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# Contents

# MANAGEMENT OF THE NATIONAL TOURISTIC BRAND: THE ROLE OF THE BRANDING STRATEGY IN CROATIA

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*Abstract*

*Management of the national touristic brand is a new weapon on the global market. Each national touristic brand need to be more differentiated. There are a growing number of national touristic offers finding the way how to manage by national brand. Applying of the branding concepts to the touristic business could be different. But few of them treat in a wider sense branding strategy toward the brand management. Choosing a right branding strategy for the brand management is paramount for achieving a substantial growth that ensures a steady future development of the national income of tourism. The work deals with issues that define how branding strategy can protect and preserve the integrity of the brand through next premises:*

*•       The effective evaluation of the brand is implied by the chosen branding strategy;*

*•       The success of the brand depends on the application of the branding strategy.*

*Hypothesis: An efficient branding strategy for the brand management in tourism is primarily influenced by the perception of demand. It is very important to see which branding strategy could be the right one for management of the exact brand, and contributed to the newly created value of the national touristic brand.*

*Key words:       brand, management, strategy, tourism.*

## Introduction

Classic approaches and branding strategies have been constantly changing and improving during years. The recession on the global market and significantly changed conditions in tourism need a different approach to the brand, especially to the strategic platform of tourism. Management of the national tourist brand is one way of differentiation. Marketing activities in tourism practise grow from business function to the key connection of the brand management. Organizational systems of value depend on tourist market behaviours today. Consequences are obvious even in the field of generating the market needs. Suitable way of shaping the brand strategy in tourism is the precondition for wished market positioning of the brand. The right way of the brand management in tourism could be the way of survival on the global tourism market. Suitable practical model of brand strategies is a presumption. Methodological approach to this issue in the recession time could be very useful. Today happenings between tourist brands on the market are not as they seem. The essence in the brand management is in the fact that nothing in the beginning is as the management expected to be. Previous projections and readiness for some possible problems with new brand are in the postulates of modern brand strategies in practice. Brand strategies should be primarily focused on possible future growth of tourist visit, as well as on operational models of managing tactical market operations in relation with the competition and with all important levels of public on the global tourist market. By doing that, marketing activities grow into especially responsible activities whose goal is to sustain the attraction of the national tourist brand on the global market as longer as possible. Shaping of innovative brand strategies means a good quality informational system about all development and business possibilities of the brand. That way, brand management is placed on the unique position between the market environment and the brand. The brand strategy in tourism often includes an interactive role in generating brand's business

plan together with many coordinative activities. That kind of approach to the management of the brand represents some sort of research challenge because with its practical knowledge it can question certain theoretical postulates. By starting to think that modelling of suitable brand strategies, can give a possible guarantee for the brand survival on the market, it is possible to exactly define a scientific and practical goals of this paper. The research in that sense was directed towards forming concrete author's experiences with specialised tourist product (Stone light project-lighthouse tourism). Toward that experience sustainable national brand strategy in tourism it should be primarily adjusted to the nature of the brand. According to that, the model of shaping the brand strategy is primarily in the function of product management.

## Management of the national tourist brand

The management of the national tourist brand could be efficient if it is adjusted to the global market nowadays in all aspects of variables, time and environment. Through its tactics, it should offer some suitable guarantees for the achieving the strategic mission of the national tourist brand. In the reality it is all about two processes in the same time. With one process, the brand is expanding through concrete activities towards appointed goal of market mission, and with another process it is acted upon the first one. This second process is happening as constant dialectic of market environment. It wouldn't be appropriate to expect that set up brand strategy, by which are appointed activities carried out, is generally accepted rule. No matter how it has complicated in practice, every brand strategy represents static model in the dynamic field of market environment. Happenings in the environment should be systematically followed and analysed, so that the brand strategy could be adjusted to them in the space and time. By this approach, national tourist brand strategy which is supposed to be a static model becomes an interactive dynamic model. It can be then given in its final form only for the needs of research the market cases. There are many tourist market variables which determine different resolving of business collisions. Accepting the global tourist market as system which keeps changing all the time allows only systematic acknowledging of variable validities which have been happening. The tourist market has been lived in every moment of the past, present, but also in the future times.

National tourist brands have become the main communicators in the global tourist market. Strong national tourist brand create strong thoughts and emotions in the tourist's awareness. Management of the national tourist brand is the process of creating, planning and communicating the creation of the brand. The identity of a tourist brand is the main concept of tourist service. Brand image is a kind of reputation of a tourist service in the guest's perception. The right brand strategy interacts of the brand identity. It is suggested evaluation of the management of the brand from the standpoint of the marketing strategy, which is the key of right brand management nowadays. Why has branding become increasingly important? Brand management is a real marketing weapon for the global market. Strong national tourist brand will have less difficulty even in economic recession on the global market. The main premise of the brand's management in tourism is creating added value for guests. For that reason the right national brand strategy in tourism has become the biggest intangible asset. Guests evaluate tourist service, choose them and like or dislike them. The fundamental task of the management of the national tourist brand is to convince guests what to think about the offer. The greatest concern for the national tourist brand is to attract as many as possible potential guests, and to secure the best possible image of the national tourist offer. The difference between branding and brand management is in the structure of the brand strategy. An immediate alignment of the right brand strategy in tourism is prerequisite. This can be defined by the increase of the national income of tourism and growth of global market share. An efficient brand strategy in tourism is primarily influenced by the tourist service perception of guests. Important difference between branding and brand management in tourism through the strategy is that the tourist brand may be reduced to only one or few segments. This is very complicated in the case of strategy for the brand management. The brand management through the brand strategy in tourism is more complex, there are more influences and more possibility for the success. The process of branding in tourism is not simple, and it is quite long, but the brand management through the brand strategy is the result of the need to establish the strong image of the brand and creating attracts-recognizable features and forms in national tourist offer. Brand strategy in tourism is not a promotional campaign. Results become visible during years. Branding is a prolonged part of marketing strategy in tourism.

Brand strategy in such process has to teach how to listen to the guest, how to recognize guest's wishes and needs, and how to become well known on the global tourist market. Brand management through the strategy is an addition to the process. It has to secure loyalty of guests, and recognition of national tourist offer on the global market. Tourist brand has a certain truth. The truth is the core that accumulates all marketing and branding efforts. All such efforts need to be the prerequisite for the right national tourist brand strategy. Basic functions of branding is communicating, creating the tourist's perception and the brand value. The national tourist brand performs the role of communicator on the global market. Brand identity means communicating desired image and vision of the tourist offer. From the aspect of marketing strategy in the brand management, the role of brand as communicator is the process or the manner of managing the brand at construction of brand identity based on recognizable features, uniqueness and desired identity of the national tourist offer. Right marketing strategy will make the overall tourist service identity measurable, tangible and communicating. As subjects of tourist perception, brand actually affect guests feelings, their emotions and requests. For this reason, the image of the tourist brand is defined as images, notions or feelings the guest has acquired or keeps acquiring about a specific tourist product. The identity of the national tourist brand through the brand strategy is something would want to think about national tourist offer. Identity is something for the communication, and perception or images are impressions the guests have acquired about brand. From such aspect identity and brand image are quite different. From the perspective of branding perception and considerations of perception are focused on the brand. From the perspective of the brand strategy considerations of perception are focused on the added value of the brand. Brands attempt to construct personality and uniqueness, especially in tourism. In such a manner, it creates and enters into mutual relation with guests. Such relations are particularly related to guests' attempts to construct their own image through using a particular image. Consequently, guests and the brand realize a certain interdependent relationship. Brand strategy requires interaction with elements of the marketing mix along with interaction and creation of relations with guests. Valuation of the national tourist brand could be defined as the calculation of future incomes from tourism over a particular period of time – lifespan converted to present value. Value of each brand, more or less tangible, may be assessed. Brand value equals the added value over a particular period of time. From the perspective of brand strategy it is not possible to apply such an exact approach. The value of the tourist brand strategy should reflect on the development of the brand, a number of satisfied guests, and strengthening of the national tourist brand. Brand strategy should initially increase the value of the brand assets over a particular period of time. Methodology of valorisation of the brand strategy is based on the premise that brands are actually long-term assets and that they will generate future income. The strong connection between guests and the national tourist brand through the brand strategy, the more probable than the longer period of generating future income. Brand valuation through the national brand strategy in tourism can be performed using some of the following methods:

- Method of calculation of net present value – the method that refers to presupposed life of tourist brand through discounting net cash flow and discount factor. It is based on the estimate of future income and net profit from tourism and on their conversion to present value using a chosen discount factor.

$NCV$ = (Annual income from tourist brand n – Annual expense from tourist brand $n)/(1+p/100)^n$ - (Initially invested amount in the development of tourist brand)

Tourist brand is successful and cost-efficient and it generates newly created value if $NCV > 0$, it borders cost-efficiency when $NCV = 0$, and it is unprofitable – unsuccessful when $NCV < 0$

- Book value versus market value - method that tries to provide brand valuation by subtracting book value from tourist market value. Book value comprises the value of overall assets minus national liabilities and intangible assets. Market value in tourism could be estimated based on national capitalization of national tourist offer.

$TBv = M$ (market value) – $B$ ( book value)

$TBv$ = tourist brand value, M stands for market value and B denotes book value.

• Premium price – for some specialised tourist brands, it is possible to provide valuation using this method. It is calculated based on the premise that increased value of the brand is actually the difference between its price and the average price of similar brand multiplied by the number of guests over a particular lifespan-period.

TBv = (P brand –N generic)xS sales

TBv=tourist brand value, P is the price of branded tourist product, N is average price of similar non-branded tourist products, and S is average number of tourist nights in the past year.

• Present value of performed investments and estimate of necessary investments in promotion of the national tourist brand – the method based on the estimate and calculation of performed investments in overall marketing efforts geared at achieving the present level of national tourist offer recognition.

When using these methods, it must be aware of the risk and the role they have in assessing future income and market trends considering the fact that they are predominantly based on projections and estimates of future trends of particular tourist market turn over. Assessing the value and influence of a national tourist brand on the country assets, it is always advisable to take into consideration several methods, so that their combination will produce middle indicators. The influence of brand management and the brand strategy is much more complex than with brand and branding where incomes are clearly defined. Brand strategy comprises a much wider range of tactics, so it cannot be considered in the majority of the above listed methods.

## The role of the branding strategy in Croatia's tourist offer

After a series of mergers of national tourist companies in the 1990s and 2000s, tourist brands started to be perceived as a part of national tourist offer assets that have to be maintained and invested in. This concept later led to the creation of the notion of Croatia's national tourist brand equity. From the perspective of financiers and accountants, brand equity is exclusively considered as financial asset. From the marketing standpoint, brand equity is considered an indicator of future business activities in tourism through brand loyalty, distribution and recognition of the brand in the following years. Such standpoints have produced a need to develop brand management that will manage identity of Croatia's national tourist offer. National tourist brand contribute to the creation of added value for the guest. For the guest, the brand acts as risk reducer in terms of quality and other values. The more the tourist trust a brand and the more loyal they are, it reduces the risk of avoiding in terms of all features of concrete tourist service, because they know exactly what they get from a brand. Successful tourist brands have loyal customers, guaranteed sales and foreseeable growth, which directly reflects on overall income, its book and market value. Regardless of the quality of the tourist brand in Croatia each subject must inevitably, in time, cope with a certain crisis. The loss of tourist market share, coupled with a lack of different tourist product competitiveness, can most certainly ruin a national tourist brand. Each crisis is quite unique with different consequences. The national strategy platform in Croatia can have a profound effect and influence the future existence of the national tourist brand. It is a necessity for the brand management to use certain brand strategy to have concrete measures at its disposal, especially in crisis. The central concern of the Croatia's tourist brand strategy is wide offer of specialised branded tourist products. The success of all the tasks done by brand management can be judged by the level of market success the tourist brand makes. Certainly, there are certain branded tourist products in Croatia that are more likely to succeed on the market. These national tourist brands are usually supported by capital investments. Their development cycle is longer than usual, as it is their life cycle. The interaction between the brand management and the brand strategy in Croatia's tourism offer is an absolute prerequisite for securing the share on the global tourist market. Potential guests are fully aware of their significance, so they expect the tourist services offer their specific wishes. Guests are loyal only to the tourist brands that fulfil their needs, even in the case of specialised tourist product. Croatia's national brand strategy is essentially a platform that directly transfers clear information concerning the market demand to the brand, which needs such information to make relevant business decisions. Nowadays managers must continuously reduce the costs of the tourist product cycles. Also, the design of the tourist product must be continuously modified in order to meet the rigorous expectations

of the guests. This is also the part of Croatia brand strategy. Summing up the activities in Croatia for the future development of the national brand strategy, it is important:

- To collect and analyse information on the global tourist market, about concurrent tourist products, brands, and the guest's perception;

- Develop new tactics adapted to the tourist demand;

- Supporting the national branded tourist products;

- Focus on wanted positioning of the national tourist brand on the global tourist market.

The Croatia's brand strategy needs to assume a new role in brand management. Such brand management, beside its regular activities, has to proactively cooperate with branded specialised tourist products. The brand strategy therefore collects information on the global tourist market, systematically adopts it to the model of brand management and launches corrective activities based on the perceived crisis. This definition places the Croatia national brand strategy inside a brand; serving as the crucial interlink that connects tourist brand and guests through added value. The effectiveness of national brand strategy suggests the use of a project method in order to upgrade brand communication. Project method is a programme of reorganization of the managing tactics for the brand. The reorganization implies a stabilization of basic operating tactics. Other suggestions are formation of the tactics group, analysis of state/conditions of a brand, a strategic marketing analysis, and the making of a project that deals with the reorganization and revitalization of the brand. Changes could be made in the sector of marketing or on the strategic platform through the brand-market-profitability analysis. Final modification is a change of the brand's culture. The process of revitalization encompasses the activities that lead to the revival of the top, national tourist brand, leading to the solid, base growth. Besides the mentioned activities, a formation of the brand management structure, the identification of strategic brand activities, formulation of a new vision of the national tourist brand, the assurance of resources and conditions to implement new tactics for the brand management. This approach focuses sometimes on the brand itself. Because of this, the whole brand strategy, as well as certain specific

tactics made for exact brand has to adapt to the expectations of the target audience. This kind of approach is an absolute prerequisite for keeping the occupied brand's market share. Although this way could be a strict rule, sometimes the Croatia's government did not accept the scientific approach in such case. Even experiences from specialised tourist project (such as The Stone light) have proved itself to be an effective platform for a relevant differentiated branding policy. The Government sometimes adopted certain decisions that conflicted with an exposed way, thinking they would achieve better results on a political platform vs. scientific platform. The results in such cases are devastating for the image of the national tourist brand. The next necessary step is to take action to improve the existing potential of resources. There are still so many chances to strength the Croatia's national tourist brand through the right management model.

## Conclusion

Management of the national tourist brand is created as a consequence of growing competitiveness on the global tourist market, and a globalisation. Brand strategy represents and comprises all national tourist brand assets. In today's conditions on the global tourist market brand management have become the principal and the most important distinguishing features of particular national tourist product. In Croatia brand strategy in brand management refers to managerial process that endows any given tourist brand with a unique identity and image, presents brand with a possibility of being clearly and positively identified and thus different and recognizable from competitors. Compared to classical branding, the brand strategy in tourism is a process whereby a tourist brand actively creates its identity with the objective of as quality as possible positioning on the global tourist market as desirable offer for guests and for investments. Guests always choose among tourist products with different emotions. The strategic brand strategy in Croatia indicates a direct connection of particular parts of tourist brand and their possible influence in the future period either as fall or increase depending on the success of branding process. The main question of the paper addressed the role of the future branding strategy in Croatia, as well as the interaction between brand and the branding in Croatia's tourism. A project approach dealing with the brand problems solving

that is universally recognized is now achieved trough the brand strategy offers real possibilities for efficient solutions in branding. Stone Lights project is a fine example of that.

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# EVALUATING THE INNOVATION OF ONLINE LEARNING SYSTEMS IN HIGHER EDUCATION

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## Abstract

The last decade has witnessed a growing interest in the development of higher education and increasing numbers of students. To help cater to the growing body of students, in higher education, universities have invested heavily in online learning environments. E-learning is seen as a complementary tool to enhance the students learning experience and develop skills and create career opportunities for students to think analytically. Despite the recognition of this belief the integration of e-learning environments into Higher Education has had limited success.

Technology will essentially bring about a great need for fully automated environments whereby management, planning and everyday administration will be the domain of the technician. Universities will find themselves with students that require further funding to manage and implement procedures to enable managerial functionalities to operate better and efficiently in the given environment.

Therefore, e-learning helps the educational institutions to enhance the students learning by developing courses in online. In order develop skills and create career opportunities for students to think analytically.

The key purpose paper of the paper is to determine what the significant challenges higher education institutions face in developing e-learning environments. The paper will also consider the gaps in the research in this sector, in particular, as to how the e-learning tools can be used to enhance university student learning. Empirical study was conducted and a number of challenges are discussed to ensure that universities capitalise on the opportunities presented by advances in technology to engage students.

## Introduction

The current development of e-learning has changed the concept of learning within the higher education sector. For universities to take full advantage of e-learning environment it is necessary to develop and enhance student learning for the future by integrating the leaning tools which are part of the every learning experience of students. Universities needs to develop information technology as a unified learning tool for the students to able to use e-learning tools both on Campus and off-campus. The use of e-learning enhances the individual learning process and empowers students (Raj and Rashid 2009, Morris, 2008 ). In order for e-learning to be successful learning tools for the future, universities need to develop and work towards clear and effective e-learning solution. Therefore, the impacts of e-learning are a major interest to the higher education institutions.

In recent years the development of e-learning system has become more successful in higher education. The university staff is responsible for delivering and implementing the e-learning system to enhance student learning through online courses. The e-learning is offered in the form of online courses and training programmes which are organised and delivered via online (X-stream, Blackboard, Webct, Moodle, VLE and other learning web systems). The use of technology in higher education has been growing in the last decade with clear push from the universities management to use online assessment methods to integrate student learning and communication methods.

This paper aims to address distinct challenges faced by the higher education institutions in developing e-learning courses. The last decade has witnessed a growing interest in the development of higher education and increasing numbers of students. The paper will also consider the gaps in the research in this sector, in particular, as to how the internet can be used to enhance university student e-learning by using online based assessment.

## Challenges Faced by Universities Using of Information

The use of e-learning in higher education is having major implications for certain institutions to meet the expectations of students. In the last decade e-learning has increased and improved within higher education. The increased demand of information technology transfer to student learning has implications for both higher education institutions and students. Unwin (2003, as cited in Sajja, 2008) states that the key principle of information technology is to provide e-learning environment are as follows.

• To ensure that access to high quality information is integrated into course provision;

• To equip e-Learners with the information skills to exploit that information;

• To provide appropriate assistance to e-Learners in information-searching; and

• To address the related communications and costing issues.

In the last decade various e-learning models has been developed and tested by the higher education institutions to enhance student learning through information technology. Higher education institutions are in a transition period to provide the students with new way of communicating the knowledge. In today's technologically progressive environment universities are facing very strong pressure from government to change the methods of delivery knowledge to students. The higher education institutions have started developing new and testing new IT teaching and assessment programmes. Morris (2008, p.2)

The advantages of this resource to students are clear: The resources are accessible 24/7 both on and off-campus, difficult lecture topics can be revisited and material can be reviewed for revision

/ understanding purposes. In addition, students have commended the integrated video, slides and notes approach – this is very useful for students' differing learning styles. Students with dyslexia have also commended the resources. The advantages of this resource to the institution will hopefully be apparent in improved module marks for this module and reduced failure rates.

www.bioscience.heacademy.ac.uk/Resources/morris.pdf

It is widely accepted that e-learning will have greater impact on the learning style of students in the future. Therefore, it would have fundamental impact on universities to provide very cohesive learning to meet the demand of students. However, research does not show very inconclusive shift towards e-learning of individual students. O'Neill, Singh, and O'Donoghue (2004) propose that information technology will benefit students in the longer run; it will make students take responsibility for their own learning. Raj and Rashid (2007) further this endorsement in their research, they state that student e-learning is a generic term for all mechanisms employed to aid learning and disseminate information through an electronic medium.

## E-Learning Development Systems in Higher Education
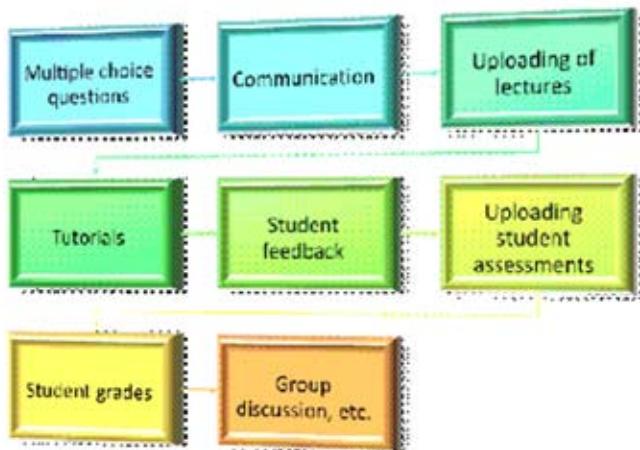
The e-learning systems are designed to support teaching learning in higher education to enhance student engagement and provide service to students who increasingly look to the internet as the natural medium to find learning material and information. The development of e-learning tools has started providing students learning resources over the internet, which has transformed the way higher education institutions are managed, organised and developed. Al-Shboul and Alsmadi, (2010, p.5) states that:

E-Learning management systems also provide information on just about anything the academic institution needs to track and analyze about students, faculty, and staff; former students, faculty, and staff; and applicants. The academic institution can select an e-Learning system and customize it to meet its needs.

In a climate of increased competition, reduced funding, possible drop in university applications,

one way of increasing student numbers would be by enhancing student experiences on the internet. It is widely accepted that relationship marketing enhances by positive experience and the Internet is a key relationship building tool. E-learning work (assessment) over the internet can be marked automatically as highlighted in diagram 1.

**Diagram 1: E-Learning Vehicle**



The e-learning systems are designed to supplement traditional teaching and learning activities to students. These tools allow students to interact with tutors and other students online to engage in learning and share their views and work.

## E-Learning and Assessment

The Internet, because of its connected nature, produces great opportunities for organisations to exchange both information about their products and services as well as to facilitate communications between the companies and all the stakeholders concerned.

E- Learning is a generic term for all mechanisms employed to aid learning and disseminate information through an electronic medium. The term e-learning within this paper involves using the Internet as a communication medium. Such a tool has been used extensively with the HE sector as a means to assist in the learning process and at the same time assist with geographic differences associated with distance learning. Whilst not intended to be a replacement for traditional classroom methods, e-learning does offer alternative teaching methods which must not be disregarded and treated as futuristic, non operational and inappropriate. Throughout the HE sector it is clear that e-learning does offer all educational stakeholders opportunities, to not only engage with HE environment, but also offers potential resource and cost savings which themselves can be passed on to the student community. In addition to the aforementioned savings, electronic learning does enable HE institutions the potential to further facilitate student retention and therefore impact positively upon student development.

Common e-learning tools used via the internet include discussion boards, e-mail, chat rooms, video streaming and document transfer. In fact, Bonk (2004) lists thirty different technologies currently used to disseminate e-learning. But whatever e-learning strategy is employed to facilitate student learning they need to be employed in such a way that all students are fully embracing of such an approach and that e-learning is not simply employed to replace traditional teaching methods.

## Virtual Learning Environments and Skills Development

There is an increasing amount of research in the Higher Education sector regarding students experience during their first year of study. Yorke and Longden (2004) identified four key reasons why students leave programmes of academic study. Two of these reasons can be seen as being within the area of influence of institutions. These are: the students' experiences of their programme and more broadly experiences within the institution of study and, secondly, students' failure to cope with academic demands made by their programme of study. It is for these two reasons that the importance of IT skills to new entrants are worthy of further investigation.

Students need a set of generic IT skills to satisfactorily undertake their course of study. Student satisfaction and progression are compromised if they do not have these skills. Equally where students are uncertain of a particular skill set formative assessment and the accompanying feedback is important (Yorke and Longden, 2004)

IT skills are a prerequisite for e-learning – usage of Virtual learning environments has increased substantially in recent times and staffs in institutions are developing increasingly complex learning systems this makes increasing demands on student IT skills. Students without a basic set of IT competencies place considerable pressures on support mechanisms within institutions.

The use of IT applications within a class may be based upon assumptions regarding existing levels of students' IT competency. If these assumptions do not hold, lecturers can unexpectedly find themselves undertaking remedial work with those students in the class who do not have sufficient IT skills. There is increasing recognition of the importance of IT skills in benchmarks on key skills, from professional bodies and employers. Institutions who do not give students the opportunity to improve and update skills may well be compromising these students chance of success.

## Flexible Learning Approaches

The obvious solution for higher education institutions is to develop clear and flexible learning approaches to meet the cultural needs of students.

It is important, therefore, the higher education institutions have understanding of the needs of students, and know how to use teaching methods and strategies to meet the needs of students. Student's progression in higher education courses will depend to a great extent upon their lecturers' knowledge, skills and understanding of how to support their learning needs. To support their learning needs, it is important to understand the cultural differences of students, in part second language competence and the sensitivities of the willingness of students to approach tutors and peers in the progression of their studies, and perhaps through the cultural expectations of 'rote' learning.

In addition, for international student it can take up to one full academic year to learn and adjust to the environment to achieve advanced language, academic, and cultural coping skills. During the first 6 months the student is learning different culture experience in terms individual learning, adjusting to the new city, and assimilating culture information at an incredibly rapid pace. During the second part of the year the student is applying and using what he has learned and develop new methods and techniques to understand the different culture. Moreover, it is also the time when international students realise that they are in different environment and have made lifelong friends to exchange culture experiences.

However, more fundamentally international students have been taught and socialised in different culture, which should be understood and assimilated into learning strategies in 'host' institutions. For example, the women in South East Asia and Middle East are normally taught in single sex school compare to European countries. In addition, within the cultural tradition of some countries students are socialised to show greater 'respect' and deference to their lecturer and generally not show disrespect towards their adults and lecturers.

Moreover, understanding the differences between the systems of education in the international students' country of origin and that in the UK is a major step towards understanding the problems that the student may experience in the classroom. For example, in Asia, Africa and Middle East, the teaching is very much centered around the lecturer, as teaching materials is limited. On the other hand the assessment might be exclusively based on end of year exams. During the year assessments

are not common practice in some countries, particularly in Africa and South East Asia.

## Research Design and Methodology

The research adopted a triangulated methodology whereby initially, after a review of the literature, a list of open ended questions where administered in an open-ended survey to 101 students at a post 92 university. Saunders, Lewis and Thornhill (2007) acknowledge that business and management research rarely falls neatly into either phenomenology or positivist approaches. This mix of philosophies continues into research approach choice. The research purpose and importance of respondent participation was explained prior to all questionnaires, checks were made to ensure that the respondent was aware of the event and thus able to participate in the study. Appropriate assurances were made regarding confidentiality and anonymity as recommended by Bell (1995) and Blaxter, Hughes and Tight (1996). In order to achieve highest response rate possible, the questions were kept very short and easy to understand efforts were focused on avoiding bias and ambiguous language.

In addition, secondary data were used through the whole study. The secondary research was undertaken in the form of a literature review of key theories and current related research. This took the form of researching books, journals, newspaper articles, online journals and the Internet. This was essential in demonstrating awareness of the current state of knowledge on the subject and how the proposed research would add to what is already known (Gill & Johnson, 2002).

## Research procedure and Findings

The findings from the qualitative survey and key issues identified in the literature were developed into items on a Likert scale to gauge the degree of agreement with the variables from the student population. Initially, the questionnaire was pilot tested with 100 students and the results revealed that minor refinements were needed in the wording. The final version of the questionnaire was administered

to students studying at the largest (currently 41,000 students) post-92 university in the North of England. The questionnaire was administered to students during the second semester of the academic calendar, as it was felt they would have had sufficient exposure the university's online learning portal to provide valuable feedback. After the completed questionnaires had been reviewed for suitability a total of 292 questionnaires were accepted for analysis. In terms of gender there were 140 males (48%) and 152 female (52%) responses obtained and the average age of the respondents is 20. The students are represented from all academic years (half are from year 2 and a quarter from the first year and the final year). Since the research instrument had gone through a rigorous design process the Cronbach's Alpha for the questionnaire was very high (.930).

There appears to be a high degree of agreement, from both males and females, that the university online learning system is helping students in their independent studies. Although, there is a general agreement that the online system, as it currently operates, does not replace the learning experience of a lecture (see Figure 1)

## Accessing the online learning system

The students indicated their preference for accessing the university online learning system in the afternoon (60% of sample) and in the evening (63% of sample) see figure 1. On average students spend 4 hours a week accessing information from the university online learning system (see Figure 2).

## Benefits of an online learning system

The main benefits of a university online portal is that it permits students to confirm their timetables, find information about a module, retrieve assessment grades, communicate with tutors and become informed about any university or course events (see Figure 4). Female's students ranked these issues much higher than their male counterparts (see Figure 5).

**Figure 1: Student views on the university online learning system**
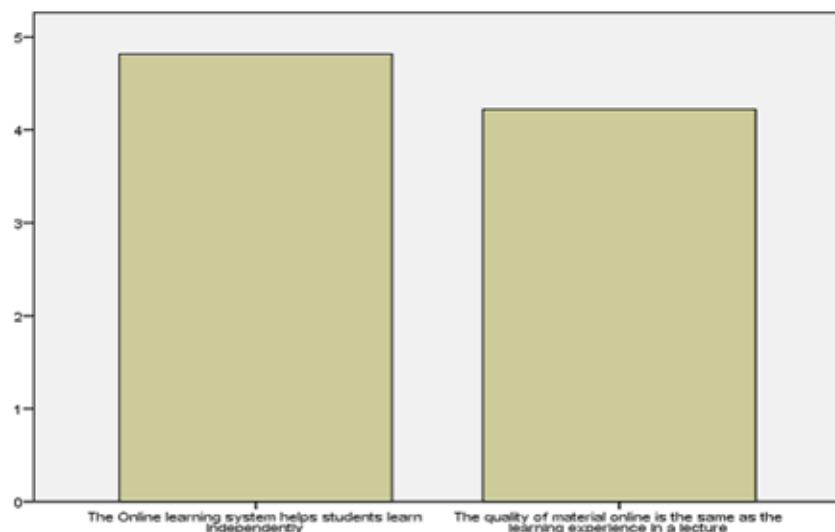


**Figure 2 Accessing online system**
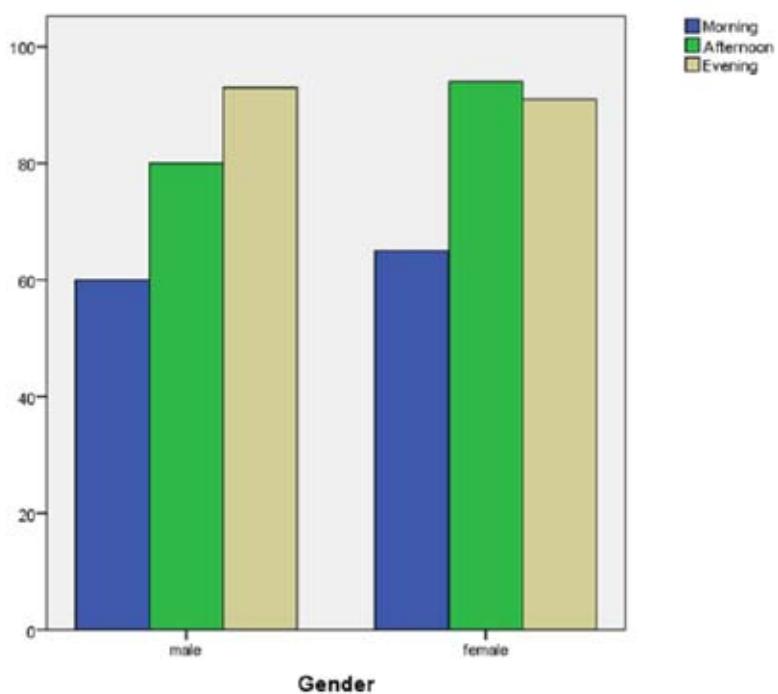
**Figure 3 Hours spent online system**

How much time do you spend on online learning system in a week?
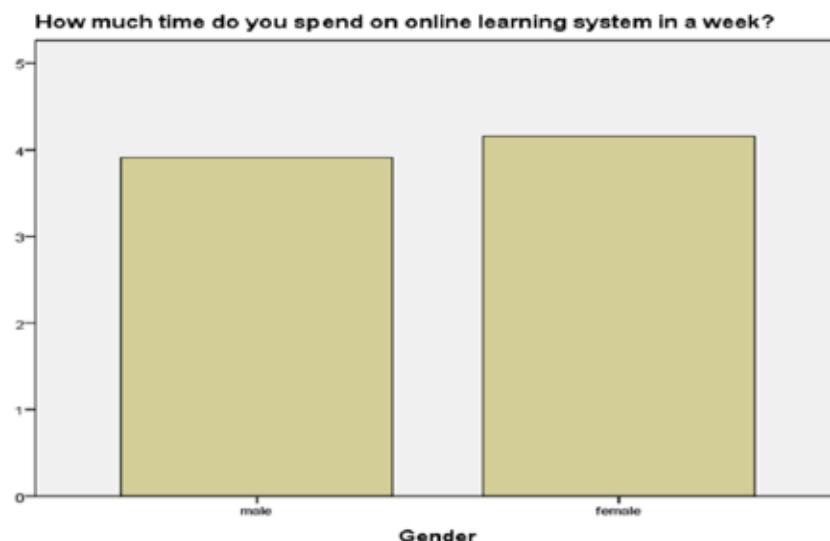


Gender

**Figure 4: The benefits of a university online learning system**
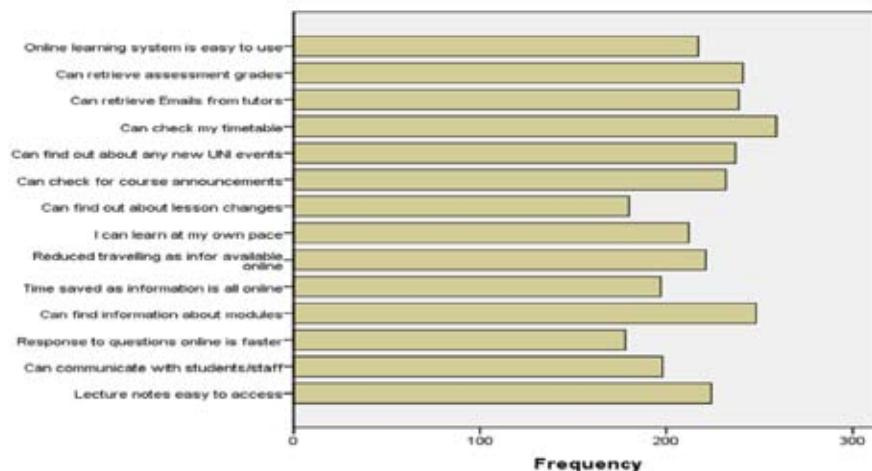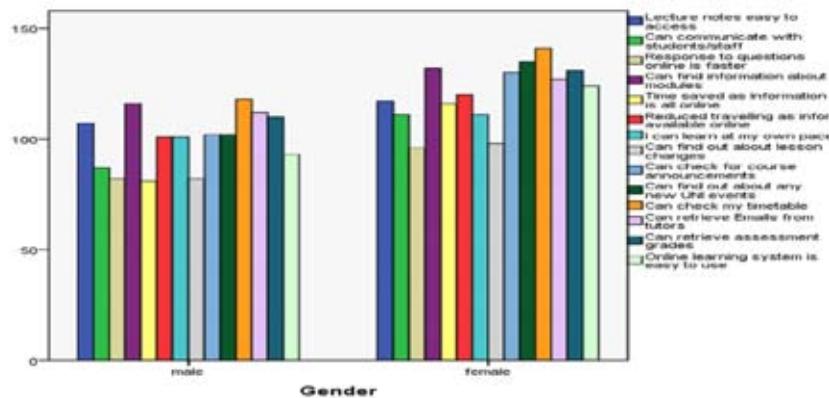
**Figure 5 Benefits of university portal by Gender**



## Challenges of using current university online system

The main concerns that students voiced about university online learning portals is that it is not user friendly, students dislike reading from the screen, layout of information is not intuitive, many students are struggling to adapt to an online learning system, there is a wide disparity in the amount of information tutors provide online for students and finally students are naturally concerned about the increasing costs of having to print out material posted online (see Figure 6). Female students were concerned with not all tutors posting their notes on the university online portal, spending too much money on printing information and finally being concerned that the online learning system is not always the best forum to raise academic questions.

## Improving the university online learning system

Despite the increasing popularity of online learning portals at university, the majority of students would still prefer to have a one-to-one engagement with their tutors. Tutors could also improve student engagement online by ensuring that assessment material (past and present) is made available to students through detailed guides to help them undertake successful independent study (see Figure 8). Male students ranked having examples of good assignments available online much higher than female students. When Non-parametric (Mann-Whitney) statistics were applied to the results the findings revealed that females significantly favoured having their results posted on X-stream and wanting more information on the module.

## Conclusion

The present study found that in modern education system it is vital for universities to use an online method which offers students flexibility and enhance their learning. The Electronic learning is a generic term for all mechanisms employed to aid learning and disseminate information through an electronic medium.

It is clear from the results of this research that e-learning environments have been readily accepted by students as an additional source of reference and academic clarification. What is interesting from these findings is that female students are more active in engaging with e-learning tools. There are many reasons that could be attributed to this phenomenon such as more dedication to learning and achieving a higher grade which is evident from the student results. Although, this particular finding requires further qualitative exploratory research to determine the reasons for females engaging with e-learning environment more than males.

**Figure 6: Current challenges of the university online learning system**
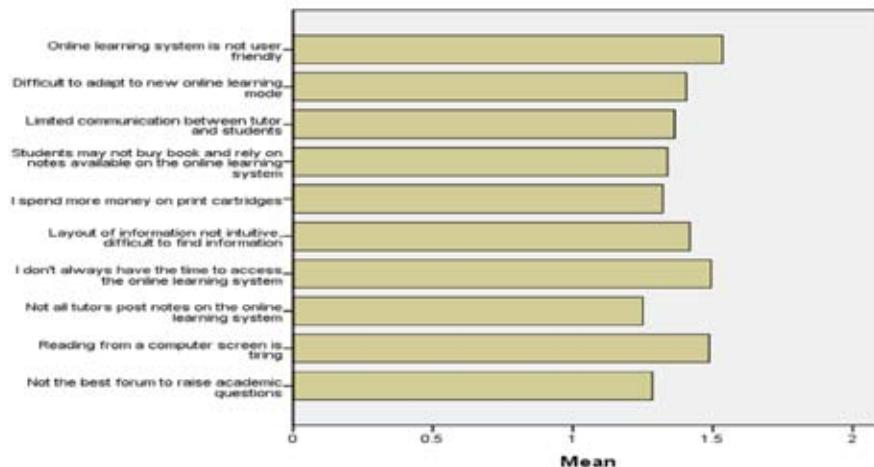


**Figure 7: Gender differences of the challenges of a university online system**
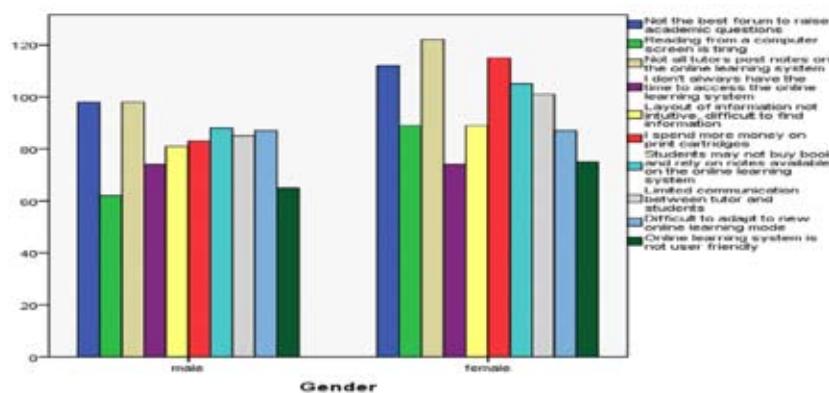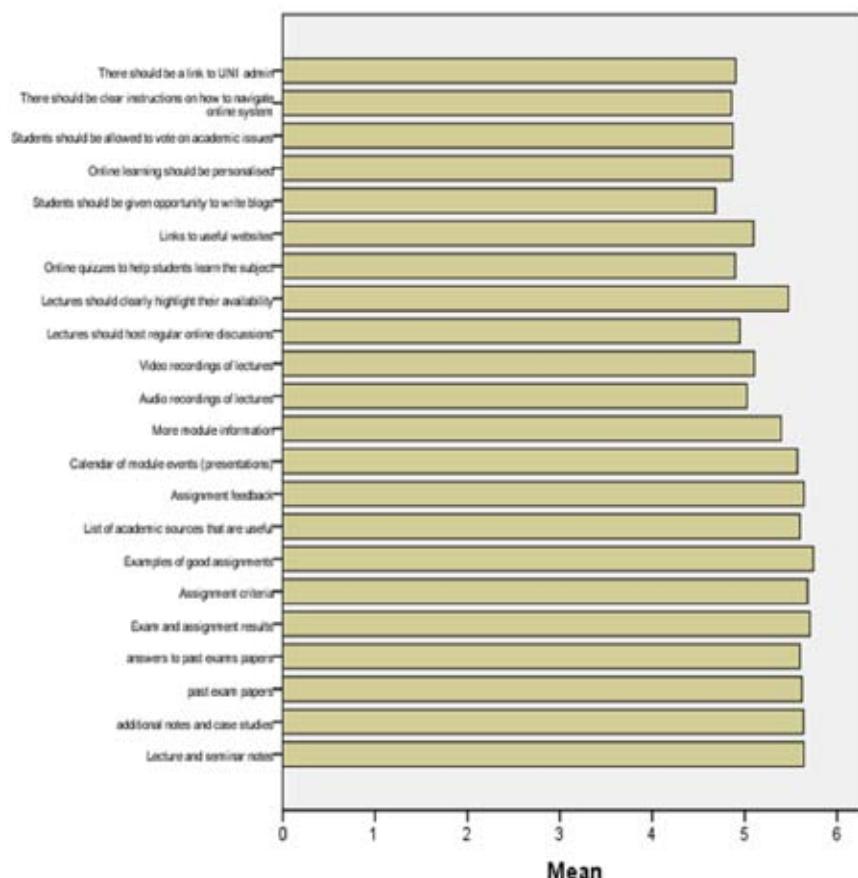
**Figure 8: Improving the university online learning system**



There are a number of challenges that need to be addressed if university online learning systems are to play a supporting role to enhancing the education of students. Specifically universities need to train and encourage their staff to develop comprehensive sources of information and activities for students to interact with outside of the traditional pedagogical delivery. The activities that tutors develop need to take advantage of the latest e-learning tools that visually and intuitively aid independent learning. Based on the findings of this research the authors propose a number of recommendations to enhance the student e-learning experience.

The research also indicates for universities to take advantage of online learning systems. To ensure the successful adoption and enhancement of

student learning the universities adopt following essential points.

The acceptance and success of any software system is initially based on the intuitive layout and navigation, these concepts now applied in the design of websites need to be embedded in the design of all university online learning systems.

- Tutors will need to be trained on online learning systems

- To engage students using multimedia universities will have to invest in hiring multimedia designers for each faculty who can help convert tutor notes into a multimedia format.

- To encourage students to print material uploaded onto the online learning system,

perhaps a printing allowance, offered each year to students, could be determined that is factored into student fees.

- Tutors needs to be discriminating about what they upload onto the online learning systems as many students fail to appreciate what is important and what is superfluous.

- The benefits of the online learning system need to be conveyed to students during their induction and at the start of each lecture if they are to embrace and adopt the system as part of their everyday learning practice while at university.

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# MANAGEMENT OF SUSTAINABLE TOURISM DEVELOPMENT:  CASE STUDY PLITVICE LAKES NATIONAL PARK

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## Abstract

*In many tourist destinations in the world, valorised natural environment is a natural tourist attraction that has become the reason of tourist visits and the comparative advantage of Croatian tourism. However, the natural environment is limited by the resources requiring Man's protection, responsible development and management. General opinion is that tourists visiting such natural attractions can harm its naturalism. Therefore, it is considered that Plitvice Lakes National Park has to be developed in accordance with sustainable development codes, practices and guidelines such as limit load capacity, which attempts to control the number of visitors within a space without compromising the features and quality of the natural environment. The Plitvice Lakes area cannot be planned for tourism according to spatial use: its management must be based on environmentally responsible development and capacity, and the tourist demand must be adjusted.*

*This paper begins with the valorised elements of Plitvice Lakes National Park's natural environment as its bid element, and then analyzes the relationship between limit load capacity and tourist presence. The conclusions and recommendations presented in the paper aim to manage a national park through sustainable development.*

*Key words: natural environment, sustainable development, limit load capacity, management, Plitvice Lakes*

## Introduction

One-sided views of the natural environment have had, over time, not only principled, but also very significant economic and political consequences. Ideas and opinions that natural environment is the key factor in the forming of economic and cultural society development have been present for a long time, and they still exist. This deterministic point of view, based on a one-sided causal principle, completely dismisses the role of socio-economic and cultural traditional factor systems and does not take into account the fact that impacts are interdependent.

Pursuant to the Croatian Environmental Protection Act from 1994 (Goldstein, 1999, p. 216), environment is defined as natural environment – air, water, soil, climate, plants and animals, and cultural heritage as a part of man-made environment. Natural environment inhabited by people secures fulfillment of their living conditions. However, human needs, living habits and interests which cannot be directly fulfilled by nature, continuously grow. Consequently, new elements are created while relying on nature, and environment, which differs from the natural environment, is formed. Natural environment has limited resources which need human protection. Endangering nature does not only diminish the beauty of a  landscape, but is a direct threat to life itself.

## Factors Forming and Development of the Environment

Cognitive facts that decisions on environment adopted today might limit or fully disable survival of the living creatures tomorrow has led to formation of the term sustainable development. There are also certain unclarities and understatements in the interpretation of the term „environment". This has primarily reflected in the use of the terms environment and scenery. The first term is used in the sense of the social environment (man and the results of his actions), and scenery of the natural environment (relationship between biotic units and non-biotic spatial elements). Thus, environment should be a term which denotes complex human environment, both natural and social. This is only partially acceptable, because undisputable and unavoidable fact of interdependence of the impacts of the above-mentioned systems and factors in the forming and development of environment has not been clearly pointed out. For this reason, it is not surprising that, most often, and most frequently, the term environment denotes almost exclusively the relationship between man and his natural environment. One may conclude that this is basically a biological interpretation, and „natural environment" thus denotes the natural category (Stanić, Kutleša, 2005, p. 54). The contrary view is over-emphasising of the social factors, i.e. their exclusive significance in development, as well as forming of the living standard.

Tourism is only one of the elements which may have a negative effect on the environment if its development is not viewed strategically and in terms of planning. This is why it is necessary to manage tourism development in a responsible i.e. sustainable way, taking into account sustainable development principles. This is how all advantages and benefits of tourism would be realised and used, and its negative environmental effects avoided or eliminated.

The subject of analysis in this paper is the Plitvice Lakes National Park, whose natural beauties have always attracted tourists.

## Natural Environment as a Comparative Advantage of Tourism

Natural environment denotes the environment in which the presence of human beings and their actions is reduced to the minimum. Processes which unfold in this environment are exclusively the result of nature and all the natural constituents. According to the definition of natural, environment is natural encirclement of organisms and their communities, including mankind, which enables their existence and future development: air, water, soil, the Earth's stone crust, energy, as well as material goods and cultural heritage as a part of man-made environment; all in their variety and totality of interactivity (Environmental Protection Act, p. 3).

The landscape and soil are analysed together because they are strongly interrelated. Soil is a part of the landscape, and to spend soil always means to affect the landscape. Landscape is a multidimensional phenomenon, and soil constitutes only one of its elements (Müller, 2004, p. 91). The landscape is, and remains, one of the most important, some say the most important, element of the tourist offer. Flora comprises all kinds of plants which appear in one place. It is affected by ecological factors, such as the climate and soil, and also other living creatures which live at the same location, i.e. in an area. Fauna, like flora, depends on the natural environment influences.

Clean and healthy air has always been, and remained, one of the most important elements of the original offer of tourist and excursion destinations. Today, healthy air is no longer the primary reason for staying in a certain place, but for many tourists, it remains a significant factor in the selection of a tourist destination. Water is a characteristic part of the landscape, while, on the other hand, it serves as a base for many activities such as bathing, swimming, diving, fishing and rowing. Water pollution is one of the most common problems in tourism (Müller, 2004, p. 91).

Tourism development is based on the safety of tourists and protection of the natural environment, resulting in the necessity to establish balance between economy, ecology and environmental protection in tourism (Vujić at al., 2005, p. 78). Preservation of nature is a condition for quality life, and it provides tourists with a possibility to fulfill their wishes, needs, and expectations from the tourist journey. Tourism is closely linked to environment and the climate. There are numerous positive, but also negative consequences of tourism on the environment and the local community. Taking into consideration that tourism takes up a large amount of space, its activities endanger the quality of

environment by significant air pollution, generation of noise (because of the traffic), water pollution for reasons of high concentration of tourists in a short period of time, degradation of the natural environment, damaged flora and fauna, historical monuments, crowdedness and inadequate infrastructure, waste disposal and great energy consumption.

In their selection of the vacation destination, contemporary tourists imply the existence of primary elements which include (Golja, 2009, p. 10): ecologically preserved environment, accommodation/catering offer, various activities, and the atmosphere. Thus, it is fair to say that contemporary tourists are ecologically aware and especially interested in experiencing the atmosphere and becoming familiar with the identity of the destination.

Natural tourist resources imply all the natural elements and factors of a high degree of attraction which are a reflection of the geographical location, and which can be valorised in terms of tourism (Blažević, Knežević, 2006, p. 43). According to the official Croatian statistics, natural tourist sights include (Blažević, Knežević, 2006, p. 43): national parks, nature parks, strict nature reserves, forest parks, protected landscapes, natural monuments, and park architectures. The role of protected natural wholes in national parks is irreplaceable. These natural facilities are very attractive and interesting for domestic and foreign visitors in the tourist sense, and limited for tourist use. Plitvice Lakes National Park is the most interesting, and may be used in tourism only if its basic purpose is taken into consideration. This means that it has a tourist function as long as some of its basic values are not disturbed. The space of the Plitvice Lakes National Park cannot be planned for tourist purposes according to its spatial possibilities, but to its ecological capacity, to which the tourist demand must adapt. All plants and animals in the Plitvice Lakes National Park are protected, as well as the soil, and left to natural development, allowing human interventions to the degree which is in accordance with the objective and the purpose of its foundation. The national park has the most valuable and attractive natural characteristics and quality, and, because of these unique forms, the privilege of the most protected category of the guarded area. It represents the most organised part of protected nature which provides the possibility to a great number of visitors to, under the condition

that they uphold the principles of environmental protection, become familiar with nature and its laws, as well as to rest and enjoy the intact beauty of this national park.

The Plitvice Lakes National Park has grown into a strong economic and cultural centre, and its business results have confirmed the willingness to affect the general transformation of the entire wider Lika area in terms of culture, ecology, economy, and human resources. The National Park territory is divided in three areas in which the purpose of the space, as well as the degree of environmental protection, are determined (Vidaković, 1989, p. 398): the basic phenomenon area comprises the area covered by lakes, waterfalls, and the entire biodynamic process, the surface of above-ground confluence of rainwaters from the gravity basin of the Plitvice Lakes, their tributaries and the upper flow of the Korana River; field-oriented care area is located in the area of underground gravity waters of the Plitvice flow and the upper Korana flow, and the mixed protection area covers the access zones of the national park. In these zones, development of tourist and recreational activities in this accommodation facility is directed according to plan, while upholding landscape values, as well as other activities with tourist purpose which serve the inhabitants of the national park.

Below, there is a proposal of the possible methods of calculation of the carrying capacity limit. Furthermore, the significance of management is pointed out in the implementation of the protection measures and sustainable development management measures through the outline of organisation units and the number of employees on the example of the Plitvice Lakes National Park.

## Facility Load as an Important Element of Sustainable Tourist Development

Each tourist destination, national parks included, has limits beyond which it cannot develop its activities. These limits are expressed through sustainability capacity, or reception of a certain area which denotes the degree to which an area can endure exploatation for economic and tourist activities, without endangering the environment, the culture, and interactive harmonisation of economy, organisations, and individuals.

In the process of determination of the sustainability capacity, the hardest limit to estimate is the upper limit of use, or the limit of tolerance which it may sustain for a longer period of time (Pančić Kombol, 2000, p. 77).

According to the WTO's definition – and the carrying capacity limit represents the maximum number of tourists who visit a tourist destination at the same time, without unacceptable disturbances of physical, economic and socio-cultural environment, as well as unacceptable decline in users' satisfaction.

A tourist destination's carrying capacity represents its ability to accept tourists and tourism development, without significantly disturbing natural environment (the natural, the built and the socio-cultural). It implies the presence of tourists, which has an impact on the environment in any case, but which is also acceptable to the local community and tourists, and which will also be sustainable in the future (Vujić, et al., 2005, p. 120).

The reception capacity points to the fact that there are limits of development which, if exceeded, cause a significant disturbance of the environment. If these limits are upheld, the development will bring economic and social benefits. Estimation of the carrying capacity has become one of the basic techniques in planning and managing tourist development with the objective to define the desired upper limits of development, i.e. optimal use of tourist resources (Dulčić, Petrić, 2001, p. 330).

The reception potential of a tourist destination will be the one which, after the analysis, has the maximum value, which will determine the threshold of the reception potential of visitors. Benefits from the application of the concept of the destination's reception potential would be visible in the public and the private sector alike, because they can then establish optimal goals and scenarios of development of the tourist destination.

A very common error in the quantification of the reception potential lies in the fact that a very simplified method of its determination, as a relationship between local inhabitants and the number of tourists is used, ignoring in this process other factors which should be considered. Since this relationship (the number of local inhabitants/ the number of tourists) is inadequate, it can only

be justified when, after a more detailed analysis, the reception potential had been determined, and subsequently expressed by this relationship, in order to become clearer in public, to be accepted as a given, but a flexible value.

American national parks associations have expressed an opinion by which the reception potential is a function of the following factors (Vukonić, Keča, 2001, p. 112):

$$CC = f (Q, T, N, Ut, DM, AB)$$

CC   carrying capacity

Q   quantity of the park's resources

T   tolerance of its resources to use

N   number of visitor

Ut   type of use

DM   design and management of the visitor facilities

AB   attitude and behaviour of visitors and managers

Other renowned authors express the reception potential value by the following formula (Glasson et al., 1995, p. 54):

$$TCC = f (Ecol, Phys, Econ) (TC, RA, Pol)$$

Ecol   ecological systems in a destination

Phys   physical infrastructure and tourist facility development

Econ   economic characteristics of tourist investment and expenditure

TC   tourists' characteristics in social-cultural and behavioural terms

RA   residents acceptance of tolerance of tourism activity

Pol   political capability and authority to take effective management decisions

The basis for creation of the possible tourist development scenario is determination of the carrying capacity limit on the basis of previously established parametres and the corresponding standards linked with certain parametres. Calculation of the carrying capacity limit of a tourist

area, in the framework of tourist developmental plans and their developmental limits, along with implementation of environmental protection, also enables long-term tourism development.

The following picture shows impacts on the carrying capacity limit. Impacts can be divided in local and foreign factors. They affect the process of tourist management and planning. They need to be continuously monitored and measured in order to adjust the changes in the reception capacity to the new changes.
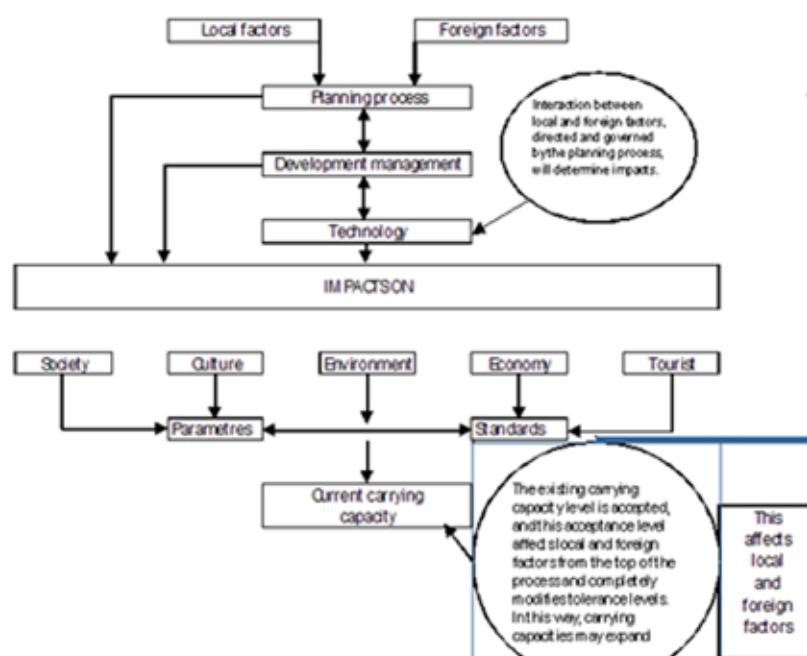
The objectives of tourism development must be clearly defined before determination of the carrying capacity limit. The set developmental goals may significantly increase the reception potential of a certain area which may, in this way, endure much greater burden before the occurence of negative impacts. The carrying capacity limit of a certain tourist destination, in this case the Park, of standardised type, may be analysed on the basis the number of tourists estimated by a complex impact factor. However, determining a standardised visitation unit is very difficult. As

mentioned earlier, the problem may occur if the number of daily visitors must be included in the total number of tourists. This results from the fact that the frequence of daily visitors mostly differs during the day, unlike those who stay for a longer period of time.

The hypothesis is that, the shorter the tourists stay, the more activities they want to achieve in a short period of time, and this results in greater consumption per time unit.

The carrying capacity limit i.e. the reception potential of a tourist destination changes over time under the influence of various factors (attitudes of local population, tourists and the environment). The carrying capacity limit defined in this way is also linked with a concept of sustainable tourism development whose function is to initiate the process of changes, in which exploatation of resources, allocation of investments, orientation of technological development and institutional changes would be synchronised with the present and future needs (Blažević, et al., 2009, p. 217).

**Figure 1. Determinants and Impacts on The Carrying capacity**



Source: Cooper, et al., 2008, p. 207.

## Analysis of the Number of Visitors of the Plitvice Lakes National Park

The following table shows the number of visitors of the Plitvice Lakes National Park according to the years and months in the period between 2007 and 2010.

According to the conducted analysis, it is evident that the total number of visitors of the Plitvice Lakes National Park increased in the period from 2007 to 2010 at the average annual rate of 1,02%. Observing the monthly number of visitors, it is evident that the increase in the number of visitors was not recorded in all months. In February, April, June, September and November, there was a decline in the number of visitors, out of which a greater decline was recorded in April, where the number of visitors in the period of three years declined at the average annual rate of 13,36%. Increase in the number of visitors was recorded in other months, and the greatest increase was recorded in January, when the number of visitors increased at the average annual rate of 4,12%.

All of this has resulted in the total increase in the number of visitors and, if the number of visitors continues to rise at the existing growth trend, by 2020, there might be 1,058,609 visitors, by 11% more in relation to 2010.

The number of visitors is one of the elements which affects the national park's natural environment. Establishment of the carrying capacity limit should determine the maximum number of visitors, not only annually, but also daily, considering that there is a large share of daily visitors. Research conducted by the Institute for Tourism in 2006 showed that only 15% of tourists stay 4 days on average (Tomas National Parks and nature parks 2006, 2006, p. 10). Besides, it should be noted that the carrying capacity limit is not a fixed variable, i.e. the currently established maximum number of visitors does not have to correspond to the future maximum number of visitors. This means that all factors which have an impact on the destination should be continuously monitored and analysed.

The analysis of the structure of visitors of the Plitvice Lakes National Park shows that the structure of visitors has not changed over the years. The greatest share of visitors are adults (43%), followed by groups (38%), and the smallest share the children (19%). The results correspond to the research conducted by the Institute for Tourism, according to which it was established that the majority of visitors is middle-aged (about 41 years of age), well-educated and earning high income (Tomas National Parks and nature parks 2006, 2006, p. 10).

The structure of visitors is also a significant element which affects the environment and the determination of the maximum carrying capacity because tourists' activities in the destination, as well as their impact on the environment, greatly depend on their age.

## Accommodation Facilities Policy in the Plitvice Lakes National Park

Long-term development plan of the Plitvice Lakes National Park is analysed within the provisions of the regional plan, and relies on the entire Lika region. The plan includes tourist-catering facilities, their distribution according to zones and types, their contents and quality; the Velika poljana Zone, Selište-Korana Zone, Koreničko Brinje Zone and Gornji Babin potok, and the Kušelj Zone (Plitvička jezera, 2011).

The area of the Plitvice Lakes National Park is the primary tourist space, but it is also a limiting factor of tourist offer development and tourist turnover. The projection of tourism development, i.e. economic valorisation of natural resources of the Plitvice Lakes, is based on spatial possibilities of offer development, because it is implies that long-term demand will not limit tourism development of the Plitvice Lakes.

Accommodation facilities policy of the Park represents its quantitative tourist offer presented in the Table 3.

**Table 1. The Number of Visitors of the Plitvice Lakes National Park according to the Months and Years in the Period from 2007 to 2010**

| MONTH | YEAR | | | | Average annual growth/decline rate |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | |
| JANUARY | 1,609 | 1,966 | 4,051 | 1,816 | 4,12% |
| Chain index | - | 122 | 206 | 45 | |
| Fixed base index | 100 | 122 | 252 | 113 | |
| FEBRUARY | 1,757 | 2,301 | 2,303 | 1,599 | -3,10% |
| Chain index | - | 131 | 100 | 69 | |
| Fixed base index | 100 | 131 | 131 | 91 | |
| MARCH | 6,846 | 9,812 | 6,154 | 7,087 | 1,16% |
| Chain index | - | 143 | 63 | 115 | |
| Fixed base index | 100 | 143 | 90 | 104 | |
| APRIL | 59,397 | 40,727 | 44,669 | 38,627 | -13,36% |
| Chain index | - | 69 | 110 | 86 | |
| Fixed base index | 100 | 69 | 75 | 65 | |
| MAY | 94,049 | 107,883 | 103,879 | 99,293 | 1,83% |
| Chain index | - | 115 | 96 | 96 | |
| Fixed base index | 100 | 115 | 110 | 106 | |
| JUNE | 125,566 | 123,960 | 113,986 | 121,135 | -1,19% |
| Chain index | - | 99 | 92 | 106 | |
| Fixed base index | 100 | 99 | 91 | 96 | |
| JULY | 191,952 | 204,957 | 201,995 | 209,899 | 3,02% |
| Chain index | - | 107 | 99 | 104 | |
| Fixed base index | 100 | 107 | 105 | 109 | |
| AUGUST | 250,397 | 261,260 | 266,873 | 282,325 | 4,08% |
| Chain index | - | 104 | 102 | 106 | |
| Fixed base index | 100 | 104 | 107 | 113 | |
| SEPTEMBER | 142,085 | 137,958 | 138,481 | 137,781 | -1,02% |
| Chain index | - | 97 | 100 | 99 | |
| Fixed base index | 100 | 97 | 97 | 97 | |
| OCTOBER | 46,095 | 49,549 | 49,432 | 49,389 | 2,33% |
| Chain index | - | 107 | 100 | 100 | |
| Fixed base index | 100 | 107 | 107 | 107 | |
| NOVEMBER | 5,808 | 6,452 | 5,636 | 5,322 | -2,87% |
| Chain index | - | 111 | 87 | 94 | |
| Fixed base index | 100 | 111 | 97 | 92 | |
| DECEMBER | 2,100 | 2,066 | 2,288 | 2,176 | 1,19% |
| Chain index | - | 98 | 111 | 95 | |
| Fixed base index | 100 | 98 | 109 | 104 | |
| TOTAL | 927,661 | 948,891 | 939,747 | 956,449 | 1,02% |
| Chain index | - | 102 | 99 | 102 | |
| Fixed base index | 100 | 102 | 101 | 103 | |

Source: Authors' adaptation

**Table 2. Structure of Visitors of the Plitvice Lakes National Park in the Period from 2007 to 2010**

| DESCRIPTION | YEAR | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2008 | | 2009 | | 2010 | |
| | number of sold tickets | structure | number of sold tickets | structure | number of sold tickets | structure | number of sold tickets | structure |
| ADULTS | 403,176 | 43% | 413,820 | 44% | 410,501 | 44% | 412,176 | 43% |
| GROUPS | 348,798 | 38% | 361,712 | 38% | 358,549 | 38% | 361,917 | 38% |
| CHILDREN | 175,687 | 19% | 173,359 | 18% | 170,697 | 18% | 182,356 | 19% |
| TOTAL | 927.661 | 100% | 948.891 | 100% | 939,747 | 100% | 956,449 | 100% |

Source: Authors' adaptation

**Table 3. Accommodation Facilities of the Plitvice Lakes National Park**

| NAME OF THE HOTEL | CATEGORY OF THE HOTEL | NUMBER OF ACCOMMODATION UNITS |
|---|---|---|
| Hotel Plitvice | ** | 51 |
| Hotel Bellevue | ** | 70 |
| Hotel Jezero | *** | 248 |
| Hotel Grabovac | *** | 31 |
| **Total** | | **400** |

Source: Authors' adaptation according to Plitvice lakes, 2011.

This public institution manages three hotels: Jezero, Bellevue, and Plitvice, located in the Park area, as well as the Grabovac Hotel, with total accommodation facility of 400 accommodation units. Except for the above-mentioned hotels and their accommodation facilities, the public institution also comprises two autocamps; the Korana Autocamp (**) which can accommodate 2500 campists, and Borje Autocamp (***) which can accommodate 3500 campists. Accommodation in the Park is also possible in numerous private facilities. The National Park's catering offer, except for the hotel catering offer, also comprises a number of restaurants with recognisable gastronomic offer (for example, national restaurants Lička kuća, Poljana, Borje offer traditional Lika dishes in the renovated ambiance of recognisable traditional Lika architecture).

The following table shows realised overnights in the Jezero, Plitvice, and Bellevue hotels in the period from January to September 2010, from which it is evident that the greatest number of arrivals and overnights is realised by foreign tourists. The share of foreign visitors in the total number amounts 93%, and the share of realised foreign overnights in the total number amounts 90%. The share of domestic arrivals and realised overnights in the above-mentioned hotels is increased only in January and February.

Except for hotel facilities, the Plitvice Lakes National Park also manages accommodation facilities in autocamps and private accommodation facilities. In the first 9 months of 2010, there has been a total of 32,743 arrivals and 47,607 overnights in private accommodation.

The figures show that there is greatest demand for hotel facilities, although only 8% of the total number of visitors of the national park spend the night in hotels, which is the result of the fact that the offer is mostly based on shorter, one-day excursions. Market analysis should establish tourist preferences, tourist offer should be adjusted to their wishes, while taking into consideration unrenewable natural resources.

## The Role of Management of the Plitvice Lakes National Park

The management is responsible for implementation of the tourist policy which would not irrepairably damage natural resources.

The management of the Plitvice Lakes National Park is organised through the director's office, professional services, affiliates, and departments. The following table shows the number and the structure of permanent employees of the Plitvice Lakes National Park.

Professional service of protection, conservation and use is organised through the following departments: Department of Water Ecology, Flora and Fauna of the NP, Department of Care and Protection of Landscape, Department of Geodesy and Property Affairs, Department of Reception and Guiding of Visitors, Department of Protection, Care and Preservation of Forests of the NP, Department of Physical Planning and Conservation of Cultural Heritage of the NP, Department of Promotion, Presentation and Marketing, and Department of Fire Protection.

This shows that there is no department in the organisation scheme which would conduct monitoring and analyses of the impact of tourism on natural and cultural resources. Increased number of visitors results in the increase of their impact on the environment, and if the response is not timely, tourism might cause great damages.

**Table 4. Realised Overnights in the Jezero, Plitvice, and Bellevue Hotels in the Period from January to September 2010**

| MONTH | DOMESTIC | | FOREIGN | | TOTAL | | Share of domestic arrivals | Share of foreign arrivals |
|---|---|---|---|---|---|---|---|---|
| | Arrivals | Overnights | Arrivals | Overnights | Arrivals | Overnights | | |
| January | 832 | 2.756 | 186 | 313 | 1,018 | 3,069 | 82% | 18% |
| February | 448 | 768 | 410 | 496 | 858 | 1,264 | 52% | 48% |
| March | 263 | 392 | 1,421 | 1,807 | 1,684 | 2,199 | 16% | 84% |
| April | 507 | 820 | 5,716 | 7,369 | 6,223 | 8,189 | 8% | 92% |
| May | 690 | 988 | 11,546 | 14,673 | 12,236 | 15,661 | 6% | 94% |
| June | 822 | 1,155 | 11,401 | 14,987 | 12,223 | 16,142 | 7% | 93% |
| July | 646 | 1,043 | 12,093 | 16,021 | 12,739 | 17,064 | 5% | 95% |
| August | 536 | 683 | 14,665 | 19,119 | 15,201 | 19,802 | 4% | 96% |
| September | 739 | 1,053 | 13,367 | 16,552 | 14,106 | 17,605 | 5% | 95% |
| **Total** | **5,483** | **9,658** | **70,805** | **91,337** | **76,288** | **100,995** | **7%** | **93%** |

Source: Authors' adaptation

**Table 5. The Number of Permanent Employees in the Plitvice Lakes National Park**

| Organisation unit/service | Permanent employees |
|---|---|
| Director's office (Monitoring service of the NP) | 4 |
| **Professional service of protection, conservation and use** | **119** |
| Affiliate of technics and communal infrastructure maintenance | 100 |
| Trade affiliate | 35 |
| Affiliate of hotel and catering facilities | 356 |
| Service of general and common tasks | 77 |
| Total | 691 |

Source: Kosović, 2006, p. 148.

## Conclusion

There are two factors which contribute to tourist destination attraction. Primary elements include its climate, ecology, cultural tradition, traditional architecture, and landscape; the secondary element includes tourist-initiated development. The difference between the primary and secondary tourist resources points to the main characteristics of many tourist destinations. Tourists usually enjoy primary destination elements without paying for them directly, although maintenance costs do exist. Modern tourists recognise primary and secondary factors of destination success, and when they choose their vacation destination, potential tourists imply the existence of the primary elements of the offer, which include ecologically preserved environment, accommodation/catering offer, various activities, and the atmosphere. Thus, it may be concluded that contemporary tourists are ecologically aware and especially interested in experiencing the atmosphere and becoming familiar with the identity of the destination. The most significant advantages which Croatian tourism can use in the promotion of its tourist destinations and tourist products on the tourist market are preserved natural resources and the environment, cultural-historical heritage, mild Mediterranean climate, as well as long traditional heritage.

It is necessary to continuously monitor the visitors' impact, to establish the carrying capacity limit, and thus determine the maximum number of visitors which the destination may accept. Only in this way will the negative impacts of tourism on nature and the environment be avoided or reduced to the minimum, while utilising all the positive impacts of tourism in the process.

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# A METHODOLOGY TO EXPLORE FAMILY BUSINESS SUCCESSION

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*Abstract*

*Family business succession is defined as a transition of ownership and leadership from one member of the family to another. When succession takes place family members must be satisfied with the process but so should non-family member employees. So, the aim of the study is to investigate the role of the non-family employee in the succession process. Family businesses can range from micro to large. For the purposes of this paper discussion will formulate around small-sized family businesses in Austria.*

*Before any research takes place foundational processes need to take place to provide the bedrock of the research process. The aim of this paper is to present the suitable methodology to answer the research and to show the procedure of how such a methodology can be developed. This paper, therefore, is beneficial to all researchers planning their own methodology within the field of social sciences.*

*The methodological journey, shown in this paper, leads the reader through the philosophical labyrinth of ontology, epistemology, and different research approaches. Presenting this journey the differences between quantitative and qualitative social research will be offered in an accessible way and fundamental polarities in each discipline are explained and compared.*

*Key words*

*Philosophy of research, methodology, family business succession*

## Introduction

Approximately 496,000 employees and 51,500 small and medium sized enterprises (SME) in Austria will be challenged by successfully executing the succession process between 2009 and 2018 (Mandl et al., 2008). That is almost 20% of all jobs and companies in Austria (Statistik Austria, 2006); the majority of which are small-sized family businesses (Mandl & Obenaus, 2008; Mandl et al., 2008). Unfortunately, history has shown that family business succession has a low survival rate which in turn can affect the unemployment rate in Austria. Kesner and Sebora (1994) go on to say that "succession is a traumatic event for an organization" (1994, p.328). And it is generally agreed that managing the transition from one generation to another is a complex process thus contributing to the number of failures (Sharma et al., 1996; Cabrera-Suárez, 2005; Baldegger & Pock, 2007; Berkel, 2007). Whilst the succession process is often complicated it is relevant for the survival of the Austrian family businesses in the long term.

The focus of the family business succession literature is on the affected shareholders. Generally scholars have considered shareholders to be sons/daughters, family members and incumbents (Sharma et al., 2003; Motwani et al., 2006; Ballinger & Schoorman, 2007; Cabrera-Suárez, 2005). However, there has been little research regarding employees as key stakeholders. Therefore, this raised the following research questions:

1. What is the role of the employee in the successful succession process of small-sized family businesses in Austria and

2. How can the satisfaction of the employee, with the process, be influenced?

In order to be able to answer the research questions, it is necessary to establish a suitable theoretical framework and research approach to develop a richer understanding of the role of the non-family employee in the successful succession process; thus presenting the framework that is the aim of this paper. To fulfil this aim, first, the methodological journey starts with a discourse

on the philosophical discipline of ontology and the positioning of the researcher's study. The journey then moves to epistemological polarities will be elaborated and narrowed down and finally, different research approaches will be explained and evaluated.

## Ontology

Ontology is often used by philosophers as a synonym of 'metaphysics' - a label meaning literally 'what comes after the physics' (Barry, 2003). There is controversy in the discussion of philosophers about this most fundamental discipline, on which all philosophy, knowledge and/or wisdom rests – the so called "first philosophy". Indeed the 'founding fathers' of philosophy had different opinions as to 'which comes first' with Socrates and Plato placing ethics first, but Aristotle stating metaphysics or ontology first, later philosophers such as Descartes put epistemology first, with Russell put logic first, and then Husserl (in his later transcendental phase) put phenomenology first. None the less it seems that ontology encompasses the sense of being and being must come before 'thinking' and logic.

Saunders (2007) ontology, to a greater extent than epistemological considerations, raises questions of the assumptions researchers have about the way the world operates and the commitment held to particular views. Woodruff Smith (2008) goes on to define ontology as "the study of beings or their being - what is". However, there are many facets to ontology, but the two fundamental polarities within the philosophical field are objectivism/realism and subjectivism/nominalism (Remenyi, 1998). And as ontology ought to be the 'first philosophy' it is important that researchers decide on their ontological stance whether the object of investigation is the product of consciousness (subjectivism/nominalism) or whether it exists independently of the mind (objectivism/realism).

Objectivism on the one hand claims that the only legitimate approach to create knowledge about social reality is through positivist, empirical research in which evidence must be verifiable and replicable. Anderson& Barrera (1995) refer to this as a notion where "Human nature is perceived as deterministic, that is shaped by heredity and environment" (1995, p.2) Objectivism, therefore portrays the position that social entities exist in reality external to social actors. On the other hand

the subjectivist view is that social phenomena are created from the perceptions and consequent actions of social actors. And because of the continual process of social interaction, social phenomena are forever in a constant state of revision (Saunders et al., 2007). Anderson and Barrera (1995) concur that although subjectivism accepts that there are objects and behaviours external to the individual, they insists that "…they have no intrinsic meaning in isolation from human perception" (1995, p.3). Rather, they are interpreted or "constructed" through human perception and cognition. These two polarities reflect the old philosophical conflict between body and mind, in that body stands for the object (res extensa) and mind for the subject (res cogitans) (Heidegger, 2005). Generally, therefore, objectivism is the ontological stance for quantitative research and subjectivism is generally the ontological stance for qualitative research.

Despite the extremes shown there is a lot of space for researchers to position themselves between the polarities. For the last few centuries the objectivistic perspective was the predominating ontology driven by scientists like Galileo Galilei (1564-1642). However, Aristotle's (384-322 B.C.) subjectivism, has more recently grown into a 'preferred' force especially in the field of social sciences (Mayring, 1999). Therefore, it is important for researchers to compare the different stances and justify, why the chosen ontological stance is the most appropriate fit (Resch, 2007). Indeed according to Lamnek (2005) explorative studies in the field of social sciences tend to apply qualitative research methods and pursue a more subjective ontology. Quantitative research methods are often better suited for a more exact 'follow up' to investigations.

The purpose of this study is to explore, on the role of the employee in the succession process. Therefore, this is a study of a product of the consciousness of affected stakeholders which clearly stands by subjectivism as the suitable ontological stance. Once the researcher has decided upon the ontological path for the study in the next step is to focus on the epistemological path to answer the research question.

## Epistemology

Epistemology is defined as "the study of knowledge - how we know" (Woodruff Smith, 2008). And, like

ontology, there are two fundamental polarities within the field of epistemology namely positivism and phenomenology.

Positivism is the epistemological position that advocates working with an observable social reality. Positivism came into its own with the work of Auguste Comte (1798-1857) who outlined an approach to positivism in his 'Course of Positive Philosophy'. A positivist implies that the researcher is working with an "observable social reality and that the end product of such research can be the derivation of laws or law-like generalisations similar to those produced by the physical and natural scientists" (Remenyi, 1998, p.32). Therefore the positivist researcher generally prefers precise quantitative data via experimental research to conduct statistical tests in order to test a set of hypotheses which then follows a deductive approach.

Diametrically opposed to positivism is phenomenology, which is the study of "phenomena" that discovers the way meaning is derived through experiences. Phenomenology studies the conscious occurrence as experienced from the subjective point of view (Woodruff Smith, 2008). Saunders et al. (2007) adds that it is an epistemological stance "that sees social phenomena as socially constructed, and is particularly concerned with generating meanings and gaining insights into those phenomena" (2007, p.606). So, phenomenology refers to the way in which humans make sense of the world around them. The phenomenological school of thought started with the work of Franz Brentano (1838-1917) and developed further by Edmund Husserl (1859-1938) (Remenyi, 1998). The phenomenological researcher focuses on the context of social interactions, follows an inductive approach, and applies qualitative research methods (Lamnek, 2005). The following Table shows the contrasting implications of the two elucidated epistemological polarities.

**Table 1: Contrasting implications of positivism and phenomenology (Easterby-Smith et al., 2004, p.30)**

|  | Positivism | Phenomenology (Social Constructionism) |
|---|---|---|
| **The observer** | must be independent | is part of what is being observed |
| **Human interests** | should be irrelevant | are the main drivers of science |
| **Explanations** | must demonstrate causality | aim to increase general understanding of the situation |
| **Research progresses through** | hypotheses and deductions | gathering rich data from which ideas are induced |
| **Concepts** | need to be operationalized so that they can be measured | should incorporate stakeholder perspectives |
| **Units of analysis** | should be reduced to simplest terms | may include the complexity of 'whole' situations |
| **Generalization through** | statistical probability | theoretical abstraction |
| **Sampling requires** | large numbers selected randomly | small numbers of cases chosen for specific reasons |

The comparison between positivism and phenomenology in the Table shows how different these two epistemological stances are. Positivism perfectly fits to test existing theory and operationalise it so that it can be quantified and measured. Phenomenology on the other side is best suitable to generate theory and to establish different individual views of the investigated phenomenon through qualitative means. However although both positions offer advantages for researchers they have also been criticised. As stated by Easterby-Smith, Thorpe and Lowe et al (2004), positivistic methods lack in gaining understanding about processes and the significance of certain actions made by people. Positivism does not offer an aid to generate theory. On the other hand, as pointed

out by Lamnek (2005), phenomenology faces weaknesses particularly regarding data collection, which is often very time and resource consuming. Furthermore, analysis and interpretation of the narrative data is also regarded to be very difficult and time consuming. Nevertheless, for doing an explorative qualitative research, to generate new knowledge regarding the role of the employee within the context of family business succession, phenomenology seems to be a promising epistemological position to develop a richer understanding and fulfilling the project's aim.

