 billion in Saudi Arabia" (GulfNews - Jan. 28, 2009). With trends pointing to strong double-digit growth over the medium term, sales of cosmetics in the Middle East look set to go on par with that of fragrances, according to a senior market source. Currently, the division is in favor of fragrances which account for over 70 per cent of beauty product volumes. The regional market for beauty care products is worth well over $100 million a year. "The Middle East is very much a fragrance driven market, but the last few years have seen the cosmetics industry emerging strongly," said Alexis Szabo, brand manager for the Middle East and Africa at MAC Cosmetics, part of the Estee Lauder Group. "In most mature markets, the split is very much even, and this should happen even in the Middle East in a few years." MAC, which prices its products for the mid-market, has opened its seventh store in the UAE at Burjuman Centre. The UAE accounts for 25 per cent of regional revenues, with Kuwait in second place.

In American culture, consumption is perceived so positively that it becomes a symbolic valence to combat unhappiness. Accordingly, advertising often promises ways to prevent tragedy rather than endure it (Stern 1995). There may be a branded brain. Watching advertisements, on average 3,000 a day for the average American adult, that is five times more than two decades ago, may not just be the new modern lifestyle. It may indeed even alter the brain, that three pound constellation of relationships between billions of specialized cells, in turn shaped by the interplay of genetic inheritance and environmental influences. In fact, researchers are demonstrating that there are very specific areas in the brain atlas triggering reactions because they already are susceptible to such influences which the ads cater to. Therefore, distinguishable patterns in the reactions from viewers can lead to clearly identifiable psychological categories scholars and marketers can use to map the dimensions which engage people at a more profound level. Deconstructing the anatomy of choice allows researchers to dig further into the very delicate function of problem-solving and by extension, that of decision-making. The creation of belief is the essence of modern marketing, in all its facets.

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In this part of globe, further east from the Mediterranean cradle, exploration is still at the inception stage, but telluric changes are in fact occurring in the markets and at a very fast pace. Based on our research, in this section we wish to put forward five recommendations for assisting international cosmetics organizations to implement better advertising practices. First of all, the quantitative research showed that contrary to popular belief, Emirati women tend to spend less with age, thus we take this to be an opportunity to promote more scientific claims on how cosmetics may curb the effects of time on women's faces and even their skin's health. Second, we assessed that Middle Eastern women preferred and were more aware of international make-up trends. In comparison, Emirati ladies chose to put heavy emphasis on eyes and lips but preferred a more localized style of image. This is truly relevant for advertising companies and their different segments, insofar that they can actually contain the population of middle eastern women by playing it out with only two images, since the second most preferred for each nationality turned out to be the first choice of the other, and vice versa. In turn, this also exposes a startling fact which hints at the expatriate population being positioned at another pole of the continuum. The UAE is a culturally sensitive region. Traditions and culture play an important role in the day to day life decisions of the Emirati population. In our research we took heed of the importance and influence of culture in the buying decisions of Emirati ladies. Since the UAE is a highly collectivist country, social circles play an important role in an individual's life. This was confirmed by our research and we learned that Emirati women are strongly influenced by their social circle, in terms of their buying decisions. This implies numerous suggestions, starting from the word of mouth importance for brands of cosmetics, to the portraying of groups of women sharing moments of entertainment while preparing for their beautification habits.

Another important learning was that the population of UAE is not ready for out an out soft sell advertisements. Since majority of the publications cater to a cosmopolitan population, the brands need to understand the importance of communicating effectively with the entire consumer base. Thus, the advertisement needs to have the right mix of soft sell appeal and hard sell appeal. The hard sell appeal of the advertisement ensures that the main message of the advertisement is clearly conveyed to its reader. Taking into consideration such facets will ensure proper delivery of the meaning of the brand.

Finally, throughout our research and the interaction with industry experts, we felt that social media were expected to grow and become a favorite medium for advertising in UAE. Cosmetic brands normally prefer print ads, however, the younger population of UAE is becoming more tech savvy and internet friendly. Companies need to start establishing more consistently their presence online and in social media. This would help them to connect with the thriving and large young generation of consumers. In addition, the cosmetics industry is growing in this market today only

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because of the expanding retail landscape. It is therefore vital for cosmetic companies to look at the region and its people with the needed sensitivity in order to ensure continuous growth in the years to come. We are thus reiterating the fundamental need to pay paramount attention to the cultural subtleties of the region, not so much in terms of subtleties that differentiate the East from the West, but rather as categories of values which are transitioning and can be leveraged in favor of greater understanding addressing the huge potential of opportunities.

CONCLUSION

Research states that the relationship between culture and advertising is multidirectional. There are three major agents who form part of this relationship - the advertising agency, the governing body and the consumer (Gao, 2009). The UAE region is very conservative in terms of portrayal of visual as well as verbal content in advertising. Thus the role of the advertising agencies and the governing body (national media council - UAE) play a very vital role in how a product is positioned through advertising. In this article, we have sought to show that culture in a multidirectional relationship is of particular relevance due to the heterogeneity in value systems in the region. Our focus has been on Middle Eastern women and more specifically Emirati ladies who shop for facial cosmetics, while favoring Western brands. The region, however, is cosmopolitan in nature and this creates a typical tension between standardization versus localization of the advertisements. We have thus suggested that international companies ought to consider at least three different strategies: Global Consumer Cultural Positioning (GCCP), Foreign Consumer Cultural Positioning (FCCP) and Local Consumer Cultural Positioning (LCCP) (De Mooij 2010). From our study, the dominant cultural positioning strategies in the UAE are the GCCP and LCCP owing to the cosmopolitan nature of the region. There is therefore an ever growing focus on the choice of language and visual content that needs to be incorporated in an advertisement in order to communicate effectively with the local as well as the cosmopolitan population. We contend that for a brand and an ad to be truly successful in conveying its promotional message and influencing the mind of consumers, three main issues need to be overcome. That of using a single advertisement which encompasses universal appeals to cater various audiences' needs; that of receiving favorable responses from the consumers onto its advertising mix; and finally, customizing and balancing the message in order to reflect local sentiment and addressing the diversity within the region.

In this delicate process of approximation, we see that the identities in the Middle East have been forged by an incessant interaction with global foreigners which has overturned a status quo into a dynamic exchange of multidimensional messages. Within this cradle, a new modernity has established itself and produces futuristic landscapes of moving colored sands. It is at organizations' reach to be with the flow and to extend a hand to such overwhelming beauties.

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Table-1.

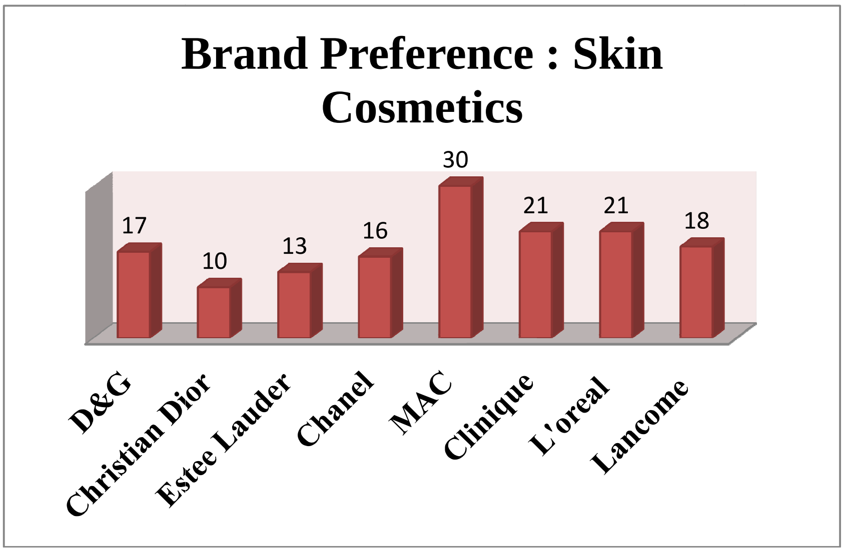

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Exhibit-A.

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		*0.689*
Bartlett's Test of Sphericity	*Approx. Chi-Square*	*313.534*
	df	*91*
	Sig.	*0.000*

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Exhibit-B.

Nationality Vs Image

Count

			Image			
			1.00	2.00	3.00	4.00
Nationality	Emirati	1.00	6	19	4	7
	Others	2.00	1	8	1	23
	Total		7	27	5	30

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	18.290(a)	3	0.001
Likelihood Ratio	19.366	3	0.000
N of Valid Cases	69		

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Exhibit-C.

Age Vs Spending Cross Tabulation						
Count						
		Spending				
		Less than 250	Between 250-500	Between 500-700	Between 750-1000	5.00
Age	Less than 18	5	2	1	1	1
	18-21 Years	6	7	0	8	1
	21-25 Years	5	3	4	1	3
	25-28 Years	0	1	0	1	0
	Above 28 Years	6	0	0	0	1
Total		22	13	5	11	6

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	26.398(a)	16	0.049
Likelihood Ratio	29.819	16	0.019
Linear-by-Linear Association	0.437	1	0.508
N of Valid Cases	57		

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Exhibit-D.

Evidence

	Sample1	Sample2	
Size	62	7	*n*
Mean	2.645	1.786	*x-bar*
Std. Deviation	0.893	0.267	*s*

Assumptions

Populations Normal

H_0: Population Variances Equal	
F ratio	11.18
p-value	0.0057

Assuming Population Variances are Equal

Pooled Variance	0.733	s^2_p
Test Statistic	2.5173	*t*
df	67	

Warning: Equal variance assumption is questionable.

At an a of

Null Hypothesis	*p*-value	5%
H_0: $m_1 - m_2 = 0$	0.0142	Reject
H_0: $m_1 - m_2 >= 0$	0.9929	
H_0: $m_1 - m_2 <= 0$	0.0071	Reject

Confidence Interval for difference in Population Means

1 - a	Confidence Interval		
95%	0.859 ± 0.681464417	=	[0.178 , 1.541]

Assuming Population Variances are Unequal

Test Statistic	5.657	*t*
df	26	

At an a of

Null Hypothesis	*p*-value	5%
H_0: $m_1 - m_2 = 0$	0.0000	Reject
H_0: $m_1 - m_2 >= 0$	1.0000	
H_0: $m_1 - m_2 <= 0$	0.0000	Reject

Confidence Interval for difference in Population Means

1 - a	Confidence Interval		
95%	0.859 ± 0.312272475	=	[0.547 , 1.172]

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AGRI-FOOD TRADE INTENSITY IN THE MEDITERRANEAN SCENARIO

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Abstract

In recent years, a political, economic, commercial, social and cultural dialogue get intensified among the Mediterranean countries. In particular, the establishment in 2008 of the Union for the Mediterranean, under the impulse of the French Presidency, represents the last act of the Euro-Mediterranean integration process, that binds more strongly the EU and Mediterranean countries, in particular those of the Southern and Eastern shores.

The agriculture is an economic activity of great interest in the Mediterranean area due to the weight of employment and the contribution to the richness it brings to certain countries. In this work we analyze the intensity of agri-food trade among the EU Mediterranean states (Italy, Spain, France, Greece, Cyprus, Malta and Slovenia) and the partner countries of the Southern and Eastern shores by using the Traistaru index, widely used in literature. All agri-food products (24 two-digit classes of the harmonized system) are examined during a 15-years period from the Barcelona Process (1996 to 2010).

The results show, even if empirically, that some factors affect on the intensity of bilateral trade, in particular the geographic proximity, and moreover that some products are more sensitive on specific markets, highlighting a certain competitiveness among Mediterranean countries.

Keywords: Trade Intensity; Agro-food products; Mediterranean countries; Euro-Med Policy

Introduction and work aim

In recent years, the political, economic, commercial social and cultural dialog, among the Mediterranean countries, has intensified. The European Union (Eu), in particular, has made the Mediterranean a key area of its foreign policy, generating with the countries that face a situation of interdependence of various kinds (Castellini and Pisano, 2009).

It is due to French President Nicolas Sarkozy last act of the Euro-Mediterranean policy in 2008 with the launch of the Union for the Mediterranean (UfM) (Bicchi, 2011), which encompasses 43 countries including 27 Eu (Galati, 2010). The UfM continues the Barcelona Process, signed in 1995, for the creation of a Euro-Mediterranean regional partnership with the aim to achieve by 2010 a free trade area (Crescimanno, 2007), and the Neighbourhood Policy in 2003 (ENP) initiated by the Eu with the

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Mediterranean countries that with Caucasians ones, in order to ensure a balanced economic and social development through the intensification of trade relations.

The agricultural has always been one of the most discussed issues in the bilateral relations between the Eu and the countries of the region Middle East and North Africa and perhaps the one that has prevented a full implementation of the Barcelona Process. In fact, this sector plays a key role in the economies of Mediterranean countries, particularly the southern shore for the importance that it has on employment and the contribution to economic growth (Crescimanno and Galati, 2009; Asciuto et al, 2007; Hervieu 2006). In act, despite of the numerous association agreements signed between the Eu and several non-Eu Mediterranean countries, many agricultural issues are still open. Indeed, the close similarity between the two shores of the Mediterranean agriculture, which is associated with a marked difference in labor costs for the benefit of the countries of the South shore, may be a gap for European agriculture difficult to recover.

But how strong (or weak) are now agricultural trade relations between Mediterranean countries? What is the intensity of trade in the agri-food industry and what factors influence them most? What are the most sensitive products? In order to give answers to the questions mentioned above, this paper aims to present a framework of agri-food trade between Eu Mediterranean countries and non-Eu Mediterranean partner countries.. This analysis is based on the intensity of trade, in particular making use of some indicators proposed in the international trade literature.

The remainder of the paper is as follows. The literature review is provided after the introduction in the second chapter. The methodological approach and the data collection are explained in the chapter three.

Literature review

In relation to the trade intensity between two countries or groups of countries there is a large literature which are cited below the main contributions. In particular, Drysdale and Garnaut (1982) define two approaches of study on bilateral trade: the first, developed by Linder (1961), Tinbergen (1962) and Linnemann (1966), based on a gravity model of bilateral trade, and a second approach that is based on the intensity of trade, which was pioneered Brown (1949) and was later developed by Kojima (1964), Traistaru (2004), Baxter and Kouparitsas (2005), Edmond and Li (2010), Weldemicael (2010). The index that measure the intensity of trade have been applied in several empirical studies, including the empirical studies of Frankel and Rose (1997, 1998), to verify the eligibility of a country to become part of an Economic and Monetary Union with specific reference to the industrialized countries, Zhang-Yue Zhou et al. (2006), to analyze business opportunities that bind Australia to China, Calderon et al. (2007), that extend the analysis of Frankel and Rose also to developing countries and link the impact of trade between countries at business cycle synchronization.

Other studies have been conducted by Traistaru (op.cit.), who uses the intensity of trade as an element of analysis for the synchronization of business cycle among the eight countries of Central

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Europe and Eu countries in order to identify benefits input costs and the former CEECs in the eurozone; by Bernini Carri and Sassi (2009) that deal with the intensity of trade in the agricultural sector between the Eu and Africa; by Edmonds and Li (op.cit.) that determine the extent of China's trade with different countries of the world by comparing it with that of Japan with similar trading partners; by Jules and Tapsoba (2010), which calculates the intensity of trade in order to verify the synchronization of economic activities in African countries aimed at achieving a monetary union; by De Castro (2012) that analyzes the intensity of bilateral trade between the BRIC countries and the Eu.