## Phenomenology in detail

At the heart of phenomenology it is noted that a phenomena can only be communicated to the outside world by those who have experienced it. So a phenomenological researcher aims to "borrow" the experience of affected humans in order to provide a description and/or interpretation of that experience (Miller, 2003; Priest, 2004). The many ways in which a researcher can "borrow" and interpret experiences makes phenomenology interesting and evolving. Therefore is no single school of phenomenology and there are many different positions have been developed and modified over time. The most important traditions that have emerged within the last two centuries, however, are the descriptive phenomenology founded by Edmund Husserl and later the interpretative phenomenology by Husserl's student Martin Heidegger.

Husserl`s (1991) descriptive phenomenology distinguishes between the perception of physical and mental things. Physical things or objects can be perceived through a person's five senses such as seeing, hearing, tasting, smelling, and touching. But social actors are also capable of perceiving mental things such as "I see that the other person is angry". The key idea of Husserl's descriptive phenomenology is "bracketing" out the perception of mental things through the researcher and returning to the things themselves (Miller, 2003). However, Husserl restricted his focus to individual personal experience and did not explore how other social actors might experience a phenomenon (Priest, 2002). Hence, the descriptive phenomenology outlined by Husserl is based on research findings of a single participant and excludes the experiences of 'other' participants that are also experiencing the phenomena; this provokes concern, particularly when considering the sample size for this study.

Arguing against a focus solely on an individual's experience postulated by Husserl, Priest (2002) concluded that in order to reveal aspects of a phenomenon that are important but hidden because of familiarity it is necessary to explore how ideas are used by particular groups of people or at particular times. Furthermore, she claimed that the analysis of several people's meanings could lead to a greater understanding of the phenomenon being explored.

Conversely to Husserl, Heidegger proposed interpretative phenomenology as a construct in which nothing can be encountered without reference to the research participant's background understanding, as all social actors are self-interpreting beings. Heidegger did not believe that getting to know and describe the experience of respondents was enough. Instead he stressed the importance of discovering how the respondents came to experience the phenomenon in the way that they did. Thus it is necessary to find out the individual's background in relation to the phenomenon under study. This approach values the importance of past experience as well as future concerns and plans (Miller, 2003). Crucial to such an interpretative epistemology like the one from Heidegger is that the researcher has to adopt an empathetic stance. "The challenge here is to enter the social world of our research subjects and understand their world from their point of view" (Saunders et al., 2007, p.107) and not that of the researcher. So, it is the necessity of considering the past and future that is imperative for this research study.

## Using phenomenology to analyse data

In order to investigate and interpret a participant's experience within the context of the succession process, base on the researcher's professional experience, "bracketing mental things" as claimed by Husserl seems not to be a promising way to answer the project's research question because especially the feelings of the affected participants are necessary to describe the role of the employee in the succession process and finding out relevant satisfaction factors. Furthermore the participants have to empathically interpret how other involved stakeholders felt about the experienced succession phenomenon. Contrary, the importance of context within Heidegger's interpretative phenomenology (2005) is a key reason to adopt this epistemological stance for the study. It is also based on previous

experience of the researcher within the field of family business succession. Therefore, an interpretative phenomenology seems to be a very suitable epistemological position to develop a richer understanding on the role of the employee in the succession process and fulfilling the project's objectives. After deciding the ontological path for the study in the next sub-chapter the focus will be on finding a fitting epistemological path to answer the research question. It is clear that the epistemological position for this research is interpretative phenomenology as it considers the past experiences and future concerns. So, the next challenge is to consider the most appropriate research approach to extend existing knowledge.

## Research approach

From a hierarchical perspective the philosophy of phenomenology is used to make sense of how participants think and view the world; this then determines the methodology – the way in which researchers can study a phenomenon. Ontology and epistemology are philosophical disciplines (Woodruff Smith, 2008) which guide the researcher to the methodological approach and on to the method. Figure 1 below provides an overview about the diversity of philosophical and methodological ways and shows a conceptual framework of how philosophy and research designs are intertwined.

The ultimate aim of the research project referred to in this paper is to explore family business succession. As stated earlier, in the section outlining ontology, the research journey moves from subjectivism to the epistemology of phenomenology into the data collection field of qualitative research methods. Niglas (2004) outlines of the relationship between philosophy and methodology is not complete (e.g. ontology is missing) and should not be the only information a researcher consults when deciding the research approach, however, Figure 1 shows the links between the inductive and deductive. Saunders et al (2007) go on to highlight that the research approach is a general term for deductive or inductive research and that deductive research approach is normally associated with positivism and quantitative research methods. In contrast an inductive approach is linked to phenomenology and quantitative research methods. The following Figure shows the difference between the both approaches.

**Figure 1: Relationship between philosophy and methodology in social science (Niglas, 2004, p.10)**
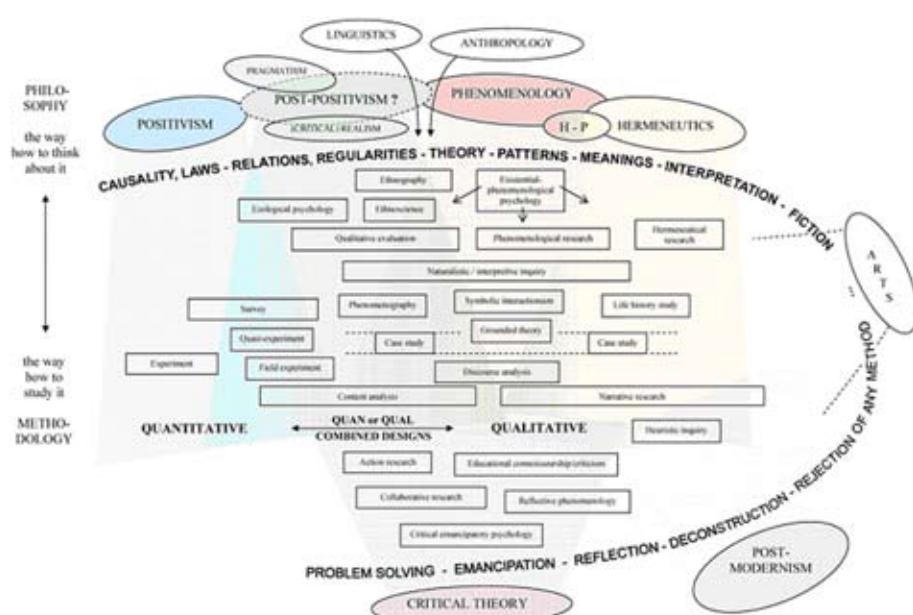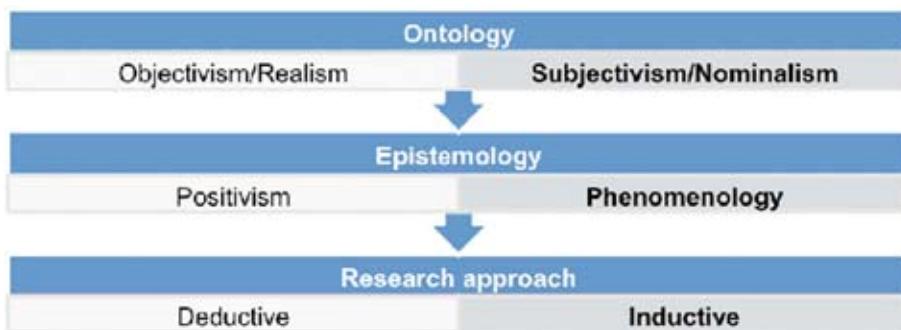
**Figure 2: Induction and deduction (Losee & Hoering, 1977)**



**Figure 3: Study's methodology road map**



The inductive approach, shown in Figure 2, was criticised by Popper (1968) as scientific "improper" because the aim of inductive research is to verify and create theory and not to falsify or substantiate it. And that is what inductive research is doing – generating theory primarily through verification of the phenomena. Nevertheless, if the logical circle (hypotheses generation and hypotheses testing) are separated, induction is a research approach that generates scientific well grounded theory in comparison with other forms of hypothesis generation (Lamnek, 2005). Thus, an inductive approach seems to be most logical to explore, describe, and explain the role of the employee in the family business succession process to extend existing knowledge. This study can be seen as the first step in the logical circle.

The different discussed polarities within this paper are summarized in Figure three below. Furthermore, the right side of the Figure reflects the chosen path relevant for exploring the role of the non-family employee in the succession process of small-sized family businesses in Austria.

## Conclusion

The methodological path developed within this paper as framework and guidelines for the

study's primary research should also serve other researchers as a compass for their work.

It has also to be mentioned that this is only one example for how to find a way through the philosophical labyrinth of research. There are plenty of others that can be found in the literature. Whichever path is taken it must be logical and well-founded because it is essential for the acceptance of the results within the scientific society.

The researcher's journey does not end by discovering the ontological, epistemological and research approach! The next steps are to consider in detail the relevant data collection method, sampling method, and data analysis method in order to complete the research study's methodology.

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# INNOVATIVE ROAD FREIGHT LOGISTICS

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## Abstract

*The paper debates on whether infrastructure services have or not a strong impact on economic development by exploring the impact of innovative road freight services on downstream business users.*

*A new and purpose-specific survey is used of 205 logistics service providers and 613 user enterprises in food processing, food distribution and the automotive industry in the Czech Republic, Hungary, Poland and Romania.*

*The main results are that there are substantial downstream benefits from innovations in road freight services, both dampening cost increases and raising sales revenues of business users. The additional finding that increased intensity of competition in road freight services is significantly associated with the provision of innovative services suggests that easing any remaining barriers to competition in upstream business sectors should be a priority.*

*KEYWORDS: road freight, innovation, competition.*

*JEL Classification: L92, O31, D40*

## RELATION BETWEEN UPSTREAM AND DOWNSTREAM INDUSTRIES

Applied innovation and their consequences in the road transport represent a high ongoing topic having the origins on ideas like "traders impose production" and the interconnectivity of widely branches in economies. Transport has the role to ensure informational link between large and small distributors, producers and other industries.

The road freight logistics (including multi-modal services) is a key sector of the economy connected to supply-chain management, distribution and physical transport. It a major player in market integration and has a direct impact on transaction costs for economic agents [5]. World Bank published in November 2005 a very interesting study relation between downstream users industries (choosing food industries and vehicle and car spear-part producers) and upstream road freight providers for three countries: Czech Republic, Hungary and Poland. The results simplify the fact that transport is an important upstream not only for another downstream industries, but for economy as a whole.

Our contribution was to add Romania in this study. Not fully surprisingly the result output was not altered. Our main conclusion is that: in Central and Eastern countries of Europe social-economical changes were a large spectrum of similarities, even there are some shift in time evolution. Additionally we focused on systemic relations between industries in downstream and transportation (the last considered as a industry as well) of their final products, raw material and spare parts.

In Central and Eastern Europe privatization on state-owned transport companies was finished, rigid routes controls have been abandoned, but regulatory reforms on road transport still are a necessity. Increased competition in upstream and downstream infrastructure services or further regulatory reforms on this area is needed. The paper propose substantial downstream benefits from innovations in road freight services, both dampening cost increases and raising sales revenues of business users. This can lead to the decrease the costs for the median user with 6 - 12% as a result of road freight logistics and increase the sales by 11 - 16%.

# Competition and innovation in road freight

A recent McKinsey survey revealed that 68% of senior executives are awere that the lack of collaboration, and low CEO involvement will increase the risk of their companies [23]. The financial crisis from 2008-2010 changed notably currency values, amplified sources of supply chains, trajectory of trade and in some extend capital flows). Bring also uncertainties on business plans, new shifts in the commercial circuits, pressure on improvement of environment a.s.o. In the global economy with new active competitors, mainly China, India and Brasilia, on supply chains raised pressure due to the lack of natural and energetic resources, shortage of agricultural commodities, volatility in global currency markets, protectionist measures in the world, environment issues or due to the demographic growth.

Facing complexity for many transport companies will be translated into difficulties to meet their customers' increasingly requirements, to optimize their supply chains into smaller and more flexible ones. Splintering monolithic supply chains into smaller, nimbler ones can help tame complexity, save money, and serve customers better. Aghion and Schankerman provided a model for infrastructure road services and exemplified restructuring of less efficient firms to state of the art companies, reducing bottlenecks and facilitating access by downstream entrepreneurial firms to essential business infrastructure [2].

In his study for World Bank, Mark Dutz developed a statistical approach starting form the following ideas:

- extensive competition in road services is fully viable, on condition that government not imposed regulatory barriers;

- in this sector reforms and technological innovations have grown at a faster rate than in most others;

- transport needs a special physical infrastructure that generates economy-wide spillovers and in particular offers strong opportunities for substantial reductions in costs by downstream users.

Our study focuses on four countries with pro-competition reforms adopted - Czech Republic,

Hungary, Poland and Romania - in which road freight transport were privatized and now have a relatively low costs. In these countries road transport is a growing sectors for their economies.

Key criteria in choosing food and vehicle sectors as the downstream industries for the study was their high impact on economy as a whole, their high dynamics on local and European market, and the fact they use in large proportion road freight services for their input and output needs.

The automobile industry is the main sector that meets these criteria in all four countries. The takeover of Skoda by Volkswagen in the Czech Republic, Dacia by Renault or Oltcit by Daewoo followed by Ford in Romania were the major privatization in the automobile sector in eastern part of Europe. Nowadays Romania and Czech Republic are major car manufactures for Western European countries. Hungary had no automobile industry before 1990 though it was the biggest producer of buses in the former socialist system. Through the large investments in automobile industry of Suzuki, General Motors/ Opel, Audi, Ford, Denso and Knorr Bremse, Hungary has become the largest producer of car engines in the region. Poland in the early 1990, attracted 11% of its total foreign investments inflows on modernization of its Fiat factory from Tichy city and developing of the green-fields automobile industry. In all countries foreign mother firms have built up networks of local suppliers and, surprisingly, the financial difficulties in the 2008 – 2010 didn't affect dramatically this sector. Especially Dacia has a very good revenue and export.

The food processing and food distribution industries are also economically important in the region. Food distribution, including both wholesale and retail trade industrial sub-sectors, is the principal link between producers and consumers, playing a major role in price structure. On international market of food industries main trend is toward concentration: large European distributors as Carrefour, Market, Plus, Obi, Real, etc. seized huge quotas in former social market. The food distribution, hotels and restaurants services represents today 15 - 20% of total employment in analyzed countries, providing high quality just-in-time (JIT) services, and good opportunities for future high revenue.

## Surveys and data description of benefits for user-related innovation

In Mark Dutz crossed region survey, updated with our contribution (Romanian market research basing on information from The National Union of Road Hauliers from Romania - UNTRR) [24]. This consists on detailed questions adressed to 50 road freight logistics providers of the Czech Republic, 52 of Hungary, 63 providers in Poland, and 40 in Romania about their results in the years 1997 - 2000. Companies were random selected trying to include also a number of foreign-owned enterprises for each of the industrial sectors. A similar approach was taken for the user enterprise questionnaire, with the objective of surveying 50 food processing, 50 food retailers and 50 auto production enterprises in each of the Czech Republic, Hungary and Romania with a correspondingly higher 60 enterprises for each of these three sectors for Poland. The full sample size is 838 enterprises.

Table provides an overview of selected key characteristics of sample enterprises, broken down by users of road freight services and road freight providers. The user sample consists of 838 firms, with the Czech Republic accounting for 150, Hungary 151 enterprises, Poland 192 enterprises and Romania 120. In Romanian food distribution are only 40 enterprises and 40 food processors, the smallest that in other three countries. Across the four countries trade sub-sector retail are 144 and of wholesale 68.

Enterprises are equally and fairly distributed categories. There are a larger number (100) of micro enterprises with between 0 and 9 employees, and only large enterprises. The median age of user firms ranges between 7 and 10 years, whereas at the level of year 2000 a substantial number of enterprises were formerly state-owned (up to almost one-third for Romania and Czech Republic), remaining with over 50% state ownership. Now situation is fully changed, majority is privatized.

With regard to the road freight providers, there are 165 enterprises, within Czech Republic and Hungary totaling 50 and irrespectively 52 enterprises while in Poland there are 63 enterprises and in Romania about 40. Overwhelming number are small (maximum 9 workers), owner-driver enterprises representing about half of countries sample. The median age of providers' ranges between 7.5 and 9 years, and start-ups is appropriate on sample. Foreign ownership is similar to users sample.

'Use of logistics consulting services' is a qualitative variable that takes the value 1 if the enterprise has used outside consulting services in designing and implementing its logistics strategy. 'Use of Just-in-Time consolidation and sequencing services', 'Use of bar coding and tracking services' and 'Use of packaging and labeling services' are qualitative variables with 5 discrete values ranging from 0 to 10, in response to the question 'How many third-party logistics providers currently supply you with these specific logistics services'. The possible values of the variables are: 0 representing 'none', 1 representing 'one provider', 2.5 representing '2-3 providers', 5 representing '4-6 providers' and 10 representing 'more than 6 providers'.

Table 2 show that Hungary had the largest fall in costs (including labor, materials, transport and IT-related costs) between 1997 and 1999 (97%) but also the enterprise with the largest increase in costs (447%), resulting in the largest mean increase in costs (31.8%). Changes in sales for the median enterprise (Med) and mean values are substantially higher for other countries.
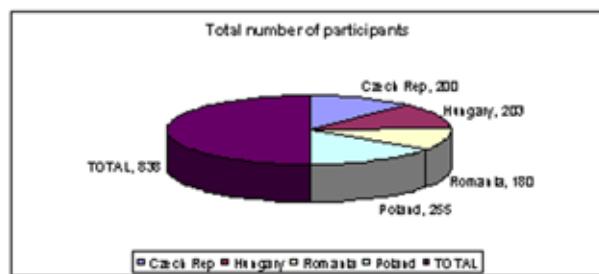
An 'innovative' logistics service is not fully adopted by all users. Of the logistics variables collected in the survey, three meet this requirement: use of Just-in-Time sequencing services, use of bar coding, and use of packaging and labeling services. In the case of JIT services, 43 enterprises or 9% of the full sample make use of these services, while for bar coding/tracking and packaging/labeling the respective figures are 33 enterprises (7% of the sample) and 53 enterprises (11% of the sample). Regarding the above-mentioned 'recent introduction into the market' criteria, 82% of JIT users first started using the services after 1995, while the comparable figures for bar coding/tracking and packaging/labeling are 70% and 67% respectively.

## Table 1 - Number of firms by size, age and ownership

|  | Czech R. | Hungary | Poland | Romania | TOTAL |
|---|---|---|---|---|---|
| *TOTAL* | *200* | *203* | *255* | *180* | *838* |
| **USERS** | **150** | **151** | **192** | **120** | *613* |
| Food processors | 50 | 50 | 60 | 40 | 200 |
| Food retailers | 39 | 37 | 40 | 29 | 145 |
| Food wholesaler | 11 | 14 | 32 | 11 | 68 |
| Auto parts | 45 | 37 | 59 | 29 | 170 |
| Vehicle assembly | 5 | 13 | 1 | 10 | 29 |
|  |  |  |  |  |  |
| Micro (0-9 workers) | 44 | 46 | 87 | 37 | 214 |
| Small (10-49 wkrs) | 38 | 37 | 49 | 29 | 153 |
| Medium (50-249) | 31 | 42 | 35 | 33 | 141 |
| Large (250+ wkrs) | 37 | 26 | 21 | 21 | 105 |
|  |  |  |  |  |  |
| Median age (years) | 8 | 7 | 10 | 8 | 33 |
| Start-ups (LE 5 yrs) | 35 | 56 | 36 | 35 | 162 |
| 50%+ foreign-owned | 30 | 37 | 13 | 30 | 60 |
| Previously (& still) 50%+ state-owned | 48 | 28 | 20 | 48 | 96 |
|  |  |  |  |  |  |
| Road freight **PROVIDERS** | **50** | **52** | **63** | **40** | **205** |
| Micro (0-9 workers) | 27 | 26 | 25 | 22 | 100 |
| Small (10-49 wkrs) | 10 | 15 | 21 | 6 | 54 |
| Medium (50-249) | 11 | 7 | 14 | 9 | 41 |
| Large (250+ wkrs) | 2 | 4 | 3 | 2 | 11 |
|  |  |  |  |  |  |
| Median age (years) | 7.5 | 8 | 9 | 6 | 31 |
| Start-ups (previous 5 yrs) | 12 | 7 | 11 | 10 | 40 |
| 50%+ foreign-owned | 3 (3) | 8 (0) | 8 (4) | 2 | 23 |
| Previously (& still) 50%+ state-owned | 5 (0) | 3 (0) | 12 (6) | 4 | 24 |

Source: Mark Dutz, "Road Freight Logistics, Competition and Innovation: Downstream Benefits and Policy Implications", World Bank report, November 2005; Andrei Angheluta survey on Romanian transport companies 2010

## Charter 1



Source: Mark Dutz, "Road Freight Logistics, Competition and Innovation: Downstream Benefits and Policy Implications", World Bank report, November 2005; Andrei Angheluta survey on Romanian transport companies 2010

**Table 2 - Performance of downstream enterprises and use of innovative logistics services**

| | Czech Rep | | | Hungary | | | Poland | | | Romania | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | n | mean | Med | n | mean | Med | n | mean | Med | n | mean | Med |
| change in tal costs, )97-2000 | 125 | 17.5 | 10 | 135 | 25.9 | 20 | 105 | 31.8 | 12 | 106 | 30 | 11 |
| logistics in tal costs, )00 | 121 | 9.9 | 6 | 141 | 17.2 | 10 | 119 | 9.6 | 6 | 120 | 9 | 4 |
| change in nployment, )97-2000 | 136 | 12.1 | 0 | 175 | 12.9 | 0 | 134 | 15.8 | 0 | 120 | 32 | 1 |
| change in -related sts, 1997- )00 | 117 | 12.7 | 0 | 95 | 22.1 | 5 | 116 | 25.2 | 0 | 117 | 23 | 1 |
| change in ain product les revenue, )97-2000 | 108 | 12.9 | 7 | 125 | 8.9 | 10 | 107 | 7 | 20 | 108 | 7 | 15 |
| se of gistics nsulting rvices (no. 1=yes) | 21 | | | 11 | | | 17 | | | 11 | | |
| se of JIT nsolidation sequencing non-zero) | 150 (13) | 0.28 | 0 | 192 (20) | 0.37 | 0 | 151 (10) | 0.10 | 0 | 120 | 0.2 | 0 |
| se of bar iding & icking (# in-zero) | 150 (15) | 0.32 | 0 | 192 (7) | 0.14 | 0 | 151 (11) | 0.28 | 0 | 120 | 0.3 | 0 |
| se of ickaging & belling (# in-zero) | 150 (24) | 0.49 | 0 | 192 (8) | 0.14 | 0 | 151 (21) | 0.42 | 0 | 120 | 0.4 | 0 |

Source: Mark Dutz, "Road Freight Logistics, Competition and Innovation: Downstream Benefits and Policy Implications", World Bank report, November 2005; Andrei Angheluta survey on Romanian transport companies 2010

Notes: for every country are three column, representing grouping compiled from survey: n=number of observations (response to the questionaire), mean=middle of the (one or two) values of a list of numbers arranged from lowest value to highest value and picking the middle one, Med(ian) =the middle mathematical value in the list.

One of the key use-of-logistics variables collected that could potentially be associated with cost efficiencies is whether enterprises made use of logistics consulting services in designing and implementing their logistics strategy, including basic road haulage and multi-modal transport decisions, storage and warehousing, inventory control and management, purchase and vendor management, freight insurance, customs clearance and brokerage services. The proportion of enterprises making use of such logistics consulting services ranged from 10% in Romania to 14% in Czech Republic.

**Table 3 - Upstream provision of innovative services and intensity of competition**

|  | Czech Rep | | | Hungary | | | Poland | | | Romania | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
|  | n | mean | Med | n | mean | Med | n | mean | Med | n | mean | Med |
| Provision of JIT consolidation & sequencing (# non-zero) | 48 (14) | 8.4 | 0 | 63 (15) | 7.7 | 0 | 52 (10) | 2.7 | 0 | 40 | 7.3 | 0 |
| Provision of bar coding & tracking (# non-zero) | 48 (1) | 1.5 | 0 | 63 (4) | 1.8 | 0 | 0 52 (0) | 7,7 | 0 | 40 | 2.1 | 0 |
| Provision of packaging & labelling (# non-zero) | 48 (2) | 1.6 | 0 | 62 (7) | 2.9 | 0 | 52 (9) | 1.6 | 0 | 40 | 1.8 | 0 |
| No of competitors in road haulage services, 1997 | 48 | 3.5 | 4 | 48 | 3.6 | 4 | 46 | 3.8 | 5 | 40 | 2.8 | 4 |

Source: Mark Dutz, "Road Freight Logistics, Competition and Innovation: Downstream Benefits and Policy Implications", World Bank report, November 2005; Andrei Angheluta survey on Romanian transport companies 2010

Notice: 'Provision of just-in-time (JIT) consolidation and sequencing services', 'Provision of bar coding and tracking services' and 'Provision of packaging and labelling services' are quantitative variables in response to the question 'To how many customers do you provide the following services?' Although the number of customers being supplied with these innovative logistics offerings by provider in the dataset ranges from 1 to 100, it reaches this maximum value for only 6 observations for JIT, 1 observation for bar coding/ tracking, and 1 observation for packaging/ labelling services. The figures in parentheses denote the number of positive (# nonzero) responses in each category. 'Number of competitors' is in response to the question "How many direct competitors who could take away significant amounts of business from you did you face at the end of 1997 when providing road haulage services?", and has been transformed into a qualitative variable ranging from 0 (zero competitors), 1 (1 competitor), 2 (2 competitors), 3 (3-5 competitors), 4 (6-10 competitors) to 5 (more than 10 competitors), under the assumption that the difference in the level of competition provided by 15 or 50 direct competitors is not economically meaningful.

Table 3 also reports data on the best available measure of intensity of product-level competition in the road haulage provider market, namely the response by providers to the question 'How many competitors who could take away significant amounts of business from you did you face at the end of 1997 when providing road haulage services?' The original variable from the questionnaire has been transformed into a qualitative variable ranging from 0 (zero competitors) to 5 (more than 10 competitors).

Standard errors (of the sampling distribution associated with the estimation method) in brackets; *** indicates (statistic) significance (unlikely to have occurred by chance) at 1% level, ** at 5%, * at 10%. 'Use of logistics consulting' is a 0-1 qualitative variable. Results in columns 1-3 are based on a truncated dependent variable (is a variable for which observations cannot be made for certain values), where 8 outlier (is an observation that is numerically distant from the rest of the data observations), expressed on % change greater than 200%. Outlier were truncated to 200% (the maximum observation was a reported increase in costs of 447%). Column 4 reports comparable results including the originally-reported values

for these outliers (corresponding to the summary statistics reported in Table 2).

In Table 4 regression (is statistical technique for estimating the relationships among variables) results are presented on the association between usage of upstream logistics services (as captured by use of logistics consulting) and the most relevant cost-based performance measure. Column 1 reports results on the basic negative correlation (decreasing of the dots slopes from upper left to lower right) between use of logistics services and cost increases, suggesting that use of such services allows enterprises to dampen cost increases through realizable cost efficiencies. Column 2 reports that this relationship becomes more statistically significant as changes in other components of a standard cost function are controlled. Column 3 provides evidence that the basic negative association between logistics services and cost changes is robust . Enterprise age is not highly significant (the positive association suggesting that recent entrants have incurred larger proportional increases in costs over past 3 years), and loses its statistical significance when country and sectoral controls are introduced in column 3. The initial regression results are based on a truncated dependent variable (truncation is the limiting of the number of digits right of the decimal point, by discarding the least significant ones), since examination of other data for the 8 outlier observations where cost changes were reported as more than doubling over the 1997-99 period suggested that these numbers may be over-estimates. However, comparable results based on including the originally reported values for these outliers (including a more than quintupling of costs for the maximum observation) reported in column 4 provide confidence that truncation has not altered the underlying relationships in the data.

**Table 4 - The impact of innovative logistics provision on costs of user enterprises**

| Dependent variable: | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| Use of consulting services in designing/implementing logistics strategy | -4.321* [8.318] | -20.916** [8.396] | -19.427** [8.427] | -2.397** [9.626] |
| Change in employment over past 3 years (%) | | 0.413*** [0.067] | 0.233*** [0.067] | 0.503*** [0.071] |
| Change in IT/telecoms-related investment over past 3 years (%) | | 0.204*** [0.048] | 0.183*** [0.048] | 0.234*** [0.071] |
| Age (start-ups = 1, older firms = 0) | | 11.904* [7.285] | 7.772 [7.475] | 6.987 [7.543] |
| Country dummies (Cz, Hun) | | | X | X |
| Sectoral dummies (food processing, food wholesale, food retail distribution) | | | X | X |
| $R^2$ | .0083 | .3116 | .2756 | .2663 |
| Adj. $R^2$ | .0048 | .1955 | .3281 | .2597 |
| Observations | 380 | 271 | 253 | 253 |

Source: Mark Dutz, "Road Freight Logistics, Competition and Innovation: Downstream Benefits and Policy Implications", World Bank report, November 2005; Andrei Angheluta survey on Romanian transport companies 2010

Notes: Dependent variable: Changes in total costs of user enterprises over the past 3 years (%), OLS estimation .

**Table 5 - The impact of innovative logistics provision on revenues of user enterprises**

| | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| Use of JIT consolidation & sequencing services | 3.452**<br>[1.598] | 3.737**<br>[1.560] | 4.223***<br>[1.559] | 4.136*<br>[2.335] |
| Size (from LT 10 employees=1 to GT 250 employees=4) | | 6.127**<br>[2.056] | 4.889*<br>[2.287] | 3.590<br>[3.426] |
| Age (2000 – year enterprise began operations in country) | | -0.583***<br>[0.117] | -0.552***<br>[0.115] | -.627***<br>[0.173] |
| State ownership (% of enterprise owned by central or local government) | | -0.398**<br>[0.165] | -0.399**<br>[0.164] | -0.454*<br>[0.245] |
| Country dummies (Cz, Hun, Rom) | | | X | X |
| Sectorial dummies (food processing, food wholesale, food retail distribution) | | | X | X |
| $R^2$ | .0231 | .0899 | .2318 | .0786 |
| Adj.$R^2$ | .0302 | .0789 | .2081 | .0539 |
| Observations | 350 | 348 | 348 | 348 |

Source: Mark Dutz, "Road Freight Logistics, Competition and Innovation: Downstream Benefits and Policy Implications", World Bank report, November 2005; Andrei Angheluta survey on Romanian transport companies 2010

Notes: Dependent variable: Changes in sales of most important product of user enterprises over the past 3 years (%), OLS estimation.

Standard errors in brackets; *** indicates significance at 1% level, ** at 5%, * at 10%. 'JIT consolidation & sequencing' is a qualitative variable (with 5 values ranging from 0 to 10) that captures the number of 3rd-party logistics suppliers providing this service to each enterprise. Results in columns 1-3 are based on a truncated dependent variable, where 5 outlier observations (% change greater than 200%) were truncated to 200% (the maximum observation was a reported increase in sales of 600%). Column 4 reports comparable results including the originally-reported values for these outliers (corresponding to the summary statistics reported in Table 2).

Table 5 presents the association between usage of upstream logistics services (in this case best captured by use of JIT services) and changes in revenues. Column 1 reports a significant positive correlation between use of logistics services and sales increases, suggesting that use of these services allows enterprises to raise revenues by either lowering prices on existing products (with a more than proportionate increase in quantities) or by offering new products or existing products at new locations through faster or lower cost delivery times. Column 2 reports that this relationship remains robust to the addition of controls for size,

age and state ownership. Higher sales growth is statistically significantly associated with larger enterprises, younger and privately-owned firms. Column 3 reports that the positive association between logistics usage and sales growth is robust to country and sectoral controls. Column 4 reports comparable results, including relatively robust to the inclusion of originally-reported values for outlier observations (corresponding to the summary statistics reported in Table 2).

Standard errors in brackets; *** indicates significance at 1% level, ** at 5%, * at 10%. 'Number of competitors' is a qualitative variable (with 6 values ranging from 0 to 5) that captures the number of direct competitors who could take away significant amounts of business that each provider faced at the end of 1997 when providing road haulage services. OLS results are based on a truncated dependent variable, where 8 outlier observations (with number of customers exceeding 50) were truncated to 50. Comparable results (not reported) were derived where the number of customers ranged to 100 (corresponding to the summary statistics reported in Table 3). Columns 4-6 report results for a separate set of logit regressions where the dependent variable has been transformed to a qualitative variable (0 if no JIT services provided, 1 if service provided to one or more customers).

**Table 6 - Upstream impact of competition**

| | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Intensity of competition: No of direct competitors, 97** | 2.107* [0.663] | 2.159* [0.641] | 1.358** [0.636] | 0.420** [0.152] | 0.483** [0.160] | 0.644*** [0.173] |
| Size (from LT 10 workers=1 to GT 250 employees=4) | | 2.294*** [1.056] | 3.291*** [1.044] | | 0.885*** [0.226] | 0.704*** [0.235] |
| Foreign ownership (=1 if GE 50%) | | 5.003* [2.826] | 5.872** [2.818] | | 0.475 [0.562] | 0.519 [0.593] |
| State ownership (=1 if GE 50%) | | -9.130* [4.920] | -9.494* [4.967] | | | |
| Country dummies (Cz, Hun, Rom) | | | X | | | X |
| $R^2$ (Pseudo$R^2$ for col.4-6) | .0298 | .2162 | .2497 | .0722 | .2228 | .3528 |
| Adj. $R^2$ | .0227 | .0870 | .2113 | | | |
| Observations | 160 | 160 | 160 | 160 | 160 | 160 |

Source: Mark Dutz, "Road Freight Logistics, Competition and Innovation: Downstream Benefits and Policy Implications", World Bank report, November 2005; Andrei Angheluta survey on Romanian transport companies 2010

Notes: Dependent variable: Number of customers of road freight enterprises to whom providing JIT consolidation & sequencing services at beginning of 2000 (columns 1-3, OLS); road freight enterprises providing JIT logistics services at 2000 (columns 4-6) (columns 1-3, logit).

Table 6 presents results addressed to the hypothesis that downstream performances are significantly associated with logistics innovations stimulated by upstream providers. Column 1 reports intensity of competition (captured by the number of direct competitors faced by each provider). Column 2 reports the robustness of the positive association to size, foreign ownership and state ownership controls. The results suggest that larger, internationally-connected, private service providers are better able to offer these innovative services than smaller. Column 3 reports the robustness of these results to the inclusion of country controls. Columns 4 to 6 indicate statistically whether a particular provider offers or not the innovative logistics service. The results are not driven by a small number of larger enterprises with many customers but rather that there exists a strong and robust positive relationship between upstream competition and the provision of key upstream innovative services. In columns 5 and 6, 'State ownership' was dropped while running the regressions as it predicts the absence of JIT service provision perfectly.

## Conclusions. Downstream benefits

A starting point for exploring the impact of innovative upstream services on downstream enterprises is via direct feedback from the user enterprise managers themselves.

Supply chain management is classical concept of logistics. It can be divided into three main activities – purchase, manufacture and transport. Express delivery acts on the principle "just in time - at the right time and at the right place", or well - known "door - to - door service". Economically is used for smaller products witch requires rapid transportation. A starting point for exploring the impact of innovative upstream services on downstream enterprises is via direct feedback from the user enterprise managers themselves [1].

The findings of this paper are based on a new set of detailed enterprise-level surveys of both upstream logistics service providers and downstream intensive users of these business services. The econometric analysis of upstream-downstream linkage was used robust regression is a form of regression analysis designed to accept effect of one or more independent variables upon a dependent variable. In this way was explored significant elements of the infrastructure services associated with competition-related pressure. The paper's main findings are:

a) There are substantial downstream benefits from innovations in road freight services,

both dampening cost increases and raising sales revenues of business users. At the upstream service provider level the most significant factor associated with the development of innovative road freight and business services are intensify of the product competition and access to finance.

b)        Logistics innovation variables were analyzed from the perspective of providers: JIT, bar coding/tracking and packaging/labeling services. That reflect the number of customers to which providers offer the services.

c)        For downstream user enterprise will be improved performances due to the innovative measures, especially cost reductions and revenue increases .

d)        Internationally providers connected to innovative business user (including foreign ownership) are more able to respond for requests than smaller locally-based enterprises, even large state ownership providers, or mix of large and small providers of services

e)        Increased intensity of competition in road freight services is associated with the provision of innovative road freight services. Direct feedback from user enterprise managers indicates that costs for the median user were lowered by between 6 and 12% as a result of road freight logistics and sales were increased by between 11 and 16%.

f)        Regression results shows there is a statistically data significant negative association between the use of logistics consultant services and cost increases, and a significant positive association between the use of JIT logistics services and sales revenue increases. Finally, there is a statistically significant positive association between increased competition in road freight services and the provision of innovative JIT logistics services.

g)        The infrastructure services have a strong positive effect on economic development, and the policy claim that easing any remaining barriers to competition in upstream business services should be a priority. The paper's findings emphasize linkages between infrastructure provision and downstream business users, would provide a strong case for devoting additional policy resources to creating an investment climate that stimulates increased and responsive infrastructure provision, of a type that is as responsive as possible to user needs. One element of such an investment climate may be a broader and increased role for competition, more effective regulatory reform and implement supply-side entrepreneurship stimulus.

h)        In addition, more increased competition in infrastructure provision on downstream business users would help create stronger political support for further regulatory reforms, especially as new business users are typically not yet present as forceful reform advocates at the time of the initial policy decisions.

i)        Transport providers asure not only forwarding services, but also help or oblige another industrial brances to modernize production and distribution paths. High-quality logistics practices of upstream-downstream linkages allow econometric analysis of innovative issues for fright itself. Aparently, local or old firms benefit from first mover advantages versus recent entrants. But factors such as new adopted technology and right timing in response are stimulating newly and more flexible companies activities. The importance of upstream innovations for user enterprises (versus other factors on the level of costs and sale) permit the introduction of new goods and services by downstream firms.

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# THAI YOUTH AND MARKETING COMMUNICATION IN GLOBALIZATION AGE

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*Abstract*

*The communication through mass media, especially "Marketing Communication" becomes the great influencer for people's life in every dimension, and when we move into the information age, we can say that people have to consume information all time. Mass media becomes influencer to thought and decision of people. The influence of mass media made enormous social changes and directly affect to everyone in society, children, teenager or adolescent. (Nguyen, 2003; Shrum, Burroughs & Rindfleisch, 2005; Chan, Zhang & Wang, 2006)*

*The problem of the influences and the affects of mass media, especially "Marketing Communication" in the society, case of Thai youth is still the issue that does not have deeply and clearly study. So it is interesting to make more understand and seek about influence and affect from mass media using in marketing communication toward Thai youth and are there any factor that relates and how it forming Thai youth's consumer behavior.*

*This study is quantitative method, emphasizes on survey research by one shot descriptive study and using questionnaire as a tool for collecting data. The population of this study is Thai youth who ages between 15-25 years old, Thai nationality and have a living place in Thailand. The total sample of this study is 1649 samples throughout Thailand, which come from four major area of the country.*

*The data collected shows some interesting result. Most of Thai youth is the heavy user of mass media, especially major media, both traditional media like television, and new high-end media like internet and mobile phone. The main consuming behavior of Thai youth is looking for famous brand name that they know from mass media. Popular global brand or well-known product is high rank admired product in Thai youth, that because the influence and affect of mass media. They are also the owner of these brand name products and try to be the owner of the latest model that launch or later release as soon as possible.*

*KEYWORDS: Thai Youth, Mass Media, Marketing Communications, Globalization.*

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## Introduction

Today, Thai society is very rapid change in many dimensions, such as culture and economy. Almost changing has been influenced from outside the country, both from the west and Asia like Japan, Korea or China. The major tool that is the medium for cultural changing is mass media like printed media (Teerawanich and Kumpiroj, 1985), broadcast media (Wisutkul, 2000; Phanpipat, 2006) and internet (Kunpai, 2000; Bilmanoch, 2007; Henten and Tadayoni, 2008). And we can call that we are in the "Information society".

In the modern world, mass media is the important institute that has role and influence toward economy, society, politic and culture. The evolution of mass media has begun since human knew to create languages to be the medium for exchange the experiences, thoughts, and sharing both happiness and sadness to each other. The knowledge about technology such as printing, photography, camera, the using of electromagnetic wave to transferring word, music and picture, and the created of microcomputer chip and computer program that linked telephone and satellite system, make human communication change in every dimensions. Nowadays, we are

all in "communication revolution" era that can be compare with "industrial revolution" era, in the 18s (Siriyuwasak, 2004).

Mass media in present day, especially in marketing communication, has very important role on human daily life. And when we enter to the "information age" which is filled with information. People have free to select or not select to receive any information. Although we have to live with huge information, like watching news program on television in the morning, reading newspaper in the library or chatting with friend on internet, etc, but we should consume these information all the time. Mass media becomes the influencer toward idea and decision of people inevitably. The influence of the media causing a change in all sectors of society, and influence everyone in society, whether adolescents, adults or youths (Nguyen, 2003; Shrum, Burroughs & Rindfleisch, 2005; Chan, Zhang & Wang, 2006).

Apart from the media, then another factor affecting social change is rapid globalization that develop from various progress technologies, which productivity growth from the process of scientific knowledge, especially the spread of modern technology from the West. Scientific knowledge has been accumulated and rapid development has led to the production of many tools that can meet human needs in different aspects, from personal life activities, continuously to the community. The larger society in national level and international level or global, make we can communicate around the world quickly and easily today, because of advances in information technology, whether in the various form of telephone, fax, television, the use of personal computers, through electronic mail (E-mail) or the Internet (Samakkarn and Chaiumporn, 2005).

The impact of globalization and the influence of media and marketing communications on the lives of the audiences, has led to many social problems such as addiction to consumption, adhering to the object or materialism (Nguyen, 2003), imitated the behavior from the media, whether in the advertising and public relations, news, drama or movies that contain violence or conflict content, affecting children and youth who consume these media to have some imitated behavior. Often seen that children or the accused of crimes in multiple cases, has confessed that the source of cases from replicate images from the film seen by the media such as in the case of a youth from Germany, 17

years old, who strafed people died including 16 dead, which confirmed that he was computer game addiction, especially games with violent content to beat players shoot to kill people (Thairath, 2009 cited in Patanaittikul, 2010, p 2), or even fashion dressing of the teenagers, mob formation or the used of violence to solve problems that occur in society, are the consequence of the influence of mass media.

The issue of the influence and impact of mass media is what gets the attention of society, elite, government and ruling classes, as well as various academics. This is often a question of society and always review that media has high influence and impact on attitudes and behavior in politics, society, culture and the consumption of society member, in particular, the negative impact in the mind of the individual, children and youth, in the simulation or emulation person (role model) or a value of violence, and the form of sexual prejudice (gender bias and sex role stereotype) (Siriyuwasak, 2004).

Developments regarding the influence and impact of the media, vary according to different historical and social conditions. Some period, media have the influence and causing much impact on society. While some period, the role of the media did not have a major impact and influence on society (Siriyuwasak, 2004).

In the issue of influence and impact of mass media is a problem with a long-studied, along with the development of mass media. In each era, issues of media effects that occur in society have different point of interest.

The problem of the influence and impact of mass media, especially in the marketing communication on society, in the case of Thai youth. Also be an issue that has never been studied seriously and clearly. So it is very interesting in order to understand and discover the influence and impact of mass media in marketing communications that affect Thai youth.

The objective of this study is (1) to find out the influence and impact of mass media in the marketing communication to Thai youth that has the situation, growing and changing in which way, and (2) to study patterns of influence and impact of mass media in marketing communications with Thai youth

## Theory and Literature review

### Consumer behavior theory

Consumer behavior means the action of person that directly related to the acquiring and using product and service, and included with the decision making process that has been before these actions (Santiwongse, 1996).

Shiffman and Kanuk (2004) explain the meaning of "consumer behavior" is the behavior that consumer behave in the form of acquiring, buying, using, evaluating, or consuming product, service and idea to fulfill own need, and be the study of the decision making of consumer in spending resources, both money ,time and power for consuming products and services that included (1) what to buy, (2) why to buy, (3) how to buy, (4) when to buy, (5) where to buy, and (6) how often to buy.

We can conclude that consumer behavior is about the activities or action that depend on human decision making to buy product, that means human behavior is relates with thoughts, feelings or actions.

Each human behavior will different because each person has different needs, motives, perceptions and attitudes. All of these four factors are the result on the influences of external factor that is the influence from family, social influences, culture influences or economic influences, which will be shown in the form of buying behavior.

### The factor that has influence for decision to consume

Marketers try to study about the factor that has influence toward the product and services consuming decisions to predict the consumer behavior, and bring it to marketing analyzes and do marketing activities. The factors that affect the decision making process of consumer or buying product and service can be divided into two main factors that are

1.     "External factor" or "environment factor" – that means things that are around the consumer and have influence toward consumer's thought, feeling and action (Peter and Olsen, 2005). The major example of external factor such as reference group, family, social status or social class, culture and subculture.

a.     "Reference group" is a group that person keeping for behave because reference group will give the social norm or some social values that person can use to be the way of own thought and own action. In society, there are a lot of reference groups which have both directly and indirectly influence toward consumer's buying behavior. Consumer will use product or select brand that related with their own reference group to show the membership status of that reference group. Consumer will learn by noticed some member of selected reference group that how they solve the consuming problem and will bring this pattern to be their own buying behavior too (Teepaparn, 2009).

b.     "Family" is a social factor that has a lot of influence to consumer. Because every member of family should have closed relation with each other, which make family's member learn about product, buying decision, and consuming behavior. Father and mother will be the role model to their children and will be the consuming behavior's model to their children too. And young member should be imitated some behavior from the older member of their own family.

c.     "Social status" or "social class" means the divided the social member who has the same status to be different class or different level. Each member in the same class or same level will have same value, interest, and behavior. The factor that is the sign of social class does not only income, but it will consider from many factors together, such as occupation, education, or geographic address, etc. Each social class will have different way of life, that will show through dressing, speaking style, or hobby, etc. (Kotler, 2003).

d.     "Culture" and "subculture" will be the factors that directly specify norm and consuming behavior of the society. Shiffman and Kanuk (2004) explains the meaning of culture that be the belief that people in society learn from value, custom and tradition, and society set to be control the appropriate behavior of consumer, as a member of society. While subculture will be a part of main culture that a group of member will have some different behavior from major member of the group (Hawkins, Best and Coney, 2004).

2.     "Internal factor" – that means the psychological factor that has influence toward the

decision of consumer, as a type of requirements that originate from person's mind status, related with human behavior (Wongmonta, 1999), consist of perception, learning, needs, memories, motivation, personality, attitudes, self-image and lifestyle.

a.      "perception" means the process that people selected and arrange information of human's brain, that begin from the sensation receiving and transfer that information to interpret the meaning, which will be related with experiences around them (Hawkins, Best and Coney, 2004; Shiffman and Kanuk, 2004).

b.      "Learning" is changing process in behavior, or the people response, that affects from experiences or from human instinct. Consumer learning means any changing in understanding, or memory organizing and behavior (Polnikorn, 2005), or the process that each person receive knowledge and experience that concern with buying, using and consuming, that will transform to future behavior. These processes will relate to the future consuming behavior of person (Shiffman and Kanuk, 2004).

c.      "Needs", "wants" or "desires" means the different that person perceive between ideal status and present status, that has enough influence power to motivate behavior. These different perceive is necessary for person. There are two types of needs, (1) physiological need and (2) psychological need (Sereerat, 1995).

d.      "Memories" means the capability to remind information and details that keeping in short-term memory and long-term memory, which person will retrieve to be an essential part of any decision making.

e.      "Motivation" means drive in each person that be stimulate the action. This drive comes from the tensions that happen when person's need does not be response, both conscious and unconscious. The situation will be a stimulus to set a person's action to decrease tension and response to fulfill their needs.

f.      "Personality" is totally human characteristic that has developed in long-term, affecting the form of human response in different situation, and different in each person. So personality is the factor that specified the response behavior of person (Wongmonta, 1999).

g.      "Attitudes" is the evaluating of person's satisfaction and feeling toward thought or object. Attitudes will bring to the action of consumer.

h.      "Self-image" is the thought and totally feeling of each person about self as a object status or attitudes (Polnikorn, 2005) of person toward their own-self, or the belief and feeling about oneself (Hawkins, Best and Coney, 2004).

i.      "Lifestyle" means the format of human action that reflects own self-image. Lifestyle can be changed from the experiences that varied from human life cycle. Lifestyle will affect needs and desire of consumer (Polnikorn, 2005).

## Teenager psychology

Chareonsuk (1974) explain about teenager psychology that is the study aims to make understanding about teenager in areas such as the growth of the body, variation of moods, concepts and morality, as well as intellectual ability, learning process and adaptation, and environmental influences on the interests and needs of teenagers. Teenagers psychology will help us understand the causes of teenagers behavior, able to predict the behavior and seek ways to control the behavior of teenagers.

"Teenagers" or "adolescence" deriving from the Latin, "adolescere" that means the growth or a step toward maturity. Children will achieve this maturity stage, not only growth both in physical and in psychological, but have to develop for four sides, that is physical, emotional, intelligent and social interaction, at the same time (Junaim, 1986).

World Health Organization (WHO) (2008) defined that adolescent is people who aged between 10 and 24 years, a huge proportion of the world's population, more than 1.75 billion. While in Thailand, "long-term youth development policy and plan" defined Thai adolescent are people who aged between 15 and 25 years, approximately 17-19% of Thailand population.

American psychologist, Luella Cole, has divided the age range of adolescence into four ranges: (1) pre-adolescence ages 10-13 years, (2) early-adolescence ages 13-15 years, (3) middle adolescence ages 15-18 years, and (4) late adolescence ages 19-21 years. Generally, girl is come into the early-adolescence before boy 1-2

years, but there is no certain rule, someone may begin early, and someone may begin shortly, depends on several factors, such as food, exercise, environment, culture, tradition, etc (Rammasoot, 1986).

Satetoh (1980) explained about cultural pattern of adolescent in urban and rural area that social and cultural changed both material and non-material, made new generation's member of Thai society, which is in teenager period, have to changed, whether adolescent in urban and rural society. Urban teenagers tend to dress in clothes with uni-sex style, hang around shopping center, dined in western fast food shop, like hotdog and hamburger, assemblage in entertainment complex and admire and play pop music. For rural teenagers, even if worse economic status than urban teenagers, but also has the same extravagant. They used to pay for expensive clothing such as import brand name shirt and jeans or cosmetics brand made from aboard. Consumption habit has changed from normal drink to be popular canned food and soft drinks, and spend money without regard to the retained of investment.

## Past research

Buijzen and Valkenburg (2003) have studied "The effects of television advertising on materialism, parent-child conflict, and unhappiness: A review of research" that emphasizes on the conclusion the past research about the dangerous affect three dimensions of television's advertisement, consists of (1) the value of materialism, (2) conflict between parent and child, and (3) unhappiness. This research reveals that these is positive relation between television's advertisement and materialism value, low to normal level of positive relation between television's advertisement and conflict between parent and child, while the research about the relation between television's advertisement and happiness still have a little amount.

Chaplin and John (2005) have studied "Materialism in children and adolescents: the role of the developing self-concept". The result shows that there is the development of gap in the understanding level about materialism value in children and youth, that materialism value is founded increasing in the middle-aged level of student, such as in the level of junior high school (grade 7-8), and the level of materialism value will

be decreased at the significant level in older age group. Besides, self-esteem also has complex relation with children's materialism value.

Tongsima (1993) has studied "The television using of children in family", founded that children watched cartoon and drama program at the most, around 2-3 hours a day. Children used television to be friend, environment objects, and for allocating time to join family activities via television. Children also used television as a tool to reinforce communication, build relation and learning for new knowledge. This study concluded that television using of children has a relation in family context, and children also know to select program watching and find the benefit from television in different situation.

## Methodology

This study is quantitative method, emphasizes on survey research by one shot descriptive study and using questionnaire as a tool for collecting data. The population of this study is Thai youth who ages between 15-25 years old, Thai nationality and have a living place in Thailand.

The sample in this study was drawn from the random tables of Taro Yamane, at a confidence level of 95%, sampling at the significant level of +/-5%, by using a purposive sampling. The total sample of this study is 1649 samples throughout Thailand, that come from four major area of the country included: (1) 514 samples from the Bangkok metropolitan area, (2) 381 samples from the northern area, (3) 323 samples from the northeastern area, and (4) 431 samples from the southern area.

The questionnaire is a main tool of this study. Questionnaire structure is divided into five sections: (1) question about demographic factors including sex, age, residence, education and income, (2) questions about the mass media exposure behavior, communication format, relevance, skill and interest in media technology, (3) question about consuming behavior, consumption patterns, relevance and interest in consumer products in everyday life, (4) question that measure the perceptions and attitudes toward media exposure, perceptions and attitudes toward problem in consumption and today's consumer situation, and (5) question about behavior pattern that occur after expose to media and product consumption.

## Findings

For demographic composition, the study founded that the major respondents of this study were 1,021 female (61.9%) and 520 male (31.5%), Followed by woman love woman (3.7%) and man love man (2.9%) respectively. About 69.1% of them (1,139) were 19-22 years old. Almost respondents are studying in college or university (77%) and stay with, at least, father or mother (58.7%). Nearly half of respondents (46.8%) have income per month more than 3,000 baht as shown in table I.

Table II shown that mostly respondents have their own personal uses. Most respondents, 1,495 people (90.7%) and 1,363 people (82.7%) own mobile phones and computer, respectively. While the most admired product is car, that have more than half (66.7%) respondents want to be the owner, and computer (57.9%) come to be the second product that respondents want to be owner.

About the media exposure, Thai respondents can be called a heavy user of media. Internet is mostly exposed by respondents by 63.6%, television comes the second at 52.3% and followed by personal media like parents and friend (38.3%) and mobile phone (37.2%), respectively. While magazines (13.2%) and radio (12.6%) are the last two media that respondents have least exposed. In term of media trust, half of respondents believe in personal media (50.0%). Television comes to second rank in media trust (48.0%). While movie and video games is the last two media that respondents have least trust as shown in table III.

Table IV shown that respondents have the most believe in their own parents, father and/or mother (52.6%), followed by teachers and/or instructor (18.9%) and friends (16.2%), respectively. While celebrity (0.8%) and pop star (0.2%) have very little trust from respondents. Another interest that there were 187 respondents (11.3%) who don't believe in any other person.

The purpose of first top three media exposure shown in table V. The main purpose of television and internet exposure were the same, that for acquiring both knowledge and entertain (73.8% and 66.0% respectively). Respondents give the reason to exposed television for purely entertainment (18.0%) more than pure knowledge (7.5%). While for internet exposure, besides knowledge and entertain purpose, they used internet to be a tool of

communication (15.2%) as second rank purpose. Different from the use of mobile phone, in most cases, the usage of mobile phone is for private reason (60.1%), followed by the reason of study and job (29.7%) and for entertainment (8.7%) respectively, as shown in Table V.

More than half of respondents (50.8%) have to talk with their parents as part of their daily activities, followed by, reading and studying (39.9%) and have to take the housework (38.3%). On the other side, for leisure activities, about one-third of respondents, like to resting/sleeping (66.6%). Followed by shopping (32.0%), eating fast food (26.0%), take a trip/family activities (25.3%), and playing sports (20.6%), as shown in table VI

Table VII shown that respondents are the heavy consumers of fast food and electronic devices. In fast food part, respondents consume the most in fried chicken up to 94.4%, followed by Donut (75.0%), Ice-cream (69.1%), and the last equal, hamburger and pizza (65.4%), respectively. On electronics devices, mobile phones is the electronic device which the most all respondents have (98.7%). Over the half of respondents (58.2%) are the owner of laptop/notebook, followed by digital camera (46.7%), and MP3/MP4 player (44.2%), respectively.

Table VIII shown the top brand fast food and electronic devices' brand in respondent's mind. KFC (76.8%), Mister Donut (65.1%), Swensens (81.0%), McDonald (74.1%) and Pizza Hut (53.9) are the most brand reminded in each fast food product category. While Nokia (67.8%), Acer (47.9%), Canon (57.1%) and IPod (41.7%) are the most brand reminded in each electronic devices product category.

The last part, the study founded that the top ten brand in mind of respondents included Apple, Sony, Honda, Nokia, Canon, Acer, Toyota, Blackberry, Samsung and Yamaha.

## Summary and Discussion

We can not deny that globalization has become a major force driving the behavior, combined with current market competition, the market activities are often carried by the mass media to be an important tool. When mass media are highly influential to the audiences, which as a major consumer in the

market. The impact of mass media thus affecting the behavior of individual consumers as well.

Thai youth is the heavy user of mass media and new media in Thai society. They usually have a template of behavior from the media, which they are also used as a source of important information in their life. We can be seen from the consumption behavior, which would be the result of media exposure. Popular brand, like IPod or Sony, are good indicator of the influence media has on the youth consumer.

Another important issue, although Thai youth is now focus on new media like Internet or mobile phone, but they can not be denied the reality world. They may sit at a computer screen all day and night for chat with on-line's friend, watch the most popular music videos, or find out about the clothes they want. But ultimately, they must seek out and looking for something that can be touched, and necessary for consumption in their daily life. This is what the reason that Thai youth are unable to escape from the real world, despite they are exposing to the mass media. And this is information that helps answer the question, why the most popular brand is is still most admire of Thai youth and young people around the world.

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# INTERCULTURAL DIFFERENCES IN KNOWLEDGE TRANSFERS IN THE CONTEXT OF GENERATIONAL CHANGE OF SMES IN GERMANY, UK AND ITALY

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## Abstract

*This paper discusses why there is a need for a more profound analysis of the European SMEs in the context of knowledge transfer within the state of generational change of the managing board. This paper forms basis for a doctoral thesis on this topic.*

*Keywords: SME, knowledge transfer*

According to the 'Report on the implementation of Commission from 2009' there are "up to 23 million enterprises in the EU" which are considered SMEs. Due to their significant economic impact on the three EU member countries as well as on the EU in general, the process of transferring knowledge from the actual executive to the successor becomes a vital aspect in ensuring the SMEs 'survival' in the competitive environment. Understanding this process will constitute a means to ensure smooth knowledge transfer in SMEs with potential for stabilizing the backbone of the European economy.

In today's rapidly globalizing environment which is increasingly knowledge-driven Europe forms one of the major economic powers. Europe's economy apparently seems to be shaped by plenty of multinational corporations which grow bigger by M&A activities or strategic alliances. While these companies mostly focus on entering new markets as well as on worldwide growth and market share, small and medium sized "European enterprises […] may lack appropriate information on far-away markets and also typically face more problems in investing in more distant locations than larger companies." (European Commission 2009).

European SMEs thus generally "still remain focused on their national markets." (European Commission 2007a). According to the Final Report of the EC regarding internationalization only 8% of the EU-27 SMEs export and only 12% purchase their inputs abroad (European Commission (2007a) Most of the SME produced goods and services must be therefore marketed and sold within the home country or Europe. No wonder the SMEs are considered backbone or "the lifeblood of Europe's economy."(European Commission: 2007b) According to Eurostat between 2004 and 2006 "SMEs grew in number and in the number of persons employed by them almost twice as fast as large enterprises."(Eurostat 2009)In 2005 around 19.65 million active enterprises were counted within the EU-27. Of these 19.6 million were considered SMEs. Together they employed around 126.7 million people whereas the SMEs gave work to approximately 85 million people (67.1%).( Eurostat 2008) By 2009 the number of SMEs had risen to 23 million.( European Commission 2009) "SMEs represented 99.8 % of all EU-27 enterprises in the non-financial business economy in 2006, employing two thirds of the workforce (67.4 %) and generating 57.7 % of total value added"(Eurostat 2008).

Some small amount of enterprises is left and forms those European giants which are often thought of being the engine of Europe. The real giant however lies within the smaller forms of businesses ranging from 1- 249 employees. These take an active role in generating GDP growth and thus carrying Europe's economy on their shoulders. In a survey conducted by PricewaterhouseCoopers in 2007/08 (The PricewaterhouseCoopers Family Business Survey 2007/08) the special emphasis was put on the economic importance of enterprises where one of the findings was that in Europe family run

enterprises represent over 50% of the European economy.

Therefore it appears as a logical consequence that the European Commission launched the Enterprise Europe Network in February 2008 in order to promote entrepreneurship and growth of SMEs by interlinking them. Aiming on being the "most competitive and dynamic knowledge-based economy in the world" (Hughes 2003). Europe strongly relies on the transfer of these immaterial assets which form the base of our economy.
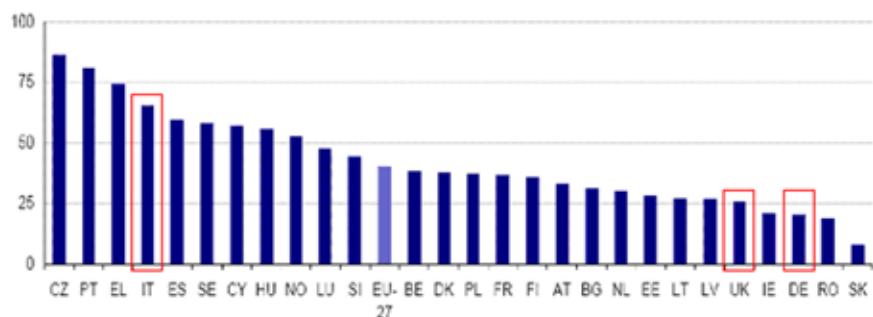
Leaders of SMEs have to reach important decisions when it comes to the question of the continuation of their organizations and placing someone adequate in their very position.

As the 'backbone of the European economy' SMEs have to survive their expansions on the long run and

knowledge which had been gained and acquired has to be transferred efficiently to the successor. Knowledge hereby often is considered the firm's most important strategic resource (Grant, 1996) since "intellectual capital and employee talent have become areas of competitive advantage, and even of survival, for the organization" (Calo, 2008).

As Europe consists of many people with different mentalities and cultures there are most likely cultural differences in preparing, processing and actually giving on knowledge in the SME of the respective countries. These cultural differences, but also risks and challenges "that organizations face in ensuring the transfer of the valuable knowledge that [leading executives] possess before they retire" (Calo (2008) will be examined in further research.

**Figure 2: Density of SMEs – number of SMEs per 1 000 inhabitants, non-financial business economy, 2005**



Source: Eurostat (2008)

Small business importance has been acknowledged as a source of sustainable economic growth and balance, means for meaningful employment, and potential for new innovations (Malinen, 2001) Within the European Union many cultural differences can be encountered. How do these cultural differences which evolved over long time affect the transmission of knowledge from the current SME leaders to their successors?

Within the European Union SMEs are the engine for growth and prosperity. Therefore research is important to develop an Europe- wide approach in the field of company succession in three selected EU countries. The purpose of this research should be the analysis how and in what extent the culture

of these three countries affect the succession process and in what ways there can be shown obstacles to growth and expansion. The United Kingdom, Germany and Italy held around 47% of the EU-27 GDP in 2007 (Eurostat 2010). Therefore examining the succession process in these major contributors to EU PIB will help to understand different the cultural patterns in knowledge transfer. This again will create a basis for easier approaching and understanding the issues encountered while transferring and communicating internal information to the successor.

The model of knowledge transmission will be forming the basis for an European approach to simplify and unmask cultural obstacles and

making the process more transparent as well as to identify intercultural succession- issues faster. Furthermore support and preservation for SMEs which lack experience of the succession process can be helped more effectively as deficits can be identified in a smaller timeframe which again makes this strategic process run smoother.

Most of these processes are very time consuming and affect the performance of SMEs. Not only time but also labour force and financial means could be implemented more effectively and faster when the knowledge transfer process is exposed and 'x-rayed'.

As the number of SMEs is steadily growing an overall model for knowledge transmission within SMEs will be monitoring a process in the most important group of Europe's economic organizations as a platform for understanding the development of SMEs in the mentioned countries. Solutions for issues could be deducted as well as general approaches created.

As Europe encounters more globalized competition it is undeniable that there should be focused on its economic strength and make its operations understandable to today's leaders and decision maker in order to plan, enforce and control the European economic environment according to its powers.

Therefore an European model of knowledge transfer which analyses the way knowledge is transferred from the current owner or organization leader to his successor within the cultural pattern of the UK, Italy and Germany should be focused on. In what ways do these processes of succession differ and how are they approached and managed? How can these processes be made more accessible and optimized in order to foster SME growth in these societies?

To understand succession and knowledge transfer, existing models and methods have to be analysed and critically discussed with the aim to optimize them in regard to an European approach.

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# SELL-EBRATING JAPAN: CONSUMING, CRITIQUING AND CURATING AVANT-GARDE FASHION IN THE UNITED KINGDOM

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*Abstract*

*The paper addresses the various trajectories taken in the reception of Japanese creative practice in the United Kingdom – focusing on a changing dynamic in the presentations of traditional forms at large-scale events in the late 20th and early 21st centuries and the contemporaneous consumption of innovative outputs of Japanese sartorial culture. An introductory section mobilises archival material to document early instances of cultural exchange between the two island nations. The main body of the discussion compares developing emphases on material and popular culture in a series of international festivals with the tactics employed by Japanese fashion designers entering a new market. The analysis highlights the manner in which the discipline has both distanced itself from, and re-inscribed, earlier constructions of Japanese identity – using 'flagship' stores as 'advertising beacons' in the metropolis, opening 'guerilla' outlets and offering forms of artistic patronage. The conclusion integrates findings from a case-study conducted on a major retrospective exhibition to suggest that in a creative hierarchy the fashion designer now occupies the position of auteur and despite a century having elapsed since an initial cultural collaboration drew an audience of approximately 20% of the population, legacies of Orientalism continue to operate in the consumption of Japanese fashion in the UK.*

*Key words: Aesthetic economies, innovation, fashion, Japan, sartorial spaces*

## Introduction: The greater exhibition?

A little over 100 years ago the Japan-British Exhibition closed its doors after nearly six months at London's Great White City venue. This was not the first occasion on which Japan had appeared in a cultural display in the UK since being forced from a position of isolation into dialogue with the outside world in the middle of the 19th century. As early as 1862 the British public had been offered the chance to see the country anew – as the possessor of a 'separate cultural identity from the general category of the "Orient" ' (Ono 2003: 6) at the London International Exhibition. The event was attended by members of a Japanese government mission who became subject to a Western gaze that looked upon them as a sub-section of the exhibition – a genuine tableau vivant worthy of comment in the newspapers:

The Japanese have an intelligent physiognomy although their countenances are not very prepossessing. The nose is large and flat, the lips thick, the eyes oblique, the complexion sallow and the head large. Their hair, of jet black, is raised up on the head, which gives the younger portion of them a rather feminine appearance when seen from behind.

(The Illustrated London News, 12 April 1862, p 361)

This was hardly a case of independent participation – the majority of the 600+ objects displayed in the Japanese Court came from the collection of the British Minister in Japan, Rutherford Alcock. It was not until it came to the attention of the West as a colonial power following military victories over China in 1895 and Russia in 1905 that Japan was able to secure a degree of control over the

manner of its representation on the global stage. The Japan-British Exhibition, held between 14 May and 30 October 1910, provided the country with an opportunity to present a different image from that previously tailored to Western expectations and to display merchandise of the highest quality rather than the cheap products which were flooding European markets at the time. The official exhibition poster depicted the rising sun of Japan and the proud British lion – indicative of a symbiotic relationship between the pair of island empires – and guidebooks stressed the similarities between the two nations while also praising the civilising influences that Japan exerted over its foreign acquisitions.1 The image of imperial parity was subtly undermined in the British media's tendency to reverse the order of billing by referring to the event as the 'Anglo-Japanese' exhibition, and seemingly neutral press coverage was peppered with intimations of a paternalistic superiority. The Daily Express, 15 April 1910 described the Japanese as turning into 'children' once divested of their bowler hats and overcoats – as if the condition of adulthood suffused the fabric of Western dress. The following month the same newspaper wrote, in a calculatedly sly manner, of the 'cannibalistic appetite' of the Ainu people; another publication noted characterisations of the group by a British resident of Japan as the 'missing link'.2 References to the 'quaint' and 'strange' mannerisms of the Japanese are perhaps understandable, but use of the word 'prehensile' in The Times, 21 June 1910 invoked the racist 'monkey-men' imagery of Georges Bigot.3

In terms of attendance, the event was a phenomenal success. Over eight million people visited the 140-acre site – a figure far in excess of that achieved for the Great Exhibition of 1851. Photographs show replica Japanese villages with shopping streets, temples and gardens, interspersed with palaces housing the demonstrations and displays of indigenous culture.4 A peripatetic cast of musicians, drummers, acrobats and sumō wrestlers added to the carnival-like atmosphere created through the showmanship skills of commissioner-general of the exhibition, Imre Kiralfy. However, educational desiderata of the Japanese government became lost amongst the spectacle, and dissatisfaction was expressed regarding the failure to present an image of a sophisticated, modern nation.5 When the exhibition closed, the Kyoto Traders Association donated the entrance to their section – a replica of Chokushi-Mon (Gateway of the Imperial Messenger) [Fig. 1] – to King George V, and this most visible legacy of the cultural rapport between Japan and the United Kingdom currently stands in Kew Gardens on the outskirts of London.

## Curating Japan

By the early 1980s Japan had become a global economic super-power, but the respect which the country commanded for its ability to produce superior versions of the products of Western technology was not matched by an equivalent regard for its creative outputs. The Japan in Britain festival – the curatorial showpiece of which was The Great Japan Exhibition, held in two parts at the Royal Academy of Arts between 24 October 1981 and 21 February 1982 – was designed to address this disparity. Sub-titled Art of the Edo Period 1600-1868, the display of art, armour, calligraphy, ceramics, lacquer-ware and textiles – much of which had never previously been seen outside of Japan – did little to counter existing impressions of the country as a mysterious and unknowable entity. Some items were associated with the arcane practices of cha no yu (tea-ceremony) and bushidō (lit. way of the warrior); others embodied the alien sensibilities depicted in ukiyo-e (lit. pictures of the floating world).

Conversely, Japan Style at the Victoria & Albert Museum (12 March – 20 July 1980) had offered a more representative picture of the country through its juxtaposing of traditional with contemporary. Thematically organised, 'compactness' was demonstrated by placing bentō (lunchboxes) together with micro-electronic goods; 'elegance' manifested both in the stark silhouettes of ikebana (flower arrangement) and the flowing lines of evening-wear designed by Mori Hanae – garments from which all traces of 'Japanese-ness' had been eliminated.6 The inclusion of a Miyake Issei outfit was tacit recognition of the extent to which Western material culture had impacted on Japanese creative practice during the post-war period. The piece was a kimono-like structure made in a fabric printed with images created by pop-artist Yokoo Tadanori, whose appropriation of pastoral scenes from the canon of classical Western painting went some way towards dissolving boundaries between high and low culture, East and West, ancient and modern, art and design.7

**Fig.1  Japan-British Exhibition 1910**



A decade later the Japan Festival hoped to challenge stereotypical understandings that still associated the country with little more than sushi and sumō. However, installations of temple, teahouse and shopping street in the main exhibition, Visions of Japan at the Victoria & Albert Museum (17 September 1991 – 5 January 1992), merely restated the parochial image constructed by the 1910 event. However, Japan and Britain: An Aesthetic Dialogue 1850-1930 at the Barbican Art Gallery (17 October 1991 – 12 January 1992) successfully highlighted correspondences between East and West in the arenas of dress, packaging and advertising. The same venue had earlier hosted Beyond Japan: A Photo Theatre (11 July – 22 September 1991), which provided a contextual background to the abundance of visual material emanating from the country. A section of the show entitled 'Theatre of the Body' featured images of Miyake's distillations of the relationship between the human form and cloth. Irving Penn's photographs of the designer's Pleats Please line rendered garments as pieces of abstract art once separated from animating frame of the body. Other images of menswear styled in quasi-religious manner selected from Comme des Garçons' in-house publication Six were further evidence of a creative ethos operating over and above quotidian commercial imperatives in the discipline of fashion design.

The final instalment in this series of reciprocal cross-cultural festivals held at ten-yearly intervals towards the end of the 20th century, Japan 2001, consisted of more than 2,000 separate events organised between May 2001 and March 2002. While the emphasis was on traditional culture – with demonstrations of ikebana, martial arts and origami (paper-folding) taking place at a number of regional matsuri (festivals) – displays of popular and youth culture featured throughout. The hedonistic consumerism that defines contemporary Japan was evident in Tokyo Life – a month-long colonisation of part of Selfridge & Co. that recreated the street-market atmosphere of the domestic food-hall and featured the sort of avant-garde art performances that are typically sponsored by department stores in Japan. The major fashion-related exhibition, JAM: Tokyo-London at the Barbican Art Gallery (4 September – 1 December 2002), introduced cult Japanese 'street' brands Bathing Ape, Final Home and Undercover.

## Consuming Japan

Occurring alongside these curatorial interpretations was the entry of the country's avant-garde fashion designers into the British market. In 1981 debuts by Yamamoto Yōji and Kawakubo Rei of Comme des Garçons at the Paris collections had had a seismic effect on global fashion. In contrast to the hyper-feminine parodies produced by French and Italian designers, the Japanese presented shroud-like garments on boyish-looking models with unkempt hair, idiosyncratically applied make-up and blank expressions. In articulating the space around the body, as opposed to the usual practice of defining its contours, the 'distressed' fabrics, unfinished edges and voluminous shapes challenged existing European canons of beauty and taste. The critical tone – of incomprehension in some quarters – ascribed the untoward looks to a raft of traditional aesthetic practices, with fashion journalists grasping at straws of cultural reference that ranged from the atom bomb to zen (Skov 1996).

The Comme des Garçons outlet which opened in London a few years later was described as 'an exercise in stark industrial minimalism',8 whereas a second shop in the West End reverted to a more familiar retail environment but the requirement that potential customers ring the doorbell to gain access compounded an intimidating atmosphere created by the severity of the tailoring. Yamamoto's first boutique also articulated a modernist idiom, with the interior featuring paving stones, bare brick and shelves each holding a single item. The initial collection consisted solely of black and red garments – a self-imposed limitation that added to perceptions of the space as housing artefacts not actually for sale. Miyake's stores, particularly, have drawn the attention of architectural journals for appearing to be more appropriate for the display of art than the retailing of apparel.9 With the exception of the window display, no garments were allowed to disrupt the pristine spaces or hide the natural, unfinished surfaces of his first London outlet. The clothes were brought out on request in a reiteration of the practice traditionally followed by retailers of kimono in Japan. The latest venue takes the form of a gigantic aquarium into which light floods through full-length windows – illuminating patterned fabrics reminiscent of iridescent tropical fish, while other garments resemble luminous octopuses coiled up on display shelves. The most striking aspect is a massive whale-like structure suspended from the ceiling and surrounded by shoals of 'feeder-fish' that seem to come alive when hidden fans are activated [Fig.2]. Given their prestigious locations and limited customer footfall, it is likely that these 'flagship' stores accumulate symbolic rather than financial capital – registering the designers' presences in a fashion capital by using a commercial tactic similar to that mobilised by the erectors of 'advertising towers' in 1920s Japan (Gardener 2006).

In 2005 Comme des Garçons opened the antithesis of Burberry's new flagship store in Tokyo.10 Dover Street Market occupies a six-storey townhouse amongst the art and antique galleries of London's exclusive Mayfair district, but its atmosphere owes much to the 'guerrilla' stores that the company has set up for limited periods on derelict sites in other European cities. The interior appears to be still under construction – corrugated iron-sheeting is crudely nailed across studding partitions and a Portakabin sits in the middle of one floor. The site operates as a gallery where designers hamstrung by the financial exigencies of the fashion business can exhibit their work alongside art installations and cabinets of curiosities. In offering space to emerging creators, the label seems to be reprising the role of patron of the arts undertaken by the Japanese department store which has historically operated an exhibition space on the upper floors.

## Critiquing Japan

The importance attached to the visual impact made by the retail environment by Japanese fashion designers was one of the key factors initiating change in the UK's menswear market during the 1980s (Nixon 1993). Another was the advent of the 'style press' – glossy magazines which addressed their youthful audiences with a focus on music, fashion and leisure. On the publication of its 100th issue, The Face furnished readers with its own ranking of the greatest inventions of the decade. After unsurprisingly locating his employer at the top of the list editor Dylan Jones described second-placed Japan in terms that merit quotation in their entirety:

**Fig.2 Miyake flagship store, London. Photo: Peter Cook**



The land of veiled emotion and cunning servility, Japan has eaten up the 80s and photocopied its many futures with Pacman-like zeal. In every field from personal stereos to automobiles to karaoke machines, Japan makes products smaller, faster, cheaper and probably in lilac too. Their gall is legendary – no sooner has some icon of British street culture been decoded, then it is stolen and customised – be it Dr. Marten shoes, smiley patches, MA flying jackets or meaningless slogan-speak. Conversely, their own fashion gurus – Yamamoto, Miyake, Kawakubo – have achieved renown without resorting to gimmicks.

<div align="center">(The Face, September 1988, p18)</div>

This valorisation of Japanese fashion design contrasts its achievements against other arenas of material culture. The rest of the nation is, by extension, unoriginal, arrogant, greedy, opaque and underhand – a characterisation not dissimilar from the reception given to the Japanese at the London International Exhibition more than a century before. However, even within the laudatory conversations conducted by the sartorial establishment were echoes of a discursive regime famously documented by Edward Said.[11] Kawakubo has been likened to the head of a religious sect and her creative approach compared to a contemplative emptying of the mind practiced in Zen Buddhism. Magazine articles are accompanied by one of two stock photographic portraits – either of the designer staring unfocusedly into the ether or with face framed by tortuously intertwined hands.[12] Similarly, journalistic pieces about Yamamoto made an analogies with asceticism – some referring to the designer's monkish persona, others painting him as a mendicant friar wandering the streets like a homeless person.[13] That Yamamoto practices the Japanese martial art of karate is a fact that finds its way into most profiles, whereas his enthusiasm for American imported baseball is rarely mentioned.[14] Kawakubo is characterised as 'uncompromising' or 'single-minded' to the point of seeming unwomanly;[15] conversely Yamamoto – in true Orientalist fashion – is feminised by references to his slight stature and delicate features.[16] Reportage placing an emphasis on the craft-based antecedents to Miyake's meldings of tradition with technology also re-inscribes the historical dynamic of the East-West binary.[17] While Japanese designers evince a natural reticence in

interview situations, a tendency toward gnomic pronouncements regarding their respective aesthetic approaches has had the effect of thickening the mystical aura that surrounds them in the West to the point of impenetrability.

A generation after impacting on Western sartorial consciousness a celebration of Japan's effect on the topography of global fashion arrived in the form of a retrospective exhibition at the Barbican Centre (as it is now known) between 15 October 2010 and 6 February 2011.18 Future Beauty: 30 years of Japanese Fashion featured more than 100 outfits, of which 70% were the work of the three labels discussed above.19 The predominance of these designers reflects the fact that they are no longer seen as iconoclasts, but have become part of the fashion establishment. The discipline's insatiable search for novelty has turned to the oppositional dressing practices of contemporary youth culture,

and the show did present a number of outfits suggesting where the future of Japanese fashion might lie. However, the failure to include a single example of menswear seemed to gloss over the manner in which a conservative modernism in the spear-side outputs of the major designers had offered the British male consumer in the metropolis a fashionable alternative to the reactionary regimes and regimentation of Savile Row.20 While it might be argued that beauty is a gender-specific concept, in featuring challenging designs exclusively from the distaff side of the sartorial spectrum the show reconfigured a historical imaginary – rendering Japan, once again, as an exotic and contingent space [Fig.3]. The overall attendance figure of approximately 40,000 may have been a mere 0.5% of that achieved for the Japan-British Exhibition a century earlier, but by contemporary standards the event was a resounding commercial and curatorial success.21

**Fig.3  Future Beauty exhibition 2010. Photo Lyndon Douglas**



## Conclusion: Future beauty and a sartorial 'Other-ness'

Whereas the Japan-British Exhibition of 1910 sought to demonstrate the equivalence of Japanese modernity with that of the West, large-scale festivals in the late 20th and early 21st centuries proclaimed the country's difference. In

these, displays of traditional culture were in stark contrast to the avant-garde visions of the country's fashion designers appearing in the commercial sphere. In the metropolitan geographies of fashion the Japanese situated themselves within a fine-art context through operation of gallery-style outlets, and profiles in the mass media constructed sartorial 'cults of personality' that enshrined the designer as

auteur. However, reception was largely couched in essentialist terms as interpretations of the poetics of Japanese sartorial practice invoked social, religious and aesthetic tradition. The discipline of fashion has thus been implicated in re-drawings of the cultural map of Japan – a country where, in the words of one respected commentator, 'a modern art gallery….and a Yamamoto showroom are indistinguishable'.22 Although a trope of 'future beauty' manifesting in the prescient outputs of the country's avant-garde fashion designers has been recognised, an exoticising timbre extant in commercial, curatorial and critical contexts suggests that a spoor of Orientalism continues to pervade contemporary 'sell-ebrations' of Japan in the UK.

N.B. Japanese names are given in the traditional order of family name followed by given name. To avoid confusion, Japanese terms are rendered in italic script but other foreign words and phrases appear in the standard font. With the exception of place names – such as Tokyo – macrons are used to indicate the long vowel in Japanese.

## Notes

1 Held in the library of the School of Oriental & African Studies, University of London

2 The Daily Express, 16 May 1910. The Ainu are an indigenous group mainly found in the northern island of Hokkaidō. It has not been possible to identify the newspaper in which the reference to Isabella Bird's 1880 publication Unbeaten Tracks in Japan appeared on 5 April 1910

3 Artist Georges Bigot produced cartoons lampooning the Japanese's attempts at adapting to Western social practices following the Meiji Restoration in 1868

4 Held in the archives of the London Borough of Hammersmith and Fulham

5 See Mutsu (2001) for a range of perspectives differing from the official report

6 Japan Style catalogue, p 75. Mori was already known in Paris, having become a member of the governing body of French fashion, Fédération Française de la Couture in 1977

7 Ibid, p 117. The front cover of the catalogue also features Miyake's 'ninja' design

8 Jane Withers, 'Comme's Concrete Jungle', The Face, Apr 1986, pp 86–7

9 E.g. Pamela Buxton, 'Stanton Williams keeps it simple', DesignWeek, Apr 1990, Supplement p 9; Carl Gardner, 'Cool Look for Miyake', Interior Design, Jun 1990, p 13; Dinah Casson, 'Miyake's fashion basement', Blueprint, Jun 1990, p 14; David Wild, 'A temple of sophisticated consumption', Architecture Today, Jul 1990, pp 42–7; David Redhead, 'Made to measure', Designers' Journal, Jul/Aug 1990, pp 28–33; Marta Laudani, 'Alan Stanton & Paul Williams: Issey Miyake for women', Domus, Apr 1991, pp 11–3; Paula Reed, 'Upstairs, downstairs', Elle Decoration, Sep/Oct 1991, pp 96–101; 'Light Fantastic', Architectural Review, May 2000, pp 90–1; Daniela Mecozzi, 'Issey's Place', Frame, May/Jun 2000, pp 72–7

10 Sussanah Frankel, 'Buy me love', The Independent Magazine, 11 Sep 2004, pp 24–5

11 Said argued that seminal Western texts were little more than discursive constructions of the very topics which they claimed to document – figuring the 'Orient' in negative terms against which a positive self-image was measured.

12 Japanese curator Koike Kazuko, cited by Jane Withers, 'Black: the zero option', The Face, Mar 1987, pp 52–3 and Sussanah Frankel, 'Start from Zero', Dazed & Confused, Mar 2003, pp 116–9

13 Lisa Armstrong, 'Deconstructing Yohji', Vogue, Aug 1998, pp.134–7; Alex Ashcroft, 'When Yohji met Adidas', Sleazenation, Jan/Feb. 2003, pp 90–3 and Paul Davies, 'Yohji vs. Adidas', Arena Homme Plus, A/W 2002, pp 350–3

14 E.g. Terry Jones, 'Grand master Flash', i-D, Mar 1999, pp 196–204

15 E.g. Sarah Mower, 'Red is Black', Vogue, Sep 1988, p 400; Terry Jones, 'Comme des Garcons' i-D, May 1992, pp 72–3; Rosie Martin, 'Happy Birthday…', Vogue, May 1993, p 79; Jessica Stein, 'The First Lady of Fashion', Dazed & Confused, #16 1995, pp 44–9; James Huckbody, 'I did it my way', i-D, Mar 2002, pp 194–9

16 See Dorinne Kondo for a searing critique of A Notebook on Cities and Clothes (1989) directed by Wim Wenders

17 E.g. Terry Jones & Marcus Ross, 'Forward Thinker' i-D, Oct 1998, pp 208–12; Brenda Polan,

'Issey cutting it?', Financial Times Magazine, 18 Mar 2000, pp 18–20; Chiharu Watabe, 'Dress Lab', Frame, Sep/Oct 2000, p 12; Vance Lin, 'Issey Miyake A-POC', Graphis, May/Jun 2001, pp 72–9; Geraldine Rudge, 'A piece of cloth', Crafts, Nov/Dec 2001, pp 22–5; Jenny Schnetzer, 'Issey Miyake', International Design, Apr 2002, pp 82–3; Blueprint, May 2002, pp 72–6; Henrietta Thompson, 'Cut out and keep', Blueprint, Aug 2002, pp 24–5; Ishiguro Tomoko, 'Examining the true power of A-POC', Axis, Nov/Dec 2002, pp 114–25; Liz Brown, 'The A-POC epoch', Contemporary, #59 2004, pp 38–43; Daryoush Haj-Najafi 'Back to the Future', Tank, Feb 2004, p 144; Josh Sims, 'Master and everyone', i-D, Feb 2006, pp 122–5

18 The author was a discussant on the Fashion Crosses Continents panel at the Barbican Centre on 25 November 2010

19 Watanabe Junya and Kurihara Tao both design under the Comme des Garçons label

20 Savile Row is the centre of London's bespoke tailoring trade.

21 Personal communication with staff involved in organising the Barbican exhibition

22 Ian Buruma, Cabinet of Signs: Contemporary Art from Post-modern Japan, Liverpool: Tate Gallery, 1991, p 17

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# MULTINATIONAL ENTERPRISES – ORGANIZATIONAL CULTURE VS. NATIONAL CULTURE

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## Abstract

*Multinational enterprises are the engine of the world's economy. Reason enough to focus exactly on this kind of organizations within this paper.*

*Analyzing multinational enterprises it has to be recognized that such an organization is in fact not one homogenous company but most often a conglomerate of companies spread out around the world. Most of these multinational enterprises try to establish a common organizational culture within their companies (e.g. workshops to communicate the values).*

*Although the efforts are high to create such a culture there are still national or regional cultural influences which can not be avoided. Assuming that the organizational culture or at least the efforts to establish such a culture are the same within one international enterprise, differences in certain behaviour may come from these national differences.*

*This is exactly what researches like Hofstede (2001) together with Hofstede and Minkov (2010) discovered, analyzed and summarized in 6 dimensions of cultural differences. To have a detailed look at national and organizational culture is the goal of this article.*

*Key-words: Multinational Enterprises, Cultural differences, Organizational Culture, National Culture*

## Introduction

The term "Multinational Enterprise" implicates already that the according organization not only makes business or is located in one single country but in many (multi) different countries (nations).

This situation brings a lot of advantages (less dependence on the economy or political situation of one single country; differentiated marked position; economy of scale through the size of the business; use of synergies; etc.) but also comprises the challenge to combine many different nationalities and with this also diverse cultures under one roof.

To be able to use the advantages mentioned above, it is important that not too much energy within the organization is lost through cultural barriers. Therefore, many multinational enterprises try to establish an own organizational culture to find a common "language" or way to collaborate all around the world.

However, it is not possible to fully neglect the influence of the national / regional culture. Therefore, although these enterprises often run expensive programs to establish a common organizational culture, the behaviour and thinking may differ from one unit within the multinational enterprise to another. The following literature research will show a summary of both aspects, national and organizational culture, and how a multinational enterprise may handle this challenge.

## Cultural differences – National level

The name Hofstede and his IBM study (company internal employee attitude survey program, executed between 1967 and 1973, with more than 116.000 responses from 72 countries and 20 languages) are undeniably the most prominent ones when it comes to cultural research. Researches all around the world have used the results of Hofstede for their studies. Meanwhile not only Geert Hofstede (1928) but also Gert Jan Hofstede (1956) his son focus their research efforts on cultural differences. Almost 50 years of studying national cultural differences in more than

70 countries bring a broad and deep knowledge of the topic (Hofstede, Hofstede & Minkov 2010).

The originally four dimensions of cultural difference (Power Distance, Uncertainty Avoidance, Individualism and Masculinity) have over the years been complemented by two additional ones (Long Term Orientation, which was included 1991 in collaboration with Michael Bond and Indulgence vs. Restraint, which was only lately added as a result of a collaboration with Michael Minkov). (Hofstede 2011a)

But there are also other names, which should be mentioned with regard to research on cultural differences.

One of the earliest researches on cultural differences was Edward T. Hall and his wife Mildred Reed Hall (Hall / Hall), who "developed a cultural model that emphasized the importance of nonverbal signals and modes of awareness over explicit messages. These insights proved invaluable in studying how members of different cultures interact and how they often fail to understand one other." (Hall 2011)

Hall / Hall summarize the cultures mainly in high and low context cultures, whereas high context means that there are many 'unwritten rules' and low context indicates that more explanations are needed but the chance of misunderstanding is lower. Furthermore, they also take Time (monochromic time vs. polychromic time) and Space (high territoriality vs. low territoriality) into consideration when talking about cultural differences (Missana 2011).

Looking at Hall / Hall's research results some similarities to other important cultural scientists can be found. Trompenaars (a Dutch culturalist) and Hampden-Turner (a dilemma enthusiast) for example define Universalism vs. Particularism (low / high context) as well as Sequence and Synchronization (monochromic / polychromic) as two of their seven different cultural factors. The others are Analysing vs. Integration / Individualism vs. Communitarianism / Inner-directed vs. Outer-directed / Achieved status vs. Ascribed status and

Equality vs. Hierarchy (Missana 2011; Changing Minds 2011).

Last but not least the GLOBE study (Global Leadership and Organizational Behavior Effectiveness) shall be mentioned. The initiator of this research was Robert J. House (Wahrton University Pennsylvania, USA), who originally focused on generalizability of "Charismatic Leadership" (in 1991). Nowadays the worldwide research program concentrates on the relation between different cultures of societies but also has a look at organizational culture and leadership (TU Chemnitz 2011).

The GLOBE study identifies 9 cultural dimensions (Performance Orientation, Uncertainty Avoidance, Humane Orientation, Institutional Collectivism, In-Group Collectivism, Assertiveness, Gender Egalitarianism, Future Orientation and Power Distance). (House et al. 2004; Grove 2005)

There are of course a lot more scientists worldwide who do research on cultural dimensions. Nevertheless, the above mentioned studies show a broad overview about the certain aspects of culture differences. And although the certain researchers identified not only a different amount of but also various kinds of dimensions, one common message is clear: The cultures of certain countries differ from each other. Furthermore, there are certain aspects of culture (dimensions), which can be used to get a better understanding of how people in different countries may think / act.

The following overview tries to show all dimensions of the above mentioned research programs at one glance.

Comparing the results of the studies mentioned above it can be seen that certain dimensions or variations of a dimension are mentioned in more than one approach. It seems that Power distance, Uncertainty avoidance, Collectivism, Time orientation and Gender orientation are the most important aspects, which differ from culture to culture.

**Figure 1: Cultural dimension comparison (op.cit.)**

| Hofstede / Hofstede / Minkov (2010) | Hall / Hall (2011) | Trompenaars / Hampden-Turner (TU Chemnitz 2011) | GLOBE (House 2004) |
|---|---|---|---|
| Power distance | | Equality vs. hierarchy | Power distance |
| Uncertainty avoidance | | Analysing vs. integration | Uncertainty avoidance |
| Individualism vs. collectivism | | Individualism vs. communitarianism | Institutional collectivism |
| | | Inner-directed vs. outer-directed | In-Group collectivism |
| Masculinity vs. femininity | | | Gender egalitarianism |
| Long term orientation | Time (monochromic vs. polychromic) | Time sequence vs. time synchronization | Future orientation |
| Indulgence vs. restraint | | | Humane orientation |
| | Low vs. high context | Universalism vs. Particularism | |
| | | Achieved status vs. ascribed status | Assertiveness Performance orientation |
| | Space | | |

Talking about national cultural differences as well as multinational enterprises the term "nations" also has to be examined. Hofstede, Hofstede and Minkov (2010) define nations as political units into which the entire world is divided and to one of which every human being is supposed to belong. And even if their research is in many cased based on national culture differences, they also question, if national boarders are the right criteria to distinguish culture or if regions, societies or even religious or ethnic affiliation should be preferred. However, although the common identity within such groups might be higher than within a certain nation, the use of national boarders as differentiator has some significant advantages like the good availability of statistical data, an easy definition and the research already done on national cultural differences.

"Some nations are more culturally homogeneous than others… With these limitations, comparing national cultures is still a meaningful and revealing venture. Research by Geert and others has shown that national cultures differ in particular at the level of, usually unconscious, values held by a majority of the population. Values, in this case, are 'broad preferences for one state of affairs over others'. This differs from the often used meaning 'cherished moral convictions', as

in 'company values'. The Hofstede dimensions of national cultures are rooted in our unconscious values. Because values are acquired in childhood, national cultures are remarkably stable over time; national values change is a matter of generations." (Hofstede 2011b)

## Organizational level

According Martin (1992, 2004) there are three theoretical traditions when it comes to organizational culture research: the Integration, Differentiation, and Fragmentation perspectives. The Integration perspective, represented for example by Schein (1985), Collins and Porras (2002) as well as Schultz and Hatch (1996), assumes that a culture is characterized by consistency, organization-wide consensus, and clarity through the values of people at a high level of the organization. The Differentiation perspective, represented by Bartunek and Moch as well as Van Maanen's (both in Frost et al 1991), views organizations "as composed' of overlapping, nested subcultures that coexist in relationships of intergroup harmony, conflict, or indifference" (Martin 2002). Last but not least the representatives of the Fragmentation perspective like Robertson and Swan (2003) are

the opinion that ambiguity (multiple meanings, paradox, irony, and inescapable contradictions) is the defining feature of cultures in organizations. (Martin 2004)

All of these perspectives have somehow a raison d'être. Nevertheless, the Integration perspective is probably nearest to what, from a pragmatic (and practical) point of view, is commonly understood under organizational culture. Therefore, the main focus of this research lies on this perspective and his representatives.

As mentioned above, one of them is Schein, who defines organizational culture as "… a pattern of shared basic assumptions learned by a group as it solved its problems of external adaptation and internal integration, which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way you perceive, think, and feel in relation to those problems." (Schein 2010, p 18)

This definition would imply that organizational culture cannot be imposed through expensive programs developed by externals (like "Value transfer trainings" or "Our-company-way events") but only through an internal development of culture. Only if an organization is able to fill this intrinsic knowledge and shared basic assumptions into a common framework, value transfer or company culture programs make sense. This might be the reason why people immediately feel if such a program is authentic and developed as mentioned above or implemented at command.

For Cameron and Quinn (1999) organizational culture goes in a similar direction. They mention taken-for-granted values, underlying assumptions (unwritten and unspoken guidelines), expectations, and collective memories but also prevailing ideology that people carry inside their heads as aspect of an organizational culture.

Or in other words: "In essence, being a global organization implies having a universal corporate culture. Since corporate culture grows out of the values held by organizational members, especially the influential members of the organization, a universal corporate culture is one where all members of the organization – regardless of where in the world these individuals grew up or now work – have similar views and beliefs that guide their behaviors when transacting business with members from other societies, as well as with members from their own society." (Ralston et al. 2007, p 1).

The question is now: Is organizational culture a given fact or can it be influenced? The answer to this question is maybe "both". Organizational culture is a given fact. It has somehow developed itself. Of course, not really developed itself but the company / multinational enterprise has a history of its own (like a nation) and the people of the company, who share this history have their own mind set of values, assumptions, and way of doing business. Each one of them has somehow contributed to develop the actual culture / is part of the culture. This is a given fact and cannot be changed. Nevertheless, as the culture also developed and probably changed over the years, the future organizational culture can possibly be influenced. Hofstede (2011b) shares this opinion "Because organizational cultures are rooted in practices, they are to some extent manageable; national cultures, rooted in values, are given facts for organization management."

## National culture vs. Organizational culture in Multinational Enterprises

At this point the chicken-and-egg problem of cultural research within multinational enterprises starts. Is the organizational culture a given fact from which national cultural differences can be deduced or is it vice versa?

The research of Hofstede (1980, 2001) shows that the same survey within one multinational enterprise (IBM), executed in many different countries, leads to results from which cultural differences can be deduced. This would imply that the organizational culture itself is a fact and the same all around the world. He also mentions that "IBM had a distinct corporate identity – a strong corporate culture – and it successfully encouraged in its employees a sense of pride" (Hofstede 2001, p 42).

This might raise the question, if the outcome would have been different in an organization with a weak corporate identity. Or would the differences between the countries still be the same? – Probably yes, as the results / dimensions identified were not only mentioned by Hofstede but also other researchers (Trompenaars, GLOBE research program, etc.) in the same or a similar way. Therefore, it can be said that it is possible to deduce national differences by

doing research with multinational enterprises with a certain organizational culture. The advantage in this case is that differences arising through another organizational situation can be excluded.

Nevertheless, as mentioned above, organizational culture may change over the time or through specific actions / a desired change process. If this cultural change is on purpose (e.g. business need) it has to be considered that the reactions in different countries might vary according their national culture. People responsible for change management within a multinational enterprise would be wise to study the above mentioned literature about cultural differences.

## Summary / Outlook

All in all it can be said that multinational enterprises, although they have a lot of advantages through their size, differentiated market position and power, should not forget about the challenge of different national cultures within their organization. Even if they install the most fancy value transfer training to establish a common organizational culture, national cultural influences cannot be avoided. Furthermore, such programs only make sense, if these programs derive from the actual lived culture (and further develop it) and if the management teams all around the world act as a role model. Nevertheless, it also has to be considered that different cultures not only bring challenges but also widen the view and with this enable the multinational enterprise to face unimagined opportunities.

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# INVESTMENTS IN INNOVATIONS: AN ANALYSIS OF RUSSIAN COMPANIES NEEDS

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## Abstract

*The efficient satisfaction of a company's need in investment credits makes it possible to introduce more innovations in its business hence provides a company with sustainable competitive advantage in global markets.*

*The purpose of the research was to investigate the Russian companies' needs in investment credits in the context of the increased demand for innovations for more competitive business.*

*Data collection was performed by mean of a semi-structured questionnaire; representatives of 165 companies' were interviewed personally in a bank or they sent their responses by e-mail.*

*The results show that 55% of the respondents use credits for investment purposes. Among the factors important for a choice of a potential creditor are crediting conditions, interest rates, quality of services. In regard to the chosen Sberbank of Russia most of the clients are not satisfied in the crediting period, requirements to a borrower, the time for decision making process, personnel qualification and additional services.*

*The paper draws a number of conclusions about the importance of innovations for today's business, Russian companies' need in investment credits because they feel the lack of internal funds as well as some implications for the banking sector how to improve the corresponding services' quality.*

*Key words: innovations, banking services, investment crediting, organizational consumers*

## Conceptual background/hypothesis development

Being able to introduce innovations in its business a company can get a sustainable competitive advantage in global markets (Dampanpour, 1991, Durand, 1997, Hurley, Hult, 1998, Denton, 1999). It leads to growing company's needs in investment credits.
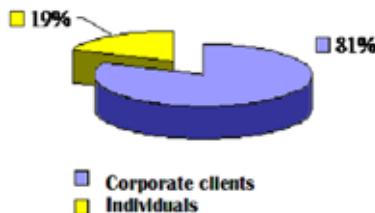
Crediting is the main bank's activity. A body corporate crediting is especially urgent in the nowadays. Many of the Russian companies today have a problem of property, plant and equipment depreciation and a problem of their technologies lagging from the world standards. The production expansion, its modernizing or a new object creation faces an owned capital lack problem. In connection with this, it is more often when the state banks' credits (Sberbank of Russia is among such banks) are being given to companies to modernize the enterprise's production. It, in its turn, increases the social and economical role of credit as a state's gross national product increase and also the increase of the population's life level.

Today crediting is the most quickly growing banking business sector in Russia (Table 1)

**Table 1 – Volumes of the loans that were given to corporate clients and individuals in a period between 2005 and 2009**

| Year | The given loans' volume, billions rubles | | |
|------|------|------|------|
| | Total | Including: | |
| | | Corporate clients | Individuals |
| 2005 | 5 609, 3 | 3 948, 4 | 1 037, 6 |
| 2006 | 8 146, 9 | 5 357, 9 | 1 874, 2 |
| 2007 | 12 349, 1 | 8 165, 8 | 3 021, 2 |
| 2008 | 19 094, 4 | 12 630, 4 | 4 083, 0 |
| 2009 | 19 179, 7 | 12 973, 4 | 3 593, 5 |

In the cumulative portfolio of the banking sector loans the situation is next. The loans to individuals takes just 19% at the same time when to the corporate clients market it is 81% of the sums given (Chart 1).

**Chart 1 – The credit portfolio structure (at Jan 01 2010)**



In this moment more than 3000 enterprises use the Sberbank of Russia Ural branch's services in the body corporate and entrepreneurs crediting (who lead their business at the next four subjects of the Russian federation: Sverdlovsk, Chelyabinsk, Kurgan provinces and Bashkortostan republic).

The investing crediting is an investment project financing in a granting the credit form; at the same time, the liabilities' clearing-off source comes from all the operating and financial activity of a loaner, including the project realization incomes.

The main advantages of the investing crediting are:

• Long terms of crediting that let to ensure the return on investments and the return on the-given-as-credit-funds.

• The main credit debt payment extension that depends upon the project's financial indicators.

• An ability to subsidize a part of an interest rate in long-term-investment-credits by means of different level's budgets.

• The projects "from naught" financing organizational possibility.

• A possibility to pledge the acquired equipment and the rights of property within the contracts under financing.

Thus, Hypothesis 1. Enterprises mostly receive credits to invest means to the new enterprise/ production (or object) creation or expansion, reconstruction, modernizing, complete overhaul or other production's (or object's) change; it in its turn has a purpose to receive the afterwards coming economics effect during its exploit.

Investment credits are accommodated by banks in a term up till 7 years in rubles and/or foreign currency.

The terms to accommodate this sort of credit are:

• The project financing share should at least at be 30% of the project's costs financed by the owned funds.

• To provide the documents demanded

• A liquid guaranteeing availability under the receiving credit.

• Positive credit history availability.

80

- Stable financial statement of a borrower.

- Investment project's recoupment with taking into account the company's current activity within the possible term of crediting.

- Pledges insurance (when it is necessary) in the recommended by bank insurance companies or paying for an absence of such insurance.

The maximum credit's volume is up till 70% of the investment project's costs.

The quality of services is one of the most important factors which influence on developing long-term relationships in B2B market (Berry, 1983, Grönroos, 1990, Zeithaml, 1990, Parasuraman, 1991, Ballantyne, Christopher, Payne, 1995, Prajogo, Sohal, 2003).

So, Hypothesis 2. Among the factors that influence to the bank choose to receive the investment credit the next points are the most important for a company: credit conditions, interest rates, terms of crediting, schemes of crediting, bank's reputation, a term of inter-cooperation with a bank, and also a level of service.
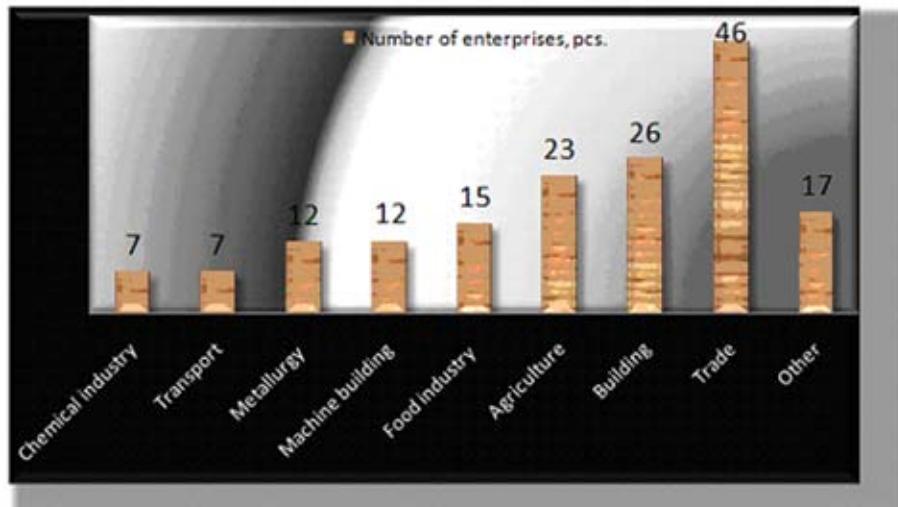
## Sample

During the marketing research 165 companies in the Ural Branch of Sberbank of Russia were questioned with questionnaires; they are placed in Sverdlovsk, Chelyabinsk, Kurgan provinces and Bashkortostan republic.

Respondents profile (Chart 2):

1. A law status of business: 135 undertakings (82%) – artificial person; 30 undertakings (18%) – individual entrepreneur.

2. As the tables 2 shows, the most undertakings' sphere of activity is a retail and wholesale trade. Together with this, an important share in the provided research has building organizations (16%) and agricultural enterprises (14%). Food industry enterprises have 9%, machine building and metallurgy have 7% each, transport organizations and chemical industry enterprises have 4% each.

3. The next volume of enterprises inside segments took part in the research ranged in the revenue's volume (Chart 3)
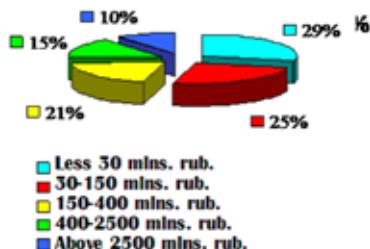
**Chart 2 – Respondents enterprises and organizations sphere of activity**



- «Micro» - yearly turnover is less than 30 million rubles;

- «Small» - yearly turnover is from 30 till 150 million rubles;

- «Average 1» - yearly turnover is from 150 till 500 million rubles;

- «Average 2» - yearly turnover is from 500 till 2,5 billion rubles;

- «Big» - yearly turnover is above 2,5 billion rubles.

**Chart 3 – Yearly revenue of enterprises-respondents**



Legend:
- Less 30 mlns. rub.
- 30-150 mlns. rub.
- 150-400 mlns. rub.
- 400-2500 mlns. rub.
- Above 2500 mlns. rub.

## Method

A marketing research was made to detect the Ural bank clients' needs in investing crediting and also their preferences to choose a creditor and also to evaluate the Sberbank of Russia Ural Bank in investing crediting sphere.

To make the research a clients' questioning method was chosen, because this method is relatively cheap and is applicable to explore a wide range of problems. A questionnaire was developed to question the current and new corporate clients (artificial people and individual entrepreneurs) who addressed to the bank for crediting matters. All the respondents answered the same questions, and the answers were fixed.

## Procedure

During the research information was used, the information that was received based on a primary and secondary data. Secondary data was received as a result of the so-called inside-a-cabinet research. Such information was received as a result of external information sources research; these are such sources as: periodical printed editions in a trading sphere; mass media (TV and radio), as like as an Internet. Together with this, the Sberbank of Russia Ural Bank's inside-reporting-documents were analyzed.

The primary data was received as a result of specially made field-research.

To receive the primary information it was researched a relation (according with the set above tasks) of 165 companies' representatives who had such chairs as director, Chief-director, chief-accountant, CFO, commercial director or an owner.

The volume of sampling was stated by the Investing crediting and project finance department's management: at least 15 clients from a department. The questioning period is from 07.09.2009 till 30.09.2009.

The next channels were used to transfer the questionnaires to clients:

1. At a personal meeting/during the clients' addressing to the bank;

2. Through the "Client-Sberbank" system (with the preliminary agreement with a client)

3. Through e-mail (with the preliminary agreement with a client)

The Sberbank of Russia Ural Bank's branches took part in the research; these branches are placed at the territory of the next regions: Sverdlovsk, Chelyabinsk, Kurgan provinces and Bashkortostan republic.
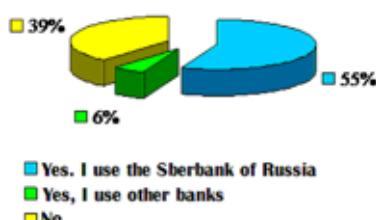
After the respondents questioning was finished, the fulfilled questionnaires were transferred to the Sberbank of Russia Ural Bank's Corporate clients management department; inside the Corporate clients management department the questionnaires were proceeded and the data received was analyzed. The traditional analysis was used to analyze the data received (to analyze the secondary information) and a content-analysis (to analyze the primary information).

## Results

The research results mostly confirmed the research hypotheses. The most part of corporate clients

(55% or 91 enterprise) uses credits provided by the Sberbank of Russia for investment projects (Chart 4).

**Chart 4 – Banks' choose to receive the investing crediting**



The Sverdlovsk province companies take the investing credits more actively – 33 people (20%) and same in Bashkortostan republic – 26 percents of respondents (16%). In Chelyabinsk province it is 15% of corporate clients (25 enterprises), and in Kurgan province it is less of all – 3 people.

The reason the 32% of corporate clients do not realize the investment project is the interest rates level; the other important reason is the fact that in the current economic situation 10% of enterprises are in difficult financial conditions (Chart 5). 7% of enterprises don't have an opportunity to attract the credit funds at a contemptible term to realize the project; and also 6% of corporate clients don't have owned sources for financing.

It is important to note the 45% of enterprises have no necessity to realize the investment project. At the same time, more than an half of questioned corporate clients (56%) are about to attract the borrowed funds in the nearest time to realize the investment project.

When choosing the potential creditor for a project the corporate clients pay the main attention to the conditions of crediting (100 respondents); interest rates (68 respondents); terms of crediting (40 respondents) and crediting schemes (39 respondents) (Chart 6).

The second in its importance factor is the decisions making, documents subscription and credit extension speed (77 respondents). The attention is also given to the bank's reputation and image (30 respondents), to terms of cooperation with bank (24 respondents) and also to the level of service (23 respondents).

79% of respondents (130 corporate clients) would like to receive a preliminary notification about closing to the terms to discharge a liability during crediting period that should be confirmed with the credit agreement. 25% of respondents would like to have the interaction coordination happened with the sided organizations like insurance or realtor companies. 10% of respondents consider there is no necessity in additional servicing.

The companies that participated in the marketing research would like to receive the next consulting when crediting the investment projects:

- Credit conditions consulting (interest rates, terms, securing) – 62% of respondents;

- Possible crediting schemes consulting – 58% of respondents;

- 3.  Law consulting to execute the deals  – 25% of respondents;

- Business-planning and prognosis consulting – 17% of respondents.

During the marketing research the corporate clients were offered to evaluate the Ural bank's activity in investing crediting sphere in such criteria as interest rates, crediting terms and schemes, minimal credit sum, repayment schedule and a range of other indicators.

The main positive moments in the Sberbank of Russia Ural Bank's functioning in investment projects crediting are:

- Crediting interest rates (admissible) - 64% of respondents;

- Minimal credit sum (available) - 75% of respondents;

**Chart 5 – The reasons that are cause for the investment project's non-realization or for their realization suspension**



- No necessity
- No owned funds for financing
- No opportunity to attract the borrowed funds for a contemptible term
- Not satisfied by the interest rates level
- Undertaking is in a hard financial situation
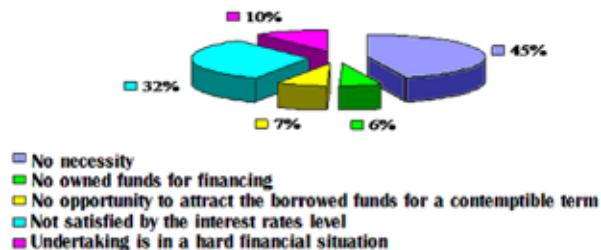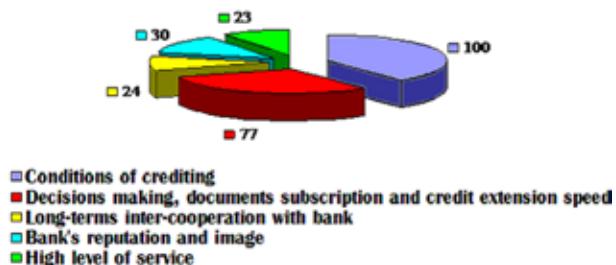
**Chart 6 – The most important factors when choosing a potential creditor**



- Conditions of crediting
- Decisions making, documents subscription and credit extension speed
- Long-terms inter-cooperation with bank
- Bank's reputation and image
- High level of service

- Crediting schemes (comfortable) - 82% of respondents;

- Repayment schedule (flexible) - 75% of respondents;

- Demands for granting a credit (admissible) - 73% of respondents;

- The bank's credit products information availability (all the information is maximally available for clients) - 87% of respondents.

The main negative moments in the Ural Bank's functioning in investment projects crediting are:

- Term of credit (too short for big projects) - 75% of respondents;

- Requirements to documents demanded by bank for borrowers (big quantity of documents) - 64% of respondents;

- The borrower's credit history («positive» credit history is out of consideration) - 78% of respondents;

- The bank decisions making process to provide a credit (the decisions making procedure takes too much time) - 76% of respondents;

- 5. Employees professionalism and competency (the bank's employees have low level of professionalism) - 88% of respondents;

- Additional servicing (the additional servicing is necessary) – 90% of respondents;

- 7. Consulting at investment projects crediting (the consulting are necessary) – 88% of respondents.

## Managerial implications

The following recommendations can be formed basing upon the public corporation "Sberbank of Russia Ural Bank" activity research and upon the problems that were exposed during the research:

1. Requirements simplification to the documents demanded; decreasing of the documents demanded quantity that should be based upon the cooperation experience and credit history;

2. The term for crediting the investment projects;

To attract the new clients the Ural bank needs to increase the term of investment credit up till 10 years.

3. Procedures simplification:

- Decisions making fastening and making it simple;

- The credit extension should be started at the moment when the documents are given to the registration;

- The other demands excluding for granting the creditability;

- When receiving a tranche to perform a written request is enough;

- The demands simplification when completing the protocols to approve the credit deals (now at the moment a form of the Ural bank is used).

4.      When crediting its clients the Ural bank needs to provide to its clients additional services like:

- Preliminary notification sending about the terms to perform the liabilities within the credit agreement conditions

- Interaction coordination with the sided organizations

5.      The Ural bank needs to provide an opportunity of consulting by the bank's specialists for the clients' better informing in the investing crediting sphere;

- The credit conditions consulting  (interest rates, terms, guaranteeing);

- Possible crediting schemes consulting;

- Law consulting at deals executing;

- Business-planning and prognosis consulting.

6. Clients-oriented-position:

- The specialists qualification in regions increasing within the next parts: currency control and documents operations;

- When executing the next credit bank should apply a favorable scheme in interest rates for the borrowers who out-worked the credit with no remarks.

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# THE RECOGNITION OF ITALIAN FASHION BRANDS AND THE PERCEPTION OF ITALIAN FASHION IMAGE IN KOREA

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## Abstract

*Many foreign brands have been imported into Korean market since 1979, and it has become easier to introduce foreign brands since 1984 with Korean import system changed. Now, European brands have the dominant position in both quantity and quality in Korean market. Especially the number of Italian fashion brands is the largest. This study investigated the recognition of Italian fashion brands and the perception of Italian fashion image by Korean consumers. Top 26 Italian fashion bands were selected for survey based on the store number data of big department stores and well-known internet shopping malls. A survey was conducted to female adult consumers, 264 responses were statistically analyzed with SPSS. The result showed that Gucci, Benetton, Sisley, Prada, Metrocity, Bulgari, Dolce & Gabbana, Versace, Ferragamo, and Armani were in high ranking of recognition. Italian fashion image were perceived as straight, urbane, strong, decorative, daring, cool, and dressy.*

*Key words: fashion brand, Italian fashion, Korean market, brand recognition, image perception*

## Introduction

Today's globalized world makes it easy to consumers to access to foreign-originated brand in their own country. A lot of global enterprises perform their business activity all over the world with subsidiary companies or branches, agencies, licensees, etc. Now we have many western-originated global fashion brands expanding their market into Asian countries.

In Korea, foreign fashion brands have been imported since 1979 according to the liberalization of imports. It has become easier to introduce foreign fashion brands since 1984 with Korean import system changed from import license to import declaration. In Korean fashion market, luxury fashion brands and SPA brands of European countries, USA and Japan are in competition to attract fashion-conscious consumers.

Throughout the review of market data, it is observed that European brands have the dominant position in both quantity and quality in Korean market. Especially the number of Italian fashion brands is the largest (Bae & Chung, 2003). Which Italian brand has powerful brand value in Korea? How do Korean consumers perceive Italian image in fashion apparel?

This study examined the recognition of Italian fashion brands and the perception of Italian fashion image by Korean consumers. The result of this study would contribute to understanding Korean fashion market in the aspect of global fashion marketing.

## Methodology

### Brand selection

There are too many brands to evaluate each brand's recognition, a procedure of selecting representative Italian fashion brands was applied. Because the major distribution channels of foreign fashion brands are department stores and internet shopping malls, the Italian fashion brand lists of five big department stores located on high streets and two famous internet shopping malls selling foreign goods were checked. Top 26 ranked brands

were selected as research items to measure and compare their brand recognition.

## Measurements

For empirical survey, a questionnaire was developed to measure the recognition of Italian fashion brands and the perception of Italian fashion image. The first part of the measurement was the recognition of 26 selected Italian fashion brands. The respondents were asked to mark their recognition level to these 26 brands on a four-point scale. The points on the scale were represented by 'this is the first time I have heard about the brand name', 'I have heard of only brand name before', 'I had chances to see the product of this brand before' and 'I know this brand's product features well'. The second part was consisted of 62 image adjectives to evaluate desired level by respondents when they wear clothing. This part was measured on a seven-point scale–1: never, 4: neutral, 7: strongly. 62 adjectives were determined based on previous image studies (Chung & Rhee, 1992; Jeong et al., 2009). Additionally, some demographic variables were included in the last part of the questionnaire.

## Data collection and analysis

The respondents were limited as adult female consumers for this survey because the answer for this measurement needs some fashion consciousness. Convenience quota sampling was applied to the data collection process. Sampling quota is assigned as 1:1:1 according to city scale: metropolitan, big, and medium. Finally, a total of 264 responses were included in the research. The profiles of the respondents have been briefly outlined in Table 1. The age range of respondents was from 17 to 66, and 50.0% were in their twentieth. Education year was answered from nine years to 26 years, 31.4% of respondents graduated university (16 education years). The 35.2% of respondents reported their monthly income is between 1,000 USD and 2,000 USD. The average monthly expenditure for appearance was 351 USD. Data were statistically analyzed using descriptive statistics and correlations of SPSSWIN 10.1.4.

## Results and Discussion

## Brand recognition

The result of consumers' brand recognition was shown in Table 2. Frequencies of recognition state statements and synthetic mean scores for individual brand were presented. Recognition score value ranges from 1 to 4. From the aspect of brand recognition score, Gucci was ranked highest. According to Interbrand's best top 100 global brand 2010 list, Gucci evaluated as 41th rank, which was highest rank among Italian fashion brands. Long tradition and popular prestige image make Gucci familiar to global consumers.

Next to Gucci, Prada, Benetton, Sisley, Metrocity, Bulgari, Dolce & Gabbana, Versace, Ferragamo, and Armani were followed in the order. The average recognition scores of these brands were above 2.50, it means that at least a half respondent of this study had chances to see the product of these brands before. While Gucci, Prada, Dolce & Gabbana, Versace, Ferragamo, and Armani are Luxurious total fashion brands, Benetton and Sisley were mass fashion brands. Metrocity deals fashion accessories, and Bulgari is widely known as a luxurious jewellery brand.

Gucci had only two answers in the statement of "This is the first time I have heard about the brand name." Gucci, Metrocity, Benetton, and Sisley had over 80 answers in the statement of "I know this brand's product features well." Therefore, Gucci, Metrocity, Benetton, and Sisley were recognized well to Korean consumers, and Gucci was widely known as its brand name.

## Desired fashion image

Table 3 shows consumers' desire scores of 62 image adjectives in the order. The most desired image was identified as looking slim, and then refined, attractive, pretty, intelligent, neat, natural, luxurious, stylish, and tidy were followed. Refined, neat, and natural images have been reported as highly preferred image by college students (Chung, 2001, 2004).

## Table 1. Sample characteristics

| Variable | Category | Frequency (%) |
|---|---|---|
| Age–years (Average = 31.56) | Under 20<br>20–29<br>30–39<br>40–49<br>50–59<br>60 and over | 6 (2.3%)<br>132 (50.0%)<br>66 (25.0%)<br>41 (15.5%)<br>17 (6.4%)<br>2 (0.8%) |
| Education-years (Average = 15.14) | Less than 12<br>12-13<br>14-15<br>16-17<br>18-19<br>More than 19 | 6 (2.3%)<br>56 (21.2%)<br>72 (27.3%)<br>96 (36.3%)<br>19 (7.2%)<br>15 (5.7%) |
| Monthly income–unit: USD (Average = 1692) | Less than 1,000<br>1,000–1,999<br>2,000–2,999<br>3,000–3,999<br>4,000 and over | 73 (29.6%)<br>87 (35.2%)<br>48(19.4%)<br>21(10.5%)<br>18 (7.3%) |
| Monthly expenditure for appearance–unit: USD (Average = 351) | Less than 100<br>100–199<br>200–299<br>300–399<br>400–499<br>500–999<br>1,000 and over | 13 (5.1%)<br>60 (23.4%)<br>44 (17.2%)<br>52 (20.3%)<br>19 (7.4%)<br>48 (18.8%)<br>20 (7.8%) |

**Table 2. Brand recognition of 26 Italian fashion brands**

| Rank | Brand name | Frequency | | | | Mean |
|---|---|---|---|---|---|---|
| | | This is the first time I have heard about the brand name | I have heard of only brand name before | I had chances to see the product of this brand before | I know this brand's product features well | |
| 1 | Gucci | 2 | 18 | 158 | 86 | 3.24 |
| 2 | Prada | 21 | 21 | 144 | 78 | 3.06 |
| 3 | Benetton | 21 | 41 | 118 | 84 | 3.00 |
| 4 | Sisley | 26 | 39 | 118 | 81 | 2.96 |
| 5 | Metrocity | 39 | 27 | 113 | 85 | 2.92 |
| 6 | Bulgari | 26 | 40 | 133 | 65 | 2.90 |
| 7 | Dolce & Gabbana | 28 | 45 | 141 | 50 | 2.81 |
| 8 | Versace | 20 | 65 | 127 | 52 | 2.80 |
| 9 | Ferragamo | 36 | 50 | 126 | 52 | 2.73 |
| 10 | Armani | 43 | 46 | 117 | 58 | 2.72 |
| 11 | Fendi | 89 | 23 | 101 | 51 | 2.43 |
| 12 | Missoni[*] | 97 | 46 | 80 | 40 | 2.24 |
| 13 | Diesel | 74 | 77 | 90 | 23 | 2.23 |
| 14 | MaxMara | 97 | 62 | 79 | 26 | 2.13 |
| 15 | Stefanel | 152 | 43 | 37 | 32 | 1.81 |
| 16 | Marni | 135 | 70 | 48 | 11 | 1.75 |
| 17 | Roberto Cavalli | 137 | 77 | 43 | 7 | 1.70 |
| 18 | C.P. Company[*] | 170 | 48 | 33 | 12 | 1.58 |
| 19 | Colombo | 177 | 53 | 25 | 9 | 1.49 |
| 19 | Testoni[*] | 184 | 38 | 33 | 8 | 1.49 |
| 21 | Zegna | 187 | 42 | 25 | 10 | 1.46 |
| 22 | Chervo | 197 | 43 | 21 | 3 | 1.36 |
| 23 | Loro Piana[*] | 206 | 32 | 18 | 7 | 1.34 |
| 24 | Brunello Cucinelli | 201 | 40 | 22 | 1 | 1.33 |
| 25 | Palzileri | 211 | 32 | 14 | 7 | 1.31 |
| 26 | Piazza Sempione[*] | 211 | 31 | 18 | 3 | 1.29 |

Mannish was identified the least desired fashion image, because the sample was limited to female consumers. Pastoral, straight, daring, and strong were perceived as undesirable, too.

There are eight adjectives associated to specific country-Korean, Japanese, Chinese, American, British, French, German, and Italian. Korean image solely perceived positively, the mean score was over neutral point 4. Italian image was perceived as less negatively than others. Chinese image was evaluated most negatively.

## Perception of Italian image

To investigate the perception of Italian image, Pearson's correlation analysis was conducted between Italian image and other 61 image adjectives. As results, 44 significant correlations

were identified as shown in Table 4. The values range from .726 to .121.

French image was identified as most highly correlated with Italian image, because both countries are located in Western Europe and they are centers of world fashion industry. Next to French, western, British, European, exotic images were followed. These adjectives were regarded as having same implication to Korean consumers. There's few difference between Italy, France, UK in ordinary Korean's perception. They are European and western countries altogether, accordingly exotic.

Among general adjectives, urbane, strong, decorative, daring, cool, dressy were identified having relatively high correlation with Italian image. It is possible to find out three types of overlapped images with this result. Therefore, it could be said that Korean consumers perceive Italian image as urbane and cool at the same time as strong and daring, and lastly as decorative and dressy. Factor analysis and multidimensional scaling would be helpful to confirm the construct and/or the dimension of Italian image.

Some positively significant correlations might be originated from the commonness of undesired images by consumers. Although the coefficient of correlations between Italian and sexy, pastoral, classical, mannish, and oriental were significant, the values were not much high. If a consumer doesn't desire Italian image and sexy image either, the relationship of Italian image and sexy image will be found out as positive.

## Conclusion

This study investigated the attitude of Korean female consumers toward Italian fashion. Through empirical study, Gucci, Benetton, Sisley, Prada, Metrocity, Bulgari, Dolce & Gabbana, Versace, Ferragamo, and Armani were identified as having high brand recognition in Korea. Apart from traditional luxurious brands, new fashion brands are emerging and getting power in global fashion market.

It was also found out that Korean consumers perceived Italian image as straight, urbane, strong, decorative, daring, cool, and dressy. In addition, the result showed that Korean consumers desired slim, refined, attractive, pretty, intelligent, neat, natural, luxurious, stylish, and tidy images. Some Italian-associated images were evaluated positively, and others were perceived not positively. Thus, Italian companies should strengthen the positive associations and avoid the negative associations at the same time.

According to continuous globalization and diversification of trade, the scope of fashion business is being expanded beyond product type as well as geographical borders. This study contribute to understanding Korean fashion market in global context, and to establish marketing strategies such as brand positioning, line extension, brand extension, product diversification, advertising, etc. Desired images of Italian fashion can be utilized in various ways.

One of limitation of this study is the accuracy of image word translation from Korean to English. It was examined the equivalence of Korean and English image words for dozens of years through a series of image study, still the future study concentrating the translation of image scale is necessary.

The other limitation is sample frame. Even though quota was assigned according to city scale, sample group's age balance was insufficient. With larger sample, and with well-controlled sample quota, ampler empirical research result will be obtained.

In future, it is recommended that research be conducted to compare the differences in image perception according to product type and country-of-origin. Those research findings could be connected to establishing and confirming image perception construct for country-to-country comparison. Advanced statistical techniques will be helpful to systematize the image construct.

**Table 3. Desire scores of 62 fashion image adjectives**

| Rank | Image adjectives | Mean (SD) | Rank | Image adjectives | Mean (SD) |
|---|---|---|---|---|---|
| 1 | Slim | 5.74 (1.358) | 32 | Mature | 4.28 (1.369) |
| 2 | Refined | 5.73 (1.208) | 33 | Cute | 4.22 (1.454) |
| 3 | Attractive | 5.63 (1.308) | 34 | Curvy | 4.20 (1.414) |
| 4 | Pretty | 5.58 (1.334) | 35 | Unique | 4.19 (1.729) |
| 5 | Intelligent | 5.39 (1.369) | 35 | Korean | 4.19 (1.500) |
| 6 | Neat | 5.38 (1.305) | 37 | Modest | 4.16 (1.510) |
| 7 | Natural | 5.34 (1.251) | 37 | European | 4.16 (1.531) |
| 7 | Luxurious | 5.34 (1.429) | 39 | Gorgeous | 4.11 (1.568) |
| 9 | Stylish | 5.33 (1.267) | 40 | Plain | 3.96 (1.474) |
| 10 | Tidy | 5.30 (1.365) | 41 | Sporty | 3.94 (1.447) |
| 11 | Youthful | 5.27 (1.363) | 42 | Sexy | 3.93 (1.638) |
| 12 | Cool | 5.20 (1.620) | 43 | Italian | 3.85 (1.539) |
| 13 | Fashionable | 5.17 (1.491) | 44 | Oriental | 3.83 (1.468) |
| 14 | Bright | 5.08 (1.224) | 45 | Meek | 3.82 (1.487) |
| 14 | Classy | 5.08 (1.408) | 46 | Western | 3.71 (1.620) |
| 16 | Graceful | 5.00 (1.455) | 47 | Classical | 3.67 (1.616) |
| 17 | Modern | 4.97 (1.341) | 48 | Exotic | 3.65 (1.521) |
| 18 | Feminine | 4.91 (1.447) | 49 | Common | 3.60 (1.448) |
| 19 | Beautiful | 4.78 (1.410) | 50 | Decorative | 3.59 (1.522) |
| 19 | Fresh | 4.78 (1.542) | 51 | Simple | 3.53 (1.400) |
| 21 | Pure | 4,73 (1.482) | 52 | British | 3.50 (1.596) |
| 22 | Active | 4.68 (1.367) | 53 | French | 3.48 (1.435) |
| 23 | Lively | 4,63 (1.440) | 54 | Strong | 3.43 (1.556) |
| 24 | Classic | 4.58 (1.508) | 54 | Daring | 3.43 (1.563) |
| 25 | Comfortable | 4.48 (1.443) | 56 | Straight | 3.41 (1.424) |
| 25 | Casual | 4.48 (1.498) | 57 | American | 3.30 (1.408) |
| 27 | Simplified | 4.43 (1.506) | 58 | Pastoral | 2.92 (1.377) |
| 28 | Urbane | 4.41 (1.564) | 59 | German | 2.83 (1.315) |
| 29 | Elegant | 4.39 (1.587) | 60 | Japanese | 2.65 (1.403) |
| 30 | Dressy | 4.34 (1.666) | 61 | Chinese | 2.32 (1.229) |
| 31 | Romantic | 4.31 (1.501) | 62 | Mannish | 2.20 (1.256) |

**Table 4. Correlations of Italian image and other Fashion Image Adjectives**

| Rank | Image adjectives | Coefficient of Correlation | Rank | Image adjectives | Coefficient of Correlation |
|---|---|---|---|---|---|
| 1 | French | 0.726** | 23 | Simple | 0.246** |
| 2 | Western | 0.576** | 24 | Sexy | 0.240** |
| 3 | British | 0.575** | 25 | Luxurious | 0.239** |
| 4 | European | 0.560** | 26 | Intelligent | 0.230** |
| 5 | Exotic | 0.501** | 27 | Fashionable | 0.215** |
| 6 | Straight | 0.485** | 28 | Pastoral | 0.210** |
| 7 | American | 0.436** | 29 | Refined | 0.203** |
| 7 | German | 0.405** | 30 | Classic | 0.201** |
| 9 | Urbane | 0.394** | 31 | Classical | 0.200** |
| 10 | Strong | 0.370** | 32 | Mannish | 0.199** |
| 11 | Decorative | 0.364** | 33 | Chinese | 0.198** |
| 12 | Daring | 0.357** | 34 | Slim | 0.182** |
| 13 | Cool | 0.352** | 35 | Attractive | 0.180** |
| 14 | Dressy | 0.337** | 36 | Modest | 0.172** |
| 14 | Japanese | 0.312** | 37 | Modern | 0.162** |
| 16 | Gorgeous | 0.289** | 38 | Oriental | 0.161** |
| 17 | Romantic | 0.286** | 39 | Beautiful | 0.152* |
| 18 | Classy | 0.276** | 40 | Feminine | 0.143* |
| 19 | Graceful | 0.275** | 41 | Unique | 0.142* |
| 19 | Fresh | 0.270** | 42 | Natural | 0.137* |
| 21 | Stylish | 0.257** | 43 | Pretty | 0.125* |
| 21 | Elegant | 0.257** | 44 | Lively | 0.121* |

** p<.01, * p<.05

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# REGULATION OF TRANSFER PRICING IN CROATIAN BANKING INDUSTRY

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## Abstract

*The globalisation process and increased capital mobility in the international community have influenced the need for regulation of transfer pricing, since they indirectly support profit shifting to regions with more liberal tax rates. The application of transfer pricing not only questions the business efficacy review of the parties involved, but it may also exert a considerable influence onto reduction of internal tax revenue within the country where the related parties are doing business, making thus the problem of economic distortion even more interesting. This paper illustrates all the traditional and modern transfer pricing methods available to business subjects and offers a short description of forming prices according to each of these methods. Then follows a summary of transfer pricing regulation in Croatia, indicating which of the reviewed methods have been recommended by OECD, i.e. what is their status in the EU. The example of Croatian banking sector, which was a logical choice due to the majority share of international capital in it, has served as the basis for research on the most popular transfer pricing methods. The results obtained from this research should serve as the basis for further elaboration and analyses of the influence of the chosen transfer pricing method onto business efficacy review of a particular business subject, i.e. economic sector as a whole.*

*Key words: transfer pricing methods, banking sector, cost and profit shifting*

## Introduction

Transfer price is used in transactions among organisational divisions within a complex decentralised business system, but also in transactions between the parent company and subsidiaries that are constituting a group on the national or international level.

The former refers to internal prices being defined as ''the internal value assigned to a product or service that one division provides to another. The transfer price is recognised as revenue by the division providing goods and services and as expense (or cost) by the division receiving them'' (Morse et al. 2002, p.576).

When considering transactions between the parent company and subsidiaries, transfer prices are determined as the prices being used in intrafirm transactions among affiliates. In multinational enterprises they are defined as ''the price of any transaction involving transfers of goods, intangibles, or services between wholly or partly owned affiliates (parent, branch, subsidiary)'' (Eden 1998, p. 4).

From the international point of view the effects of choosing different transfer pricing calculation methods has a direct influence may be exerted onto the business results of the party participating in the transaction. Should we take into consideration the fact that members of multinational enterprises have businesses in various countries with different income tax regulations, transfer pricing enables shifting of the profit into countries with lower tax rates (more details in Gulin 2005).

In order to prevent (or at least limit) such speculations in transfer pricing Organization for Economic Co-operation and Development (hereinafter: OECD) issued the „Transfer Pricing Guidelines for Tax Administratin and Multinational Enterprises" (hereinafter: Guidelines). At the same time, most European countries are incorporating provisions from these guidelines into their legislation aiming thus at harmonising the treatment of transfer pricing on the international level.

This paper aims at indicating the process of regulation of transfer pricing in the selected European countries, the valid legal regulations in Croatia and their implementation in the banking industry practice, Croatia having been chosen due to the majority share of international capital in total bank assets.

## Accounting principles in transfer pricing

In accounting theory, which is also compatible with transfer pricing treatment set forth in the OECD Guidelines, there are two basic groups of transfer pricing methods (see Fig.1). These are:

• transaction-based methods and

• profit-based methods.

Transaction-based methods are more traditional methods where the transfer price is calculated and analysed for each transaction separately. This group of methods is consequently more objective, but their implementation is restricted due to the complexity of business transactions or unavailability of required data for an objective comparison and correction. Therefore, in response to this situation, profit-based methods have been developed as modern, but also controversial, since they require a detailed functional analysis.

Although these methods have a different approach with different results, the starting point in the form of a lower limit for a transfer price is the same in all of them. According to this generally accepted formula "the transfer price should be equal to the unit variable costs of the good being transferred, plus the contribution margin per unit that is lost to the selling division as a result of giving up outside sales" (Garrison 1991, p.473).

## „Classical" approach to transfer pricing

Transaction methods include (see Fig.1):

• The Comparable Uncontrolled Price Method (CUP);

• The Resale Price Method and

• The Cost Plus Method.

The Comparable Uncontrolled Price Method (CUP) compares prices of goods delivered or services rendered in controlled business transactions (transactions between two related parties) with the prices of the same goods or services in uncontrolled transactions. The comparison is possible and valid only provided there are the same or similar goods or services being traded under the same or similar circumstances between two unrelated parties. The OECD supports this method in so much as they suggest that every effort should be made to adjust the data on controlled and uncontrolled transactions. However, should there be the possibility of adjustment, it might influence reliability of the method, bringing thus the results and applicability in question.

Besides these objective difficulties, it is often quite impossible to obtain the necessary data on related transactions between unrelated parties, especially international transactions, which in practice makes implementation of the described method more complicated.

To conclude, implementation of the CUP method is the easiest and the most applicable when there is a comparable good or service which a member of the controlled group sells to an unrelated party, i.e. when an unrelated party delivers such good or service to a member of the controlled group.

The Resale Price Method starts from a freely formed sale price reduced for trade margin being realised under free market conditions, which results in transfer price of a product or service being traded. The choice is connected to the situation in which products or services are purchased from a related party and then sold to an unrelated party. The amount being exempt from sale price is the gross margin (i.e. the resale price margin), and it is the amount that the party distributing products (distributor or reseller) incorporates in the sale price in order to cover the expenses and make some profit. The gross margin is mainly given in percentage of net sales. As far as the international

transactions are concerned, the difference obtained in the form of transfer price should be corrected for the customs duties and other import taxes.

Precisely because of the applied deduction procedure, this method can be found in literature under the title ''the resale minus method''.

Plausibility of the gross margin value is evaluated through comparison with the gross margin value earned by the same party through sale and purchase of the same or similar products or services in uncontrolled transactions. If there is no such transaction, the gross margin value is set according to gross margin made by independent enterprises in mutual uncontrolled transactions (i.e. "external comparables"). As with the CUP method, there is the problem in obtaining comparable information from the same or similar independent distributors. Moreover, implementation of this method presumes existence of functional comparability, i.e. presumes that competition among distributors influences calculation of similar margins on sales for similar functions.

Disadvantage of the resale price method is that it is one-sided. Namely, by this method distributor's gross profit margin is controlled whileas manufacturer's gross profit margin is not adjusted, neither it is analysed with respect to the value of the same category with other related manufacturers. Consequently, implementation of this method tends to overestimate the transfer price, assigning the total unallocated profits to the manufacturer (Eden 2008, p.606).

The cost plus method starts from the opposite side – the manufacturer. This method calculates the transfer price by first defining the expenses incurred during delivery of the product or the services in controlled transactions. The manufacturer's costs are increased for an appropriate markup, i.e. the appropriate gross profit. The gross profit is shown as percentage from cost.

An ideal situation would be the existence of a comparable transaction realised by the same party (manufacturer) in the form of uncontrolled transaction. But, if there is no such transaction, to make a comparison the transaction from the same or similar independent manufacturer may be applied. Naturally, both the cost plus method and the resale price method work under presumption that there is a competitive market ensuring equal level of similar parties' gross profit.

Valid comparison is possible only provided the cost definitions are identical. Theoretically speaking, adding of the markup should be done after calculation of the total direct and indirect costs of production or supply, but prior adding the parties' overhead expenses. Accounting policies, accounting principles and cost accounting practices may distort the presentation of gross profit markup and thus the transfer price value. In order to avoid mismatches and unreliable conclusions, it is necessary to investigate existence of identical cost distribution and consistency in accounting.

Finally, we must point out that the Cost Plus Method is also the one-sided method focusing on manufacturer's profit markup and thus presenting the risk to underestimate the transfer price. Contrary to the Resale Price Method, by this method all unallocated profits are given to the buyer (Eden 2008, p.607).

## ''Alternative'' approaches to transfer pricing

Profit-based methods include (see Fig.1):

• The Transactional Net Margin Method (TNMM) i

• The Profit Split Method.

The Transactional Net Margin Method (TNMM) starts from the net profit margin and puts it in ratio with chosen indicator, mostly costs, sale or assets, obtained in controlled transaction. The result obtained is compared with the result obtained from an uncontrolled transaction made by the same entrepreneur, i.e. other entrepreneurs and their indicators. The comparison enables an insight into eventual different conditions of the related parties, in relation to the conditions the unrelated parties are exposed to in similar transactions and market conditions.
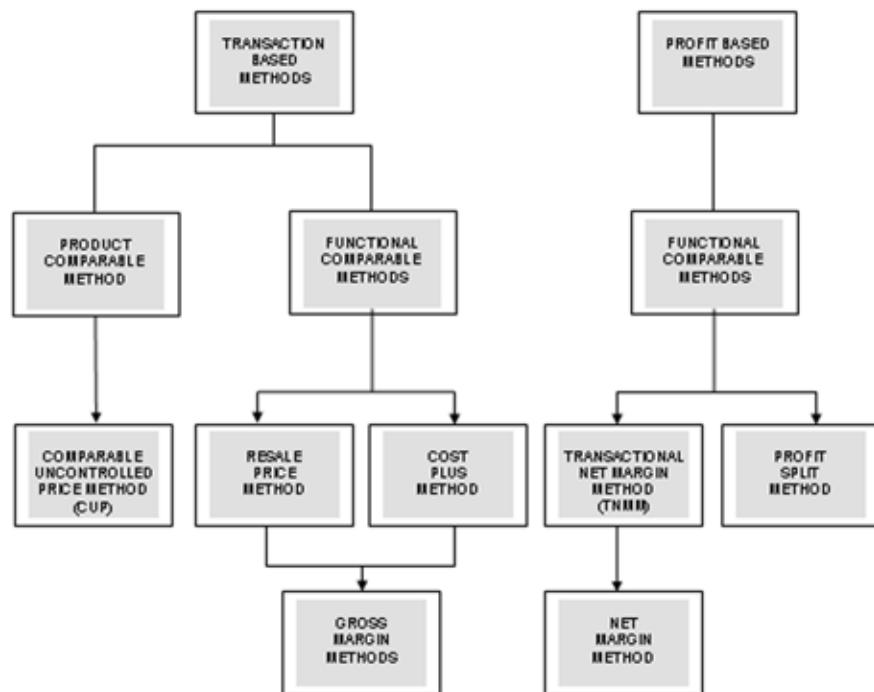
The basis on which the net profit is weighted is most often predetermined by the trade, therefore it is evident that the basis in manufacturing and service activities are costs, in sales activities it is sale, and in asset-intensive activities it is assets. In the first case the method is similar to the cost plus method, and in the second case it coincides with the resale price method. The only difference is that the selected two transaction-based methods consider the gross profit, and TNM is based on the

net profit (net profit is actually gross profit reduced for the operating expenses). This similarity of methods implies equal critical spots in comparison and equal limitation, i.e. necessary adjustments in interpretation.

An additional open question raised by this method is testing whether the transaction is influenced by special – individual conditions (position of competition, individual successfulness in management, creation and implementation of strategies, etc.) from the general economic conditions to which the independent parties are exposed, and which have an undisputable influence onto the profit earned.

The Profit Split Method is chosen in an effort to eliminate the effect of special circumstances on the profit earned. This method first identifies the share of profit between parties in the controlled transactions. Next follows evaluation what the division of profits would be if unrelated parties participated in it, which have, due to intertwined and interdependent transactions, established a joint-venture relationship. Finally, the identified splitting factor would be applied onto related parties in the controlled transaction, and it should reflect objective share of each party in creation of transaction's income.

**Fig. 1. Overview of Transfer Pricing Methods**



Source: authors

The profit being allocated could be:

- total profit earned in the transaction or

- residual profit obtained after adding to each party the profit exclusively earned by that party's activities (Eden 2008, p.608).

The basis for sharing profit must be economically justified, which is accomplished by functional analysis evaluating engagement and risks taken by each party participating in the transaction.

Whenever possible the analysis is made on the basis of independent market data. However, it is more often the case that, due to impossibility to obtain relevant comparable data, internal data is used. Such approach opens the possibility for subjective evaluation and in an effort to try to avoid it a request is made for equal return rate for each party involved. Following are the most frequent profit allocation keys: shares of output or sales, operating expenses, engaged capital, research and development expenses.

The main advantage of this method is that evaluation is being done bilaterally, consequently there is no danger of underestimation, i.e. overestimation of the contribution in profit making by any of the parties involved.

## Institutional frame for establishment of transfer pricing in selected European countries and the Republic of Croatia

Expansion of globalisation processes has been particularly evident as of 1950 when an exponential growth in international investments was recorded, cross-border transfer of technology, goods, services and work force, especially in the USA, European Union and Japan (Eden 1998, p.5).

Globalisation processes have had their impact onto economies too, making them more open and more interconnected. Thus, there is the justified concern that a multinational company will engage in transfer pricing manipulation that will reduce government tax and customs duty revenues, harm home and host country balance of payments, and distort the location of international production and employment, that leads governments to regulate transfer prices (Eden and Smith 2001, p.6).

## Transfer pricing regulation in selected European countries

With the intention to prevent transfer pricing manipulation by international groups the OECD released in 1979 the report of its Committee on Fiscal Affairs titled ''Transfer Pricing and Multinational Enterprises'' (Zgombic 2005, p.5).
The 1979 report was replaced in 1995 by the ''Transfer Pricing Guidelines for Tax Administrations and Multinational Enterprises'', in order to ensure fair taxation and eliminate double taxation.

It was the arm's length principle that was set up as the basis for ascertaining transfer prices on the international level. The arm's length standard permits adjustments only insofar as the conditions obtained between related parties differ from those that would have been obtained ''between unrelated parties in comparable transactions and comparable circumstances'' (Chip 2004, p.210).

According to the OECD Guidelines (1995) transaction-based methods were generally preferred. On the other side, use of profit-based methods was recommended only in case the implementation of standard methods would not result in an adequate solution (Vucinic 2002, p.58). Furthermore, there was no general view on whether there was a hierarchy of methods, but CUP was generally seen as preferable, if available. Nevertheless, as the result of the July 2010 update to the OECD Transfer Pricing Guidelines, profit methods are now on a par with traditional methods, but a Comparable Uncontroleld Price (CUP) is still preferable (more details in 2011 Global Transfer Pricing Desktop).

It should be mentioned that the OECD Guidelines do not always have a legally binding effect in domestic law, but carry considerable weight. Thus, these Guidelines have been adopted by member countries of OECD and consequently incorporated

## Transfer pricing regulations in the Republic of Croatia

It had already been provided by the Income Tax Act (Official Gazette 127/00), which was in force as of 1st January 2001 until 31st December 2004, Article 6 that business relations, i.e. transactions among related non-resident companies ought to be regulated through transfer pricing. Further progress in regulation is visible in the new Act stating that not only transactions between related companies should be regulated through transfer pricing, but also the taxpayer should possess and submit to the relevant authority the data on individuals related, business relations and methods used in determining transfer prices (Pecenjak 2005, p.61).

Although Croatia is not an OECD member country, the provisions of relevant Croatian tax legislation are generally based on the OECD Guidelines. The Act stipulates that under related individuals it is to be considered the individuals out of which one individual participates directly or indirectly in management, supervision or capital of another individual (Cinotti 2007, p.39). Furthermore, the Act (Official Gazette 177/04) stipulates the methods for determining transfer prices, as follows:

**Table 1 Transfer pricing regulation applied in selected European countries**

| Country | Regulations, rules and guidelines | Acceptable metthods | Priority of methods |
|---|---|---|---|
| Austria | In October 2010, the Austrian Ministry of Finance issued specific Transfer Pricing Guidelines as a decree and they regularly refer to the OECD Transfer Pricing Guidelines 1995/2010. | CUP, Resale Price, Cost Plus, Profit Split, TNMM. | Transaction-based methods are prefered over profit based methods. |
| Italy | Circular Letter nos. 32/9/2267 (September 22, 1980), 42/12/1587 (December 12, 1981) and 271/E/1059 (October 21, 1997). Circular Letter nos. 141/E/86270 (June 4, 1998), 98/E/107570 (May 17, 2000) and 148/E/139500 (July 26, 2000) for IRAP purposes only; Decision of the Commissioner of Italy Revenue Agency dated September 29, 2010; Circular Letter no. 58/E (December 15, 2010). | CUP, Resale Price, Cost Plus, Profit Comparison, Profit Split, Invested Capital Profitability, Economic Sector Gross Margin. | Transaction-based methods are prefered over profit based methods. CUP is preferred over the Resale Price and Cost Plus methods. |
| France | Administrative Doctrine on Article 57, Adopted Procedures L.13AA and L.13AB (22 December 2009), Administrative Instruction on the MAP (February 2006), Administrative Instructions on APA (September 1999 and June 2005), OECD Guidelines (generally accepted in practice). | CUP, Resale Price, Cost Plus, Profit Split, TNMM. | Transaction-based methods are prefered over profit based methods. |
| Hungary | Ruling 1999/103 on the possibility of unilateral adjustments performed by the tax authorities; rulings on several transfer pricing documentation-related issues: 2004/37, 2005/55, 2007/49, 2007/77, 2007/97, 2007/133, 2007/139, 2008/13, 2008/32 and 2010/21. | From 1 January 2011, Comparable Uncontrolled Price (CUP), Resale Price, Cost Plus, Transactional Net Margin Method (TNMM) and Profit Split method are the designated methods. | Hungary established no priority of methods. |
| San Marino | - | - | .- |
| Luxembourg | Circular lincome Tax Law NS No.164/1 dated 9 June 1993; Circular Income Tax Law No. 164/1 dated 23 March 1998. | Luxembourg follows the OECD Transfer Pricing Guidelines in this regard. | Luxembourg imposes no priority of methods. |

1. The Comparable Uncontrolled Price Method (CUP method)

2. The Resale Price Method,

3. The Cost Plus Method,

4. The Profit Split Method and

5. The Transactional Net Margin Method.

The stated methods are also applied as criteria for evaluation of implementation of the arm's length principle in formation of transfer prices, as well as other contractual provisions for transactions between related companies.

**Table 2. Regulation of transfer prices in the Republic of Croatia**

| Country | Regulations, rules and guidelines | Acceptable methods | Priority of methods |
|---------|-----------------------------------|--------------------|--------------------|
| Croatia | Article 13 of the Corporate Income Tax Act and Article 40 of the Corporate Income tax Bylaw prescribe arm's length pricing as the basic principle to be followed. | CUP, Resale Price, Cost Plus, Profit Split, TNMM. | The relevant legislation states that the CUP method has priority over the other methods. |

Source: authors

The most objective transfer pricing method is the CUP method. The OECD Guidelines favourises implementation of this method, and in the Croatian Income Tax Act this method has priority with respect to other methods (see Table 2). If implementation of the CUP method is not possible another method should be implemented having in mind the specific features of the case and elements available when determining transfer prices.

Finally, it is to be pointed out that until 2010 Croatian regulations insisted on implementation of the arm's length principle only for cross-border transactions between related parties. However, in line with the Amendments to the CIT Act (Official Gazette 80/10) that have been in force as of 1 July 2010, the obligation to comply with transfer pricing rules is extended to transactions between domestic entities if one of the entities is either in a tax loss position or in a special tax status (paying tax at lower rate or is exempt from paying corporate income tax).

## Transfer pricing practice in the Republic of Croatia

The starting point when choosing the branch of industry within which decision making and practical preferences regarding transfer prices will be investigated, was the existing structure of ownership. Due to the existing membership criteria in multinational enterprises the banking industry stood out as the adequate industry in which over 90% of total assets is owned by foreign shareholders.

Additional credibility for research on transfer pricing practice in Croatian banking sector is obtained from the list of 500 best companies according to newly added value in 2009 published by Lider in co-operation with Poslovna.hr. There are four banks ranked among top ten, and other three with improved ranking. In terms of value added across sectors, the largest share is held by business banks (13,3%). They are followed by the construction sector with 7,1% and retail with 6,8%.

## Structure of the banking industry in the Republic of Croatia

By the end of the first half of 2010 in Croatia there were 32 banks and 2 savings banks. Their total assets were HRK 379,5 billion or 98,3% of the total assets of credit institutions. For the purpose of this research the banks were classified according to the criteria of relative share of individual bank assets in total bank assets into large, medium large and small banks. Large banks are the banks with assets exceeding 5% of the total assets of all banks, medium banks are the banks with assets over 1% but not over 5% of total assets of the banks, while as small banks are the banks with assets under 1% of the total assets. Total number of banks at the end of the first half of 2010 included 6 large banks, 3 medium and 25 small banks (see Table 3).

## Table 3. Banking groups with comparable characteristics

| Banking groups | Number of banks | Share |
|---|---|---|
| Large banks | 6 | 18,8 |
| Medium banks | 3 | 9,4 |
| Small banks | 25 | 71,8 |
| Total | 34 | 100,0 |

Source: Croatian National Bank Bulletin

However, it is much more interesting to review the share in the banking group assets with comparable characteristics in the total bank assets. By the end of the first half of 2010 the large banks group had the largest market share, i.e. 82,2% of total assets of all banks. Medium large banks participated with 9,1% in the total bank assets. In spite of being the largest group, small banks participated in the total assets of all banks with only 8,7% (see Figure 2).

According to the structure of ownership in the banks, which was the starting point when choosing the banking industry, at the end of the first half of 2010 19 banks were majority owned by national shareholders, and 15 banks by foreign shareholders. The assets of the banks majority owned by foreign shareholders made some 90,6% of the total bank assets, whileas at the same time 5,2% was owned by national private shareholders and 4,2 % by the state (see Table 4). Foreign shareholders are from Austria, Italy, France, Hungary, San Marino and Luxembourg.

The analysis has shown that Croatian banking industry is dominated in number by small banks with 71,8% share, while from the assets point of view there are six banks prevailing with their 82,2% in total assets.

## Transfer pricing practice in banking industry
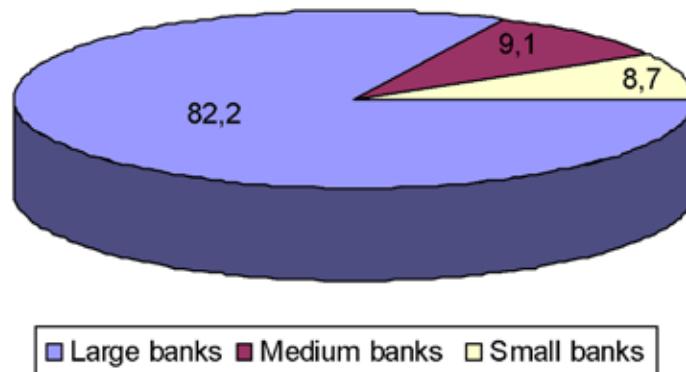
The research on transfer pricing practice in Croatian banking industry was carried out in February 2010. For that purpose a questionnaire was made up and by the end of June 2010 sent to 32 banks having business in Croatia, according to the Croatian National Bank records. The sample did not include the savings banks. The reason was that these banks are not allowed to have cross-border businesses, according to the Law on Credit Institutions (Official Gazette 117/08), neither are they allowed to open affiliates and subsidiaries outside Croatia. Consequently, it is to be concluded that they have no influence onto development of transfer pricing practice in the context of their international significance.

As many as 20 banks responded and returned filled in questionnaire. Therefore, the response to the research was 62,5%, making thus the research relevant both theoretically and practically. We must point out here that among the responses received there were 2 that could not be considered as valid, therefore, they will not be included in the further analysis. Namely, two of the respondent banks, due to objective and procedural circumstances, as well as due to the possibility of business venture with potential strategic partner, were unable to respond to our request and submit answers to the questions asked.

Four large banks, 1 medium large bank and 13 small banks responded to our questionnaire (see Table 5). These results are even more interesting when put in relation to the total number of banks in an individual group. Consequently, four large banks that responded to our research represent some 66,7% of the total number of large banks, 1 medium large bank 33,3% of the total number of medium banks, and 13 small banks represent 56,5% of all small banks (see Figure 3).

**Figure 2. Banking group share in the assets of all banks**



Source: autors' calculation

**Table 4. Ownership structure of the banks and share of their assets**
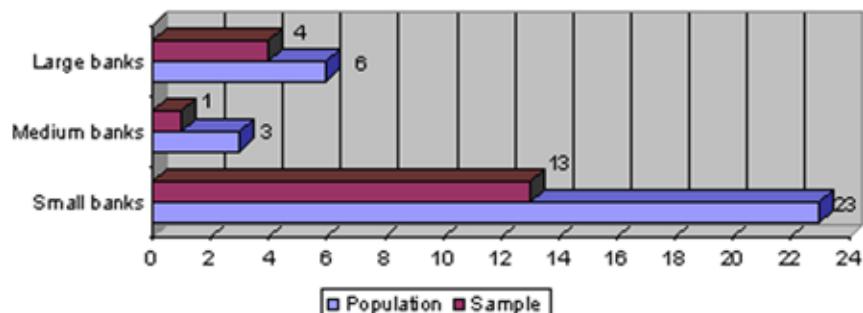
| Banking groups | Number of banks | Share |
|---|---|---|
| National ownership | 19 | 9,4 |
| National private ownership | 17 | 5,2 |
| National state ownership | 2 | 4,2 |
| Foreign ownership | 15 | 90,9 |
| Total | 32 | 100,0 |

Source: Croatian National Bank Bulletin

**Table 5. Banking groups according to size**

| Banking groups | Number of banks | Share |
|---|---|---|
| Large banks | 4 | 22,2 |
| Medium banks | 1 | 5,6 |
| Small banks | 13 | 72,2 |
| Total | 18 | 100,0 |

Source: authors' calculation

**Figure 3. Total number of banks and the number of submitted questionnaires**



Source: authors' calculation

We must point out here that the questionnaire sample is representative also from the aspect of assets share of the respondent banks in the total bank assets. The assets of the respondent banks represents 50,2% of the total assets of all banks in the sample (see Fig. 4).

The questionnaire ascertained that 8 banks or some 44,4% implement transfer pricing in their business operations, whileas 10 banks or 55,6% do not (see Table 6). It is particularly interesting that all large banks included in the research, 4 of them, implement transfer pricing in their business. On the other hand, only 4 small banks or 30,8% of the total number of small banks included in this research implement transfer pricing.

Although in Croatian legislature the problem of transfer pricing had been regulated earlier, only with the Income Tax Act which came into force on 01.01.2005 the methods of transfer pricing calculation were stipulated. All the banks stating that they implement transfer pricing in their business have been doing so as of 1 January 2005, consequently, it may be concluded that the said Act activated implementation of transfer pricing in the banking sector.
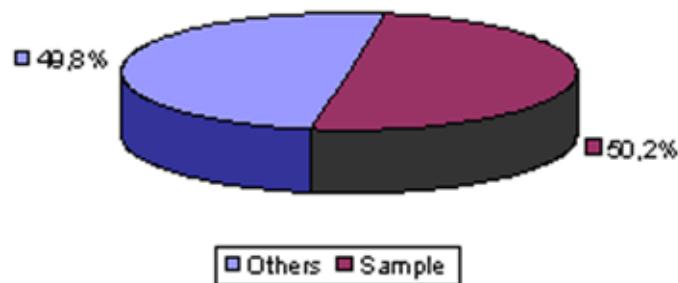
The central part of the questionnaire aimed at determining which transfer pricing method/ methods are used by the banks. Namely, in Article 13 Para. 3 of the Income Tax Act it is stipulated that in determining and evaluating whether business relations between related parties have been agreed in compliance with market prices, one out of five methods mentioned in the OECD Guidelines may be used. They are split into two categories: transaction-based methods and profit-based methods.

The OECD Guidelines, incorporated in the Croatian legislature prior June 2010, set forth a hierarchy of the mentioned methods, stipulating that transaction-based methods ought to have priority over the profit-based methods. It is evident that the banks when doing business pursue the Croatian legislature, since they prefer implementation of transaction-based methods in 77,8% of cases, while the profit-based methods are used only in 22,2% cases (see Fig. 5).

A particularly interesting result of this research is that two banks are planning introduction of transfer pricing in their business, while one bank is currently choosing an authorised tax advisor to assist them in choosing the most suitable method. It is exactly this part of research that showed that introduction and implementation of transfer pricing in banking industry is a continuous process, particularly having in mind they enable profitability management between related parties or decentralised sectors.