Methodological approach

The empirical analysis proposed in this paper makes use of indicators that measure the intensity of agri-food trade, currently defined by the association agreements or stabilization and association agreements between the countries of Southern and Eastern shores of the Mediterranean (Albania-ALB, Algeria-DZA, Croatia-HRV, Egypt-EGY, Israel-ISR, Lebanon-LBN, Libya, Montenegro-, Morocco-MOR, Occupied Palestinian Territories, Serbia, Syria-SYR, Tunisia-TUN, and Turkey-TUR) and those of the Northern shore, Eu members (Cyprus, France, Greece, Italy, Malta, Slovenia, Spain)[10]. For the analysis have used the money flows of exports and imports taken from the United Nation Commodity Trade Statistics Database (UNComtrade) for each of the codes making up making the agri-food aggregate production (classes 01-24 of the harmonized nomenclature, according to the two digits classification[11]). The reference period is 1996-2010. Libya and the Palestinian Territories have been excluded from the analysis since the statistical series relating to these two countries is very fragmented, while the confluence of statistical data (in some years) related to Serbia and Montenegro (SCG) has led to treat the two countries as a single aggregate. The produced analysis start from the definition of the structural framework of the agri-food exchange among the Mediterranean countries. In particular, for the studying of the structure of trade between each Eu member state (defined as countries with a reporter) and Mediterranean non-Eu countries (partner countries), we analyzed the period 2008-2010, showing for each country the products with the largest volumes of imports and exports, and therefore more sensitive for the Euro-Mediterranean association agreements. Concerning

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[10] Cyprus, Malta and Slovenia joined the EU in 2004, are always treated as EU member states for the entire period (1996-2010), this choice has allowed us to verify if the input in the EU context has weakened over the years or less commercial traffic of these countries with other countries are not EU members. The data on trade flows are expressed in current values and refer to the CIF prices for imports and FOB prices for exports.

[11] 01: Live animals; 02: Meat and edible meat offal; 03: Fish & crustacean, mollusc & other aquatic invertebrate; 04: Dairy prod; birds' eggs; natural honey; edible prod nes; 05: Products of animal origin, nes or included; 06: Live tree & other plant; bulb, root; cut flowers etc; 07: Edible vegetables and certain roots and tubers; 08: Edible fruit and nuts; peel of citrus fruit or melons; 09: Coffee, tea, matï and spices; 10: Cereals; 11: Milling products, malt, starches, inulin, wheat gluten; 12: Oil seed, oleagi fruits; miscell grain, seed, fruit etc; 13: Lac; gums, resins & other vegetable saps & extracts; 14: Vegetable plaiting materials; vegetable products nes; 15: Animal/veg fats & oils & their cleavage products; etc; 16: Prep of meat, fish or crustaceans, molluscs etc; 17: Sugars and sugar confectionery; 18: Cocoa and cocoa preparations; 19: Prep.of cereal, flour, starch/milk; pastrycooks' prod; 20: Prep of vegetable, fruit, nuts or other parts of plants; 21: Miscellaneous edible preparations; 22: Beverages, spirits and vinegar; 23: Residues & waste from the food indust; prepr ani fodder; 24: Tobacco and manufactured tobacco substitutes

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the analysis of trade intensity for each agri-food products we have analysed the 1996-2010 period. For the calculation of the intensity of bilateral trade the level of strength and vitality of trade between two countries, we have used the index proposed by Traistaru (1984) (1), applied to the flow of imports and exports that binds Eu countries to Mediterranean non-Eu partner countries studied.

The index proposed by Traistaru (1984), is defined according to the mode as below:

(1) $$Tr_{ij} = \frac{1}{T}\left(\sum_{t=1}^{T} \frac{M_{ij,t} + X_{ij,t}}{X_{i,t} + M_{i,t} + X_{j,t} + M_{j,t}}\right)$$

Where: where Xij,t expresses the exports of country i to country j, Mij,t expresses the imports of country i from country j, Xi,t and Mi,t are, respectively, exports and total imports of country i, while , Xj,t and Mj,t are the world's exports and imports of country j.

The analysis results, may, however, feel the effects of exchange rate between the national currency (in this case euro for reporter countries) and that of the countries where you export, especially those that have different currencies, but also the income level of countries including are realized the exchanges. In this study, another important effects is related to the border trade that can generate, the physical proximity of the countries between such exchanges are made, the flow of indirect transit.

Results

The agri-food trade in the Mediterranean basin

The analysis of the agri-food trade between the seven countries considered reporters and Mediterranean non-Eu partner countries, has allowed the identification of the most important target markets, both incoming and outgoing, and identify at the same time, the main agri-food trade products.

The agri-food exports of the Eu Mediterranean countries towards the non-Eu Mediterranean partner countries, on average in 2008-2010 period amounted to 6.05 billion dollars, compared while the import level equal to 5.25 billion dollars (Table 1).

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Table 1 - Agri-food trade of the Eu Mediterranean countries (average of the period 2008-2010; $)

	Export	Import	Volume of trade	Export (%)	Import (%)
Italy	1,090,405,189	1,650,652,727	2,741,057,917	39.78	60.22
France	3,531,707,360	1,866,998,321	5,398,705,682	65.42	34.58
Spain	848,880,287	1,263,005,581	2,111,885,868	40.20	59.80
Greece	377,053,177	271,644,481	648,697,658	58.12	41.88
Cyprus	78,128,576	29,923,898	108,052,475	72.31	27.69
Malta	7,673,219	14,453,260	22,126,479	34.68	65.32
Slovenia	121,475,690	148,881,649	270,357,339	44.93	55.07
TOTAL	**6,055,323,501**	**5,245,559,919**	**11,300,883,420**		

Source: our elaboration on data UNcomtrade

The country with the highest value of exports is France (3.53 billion dollars), which also holds the record for imports (1.87 billion dollars), showing, however, a significant propensity to export (65.42%). Cyprus, despite the limited volume of trade, with a value of 78.13 million dollars, is the countries reporter more inclined to export. Italy and Spain with, respectively, 2.7 and 2.1 billion of dollars, have a second and third volumes of trade; however this countries have a dependence on imports, that for Italy reaching a share of 60.22% and for Spain stands at 59.80% of the volume total exchange. Heavily dependent on imports are also Slovenia and Malta, respectively for 55.07% and 65.32% of the total trading volume.

With reference to the single agri-food codes and concerning the scenario of Italian exports, Croatia emerges as the main market with 235.91 million dollars, followed by Turkey, with 172.61 million dollars, and Tunisia, with 142.79 million dollars. among the products commercialized there are cereals products (code 10), with a share of 22.42% for the Turkey and 57.76% for Tunisia (Table 2). For Italy the Turkey is the most important imports market with 511.12 million dollars, followed by Tunisia and Morocco. It should highlight how the three main markets in question represented by the fresh fishery products (code 03) which, in particular, in the case of Morocco, occupies the largest share of imports (50.87%) (Table 3).

For France, major trading partners are Algeria, with 1.53 billion USD, Morocco, with 716.66 million dollars, and Egypt, with 510.32 million dollars; for these markets, the largest share of exports concerns the same agri-food products represented by the cereals, respectively, 68.29%, 67.96% and 68.25% (Table 2). On the import side, it stands the figure of Morocco (982.67 million dollars), followed by Turkey (447.38 million dollars) and Israel (220.25 million dollars). In particular, in the relationship with the Morocco, the edible vegetable products intercept the largest share, accounting for 50.43% of imports (Table 3).

Regarding to the Spanish scenario, as regards exports, the figure stands out among all of Algeria with 248.80 million dollars accounts for 29.39% total exports in the period considered (2008-2010), followed by the Morocco with 208.57 million dollars and Tunisia with 80.11 million dollars. It is

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interesting to underline how the animal and vegetable fats (code 15), represents an element shared among these three Spanish partners, respectively, showing a weight of 21.97%, of 11.06% and 16.18% (Table 2). As regards imports, the main supply market for Spain is Morocco, which has only an intercept value of imports amounted to 861.66 million dollars; the codes with the greatest impact are the "fresh fishery products" for 57% and 59%, the "edible vegetables", for 21.21% and "Meet, fish and seafood" for 9.37%, with Turkey and Tunisia.

As regards Greece, the major markets for exports are Albania, with 122.30 million dollars, Turkey, with 82.55 million dollars and Algeria, with 45.48 million dollars. The code 24, regarding the tobacco and manufactured tobacco substitutes, is the one most important, in particular for Algeria, with a weight of 63.30% (Table 2). With regard to imports, the main markets are the Turkey, with 157.33 million dollars, Egypt, with 47.43 million dollars, and Morocco, with 20.21 million dollars; the main agri-food segments are, respectively, the fresh fishery products (24.82%), edible vegetables (76.30%) and ornamental plants (code 06) (92.37%) (Tab.3).

Regarding Cyprus, Syria is the most important partner for the export, to which there is, for the 24 codes of agri-food products, the volume of exports amounted to 24.9 billion dollars. The Tobacco covers the greater the weight (96.36%), followed by vegetable fruits nut food preparation (code 20), and animal, vegetables fats and oils (code 15), presenting a weight less than 2%. Lebanon, with 21.96 million dollars, and Egypt, with 16.56 million dollars, representing, respectively, the second and the third reference market for Cyprus. The main market for the imports is Israel (14.68 million U.S. dollars), to intercept the largest slice are the edible fruit (23.59%) followed by edible vegetables (21.27%) and ornamental plants (18.87%); important is the position occupied by Egypt (6.83 million dollars) and Lebanon (3.60 million U.S. dollars).

Regarding Malta, you may encounter, as the main market for exports, Tunisia, in fact, with a weight of total exports over the period 2008-2010, amounting to 37.56% (2.88 million dollars), stands on Egypt (2.05 million dollars) and Turkey (1.03 million dollars). Regarding Tunisia, it are the cereals that intercept the biggest share in exports of 89.24%, followed by 5.98% and 2.68% respectively, the classes fresh fishery products and beverages (code 22) (Table 2). On the import side, the focus markets including Malta, Morocco stands out with 7.07 million dollars for which, among agri-food sector, there was a strong interest for the products of animal origin (58.27%), followed by Turkey with 2.62 million dollars and Egypt with 2.05 million dollars.

Finally, concerning the Slovenia, it is clear, as concern exports, that primacy belongs again to Croatia (92.79 million dollars), followed by Serbia and Montenegro and Albania, these partners are united by the important impact of the codes 22, related to beverages, and 21 concerning the miscellaneous edible preparations weighing, respectively, 21.28% and 12.27% for Croatia, of 23.47% and 35.76% for Serbia and Montenegro and, finally, of 20.08% and of 62.18% for Albania. Regarding imports, the main supply Slovenian market is Croatia, for which there is a value of imports amounted to 127.77 million dollars, followed with a much lower weight, Turkey and Morocco. Among the agri-food codes

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considered, appreciably affect the miscellaneous edible preparations, with regard to Croatia, with a weight of 17.72%, followed by the edible fruits (48.54%) and edible vegetables (41, 08%), in relation to Turkey and Morocco (Table 3).

The intensity of the agri-food trade in the Mediterranean basin

The Traistaru index calculated for 1996-2010 period shows the intensity of agri-food trade among the countries of the Mediterranean basin; which is the level of intensity of trade that links the various countries and what are the agri-food products holding more weight in terms of trade compared to world trade of these countries.

The Italian position is rather diversified, as the factors that influence the intensity of trade are numerous and in some cases difficult to be isolated. The index of Traistaru, in 13 of the agri-food products, does not exceed the value of one, and for no codes exceeds the value of 5. In detail we have that relationship with Morocco and Tunisia has significant intensity of trade in fish products, with Egypt for edible vegetables, with Turkey, for edible fruits and various milled products and starches, with Israel, for seed oleaginous fruits, with Tunisia, for animal and vegetable fats, with Serbia and Croatia, for sugar and sugar-based products, and finally with Israel for cocoa and cocoa preparations. Overall, the greater intensity of exchanges linking Italy to Turkey, Tunisia and Croatia (Table 4 and Figure 1).

For the France, the most important variable in determining the intensity of trade historical links with the former colonies such as Morocco and Algeria. In fact, Morocco is the most representative partners for the French agri-food trade, at least in terms of intensity of bilateral trade and even of world trade; the most important products are edible vegetables for Morocco (6,98) and cereals for Algeria (4.20).

Spain, in the period in question, has the strongest trade links with Morocco highlighting that in this case, the geographical distance assumes greater importance to the variables that can affect the intensity of trade between two countries. In fact, for 5 agri-food classes and exactly fishery products, live three and other plants, edible vegetables, oil seed and preparation of meat (classes "03, 06, 07, 12 and 16, respectively") the index of Traistaru is positioned at the highest level and then considered in all partner countries, Morocco has a privileged role. There is also a strong intensity with Algeria for milling products (4.20) and with Israel for sugars and sugar confectionery (1.28). Overall, the greater intensity of exchanges linking Spain to Morocco, Turkey and Tunisia.

Greece has a very strong intensity of trade with Albania and Turkey, demonstrating empirically that geographical proximity is again an element that has a decisive bearing on the exchange of the two countries. The highest index is recording with Albania as part of processed products and in particular in the milling products (8.41) and beverages (2.48). Have very strong bilateral trade with Serbia and Montenegro in the field of sugar and derivates (2.83), with Egypt for vegetables (2.70) and with Turkey for fishery products (2.46).

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Table 2 - Agri-food exports of the Eu Mediterranean countries; ($). Main share of market; average 2008-2010

	Code(*)	ALB	Code	DZA	Code	EGY	Code	ISR	Code	LBN	Code	SCG	Code	MOR	Code	SYR	Code	TUN	Code	TUR	Code	HRV
Italy		134,026,617		52,993,146		70,013,079		137,925,054		67,662,141		18,870,190		33,759,177		23,842,534		142,789,736		172,612,102		235,911,414
	22	19.22	08	16.73	24	26.16	19	34.06	19	23.52	19	17.98	19	23.09	10	58.53	10	57.76	10	22.42	19	15.67
	19	13.68	20	15.78	11	16.98	22	11.95	10	15.77	09	10.98	21	9.75	20	7,00	03	13.41	21	15.32	08	8.73
	08	10.30	18	10.35	08	9.11	18	11.83	18	11.46	08	9.91	09	9.10	17	5.18	23	7.79	18	11,00	21	8.53
France		22,918,861		1,530,865,758		510,321,020		135,444,378		145,086,506		1,593,712		716,663,124		103,580,113		170,261,104		151,185,261		43,787,522
	01	67.10	10	68.29	10	68.25	17	24.84	22	17.39	24	53.87	10	67.96	24	49.02	10	35.43	10	16.81	04	10.58
	10	25.41	04	8.69	07	15.94	22	17.17	04	17.15	22	26.20	04	4.61	10	20.29	24	9.01	24	12.19	18	20.09
	22	2.28	19	4.21	04	3.61	21	14.53	19	10.40	21	10.94	5	3.99	04	8.28	17	7.82	12	10.86	21	10.09
Spain		3,365,582		248.796.846		38.415.678		70.560.157		44,158,739		3,238,195		208,565,881		15,917,658		80,107,290		71,403,104		64,351,157
	03	28.49	15	21.97	03	33.82	15	16.48	01	23.82	02	36.45	06	12.05	10	35.36	10	42.51	21	24.41	03	32.78
	21	16.95	10	17.38	20	10.78	17	14.05	16	21.08	03	22.35	15	11.06	24	17.27	03	16.86	10	16.06	08	16.82
	22	10.73	24	11.69	18	9.54	21	12.67	19	12.56	08	16.05	08	10.81	17	12.91	15	16.18	23	13.86	02	14.56
Greece		122,297,841		45,483,123		33,788,745		21,807,210		7,918,915		5,154,981		3,821,105		4,526,199		33,870,077		82,550,469		15,834,513
	24	20.73	24	63.30	24	77.41	20	23.21	24	43.97	24	58.26	10	70.05	15	57.11	10	84.48	10	26.49	8	50.28
	22	14.21	10	25.96	20	10.37	03	21.98	04	11.77	22	24.91	24	11.35	17	17.40	24	13.52	24	16.50	20	17.87
	08	13.98	21	8.48	11	2.63	24	18.83	21	9.36	08	3.90	20	6.61	13	6.69	23	1.15	23	10.52	15	9.07
Cyprus		446,321		130,342		16,563,891		12,479,989		21,964,838		31,617		79,853		24,931,282		263,991		175,284		1,061,171
	02	74.54	23	55.69	24	75.87	03	64.92	24	86.07	24	100,00	20	73.45	24	96.32	24	84.78	24	99.97	07	63.98
	01	10.51	20	35.48	23	13.24	24	19.93	04	2.67	-	-	22	26.55	20	1.88	20	14.09	22	0.03	08	35.72
	03	9.71	22	8.83	12	5.67	20	7.71	22	2.51	-	-	-	-	15	1.39	22	0.65	-	-	20	0.23
Malta		8,971		856,868		2,046,049		18,799		586,818		0		0		239,277		2,882,228		1,027,944		6,266
	22	100.00	10	95.93	21	73.56	21	75.95	19	74.91	-	-	-	-	21	84.52	10	89.24	03	66,80	21	100.00
	-	-	20	4.07	24	23.02	19	15.61	21	23.59	-	-	-	-	22	9.29	03	5.98	19	28,13	-	-
	-	-	-	-	19	3.22	22	4.75	11	1.50	-	-	-	-	19	6.19	22	2.68	08	4,55	-	-
Slovenia		11.556.477		652		49.742		517,300		278,564		15,030,937		182,803		58,286		7,064		1,005,809		92,788,057
	21	62.18	12	100.00	12	65.99	13	40.65	01	52.77	21	35.76	23	100.00	23	100.00	23	100.00	02	54.65	22	21.28
	22	20.08	-	-	21	24.98	21	20.86	12	41.39	22	23.47	-	-	-	-	-	-	23	23.80	21	12.27
	01	11.45	-	-	09	4.66	19	18.72	21	4.91	16	15.79	-	-	-	-	-	-	22	7.62	16	11.75
TOTAL		294,620,670		1,879,126,734		671,198,204		378,752,887		287,656,521		43,919,631		963,071,944		173,095,348		430,181,490		479,959,972		453,740,099