**Figure 4. Assets share of the banks from the sample in total bank assets**
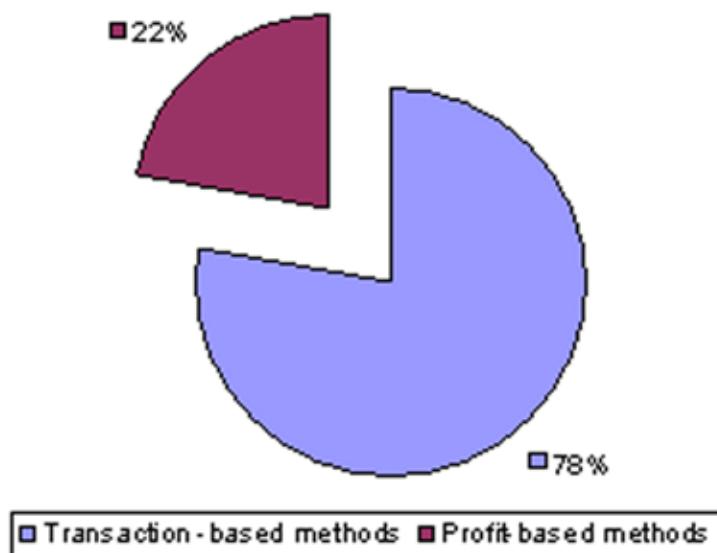


Source: authors' calculation

**Table 6. Implementation of transfer pricing**

| Banking groups | Yes | No |
|---|---|---|
| Large banks | 4 | 0 |
| Medium banks | 0 | 1 |
| Small banks | 4 | 9 |
| Total | 8 | 10 |
| Total (%) | 44,4 | 55,6 |
| | | |

Source: authors' calculation

**Figure 5. The share of transaction-based and profit-based methods in banking business**



Source: authors' calculation

## Conclusion

To prevent tax manipulations and ensure equality, regulation of transfer prices is given special attention, both on national and even more so on international levels. In Europe the basis for this are the OECD Transfer Pricing Guidelines for Tax Administrations and Multinational Enterprises, which have been, either in their original or somewhat modified form, accepted and incorporated in legislations of the most of the European countries. The starting point of chosen transfer pricing policies is the arm's length principle. Naturally, Croatia has also adopted the OECD Guidelines and incorporated them into the Income Tax Act which regulates forming and control of transfer prices.

Since all national regulations permit business subjects to make a free choice of transfer pricing method, an interesting question popped up – which method is preferred by the business subjects and why. Having this in mind this paper first offers a detailed explanation on all the methods, and then the research results are shown, the research having covered banking practice in Croatia since the banking sector is the industry with majority share of international capital in ownership structure.

The research results indicate that the banking industry has embraced the transfer pricing practice, especially since 2005 when the transfer pricing methods were stipulated by Law. Croatian banks prefer implementation of transaction-based rather than profit-based methods, abiding by the Croatian legislation and the OECD Guidelines. Nevertheless, the research revealed that the process of transfer pricing has still not been completed. In future, further increase in implementation of transfer pricing is to be expected in the banking industry practice, which only underlines the contemporary significance of this topic.

This paper elaborates on the existing European and Croatian transfer pricing regulations. The banking industry is taken as an example from business practice of implementation of institutionally suggested solutions when choosing methods, which may be taken as the basis for further empirical research on this matter.

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# GLOBALIZATION TENDENCIES IN ORGANIZATIONAL ARCHITECTURE IN EU (SOCIETAS EUROPEA AND ITS IMPACT ON CORPORATE GOVERNANCE)

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## Abstract

*Societas Europea (SE) or European Joint Stock Company is the new organizational and legal form developed by European Union. Its main aim is to unify the legal and organizational forms within the European Economic Area (EEA) countries.*

*Currently there exist approx. 500 SE in EU and their division into different countries is the following one: the highest number of SE is in the Czech Republic (about 200), second place keeps Germany (approx. 120), following by the Great Britain, the Netherlands, Slovakia and other states of EEA. In some countries so far there are no SE (Finland, Greece, Italy and others).*

*Papers´ main aim is to analyze the reasons why companies choose this organizational and legal form and what impact is indicated on corporate governance models for the companies on the case of selected sample of Czech companies. The analysis is concentrated as well on statistics what forms are mostly used in establishment of SE.*

*The paper concludes with the evaluation of the reasons for establishment of SE in the Czech Republic as well as popularity of the establishment of SE and the analysis of the advantages and disadvantages of each of them.*

*Key words: European Joint Stock Company, Societas Europea (SE), Corporate Governance, types and creation of the SE*

## Introduction

Main aim of the paper is to present the preliminary results of the analysis of the phenomena that the highest number of Societas Europea (SE) a new organizational and legal form of European joint-stock companies has been so far established in the Czech Republic (CR), out of all 27 EU countries.

We started our analysis in February 2010 and approached approx. 80 existing SE in CR with the effort to identify the main reasons leading Czech companies to establish this new form of the companies. Our analysis in this first step was based on elaboration of relatively simple questionnaire sent to chosen SE. The questionnaire was concentrated on two basic information. In the first part the identification of the institution its main data and characteristics and in the second part the identification of the reasons for the making the decision in establishing SE.

Preliminary finding from first step of our research, in which we intend to continue with the assistance of our doctoral and masters degree students are presented in the following text.

## New phenomena: Societas Europea

The European Company (known by the Latin term "Societas Europaea" or "SE") entered into force in October 2004 through the council regulation n°2157/2001 on the Statute for the European Company.

The objective of the Statute for a European company is "to create a European company with its own legislative framework. This will allow companies incorporated in different Member States to merge or form a holding company or joint subsidiary, while avoiding the legal and practical constraints arising from the existence of 27 different legal systems. To arrange for the involvement of employees in the

European company and recognise their place and role in the company."

The member states of the European Union have widely different company laws. This means that companies have to comply with many different regulatory systems, and merger of companies from different states is often complex and difficult. What is fundamentally new is the transnational character of the composition of an SE (the setting up of an SE must affect companies in at least two EU Member States), the possibility to merge with other companies and the possibility of changing its headquarter together with the registered seat more flexibly within the EU.

SE can be registered in any member state of the European Union, and the registration can be easily transferred to another member state. There is no EU-wide register of SEs (an SE is registered on the national register of the member state in which it has its head office), but each registration is to be published in the Official Journal of the European Union.

The European Company or Societas Europaea (the „SE") represents the multinational legal form of the corporations, modified by standards of the community law.

## History

The first official concept was created by working team of experts led by professor Dieter Sanders from the Rotterdam University in 1970 and after revision in 1975, it was committed. This concept of a new type of corporation was remarkable, because it deals with a purely multinational corporation form without relationship on individual legal regulations of member states.

On 10th December 2000 was attained trade-off by all the member states about the final version of concept. On 8th October 2001, more than 31 years after negotiations had begun, the Council of the European Communities adopted Council regulation on the statute for a European company.

Council Regulation (EC) No 2157/2001, on the Statute for a European Company came into force in October 2004 and since then it has been applicable in all the member states of EU.

The four-year period of this new law modification has been a sufficient enough to evaluate preceding experience and practical aspects of complicated change of European Community. In almost 4 years there has been more than 80 SE established in the Czech Republic, which represents more than 1/3 of all SE enrolled in EU so far. Nowadays, in Czech Republic, there are established more than 200 SE.

## Ways of creation of SE

There are four main ways hot create SE:

• Merger

Creation of an SE by way of a merger between public limited-liability companies formed under the law of a Member State, with registered offices and head offices within the Community, provided that at least two of them are governed by the law of different Member States. This merger may be carried out by means of a merger by acquisition (taking the acquiring company the form of an SE), or merger and simultaneous formation of an SE (the SE being the newly formed company). In the second case, the domicile of the company needn´t be established in the domiciliary state of participated companies, so the SE needn´t be under their law. Multinational merger can be divided into so-called "merger of equals" or "up stream merger". Merger of equals is a merger between equivalent subjects and the second type of merger is between subsidiary and controlling company.
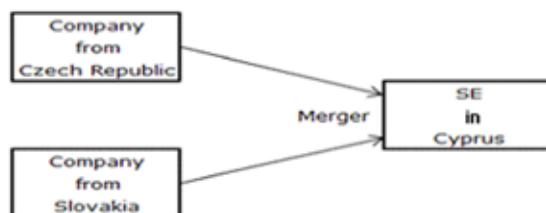
• Holding company

The formation of a holding company SE by public or private limited-liability companies formed under the law of a Member State, with registered offices and head offices within the Community, provided that at least two of them:
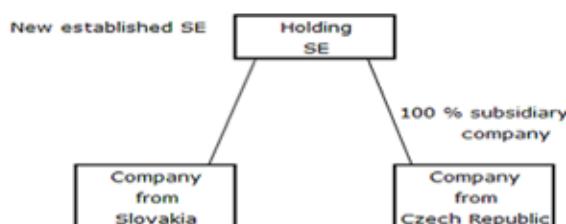
a) is governed by the law of a different Member State, or

b) has had for at least two years a subsidiary company governed by the law of another Member State or a branch situated in another Member State.

The process of formation in this case is in many ways, especially in shakeout, similar to formation of an SE by merger.

**Graph no. 1 Formation of an SE by merger**



**Graph no. 2 Formation of a holding SE**



• Subsidiary

The formation of a subsidiary SE by subscribing for its shares by companies and firms within the meaning of the second paragraph of Article 48 of the Treaty and other legal bodies governed by public or private law, formed under the law of a Member State, with registered offices and head offices within the Community, provided that at least two of them:

a) is governed by the law of a different Member State, or

b) has had for at least two years a subsidiary company governed by the law of another Member State or a branch situated in another Member State.

This possibility of formation is the most opened for various legal forms of founder subjects. The subsidiary SE can be also established by an existing SE and it is the easiest way of creating a new SE.

• Transformation

The transformation of a public limited-liability company, formed under the law of a Member State, with registered office and head office within the

Community that has operated through a subsidiary in another Member State for at least two years.
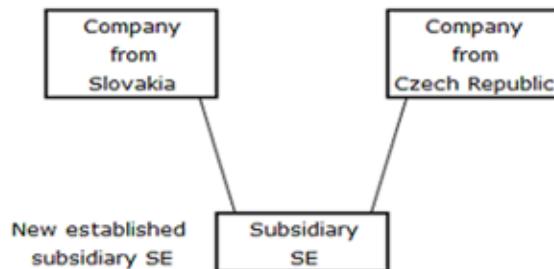
## Establishment and disestablishment of SE

The reason why the legal form of SE was established was to enable entrepreneurs to do business in conjunction with business leaders from other European Union member states. The legal form of SE is designed to overcome the legal barriers to such activities. This form is ready to be used the same way of all the entrepreneurs that are members of European Union.
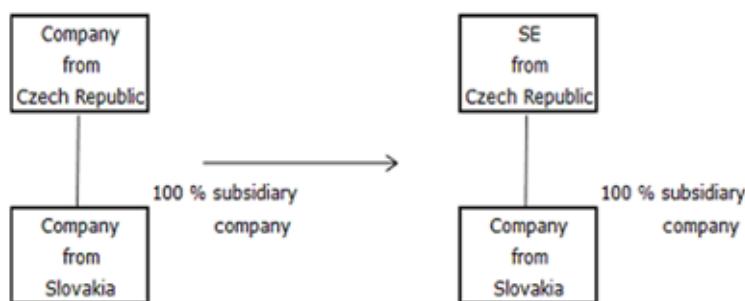
This is the only legal form of Societas Europaea - "joint stock company" within the European Union.

The Capital of SE, amounting to 120.000 EUR, is divided into shares and each shareholder is liable for the company to the amount of subscribed capital. The capital of the company, its maintenance and changes, shares, bonds and other similar securities are subjected to the law of the Member State in which the European company headquarters. The SE company must include the word "SE" in its name. The law that limits the name is same as for other companies, no offensive or sensitive names.

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**Graph no. 3 Formation of a subsidiary SE**



**Graph no. 4 Formation of an SE by transformation**



SE is suitable for one-tier management model, which is headed by the Board of Directors with any number of members. Alternatively, SE might have the two-tier model of management - the Management Board and the Supervisory Board. Also, these two institutions may have any number of members.
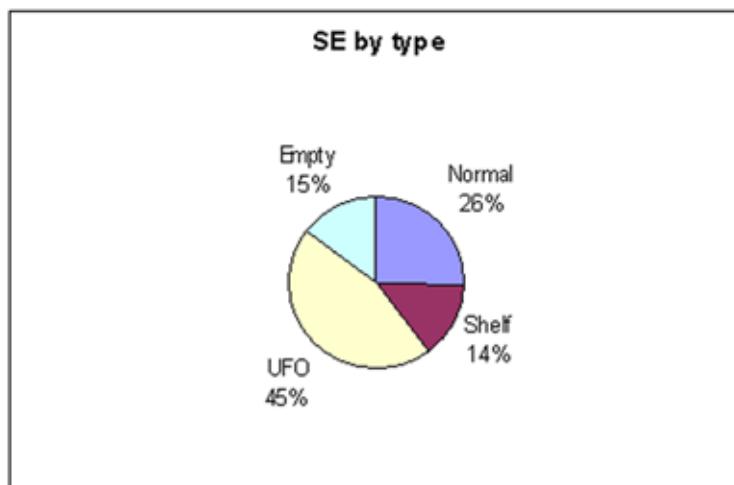
The company is disestablished, liquidation, insolvency, cancellation of payments and similar procedures under the legislation, which would apply to a joint stock company incorporated under the laws of the Member State where its headquarter is located. Removal from the register shall be published not only in the register of that Member State, but also in the Official Journal of the European Union.

## Types of SE

The SEs can be split into four main types according to operating activity and level of disclosed information:

- Normal SE: A normal SE is an SE with operations and employees;

- Empty SE: An empty SE is an SE with operations, but without employees;

- Shelf SE: A shelf company is an "off the shelf" company, one which has not been set up for a specific purpose but that is available and generally can be bought by anyone who wants it. Some specialist companies offer shelf companies to businesses so that they can set up in business very quickly. These SEs have neither operations nor employees; and

- UFO SE: A UFO SE is operating company. Although some information is available from the commercial register and the Supplement of the Official Journal, no information on number of employees or agreement on involvement of employees is available.

For illustration, The European Trade Union Institute published a study showing following segmentation of SEs by their type in 2008:

**Graph no. 4 The segmentation of different types of SEs in 2010**



source: http://ecdb.worker-participation.eu/

## Analysis of SE in the Czech Republic

European Company (SE - Societas Europaea) is governed by the law of European Union Regulation No. 2157/2001 with the statute 2001/86/ES of the European Union European Company Statute (SE). The law has been also adopted into the Commercial Code of Czech Republic in the law num. 627/2004 Sb., about Societas Europaea.

Currently, the best way how to establish a Societas Europaea the European joint stock company is the purchase of the ready-made company, precisely because of the slowness and complexity of the loading process.
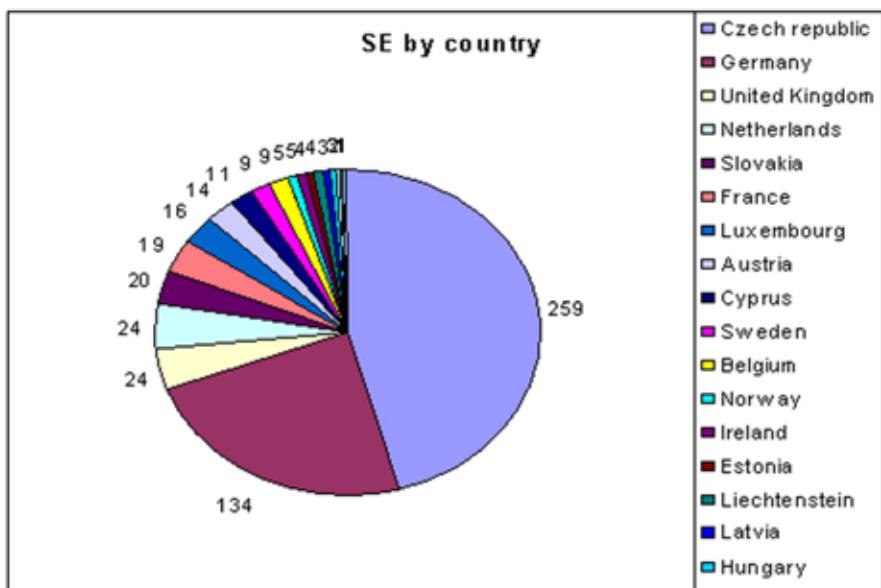
A ready-made company is already the registered company, however, has never exerted any activity and was established only for the purpose of its further transmission. Clients choose this form of acquisition usually due to reliability and speed with which the companies can immediately be fully utilized for the further action. The ready-made companies are suitable also for companies for which the own startup might be administratively exhausting and might be costly. Those companies are ready to be sold immediately. Those companies are usually sold for 94.000,- CZK.

Our analysis tried to find the reasons for establishing SE in CR, where the number of established SE is the highest one compared to the other EU countries.

Since it was possible to establish the SE, in Europe were founded 568 companies so far. From the twenty-seven EU member states was established at least one SE in only nineteen of them. To them we can add two more states from the EEA - Norway and Liechtenstein. Total number of countries in which was founded SE is twenty-one, which is only two thirds of the countries where the SE can be established (a total of thirty countries).

Distribution of companies between countries is very uneven. As shown in graph below this article, in the number of established European companies significantly protrudes Czech Republic and Germany and deep below them are other states. Czech Republic takes 46% share of European companies, Germany has about 24% share. Behind them are the Netherlands with 4,2%, UK with 4.2% France and Slovakia are both at 3.5%, Netherlands and Austria have consistently about 3%, and Sweden and Belgium have about 2%. Other countries are less than two per cent share.

**Graph no. 5 SE by countries**



States, where is no SE founded: Finland, Lithuania, Greece, Italy, Malta, Slovenia, Romania, Bulgaria and Iceland.

The occurrence of a high proportion of European companies in the Czech republic and Germany is attributed to existence of specialized dealers who specialize in setting up companies and who offer not only traditional forms of national but even supranational legal form of European society. Similar specialized companies are located in other European states (for example, it is common practice in Great Britain), but they usually focus their activities only to the establishment of national legal forms.

In our questionnaire we indicated the following possible reasons for establishment of SE:

• Facilitation of cross-border merges

• Easy transfer of the registered office

• The European image

• Flexibility of Corporate Governance structure

• Increasing profit through ready-made company – Shelf Corporation

• More appropriate legal environment

• More friendly tax system

• Lower administrative costs – one-tier, two-tier or other variants

• Keep shareholders anonymous

• Better protection of investment in the country

• Lower bureaucracy in general

• Request of the business partners

• Decision of the higher hierarchical level

According to the results of our analysis the main reason for so high number of SE in CR is the opportunity to increase of the company by buying a shelf corporation.

Common reasons for buying a shelf corporation include:

• To save the time involved in taking the steps to create a new corporation.

• To create an appearance of corporate longevity, which may boost investor or consumer confidence.

• To gain access to investment capital.

In the Czech Republic there are several companies which offer ready-made SE for sale. Comparison of the prices of SEs and traditional joint-stock companies (JSC) shows substantial differences. In table 1 there are prices for SE and JSC for the identical companies.

**Table no. 1 Comparison of prices of SEs and JSCs**

| Seller | Price for SE | Price for JSC |
|---|---|---|
| PROFIRM, s.r.o. | 153 500 CZK | 77 500 CZK |
| SMART Office & Companies, s.r.o. | 179 000 CZK | 85 000 CZK |
| CHAMR & PARTNERS s.r.o. | 179 000 CZK | 99 000 CZK |
| Společnosti Online s.r.o | 199 000 CZK | 114 000 CZK |
| 4 TARGET SERVICES OF TRADE s.r.o. | 180 000 CZK | 79 000 CZK |
| FIRMUS a.s. | 153 500 CZK | 73 900 CZK |
| VKRD s.r.o. | 150 000 CZK | 80 000 CZK |

The average difference is about 80 000 CZK. The main reason for higher prices of SEs is mostly because of setting up SE is organizationally much more complicated compared to JSC.

## Conclusion

Our preliminary results from the analysis of the reasons why the legal from of SE in CR is surprisingly so popular and much higher in comparison with the rest of the EU countries show that the explanation in catching the opportunity to increase the company's business opportunities. The high number of so called shelf companies, ready for selling, confirms our findings.

We take our findings as certain disappointment because our expectations were that this form is created mostly for improvement of the economic and social activities of existing companies by changing their legal and organizational form, not primarily for buying and selling the companies. The development of so called normal SE (concentrated on real business activities with real employees) and the other mostly "empty" companies, shelf companies, shows clearly the increasing number of shelf companies (Chart no. 3).

Our first experience is that SEs are not very open and not willing to disclosure their activities they are mostly used for. The feedback ratio of our questionnaires was extremely low (about 3-5 per cent) and the companies demonstrated their distrust to our attempts to start dialogue with their representatives. Our overall impression from the first step in our research was that the SEs try to hide their real aims and activities.

The first findings show the following reasons for founding of SEs and impact on Corporate Governance:

Choosing most suitable legal environment and corporate governance framework. Companies can shift into the legal environment, where they are not forced to disclose the real owners of the stocks, the real ownership structure.

They can choose the most appropriate tax system, the lowest taxes (Cyprus, the Netherlands, Luxemburg).
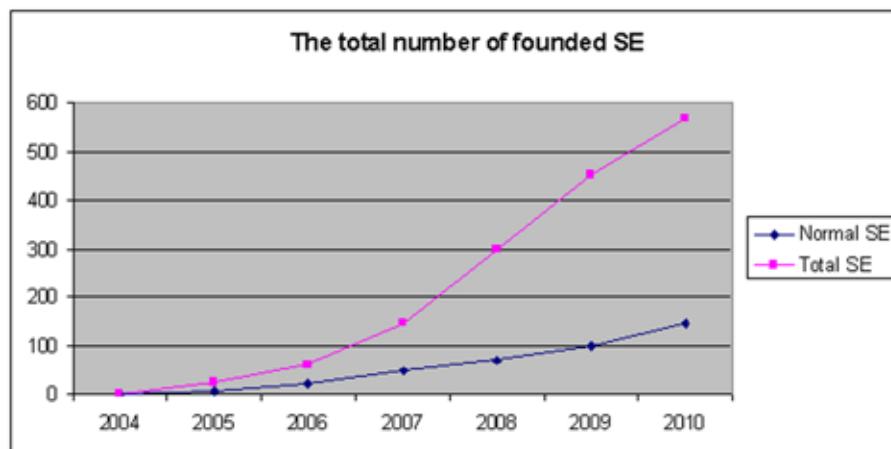
Change of the form to SE leads to higher protection of the company investment in the country, because it is taken as foreign investment under the governmental protection.

The companies have freedom to choose either one-tier or two-tier systems of the boards structure as well as the boards´ composition, for example the acceptance of the representatives of the employees, the working directors.

The analysis is concentrated as well on statistics what forms are mostly used in establishment of SE.

The paper concludes with the evaluation of the reasons for establishment of SE in the Czech Republic which is currently the leading EEA country according to the number of existing SE among all EEA countries.

**Graph n. 6 Progress of number of established SEs**



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http://ecdb.worker-participation.eu/

# IFRS FOR SMES - A NEW CHALLENGE FOR WORLDWIDE FINANCIAL REPORTING

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## Abstract

*In July 2009, IASB released IFRS for Small and Medium-sized Entites (SMEs) which can be designated as the most important event of 2009 in IFRS. The standard for SME is a result of a five-year development process with extensive consultation of SMEs worldwide and is intended to be used by more than 95 per cent of all companies (an expression of IASB based on data from OECD Compendium 2004). Expectations expressed by IASB are large. However, are entities that are in the scope of SME definition ready to use these accounting policies? And are individual countries ready to adopt IFRS for SMEs as obligatory accounting rules? Miscellaneous answers can be received to these questions. The paper introduces IFRS for SMEs as issued, analyses its benefits and deficiencies and provides a basic comparison with full IFRSs (list of fundamental differences with relevant comments is included). The paper also contains an investigation of initial reactions of some countries following issuance of the standard, e.g. in Ireland and U.K. has started a discussion about a replacement of current UK and Irish GAAP by adopting the IFRS for SMEs.*

*Key words: small and medium-sized entity, IFRS, IFRS for SMEs, financial reporting*

## Introduction

Small and medium-sized entities are represented by millions of companies over all around the world. On the other side, the 52 largest stock exchanges in the world together have about 45 thousand listed companies. Therefore, when we are talking about small and medium-sized entities, we are talking about 99 % worldwide companies. For example, Europe has roughly 28 million private sector enterprises, USA has about 20 million, Brazil has about 6 million and Malaysia has about 1,8 million. Users of these companies' financial statements – owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies – have different needs than equity and debt investors providing their resources to publicly traded companies. The needs of users of SMEs` financial statements focus primarily on short-term cash flows, liquidity and solvency. The provisions of IFRS that have been known till this time (further full IFRSs) have been conceptually established for publicly traded companies and their users (equity and debt investors). In consequence full IFRSs are complex and comprehensive set of provisions for recognition, measurement, presentation and disclosure of financial information in financial statements. If any entity had wanted to prepare its financial statements according to IFRS, it would have to apply all requirements included in full IFRSs, if appropriate. For the most entities that are not traded the adoption of full IFRSs has been difficult and expensive process including initial adoption (and initial costs) and ongoing accounting and reporting (subsequent costs).

## Development of IFRS for SMEs

The International Accounting Standards Board (IASB) begun to aware of the complexity of full IFRSs for non-traded companies in 2003. In June 2004, when the discussion paper related to IFRS for SMEs was published, the five-year project started. The primary aim was to create provisions and requirements that meet different needs of SMEs` users and lead to an equilibrium between costs and benefits connected with its adoption. The support of this project has been expressed by continually widening of adoption of IFRS in the world. More and more countries require or permit to use IFRS by the companies when its consolidated or separate financial statements are prepared. This fact does not concern only publicly traded companies. This fact concerns also small and medium-sized enterprises.

In July 2009, the project of the development of the IFRS for SMEs was concluded and the final Standard was issued. The issued version should be effective without any amendments for the following three years, approximately till 2012. The provisions are built on an IFRS foundation – simplified IFRSs and completely stand-alone standard structured into 35 sections. The Standard is accompanying by Illustrative Financial Statements Presentation and Disclosure Checklist, Basis for Conclusions and free comprehensive training materials (one module per each section).

IASB supposes that the first revision of IFRS for SMEs can be considered as soon as the first financial statements prepared according to these provisions are published. Therefore, we can expect some amendments considering (i) problems resulting during the first adoption of IFRS for SMEs and (ii) amendments and new standards and interpretation of full IFRS that have been issued since 2009 to 2012.

## Past due process steps

September 2003

The first study concerning accounting provisions for small and medium-sized entities Survey of World Accounting Standard-setters.

June 2004

IASB issued the discussion paper Preliminary Views on Accounting Standards for Small and Medium-sized Entities.

February 2007

IASB issued Exposure Draft for the public comments.

June 2007 – November 2007

IASB realized field-testing of the exposure draft with the participation of 116 small companies in 20 countries. The intention was to determine problems which can rise during the adoption of the provisions and adjust the exposure draft before the prospective issue.

November 2007

End of the comment period. IASB received 162 comment letters during the period.

March 2008 – February 2009

Exposure draft was adjusted considering the comment letters received and results from field-testing.

July 2009

The final standard IFRS for Small and Medium-Sized Entities (SME) was issued.

The project of development of IFRS for SMEs had not been included in the convergence project that has been in progress between IASB and FASB since 2002. The project IFRS for SMEs is the project of IASB only and the convergence project concerns the only full IFRSs. Nowadays we can meet opinions that IFRS for SMEs is not relevant for U.S. private companies and that U.S. should not adopt IFRS for SMEs in the future.

## Summary of Accounting Fields Included in IFRS for SMEs

All provisions and requirements of IFRS for SMEs are included in one standard that has approximately 300 pages (Full IFRSs have together approximately 3 000 pages in comparison). The standard is structured into several sections as provided by the following table:

| Section | Description | Section | Description |
|---|---|---|---|
| 1 | Small and medium-sized entities | 19 | Business combinations and goodwill |
| 2 | Concepts and pervasive principles | 20 | Leases |
| 3 | Financial statements presentation | 21 | Provisions and contingencies |
| 4 | Statement of financial position | 22 | Liabilities and equity |
| 5 | Statement of comprehensive income and income statement | 23 | Revenue |
| 6 | Statement of changes in equity and statement of income and retained earnings | 24 | Government grants |
| 7 | Statement of cash flows | 25 | Borrowing costs |
| 8 | Notes to the financial statements | 26 | Share-based payment |
| 9 | Consolidated and separate financial statements | 27 | Impairment of assets |
| 10 | Accounting policies, estimates and errors | 28 | Employee benefits |
| 11 | Basic financial instruments | 29 | Income tax |
| 12 | Other financial instruments issues | 30 | Foreign currency translation |
| 13 | Inventories | 31 | Hyperinflation |
| 14 | Investments in associates | 32 | Events after the end of the reporting period |
| 15 | Investments in joint ventures | 33 | Related party disclosures |
| 16 | Investment property | 34 | Specialised activities |
| 17 | Property, plant and equipment | 35 | Transition to the IFRS for SMEs |
| 18 | Intangible assets other than goodwill | | |

## Small and Medium-Sized Entity Defined by IFRS for SMEs

A definition of small and medium-sized entity which is crucial for a current adoption of IFRS for SMEs had been discussing intensively and for a long time during the whole project. In consequence of these discussions, the definition and the name of the project had been changed several times. The first description of the project IFRS for SMEs had been changed for IFRS for Private Entities. Finally, the members of IASB concluded that the formal name and description of the provisions is IFRS for SMEs.

So how is the small and medium-sized entity defined by IASB? The definition is included in the section 1 of the Standard and the small and medium-sized entity is entity that:

1)      Does not have public accountability that means:

i)      debt or equity instruments of the entity are not traded in a public market or the entity is not in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

ii)      entity does not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks. However, the entity can hold assets of its clients and customers in relation to its primary business (e.g. receive payment in advance of delivery of the goods or services).

2)      Publishes general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

If the consolidated financial statements are prepared according to full IFRSs because the parent (and reporting entity) is traded, the subsidiary included in the group has currently following possibilities:

1)      To adopt full IFRSs in its individual accounts and prepare its financial statements on the same basis as consolidated financial statements are prepared;

2)      To adopt IFRS for SMEs, if definition of small and medium-sized entity is met, and use it for preparation of its individual financial statements. For purposes of consolidation based on full IFRSs, adjustments must be considered.

## Main Differences between IFRS for SMEs and full IFRSs

IFRS for SMEs does not provide the same provisions and requirements as full IFRSs. Lots of differences can be determined and the financial statements prepared under IFRS for SMEs do not equal to the financial statements prepared in accordance with full IFRSs. Some of the main differences are as follows:

• Financial statements

Full IFRSs: A statement of changes in equity is required, presenting a reconciliation of equity items between the beginning and end of the period.

IFRS for SMEs: Same requirement. However, if the only changes to the equity during the period are a result of profit or loss, payment of dividends, correction of prior-period errors or changes in accounting policy, a combined statement of income and retained earnings can be presented instead of both a statement of comprehensive income and a statement of changes in equity.

• Expense recognition – Research and development costs

Full IFRSs: Research costs are expensed as incurred; development costs are capitalised and amortised, but only when specific criteria are met. Borrowing costs are capitalised if certain criteria are met.

IFRS for SMEs: All research and development costs and all borrowing costs are recognised as an expense.

• Non-financial assets and goodwilll

Full IFRSs: For tangible and intangible assets, there is an accounting policy choice between the cost model and the revaluation model. Goodwill and other intangibles with indefinite lives are reviewed for impairment and not amortised.

IFRS for SMEs: The cost model is the only permitted model. All intangible assets, including goodwill, are assumed to have finite lives and are amortised.

• Investment property

Full IFRSs: IAS 40 Investment property offers a choice of fair value and the cost method.

IFRS for SMEs: Investment property is carried at fair value if this fair value can be measured without undue cost or effort.

• Non-current assets held for sale

Full IFRSs: IFRS 5 Non-current assets held for sale and discontinued operations requires non-current assets to be classified as held for sale where the carrying amount is recovered principally through a sale transaction rather than though continuing use.

IFRS for SMEs: Assets held for sale are not covered, the decision to sell an asset is considered an impairment indicator.

• Deferred tax

Full IFRSs: A deferred tax asset is only recognised to the extent that it is probable that there will be sufficient future taxable profit to enable recovery of the deferred tax asset.

IFRS for SMEs: A valuation allowance is recognised so that the net carrying amount of the deferred tax asset equals the highest amount that is more likely than not to be recovered. The net carrying amount of deferred tax asset is likely to be the same between full IFRS and IFRS for SMEs.

• Business combinations

Full IFRSs: Transaction costs are excluded under IFRS 3 (revised). Contingent consideration is recognised regardless of the probability of payment.

IFRS for SMEs: Transaction costs are included in the acquisition costs. Contingent considerations are included as part of the acquisition cost if it is probable that the amount will be paid and its fair value can be measured reliably.

The differences mentioned above are only illustrative examples. We can find more and more differences between IFRS for SMEs and full IFRSs.

## Transition Process to the IFRS for SMEs

A transition process to the IFRS for SMEs is the first task that must be solved if a management or owners of an entity met definition of small and medium-sized entity decide to adopt these provisions and requirements. IFRS for SMEs contains similar requirements as those included in full IFRSs, concretely in IFRS 1. The entity has to determine a transition date and prepare an opening statement of financial position as at this date. The requirements of IFRS for SMEs do not distinguish if the previous accounting policies have been based on some local GAAP or on full IFRSs. Therefore, the transition process to the IFRS for SMEs must be also realized by the entity that transferred its accounting policies under the full IFRSs in the past. There are no exceptions because lots of differences exist between IFRS for SMEs and full IFRSs.

Illustrative example:

In the past, owners of an entity had decided to adopt the full IFRSs for the first-time for the year ended 31 December 2006. Therefore, the transition date had been on 1 January 2005. Till the end of 2009, the entity applied accounting policies based on the full IFRSs and the last financial statements prepared under full IFRSs were for the year ended 31 December 2009 issued in March 2010. However, in 2009, the owners of the entity that is not traded decided to apply new IFRS for SMEs for the first time for the year 2010. Therefore, the entity had to adopt the IFRS for SMEs also for the year 2009 to get comparative amounts and the transition date was on 1 January 2009. Since the differences between IFRS for SMEs and full IFRSs exist, the financial position of the entity as at 31 December 2009 and its financial performance for 2009 presented as comparative information in the first financial statements prepared under IFRS for SMEs can be different from the balances presented in the financial statements prepared in accordance with the full IFRSs for the year 2009.

## Worldwide Reaction to the Issue of IFRS for SMEs

The IFRS for SMEs is ready for immediate use on a voluntary basis. Each entity that met the definition of small and medium-sized entity is able to prepare its financial statements under IFRS for SMEs and present them as its other financial report in addition to the reports prepared according to the local requirements (GAAP). However, what has been observed since the IFRS for SMEs was issued is its local adoption governed by individual countries.

In January 2011, there are 73 jurisdictions that have either adopted the IFRS for SMEs or stated a plan to adopt it within next three years. In September 2010, it was 66 jurisdictions. This progression has taken the last 18 months since July 2009. The (obligatory or recommended) use of IFRS for SMEs in individual countries all over the world is highly depending on fact if the countries are able to accept that small and medium-sized entities will prepare its financial statements according to provisions and requirements that are not created by any local (state) authority. An expansion of the use of IFRS for SMEs is different and more complicated than an expansion of the use of full IFRSs.

Use of IFRS for SMEs prepared according to IASB`s presentation (January 2011):

| South America | Argentina, Brazil, Chile, Guyana, Peru, Suriname, Venezuela |
|---|---|
| Caribbean | Antigua & Barbuda, Aruba, Bermuda, Bahamas, Barbados, Cayman, Dominica, Dominican Republic, Guadeloupe, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, Trinidad |
| Central America | Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama |
| Africa | South Africa, Botswana, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, Sierra Leone, Tanzania, Swaziland, Uganda, Zimbabwe. |
| Asia | Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka |
| Middle East | Israel, Jordan, Lebanon, Palestine, Qatar |
| Euraasia | Azerbaijan, Kyrgyzstan, Moldova, Turkey |
| Europe | Switzerland. Planned: United Kingdom, Ireland, Denmark, Latvia. European Commission is currently consulting on the IFRS for SMEs. |

## Conclusion

Currently, it can be said that IFRS for SMEs is primarily used in Central and South America (incl. Caribbean) and Africa – in a little bit exotic countries. However, other adoptions in more important countries are discussed including countries within the European Union and the USA. As an example can be mentioned an examination realized among EU countries. All member states was asked for the response to the question "Do you think adoption of the IFRS for SMEs should be provided for within the EU accounting legal framework?". The results are 19 member states in favour and 6 member states against. This fact expresses certain positive perspective.

## Literature

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# THE ROLE OF PERSONAL VALUES FOR MANAGERIAL WORK

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## Abstract

*In management literature can be found different attempts and discussions about the impact of personal values on managerial working and behaviour. This problematic is primary researched in sociological and psychological literature, where the impact of personal values on people's behaviour is widely recognized and also empirically confirmed. Majority of empirical investigations studies are focused on researching the impact of different groups of values (i.e. single values are grouped together) on managerial work and behaviour. In literature and business practice is substantial lack of studies about the impact of personal values on characteristics of management. On the base of cognitions from literature and our experiences form business practice, we can most general suppose, that managerial personal values importantly drive working and behaviour of management. Among different possible viewpoints (also approaches, levels of analysis) we focused on management innovativeness, since it has become one among most important and frequently researched and discussed management characteristic in modern organizations. This is especially important in current economic conditions, where organizations can only survive by permanently improving their performance, which is often possible only with innovations. In proposed framework the thesis for our contribution is: How managerial personal value influence assigned targeted characteristic of management innovativeness. For our work we select a set of important characteristics of management innovativeness, and for each of selected vales we research its' influence on targeted managerial characteristics. We also empirically tested our thesis, based on results of a survey among more than 200 managers in Slovenian organizations.*

## Introduction

In modern business environment innovativeness has become a prerequisite for organisations to succeed. In that framework innovations/innovative working present crucial way for necessary change/improvement of organisation working and behaviour (see e.g. Collins and Porras, 2002; Mulej, 2006; Potocan and Mulej, 2007).

Working and behaviour of organisations members is driven by different factors (see e.g. Megginson et al, 1992; Daft, 2000; Dessler, 2004; Certo and Certo, 2009). In our paper we put our focus on organisation's member's personal values, as an important driver of member working and behaviour (see e.g. Ralston et al, 1997; Mulej, 2006; Potocan and Mulej, 2007). In the whole context of possible impact of personal values on organisation's member working and behaviour, we will emphasize the relation and/or impact of organisation's member personal values on their perception about innovative working/innovations in organizations.

In literature is innovation most commonly defined as every novelty found beneficial in the experience of its users (see Afuah, 1998; Rogers, 2003; EU, 2006). In that frame is valid: Innovation = invention + commercialization (Afuah, 1998). Business practice proves that innovative business (= business style based on innovation rather than routine) tends to yield much more value added than a routine-based one.

Based on selected theoretical cognitions and selected starting points for our contribution, we

can assume that personal values of organisation's members importantly influence (and even determine) their perception about innovative working/innovations in organisations. Therefore for organisation is important that value system of organisation's members support innovativeness (see e.g. Collins, 2001; Lester in Piore, 2004; Fagerberg et al, 2006; Potocan and Mulej, 2007; Conway and Steward, 2009; etc.). In that framework we will put our focus on studying the role and importance of organisation's members' personal values for their innovativeness, i.e. their perception about innovative working/innovations.

For organisations and their members, a specific group of personal values can be named working values (MOW, 1987). Most generally we can assume that working values represent projection of general values on the field of organisations (see e.g. Kinnane and Gaubinger, 1963; Schwartz, 1999). This approach is used in our contribution. We used term personal values of organisation's members.

In literature are known different approaches and understandings, which characteristics of organisation member's support and/or enable innovative working and innovations (see e.g. Katz, 2003; Rogers, 2003; Lester and Priore, 2004; Gloor, 2006; Conway and Steward, 2009). For our work we emphasized following (see: O'Reilly et al, 1991; Affuah, 1998; Rogers, 2003; Lester and Priore, 2004; Gloor, 2006; Huston and Sakkab, 2006; Mulej, 2007; Shane, 2008; Chesbrough, 2009): (1) organisation members stimulation for creativity, (2) openness of organisation members for new ideas and other's knowledge, (3) benevolence of organisation members to changes, (4) perception of risk, and (5) innovativeness as a value.

Selected criterions therefore represent important starting point for researching relations between personal value of organisation members and their innovative working. Based on theoretical cognitions (see e.g. Afuah, 1998; Collins, 2001; Collins and Porras, 2002; Rogers, 2003; Fagerberg et al, 2006; Potocan and Mulej, 2007; Skarzynski and Gibson, 2008; Chesbrough, 2009) and practical experiences from business practice, we can conclude that there is an indirect link and/or relationship between organisation members perception about innovative working/innovations and organisation members personal values. Therefore we can assume that is possible to assign significant personal value of

organisation members to selected characteristic of innovativeness of organisation members. Our assumptions are based on cognitions from several authors (see e.g. Hage and Dewar, 1973; O'Reilly et al, 1991; Russell and Russell, 1992; Chatman and Jehn, 1994; Mueller and Thomas, 2000).

Based on above presented starting points our paper consists as follows. In the frame of literature review we first put our focus on general role of personal values of organisation members on their perception about their innovative working/ innovations. Afterwards we outline some results from about organisation members' perceptions about their innovative working/innovations in selected sample of Slovenian organizations. Based on theoretical cognitions and results from survey, we propose a framework for improvement of innovative thinking/innovations of organisation members in Slovenian organizations, in the frame of for invention-innovation-diffusion process (IIDP)/ innovations.

## Literature review

There are two main approaches to values (and entity of values/culture/ethics/norms – VCEN) of working and behaviour of organisations rather than biological, social, environmental etc. systems. Some see organisation's members values as a complex entity of values which mostly comes from society and/or other important environments via norms from prevailing entity of VCEN (see e.g. Mullins, 2006; Huczynski and Buchanan, 2007; Conway and Steward, 2009; etc.). This approach also includes differences between social sciences (like philosophy, sociology, and psychology) and other sciences (like business sciences, etc.). Other authors see organisation's values just as a result of interests, motives, etc. of the most influential group of organization (see e.g. Mullins, 2006; Huczynski and Buchanan, 2007; Fink and Kraus, 2009; etc.). This means that there are many different definitions of values of organisations members. No unification is easy to accept on a very general level. More about the role and importance of the entire VCEN and especially values of organisations members see in e.g. Becker and McClintock (1967), Rokeach (1973), Schwartz (1992) and Hofstede (1994).

In framework of our work is especially important the role of organisation's members perception about innovative working/innovation and their influence on organisations (see Cavanagh, 2005;

Potocan and Mulej, 2007; Chesbrough, 2009). But this includes a problem: understanding of possibilities for changing of values and hence of VCEN. In literature exists abundance of theoretical cognitions about values (especially in philosophy, sociology, psychology, etc.). For the purpose of our work we take into consideration selected cognitions from several different authors in psychology (see e.g. Rokeach, 1973; Schwartz, 1994; etc.). This is especially due to the fact, that these researches focus on empirical detecting of the real state of values and responses to issues related to the topic of values.

Based on cognitions of different authors we can most generally conclude that personal values importantly drive and/or influence our behaviour (see e.g. Rokeach, 1973; Schwartz and Blisky, 1987; Musek, 2000). Furthermore, various authors share a relatively unified understanding and definition of the basic functions of values (see e.g. Rokeach, 1973; Hofstede, 1994; Schwartz, 1994; etc.). They claim that the values' basic functions are directing individuals' behaviour, solving of conflicts, decision making, and motivating. Every person has a relatively unique and broad set of values, which he/she forms as a values-based hierarchy of values (i.e. a value system).

Personal value system (covering all forms of his/her actions on various societal levels) is a relatively durable and stable. But their hierarchy can change along with changes in society, culture, personal experience, etc., which influence the changing of the relative importance of single values for the given individual (and the organized forms of his/her actions) (see e.g. Rokeach, 1973; Musek, 2000).

Changing relative importance of values in personal value system is a complex and usually long-lasting process (see e.g. Rokeach, 1973; Mulej, 1994a; 1994b); it can support or hinder IIDP. Our consideration of it is based on findings of many theorists that the process of changing of values consists only, or mostly, of changes of the relative importance of single values inside the value system rather than of changes in the structure (content related) of the value system itself (see e.g. Becker and McClintock, 1967; Rokeach, 1973; Schwartz, 1992; Hofstede, 1994; etc.).

Values (and other parts of VCEN) represent an important building block/element of working and behaviour of organisations' members (see e.g. Schwartz, 1992; Cavanagh, 2005; Mullins, 2006;
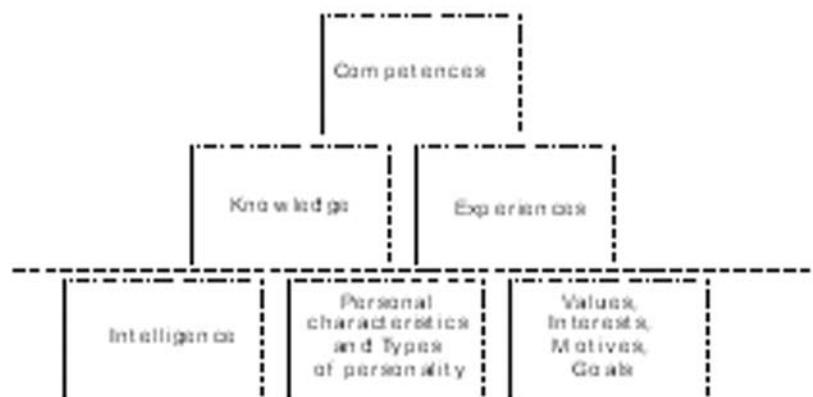
Potocan, 2009; etc.). The Figure 1 presents buildings blocks of competences (adapted from Hughes et al, 2009). From the organisations members' viewpoint, the IIDP is primarily based on knowledge, experiences, competences, but organizations in current economic conditions, especially due to the lack of innovativeness, also try to improve other basic blocks of their working – e.g. personal values of organisations' members.

Based on findings of several authors we can conclude, that organisations' members attributes can, most generally, be defined on the basis of attributes of their working and behaviour in organisations (see Becker and McClintock, 1967; Rokeach, 1973; Potocan and Mulej, 2007; Potocan, 2008; Potocan, 2009; etc.). In framework of our problematic we may assume, that perception of organisation members about innovative working/innovations is importantly influenced (and/or dependent on) their cognitive bases and values (and/or entire VCEN and/or parts of VCEN), first of all.

Importance of organisations' members' personal values for influencing their perception about innovative working/innovations is widely recognized in literature and in business practice. Therefore we can assume that personal values of organisation members importantly influence (and even determine) their perception about innovative working or innovations in organisations (see e.g. Collins, 2001; Lester in Piore, 2004; Fagerberg et al, 2006; Potocan and Mulej, 2007; Conway and Steward, 2009).

Based on above presented cognitions and experiences from business practice we can conclude that the organisation members' values (inside his/her VCEN) influence the realization of the organisation's IIDP essentially (but not exclusively):

• Indirectly through the selection of the important viewpoint of consideration of the topic

• Values of organisation members influence the working and behaviour of organisation members (especially their perception about innovative working/innovations) directly, and thus, indirectly, including the organisations' IIDP and characteristics of organisation members (like values).

**Figure 1: Buildings blocks of competences.**



Organisation members' perception about innovative working/innovations – A case of Slovenia

In nowadays global economy organisation must continuously innovate in order to survive and succeed. From the viewpoint of current situation in Slovenia, the level of understanding and acceptance of innovations among organisation's members is relatively favourable. About details of general framework, institutional conditions for innovativeness and state of innovativeness in Slovenian organizations see Rebernik et al (2000-2009) and Potocan and Mulej (2007). The results of survey of personal values of members in Slovenian organizations in 2010 indicate that members of organizations consider innovations (and innovative conditions) as important characteristics of their working.

Organisations members' perception about innovative working/innovations is importantly dependent upon entity of important objective factors (e.g. organization goals, requirements of owners, shareholders) and subjective starting points of management (see Mulej, 2000).

This lead to the conclusion that organisation's members, based on their personal values, recognize and/or be aware of need for innovative working, which is executed though their working and behavior in organizations. Key factor in that frame are personal values of organisation's members, which are either favourable either unfavourable to innovative working/innovations of organisation's members.

Based on our previous researching and cognitions of others (see O'Reilly et al, 1991; Lester and Piore, 2004; etc.) we identified following set of criterions for examination of innovative working:

- Organisation's members' stimulation for creativity

- Openness of organisation's members for new ideas and other's knowledge

- Benevolence to changes

- Perception of risk

- Innovativeness as a value

Based on management literature, and above mentioned conclusion, we also can conclude that there is (indirect) link (and/or relations) between

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values of organisation's members and their perception about innovative working/innovations (see Mulej, 2000; Mulej, 2007; Potocan and Mulej, 2007). We can assume for our research that is possible to assign (selected) significant personal value for support of innovative working/innovations.

Based on presented cognitions and our experiences, we identified several (most probably) relationships between characteristics of innovative working (of organisation members) and selected personal values of organisation members (see e.g. Katz, 2003; Gloor, 2006). Cognitions are summarized in Table 1.

**Table 1: Significant values of organisation members for innovative working.**

| Innovative working | Significant personal value |
|---|---|
| Organisation's members stimulation for creativity | Creativity |
| Openness of organisation's members for new ideas and other's knowledge | Broad-minded |
| Benevolence to changes | Dynamic life |
| Perception of risk | Daring |
| Innovativeness as a value | Innovativeness |

Based on above presented cognitions we will test general hypothesis, namely:

"The personal values of organisation's members support innovative working of organisation's members in Slovenian organizations".

## Methods

Our sample consists of 260 organisations members in Slovenia. Data were obtained through a field survey of personal values of organisation's members in Slovenian organizations in 2010. Sample included organizations from all Slovenia (i.e. a relatively representative regional coverage; sample met the basic-activity structure of Slovenian organizations, with a good fit to the industry-based structure of the Slovenian economy). According to proposed hypothesis we measured personal values of organisation's members and innovative working. More facts about survey are available by the authors of this contribution.

For measuring personal values "The Schwartz Value Survey (SVS)" was used (Schwartz, 1994). To the original SVS, which consists of 56 items, we add "innovativeness" as a value. Respondents rate each personal value, using a 9-point Likert-type scale, ranging from "opposed to my values" (-1) to "of supreme importance" (7) (see e.g. Ralston et al, 1997; Yammarino et al, 2005).

For measuring "innovative working" we identify 5 criterions for examination of innovative working (see above), based on different prior studies of innovativeness (see e.g. O'Reilly et al, 1991; Potocan and Mulej, 2007). All 5 items are measured using 8-point Likert-type scale, with anchors refereeing to low innovative working (1) and high innovative working (8). Items assess organisation's members stimulation for creativity (1 – not supporting; 8 – supporting); openness of organisation's members for new ideas and other's knowledge (1 – refusing; 8 – accepting); benevolence to changes (1 – don't support; 8 - support); perception of risk (1 – aversive; 8 – preferable); and innovativeness as a value (1 – low; 8 – high).

For analyzing data several methods were used. Based on tests of normality (we used Kolmogorov Smirnov test), we can conclude that all items (i.e. for testing hypothesis), are not congruent with normal distribution (see e.g. Argyrous, 2006). Since assumptions about normality are markedly violated, we used adequate non-parametric statistics tests (when applicable). In that frame Spearman's correlation coefficient (rho) was used for measuring association between selected item about innovative working and assigned personal value of organisation's members. More about utilized methods for data analysis see in Argyrous (2006).

## Results of survey

For measuring innovative working of organisation members we propose five criterions (see Table 2). Cronbach's alpha is 0.806, which indicates high overall internal consistency among the five items for measuring innovative working/innovation.

Based on obtained results we can draw several tentative conclusions about perception of organisation members about innovative working/innovations:

- Among several items is most important openness of organisation's members for new ideas and other's knowledge, while perception of risk is the lowest

- Organisation's members are willing to accept new ideas and other's knowledge (i.e. from environment of organization, from other members of organizations), since current situation (e.g. coping with crisis; post-transition period of organization transformation) require mobilization of all available ideas and knowledge in organizations in order to survive

in fierce (e.g. emerging, global) competition. On the other hand, accepting (also) ideas of other members is important prerequisite for innovations in organizations in current economic conditions

- Organisation's members stimulate creativity of other member of organizations, since creativity is central to innovativeness. On the other hand, organisation's members must be benevolent to changes, since innovativeness is based on (continuous) changes

- Meanwhile, organisation's members are not so interested to accept (too high) risk. This could have deeper roots, e.g. in traditional aversive perception to risk among Slovenians

Most general we can assume that several possible relations between personal values of organisation's members and items referring to innovative working are possible (see Table 1 above). Empirical findings about correlations between (items referring to) innovative working and assigned personal values are presented in Table 3.

**Table 2: Mean values for innovative working.**

| Innovative working | Significant personal value |
|---|---|
| Organisation's members stimulation for creativity | Creativity |
| Openness of organisation's members for new ideas and other's knowledge | Broad-minded |
| Benevolence to changes | Dynamic life |
| Perception of risk | Daring |
| Innovativeness as a value | Innovativeness |

Based on correlation between (items referring to) innovative working and assigned organisations members' personal values, we can see that for four (out of five) "combinations" of items of innovative working and significant personal values, results indicate that there are significant relationship between assigned personal value and selected item innovative working (p<0.05). In one instance (i.e. benevolence to change and dynamic life) a correlation of 0.076 (p=0.223) indicate no significant relationship. Regarding strength of relationship, we can conclude that for relationships 2 and 5, is correlation quite strong for (used)

explorative approach and from our selected view point. Other two relationships, 1 and 4, indicate weaker relationship.

Some tentative conclusions about relationship between innovative working and organisations members' personal values are:

- Organisation's members, who value creativity (as a personal value) high, put a lot of effort to stimulate creativity of other members of organization

**Table 3: Correlation between innovative working and organisation members' personal values.**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Organisation's members stimulation for creativity | 260 | 1 | 8 | 6,50 | 1,511 |
| Openness of organisation's members for ideas and knowledge of employees | 260 | 1 | 8 | 6,83 | 1,369 |
| Benevolence to changes | 260 | 1 | 8 | 6,53 | 1,482 |
| Perception of risk | 260 | 1 | 8 | 5,63 | 1,623 |
| Innovativeness as a value | 260 | 1 | 8 | 6,63 | 1,611 |
| Valid N (listwise) | 260 | | | | |

- Organisation's members, who are broad-minded, are open for new ideas and knowledge of other employees

- Organisation's members, who give more priority to daring, are therefore more benevolent to changes in organization

- Organisation's members, who value innovativeness, are very much concerned with innovativeness and consequently innovative thinking, which they spread among other members of organization

## Managerial implications

Based on above presented cognitions we can conclude that for improvement of innovativeness (i.e. perception of organisation members about innovative work/innovations) innovation of personal values of organisations members is needed. The cognitions about personal values of organisations members present base for implementation of invention-innovation-diffusion processes (IIDP) in organisations (Mulej, 2000; Rogers, 2003; Potocan and Mulej, 2009). IIDP presents entity of three phases: (1) discovering ideas and turning ideas into inventions, suggestions, and potential innovations, which is more or less an internal process in organizations, (2) finding the first happy customers ideas to become innovations, and (3) finding many happy customers by diffusion.

Successful implementation of IIDP is not possible without innovation of VCEN of (all) members of organisations.

From the whole problematic of improving innovativeness in organisations we will outline some possible and also most probable questions and doubts about innovation of VCEN in organisations. The first question includes: Will the economic system and business politics practitioners accept inventions, if they do not bring solutions, which offer more benefit than used to be the habit so far?

Many Western researchers of these problems presuppose that the market pressure alone makes businesses, including the economic system and business politics institutions willing and able to absorb whatever new knowledge shows up if they feel that their application of this knowledge will increase their competitiveness due to better efficiency and effectiveness (Mulej, 2000, Katz, 2003; Potocan and Mulej, 2007; Conway and Steward, 2009). Therefore, they claim, it is the role of the government to remove obstacles for competition and to invest in education and training in capabilities, which are needed for people to cope with more demanding markets of products and services. This may be true, if business persons are entrepreneurial rather than routine lovers. The conclusion: modern values, knowledge, including

know-how, make a system of preconditions for the institutions (e.g. organisations) to work properly.

The second question is: In which level we must innovate VCEN, if we wish to improve the innovativeness of SMEs? The individual, organizational, and national VCEN need to be innovated, but not technology only (see e.g. Mulej, 2000; Potocan and Mulej, 2007; Potocan, 2008; etc.). This helps interdependence of mutually different and hence complementary specialists to become visible. A lot of help can come from transforming the marketing-like offices of the economic system and business politics institutions from a service of selling/promoting to a service of providing information, including the one about the research organizations, and thus serving as the bridge between businesses and research organizations.

We do not see the problem in transfer of the narrow professional related knowledge, but in the managerial and organizational questions of organisations. But the most crucial of all novelties is the following:

- According to its role as the general coordinator and manager of the most general issues of a society, the government defines the framework conditions, including the ones related to the transfer and absorption capacity concerning novelties supposed to become innovations

- Government can act in this role by commanding, subsidizing, enabling, allowing, but also as a rather big buyer in a buyers' market; the latter role may be the best choice in this case

- Therefore, government can and should define in its procurement rules concerning supply to all government offices, medical, educational and other public organizations, that only the most innovative organizations may be suppliers

To be able to succeed, government must also be a role model of innovation. Innovations related to the management style and organizational process and methods can take place in its offices, too, like everywhere else.

The next question is: How to transform invention to innovation, from the view point of organisations? From empirical discussions about any product or service for market, including the new management and organization of services/offices in the economic system and business politics, we briefly conclude (see e.g. Mulej, 2000; Potocan and Mulej, 2007; Potocan and Mulej, 2009; etc.):

- There are many products or services that offer the same functionality, but there are other criteria for a customer to choose one of them. This applies to the economic system and business politics institutions, too. They are no longer free of competition: the entire European Union is on its way to become one single 'market' for the economic systems and business politics regulation as well

- Product or service developers may be concerned about the technological attributes only of theirs product/s, or conceive it/them more holistically, which is what the new our concept of the economic system and business politics organization suggests

- To meet customer criteria of good enough quality, products must be good on a holistic basis. Thinking about holism must include technology, production, business planning and doing, marketing, human resources, and several more aspects, as a system. This applies to the economic system and business politics institutions, too

- Any product or service management, developing, producing, and selling should hence better be a very interdisciplinary endeavour, which links at least business, technology, human resources, organization, management, into one whole. This applies to the economic system and business politics institutions, too

This means that creativity and holism in the phase of a product (= the economic system and business politics services and organization and management under discussion, in this case) development (without later phases of the process) are not enough, although essential (Mulej, 2000; Potocan and Mulej, 2007).

We also must mention questions of systemic quality (as seen by customers / users). Another aspect of making an invention, such as the new economic system and business politics organization and management, an innovation and really useful, tackles its application by many. Research on diffusion of novelties (see e.g. Afuah, 1998; Lester

and Piore, 2004; Gloor, 2006; Kuratko, 2008; etc.) demonstrates on the basis of several thousand cases that it is very difficult for an author and his or her change agent to make an invention - suggestion accepted by the potential customers. What they find good enough, is called excellent / perfect; it depends on five pillars of total quality, which are interdependent and each of them must be excellent (see e.g. Hebert and Link, 1989; Afuah, 1998; Lester and Piore, 2004; Chesbrough, 2009). They are: Products, Processes, Leadership, i.e. Cooperative management, and Commitment, linked in a synergy by Organization.

A product is perfect if meeting criteria of "systemic quality in frame of organisations working" made of the system of interdependent and interactive price, (technical and commercial) quality, range, uniqueness and sustainability as they are both defined and accepted by customers and important environment/s. This is where new management model must fit in.

A detailed discussion of single starting points exceeds the chosen frame of our discussion. This is a topic for another occasion.

## Conclusions

The main contribution of our paper is presentation of a possible way for improvement perception of organisation members about innovative working/ innovation, which is more favourable for innovations. Based on presented theoretical cognitions, results of empirical survey, and experiences from business practice, we can conclude that organisation members' personal values have an important role in organisation members' perceptions about innovative working/innovations.

Based on presented theoretical findings and results from our empirical study we can conclude, that with changing the priority of personal values (of organisation members), it is possible to change organisation's member's perception about innovative working/innovations. But cognitions about importance of innovativeness (as personal or as organizational value) are not enough for holistic improvement of level of organisations innovativeness. Cognitions from the presented paper open therefore new dilemmas, in frame of selected problematic, like: (1) Will the economic system and business politics practitioners accept inventions, if they do not bring solutions, which offer more benefit than used to be the habit so far? (2) In which level we must innovate VCEN, if we wish to improve the innovativeness of organisations? and (3) How to transform invention to innovation, from the view point organisations?

This preliminary work about the influence of organisations members personal values on their perceptions about innovative working/innovations lays and important ground work and starting point for further examination of role of personal values in innovativeness in organizations.

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# CASE STUDY OF GUCCI VS. GUESS – THE FAILURE OF BRAND STRATEGIES THAT RELY ON VEBLEN'S CONSPICUOUS CONSUMPTION

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## Abstract

*Brands belong to intangible corporate assets reflecting a special relationship between consumers and products, giving an immaterial added value to corporate image. Famous brands have become victims of unauthorized copying and now compete with the submarket of counterfeits. The most significant legal instruments of brand protection are trademark and industrial design. However, sometimes the producers of luxury brands do not take legal actions against the submarket, mostly inspired by the strategy of strengthening the present market position based on Veblen's theory of conspicuous consumption. They strengthen the market position with regard to the submarket by introducing higher prices and exclusiveness in distribution network in order to meet the expectations of status-oriented consumers. The purpose of this paper is to discuss the changes in behaviour of status-oriented consumers which have endangered the market position of luxury brands. The recent case of Gucci vs. Guess has shown that consumers do not conform completely with Veblen's theory of conspicous consumption. This happens when a significant market competitor copies trademark and industrial design as submarket does, but in respect of prices, marketing and distribution policy does not act as submarket does. Instead, such competitor offers quality counterfeits under slightly more affordable price than original producer misleading consumers to believe they are not buying on the submarket. The findings of this case study should readapt the theory of consumption based on psyhcological and social factors that compel consumers to confirm their social status.*

*Key words: conspicuous consumption, brand strategies, submarket*

## INTRODUCTION TO VEBLEN'S LEISURE CLASS THEORY AND CONSPICUOUS CONSUMPTION

Back in the 1899, Thornstein Veblen introduced the notions of leisure class and conspicuous consumption in his historical work The Theory of the Leisure Class: An Economic Study of Institutions. When applied to human psychology and consumer behaviour, Veblen developed a notion of conspicuous consumption which has become one of the most important foundations of luxury goods industry. While analyzing social structures and human psychology in respect of accumulated wealth, class and status differentiation, Veblen established a leisure class as a standard parameter to social stratification and conformity of all classes . He concluded a leisure class to be a class of either those wealthy, or those who have inherited the highest social status. The most common behaviour pattern in this class rises from her historical effort to keep and confirm her status. Therefore, psychologically, this behaviour consists of many repeated rituals or patterns that proclaim the social status and differentiate the leisure class from any other classes. Veblen notices this pattern especially in a consumption of specific goods and the ways and customs of their consumption. For leisure class it is important

that these goods or a fashion in which they are consumed among highest class individuals have the elements of exclusivity that confirm their status and differentiates them from the individuals of other classes.

On the other side, the leisure consumption also effects middle class or lower class individual patterns of behaviour in respect of pecuniary emulation. In their attempt to advance and upgrade their status on social stratification scale, these individuals imitate leisure class behaviour patterns. These imititating patterns of behaviour do not have to have any correlation to their true status of accumulated wealth so they are not a real expression of social stratification. They are a reflection of a historically recognized aspiration of each indivdual to advance the social status denying present one. Impersonating behaviour patterns have become even more frequent under the influence of industrialization, and nowadays we can conclude also under the influence of globalization since Veblen observed them to be more frequent in urban compared to rural areas.

Veblen's theory has not lost any on its significance even a century from first publication. A cause to it is incorporated in theory itself. Veblen noticed leisure behaviour patterns even in primitive society cultures and claims the pattern to progress simultaneously with civilization development. The factors of leisure behaviour attributed to individual psychology are even more enhanced due to changes in modern world such as globalization, integration, higher mobility and connectivity, development of new media and information and communcation technology. Therefore, modern consumer behaviour research, marketing and sales management rely on this theory as an irrefutable presumption. However, many marketing and sales management experts tend to interpret Veblen in various ways, mostly according to current market research and analysis results. Under their influence, the modern interpreters of Veblen in the field of sociology, psychology and consumer behaviour constanlty redefine their interpretations. However, due to the challenges of constant changes as a common attribute of the modern economy, some of the interpretations lose their solid grounds quickly becoming a relict of old times.

## THE RELATIONSHIP BETWEEN CONSPICUOUS CONSUMPTION AND

## IMITATING PATTERNS OF BEHAVIOUR IN MODERN INTERPRETATIONS OF VEBLEN

## VERTICAL DIVERSIFICATION STRATEGY

Veblen concluded that imitating behaviour patterns among middle and low class individuals only confirmed status consumption among leisure class individuals. In theory it is an undisputable fact on the basis of action and reaction system so these patterns are actually the same phemonena, but rising out of different incentives. In respect of this analysis, the theory seems to be a conquering situation for luxury goods producers when applied to practice, or a position in which it seems impossible to lose.

Luxury goods producers at first reduce the market segment they appeal to only to leisure class consumption. Furthermore, market segmentation becomes more complex if taken into account the middle and low class imitating behaviour pattern. Some of luxury brands producers do not try to penetrate this consumer segment. Other do by vertical market diversification persuaded that the real risk is negligible. If there is any, traditional market position is not endangered due to core market segment consisted of leisure class consumption. There are actually many arguments for this ad hoc presumption. Even back in 1949., James Duesenberry concluded that the consumer behaviour is interdependent under interpersonal influences, especially among middle class individuals. Furthermore, Leibenstein shaped up this fact to the so called „bandwagon effect" making luxury brand producers to believe there is no real possibility for significat decrease in demand. Contemporary authors believe that the middle class aspiration for status consumption is in a continuous rise and the luxury brands producers can only benefit from the tendency.

Since the middle class accumulation of wealth is not suffcient for prolonged maintainace of conspicuous consumption, the submarket of counterfeits intended for those who would like to imitate the leisure class, but can not afford it, is blooming. Recognized as the first most concrete threat to middle class market segment in demand for luxury brands, contemporary experts such as Takeyama or Barnett advocate the vertical

diversification strategy. Accordingly, luxury brands producers should act as following: 1. maintain luxurious and expensive products for leisure class consumption and; 2. introduce simultaneously product lines resembling the luxurios and highly exclusive products, but under lower production costs and more affordable product price for middle class status consumption. As an instrument of maximizing the profit under optimal costs, the strategy has won a high rate of approval among luxury brands producers. Furthermore, it has also benefited from the social changes imposed by the globalization process on emerging markets such as Asia and Latin America where middle class consumers segment continously expands.

Actually, this idea was not much of an innovation since it is on trace of Duesenberry's snob and bandwagon effect theories. However, Duesenberry has fairly recognized the problem of brand's cycles – when consumed by many bandwagons, consumption of a specific product decreases among the snobs. Therefore, the cycle threatens the market position of luxury brands producers in their traditional market segment – leisure class. Since conspicuous consumption originates from leisure consumption of those demonstrating their higher social status, brands included in vertical diversification strategy as those intended for consumers of lower purchasing power, can not satisfy their status aspiration any more. Reason to it lies beneath the function of status – restricting entry to individuals of other classes by exercizing costly activities. If such costly acitivity or a luxury brand is offered in a slightly cheaper version to other consumers, it detoriates in exclusivity among leisure class – a brand becomes diluted. Thereby, authors opposing the strategy conclude that „marketers are motivated to maintain a product's exclusivity in part because they believe that some consumers might find the product less valuable if it becomes widely available."

Brand dilution issue became obvious even to Barnett who considered a shortrun vertical diferentiation strategy as at least sufficient strategy for maintenance of middle class market segment in a short period. However, the other, more interesting Barnett's idea we oppose is – in defence from the submarket and counterfeits, the producers should take no action at all.

**Picture 1.: An example of vertical diversification**



Gucci „Marrakesch" handbag, price: 890,00 $

**Gucci „New Bamboo" handbag, price: 13.500,00 $**



Source: Gucci's webshop on http://www.gucci.com/us/styles/257032FWHDG9662

## SELECTIVE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS STRATEGY

The most common legal instruments whose purpose is to protect luxury brands, or other product's marks and design from unauthorized copying, are trademark, industrial design and copyright (in USA also tradedress). These legal instruments in fact have very simple economic goals. Intellectual property rights first of all enable producers to sustain originality as a distinctive comparative advantage from the competitors on the market. As a consequence, luxury brands producers have much more alternatives and freedom while creating price policy for their products. Since the essence of intellectual property rights is to monopolize specific product's characteristics, the producers benefit from them by imposing higher prices and consequently gain extra profit. The extra profit is not an only incentive to product's legal protection. Since these producers are more profitable than competition, the incentive for new investement cycle leading to new original products is higher than the one among the competitors.

However, in case of luxury brands, counterfeiting has shown a high level of resilience. Eventhough the producers have registered for legal protection, sometimes it seems almost impossible to exercize effectively intellectual property strategy. Attempting to supress the submarket, the producers have to confront its unpredictability, the problem of identifying its origin and a poor possibility to compensate damages. So, how to compete with and supress the submarket in the abscence of efficient legal instruments? When some authors recommended vertical diversification strategy and it was widely approved by luxury industries, other criticized it pointing out the threat of brand dilution. As an alternative to this confrontation, Barnett recommended, understood in a simplified manner, to take no actions at all against counterfeiting. What are the arguments for this, at first sight, an odd preposition?

The submarket creates the imperfect copies of luxury originals. Any imperfection must be obvious to true status-oriented consumer so he could not satisfy his status aspirations buying a degraded product. Regardless the unauthorized copy quality, status aspirations are not beeing satisfied while purchasing the counterfeit because there is no luxury treatment or a special ritual in the moment of purchase. Furthermore, submarket lacks seriously the elements of exclusivity in distribution network, as well as the elements of exclusivity in customer relationships management. E.g., a booth seller does not ship overseas a catalogue of next season products to devoted customers around the world. When the exclusivity is gone and the counterfeits are widely consumed goods, especially in middle and low classes, status aspirations can not be satisfied. Therefore, luxury brands producers decided not to compete with the submarket simply concluding that status – oriented consumers do not purchase on the submarket. In fact, they started to believe that submarket consumption increases demand for originals. The more counterfeits are

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being offered on the market, the stronger becomes an incentive among status – oriented consumers to reaffirm their status by purchasing more expensive and more exlusive originals. Barnett alleges three conditions to this desirable outcome: 1. an original advances social status ; 2. unauthorized copies are imperfect ; 3. a luxury producer can not introduce vertical diversification without diluting the brand capital.

From this point of view, we can conclude that instead of competing with and supressing the submarket, luxury brands producers have the opportunity to apply the strategy of special market price positioning. First registered intellectual property rights, and now the submarket, allowed them to earn extra profit based on high prices. Some empirical models have even proved „when the snobbish effect is large enough, a product can become more attractive to a segment of the population as its price increases." These models would even reduce Barnett's conditions to only two of them, since they did not find a significant corellation between product's quality and snobbish consumption, but determined a high corellation between snob effect and high prices. Evaluated by its effects, this strategy is actually adversary to vertical diversification strategy. Other advantages rise from the fact that there are no additional costs of introducing „degraded product" line and thereby no risks in traditional leisure market segment. This strategy is also far simpler compared to diversification since is not an issue to define the target group.

The submarket may also be tolerated as an expenseless promotion of luxury brands. Furthermore, submarket has shortened a lifespan of widely consumed original and their counterfeits. As a result consumer demand increased for new, innovative products. Some industries shorten the product's life span on purpose so they could increase demand for new generation of products or new conspicuous styles. Therefore, it has become a prevailing tendency in luxury goods industry to sustrain itself from legal actions against the submarket.

The producers of luxury goods nowadays utilize both vertical diversification strategy and selective approach to intellectual property protection. However, the case study we are presenting next in the paper has shown that something in

both strategies interpreting Veblen and their assumptions may lead to a serious mistake.

## CASE STUDY OF GUCCI AMERICA, INC. VS. GUESS?, INC. – THE FAILURE OF BRAND STRATEGIES BUILT ON VEBLEN'S INTERPRETATIONS

### CASE FACTS

In May 2009, Gucci filed a complaint against Guess at New York South District Court for trademark, tradedress and industrial design infringement, and other separate lawsuit in Milano, Italy. Gucci seeked injuctive relief and damages according to United States Lanham Act, New York General Business Law and common law. Allegations against the defendants referred to the unauthorized copying and studied imitation of Gucci's registered design marks such as interlocking letter G motif, stylized letter G, script Gucci design mark and Diamond Motif trade dress, most frequently used in Gucci's accessories products lines. Furthermore, Gucci accuses Guess of marking the same products line with studied imitation of Gucci's industrial design and distributing it in retail stores and Guess web-shop, but also in a wholesale distribution channel.

Gucci's products are one of the most copied and imitated luxury products on the submarket. Yet Gucci never took serious or planned actions against it. Beside selective enforcement of intellectual property strategy, Gucci was a leader in vertical diversification strategy as we have depicted previous in the paper. It seemed that Gucci self-imposed a tradition of ignoring the imitations, but Guess somehow interrupted the period of silent tolerance. The best way to explain a sudden reaction is quoting Gucci's arguments against the defendants in the complaint:

„…Defendants are using various other design elements and designations,…that are knockoffs of design elements and designations used by or associated with Gucci…, all with deliberate intention to cause the consumers and the trade to believe that their product and product lines are authorized, sponsored, approved, indorsed or licensed by Gucci, or that the Defendants are in some way affiliated with Gucci. ….

## PICTURE 2: GUCCI'S REGISTERED TRADEMARK



## PICTURE 3: GUESS?' MOST COMMON WALLET AND HANDBAG LOGO



Source:http://www.namedevelopment.com/blog/archives/2009/05/guess_who_is_st.html

…Defendants' promotion, advertisement…is a part of a sophisticated and elaborate scheme to target Gucci, to create product that are similar in apperance to the most popular Gucci products… so they can take advantage of the markets and demand Gucci has created for such designs without having to incur developmental, promotional and advertising expenses that Gucci has incurred."

However, Gucci got targeted by the submarket in a very similar manner decades ago. What worried Gucci was a result of Guess' strategy. According to 2010. Guess Inc. Annual Report, the company generated a net revenue higher than 2,1 billion USD showing off a contionuous rise since 2005. According to Gucci's official financial statement for 2009., brand Gucci earned 2,2 billion EUR in revenue, neglible more than Guess if taken into account Gucci's tradition and everlasting brand.

## WHAT LIES BENEATH GUESS' SUCCESS?

Despite the outcome of legal proceedings and eventual court legal opinion whether the infringement ocurred or not, it is undisputable from a cosumer's point of view that Guess imitated the elements and distintive marks of Gucci's brand. Let us conlude that Guess has developed its brand from the crucial submarket characteristic – copy and imitation. But, what happens if the competitor from the submarket does not act as submarket does as percieved in its traditional forms?

First, Guess institutionalized itself as a corporation. It is not a booth seller from the obscure market somewhere in urban outskirts. It is not a smuggler terrified by customs duty control while crossing the state boarder. It is a company listed on New York Stock Exchange building a strong corporate image and establishing communication channels to capital market, investors, suppliers, consumers and establishing official distribution network for its products.

Second, Guess' products may be copies or imitations, but they are not imperfect as some authors would presume for all submarket goods. Guess invested in a certain level of quality for its products. Eventhough this quality cannot be equated with Gucci's quality, yet it is satisfying for the most of the upper middle class consumers. Furthermore, any imitation made is not literall to the extent leading consumer to percieve Guess product as a lousy attempt to sell fake for Gucci.

Imitation is elaborate to the extent only reminding a consumer of exclusiveness and status associated with luxurious brands. If being honest completely, this degree of imitation is common even between the luxury brands themselves.

Combined with the level of quality, third surpise is the price policy. Guess is not pricing its products on marginal costs. Proportional to good quality, in the period of inital placement, the price is higher than the one on the submarket, even higher than the one for goods subjected to the middle class consumption. It is very possible that Guess product in inital placement period and vertically diversified luxury product are sold at approximately the same price. Furthermore, Guess is ready to discount the products very quickly after the inital placement so they could shorten the product's cycle more effectively than luxury brands.

**PICTURE 4: GUCCI'S MAN FOOTWEAR, PRICE: 370$**



Source: http://www.counterfeitchic.com/designs_designers/

**PICTURE 5: GUESS?' MAN FOOTWEAR, PRICE: 98$**



Source: http://www.counterfeitchic.com/designs_designers/

Fourth, Guess planned its distribution network to the smallest detail. It runs a web-shop as luxury brands do and it opened Guess retail stores. However, Guess is not frightened to enter the part of distribution network contempted by some luxury brands – the wholesale. Eventhough they are not admitting it at loud, luxury brands are entering these distribution channels through vertical diversification. But compared to the competitor as Guess, they are very shy attempting it.

Fifth, Guess has a brand strategy that combines elements of submarket with his own distinctive brand. For them, imitation is not a long term strategy. It is only an instrument of boosting initial demand to the degree that would confuse consumers about what is an original, and what a cheaper imitation. After that, Guess introduced carefully its own original design to acquired market segment. E.g., new collection for 2011 has almost nothing of Gucci's imitated design patterns.

Combining all of the elements as above, Guess succeeded in market positioning like no submarket could ever do. It targeted middle class, and has won the upper middle clas, the most interesting market segment to luxury brands producers. Guess usurpated successfully the most promising market segment.

## CONCLUDING REMARKS ON CASE STUDY IMPLICATIONS TO CURRENT LUXURY BRANDS STRATEGIES

The case study has proven that vertical diversification strategy has failed in several elements while appeling to middle class conspicuous consumption. Luxury brands win the market competition for the middle class only if:

1. counterfeits are obvious, literall, low quality and cheap;

2. submarket cannot institutionalize itself;

3. submarket lacks official distribution network;

4. submarket price policy follows marginal cost principle;

5. submarket is reluctant to invest in quality of imitations;

6. submarket has no capacity to refine organization and strategy.

Therefore, they are not threatened any more by traditional forms of submarket. What was then considered to be a traditional submarket, now evolves to new, agressive and more developed planned attacks on luxury brands masked under legitimate product producers. Building the capacity to compete for middle class segment, it also endangers the assumption of selective intellectual property enforcement that there is no true competition between the market of luxury originals and indecent imitations. If the market signalized competition between those who would never be percieved as real competitors , even the snob effect could become less intense.

Middle class consumers benefit from this situation. They are satisfying the aspiration for status consumption since they are purchasing without any embarassement quality comparable to diversified luxury brands under only a slightly affordable or even same price in fairly designed interior of an offical distributor. This ritual is even more confusing to the snobs who are not sure any more if middle class is only demonstrating her present status, or actually somehow manages to keep up with them, under a bit lower cost. In this paradox situation, Gucci realized that following „no action paradigm" has become hazardous for its market share and revenue. We would say, unfortunately, too late. What used to be a submarket took advantage of their inertia and evolved to a competitor worth caution, attention and reaction. The challenge will become even more difficult if taken into account two eminent rising tendencies in middle class consumption – unpredictability and elasticity in demand caused by periodial income retreat and economic cycles.

## CONCLUSION

The goal of this paper was not to attack Veblen's theory since the practice has shown that theory had no sound alternatives or firm arguments rejecting it so far. The intention was to point out weakness of theory's interpretation in contemporary brand strategies. Also, we wanted to warn that traditional submarket has progressed to a new form and evolves faster than brand strategies could readapt. We are suggesting that selective enforecement of intellectual property rights strategy may be reconsidered in its application to practice. Vertical diversification strategy has to find new solutions in unfair competition for middle class consumers.

Either it will be improved in methods, or it will be retrieved completely.

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# EXPLORING GOVERNMENT-LED SOCIAL MARKETING CAMPAIGNS: ALCOHOL, THINK BEFORE YOU DRINK…TOO MUCH

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## Abstract

*To avoid the top-down, heavy-handed legislative process, many Governments have turned to Social Marketing and Persuasion Theory to encourage the public to take responsibility for their own physical and social well being. Persuasion theory is used in television campaigns to change alcohol related harm behaviour through verbal and symbolic images under the premise of "free-choice". This notion of personal choice is very important; particularly in countries where liberty and free will are key social factors.*

*The social marketing campaigns that will be examined are "anti binge drinking campaigns" and "drink driving campaigns". Persuasion theory, used in these campaigns, was generally based on two main fear appeals. The first appeal is Physical Fear which can be high fear such as death, substantial harm or intense pain or low fear such as "easily avoidable" accidents. The second fear is Social/psychological Harm ranging from feelings of dirtiness, disgust, lack of social skills and rejection.*

*The research concludes that whilst physical and social/psychological fears are used in all campaigns reviewed, recent alcohol related harm campaigns have shifted from depictions of physical harm to those of emotional and mental suffering.*

*Key words: Social Marketing, Alcohol, Advertising, Persuasion Theory*

## Introduction

This paper takes the reader through four separate sections. It begins with background information highlighting the fact that alcohol related health harm is of Global concern and is a particular burden on the UK tax payer. Because of this the UK Government continues to try to persuade some consumers to change their behaviour by reducing excessive alcohol consumption and/or not to drive whilst drunk. Therefore, the second section of this paper outlines Social Marketing theory and Fear-Persuasion Relationships which aim to encourage consumers to change their behaviour. Six Public Information Communications are examined and a Content Analysis Coding system is developed to discover the range of fear-persuasion images, locations and people shown in the communications and these are shown in the third section of this paper. The third section also provides a Content Analysis Coding has been developed from the examination of the Public Information Communications. The paper's final section suggests that the Content Analysis Coding could be adapted and used across Continents to compare the similarities and differences regarding excessive drinking and drink driving Public Information Campaigns.

## Background to Global Alcohol Related Health-harm

Drinking alcohol has many positive effects such as social well being, reduced risk of gallstones and reduced risk of heart disease (Anderson & Baumberg 2006). However, excessive and sustained binge-drinking is often stated as the

catalyst for health problems, physical injuries and psychological difficulties.

The World Health Organisation (WHO) leads a global research network for the aforementioned health, physical and psychological alcohol related health-harms by providing countrywide updates on health trends. Another of WHO's key outputs is to provide ethical and evidence-based policy options for high mortality trans-national diseases such as HIV, tobacco and alcohol related illnesses. Therefore the WHO are seen as the unofficial "guiding light" for strategy and policy for Governments and Industry who want to tackle the' alcohol problem'. Globally, alcohol consumption is on the increase and Governments look to WHO to provide research, strategies and solutions to temper the associated alcohol related health-harm. At present, the top five countries that have the highest recorded alcohol per capita consumption are Uganda, Luxembourg, the Czech Republic, Ireland and the Republic of Moldova (Food and Agriculture Organisation 2003). The estimated global deaths from alcohol causes, such as illness or unintentional injuries, is 3.9% of all deaths (Rehm et al 2009) with proportionally more men dying than women 5.6% to 0.6% respectively (WHO 2002).

This equates to one in four deaths alcohol related deaths in European men aged 15 to 29 years and as high as one in three in Eastern Europe (WHO 2002). Each year there are 17,000 deaths on EU roads due to drivers being under the influence of alcohol (Anderson 2008)… but it is worth noting that approximately half of those deaths are of passengers or pedestrians. And more men than women are found to drink and drive (IAS 2007) In the UK the number of drink driving related fatalities in 1979 was 1640; this has reduced significantly to a stabilised rate of 460 drink driving related fatalities in 2007 (a figure which was the same in 1998 and 1999) (Department of Transport 2007).

These research findings together with other works from scholars and Government/health and/or industry-related bodies assessing the world's health and psycho-social consequences of alcohol consumption has brought a greater understanding of the associated health-harm related costs to family networks, the workplace, health care and crime-related expenditure which in turn has galvanised continents to form overarching priorities for their Member States (see Figure 1 below) The European Commission set five priorities reducing alcohol related health harm. The priorities are:-

**Table 1. European Commission – Alcohol Related Health Harm Priorities**

| | |
|---|---|
| 1. | Protect young people, children and the unborn child; |
| 2. | Reduce injuries and death from alcohol-related road accidents; |
| 3. | Prevent alcohol-related harm among adults and reduce the negative impact on the workplace; |
| 4. | Inform, educate and raise awareness on the impact of harmful and hazardous alcohol consumption, and on appropriate consumption patterns; |
| 5. | Develop and maintain a common evidence base at EU level. |
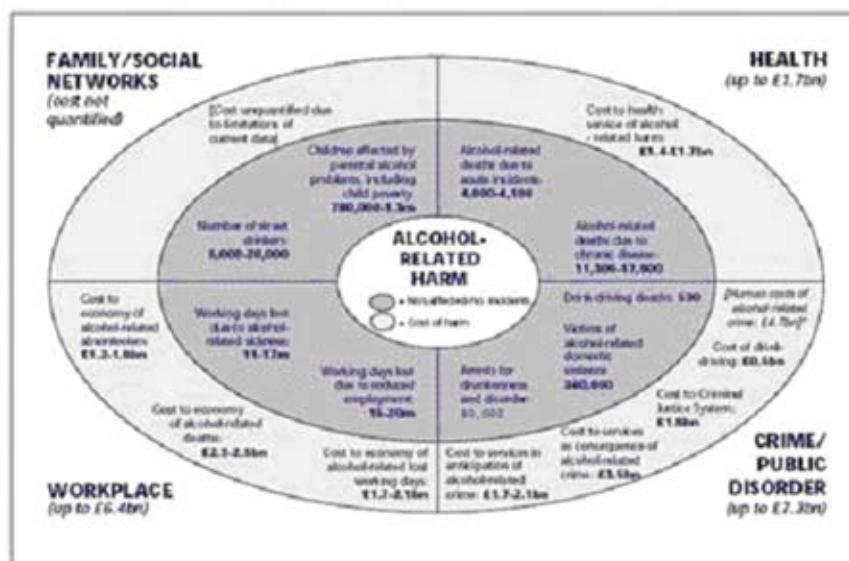
(Eurocare 2007)

These themes provide general guidance for member states to produce their own aims, objectives and strategies; indeed the majority of countries in the EU have recently put in place an Alcohol Strategy. Governments have a difficult balancing act in that they understand the cost burden alcohol related issues has on their purse strings they are also aware of the income gained through taxes on alcoholic beverages. The costs of associated with alcohol related health-harm in the UK are up to £1.7 billion in health services, up to £7.3O billion for criminal justice, drink/driving,

public order services and up to £6.4 billion in workplace absenteeism, alcohol related deaths and lost working days (Cabinet Office 2004); these are tangible costs, however, the intangible, emotions or psychological costs to family breakdowns or children affected by alcoholic parents can not be measured. On the other hand, money paid into the UK public purse, from alcohol tax revenue and customs, is £8,302 million (HMRC 2002) plus of course the income taxes and revenues which come from the millions of people that work in the alcohol industry, are beneficial to the country's

finances. The aforementioned facts and figures are revealing and in some cases stark (see Figure 1 below for a summary).

**Figure 1 The Costs of Alcohol Related Harm**



The Cabinet 2004 p. 14

However, the UK Government, like many other Governments, are unlikely to legislate against alcohol consumption or implement prohibition as most people enjoy a peaceful, relaxing evening socialising in pubs/clubs and bars with their friends and family. Despite the majority of law-abiding, "untroublesome" consumers , the UK Government regularly change alcohol policies, introduce new legislation, increase tax duties to price alcohol out of the with the average consumer's pocket and debates of what can be drunk where and when will last ad infinitum. Current discussions include excessive alcohol drinking and death/accidents through drink driving - both of which are priorities in Europe (see Table 1 above).

Therefore, many Governments are using Social Marketing techniques to tackle their country's alcohol and health related problems (Robinson & Robertson 2010). They do this through Public Information Communications; advertisements, which encourage consumers to reflect upon their own behaviour, take responsibility for their behaviour and consider the impact their behaviour

has on others. The following section will outline Social Marketing and Persuasion Theory that supports the wave of putting responsibility back into the consumer's lap as opposed to enforcement and legislation.

## Social Marketing and Persuasion Theory

Social Marketing theory has been applied to health promotion policy in recent years through the Department of Health, National Health Service and the Home Office for a range of health related communications from sexual health, alcohol related health-harm to obesity issues. In terms of road traffic offences the Home Office and Department of Transport have used Social Marketing campaigns from drink-driving, wearing seatbelts to the importance of level crossings at train junctions. The style and type of communication by these Government bodies is varied and interesting and it is the style and storylines that are used that is the focus of this paper.

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The basic tacit of advertising are to inform, remind and reassure consumers about products and services – generally advertisements have a clear 'call to action' to encourage consumers buy and/or visit the aforementioned product or service. Social marketing campaigns have similar underlying basics in that they are there to inform/educate, and persuade consumers to act responsibly. The Public Information Communication 'call to action' is quite similar to product or service led advertisements in that it requests consumers to act, but they differ by suggesting consumers deter from current behaviour and move their allegiance to a different type of behaviour. Social Marketing and persuasion theory, therefore, is used to encourage the public to take responsibility and ownership of their physical and social well through symbolic appeals that help influence and change behaviour under the premise of "free-choice" (Perloff 2003; Pfau & Wan 2006). Therefore, the 'call to action' in Public Information Communications include notions such as eat healthily, stop smoking or pay the annual television license. Messages in social marketing are varied in style and storyline and range from fun informative ideas to announcements told in a grave, authorisation way. This paper reviews how the UK Government has used fear-persuasion relationships to encourage consumers to change their behaviour of excessive alcohol intake and driving whilst drunk. The fear-persuasion relationships that are shown in Public Information Communications reviewed demonstrate types of behaviour, which will evoke fear arousal which in turn should 'persuade' consumers 'away from' risky behaviour to safer behaviour.

"Fear appeals" in advertisements and Public Information Communications have been used and researched for many years, identifying positive outcomes (Hoek, Maubach & Gendall 2006) and there are mixed-feelings as to the effectiveness of such a strategy (Hastings et al., 200; Rossiter and Thornton, 2004; Rotfeld, 1999; Ray and Wilkie, 1970). Indeed Harmand and Murphy (2008) stated that 'over the top fears' are often ignored because consumers think "it will never happen to me" and others state that the 'laboratory research techniques' used do not replicating real-life (Burnett and Lunsford, 1994; Laroche et al., 2001).

However, social marketing and persuasion theory has been used for many years with images of "fearful" consequences in advertisements and Public Information Communications which places the consumer in a complex series of psycho-physiological arousals. And it is the differing types of arousal that have fascinated theorists and practitioners alike (LaTour 2006; Laroche et al., 2001).

One of the fundamentals to "Fear-persuasion relationships is that there are three types of fear; 1. physical harm or threats to the body, 2. social/ psychological fears or 3. fear of financial ruin or disaster. Further, these threats can be sub-divided to include topics such as to the nature and intensity of the fear (Maciejewski 2004), how the 'fearful message' impacts upon attitudes and behaviour (Smith & Stutts 2003) and how audiences are motivated to protect themselves from the fear 'seen' in the advertisement (Laroche, et al 2001).

Physical fears and threats to the body can range from high fear such as death, substantial harm or intense pain; and at the other end of the scale low fear, including tolerable pain or "easily avoidable" accidents. Gallopel & Valette-Florence (2002) state that the stronger the threat, in high fear messages, the more positive affects are gained. Hoek, Maubach & Gendall (2006) agrees as they found in their anti-smoking advertising that high fear pictorial messages not only made smokers "think again" about their habit, but it also discouraged non-smokers from taking up the habit. However, other scholars have found that cognitive defence mechanisms "shut down" messages that are too distressing or go past their tension "threshold" (Harman and Murphy 2008; Henthorne et al 1993). Therefore, high fear messages, that are considered to be "too unbelievable", "ridiculous" and "stupid" also have a lessening affect. But, when severely or permanently injured "real people" tell their own story a believable, credible "it happened to me" message is accepted Donovan et al 1999).

Moving on from physical and high fears, social/ psychological fear and/or avoidance motivators tend to 'pull' on a consumer's evocations of emotional damage which can range from feelings of dirtiness, feelings of disgust, lack of social skills and rejection (Beaudoin 2002; Laroche, et al 2001). Public Information Communications often use evocations of dirtiness when shown images of drunk people vomiting or rejection by friends when a person in an advertisement has killed a child due to drink driving.

It is the range of images and storylines that are used in the recent Public Information Communications that will be evaluated in this paper. The next section, therefore, will provide an outline of 6 advertisements to ascertain what fears are shown, the people taking part in the storyline, their locations and so on. The section will also recommend a Content Analysis Coding Table that can be used to assess other Public Information Communications across continents.

## Research Process

Based the literature above, this research attempts to discover the persuasive fears, forms, images and characters shown in 6 communications. Therefore, to ascertain the type of Fear-Pursasion Relationships shown in Public Information Communications the following research aims are posed.

a)      To explore the physical and social/ psychological fears depicted in 3 anti-binge drinking communications

b)      To explore the physical and social/ psychological fears depicted in 3 anti-drink driving communications

c)      To explore high/low physical fear

d)      To explore types of social/psychological fear

e)      To explore target audience

Table 2 and 3 provide a brief outline of the storyline of the 6 Public Information Communications; Table 2 shows Drink Driving communications and Table 3 showing Anti-binge Drinking communications.

Following the exploration of the Public Information Communications the above Content Analysis Coding system was established. The Content Analysis is a systematic and objective, measurable view of communications (Wimmer & Dominick 2000) and shows some stark contrasts in current campaigns to campaigns over 4 years old. Firstly, the drink

driving and anti-binge drinking campaigns that are over 4 years old; Summertime and Invincible; show storylines where death as the consequence to the risky behaviour. It may be considered, in light of  Harman and Murphy 2008; Henthorne et al 1993 suggestions, that death is outside the tolerance threshold for consumers and maybe the UK Government have changed tack and moved from physical to psychological fears. The current campaigns clearly show social/psychological fears as the driver for behavioural change; as opposed to purely high physical fear. Does this mean that the UK Government thinks that encouraging drink drivers and binge drinkers to consider their own personal self worth and the socio/psychological consequences of their behaviour rather than pain will be more effective?  Naturally, this question is outside the remit of this paper; and only time and post campaign research will tell if the current campaigns are more effective.

Strangely, despite Donovan et al's (1999) suggestion that testimonials are very effective no campaign; current or over 4 years old, show 'real life' characters telling their story.

The evaluation of the Public Information Communications shows that in terms of target audiences the communications are targeted at male drivers and male binge drinkers; this sits comfortably with the facts shown by WHO (2002), Anderson (2008), IAS (2007) and the Department of Transport (2007) in that more men are involved in alcohol related health-harm and drink driving incidents.

The Content Analysis Coding provides a way to evaluate a whole range of Public Information Communications by UK Governments and Governments across the Continent. If an extensive range of communications messages were to be included, descriptive statistics, such as frequencies and cross-tabulations, Chi-square tests and t-tests could be conducted to ascertain the characteristics of Public Information Communications.

## Table 2 Drink Driving Storyline

| Drink Driving Advertisements |
| --- |
| **Summertime** |
| Don't drink and drive in the Summer Time |
| Very popular song (Mungo Jerry Summertime) is playing on the juke box in a country pub. Many men, women and children are enjoying the sunshine and sitting outside drinking beer, playing and singing together. A man and women leave together in their car. A man sat outside the pub changes his expression as if to capture the notion that 'something has happened" The car with the couple inside has crashed. The woman appears to have died; the man looks injured but is alive. |
| Final words on screen **In the Summertime Drinking and Driving Wrecks Even More Lives** |
| **Timing – Campaign – over 4 years old** |
| **Car Crash In Pub** |
| Two men in a bar discussing a woman they see at the other side of the bar. The woman is looking back at the men. A third man brings a second pint of beer, despite the protestations of one of the men. As the woman walks in from of their table (as though she was coming to talk to the man) she suddenly slams into the table and is thrown violently onto the floor, as if hit by a car. The strap line is – "it takes less than you might think to become a drink driver". The woman is seriously injured. The man (who takes the role of the driver) has minor facial injuries and shows sorrow. |
| Final words on screen **Don't drink and drive** |
| **Timing – Current Campaign** |
| **What's if going to be?** |
| Man walks to the bar to order a drink. The bar tender assumes the role of the many people the man may meet if he gets caught drink driving. The first role is police office "Sir would you mind stepping out of the car and doing a breath test", second role legal profession "look you have a 12 month ban, you were over the limit, that's a criminal record" third Boss "hey it's company policy I have got to let you go", forth car salesman "I know there's only 20,000 miles on the clock but it's my final offer" firth is the Man himself "that's just great, no car, no licence, no job now what". The bar tender asks the man "what's it [his drink order] going to be? |
| Final words on screen **Don't drink and drive** |
| **Timing – Current Campaign** |

## Table 3 – Anti-binge Drinking Storyline

| Anti-binge Drinking Advertisements |
|---|
| **Invincible** |
| Men and women, on a 'night out' having fun in a town centre. Shot showing a group of women at a Hen Party. A group of women are holding Hen Part balloons. One woman lets go of the balloons, she is distressed and cries out. A man sees her distress and suddenly morphs into a superhero. The superhero is invincible and climbs scaffolding, complete a lot of acrobatics and reaches out to retrieve the balloons that are at the top of the building. The slips on the scaffolding, 'returns' to being a normal man and plunges to the ground – seriously injured |
| Voice over – **Too much alcohol makes you feel invincible when you are at your most vulnerable** |
| Final Words on Screen **Alcohol know your limits** |
| **Timing – Over 4 years old** |
| **Girl Ad** |
| Girl begins to get dressed for a night out, she tears her tights, tears her blouse, vomits into a sink and rubs some of the vomit into her hair, smudges her eye makeup and spreads her lipstick over her face, puts on a skirt with a wet patch around the seat area, pours red wine onto the floor and over her clothes, breaks her heal and leaves her house. |
| Final words on screen **You wouldn't start a night like this, so why end it that way?** **Alcohol Know Your Limits** |
| Music – I Just Wait by Paloma Faith |
| **Timing – Current Campaign** |
| **Boy Ad** |
| Boy begins to get dressed for a night out – puts music on his portable stereo, tears his t-shirt, opens the fridge, takes out curry meal, pours the meal over his t-shirt, goes to the bathroom, urinates onto his shoes, stands in front of the mirror and pulls his earring out, rips his leather jacket, slams a door into his face, kicks the stereo down the hallway |
| Final Worlds on Screen **You wouldn't start a night like this, so why end it that way?** **Alcohol Know Your Limits** |
| Music: Eight legs – These Grey Days |
| **Timing – Current Campaign** |

## Table 4 Comparison of 6 Public Information Communications

| Drink Driving | Summertime | What's it going to be? | Car Crash in Pub | | | |
|---|---|---|---|---|---|---|
| **Anti Drinking** | | | | Invincible | Boy Ad | Girl Ad |
| Motivators | Don't Drink and Drive | Think Don't Drink and Drive | Don't Drink and Drive | Too much alcohol makes you feel invincible when you are at your most vulnerable Alcohol know your limits | You wouldn't start a night like this, so why end it that way? Alcohol Know Your Limits | You wouldn't start a night like this, so why end it that way? Alcohol Know Your Limits |
| Social/psychological Fear Dirtiness, feelings of disgust, lack of social skills, rejection | | Rejection – no license, no car, no job – now what? | Feeling of disgust | | Dirtiness, | Dirtiness |
| Physical Fear – High or Low Fear Death, Long term health, Appearance | High Fear Death | | Minor Injury Driver High Fear Death for pedestrian | High Fear Serious injury | | |
| Location Home, Pub, Work place, Park, Garden, Club, Car | Pub | Pub | Pub | City Centre | Home | Home |
| Aimed at male & approx age Aimed at female & approx age | Male (30+) | Male (30+) | Male (30+) | Male 25+ | Male 18-30 | Female 18-30 |
| Storyline Testimonial Dramatisation | Dramatisation | Dramatisation | Dramatisation | Dramatisation | Dramatisation | Dramatisation |
| Home mum/dad, White Collar, Blue Collar, Early Career, Student, Other | White Collar | White Collar | White Collar | White Collar | Student/early career | Student/early career |
| **Victim** Self, Family Member/loved one Friends, N/A, Others | Self and loved one | Self | Others mainly | Self | Self | Self |

## Conclusion

This paper has highlighted the Global need to consider ways of changing drink driving and binge drinking behaviour. Governments have used Social Marketing and Fear/Persuasion Theory to persuade consumers to avoid risky, harmful alcohol related behaviours. The aim of this paper was to evaluate recent Public Information Communications and provide a coding system to ascertain the characteristics within the advertisement. It seems from the 6 communications evaluated that there has been a shift from physical fears to socio/psychological fears in both drink driving and binge drinking communications. However, to provide a more in-depth analysis of the characteristics shown in Public Information Communication storylines more drink driving and/or anti-binge drinking campaigns from the UK and even across continents should be analysed.

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# THE EVENT MARKETING IN CAR-SELLING INDUSTRY IN RUSSIA: THE EXPERIENCE AND THE EFFICIENCY

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## Abstract

*This work analyses the event marketing, it's efficiency in the russian car-selling market. In 2007 the russian car market was attractive for many global brands, because it was growing very rapidly. The situation has been changed, but still the need to promote cars and services efficient is still on the high demand. This study is about the innovative marketing tool such as the event marketing, here we describe it's advantages and disadvantages, difficulties in management and estimate the efficiency. The research covers the experience of russian car-selling companies. In this paper we also pay attention to the results of the event marketing usage, so we demonstrate that it can improve the brand awareness, enlarge the number of the loyal customers and it can reflect on the company sales. The event marketing is the emotional tool and through emotions of the target audience it helps the company to obtain it's business goals. So the event marketing is becoming one the comprehensive way to reach the target customers.*

*Key words: The event marketing, the efficiency of the event marketing, russian car market.*

## The current situation concerning marketing communications

The main question for the marketing and advertising departments all over the world is how to reach the target customer in a proper way, that means at the cheapest cost and in the short of time. However, the marketing communications allow the different kinds of mixes paper print advertisement, TV spots, radio spots and so on. The only deal is to decide what tools to choose and what will be the message for the audience.

As we can see, the annual growth in prices for the main mass communications does not stop the clients to deal with them, it means that the efficiency of the traditional mass media is still under discussions, moreover for the companies sometimes it is probably not possible to refuse using, for example, TV spots or prints in the magazines. But nowadays the problem of clutter in the traditional mass media is occurred, the companies have to invent something new or extra in order to reach the attention of the potential customer. We have a lot of examples of print magazine, where you can see the similar layouts with the similar design and adv. message, so it reflects to the customer attention and as a result he or she could not decide anything concerning the particular company, product or service.

In this situation the companies have to make a decision about the communication strategy of attracting potential client, and it's also important to mention that the question about the communication efficiency has the similar importance. So, studying the various combinations in using marketing communication tools and following customer behavior we have realized that the emotions can have a great impact to the running business successfully. That's why we decided to pay attention the customer emotions through different marketing tools in order to investigate the most challenging thing in marketing communication – how to reach the customer efficiently.

## Event-marketing definition

When we were starting the research, there was a lack of information concerning this study, the main idea was to describe what can do the event marketing for the reaching potential client and how the companies can deal with it, what are the main benefits and disadvantages in the real life situations.

The event marketing is the complex marketing tool, which can enforce the target audience to get the brand awareness through different kinds of positive emotions, the main vision of the event marketing is that customer receive the real experience with the particular brand, and he or she can have a view to the brand values. Event marketing is a brand values transporter to the potential client, and this is the leading element for this marketing tool.

The orient wisdom says that you can see, and it's possible to remember, you can hear, but sooner it can be forgotten, and when you have a real experience of doing something, probably you can remember it for the rest of the life. The event marketing is focused on the real experience of the communication between the potential clients and brand.

The event marketing can involve the audience in the brand values through the emotions, mostly positive ones, the idea of the event marketing is to manage something special for the potential clients, where they can receive a new, fresh and outstanding experience concerning the certain product, service or company. This experience will be some kind of the ground for the future relations between the customer and the company, and the event marketing should reveal the positive attitude to the brand.

It's complicated to define the specific form for the event marketing, we can mention such as: special occasions for clients, for example, road shows, music festival, open days for new customers, test-drive parties, celebrations of company anniversary or birthday, sometimes you can use traditional or international holidays for the brand promotions. The sense of the event marketing is to involve the emotions in the client communications with the brand values. But emotions are not enough you have to propose a new experience for the customer and do it with fun, that's why we reveal the three elements of the event marketing.

They are the following:

1. Fun as the emotions provider.

2. New experience as the possibility to estimate the brand values.

3. Learning something new as a self-improvement.

According to these elements you can manage the event marketing for the brand, moreover it's recommended to choose the idea or the theme for the event close to the brand values. For example, most brands use the different kids of sport to create the events like Adidas and street ball championship, BMW and golf cups, Volvo and Volvo Ocean Race or Volvo Fashion Week in Moscow. The creative idea of the event has to be in the balance with the brand identity and the brand awareness among the customers. There are common and truly productive ideas, which belong to fashion, leisure time, sports, culture, hobbies, the brand can prefer one specific theme or it can use various directions.

## Event marketing as the marketing tool

Having decided to use the event marketing is crucial to find out the idea for the future event or events, the company should follow this idea in every communication during the managing the event marketing. Also it's necessary to mention that before to decide about the type of the event marketing, the company can hold the research in order to understand the customer opinion or demand concerning the exact event. But at the most cases it's not available since of time or budget lacks.

In managing event marketing can be involved sales department and the sales stuff, as sometimes it is the only way to estimate the efficiency of the event. Still, we have mentioned that the event marketing is designed to reach the customer through emotions, so in this case the sales stuff can be the person who can provide this role. People in the company usually share the brand values, so for them it's more convenient to deal with the potential clients as, for example, for the out-sourcing companies.

## How to promote car-brands efficiently?

About 70 car brands from over the world are represented in Russian car market and it provides the customers with more then 250 car models. In 2007-2008 the new car market in Russia had been growing dramatically, before the global market recession, which starts in the end of 2009. By saying the "dramatically growth" we mention the following, for example, the Ford brand dealership "Autoland" in Yekaterinburg, Russia in 2007 has been managed to sale 6,580 Ford cars, in 2008 – 17,985 ones.

The market was rapidly growing so that time the company had very convenient conditions to receive the potential clients. It's a common situation, that every international car brand has a over seas head office and local, which is responsible the brand promotion in the particular area. Usually the local head office provides dealerships with the strict guidelines for every promotion activity, this means that in case of having several dealerships in the one area or location, the competition in the field of advertising among the sales companies will be very strong. And the event marketing can be used in order to reach the target audience.

Traditionally for the head office it is better for dealers to use the mass media communications, as print layouts in magazines, spots in the radio or banners in the internet, the main reason for this is that such a strategy allows to control dealer's marketing activity without addition power. But the additional activities in the dealer's marketing plan bring the new approach for the head office in the supervision the brand values. More over in many cases the head offices of the car brands in Russia realize the importance of emotion tools in marketing activities and they become a driving force in the event marketing activities for the dealers, the car market has it's own peculiarities in the sales approach to the customer, according to Henry Ford theory, that says the best way to make sales is to provide the possibility of the driving experience, that's why most of the companies offer the test-drives for the potential clients. In this case we have a great possibility to combine the new driving experience with the emotions in the event marketing activities, and it becomes possibly to attract additional attention of the target audience since we deal with the values through the emotions.

The customer behavior during the new car choice can be managed by the event marketing, and actually it is one of the efficient ways to get the customer, since the event marketing helps to share the brand values. For promotion the car brands different kinds of event marketing are appreciated, mostly they are the special test-drive occasions, the special holidays and parties for the clients, the open-days and, for sure, a lot of events for the mass media representatives.

Also the company has bear in mind that the event marketing can raise the brand value and brans awareness among the target audience. The idea of the event marketing in car brands promotion is to present, give a chance of the opportunity to share the new experience.

The customer behavior for sure has a significant impact to the sales result and it's also has a strong power to the brand awareness. In the German car association (ADAC), it is one the powerful organization in the evaluation the car brands, is describing the positions of the car brands in Russia. Among the most popular brands are the German car brands, this can be explain as the existing strong believe in high quality of German cars, sometimes the customers share their thoughts that it's better to have an old German cat, rather then the Chinese one.

When we are describing the great growth in the car sales in Russia in 2007-2008, we have to mention the premium segment enlargement, as it has an individual position, the premium brands have about 5% share in the total Russian car market, but it's growing too fast, more than 45% per year, that is more than 2 times bigger the middle brands. Concerning this addiction to the premium brands the dealers have to be able to meet the potential customers needs, the challenge is the following: how to manage the reach the customer in the efficient way.

## How the event marketing helps to reach the customers?

One of the efficient tools in the event marketing is to organize the workshop; it means that in the event, the company provides the opportunity for some kind of new experience for the person and it can be connected not only with the driving. For sure, it can be driving the car through the forest

or in the real airplane road, which can provide the possibility to feel the engine power. Or you can propose you audience to create the T-shirts, the photo frames and other with the own design and using some brand design, we discover, that these workshops can develop both the positive things, like fun and entertainment and also they allow developing the new knowledge.

Event marketing is some kind an atmosphere of the brand, of the company, and the potential clients have an opportunity to decide about the product in very friendly, comfortable way, more over, this marketing communications are always can be chosen by the person.

In our study we managed to reveal the connection between the sales and the event marketing, in 24 months the dealership "Autoland" (the company distribute such brands as Ford, Mazda, Volvo, Land Rover, Jaguar, Mitsubishi Motors, Hyundai, Honda since 1997 in four Russian cities) held more than 59 different events for the potential clients and as a result it become the number 1 company in sales in the region in 2007 and in 2008 according to the local region overview by the Expert magazine. Also we compare the sales results in the situation when event marketing does not used and this makes us sure that the event marketing can enforce the sales due to the positive emotions, due to the better understanding the product, the brand identity and as a result the event marketing can be possible to enhance the total brand cost.

## The vital elements of the event-marketing management

Dealing with the event marketing involves a lot of activities, which should support the whole event, for example, providing catering services or dealing the special presents for the guests. Managing the event is a huge process and it requires the several steps:

1. The revealing the main goals and targets for the event.

2. The decision about the creative idea, which will be reflects the event.

3. The functional managing of the project by the advertising/marketing department or by project agency.

4. The functional managing of the project by the sales department.

5. The efficiency event analyzing.

These basic steps permit to carry out the whole event marketing in a proper way in order to reach the target customers. It's better to have the organizing meetings with all the involved stuff to the event in order to discuss the basic achieves and to do the trouble shutting, and it's also better to have a timetable for every process in the event marketing in order to check the invitation delivery time, to control the suppliers and so on. As for attendance of the event marketing activities, the common number is more 30% of the invited guests.

As for the decision about goal it's worth bearing in mind than the event marketing is very close to the customer loyalty, mostly as it can help the brand to discover the new positive emotions. When we speak about the customer loyalty we make sense of the following sales, but it's not enough for the current situation. The companies and the brand start to care about the attitude, and in this point of view the customer loyalty includes the possibility to forgive any troubles in the service or in the product, to prefer the companies products or services for the presents on various accessions. As a result, the loyal customers are starting to share the brand with the other groups of people, and the company receives this as an award for the efficient marketing strategy, the role of the event marketing in customer loyalty is very important. These conditions make the company to be very careful in organizing the event marketing, to pay substantial attention to every detail, which will be dealing with the potential customer.

Before the start event marketing, it's better to make a list of possible troubles and the ways out, since the company usually deals with a number of the supplies, it's significant vital to have a possibility to make any changes in the necessary cases. Sometimes the company has to be able to solve any problems immediately during the event and the target in this case is to do everything in order to meet the audience requirements. It's obvious things, but in the real life situation this can damage the whole brand identity. In event marketing management is crucial to be possible to react any changes quickly.

The event marketing is very close to the emotional and experience of the real customer, the companies can use this marketing tool as an additional or they can be focused on the creation a specific or unique strategy for getting their clients.

# THE CLOTHING BRAND LOYALTY OF TEENAGERS: DIFFERENCES BETWEEN LOYALTY AND DESIRE TO BE LOYAL

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## Abstract

*This paper focuses on the phenomenon of loyalty understood as a complex hybrid concept that encompasses behavior and attitude of costumers to clothing brand(s) and relation of the clothing brand loyalty with desire to bee clothing brand loyal. Specifically, this paper investigates younger teenagers as a specific costumers segment with their characteristics, using the model of measuring loyalty of younger teenagers to the clothing brands (Stracenski Kalauz, 2010). Survey data was conducted among Zagreb (Croatian) younger teenagers (n=507), both genders, aged 13 or 14 years, who were 7th or 8th grade of the elementary school in Zagreb. The main results showed that younger teenagers are among 7 types of loyalty (ultimately loyal, loyal, multi-brand loyal, potentially loyal, inert, variety seekers and disloyal) mostly inert (26,4%), then disloyal (20,71%) and loyal (17,16%). The loyalty strength exists, but it is relatively low. It has the mean of 30.83 points (out of possible 13 to 70). The results of this study show that desire of teenagers to garment brand loyalty exists, but it is also relatively small (it has a mean of 1,38 points, out of possible 0 to 6). The research of strength of loyalty for each of 7 loyalty types has been done by analysis of respondents' answers to a set of 5 pre-determined questions in the self-administrated questionnaire. Rank of their arithmetic mean is: 1. ultimately loyal, 4,00; 2. potentially loyal, 3,78; 3. multi-brand loyal 2,99; 4. loyal 2,90; 5. variety seekers 1,00; 6. inert 0,39 and 7. disloyal 0,18.*

*Key words: loyalty, clothing brands, desire to be clothing brand loyal, younger teenagers, types of clothing brand loyalty*

## Introduction

The concept of loyalty is complex, multidimensional, intriguant, always actual, never-ending story and has been in the focus of human behaviour research long time ago.

Nowadays customer brand loyalty in fashion sector is still one of the challenging marketing interests. This is also important issue for both: companies and customers, i.e. all stakeholders in extremely complex fashion market. For this reason, the development of methods in analysing and forecasting customer desire, satisfaction and loyalty is really necessary.

Particularly, costumers` age was very important fact in exploring younger teenagers as costumers and future costumers. The results of these studies will help marketing researchers to achieve new market segments better than before. In this development period of a young person appears so many changes. These include growth and other physical changes, intellectual, emotional and social maturity.

According to the research of Grant and Stephen (2006), tweenagers are very fashion-sensitive and the approval of parents and are key factors in buying decision. Also brand name and its associations strongly influenced on the purchase

of fashion garments. Solomon and Rabolt (2004) point out that the tweenagers are generation with economic power unlike any before them. Young female, teenagers aged 10-14 years are especially aware of fashion trends.

Closely associated with the brand in this paper is a category of products, i.e. clothing in general. However, it should be noticed that product and brand are not synonymous (Schiffman & Kanuk, 2000).

Many factors may contribute in satisfying or exceeding the expectations of younger teenagers as a specific consumer group. For the purpose of this survey two interrelated dimensions will be examined; the clothing brand loyalty and desire to bee clothing brand loyal among younger teenagers (13 and 14 year olds).

## Literature Review

In the past eighty years, since the time of Copeland (1923), who explained that the loyalty became from the insistence, the knowledge about the loyalty was investigated in the framework of management and marketing, and methodologically in terms of consumer behavior, attitudes, and their combination, i.e. hybrid model. One of numerous definition of loyalty gave Reichheld (1996, pp.3) who says that loyalty is: 'the willingness of individuals - consumers, employees, friends – the investor personal sacrifice in order to strengthen the relationship.'

## The models for measuring customer brand loyalty

In order to measure customer brand loyalty some models can be used. These models can be identified in behavioral, attitudinal and hybrid models.

In the recent literature, there has been offered several models of measuring loyalty of children and adolescents. In them, the scientific interest was often directed to selection of questions in the questionnaire (Kwan, Yeung and Au 2004, Williams and Burns 2001), to inclusion of attitudinal and behavioral loyalty factors (Stracenski Kalauz 2010, De Klerk and Tselepis, 2007, Hsieh, Chiu and Lin, 2006, Roedder John, 1999), to factors that influence loyalty (Beaudoin and Lachance, 2006),

to the impact of media on the market behavior of children and adolescents, including brand loyalty (Lueg et al, 2006, Belch, Krentler and Willis-Flurry, 2005, Valkenburg and Buijzen, 2005), to insure the validity and reliability issues and instruments (Baiocco, D'Alessio and Laghi, 2009, Phau and Leng, 2008, Wang et al, 2007), to socialization processes and factors that influence on market behavior and brand loyalty of young people (Hayta, 2008, De Klerk and Tselepis, 2007, Grant and Stephen, 2006, Roedder John, 1999), to the mutual influence of children and adolescents and their family members in making decisions about family purchases (Wang et al, 2007, Roedder John, 1999), to comparison of the research data on the patterns of different populations (Phau and Leng, 2008, Wang et al, 2007), brand loyalty differences according to demographic subgroups, i.e. age and gender (Close, 2010), and to the parent involvement in some research (Bao, Fern and Sheng, 2007, Belch, Krentler and Willis-Flurry, 2005), or to the complementary responses of the entire sample of parents and children (Wang et al, 2007). The model of measuring loyalty of younger teenagers to the clothing brands presented by Stracenski Kalauz (2010) includes seven basic assumptions as well as four specific models that can measure loyalty of younger teenagers to the clothing brands and to examine their characteristics that was done by testing the model in the empirical survey.

## Methodology

## The model of measuring loyalty of younger teenagers to the clothing brands

According to Stracenski Kalauz (2010), the model of measuring loyalty of younger teenagers to the clothing brands is created by seven basic model assumptions important for its theory basis and practical implementation:

1. Loyalty of younger teenagers to the clothing brands should be done by the analyses of the entire sample of research respondents and the individual analyses of loyalty of each teenager–respondent.

2. The survey should include not only teenagers but their parents (guardians) and the pilot research should be done.

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3. The preparation, invitation of the respondents and their enrolment in the survey (both parents and their teenage children) should be planned and done based on the voluntary approach and anonymously, respecting the legal norms and having all the required permissions, together with ensuring the good feeling of respondents-teenagers while doing the research.

4. Research questionnaire should be prepared in a way that the number and the structure of the questions, wording, question ethics, non suggestiveness of the questions and the intellectual demands for answering the questions in the questionnaire should be adjusted to the suitable methods published in the literature and based upon the results of the pilot research and along with the required validity and reliability.

5. Based upon the literature data and the pilot research, the structural model of measuring loyalty among younger teenagers to the clothing brands is made out of 20 variables which are supported by 50 questions. The variables form 10 factors, which define the final criteria category – the brand loyalty with the types of loyalty and strength characteristics.

6. Loyalty types` classification model provides the loyalty types of each respondent according to the analyses of answers to certain questions and the question combinations from the survey questionnaire itself.

7. Research model of the loyalty strength by the points system marks individual loyalty strength of respondents, based upon the individual numeral points of each respondent's answers to the questions within the foreseen question sets and the answers combinations in the questionnaire.

Before mentioned seven assumptions create the system of four specific models within the entire model of measuring younger teenagers` loyalty to clothing brands:

I       Exceptional model of measuring loyalty of younger teenagers

II      Structural model

III     Model of defining the loyalty types

IV      Model of measuring the loyalty strength.

I       Exceptional model of measuring loyalty of younger teenagers

This model includes the implementation of the first four basic assumptions and also cover analysis of the entire sample and the analysis of individual respondents, by engaging in research teenagers (13 and 14 years old) and teenagers` parents (legal guardians), than to ensure the collection of all necessary consents (approvals) and permissions, before the conduction of the examination, than to construct a measuring instruments (questionnaires) that are appropriate for the age of the respondents and their psychological development stage, by conducting pilot studies to gain the necessary insight in awareness, attitudes, behavior and communication style, than to ensure a participants willingness to participate in the study, their understanding of the issues researched, possible time consumption and test duration that determinate the size of the questionnaire. It is also necessary to respect the principle of voluntary participation in research, anonymity and protection of data as well as seeking for well-being of the respondents during the conduction of research because of the need to provide positive experience as a base for future willingness to participation in such researches.

II      Structural model

This model is based on a set of 50 questions that explore areas of 20 variables that form 10 factors, which in turn formed the loyalty, with its inherent nature and strength of customer loyalty.

III     Model of defining the loyalty types

This model identifies seven types of customer loyalty. These are: ultimately loyal, loyal, multi-brand loyal, potentially loyal, inert, variety seekers (researchers), and disloyal. For each type of loyalty the conditions are set out for listing of individual respondents in a particular kind of loyalty according to his answers to anticipated questions and their combinations carried out in self-administrated questionnaire for teenagers.

Ultimately loyal - is a respondent (teenager) who suggested that he/she is loyal and always buys one and the same brand for all the observed items of clothing. Criterion combination of answers to the ultimate loyal includes 6 questions from the questionnaire (Are you loyal to a brand name T-shirts, jackets, pants and Have you ever bought the same brand of T-shirts, jackets, pants). If the

respondent answered all these questions with 'yes' response and the answer contains only one and the same brand, such responses indicate the ultimate loyal consumers.

Loyal – is respondent (teenager) who suggested that he/she is loyal and always buys one and the same brand of same (each) type garment, i.e. trousers. If at least one combination of questions (Are you loyal to a brand name of T-shirts and Have you ever bought the same brand of T-shirts, and same combination of questions for jackets and pants) respondents had to reply to the least one above inter-combination of questions with answer 'yes' and quoting the same brand that may not be the same brand in all three combinations (otherwise it is ultimately loyal), respondents can be classified as loyal.

Multi-brand loyalty (loyal to few brands) - is respondent (teenager) who suggested that he/she is loyal always but always to the same brands of clothing purchases but only for the same type of garment or just to a few of them. If at least one combination of questions (Are you loyal to a brand name T-shirts and Have you ever bought the same brand of T-shirts, and/or same combination of questions for jackets and pants) respondents replied with answer 'yes' and if they have mention some same brands it can be classified in the group multi brand loyalty.

Potentially loyal – is the participants (teenager) who says that the brand of clothing is important to him/her, referring to one or a few brands that he/she is loyal to, but he/she is not buying it. If the question How important is the brand of clothes to you (circle the number out of five at Likert scale where 1-not important and 5-important) respondents answered that it was important (and marked it with grade 4 or 5) and at least one combination of questions Are you loyal to a brand name T-shirts and Have you ever bought the same brand of T-shirts, and the same combination of questions for jackets and pants, he/she responded to a combination of responses on question Are you loyal to a brand name T-shirts with 'yes' and Have you ever bought the same brand of T-shirts with answer 'no' and/or same for jackets and pants, he/she can be included in a group of consumers that is potentially loyal.

Inert – is the participant (teenager) who says that he/she is not loyal, but he/she is buying by habit (inertia) certain brands of garments. If at least one answer to questions Have you ever bought the same brand of T-shirts, jackets, pants says 'yes', and with him at least one brand is mentioned, it can be classified into the group of inert.

Variety seeker – is a participant (teenager) who says that his/her brand of clothes are important to him/her, but he/she is not loyal to, nor is continuously buying and is in constant searching for different new things regardless of brand. A group of variety seekers (researchers) belonging to the respondents that answered on question How important is brand of clothes for you by answers level 4 or 5 (out of Likert point scale where 1-not important and 5-important), and at questions Have you ever bought the same brand of T-shirts, jackets and/or pants answered with 'no'.

Disloyal – is a participant (teenager) who says that he/she is not loyal to clothing brands of any kind, nor is he/she continuously buying anything. The group of disloyal respondents is those, who answered to questions Are you loyal to a brand name of T-shirts, jackets and/or pants with answer 'no'.

IV    Model of measuring the loyalty strength

Model for measuring clothing brand loyalty of younger teenagers, as well as its important part, includes a model for measuring the loyalty strength by scoring responses to a set of questions from the questionnaire. Appropriate number of points is given to the specific answers to processed questions. Possible scores for each question and each combination of questions could have from 1 point up to 5 points, except for the overall combination of question Are you loyal to a brand name T-shirts, jackets, pants and Have you ever bought the same brand of T-shirts, jackets, pants, where the answers to evaluated the combination are of 0 or 5. The points in total on all answers or combination of one respondent-teenager can range from a total of 13-70 points.

## Model of measuring younger teenagers` desire to be clothing brand loyal

The method of research desire to be clothing brand loyal that will be applied here is based on 5 questions from questionnaire (Stracenski Kalauz, 2010) and each answer on those five question was graded polarized (0 for not having desire in being loyal for a clothing brand and 1 for having existing desire in being a brand loyal) and the total

score of points on those 5 question determinates the strength of desire to be clothing brand loyal. The overall scores can be from 0, meaning there is no desire to be clothing brand loyal, up to 5 as maximum, meaning the highest existence of desire to be clothing brand loyal. Those questions are: 'How important is clothing brand for you?'; 'Are you loyal to a brand name T-shirts'; 'Are you loyal to a brand name jackets'; 'Are you loyal to a brand name pants' and 'Would you recommend to your friends a brand of clothing that you are loyal to?'.

## Research Sample and Method
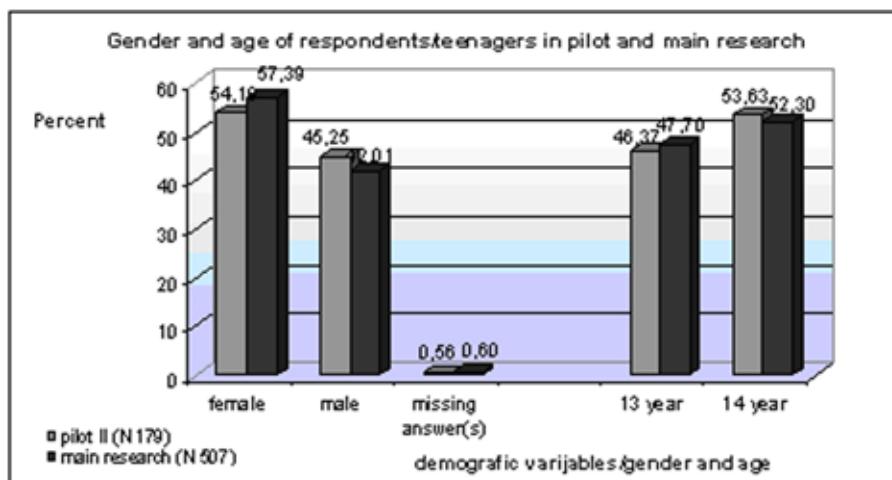
In this study, after getting all required allowances and consents for implementation on field research, one step cluster sampling was used to get a sample, which consisted of elementary school male and female students which were going to 7th and 8th grades of public and private schools in the City of Zagreb. They were, at the time of examination, 13 or 14 years old and one of their parent or legal guardian was invited to participate in research.

The main study was conducted in 18 regular, public and private elementary schools in Zagreb and the sample was selected by method of single-stage cluster sampling. A self administrated, anonymous questionnaire with 20 questions was completed by 507 respondents (teenagers).

From the total of 507 teenagers male was 213 (42.01%) and 291 female (57.39%), while 3 respondents did not specify their gender. According to age at the time of testing, there was 242 (47.7%) of 13 year olds and 265 (52.3%) of 14 year olds. The demographic characteristics of the sample population are shown at Figure 1.

**Figure 1: Demographic characteristics of the respondents/teenagers in pilot and main research**



## Results

The desire for loyalty of respondents studied in a sample of 507 respondents was measured based on answers on a group of 5 in advanced determinate questions from totally 20 questions in self-administrated questionnaire. Answers of every respondent were classified in a way that it was possible to get 0 to 1 point on every question so in total it was possible to get from 0 to 5 points. Therefore the score from 0 points meant that there is no desire for loyalty and a score of 5 points meant the maximum desire for loyalty to a clothing brand.

This kind of scoring was used for every respondent individually and there were compared strengths of desire for a loyalty according to categories of loyalty like: ultimately loyal, loyal, multi-brand loyal, potentially loyal, variety seekers, inert, disloyal and unspecified loyalty, i.e. respondents where it was impossible to identify the type of loyalty according to their answers.

After having answers in self-administrated questionnaire 12 respondents (2,4%) from 507 did not answer in total on a group on 5 questions so their answers were eliminated from further

statistical analyses and a rest of 495 were statistically analyzed. The mean of loyalty desire of 495 teenagers was 1,3798. Figure 2 present frequencies and proportions of respondents according to their loyalty types and levels of strength of clothing brand loyalty desire.

**Figure 2: Respondents (teenagers) distribution by loyalty types and their desire to be loyal to the clothing brand**

| Type of loyalty | Frequency | % | Non existing desire to be clothing brand loyal 0 % | Strength of the desire to be clothing brand loyal among younger teenagers 1 % | 2 % | 3 % | 4 % | 5 % | Total % |
|---|---|---|---|---|---|---|---|---|---|
| Ultimately loyal | 1 | 0,20 | | | | | 100,00 | | 100,00 |
| Loyal | 87 | 17,58 | | 19,54 | 18,39 | 22,99 | 27,59 | 11,49 | 100,00 |
| Multi-brand loyal | 18 | 3,64 | | 5,56 | 22,22 | 38,89 | 33,33 | | 100,00 |
| Potentially loyal | 14 | 2,83 | | 21,43 | 21,43 | 14,28 | | 42,86 | 100,00 |
| Variety seekers | 3 | 0,60 | | 100,00 | | | | | 100,00 |
| Inert | 133 | 26,87 | 65,41 | 30,08 | 4,51 | | | | 100,00 |
| Disloyal | 105 | 21,21 | 81,90 | 18,10 | | | | | 100,00 |
| Unspecified loyalty | 134 | 27,07 | 22,39 | 23,13 | 25,37 | 15,67 | 6,72 | 6,72 | 100,00 |
| Total | 495 | 100,00 | | | | | | | |

Figure 3 presents mean, rank of mean and mode of the strength of desire for clothing brand loyalty according to type of loyalty.

**Figure 3: Mean, rank of mean and mode of the strength of desire for clothing brand loyalty according to type of clothing brand loyalty**

| No. | Type of loyalty | Strength of desire for clothing brand loyalty Mean | Rank of mean | Mode (0-5) |
|---|---|---|---|---|
| 1. | Ultimately loyal | 4,00 | 1 | 4 |
| 2. | Loyal | 2,93 | 4 | 4 |
| 3. | Multi-brand loyal | 2,99 | 3 | 3 |
| 4. | Potentially loyal | 3,78 | 2 | 5 |
| 5. | Variety seekers | 1,00 | 6 | 1 |
| 6. | Inert | 0,39 | 7 | 0 |
| 7. | Disloyal | 0,18 | 8 | 0 |
| 8. | Unspecified loyalty | 1,81 | 5 | 2 |

From the above figures it is shown that most expressed desire for the loyalty had respondents who were ultimately loyal and potentially loyal and the least desire had the respondents who belonged to disloyal and inert.

These results suggest that the younger teenagers in Zagreb at the age of 13 and 14 years have relatively low desire for clothing brand loyalty and prevalent loyalty types which are characterized by low-volume customer loyalty.

## Discussion

Until now, the number of studies which actually examine the connection between certain types of loyalty and desire for loyalty brand clothing among younger teenagers are limited.

Statistical analyses of the answers in the questionnaires confirm thesis that younger teenagers have the clothing brand loyalty strength, but it is relatively low. Younger teenagers are among 7 types of loyalty (ultimately loyal, loyal, multi-brand loyal, potentially loyal, inert, variety seekers and disloyal) mostly inert (26.87%), then disloyal (21.21%) and loyal (17.58%).

According to the model of loyalty strength points, out of possible 13 to 70, it has the mean of 30.83 points (N 481) and has no significant differences between female and male respondents. Analyses of young teenagers desire to be clothing brand loyal can be measure on two ways. Testing the hypothesis directly by posing the survey question: 'If you can, would you like to be loyal just to one clothing brand' or with analyses of the combinations of questions. Just 17,32% of respondents answered positively, i.e. by answering 'yes' on a direct question (Stracenski Kalauz, 2010).

In this research, the connection between certain types of clothing brand loyalty of younger teenagers and the desire for loyalty was explored by the combination of questions in the self-administrated questionnaire. Results also suggest that among younger teenagers there is a desire for loyalty, but its strength is relatively low, i.e. the mean is 1.38 of possible 0 to 5 and varies depending on the type of loyalty.

## Conclusions

This study discusses the connection between certain types of loyalty of younger teenagers to the clothing brands and the strength of their desire for clothing brand loyalty. This problem has not been wider researched in academic literature, although the younger teenagers as the age group are specific, substantial and growing segment of the purchasing power of consumers.

Analyzed data are obtained on a sample of 507 young teenagers between the ages of 13 and 14 years in the City of Zagreb by using self-administrated questionnaires, with the application of high ethical standards for research in this age group. Based on analysis of a group of 5 questions, responses that were scored were evaluated in the range of 0 to a total of 5 points. The resulting values were analyzed according to certain types of clothing brand loyalty. Rank and mean values of the strength of desire for the clothing brand loyalty with regard to particular kinds of loyalty types was as follows: 1 ultimately loyal 4,00; 2 potentially loyal 3,78; 3 multi-brand loyal 2,99; 4 loyal 2,93, 5 variety seekers 1,00; 6 inert 0,39; 7 disloyal 0,18; and unsorted respondents by loyalty with regard to the kind of loyalty criteria were having the arithmetic mean of the desire for loyalty 1,81. This showed that the younger teenagers in Zagreb have a clothing brand loyalty, but it is relatively low and desire for loyalty exist too, but that it is also relatively low and differs depending on the type of clothing brand loyalty.

## Suggestions for Further Research

Recommendations for further research related to the need in monitoring the movement of loyalty and desire for the clothing brand loyalty of younger teenagers in repeated (longitudinal) studies with respect to changes in economics over time.

## Recommendations for Retailers and Marketers

Recommendation to marketers and retailers refer to the necessity of intensifying efforts in finding new strategies and techniques to increase customer clothing brand loyalty and the desire for clothing brand loyalty of younger teenagers, because their current level, based on research conducted in Zagreb is relatively low.

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# THE IMPORTANCE OF DATABASE MARKETING IN SOCIAL NETWORK ADVERTISING

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## Abstract

The last two decades have witnessed drastic globalization achievements and technological innovations that do not only have a major impact on the individual but have also produced profound changes in all aspects of business, including marketing.

Owing to current trends, the means of realizing one of the primary goals of every business, that is, satisfying customers' needs, have been greatly changed. Contemporary businesses focus their marketing efforts on creating databases of the existing customers and stimulating their company loyalty. The establishment and effective management of a customer database enables a personalized approach to every customer. It is personalization based on relevant information resulting from employing a customer database that can allow businesses to acquire new customers and retain the current ones as well as build a long-term relationship with customers that leads to greater marketing efficiency.

One of the new trends that implies using databases is social networking. Social networks have thus become a location where users can not only communicate among themselves but also communicate with businesses. Without a quality database marketers would not be able to appropriately exploit social networking as an advertising medium and send personalized messages to individuals. Therefore the aim of this paper is to exemplify the importance of marketing databases in social network advertising.

## Introduction

Companies have started to pay more attention to understanding customers and their behaviour. They have realized that by using the right information about their customers, they can gain a competitive advantage in their business surroundings. Collection of important information by creating long-term relationships with their customers and by observing customer behaviour is facilitated by development of advanced information technology. Technology allows companies to maintain long-term relationship with customers once the affiliation has started by entering information into the database, and to adjust their offer based on real and not just perceived customer wants and needs.

If the companies want to satisfy the desires and needs of their clients and if they want to build long-term relationships, they need the right information. This information can be received by continuous process of data collection and analysis. Companies must constantly collect data and enter them into a database, and with the use of technology convert data into useful information that helps companies to know what their customers need at any moment. Databases are of great importance for the company and therefore they need constant maintenance. Companies that want to have a quality database must take care that the data is organized and refreshed regularly. Only quality data can help businesses to find out current wishes and needs

of its clients and only quality information enables companies to predict future behaviour of their clients. It allows companies to build a personalized offer and to maintain a quality relationship and cooperation of companies and clients.

Creating a database affects the ability of enterprises to follow the entire lifetime of clients, their current and future behaviour. Effective implementation of database marketing depends primarily on quality of customer data.

Social networks, as one of the biggest trends in the 21st century, abound with information that individuals are revealing about themselves, which marketers can use for their needs so investment in building relationships and advertising on social networks grows continuously. The evidence for that lies in research published in February 2011, which shows that investment in worldwide social networks advertising in year 2009 amounted $55.20b, and in 2010 worldwide social networking ad spending was almost $62b. The assumption is that the amount in 2011 will grow to nearly $69b, which is the increase of 8.7%, but it would probably not stop there [eMarketer1].

## Database marketing

The first step in creating database is to determine the purpose of database usage, or better said defining data that it will contain, which is followed by determining of methods and techniques for data collecting and analysis. The objectives of making and using database are: [Dobrinić et al, 2005, p 25]

- identifying potential customers

- defining the customers who will receive a personalized offer

- updating customer orders

- increasing customer loyalty etc.

Database marketing draws its origins in direct marketing which evolved in the 1960s with the emersion of direct response method, and later, the emersion of newspaper inserts. Biggest milestone in the development of database marketing refers to the beginning of the personal computers and the Internet usage for they are interactive media that most intensely affected the further development of direct marketing, and also the development of database marketing [DeTienne & Thompson, 1996, p 14]. According to Brown [2006, p 110] database marketing is "…a form of direct marketing using databases of existing or potential customers to generate personalized communications in order to promote a product or service for marketing purposes."

According to Blattberg et al [2008, p 4] database marketing can also be defined as "…the use of customer databases to enhance marketing productivity through more effective acquisition, retention, and development of customers". From this definition we can emphasise three key words; customer database, marketing productivity and customer management, which represent the essence of database marketing. The first and one of the basic characteristics of database marketing is to use customer database in order to perform comprehensive analysis of the data in the database. The database is defined as „…a grouping of items or data that exist in a relationship with a particular subject" [Robertshawe, 2008, p 165]. Another important determinant in defining database marketing refers to marketing productivity. The important role of database marketing is to increase marketing productivity, which is manifested by reduction of marketing activities costs to increase return on investment. At the end, probably the most important determinant of database marketing is customer management, which includes acquiring, retaining and developing relationships with customers. From the foregoing it can be concluded that the company, establishing effective database marketing, beam their marketing activities to customers, with the aim of increasing productivity and long-term success of whole company [Blattberg et al, 2008, p 4].

From the very definition [Blattberg et al, 2008, p 13] of database marketing three basic reasons arise:

1. Enhancing marketing productivity

2. Enabling the development of a customer/firm relationship

3. Creating a sustainable competitive advantage

Today's business environment in the last decade shows an increase of the importance of database marketing due to some of the following reasons: [Blattberg et al, 2008, p 7]

- expansion and development of information technology

- growth of the Internet importance

- lower productivity of mass marketing

- increasing marketing responsibilities (marketing accountability)

- increasing interest in customer relationships

- establishing a competitive advantage.

Modern information technology enables companies to process and manipulate huge amounts of data about customers, which is supported by advanced software, which still shows an intense development. Except software development, modern information technology includes increased importance of the Internet and electronic business. Today Internet allows direct collection of data about customers in real time, which is of great importance for the implementation of marketing activities.

The increase in the importance of database marketing has been driven by lower productivity of mass marketing. In the past, marketing activities were based on mass marketing, which is characterized by non-personalized customer service that does not suit today's market conditions. Database marketing allows separating profitable from unprofitable customers and thus ensures that marketing activities of a company focus on the profitable customers. Specifically, mass marketing entails high costs of marketing activities, loss of key customers, and ultimately lower marketing productivity. In response to the mentioned problems, companies have turned to modern marketing concepts, where one of the most common is database marketing. It is based on a personalized approach to each individual customer, which leads to increase of customer response [Blattberg et al, 2008, pp 7-9].

Given the dynamic market environment, companies today recognize the importance of creating long-term and quality relationships with their customers, in which database marketing helps them achieve the goals. This policy allows the company successfully serving the customer where the ultimate goal is creating competitive advantage.

The application of database marketing is extremely important for creating and maintaining relationships with customers. A quality and long-term relationships with customers often result in customer loyalty, and we know that loyal customers constitute the biggest value of each company [Database Marketing Institute]. Database marketing can be a source of competitive advantage. Specifically, within the database marketing, the company has a large scope of information about customers and based on these company can form the best service or product and customize the promotion of products or services to customers more efficiently than the competition, and thus improve their market position. Therefore, it can be concluded that the value of the company is determined by the value and volume of customers information that the company owns.

A very important concern in database marketing and social networks advertising is privacy of clients that is now considered to be one of the leading tasks of each company. It is not just a moral issue of the company, but the key issue of maintaining good and long-term relationships with clients, which provides a strategic advantage and the ability to survive on the market. Privacy of customer data can be a source of problems, but also a source of new business opportunities [Panian, 2003, p 262].

If the company violates the privacy or endangers the client, it will very likely undermine its relationship with the customer and thus devalue all the efforts to build a useful database. Those who once had such a negative experience probably will never again go back doing business with a company that has badly treated their data. Violation of privacy could result with legal sanctions (punishment) for example Law on Personal Data Protection [Law]. This will not only cause expenses but also loss of reputation on the market and can seriously threaten the entire business and give competitors an advantage.

On the other hand, if a company has a good system of security and protection of data about their customers, and if this system is publicly declared, it will give customers the signal that they are essential and that the company cares about their privacy. This strengthens the trust of clients, which also has a major role in gaining their loyalty [Panian, 2003, p 262]. Companies and clients should resolve this issue together with communication that enables companies to look for more personal information about its

customers. In this process customers should be able to define what information company can use without limitations, and what information should be especially protected. This way companies come in a possession of detail information that will enable them to perform better analysis and ensure the business success in the future. In marketing terms, this means that the enterprise will be able to define their goals and the ways of achieving them better, but that will also increase the chances to build relationships and all the benefits that the relationships bring along.

In many countries the issue of protecting customer privacy is governed by the law, but if the companies want to attract more attention and trust of their clients, companies should give more attention, effort and resources to privacy than it is required by the law itself [Law].

## Social networking

Social networks are one of the largest Internet developments in the 21st century. They are considered as a new medium of direct marketing and they represent one of three of cyber communities (beside blogs and chat systems). Its main purpose is making new friendships or maintaining those that already exist [Sheldon, 2008, p 67]. Every year, social networks are gaining in importance both for users and for marketers who incorporate them into their media plan.

Over 300 different active social networks exist today. Each has its own specific characteristics, beginning with the ideas of connecting the dominant target group, the possibility of interaction and visual identity [Ross, 2007]. The first web-based social network site (SixDegrees.com) with similar characteristics as ones that exist today was launched in 1997 [Stround, 2008, p 278]. Social network allows individuals to present themselves, to articulate their social needs, to establish or maintain connections with others [Ellison et al, 2007, p 1]. "The main motivation for using social networks is a consequence of social influence and desire for belonging to a particular community" [Vazdar, 2007, X].

Social networks enable users to be part of a large, international community and to share information, opinion and content with other members of the network. This sharing process companies see as their opportunity to advertise and hope to find a new way to use these communities [Zeng et

al, 2009, p 1]. Social networks as a medium of direct marketing help companies target individual consumers by using databases companies adjust personalized offer to customers. Advertisers pay attention to social networking sites and are using the content from users' profiles to target ads individually tailored to consumer. These ads can be based on general demographic, geographic, psychographic information to deliver personal (individual) ads [Grubbs Hoy & Gender, 2010, p 28]. Even though, marketers are still too afraid that they intrude users' privacy and their personal space, so they do not take advantage of this medium as much as they could. But social networking platforms encourage users to post and share personal information as part of their online social interactions [Grubbs Hoy & Gender, 2010, p 29]. However, it is assumed that the investment in advertising on social networks in the coming years will increase [eMarketer2]. Companies should have in mind that the social network sites are places "... where actual and potential customers are interacting, and it shapes how they think" [Fisher, 2009, p 190]. The core of social networking sites consists of personalized user profiles. Individual profiles are usually a combination of users' images, posts and lists of interests (hobby, music, book, and movie preferences) which makes useful source for database marketers. Different sites impose different levels of privacy in terms of what information is revealed through profile pages to non-affiliated visitors and how far "strangers" versus "friends" can traverse through the network of a profile's friends [Trusov et al, 2009, pp 92-93].

Social networks enable users to build and maintain contacts with their family, friends and business partners in a virtual environment, while at the same time they help users to find other people by using key words and descriptions. Since 2004 when they first became widely known in today's familiar form, social networking sites have dramatically changed the functionality of the Internet. The potential to reach consumers directly and in a personal and social environment has meant that marketers are "forced" to advertise in this new medium [Kelly et al, 2011, p 16].

## Advertising on social networking sites

We have already mentioned that social networks are considered as new media of direct marketing, but also they are considered to be the new

advertising medium on the Internet where online advertising is considered to be "a form of advertising that uses the Internet and the global network to deliver the marketing offer and to attract customers" [Jelčić, 2008, p 239]. According to another definition, Internet advertising means "advertising that appears when consumers search the Internet, including banner ads, ticker ads, ads interval (interstitials), skyscrapers, e-mail marketing, including spam, and other formats" [Kotler, 2000, p 148].

The most common way of Internet advertising is through banners, and the same goes for the social network advertising. Some of them are: [Social networking1]

- "Floating ads: These ads move across the screen of a specific web page.

- Trick banners: These are the least popular form of ads, because they resemble an error message. The banner might have a dialogue box, which tells you that your computer is not secure, and certain actions must be taken. If you take these actions, you are brought to the advertiser's website.

- Pop-up ads: Pop-up ads display the advertising in a new window.

- Video ads: As the name implies, a video ad is similar to a television ad, since it displays a video that advertises the product."

According to Fisher [2009, p 191] the most common measurement of the social network advertising impact are following parameters: Unique Visitors, Cost per unique visitor, Page Views, Visits, Return Visits, Interaction Rate, Time spent, Video installs, Relevant actions taken. In addition, three most common pricing methods of social network advertising are: [Social networking1]

- CPM (cost per mille) - The cost per one thousand impressions. This is service providers' favourite method of collection for advertising space because it does not depend on consumer reaction to the ad

- CPC (cost per click) - the advertiser pays the social network a specific amount of money for every visitor that clicks through the ad and visits the website product or service, advertisers prefer this form of advertising space

- CPA (cost per acquisition), and is also known as affiliate marketing - the social network publisher only gets paid when someone actually makes a purchase at the vendor's website (Amazon for example). This is a form of advertising that best suits the advertisers, because they can accurately calculate the cost of advertising.

Advertising on social networking websites can help a business to grow whether it is a small or a large corporate business. Depending on social network company chooses when promoting its product or business, marketing could be expensive, inexpensive or free [Social networking2].

## Usage of database marketing in social networking advertising

In this chapter we will mention the two most popular global social networks (Facebook and MySpace), ways of advertising on them and how they use the database in order to personalize the offer for individual users. As a comparison, according to the survey published in December 2009, advertising spending on MySpace worldwide will fall by 21% in 2010, while advertising spending on Facebook will increase by 39% [IAB].

Facebook is one of the most popular social networks. According to Facebook website it is "a social utility that helps people communicate more efficiently with their friends, family and co-workers. The company develops technologies that facilitate the sharing of information through the social graph, the digital mapping of people's real-world social connections." [Facebook1] It came to existence in 2004 as an on-line database of Harvard students and was recognized as a source for finding people. Today Facebook has more than 500 million active users worldwide, and over 250 million users are active each day and entrepreneurs and developers from more than 190 countries that advertise on Facebook [Facebook2]. This is a huge number for companies to target. But through database, and after creating an ad, it appears on profiles and pages that are relevant to individual users.

Facebook offers businesses the opportunity to promote their products, services and brands to their fans using services such as Facebook Pages and Facebook Ads. Facebook Pages allow fans the opportunity to engage with a business and its brands in a variety of ways, whereas Facebook

Ad can tell you about how ads can be targeted at very specific groups of users. In this article we will concentrate on the Facebook Ads.

For the determination of target groups on Facebook, company can use Facebook database, but it is important for a company to know what advertising goals they want to achieve, which consumers they want to target for products/services company offers and at the end what are the characteristics of those consumers. According to Facebook's publications its database provides the enterprises to segment customers by location of customer (Facebook Ads uses a user's IP address and their profile information - country, state, city, radius to determine location), by language (Facebook has been translated into over 70 languages, Ads can be adjusted based on preferred language), according to demographic characteristics (age, birthday, gender, relationship status, preferred language), according to some personal factors (education, workplace, interests, likes ...) [Facebook3]. Once a company chooses its own criteria for selecting target groups, Facebook will display the approximate number of people that targeting encompasses [Facebook4]. Ads can be paid according to two models: CPC (cost per click) and CPM (cost per mille).

MySpace is "a leading social entertainment destination powered by the passions of fans" [MySpace1]. It is an interactive social network that has the same function as Facebook, as well as all other social networks, and the function is to maintain and gain new friends, create a personal profile, participate in groups, blogs and forums, exchanging pictures, music and video [MySpace2]. MySpace first appeared 2004 and was the strongest social network in the world, until April 2008 when position was taken over by its main rival Facebook. The target group of My Space are primarily teenagers and younger people (it has a 50% market share in the 13-35 demographic), who want to stay in touch with friends and want to have a sense of belonging [Crunchbase]. Today MySpace has more than 100 million users worldwide, and half of them are in the U.S. Myspace is localized in 30 countries and translated into 16 languages [MySpace2]. Besides Facebook, MySpace is the most popular social network in the world, and the two of them constantly "fight" over the number of users and the number of advertisers who are present on them.

Advertising on MySpace social networking website works similarly to Facebook. Marketer set up his ad and chooses how he wants to pay (CPC – cost per click or CPI/CPM – cost per impressions/cost per mille). MySpace, just like Facebook database contains information about age, gender, education level, relationship status, occupation, parental status, hobbies and interests, location, and so on which can be used for more precise ad targeting [MyAds].

## Conclusion

Database marketing is the process of building, maintaining and using customers and other databases for the purpose of contacting, transactions and building relationships with clients. Companies often use database marketing for three reasons: because of increased marketing productivity, developing and improving relationships with clients, and for building a sustainable competitive advantage.

Today, at time of crisis, with the reduced clients' budget and more rational spending, the impact of businesses that use database marketing is increasing because the consumers' buying decisions are significantly affected by managing relationship with clients. Using database marketing, companies are gaining trust of their clients, and building a positive relationship with them easier and quicker. And thus, successful relationships with clients result in higher competitive advantage which is otherwise very difficult to achieve.

Due to lower budget of consumers, but also because of the increasing availability of consumers, enterprises must have some kind of presence on the network, whether with their profile pages through which they gain loyalty or through advertisements, mostly in the form of banners. And what companies must keep in mind is that once they start gaining popularity, the best way to continue the growth trend is to make sure they keep up with their pages and update them with new information, news or changes. Fresh content will keep loyal customer and attract new ones.

The aim of this article is to raise awareness about advantages of database marketing over the traditional marketing methods among companies in Croatia and wider region who still have not recognised its value. We propose further research of local companies' marketing practices on social networks to determine present state of the art and

to be able to set directions for developing future advertising actions.

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# MUSEUM MARKETING : SHIFT FROM TRADITIONAL TO EXPERIENTIAL MARKETING

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## Abstract

*The aim of this study is to explore the feasibility of the experiential marketing concept in museums. Museums represent a very special form of non-profit organizations in the service sector, and service marketing approach might be insufficient to describe marketing perspective of them. Hence, this paper starts with the existing service marketing approach and defining marketing mix elements. After that, the study benefited from literature review and qualitative methods, as for in-depth interviews with the museum staff.Furthermore, private and state owned museums provided two cases to draw conclusions about the experiential aspect of museum marketing. The conclusion provided a four-dimensional comprehensive model to transform museum service to museum experience which enables, museum managers and academics to criticize the current system and empower the weak facets.*

*Key words: Museum Marketing, Experiential Marketing, Museum Experience*

## INTRODUCTION

Museums represent a very special form of non-profit organizations in the service sector. Since they establish a linkage between nations' cultural heritage and modern life. As Kotler and Kotler have noted, marketing reflects the latest stage in the evolution of the museum, "with its focus on the museum experience from the point of view of visitors and consumers." (1998, p. 15).

This evolution is visible through definition revisions. The British Museums Association (1997) defines museums as"…institutions which collects documents, preserves, exhibits and interprets material evidence and associated information for the public benefit." Emphasis is on the functional side of the institutions. However by 1998, this definition has changed. Museums now enable the public to explore collections for inspiration, learning and enjoyment . "A museum is a non-profit making, permanent institution in the service of society and its development, and open to the public, which acquires, conserves, researches, communicates, and exhibits, for purposes of study, education and enjoyment, material evidence of people and their environment" (Statutes of the International Council of Museums,1998).

Museums are recognizing that they are competing for consumers' share of leisure time and entertainment dollars, and that new marketing strategies for museums need to focus on that(Peschiutta, 2001). Conventional marketing appraches enter hereby, as its notion of "ultimate goal of customer satisfaction". Although the objective is same as for-profit organizations, the methods are different, since profits are vitally important for them, and without profits they can not sustain. However, profits are required but not as an objective for museums.

This study aims to explore the experiential marketing practices of selected museums, particularly one national museum located in İstanbul. The archival data enlightened the classical marketing approach to museums(4P's or 7P's), moreover the recent trend is towards "experiential marketing" approach, so this paper would be enriching the understanding by offering new criterias.

Experiential approach is a new concept among Marketing World, so basing the study on that concept is the main competitiveness of the study. Beside that, focusing marketing through museums lens, as crucial organizations vital for a nation, adds a social property to the work.

Last but not the least, another dimension is that, since museums are attractive in terms of tourism. Especially İstanbul is resourceful by the historical areas,museums,palaces. Understanding the current situation within marketing perspective,hence will be beneficial to identify missing points and corrective actions.providing recommendations and improvements would aid in the city's image, on the long term.

The paper is designed to provide related information about Museum Marketing, and Experiential Marketing within the Literature Survey part. The basic definitions, the aiding concepts and the characteristics are to be examined through that part. Later on the author would be presenting the study's methodology. The findings of the research are to be classified for Topkapı Palace The author summarized the overall study and shared comments, recommendations in the Conclusion-Discussion part. The implications for further research and limitiation through conducting the study are presented as the final parts.

## MUSEUM MARKETING

Adopting marketing perspective on museums, is new by means of methodology and applications. According to Kotler(1991) and McLean(1996), marketing should aid in designing the offerings , according to meet with contemporary expectations and needs of the visitors. According to Tobelem (1997), theintroduction of marketing to museums is related with the following four factors: the growth of museums, the question of financing, the competitive museum environment, and the necessity to know the visitors better. Each of these factors is related with particular strategies and tactics in the context of a museum marketing plan satisfying, at a given time period, the museum's objectives, in micro- and macro-economic environment.

Museum marketing means,matching the capabilities of the museums with the expectations of the society, presenting new offerings to fit to the audince's needs ,and selling these offerings in such a way that they create profits to the organization. (Hooper-Greenhill, 1994).But it is important to keep in mind that the strategical marketing approach is not the profit maximization, but to enable museums survive in the sector.

The literature evaluated museums through services marketing lens. To proceed systematically, first the characteristics of museums within the services marketing context would be presented. The next part provides the extended marketing mix of the museums. These data are benficial in terms of previous evaluation criterias, and establishing a strat point to dive into new experiential approach.

## Characteristics Of Museums Through Services Marketing

Marketing management tasks in the services sector, by nature, tend to differ from those in the product sector in several important respects (Lovelock and Wright, 2002). The basic distinct points are to be classified as; intangibility,inseparability, heterogen eity,perishability and lack of ownership.

The concept of intangibility is the most original characteristics of the services. At first sight museums' professionality may be viewed as institutions which is essentially object-based. Unlike goods they can not be touched. However rather than the visible products such as; painting s,sculptures,tools, insturements, it is the emotions they evoke which are intangible (McLean,1994). Thus, the experience is the intangible feature of the museum,while additional services like museum store, museum cafe, are the indicators which balance the the continuum from "pure service" to "pure product" (Flipo,1988)High involvement services, which includes customers to engage in the purchase of service personally, are also unique by the property of integration of service with service providers. Lovelock and Wright (2002, pg 11) argues that "the difference between service businesses often lies in the quality of employees serving to customers."Another approach also claims "Inseperability is valid in museums where the educational and entertainment aspects are inseperable from the consumption of the museum serviceby the visitor"(McLean,1994,pg 194) In other words, even customers are unable to define what they actally consume. Whether it is entertainment, education, a cafe visit, or even a feeling of social acceptance by doing something desirable. It is quite hard to determine.Actually when the tangible part of the museum services are taken into consideration, theoretically reaching to The degree of involvement of people in the service delivery system (museum employees,visitors) makes the standardization and control of the services.The museum experience is perishable, and it can not be stored.A person could encounter

in different feelings and thoughts when visits a museum in different time periods. The equilibrium between the available service and demand has to be explored. In other words, museum should not miss any visitors due to unused capacity, such as idle areas, or employees.The basic distinction from products is the lack of ownership. The customers can have access to use a service but definitely can not own it . Psychologically it requires a degree of education and understanding to enjoy the museum experience. Since at the ate end of the visit, you have nothing at hand, but memories with the tangible items.

## Extended Marketing Mix Of Museum Marketing

## Product

The literature offers the "product" term, however firstly it would be beneficial to start with wha is meant by recalling product. Museum product is, aggregation of the images and perceptions of the customer evoked by the intangible and tangible aspects museums provide(Cengiz,2006)So with respect to other elements, this is the most resourceful and strong factor,since they are changeable to some degree. But hereby the wide variety of the products, enable the marketer to deepen the analysis, and hence enrich the product portfolio.

The key concepts to increase value for product concept are basicly 2. the first one is offering product variety and assortment,so that the regular customers keep their intereset, whereby there is a chance of drawing attention of new visitors with incoming collections. The second one is ensuring keeping the attractiveness of the products.It would be wise to assess the collections in terms of product life cycle, the items on the maturity stage( presenting for a long time) needs modifications to sustain the attention.

Mentioned recently that museum offers a wide range of services,hereby a close look on that offerings would be available.

- Preserving Cultural Heritage : Traditional mission of conserving the historical artifacts hold up great importance,but the management should not keep them away from customers with the aim of preserving them.Also mainly,the

museums are historical places, so a special attention on

- Supporting the Actual Researches : Beside protecting the actual collection, museum management has to support the ongoing studies conducted by the researchers and archaeologists.

- Providing Information : Visitors are affected by the objects that are enlighted by the specialists, historians and researchers.

- Educating : Students and children are important in terms of incoming generation. So a special attention and investment has to be devoted on that segment. Museums have to serve as educational and cultural centers for them rather than traditional image of dusty,old fashioned and boring buildings.

- General Visitor Services : The support services such as Museum Store,Museum Cafe,semine rs,animations,audio-visual support and design of the overall organization.

Analyzing components of product is helpful in terms of visualizing the overall scheme for museums .Core product is the physical product; such as collections offered in the museum. Actual product is the benefits or solutions provided by the product;such as Museum Cafe,Museum Design and Museum Store. Augmented product is the extended product – features and attributes, such as visual audio support,seminer rooms.

## Place

Rathmell (1974) regards services by location in multiple ways; where location may be irrelevant;where the services may be concentrated; and where the service may be dispersed. Museums' services are concentrated in their locations,since the place is fixed there is relatively narrow range of activities. To overcome with this obctacle, museums engage in touring exhibitions and turnaround of the permanent collection (McLean,1994)

Another dimension on the distribution/place consideration is the location of the museum. Convenience of the location is competitive advantage. At least providing directions to facilitate the finding of the location has to be ensured.

## Promotion

Existence of promotional activities are important in terms of establishing a communication with the actual/potential visitors and fund providers. Due to financial concern, a full campaign is merely possible. The promotional objectives for a museum can be(Cengiz,2006);

- To create and enhance the museum image

- Providing relevant information regarding museum and services to potantial visitors

- To remind the actual visitors about the museum amd its recent events

- To remind the importance and value of the museum to the fund providers

- To motivate and better coordinate the employees

Due to unique characteristics, museums have to approach their customers via special, and non-traditional channels.Young (1981) suggested the immense effect of Word-of-Mouth (WOM) for the services industry, and added tha it is far more important rather than mass advertising. Publicity is also influential, due to people's tendency to engage in activities, that are approved socially. Hence, ultimate concern on service improvments have to be met, to result in customer satisfaction. Keeping customer content with the service, opens a gate to advicing the organization to primary groups,which is appreciated in terms of creating cost-free and reliable image for the museum.