(*) codes 01-24 of the harmonized nomenclature

Source: our elaboration on data UNcomtrade

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Table 3 -Agri-food imports of the Eu Mediterranean countries; ($). Main share of market; average 2008-2010

	Code(*)	ALB	Code	DZA	Code	EGY	Code	ISR	Code	LBN	Code	SCG	Code	MOR	Code	SYR	Code	TUN	Code	TUR	Code	HRV
Italy		31,365,828		8,254,063		191,781,327		174,424,169		2,209,890		3,460,321		214,606,319		17,155,950		381,882,502		511,119,378		114,392,981
	16	57.15	**07**	46.64	**07**	53.61	**08**	35.96	**08**	49.24	**07**	87.27	**03**	50.87	**15**	57.24	**15**	62.93	**05**	57.43	**03**	42.41
	03	14.97	**03**	29.91	**22**	13.8	**07**	29.61	**12**	27.16	**24**	6.22	**16**	26.53	**08**	23.45	**03**	18.73	**20**	9.17	**10**	37.06
	04	7.35	**12**	15.52	**08**	8.17	**12**	11.29	**22**	5.37	**21**	2.10	**07**	8.21	**10**	10.33	**08**	5.05	**03**	8.93	**17**	5.85
France		5,055,668		21,423,894		37,253,999		220,252,860		8,407,225		921,886		982,665,231		4,583,716		133,603,836		447,380,458		5,449,548
	04	29.89	**08**	67.17	**07**	44.55	**08**	44.35	**22**	32.51	**07**	38.14	**07**	50.43	**09**	38.54	**08**	49.56	**08**	47.06	**12**	34.62
	12	19.36	**22**	20.77	**08**	25.24	**07**	22.61	**20**	27.90	**08**	34.73	**08**	20.86	**24**	13.36	**07**	12.79	**21**	17.16	**10**	18.93
	03	3.49	**03**	5.50	**22**	9.73	**20**	11.52	**24**	18.27	**22**	14.63	**16**	10.50	**12**	12.54	**15**	12.15	**20**	14.05	**03**	10.40
Spain		1,362,643		18,513,209		32,763,768		63,854,995		825,690		17,810		861,658,764		6,333,333		118,103,435		147,817,663		11,754,271
	03	51.03	**03**	63.43	**07**	24.21	**12**	47.39	**24**	53.99	**07**	99.56	**03**	57.59	**15**	31.79	**15**	49.49	**08**	28.65	**03**	51.14
	12	25.07	**12**	17.13	**17**	19.04	**08**	14.19	**20**	9.50	**22**	0.44	**07**	21.21	**14**	26.28	**03**	25.47	**03**	21.62	**10**	20.77
	16	15.24	**17**	13.39	**23**	17.72	**07**	11.84	**12**	8.62			**16**	9.37	**09**	21.15	**08**	10.96	**20**	14.89	**23**	14.42
Greece		7,635,623		565,972		47,425,506		13,861,185		835,810		164,246		20,208,598		973,879		5,891,074		157,331,066		16,751,523
	03	47.04	**17**	91.86	**07**	76.30	**07**	25.42	**24**	34.16	**22**	85.86	**06**	92.37	**12**	30.15	**03**	95.84	**03**	24.82	**17**	68.37
	20	16.94	**12**	6.30	**22**	7.76	**08**	22.30	**20**	25.98	**15**	6.46	**20**	1.76	**09**	24.84	**05**	1.99	**08**	21.85	**10**	14.88
	07	10.69	**24**	1.83	**03**	4.31	**12**	18.45	**08**	11.02	**03**	6.27	**16**	4.42	**24**	22.18	**23**	1.93	**07**	12.26	**12**	8.44
Cyprus		0		0		6,826,262		14,675,736		3,599,881		9,995		518,274		1,162,778		2,035,814		24,939		1,070,220
	-	-	-	-	**03**	42.15	**08**	23.59	**22**	40.32	**22**	100.00	**03**	40.34	**09**	27.81	**03**	92.25	**22**	83.46	**10**	91.14
	-	-	-	-	**07**	21.65	**07**	21.27	**08**	20.15	-	-	**16**	36.04	**19**	19.42	**08**	13.93	**07**	13.93	**23**	8.24
	-	-	-	-	**23**	17.65	**06**	18.87	**20**	16.46	-	-	**15**	22.50	**20**	17.91	**19**	2.61	**19**	2.61	**19**	0.33
Malta		0		3,563		2,050,190		168,508		177,096		5,326		7,067,197		21,896		322,873		2,623,861		2,012,750
	-	-	**15**	100.00	**08**	69.58	**20**	35.32	**17**	83.61	**22**	100.00	**05**	58.27	**01**	43.84	**15**	42.29	**08**	27.40	**10**	82.79
	-	-	-	-	**15**	19.89	**21**	24.43	**22**	14.64	-	-	**03**	32.71	**08**	35.30	**08**	37.65	**22**	24.10	**18**	11.74
	-	-	-	-	**07**	4.78	**17**	19.48	**20**	1.39	-	-	**21**	7.86	**19**	19.46	**17**	8.03	**21**	16.39	**19**	5.46
Slovenia		499,974		26,358		2,060,207		3,950,212		483		227,432		4,131,900		3,172		321,947		9,885,187		127,774,777
	12	72.84	**08**	94.67	**08**	47.75	**08**	70.93	**08**	47.38	**22**	64.82	**07**	41.08	**09**	81.43	**08**	67.56	**08**	48.54	**21**	17.72
	22	9.82	**07**	3.13	**07**	37.51	**20**	10.10	**07**	29.07	**07**	16.53	**03**	21.29	**07**	10.72	**12**	24.81	**07**	24.43	**17**	16.80
	08	7.34	**03**	2.09	**20**	10.46	**12**	6.22	**05**	23.55	**12**	8.19	**16**	11.13	**12**	6.97	**03**	6.14	**21**	9.46	**19**	13.82
TOTALE		45,919,737		48,787,059		320,161,259		491,187,665		16,056,075		4,807,015		2,090,856,283		30,234,724		642,161,482		1,276,182,552		279,206,070

(*) codes 01-24 of the harmonized nomenclature

Fonte: nostra elaborazione su dati UNcomtrade

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The small republic of Cyprus, however politically divided in two, has not generally a significant intensity of trade at least for most of the codes comprising the agri-food industry, as evidenced by the value of the Traistaru which is maintained at rather low levels.

The role of Malta is even less effective, the exchange is notable only by Egypt and Morocco, as with a generic voice-which includes various food preparations-with an index value of 2.31 and 1 respectively , and with Serbia and Montenegro for sugars and sugar-based products (2.61). In all other cases the value of the index is below the 1.

Most active is the commercial weight of Slovenia, which is characterized by strong ties with Croatia, its partner in more than 20 agri-food codes. The exchange is lively for preparations of cereals, flour etc.. (10.13), followed by prepared meat and fish (8.64), and at the third place the animal and vegetable oils and fats (8.06). According to Slovenian partners but are far behind Serbia and Montenegro for trade in dairy products and vegetables. Trade with countries of the southern Mediterranean are very weak.

Selecting for Italy, France, Spain and Greece the first three items in which the Traistaru index presents the highest value in respect of each partner country it has been possible to identify the products most sensitive and for which there might be more competitiveness inside the Eu Mediterranean countries.

In particular, Italy, with eight out of eleven Mediterranean partner countries has a significant intensity of exchange of products of milling products (code 11), with five countries for sugar and products made of sugar (code 17).

At the same time contending with France and Spain on the Albanian market of sugar and with Spain and Greece that of milling products etc.. A similar competition emerges for the Algerian market with France and Greece on cereals and edible vegetables, with Spain and Greece on Tunisia for the fish products, and the same with Spain and France, for the animal and vegetable fats.

France has a higher intensity of trade for sugar and cereals with five of the eleven partner countries examined, Spain with eight out of eleven countries for voice sugars and Greece with four countries, Algeria, Egypt, Israel and Serbia for tobacco.

Finally, it is interesting to note that the top three traded codes do not include meat and edible meat.

Conclusion

The results reported in this work indicate that among all the countries bordering the Mediterranean there is an intensive agri-food trade. This intensity of trade is also due to the Euro-Mediterranean policy conducted by the European Union and starting with the Barcelona Process.

France holds a very important role in the agri-food trade, in fact it is the country with the largest volume of trade and a good export potential to countries of the Southern Mediterranean, followed Italy and Spain, but in this two countries the value of the import is more than the export one.

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The index of Traistaru used to calculate the intensity of bilateral trade in the period 1996-2010, indicates empirically that the intensity of trade is stronger between those countries that are geographically closest, as is the case of Spain and Morocco, Greece and Albania, Italy and Tunisia, Syria and Cyprus, Slovenia and Croatia or those with cultural affinities as France and Algeria.

Moreover, the index calculated for each individual item of the seven Eu Mediterranean countries and eleven Mediterranean non-Eu partner countries, has emphasized that for some codes the intensity of trade is stronger, it is especially fish products, sugar and dairy products, cereals, vegetables products.

Finally, selecting for Italy, France, Spain and Greece the first three items in which the agribusiness index Traistaru presents the highest values with respect to each partner country, it was possible to identify the most sensitive products and for which there might be more competitiveness.

Italy, for example, with eight Mediterranean extra Ue partner countries has a significant intensity of exchange of products of the milling industry, malt, starches, etc.., and it contends the market with France, Spain or Greece.

Similar scenarios are found for other Eu countries.

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DETERMINANTS OF ITALY'S AGRI-FOOD TRADE FLOWS WITH THE MEDITERRANEAN NON-EU PARTNER COUNTRIES

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Abstract

The objective of this paper is to evaluate the determinants of Italy's agri-food exports in the markets of Mediterranean non-EU partner countries and, particularly, the impact of Agreement Association signed in the Euro-Mediterranean partnership. The Mediterranean Sea situated at the crossroad of three continents, the European, the Asian and the African one, has ever been of great strategic interest for several geo-economical powers and in particular of the European Union as one of its foreign policy main protagonists. Italy as a centred Mediterranean country which is sharing agri-food production with some Mediterranean partners could profit from the EU's relationships with the partners of the area even further. The authors estimate a gravity equation including some of the main variables founded in the literature review, useful to highlight the main factors which are able to influence in a significant way the level of the bilateral exchanges. The results of this study show that the variables traditionally included in the gravity equation present the expected sign. In particular, the Italian agri-food flows heading towards the Mediterranean partners is positively correlated to the income of the destination country and the colonial link and negatively to the distance incidence of the agricultural surface on the territorial land, the belonging to a specific geographical area and the Association Agreements.

Keywords: Trade flows, agri-food, Euro-Mediterranean partnership, Association Agreement, Gravity model

Introduction

The Mediterranean Sea is considered as one of the most important ocean area in the world, the shores of its certain countries have sprung some of the richest civilization mankind has ever known (Abbadi, 1984). This area, situated at the crossroad of three continents, the European, the Asian and the African one, has ever been of great strategic interest for several geo-economical powers. EU, in particular, has made the Mediterranean Sea one of the main protagonists of its foreign policy, not only for the physical nearness among the countries which overlook it, but for the trade and colonial bonds of some countries of EU with their old colonies as well (Constant LaForce, 2011). Since the signing of the Rome Treaty in 1957, EU has maintained and strengthened a variety of special relationships with several Mediterranean countries, firstly in Yaoundé Conventions (1963-75) and the Lomé Convention field (1975) and later in the framework of specific political and economic relationships which have characterized the past fifty years[12]. In this articulated political background, sometimes contradictory and far from the strategic interests of such an important geo-political area, the agricultural matter has ever represented one of the most interesting themes, within the bilateral relationships, above all with the creation of the Euro- Mediterranean free-trade area. Agriculture plays, in fact, a significant role in a lot of countries which overlook the Mediterranean Sea, both in the social and economic field (Hervieu, 2006), justifying the strong structure of trade protection both parties have adopted, with the imposition for several agricultural goods the barriers price.

There are a high number of empirical applications in the economic literature which have used the gravity model to explain the determinants of bilateral trade and the impact of free trade agreements in the Euro-Mediterranean region. These results highlight an increase in EU's exports towards the Mediterranean partners after that the association agreements came into effect but, on the contrary, less significant results, and sometimes negative, of the implementation of the same agreements on the Mediterranean partners, pointing out a deep asymmetry in the exchanges and a low differentiation of the exported products by the Mediterranean partners towards EU's countries (Hagemejer and Ciselik, 2009; Ruiz and Villarubia, 2007; Bensassi et al., 2010).

Through the formulation of this gravitational model, Ferragina et al. (2004) esteem the trade volume really produced by the liberalization after the agreements in 1995 and the predictable additional trade after an urged integration, pointing out a wide, but not exploited, trade potential between EU's countries and the Mediterranean partners. Therefore, the gravity model is also used to provide a quantitative assessment of the Euro-Mediterranean partnership and discusses its implication for the ASEAN countries' new regional policy (Peridy, 2005). With specific reference to the agri-food sector, the gravity model has been widely used to analyse the influence of Association Agreements on the fruits and vegetables trade between Southern Mediterranean Countries and the European Union (Castellini and Pisano, 2009; Emlinger et al., 2008; García-Álvarez-Coque and Martí Selva, 2006), but also to examine the impact of Turkey's possible integration into to European Union on the country's agricultural exports (Atici et al., 2011), and to quantify the effects of the commercial liberalization of the exchanges between Morocco and the EU countries on the specialization of the agricultural sector (Idir, 2004).

Italy as a centred Mediterranean country which is sharing agri-food production with some Mediterranean partners (olive oil, wine, citrus fruits) could profit from the EU's relationships with the partners of the area even further. The purpose of this paper is to evaluate the determinants of Italy's export trade flows toward the Mediterranean non-EU members countries,, through a gravitational

[12] Since the 70's The European Economic Community has strongly maintained political relations with the Northern Africa and the Near East countries, firstly in the Global Mediterranean Policy (1972) and later with the Renewed Mediterranean Policy (1990), the Barcelona Agreement (1995), Neighbourhood European Policy (2004) and the Union for the Mediterranean (2008).

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model which, even if simple enough in its formulation, it is particularly effective in the analysis of the international trade.

After an overview of Italy's agri-food trade flows, the foundation of gravity model is described. Then, the econometric methodology is explained. Finally, the results of the gravitational model are presented and discussed and the theoretical and managerial implications of the study are highlighted.

Overview of Italy's agri-food trade flows with non-EU Mediterranean partner countries

From 1996 to 2010 the bilateral trade of Italy with the Mediterranean non-EU member countries has been showed an increasing trend, both for total exchanges and for the agri-food ones. With a specific reference to the latter, the value of export grows up to about 1,106.6 millions of dollars and import value reaches about 1,579.5 millions dollars (see Table 1).

Italy's agri-food exchanges with the countries of the area have intercepted an average of 5,2% of the total exchanges (3,2 % of exports and 7,8 % of imports). The agri-food, in particular, has got a significant weight in Italy's total bilateral exchanges with Morocco (10,2%), Albany (9,2%), Tunisia (7,5%) and Croatia (7,1%).

Table 1 - Italy's Agri-food trade flow with Mediterranean non EU partners countries (Million of $)

	Export			Import		
Years	Total	Agri-food	%	Total	Agri-food	%
1996	14.859,22	631,63	4,3	9.670,63	760,50	7,9
1997	14.363,19	619,04	4,3	9.740,14	760,02	7,8
1998	14.037,41	542,21	3,9	8.992,91	744,77	8,3
1999	12.086,45	460,18	3,8	7.823,57	769,69	9,8
2000	13.676,11	460,60	3,4	8.970,32	640,32	7,1
2001	13.577,27	456,96	3,4	10.017,38	748,64	7,5
2002	14.480,43	528,32	3,6	10.387,63	834,85	8,0
2003	17.609,19	599,05	3,4	12.702,90	1.128,09	8,9
2004	21.723,57	642,54	3,0	16.160,54	1.514,32	9,4
2005	23.620,17	685,41	2,9	16.822,00	1.784,37	10,6
2006	26.307,74	749,87	2,9	20.417,88	1.880,89	9,2
2007	32.633,82	851,81	2,6	21.403,47	1.742,89	8,1
2008	39.769,31	1.202,00	3,0	23.978,97	1.722,49	7,2
2009	30.585,37	964,57	3,2	25.507,46	1.649,93	6,5
2010	35.628,98	1.104,64	3,1	30.617,87	1.579,54	5,2
Average	*21.663,88*	*699,92*	*3,2*	*15.547,58*	*1.217,42*	*7,8*

Source: Our elaboration on UNComtrade data.

The analysis of agri-food flows shows a clear asymmetry of the exchanges. In the reference period, Italy designed in the near markets of North Africa and Near East an average of 3% of the total agri-food exports' value, whereas the original productions of these countries have represented about 3.7% of the world Italian imports.

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On the contrary, for the non-EU Mediterranean countries, Italy represents a privileged partner absorbing more than 8,5% of their total agri-food exports; it represents, in particular, an important outlet market for Albany's agri-food productions (35,2% of the total agri-food exports head towards Italian market) and Tunisian's ones (33,3%), though we can't overlook the importance of the Italian market towards Croatia (10,3%), Egypt (8,8%), Morocco (7,2%) and Turkey (6,1%).

What comes out from the analysis of the trade flows for each partner country is, furthermore, a clear delineation of the reference markets towards Italy both for the supply and for sale of agri-food productions. More specifically, Italy designs its own agri-food productions above all towards Balkan markets and towards Croatia (24,5%), Turkey (11,8%) and Albany (11,4%) in particular, while it supplies above all from Turkey (32,7%), Tunisia (25,0%) and Morocco (13,7%).

Italy's relationship with the Mediterranean non-EU partner countries is based on the Euro-Mediterranean Association Agreements, with the countries which signed the Barcelona Declaration[13] (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territories, Syria and Tunisia) and the Stabilisation and Association Agreements, with the western Balkans potential EU candidates[14] (Albania, Bosnia-Herzegovina, Croatia, Montenegro and Turkey). The negotiated bilateral agreements with the intention, on the one hand, to pursue the ambitious aim to create a sole Mediterranean market (well-known as free-trade area) and, on the other hand, to move the Balkan countries closer to EU with a view to their future entry, characterized by a strong heterogeneity linked not only to the countries but to the kind of product exchanged as well. In specific reference to the agri-food exchanges, both EU and its partners have built a well-structured protection system which, for the Southern Mediterranean countries, for example, consists in some typical production of this area as fruit and vegetables, durum wheat and meat (Garcia-Alvarez-Coque, 2002).

Such a system has got an effect, on the European side, to apply ad valorem and specific duties only for some of these products. In fact, the amount of these latter products depends on the import prices according to an income price system used for fresh fruits and vegetables, for instance. In the South, the protection level towards agri-food products import coming from EU countries keeps on maintaining on high levels, Egypt, Jordan, Syria and Morocco in particular (Crescimanno et al., in press). During the Association Agreements and Association and Stabilization, taking into account the strong conversational abilities of the market conditions of the adopted measures, some specific negotiations for the agri-food products have been started[15]. They don't concern all the agri-food

[13] Within the Euro-Mediterranean partnership, signed in Barcelona in November 1995, the EU signed Association Agreements of bilateral nature with all the Mediterranean partners. The first agreement come into effect is that between the Palestinian Regions (1997) followed by that with Tunisia (1998), Israel (2000), Jordan (2002), Egypt (2004), Algeria (2005), Lebanon (2006). The Agreement with Syria signed in 2004 still must come into effect.

[14] Within the Balkan region, the first Stabilization and Association Agreement come to effect is the one signed with Croatia (2001) followed by the one with Albany (2009) and Montenegro (2010). Turkey, one of the candidates to join EU, is linked to the latter by a customs union.

[15] Agri-negotiations which have been closed with Jordan, Egypt, Israel and Morocco are an example, but only the ones with Egypt and Morocco came into effect respectively in June 2008 and February 2012.

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products, and start from the abolition of the customs house duties, and the equivalent effect measures, to the elimination of just the ad valorem part of the duty for the products for which there is an income price system, and also the reduction of the duty in price quota and specific calendars.

Foundation of Gravity Model

The gravity model has been used extensively in the past 50 years in the analysis of bilateral trade between home and partners' countries, to explain the determinants, the potential and the direction of bilateral flows, explain and predict the effects of free trade agreement on trade flows in various sectors, including the agri-food.

Tinbergen (1962) and Pöyhönen (1963) were the first authors who applied the gravity equation to analyse the bilateral trade between two countries. Previously, other authors had also used the same model for the analysis of migration (Somermeyer, 1961), telephone and airline traffic between cities (Hammer and Ikle, 1957).

The gravity models have been several times criticized for the absence of strong theoretical foundations; for this reason, many theoretical studies, in the past few years, have tried to establish the theoretical foundation of such a model. The first explanation was developed by Linnemann (1966) and asserts that the gravity model is a reduced form from a four-equation partial equilibrium model in which the trade flow between two countries is a function of the export supply and import demand. Anderson (1979) used a linear expenditure system assuming that the preferences between importing countries are homothetic and uniform; besides he assumes that the products are differentiated by origin. Bergstrand (1985, 1989), starting from Hecksher-Ohlin's theoretical model (H-O), deduces equations of bilateral exchange flows as function of national incomes, per capita incomes and distance.

More recently Deardoff (1998) has discovered how to derive the gravity model starting from H-O's model; for the author himself, in fact, the classic model of the international trade reproduces the gravity principles leading to the same results as the monopolistic competition models, in which each country specializes itself in some varieties of the product becoming the only exporter of them.

There are a huge numbers of empirical applications in the literature of international trade that have contributed to the refinement of the explanation of the variables considered in the analysis and to the addition of new variables (Martines-Zaroso, 2003). The first gravitational models didn't include the distance between the trade determinants so that they couldn't be exactly defined as gravitational models. Only after, Bergsstrand (1985) introduced the role of transport costs as proxy of the distance. The introduction of the distance in the equation is justified in some works, among which Lipsey and Weiss's ones (1974), who demonstrated that the distance is positively associated with the levels of transport costs, but with more unexplained variation than one would expect (Frankel, 1997). Bergstrand (1985, 1989) introduces, later, the price and exchange rate variables, because it has a plausible and significant effects on aggregate trade flows. Fontagné et al (1998), introduce cultural and historical factors, Frankel and Wei (1993) introduce the belonging to an agreement both as dummy

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and as explicit measure of customs house and no-price barriers rights (Emlinger et al., 2008; Fontagné and Péridy, 1995).

In his basic formulation, the gravitational model applied to the bilateral trade between two countries is an empirical relationship based, as said before, on Newton's universal gravitational law, in which the attraction strengths correspond to incomes of the two countries whereas the repulsion ones to the geographical distance which separates these two countries.

$$T_{ij} = A\,\frac{Y_j Y_i}{D_{ij}}$$

T_{ij} is the value of trade flows between countries i and j, Y_j and Y_i are the national incomes.

D_{ij} is a measure of the distance[16] between them and A is a gravitational constant and depends on the measure unit of the other parameters. Using the logarithmic it is possible to transform the equation 1 into a following form:

$$ln\,T_{ij} = A + \alpha\, ln\,Y_j + \beta\, ln\,Y_i - \theta\, ln\,D_{ij} + \varepsilon_{ij}$$

The inclusion of the term of error allows the esteem through a linear regression using the Ordinary Least Squares (OLS). The model used here combines the Hecksher-Ohlin's (H-O) Theorem on the comparative advantage, which explains the trade between two countries based on the differences of endowments factor and shows that the largest differences in endowments factor between two countries lead to a higher level of trade. The new trade theory started by Helpman and Krugman (1985), which links the bilateral trade to the countries' political situation, among which the exchanges take place and drawing a relationship between monopolistic competition model and gravitational model, was validated later by Helpman (1987) through a gravitational equation, and recent theoretical development related to trade costs (Anderson and van Wincoop, 2003, 2004).

The gravity model specification

To answer the purpose of this research, or rather to evaluate the determinants of Italy's agri-food exports in the markets of Mediterranean non-EU partner countries, a gravity model has been esteemed which includes some of the main variables founded in the reference literature, useful to catch the main factors which are thought to be able to influence in a significant way the level of the bilateral exchanges. The esteemed gravity equation is specified as:

$$\ln EXP_{ij} = \beta_0 + \beta_1 \ln GDP_j + \beta_2 \ln D_{ij} + \beta_3 \ln ISA_j + \beta_4 \ln Area + \beta_5 \ln AA_{ij} + \beta_6 \ln His_{ij} + u_{ij}$$

The dependent variable is represented by Italy's agri-food exports towards Mediterranean partners (EXPij). The explicative variables take into account both the standard ones of the gravity model, that is

[16] The distance puts together all the questions linked to the transport and transition costs deriving from trade activities.

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the economic variables linked to the country's economic dimension and the Gross Domestic Products of countries j (GDPj) and the economics cost of flows such as the distance between countries i and j (Dij) in particular. Finally, u_{ij} is normally distributed error component capturing any random influence.

In the proposed model other explicative variables have been inserted. It's about the incidence of the agricultural surface on the territorial land of the countries j (ISAj), the presence of Association Agreements between countries i and j (AA), and the variable which represents the presence of colonial link (His). These latter two variables are expressed with dummies and are equal 1 if between two countries there are trade agreements or colonial links and 0 otherwise. Finally the variable "Area" has been introduced, concerning the belonging of the partner country to Maghreb Region (Algeria, Morocco or Tunisia), Machrek Region (Egypt, Jordan, Lebanon or Syria) or Balkan countries and Near East (Albania, Croatia, Serbia and Montenegro, Turkey and Israel).

Regarding the variable which expresses the income, there are two different formulations in literature. The first inserts the country's total GDP which is positively related to the trade flows and causes a dimension effect[17]. While the second, considering the GDP per capita, causes, instead, an income effect. For the latter variable, the coefficient sign can be negative, in Linder's hypothesis (1961), according to which countries with different per capita income levels have similar preferences but different for typology of product, or positive, in H-O's hypothesis according to which countries with different per capita income levels deal with countries with similar per capita income levels.

Even if the two formulations are equivalent (Castellini and Pisano, 2009) in the paper we have decided to consider the entire GDP. In fact, the per capita GDP is usually chosen for the estimation of bilateral exports for specific products while total GDP is often used in the case of aggregated exports' estimation (Martinez-Zarzoso and Nowak-Lehmann, 2002). In particular, we have chosen to refer to the values expressed in equality of spending power being this form the most preferred one (Frankel, 1997; Boisso and Ferrandino, 1993, 1996) mainly to depurate the GDP value from the exchange rate of the several currencies of the countries taken into account.

The variable colonial bounds has been inserted in the model to verify if the cultural and historical bounds can still influence today the exchange structure, expecting, in this case, a positive sign of the coefficient. Besides, a positive sign of the variable coefficient relating to the presence of Association and Association and Stabilization Agreements between the two parts is expected, considering that these latter have been signed just to intensify the exchanges and to favourite the Euro-Mediterranean integration.

The variable related to the agricultural specialization of the partner country expressed as percent ratio between the agricultural surface and the total territorial one has been inserted to verify its

[17] The bigger the countries are the more goods and services they produce and put on the market but at the same time they produce more income by the sold of these goods and services and so, their inhabitants are able to import more.

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relationship with the export flows. The first hypothesis is that countries in which agriculture has got a modest weight use imports to satisfy the domestic demand, a negative coefficient is expected.

Eventually, the distance expressed in Km between the capitals of the considered countries should be negatively related to the dimension of the agri-food flows; as Lipsey and Weiss demonstrate (1974). In fact, the distance between two countries is positively related with the level of transport costs and it influences the capacity to create personal contacts and other communicational forms which in turn influence trade.

The gravity equation is referred to 11 Mediterranean Countries (Albania, Algeria, Croatia, Egypt, Israel, Lebanon, Morocco, Serbia and Montenegro, Syria, Tunisia and Turkey).

In relation to the origin of the necessary data for the implementation of the model, the export data (in current dollars) are obtained from the database United Nation Commodity Trade Statistics (UNComtrade), for the number of entries which form the aggregate of the agri-food productions (class 01-24 of the harmonized nomenclature, according to the classification a two digit). The distance expressed in km between the capitals is obtained from the City distance Tool (www.geobytes.com). The data concerning the GDP of the partner countries are extracted from the World Bank data, while the ones concerning the agricultural surface and to the total surface are Faostat data. The reference period is the fifteen-year period 1996-2010.

Results and discussion

The results of the estimation, carried out using the SPSS software was done through Ordinary Least Square (OLS), of the gravity equation are presented in Table 2. As we can see, it is possible to notice that, the model has got a relatively low explanatory power with a R^2 of 0.628, that is, the 62.8% of the variation in the export is explained by our selected specification of the gravity model. The results of the model show that the most of the coefficients of the basic gravity equation are statistically significant at level less than 1% and have in the most cases the expected signs.

The coefficient of the economic dimension variable of the country is positive and statistically significant with a value of 0.401, this reflect that the trade flows are positively influenced by the variable associated to size. This result confirm, moreover, as other authors previously highlighted, that bigger economic dimensions of the partner countries can lead to a wider opening towards imports (Canavari et al., 2007).