## Price

The general objectives museums try to reach are providing the services to everyone free of charge. However decreasing funds, and support from government oblige museums to pose a charge as "entry fee". Unlike other leisure and entertainment activities, museums do not use "value-pricing",the overall system is based on at least covering the fixed costs. So price do not account to a strategic issue for the museums.

## People

Within the characteristics, insaparability of the services from the service providers was mentioned. Moreover McLean (1994) argues thatbeside customers and fund providers, museum has to establish a relationship between employees, since the consumed product is "museum experience" meaning that museum is whole with the employees.
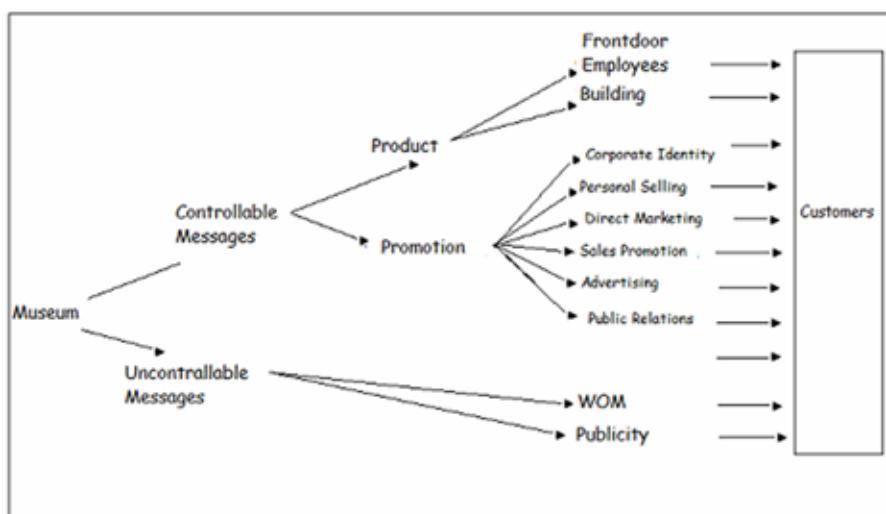
Distinguishing front-door staff and backstage employees are reasonable.Since the staff facing with customers has to possess friendliness, helpfulness and knowledge. For backstage staff, research relating to museum products and facilities might be more relevant to improve exhibitions, programs and services. But staff is only one specific aspect of service delivery

## Process

Examining the service delivery process, audience research provides visitor feedback on customer services, indicates their satisfaction with the experience and specific issues and investigates what could have been done to make the overall experience more enjoyable.Visiting circumstances, such as length of stay, can provide helpful contextual information. The question remains how actionable are study results, and if a more detailed examination of factors contributing to satisfaction may not yield more useful results (Renthscheller , 1998).

## Physical Support

Physical Support refers to the characteristics that are sensed by the customers,such as museum design,display of the items, overall atmosperics, visual and audio related elements on the premsises."Museums are essentially object-based services, although they are in ideal position to create an atmosphere,using techniqus such as scents and sound effects."(McLean,1994,pg 199). Kotler(1998) emphasizes the competitiveness of the atmosphere, however there exist limited studies to improve the conditions to appeal to the customers on that area.

**Figure 1 Communication Channels of Museums (Mclean, 1996: 140)**



## EXPERIENTIAL MARKETING

This part is aimed to provide preliminary information about experiential marketing notion, since characteristics, and properties are to be analyzed deeply by the researcher on the museums, the researcher preferred to limit the literature survey only by definitions and comparison of experiential and traditional marketing concept.

The basic trigger of the evolution to experiential marketing, can be stated as Postmodern Marketing Approach.(Dholokia and Venkatesh,1995). Unlike Modern approach, postmodern marketing refuses think of naming cionsumption as the consequence of production; but an inevitable process whereby individuals are able to assign their subjective meaning to that process.(Manolis,2001) Also, the main competitiveness of the postmodern marketing approach is its property of including the consumers to the production process. So from now on they are not represented as end-users, but the active players who has right to decide on the functional and aesthetics of the product, beside the desired time and place(Dholokia and Venkatesh,1995).

Experiential marketing attempts to connect consumers with brands in personally relevant and memorable ways by promoting a product not only communicating functional attributes but also

linking it with unique and interesting experiences (Keller,2003).One marketing commentator describes experiential marketing as "The idea is not to sell something, but to demonstrate how a brand can enrich a customer's life"(Keller,2003,pg 232)

The concept is pioneered by Pine and Gilmore (1998) and they argue that the society is on the verge of the "Experience Economy", a new economic era in which all businesses must orchestrate memorable events for their customers. The marketing world began getting interested on the creation of emotional attachment with the customer. Then In 1999, Schmitt published a book named "Experiential Marketing: How to Get Customers to Sense, Feel, Think, Act, Relate" and from then on, he was associated with the experiential marketing approach.Later,an extended view emerged in 2004 by McCole,and he stated that;

"Experiential marketing is essentially concerned with the six senses: smell, vision, taste, hearing, touch and balance. Experiential marketing has grown in importance because traditional marketing has largely ignored the notion of act experiences."

The distinctive points of traditional and experiential approach is summarized at Figure 2.

## Figure 2 Traditional versus Experiential Marketing

|  | **Traditional** | **Experiential** |
| --- | --- | --- |
| **Focus** | Product features & benefits | Holistic customer experience |
| **Scope** | Narrow definition of product categories & consumption | Broader consumption situation and socio-cultural context |
| **Customer mental model** | Rational decision makers | Rational & emotional beings – feelings, fantasies & fun |
| **Marketer's approach** | Analytical, verbal, quantitative | Eclectic, verbal, visual, intuitive |

Source : Mohan Sawhney, "Managing Brands and Customer Experiences" –from Bernd Schmitt's "Experiential Marketing."

## METHODOLOGY

A case study methodology was chosen because of the exploratory nature of the research interest. This approach was also expected to provide deeper insights into the

organizational context in which audience research occurs. Case study strengths are well

documented as going beyond the limitations of surveys, providing great searching ability

and enabling the researcher to "better understand the subtle institutional processes"(DiMaggio, 1978).

Topkapı Museum is selected for the property of İstanbul's biggest,most famous and most popular museum. By visitor numbers it occupies approxiametely %45 of the total visitors in İstanbul. In 2007 visitor numbers reached to 1.757.317 (http://www.istanbulkulturturizm.gov.tr/BelgeGoster.aspx?F6E10F8892433CFF3D828A179298319FD686809E53B6625D )

The researcher adopted Yin's(1984) view on "Multiple Sourcing".These are;
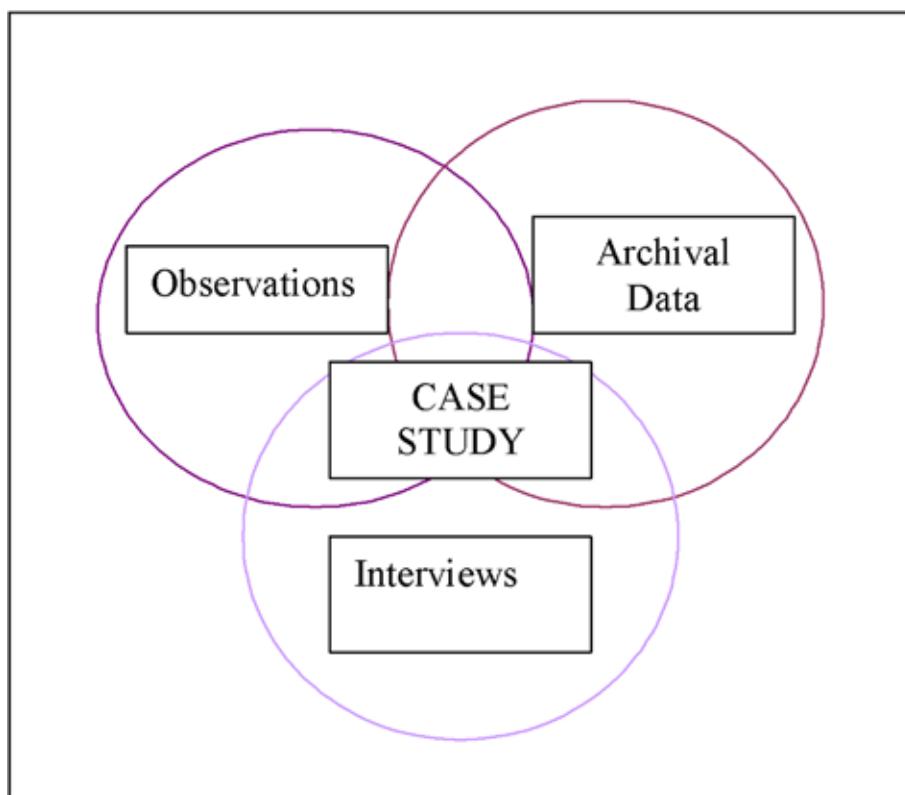
Observations are conducted by the researcher herself on 9-10-12 January 2009. The interviews are conducted by 3 security officers ; Halit Akgül, Ziyaeddin Coşar, Halime Yener by 30 minutes each. With respect to time consideration, the researcher preferred calling "interviews" rather than "in-depth interviews". Archival study is acquired via Marmara University Library, Online Resources. Practices concerning other museums are also taken into consideration, dince the study is holding the nature of exploratory and suffers from insufficient resources.

## FINDINGS

After conducting interviews, and observations, I prefered classifying the findings with respect to 5 dimensions, which are integrative to establish an experience.

**Figure 3 Research Design Table (Created by the Author)**

| | |
|---|---|
| Purpose of The Study | Exploratory Research |
| Types of Exploratory Research | Case Study |
| Extent of Reseacher Interference | Minimal Interference |
| Study Setting | Natural Setting |
| Unit of Analysis | Museum as Organization |
| Time Horizon | Cross-sectional |

**Figure 4 Multiple Sourcing Scheme (Created by the Author)**

**EXTENDED MARKETING MIX OF TOPKAPI MUSEUM**

| CHARACTER ISTICS | TOPKAPI MUSEUM |
|---|---|
| PRODUCT | Visible : As core product; the museum has rich collection on Turkish History<br><br>Museum Store<br><br>Restaurant<br><br>Audio-Guides |
|  | Invisible :<br>Guide Assistance<br><br>Information |
| PLACE | Convenient due to proximity to historical peninsula (Sultanahmet Area)<br><br>Well-known due to presence over 100 years |
| PROMOTION | Current web site,providing updated information<br><br>Pr and Publicity<br><br>Word of Mouth |
| PRICE | Discriminant Pricing (Tourist-Students)<br><br>MÜZEKART appliance enable the visitors to visit the museum as many times possible with the cost of 10-20 YTL |
| PEOPLE | Employees (Majority is Security Officers,direct relationship with customers)<br><br>Sponsors (Gilan Jewellery) |
| PROCESS | Most of the time, visitors engage in museum visit individually<br><br>Guides serve as contributers to process |
| PHYSICAL | Building |

# EXPERIENTIAL APPROACH

## SENSUAL DIMENSION

Sensual dimension is the sum of appeals to – vision, smell, sound, touch and taste; which are the five senses. Unfortunately the museum succeeds in appealing to basicly 2 sensations.The vision and the sound. The vision is the core sensual element that is active all through the museum visit. At the entrance there stood 2 giant banners,(Appendix : Figure 6-7) signifying the temporary exhibit of "Sultan Selim Han" So in terms of attractiveness and variety the museum has offerings. The garden design was completed,hence providing a positive outdoor image. Although the start was good, within the museum there is really minimum amount of visual aids to establish a communication with the customers. Aslo the display of items are quite plain and escapes the synergic effect. Just as mentioned on the traditional view, the museum stands for an object-based collection, unlike the Manager, Dr. Filiz Çağman (http://www.tempodergisi.com.tr/toplum_politika /03102/) claims that the museum is exposing culture, not objects. The staff get acquainted with the current style of the palace, and they point out the plainless as indicator of the mysticism of the place.

As the second sensual element, the museum deployed the audio support to guide the visitors through their visits.(Appendix : Figure 5) This is a recent application, but as the staff indicated and so my observations approved, the system is widely accepted, especially by the tourists.Offering 10 translations with reasonable price might be the major reasons. The visitors are notified by the signals as seen at Figure 8 at the Appendix part to provide continuity between sections.However indoors are still dull, with respect to low sun exposure(to preserve the collections) and quiet. The rooms seem as just providing the objects not interacting with customers to tell their stories.

Since majority of the museum requires outdoor visits, the effect of smell is considerably hard, but smell was stated as the strongest sense in terms of rememberance. The absence of smell weakens the chance to create an experience. Correspondingly the touch factor merely exists, since the objects are neither preserved by glasses nor passing is forbidden by barriers. This is an obstacle,too.

Last, but not the least, taste sense is nearly impossible within a museum experience, but to broaden the sense I envisioned this experience at the restaurant, within the museum by the seaside. Presence of at least a social place is good, however, it is not sufficient.the buildings are valuable, because of their historic importance, and granting permissions to open new social locality is declared to be really hard. But To turn the museum into living interacting and attractive recreation centers need progress. Especially when there stood idle capacities, suitable for cafes, bistros. The picture(Appendix : Figure 9) is taken nearby the Kitchens section.I could not myself to imagine having a cup of coffee in the coffee cups, imitated from the palace collection that I have just seen.

The museum is trying to appeal to visual senses mainly, but important thing,hereby I have to consider is ; it should be supported multi channels, not a single sense is enough to create an experience no matter how valuable or unique the collection is.

## COGNITIVE DIMENSION

Cognitive component refers to think experience of the visitors.They are about converging and diverging thinking. This dimenson is related to museum's function as educating and presenting informations.The collection is equipped with giant interpretive boards.(Appendix-Figure 11) The basic criticisms are about the limited data provided by these panels, and they certainly need update. Both in informative and visual aid, to derive attention.

Also for certain areas,the descriptions do net serve the needs of the customers, meaning that the explanations and the item are so apart from each other that, seeing while reading is impossible. Rather than blending senses, this approach is seperating the coordination among senses.

The visitors involving in educating theirselves are obliged to be contented with these boards,only. The museum does not have any video conference,seminar support that would be helpful to stimulate people explore new details about history. The interesting thing I found out, was that especially Japanese and German tourists are the ones that are insistent on getting information from various sources. Beyond the guide explaining details continuously, they are seeking answers from the staff whenever they come across with them. Unfortunately the staff is quite pessimistic

about Turkish visitors, they say that they are looking as if they are shopping, never attempt to ask or explore anything. Also the staff deals with unreliable data they present and scarcity of intellectual capacity. This is important in terms of starting the issue from the scratch, and offering seminars,workshops, lectures to the visitors, beside the guide assistance.

## SOCIAL DIMENSION

Museum manager visions Topkapı Museum as a culturally alive entity,however this is possible through adding social aspect to the museum. For example, Archeological Museum has a cafe, whereby people spend their time outdoors, even though they do not visit the museum. The museums are intellectual places, and the support services as stores, shops, cafes have to be designed in such a way that even these supportive activities may improve attractiveness of the museum.Museum shop is by size is considerably narrow, and offers limited variety, and focus is not on Topkapı, but TURKEY.(Appendix- Figure 12) Figure Even Cappadocia books are present on the tables. Apart from a living place, Topkapı Museum is serving to traditional museum perspective.

Converting possible areas to these kind of active places, finding a need to serve in regular days of visitors, are strongly needed. The museum is resourceful, but neglected as the Figure 10 at the Appendix part implies.

## RELATION DIMENSION

The museum is eager to integrate technical improvements, to better serve to visitors' needs. The audio-guide system was already installed, whatsoever important is that the museum entered the interactive marketing, by providing basic information and virtual visit to the museum via internet. This is important by the property of establishing a relationship with the potential visitors.The staff is also content with that application, they have the chance to lead tourists to that website,which they say gives them proud.

To aid in the visiting process, the museum published maps and these are to available without any charge, but I could not find any.(Appendix : Figure 13) Handlling these types of directive material would be beneficial in terms of customer

being more conscious, and seeing the place on a wholistic basis, which would give the person control over the museum experience.

The staff mentioned the practice of dressing historiaclly of the front door officers as in the Ottomon times, on the internet I have found many pictures about that event. If only these types of attempts did not stay as discrete events, but special attention on variety seeking consistency and continuity exist to get "experience" concept a step closer.

## CONCLUSION AND DISCUSSION

Museums are not ordinary public organisations, but their role has not been clarified yet.The necessity for their role diversification runs parallel with their effective contribution to urban economic development. Museums are distinctive environments, and goods, and the identification of their role in urban development must be based on the recognition of this distinctiveness.

However, unlike the international awakening of museums as active social and cultural centers, Turkey is on the introduction stage for the "museum marketing approach".Ratherthan getting acquainted with the 7P's, the vision has to be towards adding experiential approach to the museum. During my study, I have noted many recommendations to empower the museum's identity.These are;

For Children;

• The informative boards should be designed to enable children read and understand the explanations

• Funfairs and thematic parks should exist.

• Seminars, educative activities exist for certain time periods

• Restrooms designed for children.

For Adults;

• Seminars, Conference Rooms should exist to visualize the historical palace life.(educational side)

• Interactive participation to museum activities,through events within the museum.

- Provide social places to groups, families to have a rest and enjoy their time thereby.

- Kiosks for certain places, to give detailed information about the collection exposed.

- Management should provide maps free of charge

For Old – Disabled People;

- The informative boards should be designed to enable handicapped people to read easily.

- Wheeling-chairs for the old people

## FURTHER RESEARCH

As an exploratory study, this research defined the previous studies on museum marketing, moreover draw borderlines on evaluating according to experiential marketing criterias.However, this study has to be supported in 2 dimensions. The first one is conducting in-depth interviews with the museum managers, and the second one is conducting focus groups on identification of customer perceptions and experiences.

## LIMITATIONS

There are some limitations associated with this research study. The main limitation is that only 1 museum is taken into consideration as case used for the study. As a case study methodology does not allow statistical generalisation, a generalisation to the broader population, irrespective of the number of cases, the intention was to build a systematically structured set of case study data However, as all elements of the conceptual framework are derived from relevant literature in the field external validity should be maintained.

Although Yin's(1984) "Triangularity" is adopted as principle, the interviews with the museum responsibles became narrow, as it missed the variety among management degrees. Also the interviews should include, art curators,art historians and academic community.

Turkey is weak in terms of museum marketing studies, so pioneering an "experiential appraise of the museums" bring the obstacles of limited resources, and insufficient applications in the museums.

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# ORGANIZATIONAL CLIMATE AND ORGANIZATIONAL EFFICACY IN CROATIAN MANUFACTURING ENTERPRISES

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## Abstract

*This study empirically examine the relationship between organizational climate and its basic components and organizational efficacy of Croatian manufacturing enterprises. The results have shown that all the dimensions of organizational climate were in positive and statistically significant correlations with organizational efficacy. The correlation between the first factor of organizational climate named perceived external and internal enterprise strategy and organizational efficacy was r=0,64; p<0,01, between the second factor named perceived motivating organizational environment and organizational climate was r=0,610; p<0,01, and between the third factor named perceived working pressure and organizational efficacy was r=0,180; p<0,01. Bivariate correlation between total organizational climate and organizational efficacy as well multivariate was positive and statistically significant (r=0,688; p<0,01). Organizational climate of Croatian manufacturing enterprises (derived by means of factor analysis) represents an important „soft" element of organizational efficacy.*

*Key words: organizational climate, organizational efficacy, Croatian manufacturing enterprises*

*JEL classification M14*

## INTRODUCTION

Organizational climate is theoretically and practically an important organizational factor as it is a medium between interpersonal and working behavior immanent to organizational efficacy

(Patterson, Warr&West, 2004; Kopelman, Brief&Guzzo, 1990). Namely, it affects organizational and psychological processes in communication, problem solving, decision making, conflict solving, learning, motivation, job satisfaction, organizational welfare, and thus directly or indirectly organizational efficacy and productivity (Sušanj, 2005). Numerous benefits resulting from an effective organizational climate can be systematically identified in manufacturing enterprises: 1) Direct benefits (better use of organizational capacities, improved productivity, reduced absenteeism, reduced number of injuries and professional diseases); 2) Indirect (reduced costs of healthcare and social care, longer fitness for work); 3) Emotional-motivational benefits (increased job satisfaction, improved working atmosphere and feeling of common welfare, improved communication among individuals and groups, improved stress managing skills, improved motivation) (Bogdanović, 2010). Research into organizational climate thus becomes an important precondition for development of human resources management and organizational development, because by determining the general level of organizational climate and its components it is possible to streamline the future managerial activities, especially towards creation of organizational conditions benefiting performance of business subjects and efficient organizational human resources policies (cf. Bahtijarević-Šiber, 1999; Goić, 1996). It is also believed that organizational climate is crucial in diagnosing the vital signs of an organization, which explains most of the organizational performances variance (57.7%) (www.sixseconds.com/ovs.php, 2008.). Numerous sources dealing with organizational climate suggest that an effective organizational climate is a vital concept in the area of organizational behavior and human resources management. So, the concept of organizational climate is considered as an important indicator of organizational „health", measure of organizational order, organizational vitality, management efficacy and thus it is an

essential factor in organizational use of human resources and organizational efficacy. As a complex measure of total organizational context, it is considered as one of the most important factors for functioning and development of an organization, connected with organizational performances on different levels of aggregation and measurement. One descriptive model is shown in the sheme 1.

Sheme 1. Place of organizational climate in the organizational context

In spite of that fact, in Croatian organizational area, the organizational climate is rarely taken into account, and even rarer are quantitative researches on the relationship between organizational climate and effectiveness of Croatian enterprises. Therefore, following these general theoretical considerations it is important to determine the significance of organizational climate for organizational efficacy on the concrete manufacturing enterprises to ponder it and raise awareness of the need to create working conditions beneficial for an effective organizational climate. In this sense a research is undertaken to determine the relationship between organizational climate and organizational efficacy in Croatian manufacturing enterprises.

## INVESTIGATING RELATIONSHIP OF ORGANIZATIONAL CLIMATE AND ORGANIZATIONAL EFFICACY IN CROATIAN MANUFACTURING ENTERPRISES

### METHOD

The starting point of this study is that organizational climate as an objectively perceivable feature can be measured by a comprehensive questionnaire (Schneider et al., 1990). It is also assumed that organizational efficacy can be validly measured as perceived efficacy (Domović, 2000). Within a wider organizational system organizational climate can be treated as mediation variable leading to particular psychological conditions in employees reflecting on organizational efficacy (Kopelman, Brief&Guzzo, 1990). The starting hypothesis of this work was that there is positive and significant correlation between organizational climate and organizational efficacy. To determine this correlation it is necessary to conduct

correlational research. To set valid and reliable measures of particular variables and eventually the relationship of organizational climate variables and organizational efficacy variables, we have to define measurement instruments to obtain their reliable measures. For that purpose measurement instruments are tested and after determining their measurement characteristics measurements are evaluated. To measure organizational climate the instrument of internal consistency reliability (alpha=0.97) is derived on the six degree Likert scale (0-5), while to measure organizational efficacy the instrument of internal consistency reliability (alpha=0.91) is derived on the five degree Likert scale (0-4). Consequently, we measure one independent variable of organizational climate and one dependent variable of organizational efficacy. In accordance with the results of previously conducted factor analysis, organizational climate is divided into three independent factors (sheme 2.) (perception of internal and external strategy, perception of stimulating work environment, and perception of work pressure) while for the perceived organizational efficacy the instrument is one-factorial. Following this factorial structure, further correlational research uses all the components of the isolated organizational climate as well as its aggregate (composite measure) by correlating them with the one-factorial dependent variable of organizational efficacy measured as perceptive measure (by statements of respondents from the observed Croatian enterprises).

Sheme 2. Empirical structure of organizational climate of Croatian manufacturing companies

### Respondents and instrument

The survey involved 439 respondents from 11 Croatian manufacturing enterprises, of which 42.8% were female and 57.2% male. In terms of organizational hierarchy 31.4 % of them were managers and 68.6% were employees. All respondents were surveyed by a single comprehensive questionnaire on organizational climate and perceived organizational efficacy with the total of 138 particles (statements) on the Likert scale. To investigate organizational climate two relevant approaches and instruments were used:

a)      Organizational climates according to the organization efficacy model (Van Muijen et all. 1999, originally with N=40 particles), and

b)      Real work environment (Moos, 1986; 1987 originally with N=90 particles).

Organizational efficacy was measured by the measuring instrument for testing perceived organizational efficacy (adapted from Domović, 2000, originally with N=8 particles).

## RESULTS AND DISCUSSION

After data processing, it was possible to determine the relationship between organizational climate and organizational efficacy. As already stated, determining this correlation will give full significance and value to the organizational climate in business and economic research. Correlation coefficients between organizational efficacy and organizational climate, as aggregate measures and in terms of components are presented in the Table 1.

**Table 1. Correlations of basic elements of organizational climate and perceived organizational efficacy in Croatian manufacturing enterprises**

| F1 (ception of npany ategy) | Competitive strategy | Inovation | Regulations | Support | Company goals | F2 (Perception of work enwironment) | Comfortable working space | Organization of work in company | Leading | F3 (Perceived work pressure) | Sumclimate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| : | 0,54 | 0,62 | 0,50 | 0,53 | 0,61 | 0,61 | 0,52 | 0,61 | 0,54 | 0,18 | 0,67 |

•     Legend:

  Note: Pearson correlation coefficients, all significant at the level $p<0{,}01$

•     F1= first obtained factor (perception of external-internal company strategy)

•     Perception of company competitive strategy

•     Perception of company innovation

•     Perception of company regulations

•     Perception of company support

•     Perception of company goals

•     F2=Second obtained factor (perception of stimulating work environment)

•     Perception of organizational ecology (comfortable working space)

•     Perception of work organization in the company

•     Perception of leading (Perception of leading policies and practices)

•     F3=third obtained factor (perception of work pressure)

•     SUMKLIMA=total organizational climate as a combination of all separated factors

Considering the positive significant correlations between particular organizational climate dimensions and the perceived organizational efficacy it is evident that not only theoretical and cognitive speculations but also empirical data suggest that organizational climate is worth investigating and developing in practice.

From the Table 1. it is evident that all the dimensions of the investigated organizational climate are positively and significantly correlated to the criterion (perceived organization efficacy). Although these correlations per se are not very high, they are all statistically significant, which leads to conclusion that organizational climate is an important element

of organizational efficacy and that climatic result can be the basis for predicting economic and developmental performance of a companies. All the obtained correlation coefficients except one (F3) are equal to or above r=0.50, which is, in social and economic phenomena, quite a high correlation.

High and statistically significant correlation (r=0.64; p<0.01) is obtained in the first factor of organizational climate called perception of external and internal company strategy. Its elements (perception of company competitiveness in terms of technology, development of new products, exploration of new markets, benchmarking and taking opportunities for new ventures, and perception of internal procedures concerning organizational rules, innovations, goals and support) thus prove to be important predictors of organizational efficacy. All the mentioned elements of the first factor are the elements of organizational climate and can be considered as important elements of organizational efficacy.

High and statistically significant correlation (r=0.61; p<0.01) is found in the second factor of organizational climate called perception of stimulating work environment. Its elements (comfortable organizational atmosphere, perception of work organization and perception of leading) prove to be important predictors of organizational efficacy, therefore they can also be considered as important elements of organizational efficacy.

The only relatively low coefficient (r=0.18; p<0.01) is found in the work pressure variable (defined as pressure resulting from the work load, intensity, deadlines, control and monitoring), which can mean that work pressure found in Croatian manufacturing companies does not play a dominant role (small ponder) in organizational climate. It could be said that work pressure (estimated as neutral) does not have dominant modeling strength although it is a factor of organizational climate in Croatian manufacturing enterprises. Although, as far as the author is informed, there are no researches into correlation of work pressure (especially not as the component of organizational climate) and organizational efficacy, theoretically different correlations are possible: linear progressive, inverted U-curve and linear digressive. According to the obtained results it seems that the employees in Croatian enterprises do not perceive high work pressure due to which it is possible to do work in

a relaxed manner. This could be not stimulating for innovations, changes and entrepreneurial activity. Namely, if we assume that innovativeness, creation of competitive competence and advantage require a moderate level of work pressure, then it is not compatible with total relaxedness, low innovative activity, and low work pressure. A certain level of work pressure is needed to create urgency, stimulate activity and hard work, entice entrepreneurial spirit, which in Croatian companies cannot occur spontaneously.

Since every dimension of organizational climate and its sub-elements (competitive strategy, innovation, regulations, support, aims, organizational ecology, work organization, leading and work pressure) as well as the total climate (SUMKLIMA) are positively and significantly correlated to the criterion (perceived organizational efficacy), it can be concluded that in the context of improving organizational efficacy each of the mentioned elements should be improved as an important element of strategy, in order to achieve a positive effect on organizational performance, i.e. efficacy.

The highest correlation is obtained exactly between the total organizational climate and organizational efficacy (r=0.67; p<0.01) which may suggest that organizational efficacy is most strongly affected by the complex phenomena of organizational climate as a whole rather than by its particular elements, although each one of them contributes to the whole (positive and significant correlation). Thus organizational climate proves to be an important factor of organizational efficacy, which can also be supported by the findings that organizational climate is a clear indicator of organizational vitality (www.sixseconds.com, 2008). Vitality here refers to not only well established and perfectly functioning internal organizational processes (organizational statics) but also organizational dynamics (organizational development). Namely, manufacturing companies are often characterized by lack of dynamics and domination of routine (technical) efficiency based on the organizational paradigm of stability and control. Therefore their problems may not be diagnosed by standard (accounting) procedures and measures, because they do not lie in routine organizational processes resulting in good performance in terms of quantity, quality, and use of static resources. Most frequently the problem is in the slow dynamics of growth and development (lack of new, innovative patterns of organizational behavior and correspondingly products and services), which results in comparative

lagging behind competitors and market problems. Thus, organizational climate can be seen as the measure of organizational statics and dynamics, i.e. as the measure of the general organizational vitality, as well as the indicator of organizational dynamics (which is often neglected in the standard accounting statements). In other words, it provides an all-embracing view of organizational efficacy issues.

Another finding that points to the importance of organizational climate is the variance percentage of organizational efficacy that can be predicted by it. The linear model of multiple regression analysis, where the criterion is the dependent variable of the perceived organizational performance, with nine predictors (all factor scales), gave multiple correlation coefficient r=0.688, which is a bit higher than the bivariant correlation coefficient between the aggregate indicator of organizational climate and organization efficacy shown in the Table 1. (r=0.67). This means that by observing the simultaneous influence of organizational climate factors (through the multiple regression model) on organizational efficacy this correlation can be even better explained. We find that organizational climate predictors explain 47.3% of the perceived organizational variable variance, which is a result that cannot be neglected as it is quite high in the context of socio-economic phenomena. Admittedly, it is not as high as the one reached by the source www. sixseconds.com/ovs.php (2008), where by organizational climate 57.7% of the perceived organizational efficacy variance in American organizational practice was explained. These findings on positive and significant correlation between organizational climate and organizational efficacy (r=0.67 on bivariant level, r=0.688 on multivariant level) confirm the thesis on organizational climate as the basic factor of organizational efficacy. The remaining variance in the multiple regression model is the unexplained part of variance which can be ascribed to other organizational variables and to the specific features of each particular organization and its environment.

## CONCLUSION

This study is an empirical research into the correlation of organizational climate and organizational efficacy in a sample of Croatian manufacturing companies (11 manufacturing companies with 439 respondents). The obtained results confirm the hypothesis on the positive and significant correlation of the two variables. The main conclusion of the research could be summarized as follows:

a) High and statistically significant correlation (r=0.64; p<0.01) is found between the first factor of organizational climate named perceived external and internal company strategy and the perceived organizational efficacy. All the contents of this factor (perception of company competitiveness in terms of technology, development of new products, exploring new markets, benchmarking, and taking opportunities for new ventures, and perception of internal procedures regarding organizational regulations, innovations, aims and support) prove to be important predictors of organizational efficacy.

b) High and statistically significant correlation (r=0.61; p<0.01) is found between the second factor of organizational climate named perception of stimulating work environment and perceived organizational efficacy. All the contents of this factor (comfortable organizational atmosphere, perception of work organization, and perception of leading) prove to be important predictors of organizational efficacy.

c) The third factor of organizational climate, the variable named work pressure (defined as pressure caused by workload, work intensity, deadlines, and control and monitoring) provides the only comparatively low correlation coefficient (r=0.18; p<0.01) with the perceived organizational efficacy, which may mean that work pressure plays a less important role in organizational climate of Croatian manufacturing companies.

d) The highest correlation coefficient is found between the total organizational climate and organizational efficacy (r=0.67; p<0.01), which suggests that organizational efficacy is most affected by the complex and synergic phenomena of organizational climate as a whole rather than by its particular elements, even though each element contributes to it (positive and significant correlation). Also, in the multiple regression analysis model, where the set criterion is the dependent variable of perceived organizational performance with nine predictors (all factor scales), the multiple correlation coefficient is r=0.688, which is slightly higher than the bivariant correlation coefficient between the aggregate organization climate indicator and organizational efficacy (r=0.67). This confirms

that by observing the simultaneous influence of organizational climate factors (through multiple regression model) on organizational efficacy we can explain even better the relationship of organizational climate and organizational efficacy. Thus, we find that organizational climate predictors explain 47.3% of the perceived organizational eficacy variance.

Consequently, this research confirms positive and significant correlation between organizational climate and organizational efficacy on the object of Croatian manufacturing companies (r=0.67on bivariant level, r=0.688 on multivariant level) and thus empirically confirms the hypothesis on the positive and significant correlation of organizational climate and organizational efficacy.

Finally, comprehending organizational climate in the context of organizational efficacy both theoretically and empirically, it can be summed up that an adequate organizational climate is a "conditio sine qua non" of the modern company. For practical implementation it is important to recognize its strategic role in the area of organizational development, as it summarizes the conditions of an organization (both statically and dynamically), illustrating the extent of its vitality. Organizational climate thus proves to be an important soft organizational resource and consequently an important indicator to the management about the of organizational efficacy.

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# INFLUENCE OF CONSUMER AND CATEGORY CHARACTERISTICS ON PRIVATE LABEL ATITTUDES AND PURCHASE INTENTION IN EMERGING MARKET: A CONCEPTUAL MODEL

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## Abstract

*Until recently, private labels were considered to be a phenomenon limited to fast moving consumer goods in mature markets of economically developed countries. However, analysis of data on value shares and private label growth rates on the global level indicates that this is no longer the case. Private labels have become real competition to manufacturer brands which can no longer be ignored. Due to the rapid growth of private label market share researchers have looked into different influential factors in attempt to comprehend reasons behind their success. Existing research on private label management have made a significant contributions to the development of theory and practical strategies, however, the problems of managing private labels at the level of individual categories is still not sufficiently explored, although the differences among the product categories are highlighted as critical source of differences in private label success. On the other hand, consumers reflect the demand side of the purchasing process so their perceptions and characteristics critically affect decisions on brand selection and therefore performance of the brand. The primary purpose of this paper is to define category and consumer level factors which affect consumers' attitudes about private labels and consequently their purchase intention in emerging markets and to propose an adequate conceptual model.*

*Key words: private label attitudes, consumer characteristics, category characteristics, emerging market*

## INTRODUCTION

The increase in sales and market share of private labels is one of the most significant phenomena in both distribution channel theory and practice (Veloutsou, Gioulistanis and Moutinho, 2004) and one of the most important strategies developed by retailers in the last 30 years (Berges-Sennou, 2006). Their exponential growth and the fact that they have become strong competitive threat to national manufacturers (Bao, Bao and Sheng, 2011) has stimulated increased academic and commercial interest in private label management (Baltas and Argouslidis, 2007). During the last decade there has been a significant change in the way retailers see their role in the market. From passive intermediaries in the channel, retailers are now active marketers developing new store concepts and private labels designed for well-targeted segments (Lambin, Chumpitaz and Schuiling, 2007). Tremendous marketing efforts have produced huge results in a relatively short period of time, bringing private labels to nearly every item that consumers buy at the retail level (Herstein, Efrat and Jaffe, 2010). Retailers now compete directly to manufacturers' brands and have the power to push them off the shelves if they are not leaders in their product categories (Lambin, Chumpitaz and Schuiling, 2007). That is way it is so also important for manufacturers to have better understanding of private label management because standard predatory tactics which manufacturer brands use in mutual competition can not simply be transferred to competition with retailers (Dhar and Hoch, 1997).

Private label management is a multidimensional process which, according to Steenkamp (2005 in Herbert, 2009), is influenced by four dimensions, so called 4Cs – Country, Category, Consumer and Customer. All of the aforementioned dimensions are influenced by the number of factors which interact with one another what makes private label management very complex. Existing researches on private label management have made a significant contributions to the development of theory and practical strategies but the problems of managing private labels at the level of individual categories is still not sufficiently explored, despite the fact that product categories differences are highlighted as critical source of differences in private label success (Batra and Sinha, 2000). On the other hand, consumers reflect the demand side of the purchasing process so their perceptions and characteristics critically affect decisions on brand selection and therefore performance of the brand (Chen, 2005). The goal of this research is to analyze two elements of private label management which can to a certain extent be under manufacturers' control – category characteristics and consumer characteristics. Better understanding of those two groups of factors will enable manufacturers to develop strategies to neutralize growing threat that private labels pose. Particular interest is paid to development of a model suitable for emerging markets which are characterised by high private labels growth rates although market shares are still substantially lower than in developed countries. Giving their high growth rate it is especially significant to further investigate private labels in emerging countries giving that most prior research was conducted on the developed markets.

## PRIVATE LABELS ON EMERGING MARKETS

Emerging markets are by definition small but potentially dynamic and rapidly growing economies. Although there is no universal agreement on what constitutes an emerging market, businesses experts distinguish two main groups: best-performing emerging markets (China, Russia, Thailand, South Africa, Taiwan) and less-performing emerging markets (Turkey, Malaysia, Croatia, Poland, Slovakia, Pakistan) (Herstein and Jaffe, 2007). Herstein, Efrat and Jaffe (2010) have analysed private label markets of the Mediterranean countries and have, on the basis of private label development,  defined three

distinctive groups: developed MEDA countries (Spain, France, Italy), emerging MEDA countries (Israel, Turkey, Greece) and developing MEDA countries (Egypt, Morocco, Syria). Developed MEDA countries are characterised by higher private label share but small or moderate growth rates, average price with high private label quality and their presence in almost every category. Private label share in emerging MEDA countries are at the level of around 5% but with high growth rates, average price and product quality and private label presence only in main categories. Developing MEDA countries have very low private label share and growth rates below 10%, private label presence in only few categories, low price and private label quality.

In the emerging markets private labels are still on the beginning of their life cycle which is characterised by low market share but high private labels growth rates. It appears that the low income of customers in most emerging markets, and the increasing willingness of these markets to develop their economies, is making it more likely that private labels will in the future present a real challenge to national brands (Herstein and Jaffe, 2007). High growth rates on the emerging markets are primarily the result of multinational retailer penetration (Boutsouki, Zotos and Masouti, 2008) because strong retailers have very developed private label programmes. The other reason for high private label growth rates is their introduction in increasing number of categories (Herstein and Jaffe, 2007). The way retailers manage their private label programmes and the way manufacturers will respond to the threat posed by private labels is going to determine the future of private labels in emerging markets.

## PRIVATE LABEL ATTITUDES & PURCHASE INTTENTION

The success of private labels is, in the literature, operationalized through market share, individual purchase behaviour or purchases willingness respectfully, private label perception, attitudes, willingness to pay and willingness to try new private label (Zielke and Dobbelstein, 2007). From the aforementioned ways of private label success operationalization, private label attitudes and purchase intention are selected as the most suitable alternatives in this conceptual model. Private label attitude is an important factor in

evaluation of individual private labels (Collins-Dodd and Lindley, 2003) and private label purchase intention (Kwon, Lee and Kwon, 2008; Chaniotakis, Lymperopoulos and Soureli, 2010). Private label attitude can be defined as a predisposition to respond in a favourable or unfavourable manner due to product evaluation, purchase evaluations, and/or self-evaluations associated with private label products (Burton, Lichtenstein, Netemeyer and Garretson, 1998.). As such it is an enduring construct that is sufficiently broad to be used in a general sense across product categories. Private label attitude is formed on a basis of certain perceived benefits customers expect from private labels like competitive price, efficiency and good price to quality ratio (Lymperopoulos, Chaniotakis and Rigopoulou, 2010) and this benefits can differ in relation to the specific product category.

Majority of research have empirically verified significant correlation between private label attitudes and purchase intention (Burton et al., 1998; Garretson, Fisher and Burton, 2002; Chaniotakis, Lymperopoulos and Soureli, 2009) based on theory of planed behaviour (Ajzen, 1991 in Walsh and Mitchell, 2010). However these results are not unambiguously confirmed. Research by Walsh and Mitchell (2010) did not support previous findings regarding correlation between private label attitudes and purchase intention. According to the authors these rather surprising result can be explained by increase in private label quality and consequent improvement in private label attitudes. As a consequence of increase in private label quality and reputation, consumers do not consider them as being separate product category so private label attitude is not as important factor when making purchase decision. Zielke and Dobblestein (2007) have also found that attitude towards private labels in general does not have a significant influence on purchase intent but that influence is evident on the product category level. Taking into account both arguments, as well as the fact that this model is focused on emerging markets, positive relationship between private label attitudes and purchase intention is hypothesised.

H1    In the emerging market consumer attitude toward private labels in different categories will have positive influence on their purchase intention.

## FACTORS INFLUENCING PRIVATE LABEL ATTITUDES AND PURCHASE INTENTION IN EMERGING MARKETS

From four defined dimensions of private label management, this paper focuses on two which can, to a certain extent, be under manufacturers' control – category characteristics and consumer characteristics. Implementing category focus is important because private labels can be found in very different categories and this approach can help retailers to distribute limited resources to the categories with the highest potential. At the same time, manufacturers can adjust their brand management approaches in categories where private labels pose a biggest threat. The same reasoning applies for consumer characteristics. Retailers and manufacturers have to know their customers as well as competitors' customers in order to implement successful brand management strategy.

## Product category characteristics

According to the conducted secondary research of relevant scientific literature, three factors related to product category characteristics have, among others, been identified as having a significant influence on private label attitudes and these are:

- perceived quality

- perceived category risk

- search vs. experience category characteristics.

Quality perception is known as a critical element in consumer purchase decision (Dick et al., 1996; Wildner, 2003 in Schuh, 2006; Chaniotakis, Lymperopoulos and Soureli, 2009) and since consumers make the final judgment about product quality, perceived quality is often more significant than objective quality (Chowdhury and Andaleeb, 2007). Perceived quality can be defined as a consumer's evaluation about the degree of a product's excellence or superiority (Zeithaml, 1988). According to Hoch and Banerji (1993) the quality of private labels may be seen as having two dimensions – the mean level of quality relative to that of national brands and the variability in quality. Giving their historical positioning as lower priced alternatives, consumers still perceive private labels as products with lower quality compared to national brands (Sethuraman, 2003) regardless

of increased investments in private label quality. Difference between objective and perceived private label quality has a negative impact on their growth rate as well as on their market share in different categories (Apelbaum, Gerstner and Naik, 2003; Bao, Bao and Sheng, 2011). Category quality variability, as a second dimension of perceived quality, reflects consumers' perceptions of the extent to which the brands competing in a category differ in terms of their quality (Bettman, 1974). Batra and Sinha (2000) point out that the degree of quality variability between private labels and national brands in a category should create greater uncertainty and more perceived risk which in turn reduces private label purchase. Due to a general belief that private labels are of lower quality compared to manufacturer brands it is reasonable to assume that negative perceptions of private label quality should be magnified to the extent that consumers perceive large quality variances within a category. Hence the second hypothesis is defined as:

H2    In the emerging market perceived quality positively influences private label attitude in different categories.

H2a    In the emerging market, the mean level of private label quality relative to that of national brands has positive influence on private label attitude.

H2b    In the emerging market category quality variance has negative influence on private label attitude.

Dunn, Murphy and Skelly (1986) define perceived risk as an expected negative utility associated with purchase of a specific product or brand. According to the aforementioned definition they distinguish two separate categories – inherent risk which manifests itself on the product category level and handled risk which influences consumers with regard to brand selection. Risk associated with private label is crucial in determining private label proneness (González Mieres, Díaz Martín and Trespalacios Gutiérrez, 2006a) and empirical evidence show that greater risk perception related to private labels with regard to national brands has a significant negative influence on consumer purchase intention (Sinha and Batra, 1999; Erdem, Zhao and Valenzuela, 2004; González Mieres, Díaz Martín and Trespalacios Gutiérrez, 2006a) and that perceived risk varies depending on a product category (Zielke and Dobbelstein,

2007; Glynn and Chen, 2009). Giving the fact that private labels in emerging markets are still on the beginning of their development and that their management strategies are mostly focused on lower price and not higher quality it is expected that negative influence of perceive risk on private label attitude will be especially important on those markets, as shown in a third hypothesis:

H3    In the emerging market perceived risk has negative influence on private label attitude in different categories.

Consumers use a variety of cues to infer product quality. This cues include extrinsic cues that are not related directly to product performance and intrinsic cues that are part of the physical product and if changed would change the product itself (Rao and Monroe, 1989.). On the basis of extrinsic or intrinsic cues and benefits which dominate, products can be classified into two distinctive types: search and experience. Attributes such as taste, aroma, colour, and texture exemplify experience qualities of a product while attributes that are evaluated by objective measures or physical properties (e.g. nutritional content) illustrate search qualities of a product (Kwon, Lee and Kwon, 2008). Research have shown that consumers are less sceptical by product assessment in categories which can easily be assessed on the bases of search information in relation to categories which can be assessed only after experience with a product (Batra and Sinha, 2000; Hsu and Lai, 2008). Since, in emerging markets private labels have not been present for a long period of time and consumers are not so familiar with this type of brand what in itself leads to increased purchased risk, it is reasonable to expect that private label attitudes will be better in search type categories where consumers can evaluate the product before the purchase.

H4    In the emerging market private label attitudes is better in search than in experience type categories.

## Consumer characteristics

Regarding the consumer factors which effect private labels attitudes and purchase intention, literature review has shown that consumer factors pertaining to economic and quality are most often examined (Chen, 2005). Consumer factors which will be examined for the purpose of this paper are as follows:

- price consciousness

- price-quality association

- consumer innovativeness

Private labels attract the price sensitive segment of consumers by offering a price discount relative to national brands (Wang, Kalwani and Akçura, 2007). Lichtenstein, Ridgway and Netemeyer (1993 in Jin and Suh, 2005) define price consciousness as 'the degree to which the consumer focuses exclusively on paying low prices'. This definition implies that consumers use price as a negative element in purchase decision. On the other hand, price consciousness can be defined as 'a consumer's reluctance to pay for the distinguishing features of a product if a price difference for these features is too large' (Monroe and Petroshius, 1981 in Sinha and Batra, 1999). According to research findings of Batra and Sinha (2000) price consciousness is the strongest of all variables studied which significantly affects consumer propensity to buy private labels. This finding was also confirmed by other empirical research on the general and category level (Sinha and Batra, 1999; DelVecchio, 2001; Baltas and Argouslidis, 2007; Martínez and Montaner, 2008; Glyn and Chen, 2009). On the basis of aforementioned finding it is expected that, in an emerging market, price consciousness will have positive effect on private label attitudes as stated in fifth hypothesis:

H5 In the emerging market price consciousness has positive effect on private label attitudes.

Price-quality association is one of the most often researched extrinsic factor in marketing (Völckner and Hofmann, 2007) because consumers tend to use price as quality cue especially in the situations when other indicators are not available (Boyle and Lathop, 2009). The price-quality construct has been defined as 'the generalized belief across product categories that the level of price cue is related positively to the quality level of the product' (Lichtenstein, Ridgway and Netemeyer, 1993 in Garretson, Fisher and Burton, 2002). It reflects consumer belief in interrelationship between price and quality in a way that high price indicates higher quality while lower price suggest lower quality. Since private labels are in most cases priced substantially below national manufacturer brands, consumer who exhibit strong price-quality association are less inclined to buying private labels (Burton et al., 1998; Sethuraman and Cole,

1999; Garretson, Fisher and Burton, 2002.; Chen and Glynn, 2007). However, most researchers agree that price-quality association can not be generalized because it is a concept specific for certain contexts and it's moderated by situational factors like consumer's cognitive scheme or extent of their knowledge (Peterson and Wilson, 1985 in Sinha and Batra, 1999). Giving their short market presents and low price positioning it is likely that price-quality association will have a strong negative influence on private label attitudes in the emerging market, as stated in the following hypothesis:

H6 In the emerging market price-quality association has negative effect on private label attitude.

Consumer innovativeness can be defined as 'the predisposition to buy new and different products and brands rather than remain with previous choices and consumption patterns' (Steenkamp et al., 1999 in Jin and Suh, 2005). Empirical research conducted by Baltas (1997) on the UK market did not find a significant correlation between consumer innovativeness and private label purchase. On the other hand, Jin and Suh (2005) study conducted among consumers in Korea has shown that consumer innovativeness is the strongest factor predicting attitudes towards private labels. Those two contrary finding point to the conclusion that consumer innovativeness may predict private label purchase probability depending on the relative length of private label existence in a particular market. Taking all this into consideration it can be assumed that consumer innovativeness will have positive effect on private label attitudes in emerging markets.

H7 In the emerging market consumer innovativeness has positive influence on private label attitude.

## CONCLUSION

In the emerging markets private labels are still in the infancy stage of their development but high growth rates indicate their growing importance and great business potential. Their success to a great extent depends on private label management strategies employed by retailers although experience has showed that in some categories, even with the impeccable strategies, private labels have not reached their potential. Explanation for this situation can be found in the disharmony between

association consumers attach to private labels and category characteristics (DelVecchio, 2001). For example, private labels are traditionally positioned as lower priced – lower quality alternatives to manufacturer brands and this positioning can induce consumer scepticism and reluctance to buy private labels in certain categories. In the emerging markets private labels are present only in the main categories (Herstein, Efrat and Jaffe, 2010) so decisions which categories are most suitable for further private label development are going to be crucial in the following years. On the other hand, retailers want to broaden private label proneness among different consumer segments (Dick, Jain and Richardson, 1996) so they must define consumer characteristics which will enable them to successfully achieve that goal.

The aim of this paper is to explore what are consumer and category characteristics which influence private label attitudes and consequentially purchase intention in the emerging markets. Private label attitudes and purchase intention are selected as means of private label success operationalization. Giving the contradictory findings with regard to their interrelationship its is important to research what is (if any) direction and strength of their correlation in the emerging markets. Category characteristics analysed are perceived quality, perceived category risk and search vs. Experience category type. Consumer factors which are, among others, defined from the relevant literature as having significant influence on private label attitudes are price consciousness, price-quality association and consumer innovativeness.

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# PRIVATE EQUITY INVESTMENT IN CENTRAL AND EASTERN EUROPE

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The recent global economic and financial crisis that affected also the economic systems of Central and Eastern countries certainly was not an unexpected or accidental event as it is often presented. Symptoms of a possible collapse of the financial system were evident several years before the crisis and in the Central and Eastern countries they were manifested in the form of offering cheap, easily accessible and usually insufficiently secured loans, mortgages and similar financial resources.

The main participants in the crisis of the financial sector in all countries were namely retail banking subjects, investment and mortgage banks with a substantial contribution of money marker regulators including circulation banks and last but not least private rating agencies, as well. However, fund recipients with their irresponsibility also took part in the crisis: governments, lawmakers, regional authorities as well as end recipients. The development of the crisis itself was not surprising but it was rather the speed with which it occurred and spread outside the financial and economical sectors, nearly into all fields of social life.

The reaction to the mistakes and inconsistency that occurred in the financial sector was a considerable increase of regulation and supervision not only in the financial sector but also in the entire economic system. The question is to what extent the adopted regulation and control measures are adequate to the situation and if they will also bring the expected effect in future.

In the Czech Republic, Slovakia but also in the other countries of Central and East Europe, the situation was and is not as serious as it was in the United States or in any other West European countries. However, thanks to close relations of the home bank sector with foreign banks, the global crises impacted and negatively influenced also the local financial market. Here, the global crisis spread to the local economic system namely through foreign trade, on which home economic systems are strongly dependant.

On one hand, local banks reacted to the occurred situation understandably but in absolute contradiction to instant needs of entrepreneurial subjects and in contradiction with measures that could moderate development and consequences of the crisis. While the circulation banks retain or even decrease interest rates for many months, commercial banks conversely make conditions for granting loans to their clients more restrictive and often more expensive.

As an option to overcome the more complicated access to traditional financial resources, certain alternative financial resources come into question – such as venture capital. The following paper is an attempt to verify this option by means of analysing the development of venture capital investments in the Central and East European countries including the economic and legislative conditions for their entry. It indicates possibilities and perspectives of further development of these investments in both global and regional scales, estimates their contribution to solution of the crisis and introduces presumptions for their wider and more intensive utilisation in economic systems of the Central and East European countries.

Due to economic reasons, the venture capital remained not only unused but also a quite unknown financial tool for home economists until the beginning of the nineties. The economic theory and experience in the Central and East European countries are still inconsistent in using concepts related with its investment. The concept of the venture capital is used as a synonym to the Anglo-American "private equity" although the concept of the "venture capital" in the international environment is often connected only with investments in the initial phases of this business activity. However, investment of the venture capital in Central and East Europe is always understood such method

of its entry, during which basic change of the structure or increase of the fixed assets occurs. Usually after entry of the venture capital, the investor becomes the majority owner exceptionally he remains as a minority owner with the right of taking part in principal decisions of the company. Usually, he is not interested in administration of the company in executive and other managing issues. Entry of capital tend to be connected with formation of positive inter-personal relations of investor's representatives and capital recipient's management based on mutual partnership and sometimes it is also accompanied by expert personal assistance by the investor. Reason of such connection is utilisation of the synergic effect that should bring above-standard high increase of value of the investment funds. Investment of the venture capital is not only a single-shot financial operation but it assumes several years duration partner co-operation based on continuous and trustworthy evaluation of company's development. If the company is not successful in its development, the investor will lose the invested funds without return; in case of a positive development the value of the invested investor's even minority share together with the initiator's business plan share is several times increased.

Entry of the investor takes place at any moment of the company's development: at the moment of its establishment, during development, expansion, but also in case of temporary or chronic financial problems. Because the venture capital funds use to be renown and financially strong subjects, the entry can also be accompanied by gaining possibilities of other financial help, for example in the form of loans, leasing or other forms that under normal conditions would be for the recipient inaccessible or that would be realised under not very attractive financial conditions.

The aim of entry of the venture capital is to increase the value of the invested funds in the form of subsequent sale of the property share in the company, usually after three to five years of participation in the particular entrepreneurial subject. The sale can have a form of placing the company's shares at the stock exchange or their sale to a selected strategic partner, in some cases also to company's partners. Therefore, venture capital investors a priori choose such companies that are suitable for future placing the shares at the stock exchange or selling them to a strategic partner and during their engagement in the company, they purposefully orient its management to that

intention. 1 Unlike Central and East European countries, developing a company for the purpose of its further sale under profitable conditions is a common business everywhere in the world. Sale of the share in the company often is the only way for the venture capital that enables to reach not only return but namely a high degree of increase of the value of the invested funds.

Development of venture capital funds was noticed in a wider scale in the United States shortly after the Second World War, where they were used as an alternative to common financial resources. The capital usually came from purely private resources and was designated as "private equity" while the venture capital was only understood as a source of financing small and medium size companies in the initial stage of their development. The venture capital investments experienced a real expansion in the United States only by the end of the 70's and beginning of the 80's namely in the industrial and consumer electronics, communication technologies and data transmission systems and in health services. During these from the investor's point of view successful years, also financial resources from other funds began to appear in the venture capital funds, e.g. from insurance companies, private pension funds, public trusts and the others.

In the eighties, venture capital investment funds extend their activities more and more frequently also outside the United States, in the beginning in countries of their former biggest business rivals – Japan and Germany. They actively focused especially on branches that represented the strongest competition to the Unites States, automobile industry and production of machinery consumption goods. Subsequently, the United States expanded their engagement also into all other economically advanced countries.

Development of European economy in the second half of the last century is closely connected with the existence of European Union and mechanisms of its functioning and is considerably influenced by the internal redistribution processes. Therefore, the venture capital funds emerging in Europe during the eighties are mostly financially connected with supporting funds of European Union largely determined for supporting small and medium size companies, regional development, environment protection and other activities of this kind. In 1984, European Venture Capital Association – EVCA -

was founded that associates European venture capital investors and represents their interests.

Entry of the venture capital in the Central and East European economic systems including the Czech Republic and Slovakia was only enabled by adopting legislation necessary for its functioning that took place only in middle of the 90's. With respect to the wide range of needs of these transitional economic systems at that time, majority of investments were realized without goal-directed searching the particular sector or branch investment orientation (production, trade, services) or commodity sphere of business (agriculture machines, furniture, textile, telecommunication networks).
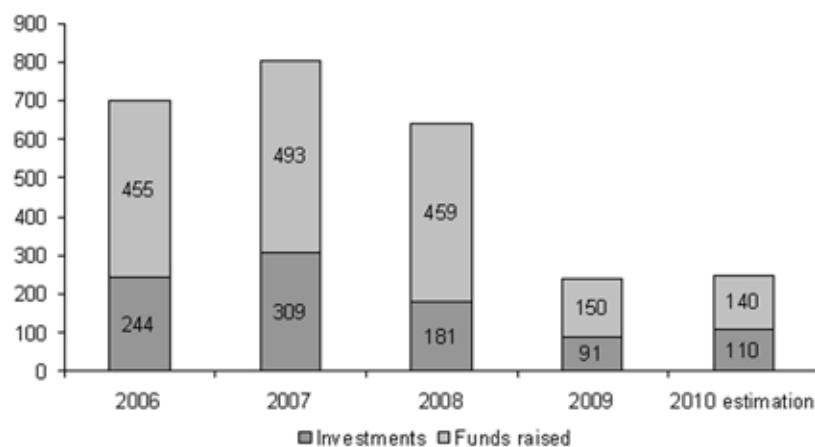
Primary activities of venture capital investors were gradually suppressed and the investor's output was usually implemented after a five to seven year engagement mostly with the same success rate that was common in other parts of the world. This recognition is somewhat surprising especially because aiming of investment activities and selection of the target commodity or service were performed rather randomly than conceptually,

which is quite unusual for venture capital investments realised in other parts of the world. However, aiming of the investments corresponded to actual needs and trends of the Central and East Europe economic systems of that time.

What were the prevailing venture capital investments in the world shortly before the crisis developed and what was their structure during the global crisis? What was the reaction of the venture capital investors in the world to the passed economic and financial crisis and how did this development differ in the Central and East European countries?

The venture capital funds and volume of their investments exhibited a regular year growth of 7-12% at the beginning of the millennium and in 2007, when the first signs of the imminent global financial crisis occurred, they reached a record-breaking volume of 493 respectively 309 milliard USD. During the following two critical years, the volume of funds and investments dramatically dropped down to 150 respectively 91 billion USD, which did not considerably change in the next year (see Chart No. 1):



Chart No. 1: Global private equity investments and funds raised 2006-2010 in bn of USD
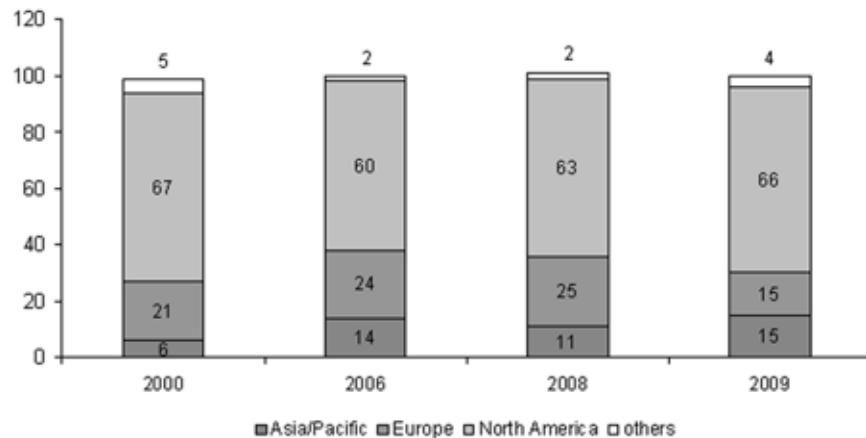
Source: TheCityUK, Private Equity 2010

The USA and some economically developed European countries (Great Britain, France and Germany) remained to be the traditional target countries of the venture capital funds and their investments. Switching of interest from Anglo-

Saxon countries to perspective markets (so-called emerging markets) of South-East Asia, namely India, China, Singapore and Malaysia expected by some experts, did not come true during the crisis years (see Chart No. 2):

201

Chart No. 2: Regional breakdown of venture capital investments in %



Source: TheCityUK, Private Equity 2010
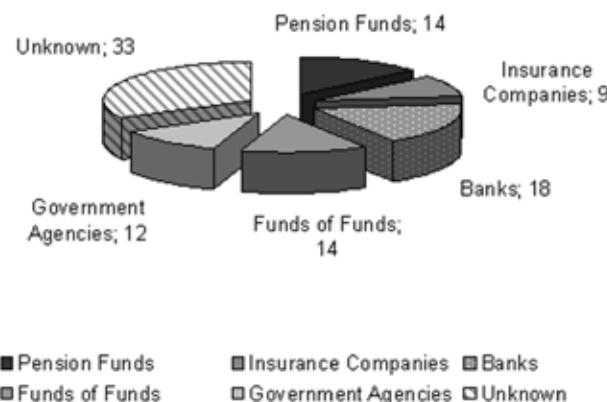
However, the actual development proved that the volume of funds and investments in Asia could shortly overtake the formerly second regional recipient of investments – Europe. Experts judge that thanks to perspective changes in its economy the Russian federation could also shortly join these countries.The volume of the realised venture capital investments here is in the meantime still insignificant but new promising opportunities are emerging namely in the mining industry and power engineering. By expanding its orientation to the above territories, China, India, South Korea, Singapore and in future perhaps also Russia, the venture capital investments gain a new, global dimension.

Another convincing evidence of globalisation also is comparison of the qualitative aspects of entry and output of the venture capital in the company in the past and at present. In the past years, the venture capital entries were frequently orientated to small and medium companies for initiating their business activities or developing that on the local or regional level. If venture capital enters the companies at the same development level now, it usually leaves it at the moment of gaining or just having gained the global competency. This fact is also confirmed by common extension of the continuance time of the venture capital in the target company from the average 5.5 years experienced on the break of millennium to the actual 6.2 years.

If we should compare the capital structure of funds carrying their business in Europe and North America, a typical high ratio of capital from institutional resources is typical for European funds, while capital coming from individual investors is dominant in the North America funds. The structure based on the origin of the capital of newly established European funds of the venture capital in Europe in 2009 was the following (see Chart No. 3):

Chart No. 3: Structure of european venture capital funds in %



Source: TheCityUK, Private Equity 2010

Investment funds active in the Central and East European countries including the Czech Republic and Slovakia have a similar structure. From the global point of view, these countries take a less important position in the global economy, which is reflected in the corresponding frequency and volume of entries of the venture capital investors. On one hand, majority of these countries offer to the global and European economy a favourable geographical distance, educated and economically strengthening work force and advantage of their membership in the EU, however many factors negatively affecting the possibility of entry of the venture capital in these countries has not been eliminated.

EVCA (European Private Equity and Venture Capital Association) has a "Benchmarking European Tax and Legal Environments" study periodically elaborated that is focused on evaluation of quality of tax and legal environments necessary for entry and functioning of the venture capital in individual member countries of the association. To evaluate the quality of the entrepreneurial environment, qualification scale from 1 to 3 (from best to worst) is used in the analysis. Evaluation of conditions for entry and functioning of the venture capital is carried out from the capital investor's point of view and detail focused on three target groups:

- venture capital investors and investment funds;

- investee companies;

- management of investment funds and investees.

The evaluation showed that the optimal environment for the venture capital investment is in those countries that are their long-term recipients. Evaluation of the mentioned countries in the monitored period ranges from 1.2 to 1.4 (see Table No. 1):

**Table No. 1: Tax and legal environment for the development of venture capital in countries assessed (1 = more favourable, 3 = less favourable position)**

| Table No. 1: Tax and legal environment for the development of venture capital in countries assessed (1 = more favourable, 3 = less favourable position) | | | | |
|---|---|---|---|---|
| Country | 2008 | 2006 | 2004 | 2003 |
| France | 1.23 | 1.36 | 1.89 | 2.09 |
| United Kingdom | 1.45 | 1.46 | 1.26 | 1.20 |
| Netherlands | 1.63 | 1.60 | 1.76 | 1.79 |
| Hungary | 1.84 | 1.83 | 1.86 | Not evaluated |
| Average Europe | 1.85 | 1.84 | 1.97 | 2.03 |
| Poland | 1.95 | 2.16 | 2.13 | Not evaluated |
| Germany | 2.18 | 2.15 | 2.37 | 2.41 |
| Slovakia | 2.33 | 2.17 | 2.49 | Not evaluated |
| Czech republic | 2.40 | 2.21 | 2.12 | Not evaluated |

Source: EVCA - Benchmarking European Tax and Legal Environments, 2008

The Czech Republic with its evaluation of 2.40 gradually sunk down to the last position of the monitored countries and out of the European countries currently has the least favourable environment for entry and functioning of the venture capital. Slovakia is in a similar position and its evaluation is only slightly more favourable. Poland and Hungary are evaluated slightly better even if their evaluation ranges around the European Average.

Evaluation of the Central and East European countries is negatively influenced by a number of facts that are generally perceived by public as brakes of business activities and that are results of prolonged instability of the home political arena. The problems are also caused namely by permanent postponing the realisation of basic conceptual reforms of the pensions scheme, which according to experts can in future lead also to general instability of the home economic systems. Based on the repeated official and unofficial statements of various political representatives, we can even be afraid that the integrated and well-considered concept of reforms in these countries has not yet been developed.

The remaining problem is a number of limiting restrictions in the business activities of pension insurance companies and their funds but also commercial insurance companies resulting from edict of Council No. 2003/41/EC. Obligation to tax management fees and non-existence of tax exemptions for entry of the venture capital investment are also negatively perceived by the venture capital investors. At this point, however, the EVCA evaluation is not hundred percent unbiased because the same types incentives as those for other entries can be used in these countries.

The only positive point of evaluation by EVCA should be support of endeavour for interconnection home research and development centres with entrepreneurs both at home and in abroad. However, some system supporting independent research workers and transport of technologies, namely when establishing innovative companies, is locally missing. The tax burden of private persons from the side of investors is considered as reasonable. Tax burden of earnings from business activities and taxes of management fees are considered as reasonable.

It was expected that inflow of venture capital investments to the Central and East European countries will bring realisation of intentions of the EU Committee summarised in Notice No. 853 dated 21. 12. 2007. This material defines the existing obstacles for easier and more effective utilisation of the venture capital funds in the cross-border co-operation and it recommends steps leading to their elimination. The committee sees a positive contribution of the venture capital investments in small and medium size companies namely in that they create new labour opportunities and help to introduce new technologies while considering environment. However, similarly as EVCA, the committee sees problems of current venture capital investments namely in the frequent orientation on "buy in – buy out" operation, eventually their orientation on development or expansion of the business activity, while their orientation on the starting or pre-starting phase of the business, which is usual for example in the United States, occurs less frequently. It is just

this type of investments that brings new, creative and innovative technologies and thus increases dynamism of economic growth namely in small and medium size business. The reason of this condition is namely the character and origin of the financial resources in individual investment funds. A substantial part of financial resources of European investment funds come from the EU redistribution processes that are targeted rather on solving particular, already existing problems instead of on venturesome business experiments.

Another problem of the European venture capital market still remains its outstanding legislation and tax disunity that brings unnecessarily high costs connected with its entry and functioning. The venture capital investments are realised in the European Union in 27 various entrepreneurial environments in total that feature various political, economic, legal, cultural and historical conditions and traditions.

Naturally, realisation of the venture capital investments bears on close relations between investors and entrepreneurs, which create possibilities to utilise good knowledge of the local entrepreneurial environment. However, the current experience also shows that the venture capital reaches exceptionally good results namely in proximity of entrepreneurial centres, research centres or universities where new ides and entrepreneurial opportunities emerge. It is just this sector in the European Union, in which there is a strong unevenness in geographical distribution of these items when individual states, region and localities show considerable quantitative and qualitative differences in this aspect. The Committee intends to eliminate these differences by means of supporting reforming programs, for example by means of the existing operation program "Business and Innovation" or by means of activities following up the project "Jeremie".

What conclusions can be drawn from the analysis of the present development, actual condition and expected trends of development of the venture capital investment and what measures should be adopted to support their utilisation and secure their return and success: Naturally, the venture capital investments cannot substitute financing in its traditional forms (e.g. supplier and bank credits, leasing, etc.) and cannot be considered as a tool enabling overall revitalization of the global or local economy. They can, however, be used to stimulate or realize selected kinds of business activities

targeted for example on research, development, production and distribution of new products, technologies and services or on realization of individual specific projects with local or regional utilization. To improve investment conditions in the Central and East European countries, it is necessary to gradually eliminate the existing obstructions, namely to:

- Unify and simplify legislation and tax conditions for placing and functioning the financial capital in general and thus also the venture capital.

- Improve the legal frame and fiscal regulations related to venture capital investments and to harmonize them with legal and fiscal regulations of other member countries of European Union.

- Reduce investment and operating costs, to eliminate risks connected with investment activities, to enable investors to reach higher capital yields.

- Eliminate or at least to alleviate tax obstacles, to secure transparency of tax reporting and to prevent double taxation.

The above steps have to be understood not only as a suitable but also as a necessary "incentive" for a more profound entry of venture capital investors in the Central and East European countries and as another suggestion within the measures leading to alleviation of impacts of the global financial and economic crisis.

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# WHAT TYPES OF CONSUMER VALUE WOOD AS PRODUCT MATERIAL ENHANCES?

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## Abstract

*Consumers attach a large scale of meanings to materials and this suggests that product material may create value for consumers. The aim of this study is to analyse the types of value that wood as product material proposes. Theoretical discussion builds on Holbrook's typology of value, where value is defined as consumer's interactive relativistic preference experience.*

*The empirical data includes two datasets. The first is collected through four fo-cus group discussions. Groups discuss and evaluate different product catego-ries, namely floorings, computer keyboards, disposable cutlery and neclesses. Product categories are presented first in pictures and then as real products. All product categories include wood in at least one product. The second dataset consists of nine pictorial collages and descriptions of their meaning. Qualitative content analysis is used in categorizing and synthesizing the data.*

*The results show that consumers propose all different value types to wood, the analysis shows the particular ways, and how value is arisen in case of wood. Most often comments rely on efficiency/ excellence and aesthetics. However, also the types of play, status/esteem and ethics/spirituality are present and indi-cate that wood as product material carry deep cultural meanings that affect the wood material evaluation. This seems to both enhance and hinder the value created by wood. Thus it also affects the way that wood material should be used in product design.*

*Key words: Wood, product material, consumer value.*

## Introduction

Consumers attach a large scale of meanings to materials, especially wood as product material has often been evaluated positively by consumers (Blomgren 1965, Laaksonen & Laaksonen 1999, Kälviäinen, Mähönen, Junnila-Savolainen & Joenpolvi 2003, Jaskari 2009a). These meanings as well as the manner of speaking about these meanings (Jaskari 2009b) suggest that product material may create value for consumers. Indeed, the customer value has been sug-gested to be one of the main concepts within marketing literature (Sánchez-Fernández, Iniesta-Bonillo & Holbrook 2009, Sinha & DeSarbo 1998, Woodruff 1997). Also, if product material would add value for consumers, it may differen-tiate products from each other. Maybe it even could enhance a consumer-brand relationship by providing something extra for a consumer (deChernatory, Harris & Riley 1998).

Evaluation of product material is object-dependent. Wood is evaluated differ-ently depending on a product that it is part of (Blomgren 1965, Jaskari 2009a). Many consumers evaluate wooden floorings positively, but wood is not posi-tively evaluated in all products. For example wooden ring, watch or computer keyboard are examples of products that not all people are ready to accept (La-aksonen & Laaksonen 1999). Also, in the case of expressive products such jewellery, wood is not included into the discussions of preferable materials (Jaskari 2009a).

The aim of this study is to analyse the types of consumer value that wood as product material proposes. Theoretical discussion builds on Holbrook's typology of consumer value, where value is defined as consumer's interactive relativistic preference experience (Holbrook 1996/1999). The empirical data is collected through

group discussions and pictorial collage exercises. Qualitative content analysis is used in categorizing and synthesizing the data.

## Theoretical background of the types of consumer value

Consumer value is defined as consumer's interactive relativistic preference ex-perience. Consumer value refers to the evaluation of some object by some sub-ject. This object may be any product or service, the subject refers to consumer (Holbrook 1999:5).

The value experience rises from the interaction between the consumer and the product. (Holbrook 1999: 5), thus value does not occur without this relationship (Woodruff & Gardial 1996: 53–54). This relationship may become important for consumers (Fournier 1998); consumers may even build their identity with prod-ucts (Belk 1988). However, the relationship may also be weak and non-significant to consumers.

The relational aspect of consumer value implies that value is first comparative involving preferences among objects, for example wood may evaluated against other materials (Pakarinen 1993), second, personal and thus varying across people, groups or cultures (Richins 1994) and third situational meaning that value is specific to the context. For example wood is evaluated differently de-pending on the context where the wood is (Blomgren 1965), or the situation where the wooden product is used (Woodruff & Gardial 1996: 60; Aurifeille, Quester, Hall & Lockshin 1999).

Consumer value is an outcome of evaluative judgement (Holbrook 1996: 8). This can be seen for example as consumer attitude, affect or opinion. Oliver (1999: 44) argues that this aspect of evaluation makes consumer value a cogni-tive concept. However, Durgee & O'Connor (1995) argue that consumers may not know why some product is the best, they just feel it. This makes value a ho-listic experiential concept.

The experiential aspect implies that consumer value resides not in some prod-uct or brand, but in the consumption experience that occurs when using the product or brand (Holbrook 1999: 9, Carú & Cova 2003, LaSalle & Britton 2003: 27–29.). Experiential aspect emphasises not only rational aspect of products and services, but aesthetics,

feelings, pleasure, fantasies, imagination, stories and play as part of consumption So, it is important what the product offers, but also what it could offer. (Holbrook & Hirschman, 1982, Belk, Ger & Askegaard, 2003) Such experiences are holistic and may include thinking, feeling, action, sensing and social relations (Schmitt, 1999). Consumers' role within these ex-periences may change from passive to active (Pine & Gilmore, 1999).
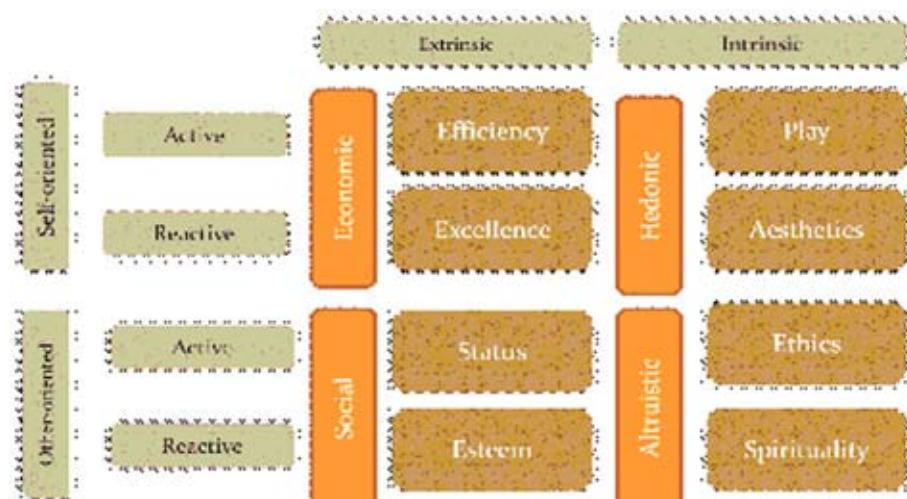
The framework of consumer value categorizes different types of consumer value by reflecting three dimensions that are extrinsic vs. intrinsic value, self-oriented vs. other-oriented value, and active vs. reactive value (Holbrook, 1996: 9). Extrinsic or instrumental consumer value implies a relationship where con-sumption is appreciated for its functional instrumentality. Thus; consumption serves a means to reach further goals that consumers have. Then again intrin-sic or terminal consumer value occurs when consumption is experienced as an end in itself (Holbrook, 1999: 10, Wagner, 1999: 135.).The value is self-oriented when it is appreciated for one's own sake, when it rises from one's own con-sumption experience. Other-oriented value rises from one's consumption is ap-preciated for some others sake, for how the others react to one's consumption (Holbrook, 1999: 11.).However, Wagner (1999: 135–136) points out that form the perspective of marketing and business, this division to self-oriented and other-oriented value is artificial, as consumption is seen as used to some indi-vidual goals. Value is active when it involves things done by a consumer to or with a product or service, for example painting a wall or cutting down trees. Re-active value results from responding to some product or service, for example by apprehending, appreciating or admiring. Thus; reactive value involves things done by product or service to or with a consumer, for example when consumers are moved by beautiful art or concerts (Holbrook,1999: 11).The dimensions should not be seen as classes, but one can think each dimensions running from one end to another and thus various gradations in between (Holbrook 1999: 9).

Based on dimensions elaborated above, the types of consumer value are clas-sified as efficiency, excellence, status, esteem, play, aesthetics, ethics and spirituality (Holbrook 1996). Both Holbrook (1999) and Richins (1999) note that the difference between active and reactive value is rarely taken up in the literature and may be challenging in empirical research settings. Also Brown (1999) and Wagner

(1999) note the challenge in distinction between the value types of play and aesthetics and ethics and spirituality. Indeed, later Sánchez-Fernández, Iniesta-Bonilo and Holbrook (2009) combine some classes and name efficiency and excellence as economical value, status and esteem as social value, play and aesthetics as hedonistic value and ethics and spirituality as altruistic value. This latter classification has similarities to consumer values classification presented elsewhere in marketing literature. Sheth, Newman and Gross (1991) classifies consumption values as functional, social, emotional, epistemic and situational. Lai (1995) defines consumption value as benefit and names

classifies them as functional, social, emotional, epistemic, situational, aesthetic, hedonic and holistic. Yet, LaSalle and Britton (2003) classify consumption values as physical, emotional, intellectual and spiritual. The framework is presented in figure 1.

In this framework consumer value is seen as something positive and worth reaching. However, some consumption experiences may also be "devalue" for consumer. For example if the floorings of the apartment are made of plastic and consumer would appreciate wood in that particular context, the plastic dimin-ished value of the apartment.



The economic consumer value is described by efficiency and excellence. Effi-ciency involves extrinsic value that results from the active use of a product as a means to achieve some self-oriented goal (Holbrook, 1999: 13). This can be measures by input/output –ratio, when value is the outcome of evaluation be-tween benefits and sacrifices (Zeithaml 1988). Also time can be one aspect of efficient consumption experience (Leclerc & Schmitt, 1999: 29–42). Efficiency may be in the form of convenience, when for example in different shops and services found under the same roof in the shopping mall makes shopping eas-ier for customers (Kim 2002). Excellence involves a reactive appreciation of some object's quality. Excellence arises from admiring a product for its capacity to achieve some self-oriented goal without actually using it (Holbrook, 1999: 14–15). Indeed, for example Pakarinen (1999) found in his

study that consum-ers think that wood as furniture material has some superior qualities.

Social value is described by status and esteem. The social value is other-oriented, the role of others is important for value experience. Status as value means someone actively consuming in order to achieve a favorable response from the others in order to gain or indicate success or power. (Holbrook, 1999: 15–16) Products can be used to build one's identity, for example by buying a certain brand one can show success (Belk 1988). However, this requires that the meaning or brand is shared within the group (Richins 1994). By impression management people aim at building a certain image towards other people (Solomon, 2002: 74–75). Esteem then again results from passive ownership of possessions, that is evaluated by others (Holbrook 1999: 16-17). Holbrook (1999: 16) argues that the distinction between status and

esteem is the most difficult to articulate within the typology of consumer value. Also Richins (1999) points out that this distinction may be difficult to test empirically.

Hedonistic value is described by play and aesthetics. Play is a self-oriented consumption experience that is sought and enjoyed for its own sake. Play typi-cally involves having fun, for example playing some instrument (Holbrook 1999). While Holbrook defines play as self-oriented, Holt (1995) notes that play is used to socialize and to network. He emphasizes the social aspect of play. Grayson (1999) describes play as value to include also for example innovation, imitation, deception, participation and competition. Aesthetics as value refers to an ap-preciation of consumption experience valued intrinsically as a self-oriented end in itself. The experience of beauty is one type of aesthetic value. (Holbrook 1999: 19, Eaton 1994: 107–108) The potential aesthetic value of wood has been earlier described for example by its beauty, warmness, style and sophisti-cation (Laaksonen & Laaksonen 1999, Blomgren 1965).