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Table 2. OLS Results for the Gravity equation

	β	Standard error	Significance level
Constant	11.420	2.051	0.000***
GDP importing countries (GDPj)	0.401	0.079	0.000***
ISA partner countries (ISAj)	-0.164	0.072	0.023***
Distance (Dist)	-0.495	0.080	0.000***
Association Agreement (AA)	-0.023	0.140	0.867
Area	0.808	0.282	0.005***
Colonial link (His)	0.201	0.074	0.007***
Adjusted R square 0.628. F-Test = 17.179***			

*** indicate that the estimated coefficients are statistically significant at 1 percent

Reference period: 1996-2010

The Italian exports towards the Mediterranean partner countries are positively affected by the Area and Colonial link. Regarding the first variable, its coefficient is statistically significant and its sign is positive, highlighting that the Italian agri-food exports are increasing passing from the Mediterranean Southern area to the Balkan one, pointing out, furthermore, a modest integration ability with Italy's Maghreb and Machrek markets. This can be justified by the effect of the presence of a protection system less restrictive towards agri-food productions between EU, and the potential candidates to European Community on the one hand. On the other hand, it's justified by: the geographical nearness with the countries themselves (as Croatia for example), their nearness from the cultural point of view as well, from historical links (with Albany for instance, which is an ex Italian colony) and the agri-food specialization of some partners (Turkey in particular as the main Mediterranean agricultural power). The variable colonial link is also positively related to the value of Italian exports in the area, showing that the historical bonds between the countries still play an important role in the tendency of the commercial flows and so in the strengthening of the economic bonds between the countries.

While, the distance variable appears, as a "resistant factor" being negatively related to the exports flows and with a statistically negative coefficient. The negative impact of geographical distance is due to the transport costs, paid both for exports and for imports. This factor is very important for the agri-food products and in particular for fresh products. But as Vlontzoo and Duquenn affirm (2007), it also reflects a "cultural distance" and the lack of information. What emerges demonstrates that, though the technological innovations in the logistic system and in the goods transport in particular, there is more still a significant premium for proximity to the destination markets related to the regularity requirements imposed by the retailing companies (García-Álvarez-Coque, 2006).

Another resistance factor is the influence on Italian exports of the variable which expresses the incidence of agricultural surface on the territorial land of the partner countries (ISA), which measures the sectional specialization level. The coefficient of the variable is negatively correlated to the

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dependent variable and statistically significant. In other terms, when the specialization in the agricultural sector in the partner countries increases, the Italian exports in those countries decrease.

Finally, the coefficient for the dummy variable Association Agreement is negative and it isn't statistically significant. This result, which disagrees with the basis hypothesis, shows that the signatures of the Association Agreement between European Union and the partner countries have had a low significance impact on the bilateral trade and haven't achieved the aim to integrate the Mediterranean economies in the Euro-Mediterranean market.

The present model has been submitted to several diagnostic tests to verify the presence of collinearity and heteroskedasticity. According to collinearity, we have analyzed the values of Tolerance and Variance Inflationary Factor (VIF) related to β parameters. Referring to the first, values between 0,426 and 0,833 have been found, showing, therefore, that the multiple correlations between the variable at issue and the other repressors are low. Even the analysis of the values VIF, which have resulted in a range between 1.200 and 2.350, reveals that there are no sign which indicates the presence of collinearity between the independent variables of the model.

Concluding remarks

The present paper has studied the Italian agri-food exports in the 1996-2010 period in or towards the Mediterranean non-EU partner countries and, through an empirical analysis carried out using a gravity model, the possible influence on them of some economic, historical-cultural, geographical-territorial variables. The results of the model suggest that the variables traditionally included in the gravity equation present the expected sign. In particular, the Italian agri-food flows heading towards the Mediterranean partners are well explained by the conventional gravity variables such as income of the destination country, distance and colonial link, in addition to other factors such as incidence of the agricultural surface on the territorial land and the belonging to a specific geographical area.

The studied variables, moreover, for what they can result explicative of the proposed gravity model, could be, nonetheless, modified and/or integrated widening the information, on the infrastructural endowment of the partner countries, which represents one of the factors which influence the trade exchanges between the countries.

From the analysis it seem as the relationships between Italy and the Mediterranean partners haven't felt the effects of the subscription of agreements, and of association ones in particular, signed with the countries of the Southern shore of the Mediterranean Sea. Countries as Morocco, Tunisia and Algeria (belonging to the Maghreb region) which first signed the Association Agreements with EU during the Barcelona Agreement in 1995, are still today poorly integrated with EU and with Italy in particular, being, on the contrary, privileged the Balkan countries, potential candidates. This can be explained even in the light of the strong protectionist structure built by the Southern countries for the agri-food productions. However, agriculture plays in these countries a strategic role under the economic and social point of view and it is characterized by the presence of production methods and corporate and

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first commercialization structures which are not updated (García-Álvarez-Coque, 2007) and make these countries themselves less competitive in the international market.

The results show, therefore, as the geographical distance between the countries represents still today, though the innovations in the logistics and the transport system, an obstacle for the exchanges. According to what Frémont said (2010), the effect nearness hasn't worked much, in fact, in Mediterranean countries' favour and in particular in Maghreb countries' one for their unsuitable infrastructures. From this point of view, today new opportunities to the Southern countries and to Italy as well, are offered in the framework of the Euro-Mediterranean policy for transports to update their harbour structures, since the sea transport is the 75% of the volume of the Mediterranean countries' foreign trade (Frémont, 2010).

The improvement of the Italian agri-food exports is therefore linked, on the one hand, to a careful revision of the agreements in view of a total opening of exchanges in this area also for the agri-food productions, and, on the other hand, to a more efficient logistics and infrastructural organization of the region, which represent in the whole an obstacle to the integration of the area.

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CORPORATE GOVERNANCE AND PERFORMANCE IN LISTED ITALIAN FAMILY FIRMS

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Abstract

The main goal of this study is to analyse the impact of the board composition in the listed Italian family firms on performance, comparing this impact between family and not family.

This variable has not an indifferent impact on business performance. Indeed, a lot of studies underline the importance of the board composition through the composition-performance relationship, also if this relationship considers only financial indicators to measure the performance.

The research method is the analysis of a sample composed by listed Italian family and not family firms (FTSE MIB and STAR) and the data used were taken from AIDA database and the "Borsa Italiana" website, that is the Italian website containing the official data of the listed companies.

For this study it was decided to consider family firms if two criteria were both respected: first, the family controls a relevant percentage of the ownership and, second, at least one family member occupies management roles and participates in the Board.

This study contributes to the literature on family corporate governance and shows that the family role has a positive effect of company performance.

Keywords: family firms, corporate governance, performances, independent members

Introduction

In the literature of family firms the corporate governance is a relevant topic debated in the last twenty years especially for the relationship between family and business (Neubauer & Alden, 1998). A well-functioning board of directors is a critical source for family and business; this relationship emerges in particular inside the board of directors.

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The researchers in their works usually adopt different theories like the Agency Theory, Contingent Approach, Life-cycle Approach, Stewardship Theory and Social Capital. In particular, the attention is focused on the composition of the board of directors and its influence on business performance, but the obtained results are sometimes contradictories, and it is not clear how board composition affects firm performance.

Our study analyses the composition-performance relationship in the family and not family business, considering the family as a relevant variable, even if in literature sometimes it is forgotten. Also Dyer (2006) refers to the family as "the missing variable in organizational research" and he warns that "failing to use the family as a variable in organizational research can lead to incomplete or misleading findings" (Speckbacher and Wentges, 2007). In particular, after considering the impact of board composition on performance in family firms, we compare the achieved results with the same ones obtained by not family firms, in order to understand if there is a relevant difference.

Consequently, the main goal of this study is to analyze the relationship between board composition and performance, both in the listed Italian family firms and in the listed Italian not family firms, underling the importance of the family variable in the effects on performance. This topic is particularly significant in Italy, as the family firms phenomenon is widespread.

For this research it's also important to underline that Family firms differ from other firms in terms of the importance that has the existence of family ties among the participants in the firm (Miller, Le Breton-Miller, Lester and Cannella, 2007), specifically among the members of the board of directors.

This article is structured as follows. Firstly, it analyses the theoretical background about the family firms definition and the composition of boards of directors in general. Secondly, the research method is outlined, as well as a brief presentation of the analyzed sample. Finally, the discussion of the results with the conclusions and contributions are given with the limitations of the study.

Theoretical background

Family firms

A family business can be considered as the initial stage of a public company, in a process that involves about one or two generations. The exact origin of the family business model cannot be pinpointed; family businesses were certainly prevailing in the economic fabric of the first industrial revolution and the pre-industrial periods. Similarly to a public company, a family business can reach large size and satisfactory economic performance, finance itself and reach a good level of growth. Consequently, a family business can be considered capable of facilitating development in a framework, which is globalised as the current one is (Miglietta, 2009).

Between the Sixties and Seventies, the management and economic literature on family businesses is characterised by a series of analyses (the first ones to be performed) on family businesses, which were considered under a systemic perspective; it is believed, however, that the development of a family business can be hindered by the fact of its ownership coinciding with its governance (Levinson, 1971).

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Around the Eighties and following in the Nineties, a series of events emphasised the interest of business researchers in the subject. Among these events, there are the restructuring process of big companies in the United States and the crisis that in Europe struck the State controlled corporations; on the contrary, in Japan the family business model results to be successful. To these events, the problems related to the Agency Theory must be added (Fama, 1980; Kaplan & Atkinson, 2002; Levinthal, 1988; Nalbantian, 1987; Prendergast, 2000; Rasmusen, 1987; Ross, 2004; Shavell, 1979), with particular reference to the so-called "moral hazard", stemming from the fact that the management's actions are characterised by opportunistic behaviour that is not aligned with maximising the creation of corporate value (Arrow, 1968; Darrough & Stoughton, 1986; Holmström, 1979; Mirrlees, 1999; Williamson, 1985). These problems are easier to solve in a family business. In addition, scholars are interested in the potential of family businesses to deal with competitiveness on the national and international level (Barry, 1989; Lamoreaux, 1994).

In the last years, family businesses have been given increasing attention, and several recent studies have reported and stressed that in Continental Europe, Asia, and Latin America the vast majority of publicly traded businesses are family controlled (Claessens, Djankov and Lang, 2000; Faccio and Lang, 2002; La Porta, Lopez-de-Silanes and Shleifer, 1999). These scholars also suggest that family businesses play an important role in economic activities worldwide and contribute to creating wealth and jobs, with reference to both narrow and broad definitions of family business (Astrachan and Shanker, 2003). The quantification of family businesses in the United States and Europe is the subject of several studies (Colli, Perez and Rose, 2003; Corbetta, 1995; Larner, 1970; Neubauer and Lank, 1998; Shanker and Astrachan, 1996; Sluyterman and Winkelman, 1993).

Attention focuses more and more on family businesses; however, it is not that easy to find a definition for the expression "family business", and ambiguities persist in the literature. The editorial note of the first issue of *Family Business Review* asks: "What is a family business?" (Lansberg, Perrow and Rogolsky, 1988). People seem to understand that which is meant by these words, yet when they try to give a precise definition they quickly discover that the phenomenon is indeed very complex (Hoy and Verser, 1994). The question continues to be asked because in the literature several different definitions are given for family business.

Some studies define family businesses on the basis of the criteria of the ownership and control. In particular, a family business is a "firm in which significant voting rights or ownership is controlled by a member or members of a single family" (Barnes and Herson, 1976); other studies use as distinguishing criterion the share of capital owned by a single family (Alcon, 1982; Lansberg, Perrow and Rogolsky, 1988). In a family business, one or more families having kinship or similar ties are the owners of the full risk contributed capital (Ferrero, 1980). In a family business, one or more families linked by kinship or similar ties or by strong alliances contribute with full or limited risk capital, personal or collateral guarantees or managerial skills; these families owe a full risk capital share that entitles it to controlling the business even without the absolute majority of the capital (Corbetta and Dematté, 1993). It follows that a family business can be composed of a single family, as is the case of

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the generation establishing the business, which is headed by the founder assisted by the other members of his/her family; as an alternative, the business includes of different families, in particular after a generational handover has occurred and the company is in its second generation. The family business is run with the aim of establishing, enhancing and reinforcing a long term vision approved by a prevailing coalition, controlled by family members or a limited group of families (Sharma, Christman and Chua, 1997). In this context, the family members or the limited group of families are the economic person of the business, i.e. the person or group of people that has and exercises power in it (Airoldi, Brunetti and Coda, 2005; Ceriani, 1996; Ferrero, 1980); at the operational level, the economic person is represented by the administrative body, which centralizes the decision making power or is the leader of the decision making process (Cavalieri and Ranalli, 1999; Onida, 1960, 1965), i.e. the subject that determines the actions of the company (Farneti, 2007) and affects the top management model, which is the expression of its work (Bruni, 1990). More recently, other scholars have established the minimum threshold of 20% in capital ownership by family members as the criterion for classifying an enterprise as a family business (Villalonga and Amit, 2006); this creates the possibility for the family to hold power to appoint members of the governing bodies.

According to other authors, an enterprise is classified as a family business if (Chua, Chrisman and Sharma, 1999): i) at least 50 per cent of the shares are owned by the family, and the family is responsible for the management of the company; ii) or at least 50 per cent of the shares are owned by the family, the enterprise is not family-run, but the CEO perceives it as a family business; iii) or family ownership is less than 50 per cent, the company is family-run, the CEO perceives it as a family business and a venture capital or investment company owns at least 50 per cent of the shares.

Another criterion used for the definition of the family business is the number of family members involved in its management. In particular, a business must be owned and managed by members belonging to one or more families (Stern, 1986); or there must be at least two family's generations involved in its management (Ward, 1988), also with the aim of conveying managerial skills to the next generation (Churchill and Hatten, 1987). The criterion of the involvement of family members in the management has been emphasised even in recent times (Di Mascio, 2008).

In recent years, the definitions for family business have been based on a mix of criteria related to the ownership and control (Smyrnios, Romano and Tanewski, 1998). In our work we use a mix criterion in order to identify the family business sample, that is:

- a control participation in the capital by the family/ies;
- the presence in the Board of at least one family member.

Our criterion well reflects the Italian context.

Despite their multiplicity, all definitions include a strong interaction between the family, considered as an entity, its members and the activities performed by the business (Miglietta, 2009). The relations between family and enterprise are subject of significant scientific considerations: their objectives and

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visions are different (Pieper and Klein, 2007). On one hand, the family has as its main objective the maintenance and support of its members, and this is the reason the family invests its own resources in the business activities, based on entrepreneurial values (Bertini, 1995; Catturi, 1995; Coda, 1988; Sorci, 1986; Vergara, 1986), which are also inspired by tradition, unity and affection (Salvato, 2002; Ward, 1997). On the other hand, the enterprise aims at satisfying human needs expressed by the market (Ferrero, 1980): the counter-value from the sale of goods and services is used for the remuneration of the production factors used, including the employees' and the employer's labour force. Both the family and the business are motivated by a series of shared values, among which are the continuity of the economic activity (Coda, 1988; Onida, 1954; Giannessi, 1960; Zappa, 1957) and the creation of value (Catuogno, 2006; Cuccurullo, 2006; Tiscini, 2006): if the family is focused on perpetuating the business since it is a place of work and a source of profit for its members, the business strives for long-term survival (Miglietta, 2009). This results in a considerable synergy between the family and the enterprise (Corbetta, 1995) as well as in the necessity for the management to share the family's values, so as to make corporate culture (Schein, 1985) instrumental to entrepreneurial success (Montemerlo, 2009). In addition to these values, the trust in the relations between the family members and between the family and the management is considered by scholars as an intangible resource which is necessary for guaranteeing the survival of the business (Steier, 2001; Welter and Smarborne, 2006). The determinants of such trust, which must be both properly placed and earned, have been analysed and involve both the individual and behavioural qualities of the people who work in the business (LaChapelle and Barnes, 1998).

The literature also focused on the analysis of the performance achieved by the family businesses. Some authors have asserted the neutrality of family ownership to economic performance, in absolute terms or in terms related to the share of capital held by the family (Sciascia and Mazzola, 2008). In contrast, other analyses have found that the economic performance of large listed family businesses is higher than the economic performance of public non-family companies; in addition, the performance achieved by medium-large sized family businesses, both listed and non-listed, are higher if compared with non-family companies of the same size (Anderson and Reeb, 2003). Other studies have highlighted that the best economic performances were achieved by family companies, listed or non-listed, led by their founders (Adams, Almeida and Ferriera, 2003; Barontini and Caprio, 2006; Cucculelli and Micucci, 2008; Villalonga and Amit, 2006), while other researches focused on the analysis of the performance achieved by family businesses being in their second or third generation, and observed a destruction of value (Pérez-Gonzàlez, 2001; Villalonga and Amit, 2006). Other studies have shown that the presence of a family in the ownership affects negatively business performance (Faccio, Lang and Young, 2001; Volpin, 2002).

Corporate Governance theoretical framework.

The literature on corporate governance focuses on the application of theories and models to family businesses (Aronoff and Ward, 1996; Del Bene, 2005; Corbetta and Dematté, 1993; Fama and Jensen, 1983; Magretta, 1998; Montemerlo, 2000; Neubauer and Lank, 1998).

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Among the several theories that have been developed to deal with the issues of Corporate Governance, the most relevant and renowned are the Agency Theory, the Resource Dependency Theory and the Stewardship Theory. It is important to understand their focus, their use of governance and how these theories can be applied in the governance of family businesses, as shown in the following chart (Chart 1).

Theoretical framework	Focus	Application in governance	Application in the governance of family businesses
Agency Theory	Minimization of problems caused by the separation of ownership and control	Relationships between principal and agents, usually among owners and management	Effects of the separation between ownership and managerial control
Resource Dependency Theory	Political approach to manage interdependencies between organisations	Networks, inter-company, intra-company governance	Power and resource aspects of relationships in family businesses
Stewardship Theory	Altruism, good steward, Managers are trustworthy	No alignment problems, stewards, relational governance	Effects of no alignment problems between owners and managers

Chart 1 - Corporate Governance theoretical framework
Source: Mustakallio, 2002

The *Agency Theory* states that the primary function of the board of directors is to monitor the actions of agents in order to protect the principal's interests (Fama, 1980; Fama and Jensen, 1983; Prendergast, 2000; Rasmusen, 1987; Shavell, 1979). In particular, the board of directors should monitor the manager's actions to protect the owners' interests from managerial opportunism (Kaplan & Atkinson, 2002; Nalbantian, 1987). As a consequence, the presence of a high number of independent members is positively related to family performance, even if in family businesses the agency problem is less intense because property rights are largely restricted to the agents' decision. In addition, family businesses have less agency costs because most of the owners, managers and board members belong to the same family. In family businesses, the agency problems arise due to the controlling shareholders, who do not always act in the interest of non-controlling shareholders and thus lead to a potential expropriation of minority shareholders (La Porta, Lopez-de-Silanes and Shleifer, 1999).

According to the *Resource Dependency Theory* (Pfeffer, 1982), continuity depends on the business ability to access and control environmental resources such as labour and relational resources, which can help the business to reduce environmental uncertainty. The board can facilitate the acquisition of resources which are crucial to the success of the business, and its role thus becomes determinant. The Resource Dependency Theory asserts the possibility of managing and controlling resource scarcity within organisations through interdependencies with other organisations in their environment, focusing on strategic actions of organisations (Mustakallio, 2002). In particular, different forms of governance structures such as inter-firm or intra-firm networks are used to manage the dependency of critical resources. The Resource Dependency Theory underlines two main elements (Pfeffer, 1982):

- the needs of organisation to respond to the demands of the organisation that controls the critical resources (the issue of external constraints);

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- the need of managers to manage their external dependencies to ensure survival of the organisation and also to acquire greater independence and freedom from external constraints.

The *Stewardship Theory* (Alas and Tafel, 2006; Barney 1990; Davis, Schoorman and Donaldson, 1997; Donaldson 1990a and 1990b; Tricker, 1999) outlines that fewer outside members are needed in the board of directors and that the main role of the board is to support the management (Del Bene, 2005). Managers are motivated by collectivistic behaviour and internal directors or affiliated directors lead the business to higher performance. The Stewardship Theory identifies situations in which managers behave as stewards and gain higher advantage from pro-organisational and collectivistic behaviour rather than from individualistic and self-serving behaviour as presumed by Agency Theory. This theory stresses the fact that the board structure should mainly include internal employees or affiliated outsiders who are mutually or linked to the organisation by family and social ties (Sundaramurthy and Lewis, 2003). The Stewardship Theory stresses the benefits of duality between CEO and the chair, a structure that would be deemed to be dysfunctional in agency theory. From these different theories, the direct relationship between the composition of the board and performance of the business does not emerge clearly; this research therefore needs to investigate such relationship in consideration of two types of boards, i.e. family members and independent members and needs to find out a theory which can explain the results in the context of family business.

Methodology

The sample

This study is based on a sample of listed Italian firms, included in the FTSE MIB and STAR indexes. FTSE MIB is the main benchmark index of the Italian equity markets and it captures about 80% of the domestic market capitalization. FTSE MIB measures the performance of 40 Italian primary and with high liquidity companies and it seeks to replicate the broad sector weights of the Italian stock market. STAR index, instead, is the index dedicated to 73 medium companies of the Italian equity markets, having market capitalization between 40 million and 100 million of Euro and respecting the followings features: high transparency and communicativeness; high liquidity (no less then 35% of float); Corporate Governance aligned to the international standards.

Our aim, in considering this sample, was to test the research questions in companies that represent the Italian excellence, both large-size companies (FTSE MIB) and medium ones (STAR). When the size of companies is a significant variable with important effects on some managerial processes, we analyze separately the first sample (FTSE MIB) and the second one (STAR).

Considering the sample of listed Italian firms of the FTSE MIB and STAR index, we excluded banks, insurance and other financial companies, as we wanted focusing on the industrial sector in order to achieve a satisfactory homogeneity. We also eliminated foreign industrial listed companies, as we preferred concentrating on Italian families.

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The number of companies finally selected is equal to 80, articulated in family (53) and not family (27) respecting the previously illustrated criterion (a control participation in the capital by the family/ies and the presence in the Board of at least one family member), as shown in the following chart (Chart 2).

	FTSE MIB	%	STAR	%	Total	%
Family Firms	9	36%	44	80%	**53**	**66%**
Not Family Firms	16	64%	11	20%	**27**	**34%**
Total	**25**	**100%**	**55**	**100%**	**80**	**100%**

Chart 2. The sample

Source: personal elaboration

It is interesting to observe as in the Italian Stock Exchange about 66% of FTSE MIB and STAR companies are family firms. This is due by the fact that the STAR index comprises medium-size companies (80%), even if the percentage of family firms is also significant in the FTSE MIB index (36%).

Research questions and method

The main goal of this study is to analyze the relationship between board composition and performance, both in the listed Italian family firms and in the listed Italian not family firms, underling the importance of the family variable in the effects on performance in the consolidated financial statements. The analysis conducted considers five years (from 2006 to 2010).

Analyzing the board composition, we used the distinction between family members and independent members:

classifying the family firms, we consider companies with at least one family member in the board;

the independent member is a board member non-executive: he has not recently maintained, even indirectly, with the firm or persons linked to the firm, relations such as to influence their independence of opinion.

To identify family and not family firms we use data included in the "Corporate Governance Report" published on the "Borsa Italiana" website supported by the "business profile", while to quantify the number of independent members it was sufficient the "Corporate Governance Report".

To reach the declared goals, three main research questions were formulated:

RQ1: Does the family have a positive impact on performance?

RQ2: Are the independent members more widespread in the family firms or in the not family firms?

RQ3: Does the independent members presence in the board influence positively the performance?

To answer the RQ1, the most relevant financial and economic ratios between family and non family firms were compared.

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To answer the RQ2, it was sufficient to calculate a percentage of the independent members in the board, while answering the RQ3, the Pearson correlation ratio was used to identify a positive or a negative relation between firm performance and board composition.

About Pearson ratio (*p*) it's also important to underline that:

if $p > 0$ there is a direct correlation;

if $p = 0$ there is no correlation;

if $p < 0$ there is a indirect correlation;

if $0 < p < 0{,}3$ the correlation is weak;

if $0{,}3 < p < 0{,}7$ the correlation is moderate;

if $p > 0{,}7$ the correlation is strong.

Findings and results

About the *RQ1 - Does the family have a positive impact on performance?* - the most relevant financial and economic indicators were compared between family and non family firms.

Referring the economic performance, we consider the following indicators, supported by literature (Ferrero, Dezzani, Pisoni and Puddu, 2003; Foster, 1986; Helfert, 1997; Higgins, 2007; Ingram, Albright and Baldwin, 2002; Value, 2001): ROE (Return on equity), ROA (Return on assets), ROI (Return on investment) and ROS (Return on sales). Referring to the financial performance the following indicators were analyzed, supported by literature (Baginski and Hassel, 2004; Ferrero, Dezzani, Pisoni and Puddu, 2003; Foster, 1986; Giroux, 2003; Helfert, 1997; Higgins, 2007; Meigs, Williams, Haka and Bettner, 2001; Value, 2001): liquidity ratio, current ratio, debt ratio and fixed asset coverage ratio.

In the following chart, we compare the economic performance between family and not family firms (Chart 3).

Analyzing the *economic performance,* in particular focusing the attention on the mean of each indicator (whose trend is confirmed by the median), it's evident that:

not family firms outperform in the ROE (+4,69%), ROA (+0,15%) and ROS (+1,61%) compared with family firms; in particular they evidently excel in the ROE indicator due also to the leverage effect of the high level of debt ratio;

family firms outperform in the core business, how ROI shown (+0,70% compared with not family firms).

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	Family Firms	Not Family Firms
Companies (No.)	**53**	**27**
Companies (%)	**66,25%**	**33,75%**
Roe 2010	6,48	8,26
Roe 2009	0,94	10,35
Roe 2008	6,91	13,76
Roe 2007	12,09	13,71
Roe 2006	10,68	14,48
Roe - mean (2006-2010)	**7,42**	**12,11**
Roe - median (2006-2010)	**6,91**	**13,71**
Roe - standard deviation (2006-2010)	**4,35**	**2,69**
Roa 2010	5,76	6,05
Roa 2009	3,41	6,15
Roa 2008	6,79	7,37
Roa 2007	9,17	8,04
Roa 2006	9,33	7,59
Roa - mean (2006-2010)	**6,89**	**7,04**
Roa - median (2006-2010)	**6,79**	**7,37**
Roa - standard deviation (2006-2010)	**2,48**	**0,89**
Roi 2010	8,50	7,88
Roi 2009	5,32	7,43
Roi 2008	10,62	11,03
Roi 2007	12,75	11,11
Roi 2006	12,11	8,36
Roi - mean (2006-2010)	**9,86**	**9,16**
Roi - median (2006-2010)	**10,62**	**8,36**
Roi - standard deviation (2006-2010)	**3,02**	**1,77**
Ros 2010	7,00	9,55
Ros 2009	4,03	7,26
Ros 2008	7,04	9,26
Ros 2007	9,94	10,69
Ros 2006	9,86	9,13
Ros - mean (2006-2010)	**7,57**	**9,18**
Ros - median (2006-2010)	**7,04**	**9,26**
Ros - standard deviation (2006-2010)	**2,45**	**1,24**

Chart 3. Comparison between Family and Non Family firms in the economic performance
Source: own elaboration based on AIDA database.

Observing the economic indexes trend, using the following graph (Graph 1), it is possible to underline that 2006 and 2007 were in general the best year both for family and non family firms.

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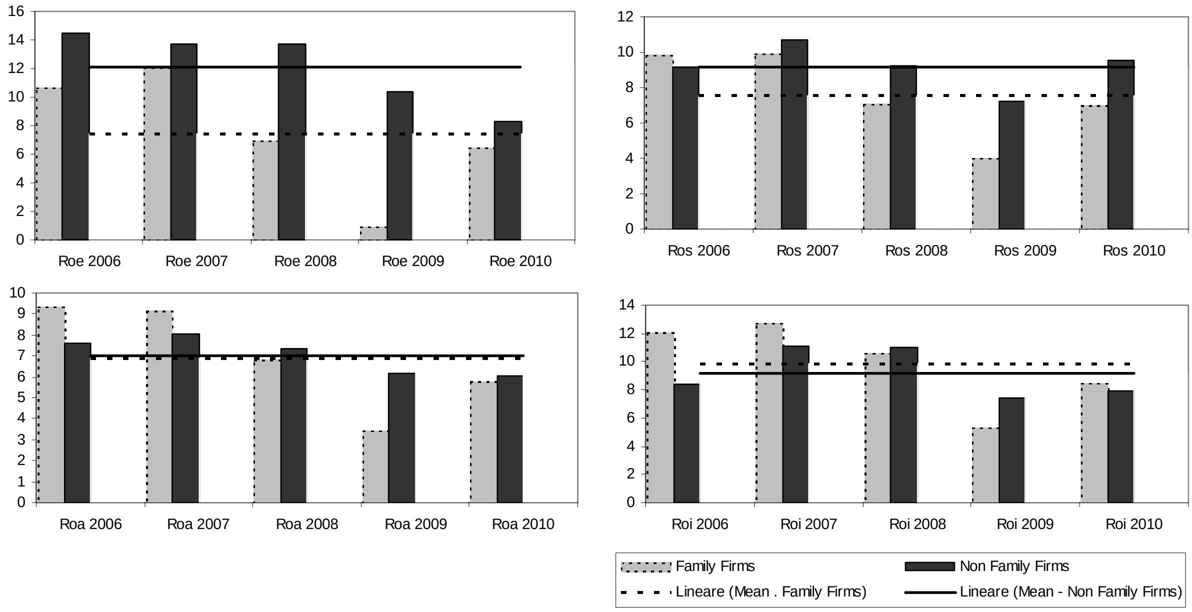

Graph 1 - Trend of the economic indexes for family and non family firms and average comparison.
Source: own elaboration based on AIDA database.

Particularly for family firms a decreasing trend during the 2007-2009 period is always verified and it is much more evident than in the non family ones. Besides family firms always outperform in 2010 with respect to 2009. Looking at the average of the five years, Roe and Ros are much better in non family firms (especially due to the 2009 low performance of family firms); Roa and Roi are nearer instead (Roi being better, as we note before, in family firms). The comparison between the median of the five years for family and non family firms shows outperformance in the same sense of the comparison between means, but the difference is always greater. An important evidence also regards the variability during the time of the economic indexes of family and non family firms: as it is possible to observe looking at the graph or, more precisely, at the standard deviation values, the variability of each index over the time is much greater for family firms, showing a more instable behaviour then in the non family ones.

In the following chart, we compare the economic performance between family and not family firms, with the differences between FTSE MIB and STAR indexes (Chart 4).