Altruistic value is described by ethics and spirituality. Ethics as value involves doing something for the sake of others. It occurs only if it is other-oriented and intrinsic and does not include extrinsic qualities (Holbrook 1999). However, Smith (1999) sees that ethical activity may include different kinds of motives and thus may include also reaching for status. Then ethical activity becomes a means to reach some other goals and becomes form intrinsic to extrinsic. Spiri-tuality as value is understood as intrinsically motivated acceptance, adoption, appreciation, admiration or adoration of some other. Examples of spirituality as value are faith, ecstasy, sacredness and magic (Holbrook, 1999).

The framework of consumer value provides a useful tool for analysing con-sumer value in different consumption experiences. In this article the framework is used in analysing, what types of value wood as product material proposes. It is also interestd in what kinds of contents wood gives to different values types.

## Methodological approach

This study uses two separate data sets for analysing consumer value. The first data emphasis the evaluation of wood from meaning construction point of view (Ligas & Cotte 1999). Meanings are seen as constructed, negotiated and re-constructed in social interaction. Thus the data was collected using group dis-cussion where 5-7 persons discuss openly of a given topic (Boddy 2005, Knodel 1993). Four different groups represented different life cycle phases (Ev-ans, Jamal & Foxall 2006: 188), students, nest builders, living nests and empty nests. Altogether 20 persons, mostly women, participated in discussions.

As the material evaluation has been suggested to be object dependent (Blom-gren 1965), different kinds of products were chosen to stimulate material dis-cussion. Four different product areas represent different aspects of consumer life, namely home (floorings), technology (computer keyboard), eating (dispos-able cutlery) and self (necklaces). Floorings represented products, where mate-rial can be openly seen and is not been designed much. Computer keyboards represented new modern high-tech products and aimed at challenging the tradi-tional wood material. Disposable cutlery was chosen on the base of wood inno-vation competition. Finally necklaces were chosen to have some items that rep-resent expressive products with symbolic values; also branded items were in-cluded. The material varied between products, wood being present in all prod-uct groups. Products were presented first using visual material (pictures) and then with concrete product samples in order to enable multisensory evaluation. The role of the moderator was to keep up the discussion, but otherwise she stayed in the shadows. All discussions were recorded using audio and video tapes. The tapes were transcript verbatim and resulted 129 pages of text.

The first data emphasises the discussion on different materials and evaluation of wood in different products. The aim of the second data was to relieve con-sumers' deeper thoughts and ideas about wood as product material. This led into ideas and Z-met technique (Zaltman and Coultier 1995). The consumers were asked to gather eight pictures that represent "their thoughts and feelings about wood as product material". The data consists of 9 personal pictorial col-lages and a written exercise that elaborated consumers' thoughts behind the metaphors. The questions asked in the written exercise followed the Z-met technique that suggested by Zaltman and Coultier (1995). These questions in-clude storytelling about the chosen pictures, explaining if some pictures were missing, sorting task of pictures, choosing the most representative picture and explain why.

All these questions included also sub-questions. The pictures used in collages were diverse in nature, representing well different metaphors.

The two datasets enabled the researcher to gain rich information about con-sumers' thoughts and evaluations about wood as product material. The analysis of consumer value proposed by wood was based on transcripts of group dis-cussion, pictorial collages and written reports using qualitative content analysis (Miles and Huberman 1994: 55-58). The research questions guided the analysis of data; the theoretical framework was used as tool in analyses in a way that representations of wood gave new insight into different categories of consumer value.

## MULTIPLE VALUES OF WOOD

### Functional and versatile

The efficiency as value in wood evaluations was described by functionality and versatility. The discussions in the focus groups emphasized more how well wood would function in particular product. The descriptions of pictorial collages emphasised more general functionality of wood as product material.

"Wood may be used for many different functions, wood is versatile be-cause different things for different uses can be made out of wood. Many of the uses of wood are functional, for example as in construction."

"The picture of Roger Federer mirrors the versatility of wood as product material. In my opinion wood is versatile because it can be used for nu-merous purposes. Wood is used a lot as construction material, in furni-ture, in different artifacts as well as in details in other products."

However, there were also descriptions of wood as devalue, as in the case of wooden keyboard made of quite a raw wood. People described that the wooden product may not work as expected, and the raw wood made it ugly and nonus-able.

"This wooden keyboard gives an impression that it wouldn't work as well as those other ones. Even if there were as good technique inside, but this cover… I wouldn't use wood everywhere"

"In my opinion, wood is not particularly durable. If it gets wet, it becomes wet and there may be mold on it. Also the mirror side on that wood is easy to work with, is that wood is fragile as material, it can be bent into different forms, but if you bend too much, it breaks."

This non functionality came up also with wooden disposable cutlery. They were evaluated as bad in eating, non functional, non hygienic, bad smelling and awkward in use.

"I don't think that disposable wooden cutlery is made for eating at all. They just are. They are too special and small, you can't use them prop-erly. This spoon, the design is such that you could eat mashed potato but not soup."

"This wooden disposable cutlery leaves a bad taste in mouth. If you try to eat warm soup, the fat from the soup absorbs the spoon and the spoon tastes awful. No, these cannot be used well even as ice-cream sticks."

Excellence as value was discussed by describing wood as superior, qualitative or otherwise attractive material. Excellence aroused for example by making a distinction difference between wood and other materials, most often plastic. The excellence was also motivated by its authenticity; wood is something natural and real.

"This laminate is easy to install and it is also cheaper than parquet. But parquet is always parquet."

"The green pearls in my picture refer to wood as green gold and the value of wood as product material. The multiple uses of wood and eco-nomic value are priceless. The value of wood in the eyes of the user should be emphasized in this world of plastic."

"Wood as product material is reliable, durable, authentic and an opposite to artificial plastic."

Indeed, wood is described having quality both on generic level (wood as mate-rial means quality) and on object level (certain product has quality based on wooden material). Indeed, when Pakarinen (1999) studied Finnish consumers in furniture stores, 84% of consumers thought that wood as furniture material have some outstanding qualities compared to other materials. Most often the superiority of wood was motivated by reliability, ecology, aesthetics and dignity.

## Status and Dignity

Status as value emphasizes the consumption of wood as building ones image of success. The viewpoint is that of products' active role in constructing a de-sired outcome.

"I associate wood with value, maybe also a high price and exclusiveness, especially in wooden artifacts. For example well designed wooden furni-ture is not only expensive but it looks valuable, and thus makes the owner to feel higher social status."

Esteem as value arises from the discussion of dignity; valuable wooden prod-ucts and the impression that wood gives to other people. This arouse from the evaluations of wood as giving a prestige image and impression of wealth.

"…that girl in the picture seems to be wealthy, at least if the flooring is authentic parquet..."

"This material for wooden flooring gives seems to be valuable; it gives an impression of dignity."

Indeed, consumption of products can be viewed as communicating about own or perceived success. The difference between status and esteem is delicate, as suggested already in earlier literature (Holbrook 1999, Richins 1999). Both values are interested about social aspect. Building one's own status by using products or using products for some other reason, but others evaluate the use in particular way. However, it is clearly shown that wood as product material may have a role in each case.

## Handcraft, beauty and feelings

The play as value associated with wood was discussed by handcrafts and crea-tivity. This came up most clearly in the discussions on wooden computer key-board. People talked about things that were made at school or things that any-one can do.

"We used to do this kind of woodwork at school. Someone should just start crafting…"

"This picture reminds of primary school. When I think of wood as product material, I remember the working, sawing and the woodwork teacher from primary school. He was always slightly covered in

sawdust, so wood gives an impression of messy. Also I remember the strong smell of sawdust."

Handcrafting was combined with skills of doing it. A wooden keyboard that was done from real log was used to discuss about natural raw wood vs. finishing of the product. The raw outlook made some experiences negative claiming that the wood would look more valuable if it would have been better finished. Even-tually wood was associated with do-it-yourself –hobbies and self installing the wooden floorings.

Aesthetics as value came up by beauty and style as well as by multiple positive feelings attached to wood. The beauty of wood is described by its color and ap-pearance. In natural wood one can see the glow and the branches. However, if there were too much difference in color or too many branches, this was a "de-value" and indicate poorer quality of wood.

"Wood is a beautiful material. Its pattern is very volatile and unique. Also the color of wooden material is dependent of the particular wood used. […] Unique, there are no two same kinds of wood. It is varying as each pattern is different for each tree. Thus the appearance of wooden prod-ucts is different every time. The trees have branches as the natural mate-rial does, if you look closer, you see that the wood is not homogeneous."

"These examples of floorings seem dirty; maybe it is because there are some many branches here. Otherwise I would like this color of wood."

Eaton (1994: 170) argues that the experience of beauty is a positive reaction towards certain boundaries, convergent, contrast and structure. More wood doesn't necessarily mean more value.

"That picture reminds me of summer houses, because there is so much wood. It is quite ok to use wood, but I would replace some of it with dif-ferent materials. You can combine a little. You have to keep the entity, in this picture there is too much of the same. Too much wood."

Within hedonic values one can categorize also those feelings that were used to describe wood.

"For me wood as product material arouses same feelings than a good wine. I associate drinking wine into the peacefulness of home, good company, the glow of fireplace and a conformable sofa or chair.

It re-laxes and takes you away from the reality for a while."

"Wood reminds me of a place with soul with sentimental, warm, shady, slightly red light. There is history or impression of it in wood. It feels as though there is a story behind the wood."

The descriptions of beauty were numerous in both data. It seems that there is a cultural understanding of wood as beautiful material. Indeed, even if aesthetic value is private experience, the things that are appreciated in one culture are shared within that culture. (Richins 1994).Thus, understanding aesthetic value requires understanding of that particular culture (Eaton 1994: 108–109). The beauty of wood has been strongly discovered also in earlier research (Blomgren 1965, Laaksonen & Laaksonen 1999, Pakarinen 1999, Jaskari 2009a, b)

## Sustainability and sacredness

Ethics as value involves doing something for the sake of others. Within wood evaluation the ethics was described by sustainability and ecological responsibil-ity. The use of wood is a sustainable act, thus saving the nature and building and enhancing the future welfare of others (e.g. Holbrook 1999: 21).

"Wood is natural material. It grows around the world, and it doesn't have to be refined before the use. Wood is recyclable as it is, the recycle sign in the collage connotates that. It is ecological choice. I associate strongly ideas of nature and greenness to the picture. It includes positiveness and hope. The voices and smells of nature are associated with the picture."

"This wooden cutlery highlights the green values, they can be used a couple of times before they are burnt. There is no need to use oil or other scarce resources. Maybe someone is ready to pay for it"

The evaluation of disposable wooden cutlery aroused a discussion around the contradiction of wood used in disposable items. On the other hand wood was described as ecological choice in disposable cutlery compared to plastic as they can be burnt after use. On the other hand it was described that the use of wood in those products is waste of valuable material. Also, there was stream of dis-cussion about the justification of disposable cutlery generally, is it approvable to use disposable cutlery at all?

The ethical perspective to the use of wood has been touched in earlier re-search. Ozanne and Vlosky (1997) studied the consumers' willingness to pay for environmentally certified wood products and found that the certification af-fects differently in different product groups. However, there could be identified a segment of consumers that were eager to pay more for certified products. Bi-gsby and Ozanne (2000) studied the consumers' purchase criteria of environ-mentally certified wood products and found that consumers appreciated the domestic origins of the wood. Also, for some segments the ethical origins of wood was important.

Spirituality as value entails an intrinsically motivated appreciation of some Higher Other. Spirituality as value includes consumption of sacred objects. Wood seems to connotate something sacred in it. Wood is valued because of its cultural and historical groundings. The use of wood is in some circumstances seen as problematic, as thought one should not use wood is a particular way.

"…it is waste of wood to use it like this (disposable cutlery) … it is a shame to throw these away…"

"Domestic design" Wood as product material reminds me of Artek, Aarikka and Pentik [Finnish brands]. I have inherited furniture and jewel-lery form my grandmother, mother and other relatives and they will be herited after me. These are classics, even this exercise is done it the arm chair designed by Alvar Aalto. I am so patriotic that all products that are marked with the logo Finland, makes me smile, and the feelings of sym-pathy arises. Home sweet home and a nice armchair is a must. Also, wood reminds you of Finnish forest and the whole country. Wood and the designed wooden products are (or should be) part of the Finnish image. Finndesignclassics."

Indeed, Belk et al. (1989) describes nationalistic items as national flag as mod-ern sacred items. Those consumers want to hold and care for. Linking wood to Finnish culture, the traditions and history the sacred aspects of wood material is described and emphasized.

The spirituality of wood arises also from the pagan history as well as modern times' religious rituals. The oldest known wooden object is 4000-5000 years old wooden sculpture that was used as sacrifice (Sarajas-Korte 1987: 7). Nowa-days, the

last voyage is done in wooden coffins, as though the forest and trees guard the soul of a person (Pallasmaa 1987: 17).

## Discussion

This study has analysed what types of consumer values wood as product mate-rial enhances. Indeed, wood can be seen as providing all different types of value presented in Holbrook's framework. Quantitatively most often were men-tioned functional (efficiency and excellence) and aesthetics. A new type of val-ues is within play, wood was associated with innovativeness, creativity, hand-craft and do-it-yourself –activities. However, there is a paradox within. As wood is something that everybody can use and modify, not everyone can do it well. A wood in an object adds value only if there is talent and skills in crafting.

Social values of status and esteem described how wood was used to either en-hance someone's status or someone was appreciated by using wood. However, this result seems to be quite object dependent. Within floorings, the wooden floor was a cue of prestige and status, whereas in necklaces wood was not at all associated with social value.

Maybe in this category the wood was associ-ated with tradition and old-fashion; something that people may be do not want to show in expressive products.

The ethics as value is described as sustainability and ecological discussion. Wood is seen as an ecological choice in relation to plastic. This adds also more insight into the theoretical framework as these aspects do not come up form the theory. This may due to social and political discussion on environmental as-pects that have been present mainly in the 21st century.

The spiritual value rises from intrinsic value within wood that is based on cul-tural understanding. Also the wood is strongly attached to Finland as nation and as part of Finnish culture. It is shown in the descriptions that there is right and wrong ways of using wood. For example disposable cutlery, that in the other hand seems to be ecological option, seems to be avoided by consumers and described as waste of wood.

Figure 2 exemplifies the types of consumer value present in wood evaluation. These examples are modified from the data and thus not necessarily extracts from a respondent.

Wood as product material is evaluated mostly positively, even if there are differ-ences between objects. However, there are also negative evaluations, when wood connotates old fashioned, out dated or non-functional. Even if there is a strong potential that wood as product material may add value to consumers, the use of wood in products must thus be considered carefully and understand, how the wood is evaluated in different products and use situations.

This study deepens this understanding by emphasizing that some meanings at-tached to wood are so strong that is gives norms, how wood as product material can be used and marketed in order for consumers to accept the products. Also this knowledge had practical implications to product development.

This study is not without limitations. First, in spite of the fact that wood has posi-tive evaluations and can thus be considered as an added value, it is dependent of a product and its design on how consumers react on it. So, the material itself is only a starting point. Second, as results show, there is a cultural significance to wood and Finnish consumers. This might be due to our history and economic development, where wood has played an enormous role. Also the deep cultural meanings attached to wood can be seen in fairytales and other stories. Pre-sumably there are similar cultures; however, the evaluation of wood presumably differs in cultures where the historical and cultural significance of wood is differ-ent.

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# TRUST AND LEADERSHIP - LEARNING CULTURE IN ORGANIZATIONS

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## Abstract

*In the literature different theoretical groundings of learning organizations and –types can be found, for example the theory on learning cultures rooted in Schein's concept of organization culture with three levels . The third and most profound level covers the most elementary and deeply entrenched attitudes and convictions which, even if detectable from an outside point of view is hard to decode and allows various interpretations and speculations (Schein 1999/2004). (Burns & George M. Stalker 1994) classify organizational structures into three systems . These are all classifications with different criteria and effects on an organization which has to learn (Argyris & Schön 2008). They are important as they are the grounding for a relationship between the employee and the management and the foundation for a good learning culture with trust.*

*Therefore, creating organizational culture means creating the basis for learning organizations. This is the prerequisite for successful learning in organizations with common goals and entrepreneurial employees which assure the success of the organization. "Good managers arrange a credit of trust." (Moss Kanter 2010, p 51)*

*Keywords: Learning organization, learning culture, trust, leadership*

## Introduction

"You can't have success without trust. The word trust embodies almost everything you can strive for that will help you to succeed." This quotation of Jim Burke, Former Chairman and CEO from Johnson & Johnson (Covey & Merrill 2006, p 6) and other citations in the book of Covey tell many flashlights and examples of trust in organizations and business relationships. Covey in the USA and Sprenger in Germany are only two authors which are convinced of trust in management and organizations.

In the history of the industrial development and successful enterprises it is possible to find a lot of literature on learning organizations and more and more about trust in organizations. This literature includes everything from the conditions in enterprises, to organisational culture, leadership and relationship behaviour, communication in organization, daily working and even on life in enterprises. These themes usually sum up to directions on learning processes in the enterprises and in how to build up a learning culture with trust. In this sense learning culture guarantees the continuing increase and innovative ways for organizations to rush market situation and thus continues operating success.

In the following a short overview about the culture and learning culture in organizations with theoretical background; an assumption of a learning organization and their impact of a learning culture will be presented. One focus in the third chapter is the learning culture in the context of leadership and the skills to have business confidence and trust in the corporate management. To obtain a corporate management it's important to understand the differences of leadership and management and the interaction of both. After this theoretical part some keywords of the problem based interviews (Lamnek 2005; Witzel 2000) are mentioned. In the last chapter some optimal conditions for learning in organizations will be described and summarized. An outlook for the next research step will complete this paper.

## Learning Organizations and Learning Culture

Typically for the individual and organizational learning are the ways described by Agyris & Schön called single- and double-loop learning.

**Fig.1: Double-loop-learning („reframing") (Argyris 1999, p 130; Heyse & Erpenbeck 1997, p 134)**
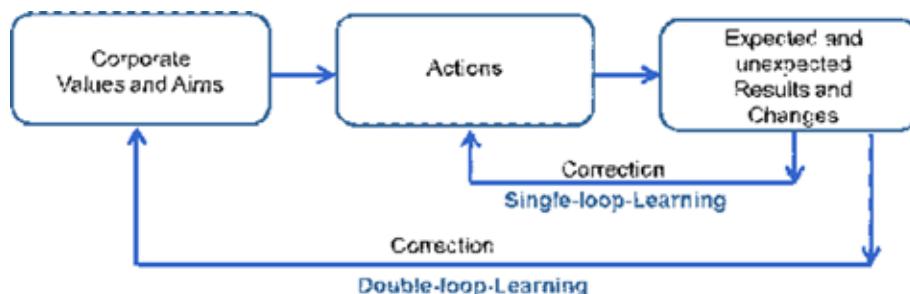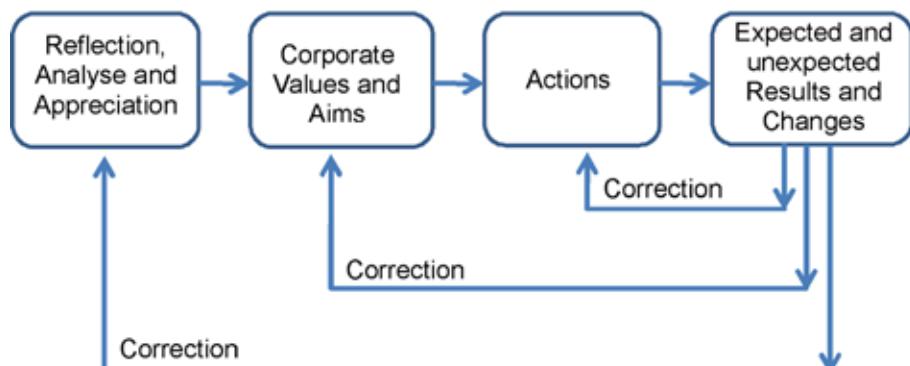


**Fig.2: Deutero-learning (Heyse & Erpenbeck 1997, p 135) in imitation (Argyris & Schön 1978)**



"Single-loop learning occurs when matches are created, or when mismatches are corrected by changing actions. Double-loop learning occurs when mismatches are corrected by first examining and altering the governing variables and then the actions." (Argyris 1999, p 68). Double-loop learning, involves questioning the role of the framing and learning systems which underlie actual goals and strategies (op. cit.). The focus of much of Argyris intervention research has been to explore how organizations may increase their capacity for double-loop learning. He argues that double-loop learning is necessary if practitioners and organizations have to make informed decisions in rapidly changing and often uncertain contexts (Argyris & Schön 1999).

The important point here is the box on the left side; the ability of reflection. Learning is not a closed process; it is like a critical view in a mirror and looking to the behaviour. It is a base of a learning culture, that the enterprise has a learning culture in which the members have the possibilities for questioning, analysing and appreciation. Than they evaluating their behaviour and processes and in the consequence can make the processes better; means thinking proactively and ensures to survive. (Argyris 1999; Maturana & Varela 1992; Lembke 1997; Probst 1998; Probst et. al. 2006).

For learning organization several authors provide different models in the description for example, looking at the culture of an enterprise such as the theory on learning cultures rooted in Schein's (1985) concept of organization culture (Burns 1996;

Burns/Stalker 1997; Burrell/Morgan 1985; Schein, 1985/1995). According to Schein (1999) each enterprise has three levels of culture: the topmost level consists of artefacts; obvious and observable facts such as clothing, architecture and interior design within a corporate identity. The second level contains values and standards, meaning obliging regulations for collective behaviour, as it is to be found in organisational guidelines. The third and most profound level covers the most elementary and deeply entrenched attitudes and convictions which, even if detectable from an outside point of view is hard to decode and allows various interpretations and speculations. (Schein 2000).

Burns (1998) classifies organizational structures also into three systems: first of all there are 'formal, authoritative structures' which originate from corporate goals, often shown in organization charts and work instructions. Furthermore, the organization has so-called 'life-environments' in which people plan their personal career fitting into the structures mentioned before and thus putting them into practice. The 'political system' can be mentioned as third dimension: people and departments collaborate, co-operate or compete with one another. Burns judges businesses that adjust to formal structures and systems only as 'not survivable' (Burns et. al. 1994; Krohmer 1999).

This means that all members of an organization involved in the processes have to be integrated into the company actively in order to improve and, if necessary, redefine (=forget) the structures and finally integrative and political systems will be included. This is the prerequisite for successful learning in organizations with common goals and entrepreneurial employees which assure the success of the organization.

## Corporate Management and Leadership

The culture of an organization is not built in few days; there is living from the beginning to the end of an organization. Beside the living culture the management and leadership of an enterprise have the big responsibility for the whole organization and their employees. Here an overview about the terms and qualities of leadership and management.

## Leadership or Management

In the 90's the leader was the most important person in the organizations to guarantee the survival and success. This person has to look forward and think long-term oriented, must have vision and ideas for the development of the enterprise – must have a mental maturation and good feeling to inspirit humans and member of an organization. Gairola (2011, p 105) quoted Mintzberg, who said in August 2009 "We're over led and undermanaged." This was a first first answer of a trend in the 90's in which the leaders were the important people and this was the step in another direction. Gairola means good managers need the right mix of both competences; leadership and management. The philosophy of corporate management and leadership has to differentiate skills and competences.

Leadership and management are quite different but also complementary. "Unfortunately, detached leaders tend to be more concerned with impressing outsiders than managing within. A case in point: downsizing decreeing the firing of thousands while ignoring the effect on morale. A robust company is not a collection of leftover "human resources." It is a community of engaged human beings." (Mintzberg 2009). In this sense we need managers with mental maturation and an organizing talent to find the makeable steps for the future to ensure the success of an enterprise.

**Fig. 3: The contrast of leadership and management (Gairola 2011, p 106)**

| | Leadership | Management |
|---|---|---|
| **Important jobs/tasks** | Producing a vision for the future. Arranging, which resources are necessary, to implement the vision. Communicating the vision and aims and building a culture, in which the members of an organization can work effectively and together. | Defining detailed steps and milestones to achieve the given aims and objectives, evaluating and changing. Optimizing the work flow, building suitable conditions and arranging rules and accountability. Optimize the resources in an organization – money, time, material and humans. |
| **Time focus** | Long-term oriented. Not looks behind, concentrating to the next right steps, in order to implement the vision. | Short and mid-term oriented. The focus is on correcting mistakes of the past. |
| **Aim and objective** | Effectivity and growth. Leadership ensures that the organization has lasting effects, growth and development. | Efficiency and achievement of actual data. Must assure, that the actual quality will be continuously optimized and ongoing advancement to bring up a constant cash flow. |
| **Risk preference** | Risk appetite. It is necessary for a growth. | Risk averse. Management quests to avoid mistakes and risks. |
| **Essential skills and competences** | Mental maturation and integrity to the intentions; able to inspire people, to find new ways and to believe on own competences. | Organizing ability; operative intelligence and expertise. |

## Trust and Leadership

"Trust is more important as strategy! Leadership is an empower mix of strategy and trust." (Sprenger 2007, p 77). A learning culture and leadership needs more as the summary of leadership and management. A leadership needs trust and trust is not so easy to become. He defined trust as a disposition; we are ready to do, what the leader says, because we estimate the competence and goodwill of the leader. Sprenger quotes in his book the American General H. Norman Schwarzkopf who said: "If leadership means: the demand of other people to organize and develop is trust the pivotal condition." (op.cit., p 77). People are ready to follow a person, in which they have trust, even if this people have not the same opinion. But they don't follow, if they will have the same opinion but not trust this person. This is typically for leader behaviour and their dilemma with disruption and acceptance. Leaders have to dis- or interrupt a process or job, if they see that the aims will not be achieved. But these leaders and managers need the acceptance and agreement of their employees to improve the company value for a long time. This is the answer; leadership and management have to create trust. Without trust there are no common goals and employees with visions and self-directed thinking and activity. (Sprenger 2007; Sprenger 2004). Covey calculates in an example of a company cost accounting and planning with a tax of trust and demonstrates the possibilities with cache variables and a cost calculating (Covey & Merrill 2009).

For example the achievement-oriented organizations with the results of competitive

conditions of employment have members with obligatory positions, with own mental power to asking: "What do you have to do? How can I produce? What happens, if I will achieve the aims and what happens, if I will miss than?" To have this questioning attitude and the typical items of the five disciplines, personal mastery, mental models, shared vision, team learning and system thinking (Senge 2001;Senge 2006), it is important to have the trust in your personnel and their competences. This enterprise, the Neopost GmbH & Co. KG , has for example 360O Feedback and an evening-academy for all the employees. These instruments of leadership bring down a round figure. (Sternheimer & Strasse 2010). This assumes trust all over the organization, in the management and leaders and in the employees.

A last example for trust in organizations is the award of the 'Top-Employer' in Germany; it is a seal of quality. This award goes to the organization which is the best in Germany. In January 2011 was awarded 'Top-Employer' of the year the Phoenic Contact in Blomberg with 501 employees. This enterprise has a visible and transparent employee selection with ethics values (for example, honesty, loyalty, values others), in which humans, from the beginning as an aspirant to an old experienced employee, are feeling good, motivated and acceptance. They have many employees with different cultural background, 26 nations, diversity and age. One important fact for this award is the 'trust philosophy'. Over a half year the management developed together with the whole staff in workshop a philosophy-codex. It was arranged that in every department a person with accountability is nominated to whom all members of this department can come with questions, problems or other inputs. In all the staff meetings like a 'Town Meeting'  the employees can bring up their opinions, ideas, concerns, views and get to know the next steps for the future. (Lemmer 2011).

Every modification is a challenge to gain in power. It is important that the employees can bring their own hopes and ideas and to convert to the common aims and objectives. A deep and broad involvement of the employees' disseminate in power: In ten thousands of networks, thousands of brain-storming-meetings and hundreds of problems-solver-teams.  In this sense "Good managers arrange a credit of trust." (Moss Kanter 2010, p 51).

## Summary and outlook

In the theory many possibilities to manage learning processes are described, which result in a learning culture with trust. In practice all these are not so easily recallable or particularly available, because the basics of the learning culture have to be lived within the enterprise. And living means all people within the whole organization; the leaders or managers and the employees and workers. This paper summarized the requirements of trust and their combination with the corporate management and leadership. It is better to work in an organization in which there is an environment of transparency, trust and esteem to someone, feeling confidence and working makes fun with the result of motivated and integrated members of an organization. In this sense it means learning culture with trust guarantees the continuous increase and innovative way for organizations to rush market situation and thus continues operating success.

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# DEVELOPMENT OF MARKETING PRACTICE IN THE CROATIAN FOOD COMPANIES

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## Abstract

*Changes in business environment make impact on business orientation and marketing role in the company. The rise of competition and customers' demands are generating rising pressure on marketing performance. Capability to adjust offer to evolving customers' needs and demands has become one of the key success factors for the food companies. The purpose of this article is to explore differences in the development of marketing practice in the Croatian food companies. Research has been made on the sample of the Croatian food companies. The results have indicated a need for further development of marketing practice in a number of the Croatian food companies, in order to improve their competitiveness.*

*Key words: Marketing orientation, marketing management, Competitiveness, Croatian food companies*

## Introduction

The company applies a specific business orientation in a given business conditions and over a specific period of time. The applied business concept is defined by attitude toward the company's role in the economy and the society. This is the way of business thinking (Grbac, 2010, p. 11). Business orientation of company is reflected in the activities that its management devotes most attention, effort and time. With change in business conditions, it is necessary to review existing business orientation and decide whether, and to what extent, adjustments to its business orientation, and changes of marketing role in the company, are necesarry.

Modern marketing environment is influenced by the strong change of technology, globalization, market deregulation, privatization in public sector, empowering customers, adapting to clients, increased competition, industry convergence, transformation and removal of retail intermediaries (Kotler, Keller, 2008). In such a dynamic and increasingly demanding environment, marketing role and tasks become more complex.

Application of marketing concept is emphasized through market orientation towards consumers, customers in other words - clients. Marketing concept is based on knowledge and research of clients' needs and desires, demands and expectations. Those are necessary ingredients in shaping and delivering value that matters to clients. When marketing concept is applied, the whole company is focused on value delivery and customers' satisfaction. The task of marketing is expanding; from effective realization of marketing function (planning, delivery and control of marketing strategy and tactic) towards successful implementation of marketing concept in the company (company focus on continuous improvement of value for ist customers). It implies spread of marketing knowledge about clients; understanding and satisfying current and future needs; the emphasis on creation of a long-term, profitable clients' relationship.

The article discusses the use of business orientation and development of marketing function in the Croatian food companies. The role of the marketing function is analyzed on the basis of research conducted on a sample of the Croatian food companies. A need for rapid development of marketing application is indicated in order to reduce the gap between the practice of the Croatian

food company and the leading international companies.

## The evolution of business orientation

Marketing is gradually changing and evolving, from its beginnings to the present form. Its further evolution still can be expected. Although the roots of the marketing are associated with the beginnings of trade, development of a modern marketing is associated with the post-Industrial Revolution times, the end of the nineteenth century and the most developed countries. The appearance of marketing at the level of theory and practice is a reflection of significant changes in business conditions (Previšić, Ozretić Došen, 2007). On one hand, the progress in science and technology has enabled the mass production of goods; on the other hand, the increase in world population, improving living conditions and standards affect the growth of needs, yet to be met. Changes in supply and demand indicate a need to harmonize production with the possibilities of consumption, and thus, open a space for a marketing (Rocco, 2000). The emerging of modern marketing is associated with an increase in supply in terms of number and variety of products and services, increasing possibilities of going out beyond the local and the national- to the international market, so manufacturers from the then most developed (U.S.) economy needed new approaches, new philosophy and business orientation (Previšić, Ozretić Došen, 2007).

Four development eras in the evolution of business orientation were observed at the beginning of 60-ties in the last century, in the case of U.S. companies; an era of manufacturing, an era of sales, an era of marketing and an era of marketing control (Keith, 1960). Vranešević, Viganli, Vrontis (2004) give an overview of the development of business orientation through focus on: product, production, sales and marketing. Grbac (2010) lists four business orientations, emphasizing the focus on creating offer, on selling offer, on consumers' satisfaction and the focus on new marketing relationships. When showing the development of business orientation, Kotler introduces some modifications in recent works. At the beginning of this century, the author states a focus on manufacturing, product, sales, marketing, consumer and social marketing (2003). Shortly afterwards, focus on consumers is omitted (2006), and in the latest work development of

business orientation is presented through a focus on manufacturing, product, sales, marketing and holistic marketing (2008).

Focusing on the production is typical for the era of industrialization, when the main problem of the company was mastering the production, availability and accessibility of raw materials and energy resources. The company is focused on solving the problem of limited production capacity, where the needs and desires of consumers have been ignored (at a time when demand is high and competition is low).

Focus on the product occurs when a company has sufficient capacity to fulfill demand for its products. The company is focused on technical improvements, innovation and product development, rather than real needs and concerns of consumers.

Focus on sales puts emphasis on sales efforts, in order to increase sales of available products (i.e. products that the company is able to manufacture). With aggressive sales and promotional activities, companies are trying to impose products to consumers, regardless of their wishes and preferences.

Focus on marketing represent shift in companies' business orientation of the developed countries in mid-twentieth century. Intense competition and surplus of supply create pressure on the survival and company development. Identifying and adjusting offers, according to needs and desires of consumers, become an essential prerequisite for a successful business development.

A focus on consumer is a modification of the marketing concept, as it also departs from the needs and desires of consumers, with emphasis on offers personalization, in accordance with individual characteristics of the consumers. Marketing function is considered the most important company's function because of information availability, consumer knowledge and role in building and maintaining customer loyalty (Previšić, Ozretić Došen, 2007).

Focusing on social marketing arises from the need to align business profits, satisfying consumers' desires and public interests (Kotler, Armstrong, 2001, p. 28), namely eliminate conflicts between short-term desires of consumers and long-term consumer welfare. Success of the company is a result of determining the needs and wants of

target markets, their compliance on better and more efficiently ways than the competition, with a constant concern about improving the welfare of the society (Previšić, Ozretić Došen, 2007, p. 15).

Although the marketing orientation represents a radical shift from previously mentioned orientations, its focus is limited on relationships between company and customers, with an exclusive monitoring of economic effects. Further development of the marketing orientation is going to remove these restrictions, as well as criticism of marketing practices. Social marketing represents a more developed form of traditional marketing concepts. Market exchange and its consequences tend to be looked beyond the directly involved parties, companies and consumers. It is an attempt to consider all consequences and impact of marketing and business activities on the community and the environment. This emphasizes the need for socially responsible, ethically and morally acceptable marketing activities.

The occurrence of holistic marketing (Kotler, Keller, 2005) represents the philosophy of marketing in its broadest sense. Holistic marketing accentuates the need for an integrated and comprehensive approach, related to complex challenges of today's marketing environment. Holistic marketing consists of four interrelated dimensions; relationship marketing, internal marketing, integrated marketing and socially responsible marketing.

## The evolution of the business orientation of the Croatian companies

The evolution of business orientation may suggest that the appearance of one era, (one orientation) completely displaces previous one (Keith, 1960). Fullerton argued that development of modern marketing has been longer and more complex than is expressed by the current periodizatoin scheme of the production, sales and marketing eras (1988, p. 123).

Stanton, Etzel, Walker (1991) point to the parallel existence of different business orientation; for instance, some companies may apply production orientation, while the others progressed to sales orientation and marketing orientation. However, despite the parallel existence of different business orientations, the marketing orientation is nowadays considered to be dominant in many sectors and companies in the United States and Western Europe.

Evolution of the business orientation in certain countries is shown in Table 1. Certain stages of development are characterized by a business orientation that dominates in a particular period in the observed economy. It may be noted about the same tendency of marketing development in the U.S. and Western Europe, with a certain time delay, while in the Croatian business practice, it occurs significantly lagging behind the countries of Western Europe.

It is considered that Croatian companies mostly used production or sales orientation, while the marketing concept is applied by a smaller number of companies. Recently the Craotian companies have faced with stronger impact of market economy and, thus, come to a gradual change in applied business orientation. The rapid development in application of marketing orientation is needed to overcome the gap between the Croatian and business practices of developed countries, as it serves as an important tool for solving economic crisis (Rocco, 2000).

"Although specific researches have not been done yet, it still can be empirically concluded that in Croatian practices still recognizes production, sales and marketing orientation as coexisting concepts. So far, the most common is the sales concept, with equal representation of the production and marketing concepts. This means that the Croatian economy is actually located at the turning point between sales and marketing concepts... it's important that  Croatian economic subjects turn towards the full acceptance of the marketing concept as soon  as possible..." (Meler, 2002, p. 15).

## Table 1. Development of marketing worldwide

| Business orientation | Approximate time | | | | |
|---|---|---|---|---|---|
| | USA | Developed countries | Croatia | Eastern Europe | Countries in development |
| Production | 1935. | 1945. | 1960. | 1970. | 1990. |
| Sales | 1950. | 1965. | 1975. | 1980. | today |
| Marketing | | | | | |
| - early | 1960. | 1975. | today | today | ? |
| - developed | 1980. | 1990. | ? | ? | ? |
| - social | today | today | ? | ? | ? |

Source: Rocco (2000, p. 16)

There are numerous reasons for delays in the application of marketing concept in Croatia, in relation to already developed countries. The radical reforms in the Croatian society had begun in the 1990s, with the country's struggle for independence. With the processes of democratization and privatization, a market economy was being established. However, the questionable effects and the slow pace of reforms were attributed to war and the extent of destruction that befell on the Croatian society. In addition, the limiting factors of marketing application in Croatia (Meler, 2002) were the following: inadequate economic structure, inadequate organizational structure of businesses, limited operation of the market, inconsistency of business conditions, the gap between declared and actual market relations, only a declarative application of marketing concepts, etc.

## The role of marketing in the company

With increasing competition and market globalization, the role of marketing in the company is becoming increasingly important, regardless of the type of activity and geographical location. With the development of marketing orientation, and in addition to performing the basic marketing functions (planning, implementation and control of marketing strategies and tactics), marketing also takes the role of transfer of marketing thinking to the whole company.

Marketing can no longer be the sole responsibility of a few specialists. Rather, everyone in the company must be charged with responsibility for understanding customers and contributing to developing and delivering value for them (Webster, 1988). Marketing is the management function responsible for making sure that every aspect of the business is focused on delivering superior value to customers in the competitive marketplace (1992, p. 14). Achrol even suggested two new forms of marketing organization, (the marketing exchange company and the marketing coalition company). The idea is rooted in the historical evolution of functional approaches to a customer orientation, and in the need to cope with complex and dynamic task environments (1991, p. 77). Vargo and Lusch (2004) proposed the shift in dominant logic for marketing; away from tangibles toward intangibles, such as skills, information and knowledge, and toward interactivity and connectivity and ongoing relationships.

In accordance with the development of marketing orientation, organizational model in the company should be adjusted. Kotler (2003) displays the development of marketing role in the company through five organizational models: a) marketing as a function of equal importance, b) marketing as more important function, c) marketing as a main function, d) customer in control function, and d) customer in the control function and marketing in integrating function.

Marketing becomes responsible for the transfer of orientation towards the consumer as the basis of conduct of all employees, regardless of the type of business and functional area in which they work. Thus, the consumer gets some sort of controlling role of business, while marketing has the task of integrating all other business functions (Previšić, Ozretić Došen, 2007). With growing pressure for socially responsible business activity, marketing is expected to meet the needs and desires of consumers and the achievement of company objectives in a socially responsible manner.

## The role of marketing in the Croatian companies

The results of a study conducted in Croatian companies are indicated as poorly developed marketing practices (Vranešević, 1998). A study conducted on 239 companies 1998 shows that the marketing department has only every other company (51%). Less than one third of companies (30%) had an emphasized focus on customer satisfaction, so the conclusion was: those are the companies with a marketing orientation. At the same time, only 20% of companies involved in this research have a market research department.

In the area of research, looking at the organizational form, marketing was usually located on the first functional level (41%); on the second functional level (29%); at the first headquarters level (21%). As an ideal marketing position in the organization the respondents most often mentioned the first functional level (41%); the first headquarters level (32%); and another functional level (19%).

Based on these results, it's concluded that the largest deviations of the actual and the ideal marketing position in the organization were seen when marketing is at the first headquarters level and at second functional level. This situation would be indicated on the undervalued position of marketing in Croatian companies, although it could be discussed about the importance of recognizing these discrepancies between the ideal and existing solutions. It could be concluded that companies recognize the problem, and this is certainly a necessary prerequisite for its eventual resolution (Marušić, 1999, p. 253).

Croatian companies are increasingly exposed to struggle with competition and they'll have to apply similar weapons as the others (Marušić, 1999, p. 270). So, it's in the best interest of Croatian companies to implement the marketing orientation, in which the entire company is focused on meeting customer needs and mastering the necessary knowledge and skills in order to surpass the competition, excite consumers and achieve business objectives, as well as society interests.

## Research of the Croatian food companies

During 2009, the research was conducted on a sample of 600 Croatian food companies, out of which 54 questionnaires were collected. The structure of the collected responses is made of 65% from large companies and 35% from small and medium-sized (by number of employees in the company). Table 2. shows the opinions of respondents about the current role of marketing in the company they come from. In almost half of the observed companies, marketing function plays a role of equal importance with other functions (46.3%), while at one third of companies (33.3%), marketing takes over the integrating role of other functions in the company.

Table 3. shows the respondents' answers about the prevailing orientation of the company, in other words, the business concept that the company applies. Almost half of respondents (48.6%) from large food companies believed that the company used integrated marketing approach, while the other approaches commonly referred to focus on manufacturing (22.9%) and a focus on sales (20%). About one third of respondents (31.6%) from small and medium food companies stated to apply integrated marketing approach, one quarter of respondents (26.3%) stated focus on product, and among others equally are present focus on manufacturing (15.8%) and focus on consumers (15.8%).

These results suggest that the observed Croatian food companies apply different business orientations, in other words, different business concepts simultaneously exist within Croatian food companies. Although a significant number of respondents declared implementation of integrated (holistic) marketing orientation in the companies, there are still older forms of business orientation present, i.e. orientation on the production and sales.

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**Table 2. The marketing role in the Croatian food companies, in %**

| The marketing role | | Total | Size of company | |
|---|---|---|---|---|
| | | | 250 and more empl. | 0 - 249 employees |
| Marketing as a function of equal importance | | 46.3 | 45.7 | 47.4 |
| Marketing as more important function from production, finance, human resource | | 5.6 | 5.7 | 5.3 |
| Marketing as a main function in company | | 3.7 | 2.9 | 5.3 |
| Consumer in control function of all functions in company | | 7.4 | 5.7 | 10.5 |
| Consumer in control function and marketing in integrating function | | 33.3 | 34.3 | 31.6 |
| Other | | 1.9 | 2.9 | 0.0 |
| Not answered | | 1.9 | 2.9 | 0.0 |
| Total | N | 54 | 35 | 19 |
| | % | 100.0 | 64.8 | 35.2 |

Source: author's research

**Table 3. The prevailing business orientation in the Croatian food companies, in %**

| Business orientation | | Total | Size of company | |
|---|---|---|---|---|
| | | | 250 + empl. | 0 - 249 employees |
| High production efficiency, low cost and mass distribution | | 20.4 | 22.9 | 15.8 |
| Creating superior products and their continuous improvement | | 11.1 | 2.9 | 26.3 |
| Sales and promotion efforts | | 16.7 | 20.0 | 10.5 |
| Understanding and meeting customer needs | | 9.3 | 5.7 | 15.8 |
| Complete and related (holistic marketing) approach | | 42.6 | 48.6 | 31.6 |
| Total | N | 54 | 35 | 19 |
| | % | 100.0 | 64.8 | 35.2 |

Source: author's research

A comparison of results for marketing role and business orientation of large food companies has shown that marketing has an integrating role in 34.5% cases, while complete (holistic marketing) approach has been chosen by 48.6% of respondents. Marketing is most often seen as an equal function with other functions (in a 45.7% responses). The question is whether marketing department, as equally important organizational function, may ensure successful implementation of marketing approach in the company as a whole. Implementation of integrating marketing role is particularly tricky in large companies, where expected effects may be absent due to a lack of clear organizational support. This topic is even more significant because of a great importance of large food companies for the whole food industry in Croatia. Furthermore, these are the companies that are primarily exposed to foreign competition at both domestic and foreign markets.

Table 4. shows the competitive position of the food company, in relation to the most important competitor, according to its market share and marketing knowledge application. Respondents evaluated those two dimensions within 10 years time period, using rating scale from 1 to 5. (For market share; 1 – weak, 2 – viable, 3 – favorable, 4 – strong, 5 – dominant market position. For marketing knowledge application; 1 – underdeveloped application, 2 – weak, 3

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– moderately developed, 4 – close to leading, 5 – leading in marketing knowledge application).

There is a notable, expected trend of weakening market position by large food companies (from 4.11 to 3.66), although, at the same time, there's an expected progress in the marketing knowledge application (from 3.69 to 4.06). For the most important competitor, it is expected to retain a slight advantage in market position (from 3.6 to 3.8), and in the application of marketing knowledge (from 3.6 to 4.2).

Respondents from small and medium-sized food companies expected to strengthen their own market position (from 3.21 to 3.63) with a definite improvement in the application of marketing knowledge (from 2.89 to 3.53). In fact, respondents from small and medium sized companies are expected to be more successful, compared to their most important competitor (in terms of market share and marketing knowledge application).

**Table 4. Competitive position of the Croatian food company comapred to the most important competitor**

**a) Position of the company in relation to the market share**

| Company's competitive position (Market share) | Average rate | Size of company | | The most important competitor (Market share) | Average rate | Size of company | |
|---|---|---|---|---|---|---|---|
| | | 250 + empl. | 0 – 249 empl. | | | 250 + empl. | 0 - 249 empl. |
| BEFORE 5 YEARS | 3,80 | 4,11 | 3,21 | BEFORE 5 YEARS | 3,5 | 3,6 | 3,5 |
| NOWDAYS | 3,57 | 3,77 | 3,21 | NOWDAYS | 3,8 | 3,8 | 3,8 |
| IN 5 YEARS | 3,65 | 3,66 | 3,63 | IN 5 YEARS | 3,7 | 3,8 | 3,5 |

**b) Position of the company according to marketing knowledge application**

| Company's competitive position (Marketing knowl. application) | Average rate | Size of company | | The most important competitor (Marketing knowl. application) | Average rate | Size of company | |
|---|---|---|---|---|---|---|---|
| | | 250 + empl. | 0 - 249 empl. | | | 250 + empl. | 0 - 249 empl. |
| BEFORE 5 YEARS | 3,41 | 3,69 | 2,89 | BEFORE 5 YEARS | 3,3 | 3,6 | 2,8 |
| NOWDAYS | 3,67 | 3,89 | 3,26 | NOWDAYS | 3,7 | 3,9 | 3,4 |
| IN 5 YEARS | 3,87 | 4,06 | 3,53 | IN 5 YEARS | 3,9 | 4,2 | 3,4 |

Source: author's research

These presented results indicate that there's a room for improvement in the large part of Croatian food companies in both directions - monitoring current marketing theories, and their application in practice.

## Concluding remarks

The paper examines the application of business orientation of Croatian food companies. The starting assumption was that Croatian companies usually apply production or sales orientation, while marketing concept is applied in a smaller number of companies (Rocco, 2000). Based on empirical experience, it was concluded that the Croatian practice has sales, production and marketing concepts existing simultaneously, with the dominance of sales concepts and equal representation of the production and marketing concepts. This leads to the conclusion that the Croatian economy is at the turning point, between sales and marketing concepts (Meler, 2002).

A study of the Croatian companies showed a poorly developed marketing practice (Vranešević, 1998) with the existence of a marketing department in

only half of the monitored companies, and the application of marketing orientation in less than a third of the observed companies. At the same time, a difference in the organizational position of marketing in the companies observed was noticed. All of the above suggests marketing is underappreciated in the Croatian companies.

A study of Croatian food companies points to a parallel existence of different business concepts (Ivanković, 2010) - from integrated marketing orientation to production and sales orientation. In the food companies, marketing is usually treated as a function of equal importance with other functions. This could jeopardize the realization of the integrative role of marketing function when the whole company tries to apply a holistic marketing orientation.

Furthermore, it is noted the need to improve the application of marketing knowledge in the food companies, in order to maintain current market positions for large companies and to improve market positions for small and medium-sized companies.

Also, the impact of current marketing practices of the large food companies on other food and non-food companies should be taken into consideration; for years the large food companies had been seen as examples of best Croatian marketing practices. Improving competitiveness of the food industry is also important from the standpoint of the entire economy, since the food industry has a significant share in Croatian manufacturing industry.

Consequently, further rapid development of marketing application in the food and non-food industry of Croatia should be treated as a primary vehicle for improving their competitiveness. Better implementation of the marketing orientation, followed by appropriate marketing role within organization, is in the best interest of Croatian companies. Eventually, marketing should be charged with a leading role for the whole company in thrilling its consumers, overcoming its competition and achieving their business goals, as well as fulfilling the society interests.

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# EVALUATING INTELLECTUAL AND ENVIRONMENTAL CAPITAL – THE WHATS AND HOWS – PERFORMANCE EVALUATION IN THE INFORMATION ERA

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## Abstract

*As the intellectual capital became the most important recourse of the information era, and management relies on information and innovative intelligence, organisations should change the system of evaluation and find new, up-to-date methods. The traditional (especially financial) performance evaluating methods (general accounting methods) are not able to visualize the value of the knowledge, information, or immaterial stocks, in spite of these are the critical, key factors of today's and tomorrow's organization. In addition the environment should not be forgotten in the rank of the critical recourses of a company's success factor, especially that the improvement of the organisation's environmental performance increases the benefits. The lack of effectiveness of traditional performance evaluating methods and environmental management accounting in case of evaluation of environmental performance is a consequence.*

*Have the organizations realized their intellectual capital and the benefits of the environmental performance's improvement? Have they evaluated it? How does an organization know the usability of the new, modern evaluating methods in case of intellectual capital or in case of environmental performance or in case of environmental management accounting? Or maybe do they need incentives for evaluation?*

*The paper is the summary of different secondary and primary researches, which tries to answer these, before mentioned questions and the key issues of the intellectual capital and the environmental performance (evaluation) and also of the usability of the new, up-to-date methods. Therefore the paper – the answer – is the consequence of theoretical research, where the practice also will be appear, because the common solution – in connection with up-to-date methods, environmental performance and environmental management – will be presented by the method of Sustainability Balanced Scorecard (SBSC) and other suggestions.*

*Key words: Intellectual Capital, Environmental Capital, Performance Evaluation, Sustainability Balanced Scorecard*

## INTRODUCTION

As the intellectual capital became the most important recourse of the information era, and management relies on information and innovative intelligence, organisations should change the system of evaluation and find new, up-to-date methods. The traditional (especially financial) performance evaluating methods (general accounting methods) are not able to visualize the value of the knowledge, information, or immaterial stocks, in spite of these are the critical, key factors of today's and tomorrow's organization. In addition the environment should not be forgotten in the rank of the critical recourses of a company's success factor, especially that the improvement of the organisation's environmental performance increases the benefits. The lack of effectiveness of traditional performance evaluating methods and

environmental management accounting in case of evaluation of environmental performance is a consequence.

The paper is the summary of different secondary and primary researches, which tries to answer the main questions and the key issues of the intellectual capital and the environmental performance (evaluation) and also the usability of the new, up-to-date methods.

To resolve the background of this paper there will be a summary about the characteristics of information era and the key, success, critical factors, resources of the organizations. Also will be presented, why the authors claim, that the intellectual and environmental capitals are the critical, success factors, resources. After the introduction of the background, the problems of evaluation of these resources will be presented, but solutions for the problem also will be summarized, accordingly will be examined the performance evaluation of intellectual capital, the new, up-to-date methods, the environmental performance evaluation and environmental management accounting. After these examinations will be a conclusion which also claimed by authors, namely that the up-to-date methods, used in case of intellectual capital, can be able to evaluate the environmental capital too. To confirm this claim/hypothesis authors will collect arguments and show an example for the integrated evaluation, which is the improved version of Balanced Scorecard, called Sustainability Balanced Scorecard, and other suggestions, ideas too. At final there will be summarized the relationship between new, up-to-date methods and environmental management accounting.

## RESOURCES OF COMPETITIVENESS

At the beginning it is important to get to know the base, background of the paper. Firstly it is important to mention the characteristics of information era. In the age of industry the technology and the mass production were important in the market's competition. But form the second part of the 20th century, there is a new competition where organizations can't create value only from for example the technology change. The new age, the information era, means the management of the intellectual capital (IC), because these are the main resources of the age. [1] Intellectual capital is a hard and difficult expression, concept and there are different definitions for it. This makes

the capital difficult and handful – especially in case of evaluation – for corporations. The most suit definition for the authors comes from Tóth, who writes that the immaterial capital is an asset, which is not-subjected. One part of this capital can be visual in the balance sheet, between the intangible stocks, but the other part completes these intangible assets. This part cannot be visual in the balance sheet, thanks for the special, different property. [2]

Secondly it is necessary to mention the second base, background of this paper. According to Kapusy [3], the organisation, the company is able to work on long run with success if ambient society and environment (like resources) also be on long run, so it means that the resources and the market (consumers) also have to be viable. Therefore the responsibility for the future generations is a part of the responsibility of owners. Concept of sustainable development – which meets the needs of the present without compromising the ability of future generations to meet their own needs – and the pillars – environmental, social and economic – confirm the importance of the environmental and social points in the competitiveness. Confirmation of this background it is not aim in this paper, but the conclusion is that the environment and the society are also the main resources of the age.

After the short introduction of the background the authors create a hypothesis and like a summary tries to confirm it. The hypothesis is that as the intellectual capital is an important, critical factor of the competitiveness in the information era, so the environmental and social responsibility are also critical factors of the success, therefore the management of the environmental and social capital can be parallel with the management of the intellectual capital. (In the paper only the environmental capital will be examined, because of the limit of compass.) To confirm the importance of the before mentioned critical capitals, it is necessary to examine that how the characteristics of success factors (resources) appear in connection with the examined capitals, like factors. According to Gyökér [4] resources make competitiveness for corporations which are valuable, rare, can't be copied and can't be replaced. Results of this examination can be found in table 1. According to the authors both of these capitals reach the characteristics, so the hypothesis is confirmed, the intellectual, and environmental capitals can be the critical, success factors of the organisations in the information era.

**TABLE1: EXAMINATION OF INTELLECTUAL AND ENVIRONMENTAL CAPITAL**

| | Intellectual Capital | Environmental Capital |
|---|---|---|
| **Valuable** (able to achieve the opportunities) | The knowledge, the relationship, the organizational culture and structure ensure the utilization of opportunities | There are many advantages for organization which are come from the protection of the capital. So the liveable environment is valuable. |
| **Rare** (it is really slim or competitor doesn't occupy it) | The human knowledge, relationships are properties of person. | This capital is limited (finite). There are no limitless natural resources and there is no limitless receiver, occlusive capacities. |
| **Can't be copied** (the competitor cannot copy it correctly) | It is copiable with learning improvement, but it never will be the same. | The environmental behaviour, actions (e.g.: use of standards) are organization-specific. |
| **Can't be replaced** (without these cannot be work) | The knowledge, the relationship, the information can't be fungible with physical or monetary resources. | It is an interesting question, because the mainstream is the replacement with alternative resources. |

SOURCE: OWN ANALYSIS AND COMBINATION

# EVALUATION OF THE CRITICAL, SUCCESS FACTORS

## Evaluation of Intellectual Capital

The new age means the management of the IC, because it is the main resource of the age. As the main resource changed, the evaluation also should be changed, because these new values can't be measurable by the traditional financial methods. The financial models measure the past events, and don't measure the ability of the investment to future value-maker resources. [1] According to professors of Cranfield School of Management, the IC is the topmost recourse, which is the leader aspect of the organizational value system. But the traditional financial system cannot show to the managers and investors that how the capital can produce value in the future. So, this is why should be special interest of intellectual capitals' evaluation. [5]

Sveibys' work also confirms the failure of traditional financial accounting in case of intellectual capital, because it completes the balance sheet with different elements, which can show the value of the IC. This completed balance sheet is called invisible balance sheet, because it shows the value under the surface, under the visible part of value. The invisible intangible assets part of the balance sheet can be classified as three families: Internal structure, External structure and Individual competence. In the liabilities side there are two classes, the Invisible Equity and the Market Value. [6]

There is a need to change the performance evaluation, need to arrive in the period of performance evaluation system, because of the changes in the economy. To achieve it, there are more methods, which can help, and promote that the organization can evaluate from different aspects and not only from the financial aspect. The base of these methods is a Performance Prism, which was developed by the workers of Canfield School of Management and Andersen Consulting. [9]

The Prism is a performance management model, which build upon the existing methods, models, but also improve them. Shaping the model the most important factor was to take into account the flexibility, so the method could be able give closer and wider spectrums too, according to the claims of user. The model is able to fasten on whatever business activity and process, because it is able to evaluate from different aspects, be extensive and integrated to achieve the common thinking in organizational performance. [10]

**TABLE 2: NEW, UP-TO-DATE METHODS OF EVALUATION OF INTELLECTUAL CAPITAL**

| Evaluation with Monetary Methods | | | Evaluation with Scorecards |
|---|---|---|---|
| Direct, Analytic Methods | Market Value Based Methods | Return on Asset Based Methods | Intangible Asset Monitor (Sveiby 1997) |
| Intellectual Asset Valuation (Sullivan) | Stewart: intellectual capital=market value-value about the book | ROA (Return on Asset) | IC-Index (Roos, Dragonetti and Edvinsson 1997) |
| TVC – Total Value Creation | Stanfield: value about the change | EVA: Economic Value Added | Intellectual Capital Navigator (Stewart 1997) |
| The Value Explorer (KPMG) | Tobin: market value/costs | Lev: knowledge capital | IC-Rating (Intellectual Capital Sweden AB 2002) |
| Accounting For The Future (Nash) | | | Wissensbilanz 2001, 2004 |
| | | | Intellectual Capital Statement (2000, 2003) |
| | | | Wissens-Scorecard (2004) |
| | | | Balanced ScoreCard (Kaplan and Norton 1992) |
| | | | Human Capital Intelligence (Jac Fitz-Enz 1994) |
| | | | Skandia Navigator (Edvinsson and Malone 1997) |
| | | | Value Chain Scoreboard (Lev 2002) |

SOURCE: OWN COMBINATION ACCORDING TO [7], [8], [9]

The Performance Prism was the mother of the most of performance evaluating methods. These are different methods, but the base philosophy is common. According to Gyökér and Finna there are two ways of these new, up-to-date methods: the first one is the improvement of the traditional bookkeeping and financial system, and the second one tries to find this invisible value by examining the quality factors of it. [9] Sveiby prepares four categories of the methods: direct methods, methods based on market value, methods of return on assets and the scorecards. [7] The table 2 summarizes some methods in two groups. In the first one there are methods of the evaluation where the capital is expressed monetary. The second one is the group of scorecard methods, which measure the performance from different aspect. Indicators are defined in scorecards, but it is hard to find the best indicators, because these should be measureable, enough, easy to define, cost-effective and be able to measure the performance time to time. All of these methods can help to eliminate the failures and faults of the traditional methods, and the evaluation can be concentrated into the intellectual capital.

Like a primer research the authors made a short comparison between the methods and the Performance Prism to show the usability of these methods. As it was mentioned before the Prism is the base, mother of these methods, so it can be the base of the comparison. The Prism is an extensive, multi-faceted performance management system, which can give balanced picture about the performance of the organization. It is usable in the different levels of the organization, measures and evaluates the performance in all of the levels, which are important for the success of the organization. [11]

The model has three dimensions: the base is the Stakeholder Contribution, the top is the Stakeholder Satisfaction, and the sides: Strategies, Processes and Capabilities. The concept of the prism is to evaluate the performance by different point of views, which are the dimensions of the Prism.

(In contrast with the 'just financial point of view' methods.) [9]

The aim is to make a comparison between some of the mentioned methods for evaluation and the Performance Prism. The first chosen method was the EVA, which is the indicator of the financial performance, measures the real business profit of the organization. It is also a good method to set aims, define premiums, forecast (judge) value and communicate with investors. [12] After the comparison with the performance Prism, the result shows that the aspects of the Prism are in the EVA, but it is incomplete. Especially it is incomplete in the stakeholder contribution and strategy definition.

The Skandia Navigator is one of the main scorecard methods, which treats and measures, integrated and dynamic, the elements of intellectual capital. There are five dimensions (elements): financial focus, costumer focus, process focus, renewability and development focus, and human resources focus. [8] This method has more connection to the Prism than the EVA, but it is also not complete. The main connecting-point is the precedence of stakeholder claims (Stakeholder Satisfaction from the Prism), because the human resource is in the centre in the Skandia Navigator. In the method there is no definition for the strategies, which can help to achieve the stakeholder claims. There is also not information in the method about the capabilities.

The Intangible Assets Monitor (IAM) defines the market value of the organization like the summary of the subjected assets and the intangible assets. This method helps to evaluate by indicators in different points of view: Grow/Innovation, Effectiveness and Stability. [13]

The IC Index is a model, which tries to collect the different indicators and prepare a common indicator for the evaluation and tries to make a connection between the changes of intellectual capital and changes of the market.

Analyzing together the IC index and IAM with the Prism, the results show that the indicators in different points of view are not too emphatic as the Prism expected it.

The most popular method of the performance evaluation is the method of the Balanced Scorecard, which measures the performance from different points of view: financial, consumer, processes and learning and growth. This method uses indicators, which measure the performance and the strategy. This method is really compatible method with the aspects of the Prism.

To answer one of the main goals of this paper the results of the analysis show that there are relevant methods for evaluation, but there are methods which are not really relevant, because of the missing, weak points. All of the mentioned methods can prove the claims, aspects of the Prism, but some of these need to concentrate more for strategy, capabilities and processes (of course the claims of stakeholders should be the most important aspect according to the Prism), so these methods could be up-to-date, relevant methods to evaluate the intellectual capital at the age of information.

It is not enough to find in theory the usability of these tools, it is necessary to use in practice too. According to other previous, special researches the attitude of organizations in connection with intellectual capital and evaluation can be summarized. These researches can show that most of the corporations have realized and know the importance and value of the intellectual capital, but there is less attention of the evaluation. According to the authors this situation is reversible, and the organizations are impulsive for the usage of evaluation. To impulse the organizations there are two ways according to the authors (created by authors). One way is a way of 'list of incentive evidences' of the incentives, which is a method where advantages of intellectual capital and evaluation are showed for managers, top-managers. They can be proved about the importance and advantages by the evidences, and maybe can impulse them for the evaluation. The other way is a 'quick guide about organizational intellectual capital' which contains four questions for managers. These questions should not be answerable, because the aim is to start thinking about the questions and the answers. These questions are also in connection with different quotes of experts (and it also promote the 'list of incentive evidences'), and they are guides to measure how the organization relates to the intellectual capital and evaluation. These questions and also the potential answers can be thought-provoking for managers, organizations, which is the aim, goal of the quick-list. [14]

## Environmental Performance Evaluation

The environmental performance evaluation (EPE) is an essential tool for decision makers to support the decisions in issue of environment. It is necessary to use the EPE, because as was it mentioned and confirmed the environment is a critical, success factor for organizations. The EPE is the measurable result of the management in point of environmental aspects. It is an internal, continuous management process and tool, which uses environmental indicators to make a comparison between the present and past environmental performance (EP) and the criterions of the environmental performance. [15]

There are many tools and methods for EPE, but the main point is the use of indicators. These are the first, real methods of the evaluation. Organizations have to define enough and measurable indicators, which should reflect the operation and the volume of the corporation, and complexion and intensity of the possible environmental impacts. [15] The EPE also helps the recognition, implementation and check of the opportunities which have strategic importance.

Here, like in case of evaluation of IC, are also has some problem. According to Kulcsár there are two basic characteristics of the goods. One is the financial value, price of the goods, another is the functional value. However the goods from nature, environment only has functional value, and has not got financial value. While the financial value is the dominant in the market, the natural, environmental goods with functional value are outside of the basic economic values. So tools only used in the market made the secondary management of the natural, environmental values, goods. [16] The traditional management accounting systems inform about the general cost, but mostly these not inform about the environmental costs and benefits. It causes the deprecation of environmental costs, which generates more problems. It is impossible to find the cost of environmental performances' activities and the benefits of these activities in financial, traditional accounting systems. Environmental management accounting can be a solution for this problem, because it can help in correct separation of environmental costs and also helps to measure the benefits too. So it helps in the evaluation of environmental performance evaluation in the better way, than traditional, financial methods. EMA also helps to make better the results of traditional EPE methods too. It can be offered to use the EMA parallel with EPE.

## Common Problems with Evaluation

One of the aims of this paper is to find a relation between the performance evaluation and (environmental) accounting. So it is necessary to emphasise the role of accounting in information era. It was mentioned that the traditional financial system is not able to visualise the value of the intellectual and environmental capital (Sveibys' balance sheet and problem with environment costs). One of the course books of general accounting shows that the method of general accounting is really creditable, because it is based on double-entry bookkeeping, which is yet more than 500 years old, and it is a closed system with self-checking mechanism. According to Laáb there is some new claim – in connection with evaluation – of challenges of information-society, which cannot be answered with the help of traditional financial and accounting tools. [17] This opinion also emphasizes the necessity of new tools of evaluation. It is true in connection with intellectual and environmental capital too.

As was it mentioned there is problem with the traditional, financial evaluation of intellectual and environmental capital tool. This problem is the same, because it is difficult or impossible to give financial value for the knowledge, relationships, for immaterial elements and for environment too. Even this problem caused the necessity of up-to-date methods of performance evaluation in case of intellectual capital. Like a conclusion the authors' opinion is that if new, up-to-date methods born for the evaluation of the intellectual capital because of the same cause which is the problem of the evaluation of natural, environmental capital, then these new, up-to-date methods should be able to evaluate the environmental capital too.

## SOLUTION – INTEGRATED EVALUATION

The before mentioned relationship can be the second hypothesis of the authors – the up-to-date methods of the IC can be able to evaluate the environmental capital too – which will be confirmed by the next arguments.

The first argument has been already mentioned, that there is some problem in connection with the effectiveness and compliance with financial, traditional methods, tools in case of intellectual and environmental capital too. Just like an example, the traditional accounting is able to inform about the costs, profits, but these do not contain information about the environmental or intellectual costs and profits. In general the environmental costs are hidden in the category of general costs, and this can cause faults in decision making.

The next argument is the use of indicators. Method of indicators is the real method of EPE and in table 2. many of tools were also mentioned, which are based on indicators. Indicators have a really important role in the evaluation of both capitals, because with these the main aim is the continuous check of performance.

The need for determinable (quantifiable) value in case of intellectual capital and environment is also can be an important argument. If there is no financial value, it causes disadvantages in the market, than there will be a need for better evaluation, to define value for these capitals. The new, up-to-date tools help for managers evaluating the capitals from different aspects. The already existing tools of EPE are evidences for it, because for example the ISO 14031 standard (which is the most known method for EP indicators) contains operating-, and management (also financial) performance and environmental condition indicators too.

It is not enough to collect the main arguments. There is one up-to-date method which already an existing evaluating method in case of intellectual capital and sustainability (environment) too. This is the most known method from table 2, the improved version of Balanced Scorecard, the Sustainability Balanced Scorecard. This method can be an evidence to confirm the hypothesis of the authors, still there is a novelty in the hypothesis: the environment can be managed in the same way like the intellectual capital, maybe with all of the mentioned tools, methods.

## THE SUSTAINABILITY BALANCED SCORECARD

The Balanced Scorecard (BSC) breaks down the strategy into exact objectives and indicators, and manages them, evaluating the performance according to four different perspectives: traditional financial perspective, perspectives of customers, internal business processes, learning and growth. The four perspectives represent that it is necessary to complete the financial evaluation, so organizations can check the financial results, performance (for example the profit and loss) and they can measure how they exploit the capabilities and reach the intellectual goods which are necessary for future improvement. [1] BSC is a complex performance evaluating system, so it is able to join the different fields of corporate performance, in this way the BSC is good to measure the environmental activities too. Harangozó suggests the implementation of environmental, social aspect to the scorecard system, and call it Sustainability Balanced Scorecard (SBSC). [18] According to secondary researches ([19], [20]) the authors creates a model for implementing SBSC. Because of the limit of compass the aim is just summarizing the operation of SBSC.

Defining the good BSC it is necessary to get to know the processes, the organization well. Different management models (SWOT analysis, BCG matrix, EFQM, value chains, activity analysis) help in case of BSC, but in case of SBSC it is necessary to complete this work with the help of tools of EPE (eco-mapping, input-output analysis, indicators of ISO 14031), which can make a better picture about the EP. After this step corporations need to define the vision, the strategy. In SBSC it is in connection with environmental strategy, which is a general idea in point of environmental aspects and impacts. In the next step the strategy has to be broken down into objectives and aims, the critical factors have to be found (6-8 gross is sufficiency). With these objectives strategy map (which is a system of broken down strategies) should be prepared, which shows the relations between the objectives, which together reach the strategy, vision. The possibility must remain to group the objectives according to the four perspectives of BSC and then indicators have to be defined near every objective (25-30 gross is sufficiency). It is not enough defining the indicators, also targets, and initiatives should be defined. The operation of the SBSC is making a comparison between the measured value of the indicator and the expected value, which is a target. The analysis of the comparison shows the performance and the necessary steps, activities, initiatives, because the aim is reaching the expected value of indicators. If it is realized it means that the corporation achieved

the objective, which is a step to the strategy to the vision.

So with the steps, SBSC can break down the strategy and can measure it with indicators, so the organization can evaluate the performance in point of environmental aspects and impacts, so can evaluate the environmental performance. The existence of BSC and SBSC can confirm the hypothesis and inspire the authors to find new, up-to-date methods for evaluating environmental and intellectual capital together.

Method of BSC is also mentioned by accountant, and books of accounting. This method can use the indicators of traditional financial and accounting systems, but it also completes these with other, new perspectives and indicators. As it is true in case of "general" BSC, it can be true in case of SBSC too. So, the indicators of SBSC can complete the system of environmental management accounting. With the help of SBSC corporations can break down the activities of environmental performance, can measure and evaluate it, and can visualise the environmental costs and benefits too. Not only the traditional financial perspective helps, than in the other perspectives can be defined indicators in monetary. It can be summarized shortly that SBSC and EMA should be used parallel, because can give useful indicator: environmental costs and benefits can be indicators in SBSC or the broken strategy helps to define and specify the environmental costs and benefits. Maybe this relationship can be viable in case of other new, up-to-date methods (from table 2) too.

## UP-TO-DATE OPPORTUNITIES FOR INTEGRATED EVALUATION

To confirm the hypothesis it is required to prepare more up-to-date tools for common, integrated evaluation. The paper tries summarizing the opportunities, the suggestions how the environmental aspect can be built into – some of – the tools of evaluation of intellectual capital.

Method of Economic Value Added counts the extra value of the economic activity with the help of capital costs and revenues. Using the results of environmental management accounting, the well-defined environmental costs, like the costs of environmental capital can improve the value the profit. So the environmental-economic value added can be estimated.

The Intangible Assets Monitor (IAM) grouping the elements and value of the intellectual capital into 3 categories: internal structure, external structure and competence. IAM defines indicators in these 3 categories with the help of different aspects: Growth/Innovation, Efficiency, Stability. Indicators can show the performance. It is workable to build the environmental aspect into the indicators too. Just some example for representing this opportunity: Environmental-Sustainability Indicators of Internal Structure from the aspect of Growth/Innovation: Number of Environmental Information Technology Projects; Value of Revenues after Sale of Environmentally Friendly Products.

These, before mentioned opportunities, suggestions can confirm the second hypothesis of the authors, there is possibility to integrate the environmental performance evaluation to the up-to-date methods of performance evaluation of intellectual capital.

## SUMMARY

The paper is the summary of different secondary and primary researches, which tries to answer the main questions and the key issues of the intellectual capital and the environmental performance (evaluation) and also of the usability of the new, up-to-date methods in case of environmental management accounting.

The main conclusion of the paper is that intellectual and environmental capital are the critical success factors, resources of organizations in the information era because these are valuable, rare, can't be copied and can't be replaced, and the new, up-to-date methods of evaluation of performance can be usable in case of intellectual and environmental capital, and performance evaluation too. As the new, up-to-date tools complete the traditional evaluating systems, especially financial and accounting systems, these methods can complete and make better the system of environmental management accounting too. So, the final conclusion is that new, up-to-date tools of performance evaluation are really useful tools in information era for corporations which ones would like to be responsible (manage in reliable way) for environmental and intellectual capital and would like to complete or change the traditional or environmental (management) accounting system.

## ACKNOWLEDGMENT

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# THE IMPACT OF IMAGE ON EMERGING CONSUMERS OF FASHION

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## Abstract

It may be hypothesised that new technologies, fashion icons and changes in lifestyles contribute to the fashion industry in general, as the direction of the industry is mainly dependant on changes in society. Issues regarding 'ideal body forms' have become significant with appearance management; particularly with consumers who seek to conform to the latest trends and fashion.

Beyond basic needs and utilitarian value, fashionable clothing is used as a form of self-expression and image projection in the cases of both women and men. It is directly impacted by changing lifestyles and the desire to emulate fashion leaders and trend setters such as celebrities. Today's fashion consumers are pre-occupied with trend and actively respond to their social environments. Although they seek out good fit in clothing, perception of ideals vastly impact acceptance and consumption of clothing especially among generation Y groups. This paper evaluates the impact of image on this consumer segment and discloses links between attitudes, self consciousness, body image and clothes fit.

In this study, a considerable number of women confess that in addition to diets, they particularly select clothes that create illusions by enhancing their body shape and making them appear much slimmer, as this is the status quo. Similarly, a significant number of men admit that they choose close fitted t-shirts that emphasise their toned physique and visually demonstrate lifestyles associated with fitness regimes and physical workouts, referred to by some as 'the chiselled look'. In both cases these were linked to fashionable celebrities with strong aesthetic sense and claims that they had the 'ideal' image.

Consumers involved in this study highlight the importance of style; which involves a combination of personal expression and social norms, and influenced by dominant values such as fashion leaders. Many disclose that they want to be considered fashionable and often bought current fashion they knew celebrities and fashion leaders were wearing. Results of the study indicate that retailers can increase competitiveness and even gain store patronage by closely targeting and fulfilling their customers' needs. This perhaps rationalizes the concept of celebrity endorsement of products considering that marketers view advertising as an integral part of their promotional strategy. The study presents a conceptual framework relating to fashion consumption and the retail of clothing.

Key Words: Fashion, Trend, Body Image, Celebrities

## Introduction

Attitudes are changing as consumers are becoming more interested in their appearance and more concerned with keeping up with the latest fashions (Coates, 2005). Without understanding the basis upon which a consumer makes a purchase, it would be difficult to respond to their needs and wants effectively (Wright, 2006). Apart from being functional, clothes have historically been considered to be a reliable sign of identity and used for various purposes including decoration and communication. They have been linked to body image (Sproles & Burns 1994) and are a crucial factor to the consumption and marketing of fashion in general. For decades, the impact of clothing and fashion advertisements has been exclusively directed at women, many of whom have been made to feel insecure by image ideals of 'the perfect body'. However, Cohane and Pope (2001); and Botta (2003) have argued that there is also a 'striking' increase in body image concerns among men and therefore the need for more research in this area.

## The clothing market and consumers

Fashionable clothing is now no longer exclusively made available for women's consumption. As men have started to reflect traditionally-linked feminine behavioural traits, values and interests in appearance, marketing strategies have been implemented to accommodate their needs. This is more prominent in younger men than older men and has given rise to the term 'metrosexual'; indicative of a man who likes to shop and takes great pride in his appearance. Presentations of body images and body forms have always been crucial to the way clothing is viewed and utilised. Fashion and trends are extensively spread as technological advances now allow information to be more widely disseminated. Kaiser (1985) has established that fashion diffusion is the collective behaviour through which a style spreads from its introduction by clothing providers to adoption by mass consumers. This mainly involves the flow of information, ideas, products between different levels of the market and marketing activities.

## Masculinity versus Femininity

Compared to femininity, the study of masculinity and its impact on clothing and fashion has had limited attention in academic literature over past years. According to Levant and Kopecky (1995) the traditional masculine norm has been an avoidance of femininity, pursuit of achievement and status; self-reliance, strength, aggression and homophobia. This concept is however shifting. Berger (1995) established that men's attitudes and behaviours are strongly influenced by societal expectations; therefore as society changes, men's perceptions unconsciously alter. Hyman (2004) affirms that traditional masculinity has collapsed and this has impacted the changes in society due to revolutionizing social and cultural acceptance. It is argued (Gotting, 2003) that the feminist movement has been a big contributor to the men's market since its development which has resulted in men now competing to impress their female counterparts. According to Mintel (2006a), women are more aware of fashion and trends than ever before due to celebrities, the myriad of fashion magazines and media features. It further indicates that consumers know what they want and desire to emulate their preferred celebrity's style choices. The 21st century breakdown of sexuality stereotyping, racism, shifts in equality, changes in family units and the growing acceptance of homosexual relations publicised through the media, have had a major impact on 're-asserting conventional masculinity' (Burton, 2006). It has also challenged core constructions of masculinity and femininity and subsequently they way individuals manage their appearance.

## Body image perspectives amongst consumers

A study that focused on men's reactions to the portrayal of the male body in magazine adverts concluded that men were being expected to conform to two different ideals of masculinity that combined softness and strength. This description of men as 'soft' is similar to definitions of the 'metrosexual' male, a phenomenon based on recent trends in which men are portrayed as image-conscious. According to Pringle (2004) the metrosexual man displays many character traits and behaviours that would have been once regarded, pejoratively, as effeminate. Research substantiates that the pursuit of achievement and status has changed. A key shift has been in culture and attitudes towards appearance management. Fashion reflects our society, culture and how people define themselves (Solomon & Rabolt 2004). Crane (2000) highlights that technological advancement and global communications since the 20th century has had an impact on status and trends, with men's fashion being used as a status symbol for portraying aspects of identity, occupation and social class.

On the other hand, the relationship between the female body and clothing has been described as complex and often vague (Loker et al., 2005; Otieno et al., 2005). Some (Wu and DeLong, 2006) emphasise that categories of clothing influence their perception; whilst others (Turbin, 2003) present that garments are not simply decorative and utilitarian surface coverings but constructions that are often carefully and ingeniously designed, giving shape and meaning to human bodies. Research cautions that when clothes do not fit well, some female consumers blame their bodies, which result in a negative body image. However, unrealistic clothing sizing measures (Alexander et al., 2005) and the media promoting 'ideal' fashionable female figures, 'frame standards of beauty' and also contribute to negative body image (Tebbel, 2000). With celebrities and fashion models setting standards for beauty ideals, there is little wonder that this would have an impact on consumers who desire to possess a 'thin' image for example; and be seen as fashionable.

## Celebrity endorsements, icons and the role of body image in marketing

Currently, celebrities are the propelling force of good product sales (Peterson, 2006) and in popular culture; alongside the media they possess great influence on the public's buying decisions. This rationalizes the concept of celebrities' endorsement of sale products. Pringle (2004) argues that because the public want to "own a little piece of their icons", celebrity endorsements can be seen as a positive feature in the constant desire to achieve a lifestyle that is impossible to have. Hunt (2005) on the other hand insists that celebrity endorsement rather draws consumers' attention to products. It stands to reason that irrespective of whichever view is considered, celebrities can be linked to trends and fashion products.

At present, masculine role models appear to reflect celebrities from the background of music, film and sports that are image conscious. The likes of David Beckham for instance, has contributed to new ideologies of masculinity by wearing sarongs, pink nail vanish and sporting various hairstyles (Hunt, 2005). Milligan (2004) emphasises that his cross-dressing has even raised a lot of excitement and provoked debate about what is appropriate in fashion as well as establish his image as metrosexual. Men are gradually focusing on their appearance and body image and efforts in marketing activities on grooming could rival those for women. They have become more creative in developing their own fashion sense and playing a significant role in the process of fashion diffusion (Beaudoin et al., 2003).