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	FTSE MIB Family Firms	FTSE MIB Not Family Firms	STAR Family Firms	STAR Not Family Firms
Companies (No.)	**9**	**16**	**44**	**11**
Companies (%)	**36,00%**	**64,00%**	**80,00%**	**20,00%**
Roe 2010	8,63	14,33	6,03	-0,58
Roe 2009	5,41	16,85	0,02	1,48
Roe 2008	13,32	20,73	5,69	4,25
Roe 2007	19,07	18,19	10,90	7,23
Roe 2006	10,32	17,97	10,74	9,84
Roe - mean (2006-2010)	**11,35**	**17,61**	**6,68**	**4,44**
Roe - median (2006-2010)	**10,32**	**17,97**	**6,03**	**4,25**
Roe - standard deviation (2006-2010)	**5,18**	**2,32**	**4,47**	**4,21**
Roa 2010	6,95	8,40	5,50	2,64
Roa 2009	6,46	9,41	2,78	1,69
Roa 2008	9,79	10,12	6,22	3,61
Roa 2007	11,93	9,93	8,70	5,32
Roa 2006	11,36	9,59	9,00	4,94
Roa - mean (2006-2010)	**9,30**	**9,49**	**6,44**	**3,64**
Roa - median (2006-2010)	**9,79**	**9,59**	**6,22**	**3,61**
Roa - standard deviation (2006-2010)	**2,50**	**0,67**	**2,55**	**1,52**
Roi 2010	9,63	11,57	8,26	3,07
Roi 2009	8,82	12,18	4,58	1,26
Roi 2008	13,94	15,51	10,04	5,20
Roi 2007	18,61	15,14	11,67	4,79
Roi 2006	16,53	11,76	11,31	3,99
Roi - mean (2006-2010)	**13,51**	**13,23**	**9,17**	**3,66**
Roi - median (2006-2010)	**13,94**	**12,18**	**10,04**	**3,99**
Roi - standard deviation (2006-2010)	**4,25**	**1,92**	**2,89**	**1,57**
Ros 2010	9,60	14,29	6,42	3,38
Ros 2009	9,82	12,55	2,84	1,45
Ros 2008	13,48	13,95	5,81	3,64
Ros 2007	15,22	15,12	9,01	5,15
Ros 2006	16,14	14,64	8,79	2,25
Ros - mean (2006-2010)	**12,85**	**14,11**	**6,58**	**3,17**
Ros - median (2006-2010)	**13,48**	**14,29**	**6,42**	**3,38**
Ros - standard deviation (2006-2010)	**3,03**	**0,97**	**2,52**	**1,42**

Chart 4. FTSE MIB and STAR: comparison between Family and Non Family firms in the economic performance
Source: own elaboration based on AIDA database.

Analyzing the economic performance in family and not family firms comparing FTSE MIB and STAR it emerges that:

- not family firms in FTSE MIB outperform in the ROE (+6,26%), ROA (+0,19%) and ROS (+1,26%) compared with family firms;
- family firms in FTSE MIB outperform in the ROI (+0,28%) compared with not family firms;

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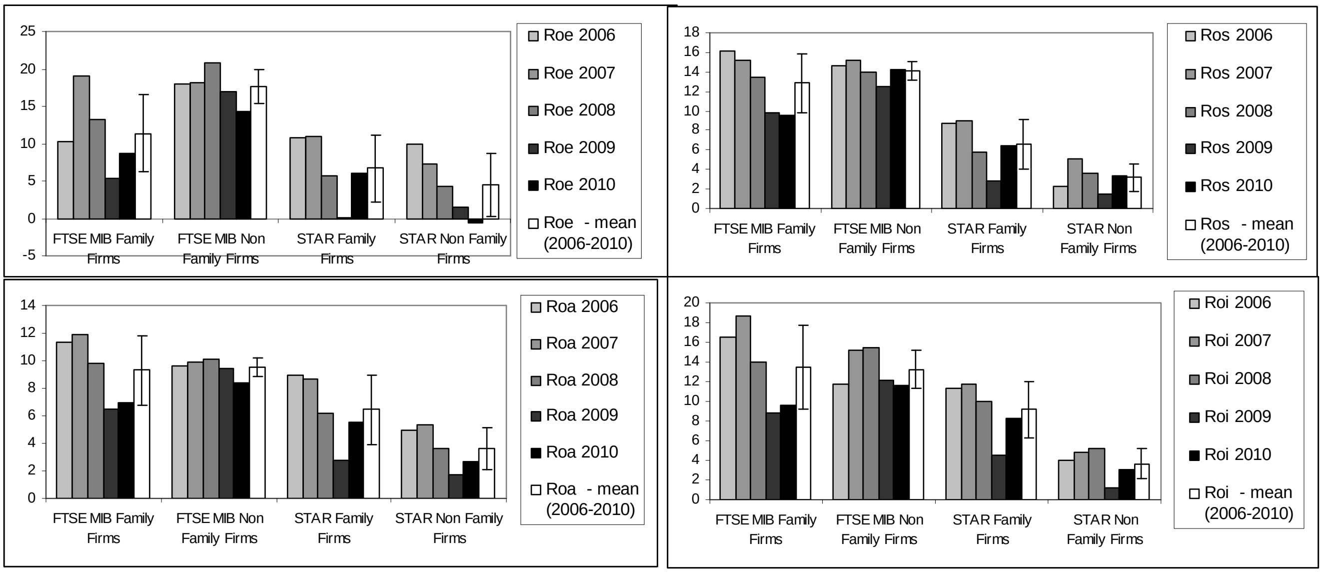
- family firms in STAR outperform in the ROE (+2,24%), ROA (+2,80%), ROI (+5,51%) and ROS (+3,41%) compared with non family firms.

It can be interesting to look at trend behaviours of the economic indexes, comparing FTSE MIB and STAR (Graph 2).



Graph 2 - Trend of the economic indexes for different kinds of firms and average comparison
Source: own elaboration based on AIDA database.

For each economic index and kind of firm that we consider, it is shown, column by column, the year index value (a mean of the year values of the firms of the same kind) across the period 2006-2010 and, in the last column, the mean of the five year index values reported before (an upper or lower standard deviation difference about this mean is also visible).

Generally, it is possible to note an outperformance of the FTSE MIB firms in the four indexes. Taking then in account the difference, in FTSE MIB firms, between the family and the non family ones, a near or higher level of the five years mean index is reached by the non family firms; these firms have also a less variability in performance across the time and so their results are more regular and reliable. Considering the STAR firms, always looking at the five years mean index, the performance mean levels are higher for family business firms, even if they show a considerable variability across the time; the variability is sometimes lower in non family firms even if it has to be referred to a lower level too.

Concluding about economic performance, it is possible to affirm that:

- in general family firms outperform in the core business;
- the size, beyond the family, is a relevant variable which influences the performance; indeed, the STAR family firms (which are medium companies) outperform in the ROE, ROA, ROI and ROS compared with STAR non family firms.

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In the following chart we compare the financial performance between family and not family firms (Chart 5).

Analyzing the *financial performance,* in particular focusing the attention on the mean of each indicator (whose trend is confirmed by the median), it's evident that family firms outperform in the liquidity ratio (+0,10), current ratio (+0,31), debt ratio (-0,82) and fixed asset coverage ratio (+0,63) compared with not family firms; in particular it emerges a minus debt exposure, due to a major percentage of equity on the total financial sources.

It can be interesting to look at trend behaviours of the financial indexes, using the following graph (Graph 3).

The financial indexes, compared to the economical ones, show a less variability across the time and they do not point out a very particular situation for year 2009 for family firms, like the economics ones. Family firms always outperform in all financial indexes.

The analysis of the medians confirm this conclusion, because median values are in this case very similar to the correspondent mean values.

In the following chart, we compare the financial performance between family and not family firms, with the differences between FTSE MIB and STAR indexes (Chart 6).

Analyzing the economic performance in family and not family firms comparing FTSE MIB and STAR, it emerges that:

family firms in FTSE MIB index outperform in the liquidity ratio (+0,03), current ratio (+0,21), debt ratio (-0,55) and fixed asset coverage ratio (+0,03) compared with not family firms;

family firms in STAR index outperform in the liquidity ratio (+0,07), current ratio (+0,30), debt ratio (-0,83) and fixed asset coverage ratio (+0,71) compared with not family firms.

Concluding about financial performance, it is possible to affirm that:

- in general family firms outperform in the financial aspects compared with not family firms;
- analyzing the financial aspects, the size of the company is not a relevant variable.

It can be interesting to look at trend behaviours of the financial indexes, comparing FTSE MIB and STAR (Graph 4).

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	Family Firms	Not Family Firms
Companies (No)	**53**	**27**
Companies (%)	**66,25%**	**33,75%**
Liquidity ratio 2010	1,16	1,07
Liquidity ratio 2009	1,20	1,07
Liquidity ratio 2008	1,15	1,03
Liquidity ratio 2007	1,28	1,26
Liquidity ratio 2006	1,38	1,25
Liquidity ratio - mean (2006-2010)	**1,24**	**1,14**
Liquidity ratio - median (2006-2010)	**1,20**	**1,07**
Liquidity ratio - standard deviation (2006-2010)	**0,10**	**0,11**
Current ratio 2010	1,62	1,30
Current ratio 2009	1,64	1,30
Current ratio 2008	1,61	1,25
Current ratio 2007	1,71	1,48
Current ratio 2006	1,81	1,50
Current ratio - mean (2006-2010)	**1,68**	**1,37**
Current ratio - median (2006-2010)	**1,64**	**1,30**
Current ratio - standard deviation (2006-2010)	**0,08**	**0,11**
Debt ratio 2010	2,93	3,44
Debt ratio 2009	2,95	3,50
Debt ratio 2008	2,93	3,80
Debt ratio 2007	2,72	3,61
Debt ratio 2006	2,62	3,89
Debt ratio - mean (2006-2010)	**2,83**	**3,65**
Debt ratio - median (2006-2010)	**2,93**	**3,61**
Debt ratio - standard deviation (2006-2010)	**0,15**	**0,19**
Fixed Asset Coverage ratio 2010	1,77	1,12
Fixed Asset Coverage ratio 2009	1,68	1,05
Fixed Asset Coverage ratio 2008	1,72	1,01
Fixed Asset Coverage ratio 2007	1,89	1,13
Fixed Asset Coverage ratio 2006	1,76	1,36
Fixed Asset Coverage ratio - mean (2006-2010)	**1,76**	**1,13**
Fixed Asset Coverage ratio - median (2006-2010)	**1,76**	**1,12**
Fixed Asset Coverage ratio - standard deviation (2006-2010)	**0,08**	**0,14**

Chart 5. Comparison between Family and Non Family firms in the financial performance

Source: own elaboration based on AIDA database.

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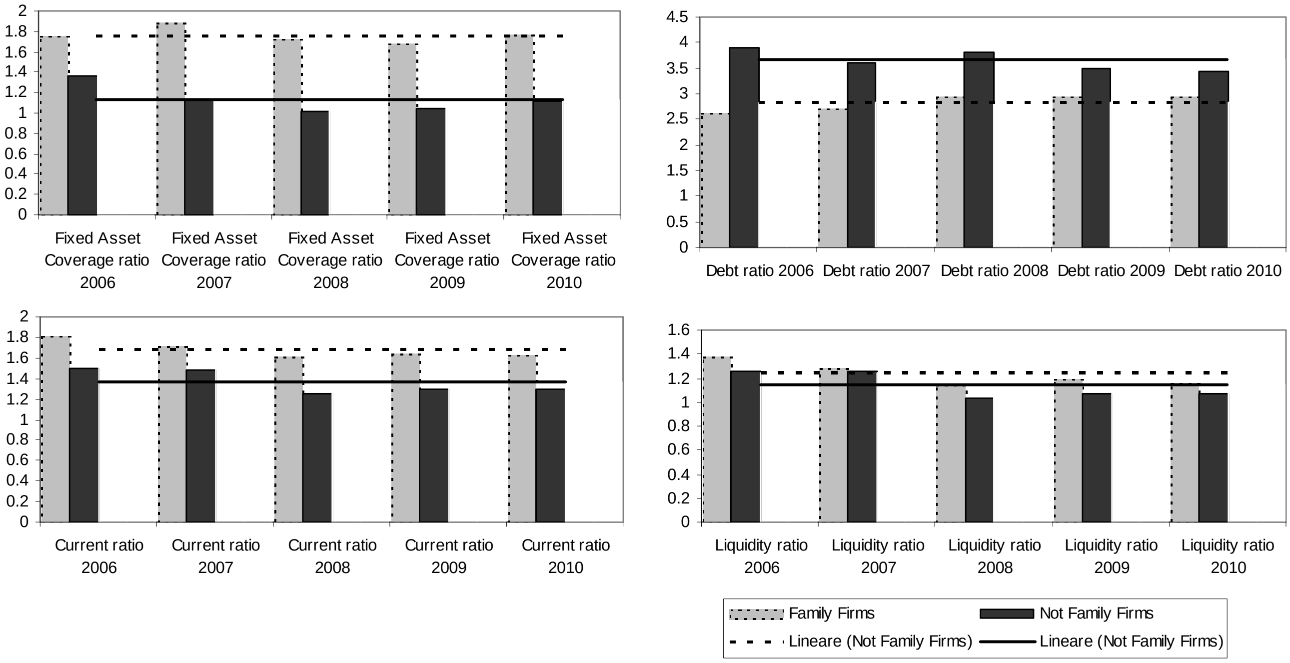

Graph 3 - Trend of the financial indexes for family and non family firms and average comparison
Source: own elaboration based on AIDA database.

As in graph 2 for the economic situation, for each financial index and kind of firm that we consider, it is shown in the graph, column by column, the year index value (a mean of the year values of the firms of the same kind) across the period 2006-2010. In the last column is then represented the mean of the five year index values reported before (an upper or lower standard deviation difference about this mean is also visible). It is possible to note a generalized outperformance of the STAR family firms in all the indexes. Especially in the last two years (except for the debt ratio) STAR non family firms have also good relative positions, but the worst levels of the first three years may influence to consider their pattern less regular and reliable (as it is shown by a big value of standard deviation too). Considering the FTSE MIB firms, financial indexes are generally near or better, in their levels, for the family firms with respect to the non family ones. The variability is not so different but generally bigger for family firms.

About the *RQ2 - Are the independent members more widespread in the family firms or in the not family firms?-* we compared independent members in family and not family firms (Chart 7).

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	FTSE MIB Family Firms	FTSE MIB Not Family Firms	STAR Family Firms	STAR Not Family Firms
Companies (No)	**9**	**16**	**44**	**11**
Companies (%)	**36,00%**	**64,00%**	**80,00%**	**20,00%**
Liquidity ratio 2010	1,22	1,19	1,15	0,89
Liquidity ratio 2009	1,38	1,25	1,17	0,81
Liquidity ratio 2008	1,04	1,10	1,17	0,94
Liquidity ratio 2007	0,93	1,02	1,34	1,60
Liquidity ratio 2006	1,11	0,97	1,42	1,63
Liquidity ratio - mean (2006-2010)	**1,14**	**1,11**	**1,25**	**1,18**
Liquidity ratio - median (2006-2010)	**1,11**	**1,10**	**1,17**	**0,94**
Liquidity ratio - standard deviation (2006-2010)	**0,17**	**0,12**	**0,12**	**0,40**
Current ratio 2010	1,64	1,44	1,61	1,10
Current ratio 2009	1,82	1,51	1,60	1,01
Current ratio 2008	1,50	1,33	1,63	1,15
Current ratio 2007	1,31	1,24	1,77	1,83
Current ratio 2006	1,51	1,22	1,85	1,88
Current ratio - mean (2006-2010)	**1,56**	**1,35**	**1,69**	**1,39**
Current ratio - median (2006-2010)	**1,51**	**1,33**	**1,63**	**1,15**
Current ratio - standard deviation (2006-2010)	**0,19**	**0,13**	**0,11**	**0,42**
Debt ratio 2010	3,29	3,34	2,86	3,60
Debt ratio 2009	3,17	3,47	2,90	3,55
Debt ratio 2008	3,44	3,90	2,83	3,65
Debt ratio 2007	3,07	3,86	2,66	3,25
Debt ratio 2006	2,67	3,85	2,61	3,95
Debt ratio - mean (2006-2010)	**3,13**	**3,68**	**2,77**	**3,60**
Debt ratio - median (2006-2010)	**3,17**	**3,85**	**2,83**	**3,60**
Debt ratio - standard deviation (2006-2010)	**0,29**	**0,26**	**0,13**	**0,25**
Fixed Asset Coverage ratio 2010	1,19	1,20	1,89	1,00
Fixed Asset Coverage ratio 2009	1,15	1,15	1,79	0,91
Fixed Asset Coverage ratio 2008	1,03	1,09	1,85	0,89
Fixed Asset Coverage ratio 2007	1,23	1,05	2,00	1,24
Fixed Asset Coverage ratio 2006	1,13	1,05	1,85	1,78
Fixed Asset Coverage ratio - mean (2006-2010)	**1,14**	**1,11**	**1,88**	**1,17**
Fixed Asset Coverage ratio - median (2006-2010)	**1,15**	**1,09**	**1,85**	**1,00**
Fixed Asset Coverage ratio - standard deviation (2006-2010)	**0,08**	**0,07**	**0,08**	**0,37**

Chart 6. FTSE MIB and STAR: comparison between Family and Non Family firms in the financial performance

Source: own elaboration based on AIDA database.

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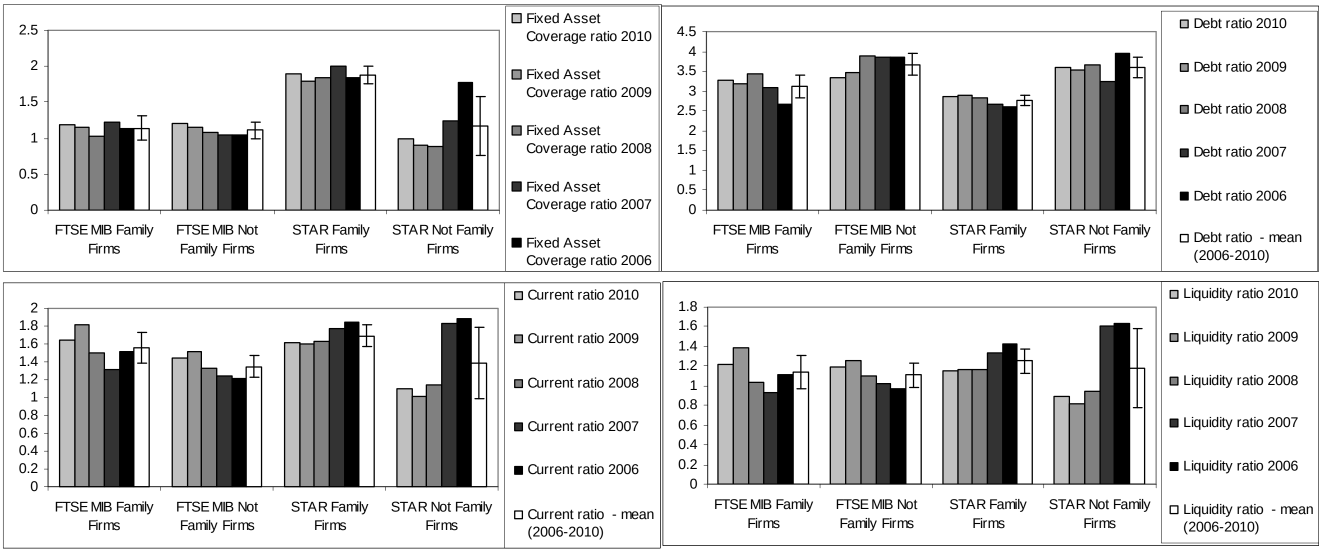

Graph 4 - Trend of the financial indexes for different kinds of firms and average comparison

Source: own elaboration based on AIDA database.

It is possible to affirm, focusing the attention on the mean of data (whose trend is confirmed by the median), that the number of independent members in the board is always higher in the not family firms than in the family firms, both in the FTSE MIB index and STAR index. In our opinion, this is due to the family behaviour which tries to decrease the independent members in the board to the minimum. The purpose is probably to reduce the external interferences in the decisional process, especially in medium-size companies (STAR index). The trend of the percentage of independent members in different kind of firms is represented in the following graph (Graph 5).

	Family Firms	Not Family Firms	FTSE MIB Family Firms	FTSE MIB Not Family Firms	STAR Family Firms	STAR Not Family Firms
Companies (No)	**53**	**27**	**9**	**16**	**44**	**11**
Companies (%)	**66,25%**	**33,75%**	**36,00%**	**64,00%**	**80,00%**	**20,00%**
Indipendent Members (2010)	35,09%	47,23%	38,46%	50,71%	34,55%	40,69%
Indipendent Members 2009)	34,67%	46,65%	39,64%	50,08%	33,86%	40,93%
Indipendent Members (2008)	34,70%	44,31%	37,33%	49,60%	34,21%	37,10%
Indipendent Members (2007)	36,33%	43,02%	46,16%	48,04%	34,46%	36,17%
Indipendent Members (2006)	35,58%	43,43%	45,30%	47,92%	33,84%	36,44%
Indipendent Members - mean (2006-2010)	**35,28%**	**44,93%**	**41,38%**	**49,27%**	**34,18%**	**38,27%**
Indipendent Members - median (2006-2010)	**35,09%**	**44,31%**	**39,64%**	**49,60%**	**34,21%**	**37,10%**
Indipendent Members - standard deviation (2006-2010)	**0,69%**	**1,91%**	**4,07%**	**1,24%**	**0,33%**	**2,35%**

Chart 7. Independent members: comparison between Family and Non Family firms

Source: own elaboration based on "Corporate Governance" report.

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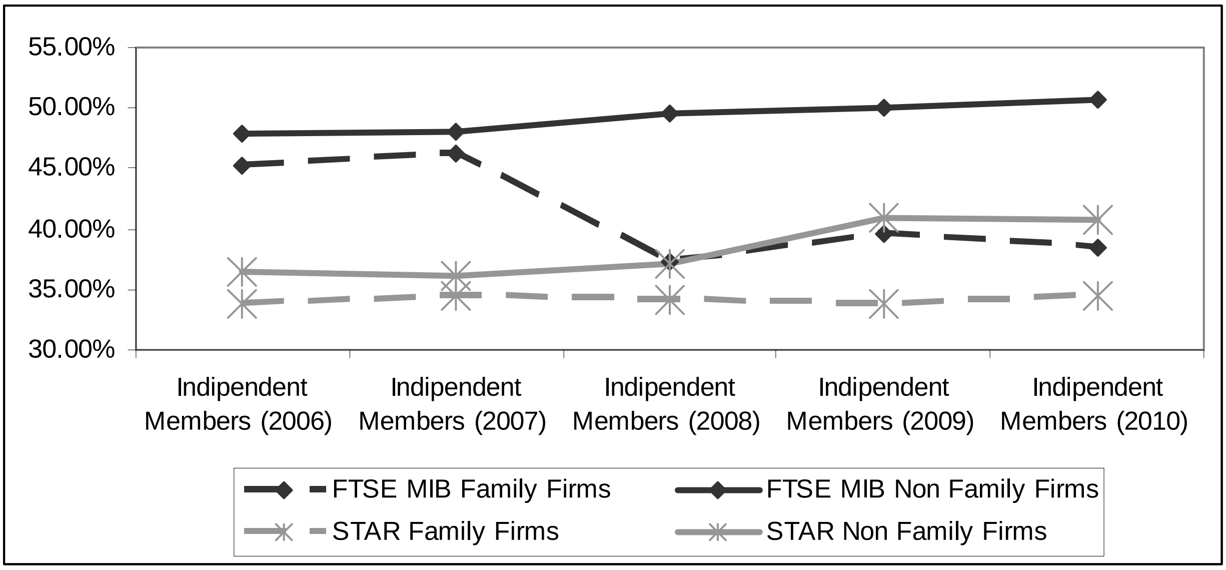

Graph 5 - Trend of the percentage of independent members in different kind of firms
Source: own elaboration based on AIDA Database and "Corporate Governance" report

The graph shows that in 2006 and 2007 the firm segment (FTSE MIB or STAR) is more important than the difference between family and non family firms to distinguish high or low percentages of independent members in the board (being higher the one referred to the FTSE MIB firms). In a more recent period (2009 and 2010) instead, it seems to be more important the difference between family and non family firms. This is due to an increasing percentage of independent members in STAR non family firms but, above all, to a remarkable decrement of this percentage in FTSE MIB family firms (especially in 2008).

Indicators	Independent Members (mean 2006-2010) (family firms)	Independent Members (mean 2006-2010) (not family firms)
ROA (mean 2006-2010)	-0,03	0,24
ROI (mean 2006-2010)	0,04	0,42
ROS (mean 2006-2010)	-0,03	0,15
ROE (mean 2006-2010)	0,03	0,32
Liquidity Ratio (mean 2006-2010)	-0,23	0,02
Current Ratio (mean 2006-2010)	-0,30	0,04
Debt Ratio (mean 2006-2010)	0,31	-0,10
Fixed Asset Coverage Ratio (mean 2006-2010)	-0,10	-0,14

Chart 8. Correlation between Independent members and economic-financial performance
Source: own elaboration based on AIDA Database and "Corporate Governance" report

About the *RQ3 - Does the independent members presence in the board influence positively the performance?-* we correlated the presence of independent members in the board and the economic-financial performance (Chart 8).

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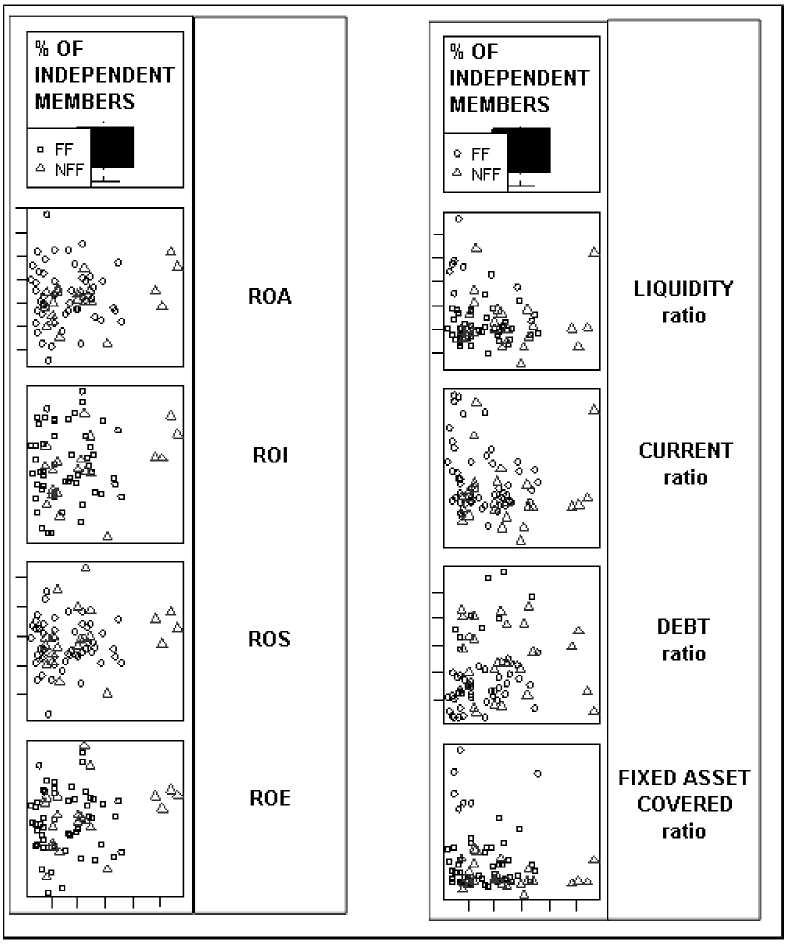

Graph 6 – Percentage of independent members versus different economic and financial indexes.
Legenda: in the scatter plots the dots are different for family firms (FF) and non family firms (NFF)
Source: own elaboration based on AIDA Database and "Corporate Governance" report

As it shows, the main evidences are the following:

- in the family firms: about economic performance, there is not a correlation between Independent members and economic performance, while there is an indirect weak correlation between Independent members and financial performance;
- in the not family firms: about economic performance, there is a weak correlation between Independent members and ROA and ROS, while the correlation is moderate about ROI and ROE. There is not a correlation between Independent members and liquidity and current ratios, the correlation is weak between Independent members and debt ratio, while there is an indirect weak correlation between Independent members and fixed asset coverage ratio.

The percentage of independent members versus different economic and financial indexes is represented in the following graph (Graph 6).

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Looking at the scatter plots it is possible to reach a general feeling of low linear correlations, according to the results of chart 8. Besides no other appreciable type of correlations (different from the linear ones) seems to appear.

Conclusion, implications and limitations

The main goal of this study is to analyse the impact of the board composition in the listed Italian family firms on performance, comparing this impact between family and not family.

As we mentioned above, the formal definition of family firms we used in this work is:

- a control participation in the capital by the family/ies;
- the presence in the Board of at least one family member.

Therefore, the possible Board compositions we considered are:

- a Board with a family member presence;
- a Board without a family member presence.

In the case of a Board composed by at least one family member, we always fund in our sample a control participation in the capital by the family/ies. Due to this consideration, we can say that a company, in which the Board has a family member, is considerable as a Family Firm; vice versa, a company without a family member in our sample has never a control participation and, for this reason, in classifiable as a Not Family Firms.

Referring to *RQ1*, our analysis reveals that Family firms (Board with at least one family member) outperform than Non Family Firms (without a family member) in economic and financial performance, showing the ability of the family to access and control environmental resources like Resource dependency theory affirms.

Indeed, Family Firms outperform in the core business, as underlined by ROI analysis. To be more precise, the first factor of ROI - the ROS index – is better in Family Firms than in the others especially in the STAR index, as the lower is the size the higher is the direct control by the family on all the business variables (internal efficiency, external efficiency, competitiveness, selling mix, production capacity effectiveness, operating leverage, etc.). The behavior of the second factor of ROI – the capital turnover - not explicitly calculated in our research, but easily understandable by an algebraic deduction, outperform in family firms than in the others, both in FTSE MIB and in STAR indexes, showing an higher capability of family firms in commercial power, that has an important effect on liquidity. ROA of Not Family Firms outperform than Family ones, as the incidence of the not-operative area of the company (financial and extraordinary).

About financial performances, indeed, family firms outperform in all the indexes considered by the analysis, especially with regard to liquidity and current ratios.

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About the financing composition, family firms has a lower debt ratio, that is, they are more financially independent by external parties. This consideration can explain why in Not Family Firms ROE is bigger than in Family Firms, due to the leverage effect.

We successively analyzed another aspect of Board Composition, the presence of Independent members. Particularly, referring to *RQ2*, our analysis reveals that the Independent members, who should guarantee an effective Corporate Governance with an important effect on performances, are more widespread in Not Family Firms, both in FTSE MIB and in STAR, where is not demonstrated that economic and financial performances are bigger.

To understand more analytically this finding, we correlated the Independent members presence in the Board (both in Family and in Not Family) with economic and financial performances. Referring to *RQ3*, it emerges that in Family Firms, there is not a correlation between Independent members and economic performance, while there is an indirect weak correlation between Independent members and financial performance. Instead, in the Not Family Firms, there is a weak correlation between Independent members and ROA and ROS, while the correlation is moderate about ROI and ROE; furthermore, there is not a correlation between Independent members and liquidity and current ratios, the correlation is weak between Independent members and debt ratio, while there is an indirect weak correlation between Independent members and fixed asset coverage ratio.

Synthesizing, Independent members are not a leverage variable to improve performances neither in Family nor in Not Family Firms.

Concluding, this study contributes to the literature on family corporate governance and it shows that the family role has a positive effect of family performance, underlining the importance of the family members. Probably, the family board members have an important relation with the family performance, helping the firms to open the communication between the family and the firm.

The structure of the board of directors influences the performance in Italian listed companies, even if independent members are not significant.

This research presents some limits that can be summarized as follows:

- few listed family firms;
- the selected firms belong to different sectors, consequently it is possible that the economic and financial ratio are influenced by the particular sector;
- the method used can be improved adopting some econometrical model.

Further research will have the aim of eliminating these limits, also taking in consideration the Corporate Social Responsibility as an important key to success, according to company's ethical values (Kooskora, 2011), and verifying how this critical factor is considered in Family Firms (Kooskora, 2011).

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