Today's fashion environment receives and interprets the social message of the ideal figure (LaBat & DeLong, 1990). Body image promotion by the media have idealised slim appearances of celebrities such as models, actresses and pop stars (Tebbel, 2000). The fashionable female silhouette has changed with time and the body has been manipulated frequently (Fay and Price, 1994) in compliance. There have been criticisms (Puhl and Brownell, 2001) relating to over-emphasising images of people with slim physique and providing negative stereotypes of large, endomorphic figure types. Mintel (2006b) discloses that attempts to market plus sizes have not been well received. It must be emphasised that there are potential dangers impacting females and there's need for a shift in advertising and magazine content where mainly thin body forms and smallsizes are mainly presented and idolised.

## Methodology

Body image is associated with the awareness and perception of one's body and how that is projected. This has been linked to clothing, appearance management and shopping habits (Law et al., 2004; Cash & Pruzinsky, 1990) and particularly relates to consumers who seek to conform to the latest trends and fashion. This study highlights the significance of body image and its impact on clothing consumption. It investigates into their fashion consciousness and psychological preferences and relates them to their buying behaviour. The analysis of data is based on the amalgamation of two parallel surveys carried out amongst male & female fashion consumers in a metropolis shopping district. The approach employed opportunistic sampling procedures in a questionnaire survey involving 19-38 year olds of mixed ethnicity.

## Presentation and Discussion of data

In general, there was a reasonable spread of demographics in this study involving 132 females aged 19-28 and 163 males aged 19-34 years.

## Perception of body form and clothes size

In describing their body form, 55% of the male respondents said they were of medium build whilst 19% said they were small and 26% were large. This linearly correlated with the perception of their weight, of which the same respondents (55%) who indicated that they were of medium build said that they were of average weight, the small built (19%) thought they were under weight and the large respondents (26%) suggested they were overweight. 21% perceived their height as short, 37% as very tall and 42% indicated they were of average height. None of the female respondents perceived themselves as very large however, 9% perceived themselves as large, 62% said they were of medium build, 28% described themselves as small and only 1% admitted to be very small. With regards to weight, 16% of the respondents stated they were slightly under weight, 53% were of average weight, 29% stated they were slightly over weight and only one confessed to be much

over weight. 43% of the sample were of average height, 2% were very short and another 2% very tall. 30% described themselves as short and 23% perceived themselves to be tall.

There has been research focus (Connell et al., 2006; Faust et al., 2006) on body size and shape categorisation with a common aim to highlight and satisfy garment fit needs across different populations. It has become apparent that body perceptions impact consumption. When asked to indicate features that summarised the shape of their bodies 23% informed they had large busts, 54% were convinced they were slim, 30% expressed they had broad hips, 17% said they had large bottoms and 5% disclosed they were big. A large number of female consumers (86%) revealed that they were conscious of their bodies and how a garment fitted them.

Respondents provided information on their usual clothes sizes. As shown in Table 1, there were more females (57%) who wore small sized blouses and tops than any other size. None wore extra large. For skirts and trousers, data show a very small spread towards large and more spread towards medium and small sizes. With the males, more of them wore medium sized shirts and tops (47%) and only 6% wore extra large. There was also a consistent link with sizes of trousers and shorts, as most fell into the medium size category and only 2% admitted to wearing extra large.

**Table 1. Clothing size**

| Clothes size: | Small | Medium | Large | Ex/ Large | Total |
|---|---|---|---|---|---|
| Blouses & Tops (females) | 57% | 39% | 4% | 0% | 100% |
| Skirts & Trousers (females) | 45% | 50% | 4% | 1% | 100% |
| Shirts & Tops (males) | 19% | 47% | 28% | 6% | 100% |
| Shorts & Trousers (males) | 18% | 54% | 26% | 2% | 100% |

## Clothing selection and size issues

Respondents had to rank from a list of factors, the order of importance when assessing suitability and how these impacted their clothing selection. This was on a scale of 1 to 5 scoring, with one being the most important and 5 being the least. Results showed that both male and female consumers considered style and fit as the most important determinants of clothing suitability (Table 2). These findings also concur with Taylor and Cosenza (2002) who argue that style, look and fit are amongst the most important clothing selection criteria used by young adults.

In general most respondents disclosed that they made some effort to maintain or improve their body form through exercises and diets. Majority of the male respondents (70%) believe that the build of a person determines how well a particular garment fits. Most of them (84%) also agreed that identical clothes can look different on different body sizes and body build. 63% acknowledged that parts of their body they were content or not content with (body cathexis) influenced their choice of clothes and those who estimated themselves as having toned physique selected fitted tops such as t-shirts that enhanced their 'chiselled bodies'; which was a result of regular fitness regimes and physical workouts. A significant 81% disclosed that they try clothes on to check for fit before making a purchase however, only 42% overall admitted they always stick to and purchase clothes that meet their fit preference regardless of cost. These results concur with Otieno et al. (2005) by indicating that fitting rooms are essential in the retail of clothing items; even for male consumers.

**Table 2.  Scoring for clothing suitability:**

| Ranking: | | 1 | 2 | 3 | 4 | 5 | Total |
|---|---|---|---|---|---|---|---|
| **Style** | *Females* | 39% | 40% | 10% | 10% | 1% | 100% |
| | *Males* | 39% | 32% | 12% | 9% | 8% | 100% |
| **Fit** | *Females* | 49% | 28% | 18% | 4% | 1% | 100% |
| | *Males* | 37% | 29% | 21% | 9% | 4% | 100% |
| **Colour** | *Females* | 5% | 7% | 31% | 36% | 21% | 100% |
| | *Males* | 5% | 14% | 35% | 33% | 13% | 100% |
| **Cost** | *Females* | 5% | 18% | 28% | 22% | 27% | 100% |
| | *Males* | 12% | 18% | 20% | 22% | 28% | 100% |
| **Fabric** | *Females* | 2% | 7% | 13% | 29% | 49% | 100% |
| | *Males* | 7% | 7% | 12% | 27% | 47% | 100% |

With the females, this study observed that a fraction (19%) of respondents selected and bought loose-fitting garments that masked their figure types, whereas 78% selected and bought garments that enhanced their figure types. A vast majority (95%) of the overall female respondents acknowledged that wearing certain garments can emphasise actual body shapes; they therefore selected garments that created illusions by making them appear closer to their desired body form. Goldsmith et al (1991) identifies that differences related to unique patterns of consumer behaviour are social and personal values associated with decision making. Majority (74%) of respondents reported that they dress up to look slim. A further 67% confessed that they purchased clothing that made them appear thinner.  Almost all (92%) respondents believed that garments can be used to enhance or conceal the body shape of a person.

## Clothing retail experiences

When asked to indicate where they shopped for clothes, an overwhelming majority (77%) of males disclosed that they shop from high street stores, 48% from departmental stores, 49% from chain stores, a further 46% purchased from designer shops, 41% from independent (including vintage) shops and 19% revealed they also purchased from giant retail supermarkets, which was also the least popular amongst all age groups. Compared to 76% of female consumers, 46% of male consumers stated that they typically take notice of shop window displays of retailers they regularly bought from or intend to buy from.  As much as 53% females claimed they stuck with retailers who

provide them with good fit; compared to 45% of males who did.

## Update on fashion and current trends

It has been argued that the media contributes to the spread and adoption of fashion and current trends (Gotting, 2003; Tebbel, 2000).  For instance, the rise of the metrosexual phenomenon reflected upon the amount of adverts on male grooming and fashion, which increased by 35% during 2003 (Gotting, 2003).  Women are also impacted by social constructs and become aware and conscious of not only their appearance but also the consequences of their appearance on others. Tseëlon (1997) explains that women have developed a finely tuned self-consciousness about their appearance as a result of cultural attitudes and pressures.  More respondents in this study agreed than disagree that their fashion sense is influenced by their social setting.  Respondents also indicated how they updated themselves on fashion and current trends. Mintel (2006a) suggests that the impact of fashion and lifestyle magazines on the mindset of women has been dramatic. Whilst only 28% of males acknowledged that they referred to glossy magazines and fashion catalogues, an 89% majority of women did. 52% further received information from television programmes and film compared to 31% of males who got tips from film and television.  The number of both male and female consumers who took advice by word of mouth either from friends, relatives or clothing retail assistants was comparable (42% of males versus 41% of females).  It has been suggested that store atmospherics influence customers'

perceptions (Fernie et al., 2003) and when fashion and current trends are introduced these encourage purchase. It is interesting to note that this reflected on 55% males and 83% of females who took cues for fashion and trend from in-store items and shop window displays. Whilst 26% males and 46% females turned to the Internet, 56% males and 68% of females simply looked around to see what people were wearing.

## Body image and clothing consumption

There have been various perspectives of clothing-related manifestation in general. Psychologists view it as a hunt for individuality; sociologists see class competition and social conformity to norms; historians offer evolutionary explanations for change; and aestheticians present artistic components and ideals of beauty (Kaiser 1990; Sproles & Burns 1994; Sproles 1985). However, the general consensus associates it with consumer adoption, expression and social interpretation. When female respondents were asked to indicate which categories of females in their opinion influence the perception of body shape and image ideals responses mainly reflected actresses, music icons, supermodels, glamour models and socialites. The most favoured was a fashionable celebrity of skinny body build. These findings highlight current trends instigated by the media. Similarly, male respondents nominated music icons, film stars, sports personalities and television personalities. It is apparent that nominations reflect style icons that regularly feature in social and media resources and have direct impact on image conscious consumers.

Fashion has been viewed as a political instrument consisting of representations of social relations and values imposed by people (Johnson & Lennon 1999). There was a narrow margin between 39% of male respondents who stated that their body image is a reflection of their social status and 35% who said it was not. Blackwell et al (2006) argue that 'clothes make statements about people'. In this study, most (81%) agreed that clothes can be used to project various images. Majority (70%) of males also expressed that they would like to regularly wear clothes that reflected an image they wish to project. It is evident (Welters & Lillethun 2007) that humans develop an image of their identities, which can be of the real image (as one is) or the ideal image (as one would like to be)

and clothing can be used to project these images. These directly impact consumption behaviour.

## Influence of celebrities on body image

Lifestyles are the result of the economic, cultural and social life that contributes to human qualities (Bakewell et al., 2006). Currently, information on lifestyles, fashion and trends is more than ever being widely disseminated due to the myriad of fashion and lifestyle magazines and technological advances in television and the Internet. Grant and Stephen (2005) highlight that celebrities and other role models have a major impact on consumer choices and buying behaviour. Findings of this study concur with Tebbel (2000) and Murray (1989) who suggest that consumers use fashion to imitate the elite, such as celebrities, models and TV personalities. A vast majority of females (91%) and 75% of male respondents believed that celebrities influenced or altered the perception of an ideal body image. 45% of females admitted that they were influenced; as much as 81% of them declared they were able to find and often bought current fashion they knew celebrities were wearing. Less male respondents (15%) indicated that they consistently found and bought current fashion they knew celebrities were wearing compared with 60% who seldom found and bought current fashion they knew celebrities were wearing. Majority (73%) of the consumers admitted that they wanted to be considered fashionable and 69% agreed that garments they wore reflected their lifestyles.

## Conclusions and Implications

The outcome of this study accords with (Seo et al 2001) in presenting that the fashionable apparel market is no longer exclusively for females. Findings confirm signs that traditional masculinity is collapsing and this has impacted the changes in society due to refined cultural acceptances. Changes in culture and attitudes towards masculinity have been made visible in the media through television and advertising and by the promotion of metrosexuality. This can be associated with consumer constructs and buying behaviour of clothing items. It supports Welters and Lillethum (2007) who define the trade as a social and an intellectual phenomenon. It is evident that consumers use their personal belief, aspirations, social requirements and fashion knowledge to meet their clothing needs.
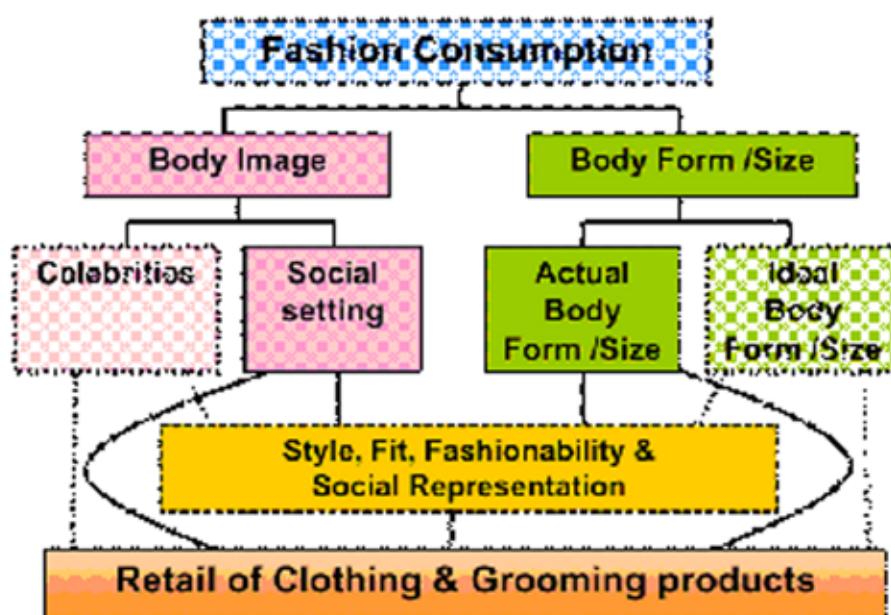
The study's findings reflect that men's interests and involvement in shopping for clothing and other fashionable items are on the rise and being reflected in their shopping habits, which is progressively emulating that of women. Consumer behaviour regarding the purchase of goods and service for personal use (Wright, 2006) is important in today's fashion business environment. So far, technological advancement has favoured a horizontal flow of fashion diffusion, by speedily presenting introduction of fashions and trends; and initiatives involving media publicity of celebrities to increase social visibility of new products and enhance sales. It additionally finds that visual merchandising is important and can incite buying decisions among fashion consumers. This research observes that a good number of clothing consumers are loyal to retailers and brands that provide them with good fit. This presents evidence that there is a market out there for retailers who focus on clothes that fit well. Although it appears that men are becoming more interested in fashion, there is still a large proportion of them who do not care much about style and trends. Currently, men do not make much effort to update themselves on fashion and trends as much as women do. Most are influenced by their social settings and this

is reflected upon their option and preference for clothes that reflect their lifestyles. They are even so beginning to pay attention to their physical appearance, reflected by efforts to improve or maintain their form.

It appears that 21st century consumers are seeking identity and role in society, as they find themselves in a vortex of social, political and economic change. Today's society is surrounded by fashion brands and advertising images. This is a result of the mass media and debates that promote new personal identities. This study concurs with Lewis and Bridger (2000) in asserting that shopping for clothes may not merely be the acquisition of utilitarian items but also the purchasing of identity and self-expression. It is consistent with O'Cass (2000); and De Chernatony and McDonald (2003) in asserting that clothing and fashion allow appearance in general to be processed into a 'code' and consumers buy items which they believe support their desired image.

This study provides a conceptual framework of an understanding of contributing factors that form the basis of consumers clothing selection. It has implications for clothing retail (Figure 1).

### Figure 1.  Framework for Fashion Consumption

Celebrities' endorsements and perception of image ideals have become the driving force towards the public's buying decisions by drawing attention to worthwhile brands and ideal fashion trends. This rationalises the concept their endorsement of products and confirms that celebrities and icons do impact the fashion industry and the clothing consumer. The concept of status and how this is expressed is also important for marketers, as evidence (Wright, 2006) shows that many people define themselves within society by their acquisitions.

Although this study to some extent corroborate McCracken's (1989) meaning transfer model which makes links between celebrities, endorsed products, and consumption; it's applicability only extends to clothing and among trendy consumers who are conscious of their body image and seek to project it. Concurring with (Otieno et al 2005), this study emphasises that retailers can increase their competitiveness by closely targeting and fulfilling their customers' needs. It underscores that consumer behaviour relating to clothing and body image is a subject marketers need to investigate and understand to adequately meet needs and demands. A study on a larger sample is therefore recommended.

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# A COMPARATIVE ANALYSIS OF STAKEHOLDER AND ROLE THEORIES IN PROJECT MANAGEMENT AND CHANGE MANAGEMENT

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## Abstract

*This paper analyses the similarities and differences between the stakeholder and role concepts which are in current use in project management and change management literature. The similarities are noticeable at first sight but it is not clear where the domains of the different definitions of the two management disciplines overlap and where they vary from each other significantly. We have not found such an interdisciplinary comparison in the literature of the two fields. At first, we compared the widely used definitions of project, first order (or morphostatic) and second order (or morphogenetic) change to find the overlapping areas where it is reasonable to compare the different role definitions at all. We found an overlapping area where the different role definitions are all valid and the role theories can be compared. The typical project stakeholders are: project sponsor, project manager, project management team, project team, influencers, customer/user, performing organization etc. The typical change roles are: sponsor (initiating and sustaining), agent, target, advocate, facilitator etc. We found samenesses, similarities and differences alike between the two sets of roles. The most important conclusion is that the findings enable participants working on these types of activities to rely on both bodies of knowledge properly.*

*Key words: project management, change management, project stakeholders, change roles*

Despite the undeniable presence and importance of role concepts in both change management and project management, there is still a lack of scientific research that examines these two fields simultaneously (Gareis, Huemann, 2008); first of all, analyzing and clearly defining where the two management disciplines overlap – or in other words, have a domain in common. "In the literature the differences between changes, processes, programmes and projects are not clearly defined and therefore also change management is not related appropriately to process, project and programme management." (Gareis, 2010) The goal of this paper is to compare the different role theories of each field. To do that, first, we have to determine the overlapping domains of change management and project management, which enables the comparison of the sets of roles on the given domains.

Beside the scientific demand, "matching change management to project management has become a new challenge for organizations" (Tréhorel, 2007) as organizations regard project management as a way to better performance and thus more successful change.

In order to have a clear understanding of the overlapping areas, the first and most crucial step is to define the examined concepts themselves,

namely first-order (or morphostatic) and second-order (or morphogenetic) change, and projects.

## First-order and second-order change

The literature of change management and some other related areas (e.g. psychology) generally makes a distinction between first-order (or morphostatic) and second-order (or morphogenetic) changes of systems (Levy, 1986; Lyddon, 1990; Mink et al., 1993, Smith, 1982; Watzlawick et al., 1974, etc.). First-order changes are adjustments that do not change the system's core. During a first-order change the system itself remains basically the same. That is why it is also termed morphostatic change: the morphology of the system is static, i.e. remains unchanged. Second-order changes on the other hand are those which transform the system's very essence. During a second-order change the system itself undergoes a transformation. That is why it is also termed morphogenetic change: it generates a new morphology of the system. These two types of changes are connected with the classical management functions: planning, organizing, controlling and leading. First-order changes are produced by control, while second-order changes are produced by (re)planning and/or (re)organizing. Leadership is necessary for both types of changes but it plays a much more important role during second-order changes (Kotter, 1990).

Bartunek and Moch (1987) introduced the term 'third-order change' for the development of the changing capacity of the system. We do not use this third type because in our opinion it does not fit into the classical first- and second-order change typology. This classical typology makes a distinction between the two types on the basis that whether they change the system's morphology or not. But the third type is defined from a different point of view, that is: what is the object of the change. This third type would fit into a different typology which distinguishes changes of different objects or attributes: e.g. technological changes, cultural changes, mergers and acquisitions etc. A good typology must not mix different viewpoints for defining types, using one for some of the types and another one for the remaining ones. That is why we use the classical two change types but not this third one.

"Major change occurs when people believe they have lost control over some important aspect of their lives or their environment" (Conner, 1993). 'Major change' is used by Conner in a similar sense as 'morphogenetic change' by other authors: we lose control over important aspects typically when something becomes significantly different from as it was previously. Change management is about managing second-order (morphogenetic) changes, i.e. changing a system itself (Mink et al., 1993), when people feel they lose control over important things (Conner, 1993).

## Interpretation of project management

For describing the roles in the section of project management and change management, it is important to understand our approach to the discipline of project management that is, what to consider as a project. The project as profession, discipline, phenomenon and anything else it means to practitioners who wanted to fulfill special tasks under unusual circumstances, has existed for hundreds of years because it has been practiced since early civilizations. As a separate discipline, project management with all the latest techniques, methods and tool sets, took off in the mid-1950s, and then, all the principles evolved in a decade.

Several researchers, experts, professional organizations and even international standards have defined the term 'project' including their own specific approaches. Kerzner, one of the most respected experts, begins his book with a rather ironic, but apt definition: "Project management is the art of creating the illusion that any outcome is the result of a series of predetermined, deliberate acts when, in fact, it was dumb luck." To be accurate, we have to state that he also described the project at large but at the same time detailed with necessary elements of a definition, for example relatively short-term and specific objectives (Kerzner, 2002).

Graham emphasizes that a project is always a set of activities achieved by a set of people. In his definition a project has a fixed budget and a fixed time (Graham, 1985). According to the British Standards Institute (BS6079) a project is a set of coordinated activities (British Standards Institution, 2002). Based on the German Society for Project Management (GPM), the project is a venture characterized by special conditions and among others, there are definite human constraints (Cleland, Gareis, 2006). The ISO 10006 Quality Management System outlines that the organization

must be temporary and formed for the life cycle of the project (International Standard, 2003). German industrial standard DIN 69901 prescribed the goal of a project as a measurable result under a defined and special composition of constraints with only a single occurrence (German Institute for Standardization, 1987). The Association of Project Managers states that all projects evolve through a similar life-cycle (Association of Project Managers, 1993).
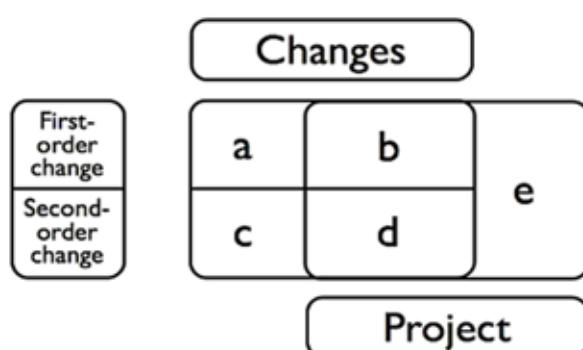
The paragraph above took us through the idiosyncrasies in particular definitions; as follows we emphasize what the fundamental common features of all projects are and how we can consider a process, a set of activities as a project. According to the largest and most influential project management organization, the Project Management Institute, "a project is a temporary endeavor undertaken to create a unique product, service, or result" (Project Management Institute, 2008). We believe that these two elements are substantial and must not be left out of any decent definition. If a process is unique and planned for a limited duration, it can be called a project, and it clearly and fundamentally differs from regular, ordinary operations. This kind of interpretation of projects is not a novelty. In 1992, Buchanan and Boddy had already included the same point in their definitions (Buchanan and Boddy, 1992).

## Identification of the overlapping domains of change management and project management

Having defined first order (or morphostatic) and second order (or morphogenetic) changes and projects, we analyzed which are the overlapping domains of the two management disciplines. Figure 1 shows all the possible domains (a-e) of changes and projects and hereinafter we discuss them in detail to define which are the ones that actually exist in practice and can therefore be objects of further analysis.

In the discussion of these domains we consider the two types of change referring to the observed system itself, regardless of the types of changes it generates outside the system. The observed system needs change management only if some parts of it or the whole system goes through a second order transformation itself. If second order changes happen only outside the observed system but not within the system itself then we consider these cases first order changes because there is no need to apply change management in our system. This change classification of a particular case depends on how we define the boundaries of the system which we observe or which we have to manage.

**Figure 1: Domains of Changes and Projects**



Domain "a": First-order change but not a project

First-order changes, which are not projects, might be ones affecting e.g. an organization's everyday, ordinary operations, leaving the core of the system (per definitionem) unchanged. It requires little explanation that a regular alteration in the division

of labor in an office or workshop (e.g. job rotating) is a first-order change but definitely not a project.

Domain "b": First-order change which is also a project

When one talks about projects which cause first-order changes, they mean that the changes

related to the project do not imply changes in the core of the system (e.g. in the structure of the organization). For instance, take an enterprise that offers the complete service that is needed for building new houses from the design until the end of the execution itself. The process from designing the blueprint, through building the walls until laying the last tiles will not change from customer to customer – even though the details will probably be unique in most of the cases as every single customer will have their own idea about how their house-to-be should look like. In other words, the essence of the projects of designing and building a house will remain the same with some first-order changes. Of course, such projects can generate second order changes (e.g. new buildings) in their environments, but not in the observed systems (e.g. construction firms) themselves.

Domain "c": Second-order change but not a project

As we have discussed it already, some changes result in a new morphology of the system and these second-order changes can be easily imagined, albeit one might come up against a difficulty finding second-order changes that are not projects. The solution is somewhat hidden in the previously quoted definitions of the project: e.g. "predetermined, deliberate acts", specific objectives (Kerzner, 2002); achieved by a set of people (Graham, 1985); human constraints (Cleland, Gareis, 2006); etc. Deliberateness and human action are the key concepts here, and therefore 'happenings' that imply fundamental alterations in the structure of the existing systems without human actions involved are second-order changes that are not projects. In our opinion natural disasters (major earthquakes, tsunamis, etc.) or bursting of dams are all appropriate examples for this domain.

Domain "d": Second-order change which is also a project

We believe that it does not require much of an effort to find second-order changes that are also projects. These changes are unique and temporary (have a limited duration) and come together with a transformation in the system's very essence. Reshuffling the governmental structure after an election, just as mergers and acquisitions in a company's life, are good examples of second-order changes, which are also projects.

Domain: "e": Projects without change

The last domain would contain projects that do not imply any change. Having thoughtfully considered possible examples for this domain, we did not manage to find any accurate one.

Since change management deals only with second-order changes (domains "c" and "d") and changes that belong to domain "c" are not projects, all further analyses and findings of this article refer to domain "d" as a common domain of project management and change management, namely second-order changes that are also projects.

Having determined the common domain of change and project management, we made a step further in our work by listing and defining the key stakeholders in the two examined disciplines.

## The roles of change

There are four distinct key roles in change management introduced by Conner: sponsors, agents, targets, and advocates (Conner, 1993, pp. 105-124; Conner, 1998, p. 219; Harrington, Conner, Horney, 2000, pp. 53-58, 72-88, 90-93).

## Sponsors

The sponsors are those individuals or groups who have the power to sanction or legitimize change. They decide which changes will happen, communicate them to the organization and create an environment that enables these changes to be made. There are two types of sponsors: initiating and sustaining. Initiating sponsors are generally higher in the hierarchy than sustaining sponsors. Initiating sponsors have the power and resources to break from the status quo and start the change process. Sustaining sponsors are close enough to the targets (see the definition of targets below) to maintain their focus and motivation on the change goals to ensure that the initiating sponsor's directives are implemented.

## Agents

The agents are those individuals or groups who are responsible for actually making the change. They diagnose potential problems, develop plans to deal with these issues, and execute the change effectively and efficiently.

## Targets

The targets are those individuals or groups who are affected by the change, who must actually change. They are the focus of the change effort and play a crucial role in the success of the planned change.

## Advocates

The advocates are those individuals or groups who want to achieve a change but lack the power to sanction it. In most groups and organizational units there is someone who serves as the informal leader, whose opinion is the highest valued by the others. We call the informal leader of a target group influencing target: this person is a nonmanagement member of the target group who sways the other members of the group as a result of the trust and respect that they have for this person.

## The roles of projects

The following key roles are distinguished in the most widely used and current project management literature.

## Sponsor

The main function of the sponsor, let it be a person or a group, is to assist in making the best possible decisions in a timely fashion, while providing the financial resources, in cash or in kind for the project. (Kerzner, 2002, p. 361; Project Management Institute, 2004, p. 26) "The project sponsor usually comes from the executive levels and has the primary responsibility of maintaining executive-client contact. The sponsor ensures that the correct information from the contractor's organization is reaching the executives in the customer organization (...)." (Kerzner, 2002, p. 354)

We would like to remark that the role of the executive in the PRINCE2 (Projects in Controlled Environments, second version) model (Office of Government Commerce, 2004) seems similar to that of the sponsor: "The Executive's role is to ensure that the project is focused throughout its life cycle on achieving its objectives and delivering a product that will achieve the projected benefits. The Executive has to ensure that the project gives value for money, ensuring a cost-conscious approach to the project, balancing the demands of business, user and supplier." (Office of Government Commerce, 2004, p. 367) However, as the executive is a member of the project board (senior user, executive, senior supplier), we decided not to examine this role in more details it in itself, only as part of the project board (see below). An additional important role of sponsors is that they may generate the inputs from outside of the project borders to the initiation process group.

## Project Manager

The project manager is a person with good communicational and interpersonal skills who is responsible for managing the project on a day-to-day basis by coordinating and integrating activities (that are necessary to develop a project plan, to execute the plan and to make changes to the plan) across multiple functional lines. Project managers, as agents, continually pressures line managers to make better use of their resources to ensure that the project delivers the required products and meets the predefined quality requirements within the given cost and time constraints. (Project Management Institute, 2004, p. 26; Kerzner, 2002, pp. 7, 9, 145; Office of Government Commerce, 2004, p. 372)

## Project management team

A fundamental principle of PRINCE2 is that the project organization structure has four layers: corporate or programme management, direction of the project, day-to-day management of the project and team management; and the respective performers of these layers are consecutively: corporate or programme management, project board, project manager and team manager. The project management team consists of the project board, the project manager and the team manager. (Office of Government Commerce, 2004, p. 196) In accordance with this, the PMBOK (A Guide to Project Management Body of Knowledge – edited and published by the Project Management Institute) defines the project management team as "members of the project team who are directly involved in project management activities." (Project Management Institute, 2004, p. 26)

## Customer/User

"The person or organization that will use the project's product. There may be multiple layers of customers. For example, the customers for a new pharmaceutical product can include the doctors who prescribe it, the patients who take it and the insurers who pay for it. In some application areas, customer and user are synonymous, while in others, customer refers to the entity acquiring the project's product and users are those who will directly utilize the project's product." (Project Management Institute, 2004, p. 26)

## Performing organization

"The enterprise whose employees are most directly involved in doing the work of the project." (Project Management Institute, 2004, p. 26)

Project team members

"The group that is performing the work of the project." (Project Management Institute, 2004, p. 26)

## Influencer

"People or groups that are not directly related to the acquisition or use of the project's product, but due to an individual's position in the customer organization, can influence, positively or negatively, the course of the project." (Project Management Institute, 2004, p. 26)

## Project Champion

"Corporations encourage employees to think up new ideas that, if approved by the corporation, will generate monetary and nonmonetary rewards for the idea generator. One such reward is naming the individual the «project champion». Unfortunately, the project champion often becomes the project manager, and, although the idea was technically sound, the project fails." (Kerzner, 2002, p. 17)

## Corporate or Program Management

According to PRINCE2, corporate or programme management is one layer in the project organization structure and it "instigates a project and defines overall constraints". (For a more detailed description of the four layers please have a look at Project management team above.) (Office of Government Commerce, 2004, p. 196)

## Project Board

"The Project Board is responsible to corporate or programme management for the overall direction and management of the project and has responsibility and authority for the project within the remit (the Project Manadate) set by corporate or programme management. The Project Board is the project's 'voice' to the outside world and is responsible for any publicity or other dissemination of information about the project." (Office of Government Commerce, 2004, p. 365) According to PRINCE2, the composition of the project board must always represent three interests, namely that of the business, user and supplier. In accordance with this, the project board consists of the following roles: executive, senior user, senior supplier (and project assurance). (Office of Government Commerce, 2004, pp. 196-198.)

## Team Manager

"The Team Manager's prime responsibility is to ensure production of those products defined by the Project Manager to an appropriate quality, in a timescale and at a cost acceptable to the Project Board. The Team Manager reports to and takes direction from the Project Manager." (Office of Government Commerce, 2004, p. 374)

The following table (Table 1) shows how some of the roles of the two management fields – within the constraints of the previously defined domain – could be matched to one another. Please note that Table 1 presents the relation of the stakeholders in a large enterprise environment. (We use the term 'large enterprise' similarly to Enterprise Project Management (EPM)). The reason for this is that in smaller enterprises roles or stakes could easily overlap and appear concentrated, e.g. the sponsor and the project manager — or the sponsor and the agent — can be the same person. In such a situation, analyzing the relation of the otherwise separate roles would make no sense.

**Table 1: The correspondence of change and project management roles**

| PRINCE2 | PMBOK | Kerzner (2002) | Sponsor | | Agent (AG) | Target (T) | Advocate (AD) |
|---|---|---|---|---|---|---|---|
| | | | Initiating (IS) | Sustaining (SS) | | | |
| Sponsor | | | = | = | – | can be | – |
| Project Manager | | | – | – | ✓ | can be | possible |
| Project Management Team | | | – | – | ✓ | can be | possible |
| | Customer/User | | can be, if affected | can be, if affected | can be, if affected | can be | ✓ |
| | Performing Organization (PO) | | IS is a member of the PO | SS is a member of the PO | AG is a member of the PO | can be | ✓ AD is a member of the PO |
| | Project Team Members (PTMs) | | – | – | – | can be | AD can be one of PTMs |
| | Influencer | | – | – | – | – | – |
| | | Project Champion | – | – | can be but probably inadequate | can be | ✓ |
| Corporate or Programme Management | | | ✓ | – | – | can be | – |
| Project Board | | | – | ✓ | ✓ | can be | – |
| Team Manager | | | – | – | ✓ | can be | – |

Even though Table 1 shows a rather static relation of the roles, it should be kept in mind that throughout the duration of changes and projects these roles also have their own dynamics. A good example is, if we talk about changes, when an advocate becomes an agent. This is no different when one talks about project roles: e.g. the project champion will, as a matter of course, become one of the project team members. Furthermore, the project champion can also become a member of the project management team. According to Kerzner (2002), the project champion is frequently chosen to be the project manager but he remarks that in many of the cases this turns out to be a mischoice (cp. project role definitions above). Depending on the project and the person, a team manager can also be a former project champion.

In addition to findings that should be unambiguous from Table 1, we would like to remark that unlike project management, change management does not make a distinction between the customer/user and the performing organization. That is because in change management we usually consider changes in the system itself which produces the change. If we e.g. restructure our organization this is a change management case because our system (organizational structure) is the subject of our activity. But if we are a management consulting firm counselling e.g. a structural change process in a client organization then it is a change management issue for the client organization because they change as a result of this consultancy project but not a change management issue for themselves because our firm remains unchanged.

## Conclusion

Based on our analysis the term sponsor refers to the same role in both project and change management. Furthermore, the following expressions have corresponding meaning (project management – change management):

corporate or programme management – initiating sponsorship,

project manager – agent,

project management team – agent,

project board – sustaining sponsor and agent,

team manager – agent,

customer/user – advocate,

project champion – advocate.

The most important conclusion is that it is useful for the performers of these roles to rely on both bodies of knowledge. Managers in these project management roles or in these change management roles can utilize not only just one field's literature but both, considering the similarities of some of these roles. This cross-reading can also be useful for researchers, educators, trainers and consultants of the fields — as we also found it very useful when we worked on this research.

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# DEVELOPMENT OF INNOVATION PRODUCTS BASED ON THE CONSUMERS' PREFERENCES

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*Abstract*

*The today's tendency to produce goods that are similar in terms of their quality, destined to satisfy the same customers' needs, have some unnecessary functions complicates consumers' choice, decreases their satisfaction. The aim of the paper is to investigate the Russian consumer preferences as the basis of the innovation product development besides company's competences. The Russian producers' and consumers' positions don't coincide in the evaluation of key factors for successful goods promotion at the consumer market (H1). It's our contention that participation of consumers in innovation product development brings it in correspondence with the consumer preferences thus ensures more success at consumer market. We believe that the most efficient forms of involvement of Russian consumers as innovation products 'co-manufacturers' are self-service and conditions creation when the consumer could resolve a problem independently (H2). The object of the survey was two commodities (clothes and foodstuffs). Data was collected using a panel of 150 companies located in the Ural Federal District in Russia that developed more than 300 innovation products during the last ten years; some of them were developed with consumers' participation, some of them without it. 1200 consumers and 150 companies' representatives were interviewed by mean of a semi-structured questionnaire. Based on the collected database, the authors track some certain dependence between the consumers' participation in the value creation process and the innovation goods promotion to the consumer market. The findings indicate that consumers' participation in the innovation products development may be organised in different ways,* *and it significantly increases the sales volume (in 45% on average) and consumer satisfaction.*

*Key words: relationship marketing, consumers' preferences, innovation products.*

## Introduction

Nowadays in Russia the new marketing concept has been determinated by the national economic transformation processes in the globalisation conditions, communications intensive development, also competition intensification at the Russian markets.

The business turns from transactional, firm-centered, material recourses oriented marketing into relationship marketing. A consumer is considered as goods and services 'co-producer'. But this process is slow, inconsistent and not always effective because of different reasons.

The innovation goods insertion to a market is often doomed to failure. What are the reasons of failures? How these processes are influenced by the consumer-producer-interrelations-system or by the absence of this system? What are the consumer and producer positions towards inter-cooperation in the goods production and promotion processes? What are the ways of consumer involvement in the value creation?

The researches' results show that more and more often the Russian market becomes the field of active consumer participation. A consumer becomes gradually not an object, but a co-producer, a participant of a value creation chain.

The empirical researches results show the direct correlation of the consumer's participation in the value creation and production efficiency together with the consumer goods promotion; and the researches fragmentariness towards the purposes, tasks, methods and forms of interrelations leads to these processes' insufficiency.

## Conceptual background/hypothesis development

While a comprehensive review of the vast literature pertaining to production of innovation products based on consumer preferences is beyond the scope of this paper in this section we'll provide a brief overview of the literature which we suppose to be important to understand the main ideas of our investigation. Many books, papers, and proceedings are devoted to the relationship marketing and consumer behaviour problems study: Achrol, Kotler, 1999; Baker, 2003; Berri, 1983; Prahalad, Ramaswamy, 2000; Trevisan, Neganova, 2010, etc. There are significant discussions about consumers' engagement to the goods production and promotion at consumer market in: Berry, Parasuraman, 1991; Heskett, Sasser, Schlesinger, 2002; La Salle, Britton, 2002; Peppers, Rogers, 1993; Pine, Gilmour, 1999; Rust, Zahorik, Keiningham, 1996; Schmitt, 1999; Thomke,2003; Zeithaml, 1990, etc.

Some authors criticise the marketing concepts based on the material recourses, embedded value and transactions. It's also important to take into an account the Russian consumer market specific features today. The accents shift to the intangible resources, collective value creation and the interrelations, and it cardinally changes consumer role and consumer influence on production and promotion of goods.

All the mentioned above let us to formulate the main hypotheses that are capable to explain the interconnections between these parameters.

In this research we construct the hypotheses that are based on the conceptions being formulated on the basis of the firms' interests: notwithstanding that work and risks are mostly being diversified (Prahalad, 2000). The decision how to engage and interest a consumer in problem resolution will be at a firm's competence. Thus,

Hypothesis 1. The Russian producers' and consumers' positions don't coincide in the evaluation of key factors for successful goods promotion at the consumer market.
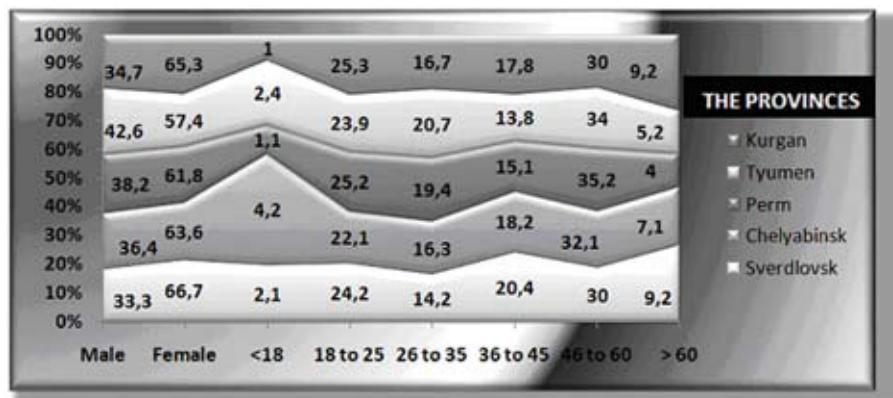
This circumstance can be caused by the fact that many Russian companies still consider the consumer not as a partner, but as an object for one-side-only influence. The companies use their own core competences mainly to produce and promote goods, but not to involve a consumer in a process of developing innovation products (Hunt, 2000). At the same time, most of Russian consumers express their readiness for development, production and promotion inter-cooperation with the companies in this regard.

Hypothesis 2. The most productive forms of involvement of Russian consumers as innovation products co-manufacturers are self-service and conditions creation when the consumer could resolve a problem independently.

It probably reflects the aspiration to freedom in a choice and in decisions making process. The communications mass-accessibility lets the consumers to be sufficiently informed and introduced to the communication network. The digital technologies give an opportunity to achieve the complete consumers' expectations satisfaction with a purchased product.

## Method

The researchers interviewed 1200 respondents who consumed production of 150 chosen companies with standardised means to receive the qualitative data in 2010. The inquiry took part in the five Ural federal district parts: Sverdlovsk, Chelyabinsk, Tyumen, Kurgan and Perm provinces. The sample is described in Figure 1.

**Figure 1: Research sample (%)**



The two significant sectors of consumer market were selected: the foodstuffs sector (food sector) and clothes sector. These two sectors together envelop circa 50% of the Russian retail trade. There are 70% of interviewed consumers and 75% of interviewed producers of the regional food sector in our selection. This sector seems to be the biggest and the most difficult in Russia. Together with this, this sector attracts the most attention from Russian politicians. The clothes sector has been chosen as it has the 'controlling' functions (being compared with food sector); this sector lets us to differentiate the common and specific phenomena for every industry.

The companies were selected on the quotas basis. The quotas represented them in size (big, average and small) and in the type of business (manufacturers and distributors).

Confirming with the given by the companies definitions, 54% of the selected companies are the 'big players', every third company (33%) has the average size, and 13% of the companies are regarded as small. 74% of the companies are Russian; and 26% are foreign or mixed capital firms from the companies' origin point of view. A half of chosen companies supply the Russian products to the market, the other half supplies the imported products.

The series of extended interviews were taken with 150 food sector managers to complete the quantitative interview. The companies' directors, sales managers, commercial services managers, trade nets operating managers were interviewed.

In each area 30 managers were questioned – one representative from each company.

Also 1200 questionnaires were gathered (240 questionnaires in each province); 37% of women and 63% of men were the respondents, mostly, in the age between 18 and 60 years old.

The qualitative interview results were used for the received quantitative results interpretation.

## Procedure and results
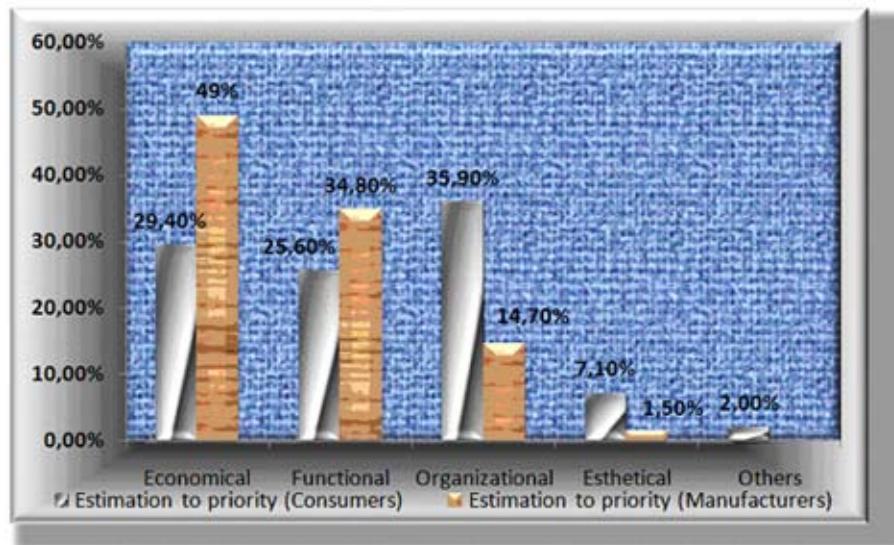
The undertaken data analysis included following successive steps

- The Russian consumer market specific features estimation.

- The detection of the key factors that influence on the production and goods promotion successfulness at Russian consumer market from the manufacturer and consumer points of view.

- The detection of most effective ways of consumer's involvement as the-goods-and-services-co-producer.

The research results mostly confirmed the research hypotheses. Firms are generally oriented to the 'installed into a product values', paying their attention to the economical and functional goods' aspects. The consumers examine as the-innovation product-promotion-failures-main-factors such

factors as consumers' expectations discrepancy, public mind ignoring, non-competence in goods customisation, etc. (Figure 2).

**Figure 2: The consumers' and companies' evaluation of the innovation products promotion success/failures factors in Russian market**



Thus the difference in opinions about the consumers' involving ways into the production process and product promotion follows logically. The manufacturers focus their attention on advertising, PR, selling stimulation, etc. They pay attention to a 'special environment creation' as an important form of consumers' engagement, for instance, cafés, cinema halls, friseur offices, children clubs, etc. At the same time, all the decisions connected with the involving process stay under a firm's competence.

The consumers consider in prior the self-service, self-reliant decisions of certain problems concerning characteristics of purchasing goods or services, etc. (Table 3). That is why the self-service is in preference, as like as the conditions for the self-reliant problems resolution, and also the different types of consumers' unions creation.

So, the consumers in the together-creation-values-process prefer a dialogical form of interrelations, accessibility, completeness and transparency of the necessary information (information's asymmetry decrease) and the both-sided adequate risks evaluation.

## General discussion

Although no company wants to lose its competitive advantages it is perhaps inevitable in the face of growing competition in global markets. It is more often that scientists mention five levels of customers' involvement as a-goods-and-services-co-producer:

- emotional involvement,

- self-service using the 'economics of emotions' means,

- conditions creating for the optimal resolution of arising questions,

- consumers' direct engagement to the production process.

According to Prahalad, all the five levels of consumers' engagement and involvement have the two common traits. Notwithstanding the work and risks are mostly diversified, the questions resolution about the means to engage consumers and this process' stimulation is in the firms' competence (firm-centered conception) (Prahalad, Ramaswamy, 2000). This problem has to be discussed.

**Table 3: Consumers as the 'co-producers'**

| Consumers' involvement methods | Consumers | Manufacturers |
|---|---|---|
| Self-service | 29,1 % | 20,2% |
| Advertising and other promotion tools influence | 10,2% | 25,2% |
| Creation of special environment | 12,1% | 21,1% |
| Conditions' creation for the self-reliant consumer problem resolution | 26,3% | 13,2% |
| Direct consumer's involvement into the goods and services development | 11,2% | 7,2% |
| Others | 11,1% | 13, 1% |

The conceptions mentioned above to stimulate the consumers' interest in the cooperation with a company are undoubtedly popular. Despite, accessibility of communications, information sources, social networks developing, globalisation and competition intensification processes, - all this gives the opportunity to consumers for using many other ways of interaction (for instance, a consumer can take a role of an investor, or partner of a company).

When the value creation process involves a co-production with the both sides (consumer and manufacturer) participated in, the cooperation successfulness indicator can be the consumer's satisfaction. The satisfaction's measure is the interrelations continuity.

Together with this, many consumers can participate only in rather limited quantity of close and 'loyal' interrelations. It is often when they abstain from the agreements based upon the relation-specific assets.

In its activity companies are often based on the past experience. The new strategy directions should overcome the path-dependent trajectory inertia, lead to mental sets and managers' models transformation.

## Managerial implications

We believe that these conclusions lead to a number of significant implications for Russian companies. The-firm-and-consumer-interrelations are not just a both-sided, but a multiple-sided process. Not just dual interconnections persist in the innovation products production, promotion, consuming processes and also in the product strategies or the new channels distributions development; in such occasions separate consumers and their unions (communities, alliances, clubs, etc.) should interact with separate firms and their unions.

The consumer's engagement' result is the joint-new-values-creation; its consequence is the constant effective interrelations improvement.

The joint-new-values-creation process demands the new elements to be applied: dialog (not the one-sided communication directed from a company to a consumer), accessibility, transparency, completeness and timeliness of information (in order to avoid its asymmetry), adequate risks evaluation by the both sides.

To achieve efficient interrelations in the innovation product development and promotion process the whole firms' net multiple-gradations cooperation is reasonable; the cooperation should discover the new possibilities for the existed and future practices.

## Future research directions

In no way do we suggest that our paper is the final word on this topic but we hope it can act as a way to continue a dialog on the role of customers in developing innovation products. We consider that there are many interesting questions that remain to be answered relative to our research. For instance, the future research in the effective consumer and manufacturer inter-cooperation field can investigate different matters: conflicts that arise between manufacturers and consumers in the cooperation process; risks diversification problem; the interrelations' contradictions softening systems development; the IT-services marketing, etc.

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# MARKET SELECTION AND COMPETENCE MANAGEMENT IN THE CZECH REPUBLIC

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## Abstract

The selection of a target market basically hinges on two criteria. Whether primarily (a) is to be produced or (b) is to be sold. In the first case, the main issue is access to resources and lower (wage) costs. In the second case it is the market potential of possible buyers. Yet why should one invest in a market that does not offer the ideal prerequisites for either criterion? The Czech Republic as an industrialised nation has – compared to other EU countries – a less favourable cost situation and a fairly small domestic market. Nevertheless, there is still investment in this market (in 2010, an estimated 1.8bn euros). This article therefore addresses the question which influence management competences can have on this trend.

## INTRODUCTION

After the collapse of the Eastern Bloc in 1989, the Czech Republic, like many other Central and Eastern European states, faced the challenge of converting a centrally planned economic system into a market economy within a very short period of time. In general, this did not involve massive changes in personnel, but only a significant increase in the natural detachment process. This resulted in younger, clearly better educated managers moving into management positions whose most striking characteristic is that at the current level of education mainly technical experts joined the management. (Hartmann 2007) In line with this development, the following research question remains: Which management competences do these new managers have and how are these competences influenced by external and internal drivers of change?

## MARKET SELECTION

According to Kutschker and Schmid (2008), three criteria play a central role in market selection:

1. Country market attractiveness,

2. Country market risks and

3. Country market entry barriers.

As an EU-member and candidate for the eurozone, the last two items are mostly irrelevant. Only the topic of corruption still plays a minor role – compared to other Eastern European countries this can be ignored, though. (Transparency International 2009) This leaves the benefit potentials of country market attractiveness listed by Kutschker und Schmid (2008), based on Stahr (1993). These are:

- Market volume,

- Market growth,

- Market structure,

- Price structure,

- Cost situation,

- Supply situation and

- Infrastructure.

Assuming the Czech republic as an industrialised nation can be seen as equal to the other EU members as regards market and infrastructure, and given that there are no significant raw material deposits and, with roughly 10.4m inhabitants and a growth rate of 3.7%, market volume and growth are not particularly impressive either (Fischer

2010), this only leaves the cost criteria to explain the investment behaviour of foreign enterprises.

Taking a closer look at costs in the region, however, shows that neighbouring states such as Poland or the Slovak Republic offer much lower wage costs with the same geographical proximity. (Statistisches Bundesamt Deutschland 2009) Thus only human resources, an item not mentioned yet, remain as a criterion for making decisions. By making use of a well-educated work force, the investing company can achieve a strategic competitive advantage, which greatly enhances the market selection criteria listed so far. (see Nahapiet & Goshal 1998)

## COMPETENCE MANAGEMENT

Competence management represents a holistic field of research from strategic, organizational to individual competences. (for a more detailed overview see Elliot & Dweck 2005, Tidd 2006, Mühlbacher 2007) In the following we have to focus on the definition of individual competence and the historic development of competence classes – both needed to answer our research question. Due to the limited space we therefore have to leave out all other interesting aspects.

Recent work on individual competence management (e.g. Probst et al. 2000; Sarges 2001; Erpenbeck & von Rosenstiel 2003) mainly emphasizes the fact that competences are strongly oriented towards the future. These enable a person to tackle upcoming challenges, whose nature cannot be predicted or determined, in a self-organized manner. Therefore, discussions regarding competences are of importance whenever strategic personnel planning and development in times of great uncertainty take centre stage.

This requires a change in perspective within human resource management. Both the current requirements and the competences necessary in future have to become the focal point of the analysis and are to be seen as a strategic competitive advantage for the company. (McCall 1998) From this point of view the question in which specific competences a company should invest, in order to realize value added in the future – in the sense of return on investment –, at first remains unanswered. Only the answer to this question makes it possible to use further education as a strategic instrument of management development.

Particularly regarding anticipated competences one should keep in mind that these data – fully in line with a Delphi study – are explorative prognoses. Apart from the comparison of the current distribution of competences, this study, therefore, can only serve the function of generating hypotheses.

## Definition of competence

The term competence always depends on the theory, i.e. only within the specific construct of a theory on competence does it have a defined meaning. Competences in a narrow sense are dispositions of self-organized actions. As they are internal, unobservable dispositions, competences are always a form of association based on judgments of the beholder. Competences are attributed on the basis of problem and solution orientation, by informing a person of an objective – without a specific solution – and then measuring the degree to which the objective was achieved. Accomplishing or even exceeding the degree of achieving an objective is hence defined as competence. (Erpenbeck & von Rosenstiel 2003) The most important objectives of professional competence development are the establishment and promotion of professional action competence. Here, the integration of cognitive, emotional-motivational, volitional and social aspects of human behavior in work situations is the main focus of interest. (Heyse 1997)

## Classes of competences

An early differentiation of competences was made by Jacobs (1989, p. 36), who distinguishes between "hard and soft competences". Hard competences refer e.g. to analytical and organizational capabilities, while creativity and sensitivity are soft competences. From this, Jacobs develops the assumption that hard competences result in observable behavior, with the invisible but controlling soft competences underlying them. The principles of this conviction, though conceivable, are difficult to prove and thus this conception has been classified as an artificial differentiation with a low explanatory potential in the theoretical discussion. (Woodruffe 1993)

To avoid this criticism, a categorization of the knowledge, capabilities, properties and abilities required has prevailed that first consisted of three

– still without the category of self- and personal competence (Sloane 1998) – and later four areas of competence, which meets both theoretical and pragmatic requirements. (Heyse 1997) A clearer description of these four classes of competences can be found in Sonntag and Schaper (1999).

All these categorizations have been reworked. In newer classifications, for instance, particularly professional and methodological competences are combined, because of their proximity and the desired generation of a general competence model, which separates self-dispositive actions more from personal dispositions and introduces the new competence class of leadership competence. As a result, the following five classes of competences can be distinguished: (Kasper, Mühlbacher & von Rosenstiel 2005)

- Self-dispositive competences, which represent the self-organized use of one's own resources (time, know-how, etc).

- Methodological competences, comprising all analytical and solution-oriented behaviors.

- Social-communicative competences, covering the area of social interaction (excluding leadership).

- Leadership competences, including the full range of leadership, motivation and personnel development.

- Personal competences, mainly manifesting themselves in extraordinary personality traits.

Based on this classification, the empirical data are coded and then, in a second step, analyzed with regard to the influence of the external and the internal environment to answer the research question: which management competences do Czech managers have and how are these competences influenced by external and internal drivers of change?

## EMPIRICAL SAMPLE

Within the empirical survey, the individual assessments of the competences currently required and anticipated for the future were collected by a questionnaire with four open questions (see also Mühlbacher 2007) given to altogether 109 participants in four 4 Executive MBA classes of the University of Technology, Brno. After removing incomplete data sets, the data from 101 interviewees remain, which translates into a response rate of roughly 92.7%. In more detail, the sample looks as follows. The average age of the 35 top managers is 38.97 years, with values ranging from 23 to 55. The average age of the 66 middle managers is 33.19 years, ranging from 22 to 49 years. Both groups are thus in the representative range. Regarding the breakdown by sector, the following picture emerges:

Regarding the functions the interviewees mainly fulfill, multiple answers (n = 194) were possible. Here it can be seen that Czech managers with their "cross-functional tasks" are usually anchored in roughly 1.9 functional areas, while in Austria the figure is 2.4 (Mühlbacher 2007, p. 218). It can thus be assumed that managers in the Czech Republic are more functionally specialized.

## CAUSAL MODEL OF EXTERNAL AND INTERNAL DRIVERS OF CHANGE

Regarding the analysis of the influence of external and internal drivers of change, a multivariate procedure is used. As univariate regression analyses call for a pre-defined classification into dependent and independent variables, and do not allow any multivariate interaction, this method is only partly suitable for finding explorative structures. (Spirtes et al., 1998) Rather, multicollinearity is to be assumed, where variables can be in mutual, undirected relationships with each other.

If there is a lack of information on the structure of the dependencies between empirical data, the use of a dependency analysis is advisable. In this case, the TETRAD II computer program (Version 3.1) has been selected. This program produces a path-analytical model on the basis of a covariance or correlation matrix, which shows the acyclical graph of the directed and undirected dependencies. With continuous variables, the program assists in the search for path and structural equation models. For discrete data, TETRAD II creates and updates Bayes networks. The algorithm used is based on the so-called "D-separation", where probabilistic dependency tests are conducted, i.e. there is no confirmatory causal analysis of the model. However, this can be done later using LISREL, EQS, PLS or AMOS. (Spirtes et al., 1998)

**Table 1: Breakdown by sector**

| Sector | Percentage |
|---|---|
| Banking & Insurance | 25.7% |
| Capital goods | 15.8% |
| Consulting | 12.9% |
| Services | 11.9% |
| Trade | 9.9% |
| Public sector | 9.9% |
| IT & Telecommunications | 6.9% |
| Consumer goods | 4.0% |
| Others (e.g. utilities, health and cultural organizations) | 3.0% |
| Total: | 100.0% |

**Table 2: Functional areas of the interviewees**

| Functional area | Frequency of mentions |
|---|---|
| Marketing | 47 |
| Finance & Investment | 28 |
| Project management | 27 |
| Organization | 24 |
| Production | 22 |
| Personnel | 12 |
| IT | 12 |
| Logistics | 9 |
| Research and Development | 7 |
| Others | 6 |

In this specific case, the starting point for the dependency analyses is the correlation matrix of the five competence classes and the external or internal drivers of change. As, due to the form of survey selected (= open question with the possibility of multiple answers and subsequent coding), only an ordinal scale level is given for the drivers of change and no normal distribution can be assumed either, the matrix was created on the basis of the non-parameter correlation coefficients (Spearman-Rho). Only the directed connections between the competence classes and the internal and external drivers for change were adopted, as only these have a direct influence on the target values (see Jammernegg & Kischka, 2005)

The model thus derived was tested with the help of the computer program AMOS 5.0. The program was selected because it makes possible a combination of multivariate regression and ANOVA analyses, which can also be used with ordinally scaled data and do not require a strict normal distribution. The parameters of the models were estimated using the maximum-likelihood method.

## External and internal drivers of change

A first approximation of the perceived change can be found in the analysis of external and internal drivers of change. Regarding external drivers

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of change, the following figure 1 provides an overview.

In the Czech Republic, competition based on markets and structural change as well as innovation are seen as the two most important drivers of change. While the latter is generally seen as a positive factor, the competitive situation is at the same time seen as a threat by Czech managers.

The influence of politics and trade unions, as well as the change in the legal framework are also perceived as rather negative while the economic situation and EU policy tend to be seen as something positive. This suggests mainly high dissatisfaction with the current domestic policy. On the other hand, the third-highest threat potential, that of ecology – together with the change in the legal framework – indicates broad agreement with the populist ideas of president Vaclav Klaus. This can also be explained with the importance of (heavy) industry for the Czech economy and its laggard position in ecological matters.

Very positively perceived factors include the change in values and the different way of life, while globalization is assessed as neither a threat nor an opportunity. Socio-demographic change again is seen as something very positive. The higher wage level is rather seen as a danger that might lead to further shifts in production capacities to the east or to new EU member states. The second highest danger potential from a Czech point of view is the current state of the labor market. While the lack of resources – arguably also due to the high readiness and ability for innovation – is seen as slightly positive, price pressure and corporate policies determined abroad are all clear potential threats.

Finally it can be remarked that the financial crisis is not seen as an external factor in the Czech Republic. This may be due to the date of the survey, at which people were aware of the financial crisis but no bail-outs for European banks were in the pipeline. On the other hand, also the ongoing collection of data from Slovenia indicates that this development in the financial sector only affects managers' actions once it has fed through to the business cycle.
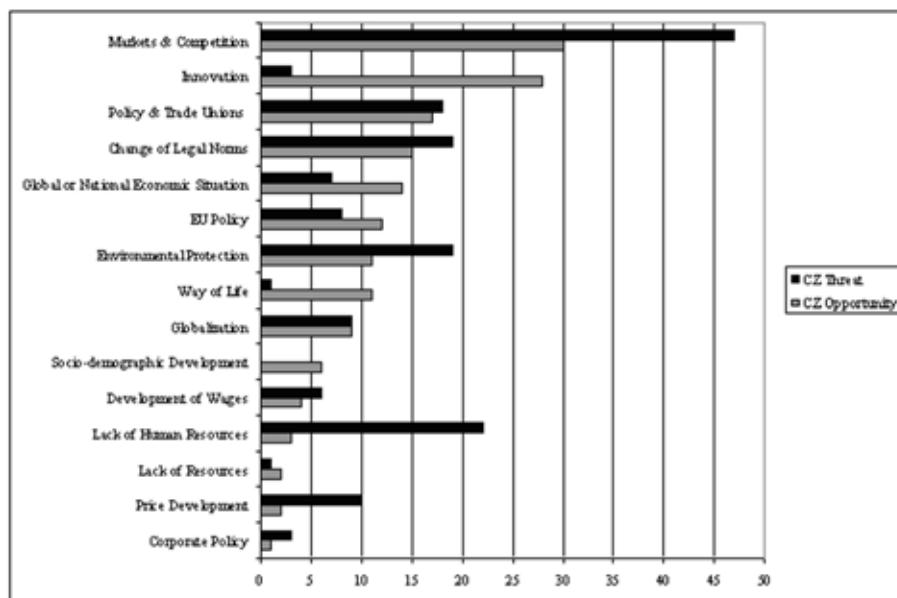
In contrast to the external factors, internal drivers of change are generally positively evaluated. This can, according to attribution theory, be explained with the fact that they can be influenced more easily. Thus, internal factors are seen more optimistically. All the changes listed in figure 2 are in most cases initiated by management and so it is not surprising that these factors show a high acceptance.

Interestingly, the greatest opportunities perceived in the Czech Republic – structural change, changes in company policy/strategy and changes in human resources – are, in reverse order, also seen as the greatest potential threats. New management techniques and tools are seen only positively, which might be connected with the high ability to innovate. Equally positive is the assessment of procedural change, growth and implementation of new products or services. Change in ownership or management has the fourth-largest threat potential, besides its positive image. Finally, corporate culture and cooperation between companies are seen as broadly positive, while motivation and customer orientation only have positive aspects, albeit at a fairly low level.

## Causal model of the Czech sample
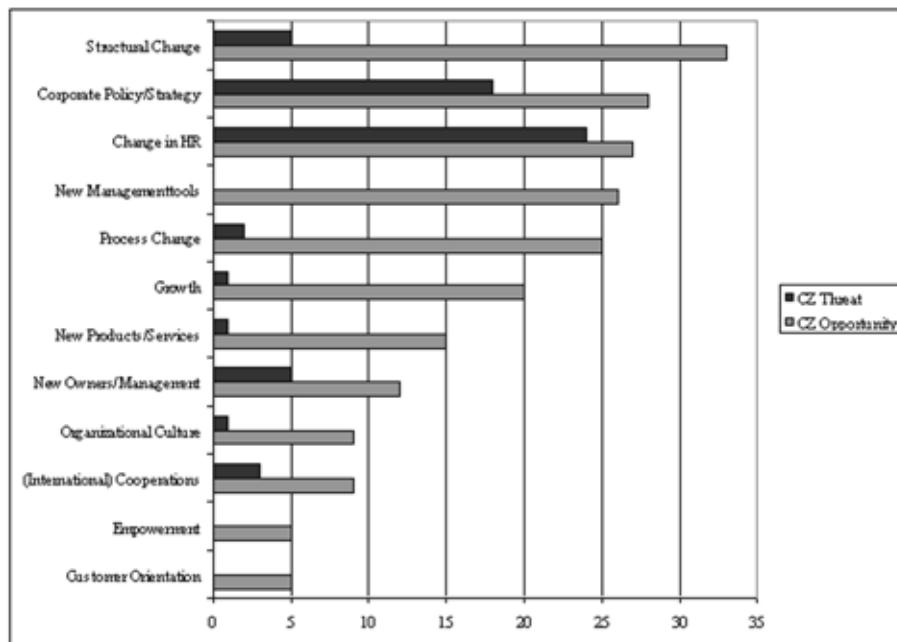
An initial ranking of the individual competence classes shows a clear predominance of methodological competences, followed by social-communicative competences and leadership competences, and, clearly behind, personal and self-dispositive competences. Also regarding future expectations this ranking looks very similar. The professional-methodological competence class even gains in importance. Social-communicative competences and leadership competences switch their positions and – almost identically – also their value. The figure for self-dispositive competences increases slightly, while personal competences clearly lose value.

**Figure 1: External drivers of change**



(n = 340 mentions)

**Figure 2: Internal drivers of change**



(n = 274 mentions)

**Table 3: Changes in relevance of competence classes over time**
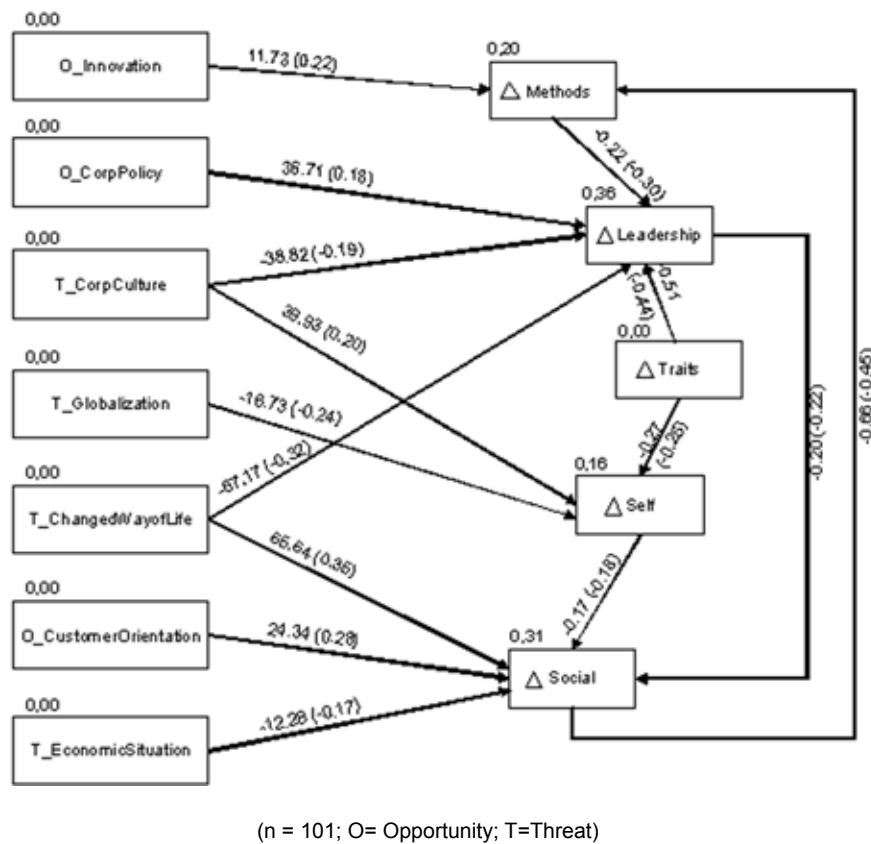
| Competence classes | Mean Value | T | Sig. (2-sided) |
|---|---|---|---|
| Methodological competences – present | 30.8119 | -1.688 | 0.095 |
| Methodological competences – future | 35.4455 | | |
| Social-communicative competences – present | 16.3861 | 1.862 | 0.065 |
| Social-communicative competences – future | 12.8713 | | |
| Leadership competences – present | 13.3168 | -1.440 | 0.153 |
| Leadership competences – future | 16.3366 | | |
| Personal competences – present | 8.2178 | 2.391 | 0.019 |
| Personal competences – future | 3.9604 | | |
| Self-dispositive competences – present | 7.3564 | -1.119 | 0.266 |
| Self-dispositive competences – future | 9.5545 | | |

When analyzing the differences between the assessments of competences currently required and anticipated for the future, weakly significant differences in the composition of competence classes can be made out. Here the sample size must be taken into consideration, which in an extension planned for the future certainly will result in stronger significances. In general, the T-Test with paired samples already shows that personal competences greatly lose in importance; social-communicative competences are also slightly reduced, while the other three competence classes gain importance, with particularly the rise of the methodological competences attracting attention.

Having established the general changes, the impact of external and internal drivers of change on the individual competence classes is to be determined. The following illustration of the model (figure 4) shows the significant external and internal drivers of change on the left, and the individual competence classes on the right, whose increase is mainly due to the decrease in professional-methodological competence. The arrows represent the causal relations tested, with the first value showing the regression coefficient and the value in brackets showing the standardized β-coefficient. The value in the upper left hand corner of each variable is $R^2$ and states the percentage of the variance measured that can be explained by the model regarding the respective competence class.

The methodological competences show the highest absolute increase. Interestingly, this is due to only two factors. On the one hand, the positive connotation of innovations as external driver of change results in an increase of 11.73 percentage points (β = 0.22), on the other hand there is an inverse relationship between the decreasing social-communicative and the methodological competences of -0.66 percentage points (β = -0.45). What is surprising is mainly the connection between innovation and methodological competences, as creativity is supposed to be a self-dispositive competence. The long tradition in mathematics and natural science in Eastern Europe makes this easier to understand. Accordingly, innovation is here – not only within the TIPS concept developed in Russia – seen as a systematic-analytic activity, and not intuition, as is commonly propagated in Western Europe and North America. "Genius is 1 % inspiration and 99 % transpiration"; Thomas Alva Edison is supposed to have said. In this connection, mainly a high, positive influence regarding marketing and total quality management can be detected. But also holistic thinking, as well as process management and process innovations contribute to this connection. Innovation as a positively perceived driver of change explains, together with the decrease in social-communicative competences, at least 20 % of the variance of the professional-methodological competences (= $R^2$ at the upper left hand corner of the competence class).

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**Figure 3: Causal model of the external and internal drivers of change and their effects on the competence classes**



(n = 101; O= Opportunity; T=Threat)

Leadership competences go up second-fastest and react particularly sensitively to two external and one internal drivers of change. A negatively perceived change in values or the new way of life results in a decrease in the value of leadership competences by -67.17 percentage points (β = -0.32) and the negatively perceived corporate culture also results in a decrease of -38.82 percentage points (β = -0.19). Only a positively evaluated group or company policy increases leadership competences by 36.71 percentage points (β = 0.18). Negatively perceived external circumstances also result in a reduction of leadership tasks with Czech managers. Corporate cultures or lifestyles can thus hardly be transferred from outside the Czech Republic, but have to be adapted to local circumstances. For this reason, ethnocentric approaches of multinational companies stand little chance of realization. If adaptation takes place, however, and managers identify with the new group or company policy, this

leads to an effective implementation in leadership matters.

The inverse relationship with methodological competences of -0.22 percentage points (β = -0.30) can be explained by the preferred unbureaucratic and flexible leadership style of the new generation of Czech managers. There is also an inverse relationship to personal competences of -0.51 percentage points (β = -0.44), which will be explained in more detail below. Together, these factors of influence explain 36 % of the variance of leadership competence.

The self-dispositive competences increase by 39.93 percentage points (β = 0.20) with the negative perception of the corporate culture. They thus turn out to be a type of stabilization valve for the reduction in leadership competences also effected through this driver of change. The dissatisfaction with corporate culture does not only result in a

withdrawal from the leadership function, but also to an adaptation of a person's own behavior. Czech managers therefore turn out to be very adaptable, though high performance is only to be expected in a suitable environment. If globalization is seen as a threat, however, self-dispositive competences fall by -16.73 percentage points ($\beta = -0.24$). The inverse influence of personal competences of -0.27 percentage points ($\beta = -0.25$) will also be explained in more detail at the end of the analysis. Altogether, these three factors can explain 16 % of the variance of the self-dispositive competences.

The analysis of social-communicative competences confirms the negative development trend of this competence class, as it can be seen that each mention of the business cycle as an external threat potential reduces it by -12.28 percentage points ($\beta = -0.17$). This suggests that external economic crises mainly result in a fall in social competences in the Czech Republic. A similar phenomenon can be detected in the Austrian data when changes in the services offered are perceived as a threat. While in the Czech Republic innovations are seen as something very positive, in Austria there is often a fall in the willingness to communicate and interact in order not to endanger one's own job. (Mühlbacher 2007) Such restrictive behavior, however, often results in a self-fulfilling prophecy, which then really generates the crisis people are afraid of. Generally, therefore, in crisis situations mainly encouraging an open communication policy should be on the managers' agenda.

The positive evaluation of customer orientation and the change in values and the way of life that is seen as a threat both result in an increase in social-communicative competences, however, that is a logical adaptation of a person's own social behavior to the new external circumstances – in the first case by 24.34 points ($\beta = 0.28$), in the second even by 65.64 points ($\beta = 0.35$). All 3 drivers of change explain, together with the exchange effects between the competence classes – -0.20 percentage points ($\beta = -0.22$) with an increase in leadership competences and -0.17

percentage points ($\beta = -0.18$) with an increase in self-dispositive competences –, 31 % of the variance of social-communicative competences.

Yet the strongest decrease in importance takes place with personal competences. The independence of this competence class indicates the high stability of character traits that was surveyed here. There is an inverse relationship to leadership competence of -0.51 percentage points ($\beta = -0.44$) and self-dispositive competences of -0.27 ($\beta = -0.25$). Both can be explained by the heavy fall in the personal competence of dominance, which has a positive effect on a more participatory leadership style and the self-dispositive ability to cooperate.

To prove the validity of the model described above the following test has been calculated: The $\chi^2$ test, which due to its high sensitivity to sample size and its intolerance in connection with deviations from a normal distribution is often criticized, also provides conditional proof of the model. The $\chi^2$ value, for instance, is at 1.090 (Cmin = 55.582 with 51 degrees of freedom) and thus far below the required limit of 2 with P = 0.306. (Backhaus et al., 2000, p. 466) Arbuckle and Wothke (2003) in this context refer explicitly to the high sensitivity of this value regarding sample size and the unrealistic assumption of a "Perfect Fit". In addition, the independent model produces a much worse relation of $\chi^2 = 2.870$ (Cmin = 189.445 with 66 degrees of freedom).

Because of the criticism of the classic $\chi^2$ test, variants of this analysis were calculated in order to evaluate the overall quality of the model which are relatively independent of the sample size and resilient to breaches in the assumption of a normal distribution. These are the Goodness-of-Fit-Index (GFI), the Adjusted-Goodness-of Fit-Index (AGFI), the Root-Mean-Square-Error-of-Approximation (RMSEA) and ratios assuming independence, such as e.g. the Compared-Fit-Index (CFI) or the Tucker-Lewis-Index (TLI). Figure 3 gives an overview of the respective values of the model:

**Table 4: Overview of the model's criteria**

| Criterion | Value | Recommended critical value |
|---|---|---|
| GFI | 0.916 | > 0.9 |
| AGFI | 0.872 | > 0.9 |
| RMSEA | 0.030 | < 0.05 |
| CFI | 0.963 | > 0.9 |
| TLI | 0.952 | > 0.9 |

The Goodness-of-Fit-Index (GFI) states that the model can explain 91.6 % of the variances of the original data. Taking into consideration the degrees of freedom, the Adjusted-Goodness-of-Fit-Index (AGFI) confirms that still 87.2 % of the variance is explained by the model, which is slightly below the recommended critical value, but still acceptable. The Root-Mean-Squared-Error-of-Approximation (RMSEA) measures the discrepancy per degree of freedom, which here is 3% and thus suggests a high fit. The Compared-Fit-Index (CFI) and the Tucker-Lewis-Index (TLI) assume independence for a comparative model and confirm the present value at 96.3 % (CFI) and 95.2 % (TLI).

## CONCLUSION AND LIMITATIONS

For market selection this now means that the Czech Republic, strictly speaking, is a contender only as a location for high-quality technological and innovative products and services. (see Mühlbacher, Nettekoven & Putnová 2009) This high orientation towards innovation is – compared to Austria, Hungary and Slovenia – indeed a special characteristic of the Czech Republic. (see Mühlbacher, Kovač & Putnová 2010) At the same time, this also means that these knowledge workers want to remain relatively untouched by external influences – amongst which they mainly count strategy and culture of the parent group. Otherwise this has a demotivating and thus ultimately counterproductive effect.

So overall it can be said that the Czech management reacts relatively sensitively to economic factors – such as the business cycle, globalization, but also a foreign corporate culture – if these are perceived as a threat. In particular self-dispositive competences and leadership competences are reduced in this case. But this also means that although the basic work is being done, no highly motivated or innovative results

beyond the normal can be expected if economic pressure is exerted. This rather makes managers bide their time. External changes resulting from social or technological change, but also a clear and motivating group or company policy, are perceived very positively and involving great individual effort. This can at least partly be explained by the tradition of a communist economy of scarcity (Schuh & Ploszajski 2008), when time, innovative behavior and personal effort were necessary to improve the respective situation.

As the results finally show, research into and the practice of individual competence management are still in their early days. A common understanding regarding the competence-class terminology is developing only slowly. Still, it can be seen that internal and external drivers of change have a significant influence on the competence requirements of companies. This makes it all the more important to address the topic of competence management in a focused and methodical manner. Individual and isolated measures taken in personnel development and change management approaches, which so far have dominated in organizations, do not go far enough. In order to maintain competitiveness, it is not only necessary for management to rethink matters, but also to integrate corporate strategy into the operational human resource management.

Regarding this explorative model, a point of self-criticism has to be made in that the causalities shown cannot be fully grounded in theory, but are based on the subjective experience of the persons interviewed. Still, they provide an intersubjectively explicable picture of the reality of Czech managers. The high residual values and the still unexplained share in the variances can equally be criticized, as they point to further factors of influence. The aim of this analysis, however, is to create a general model of the changes in individual competence

classes and the factors influencing them that are statistically verifiable.

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# MARKET RESEARCH IN FUNCTION OF BUSINESS PROCESS MANAGEMENT

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## Abstract

*Despite the fact of the importance of market research for business success, the effectiveness of market research activities is still doubtful in the practice of Croatian companies. In this paper, market research is regarded from the aspect of providing the key information on requirements and satisfaction of companies' users.*

*For the purpose of this paper the research on the importance of market research activities for business process management has been conducted in Croatian companies. The sample comprised the Croatian companies certified according to the international standard ISO 9001:2008. One of the basic ISO requirements is process approach which implies defining and managing business processes along with adequate information basis. In this way effective business process management is attempted to be achieved.*

*Key words: market research, business processes, information*

## INTRODUCTION

Starting from the fact that modern companies operate in an environment characterized by everyday, more or less, predictable changes, it is expected that companies which can quickly adapt to new market conditions are more competitive. This positive correlation between market orientation and business success is a discussion issue of many present authors (Kutwaroo, McNaughton, Moorman, Morgan, Osborne, Rust), which emphasizes the importance of market research for company performance in the context of providing information on consumers, their requirements and satisfaction.

In his definition of market orientation as special skills needed to understand and satisfy consumers, Day is focused on market and consumers (1994, p. 37). He emphasizes the basic features of such orientation:

- Set of beliefs that puts consumer's interest first (Deshpande et al, 1993, p. 24)

- Coordinated usage of cross-functional resources to create bigger value to customers (Narver, Slater, 1990, p. 22) and

- Company's ability to collect, use and distribute important information on customers (Kohli, Jaworski, 1990, p. 2).

The last feature confirms the importance of collecting information on consumers. In other words, it confirms the importance of market research related to company operations.

## MARKET RESEARCH – DEFINITION AND PROCESS ASPECT

One of the most often used definitions of market research in marketing literature is the definition of the European Association of Research Agencies, European Society for Opinion and Marketing Research (ESOMAR): "The marketing research is the key element within the total field of marketing information. It links the consumer, customer and public to the marketer through information which are used to identify and define marketing opportunities and problems; to generate, refine and evaluate marketing activities; and to improve understanding of marketing as a process and the ways through which specific marketing activities

can be made more effective "(Malhotra, Birks, 2007, p. 6).

Vranešević and Mandić define market research as "a pre-designed (planned) process of data collecting and analyzing in order to provide essential information for making decisions in marketing management" (in Previšić, Ozretić Došen, 2004, p. 81). Or, more concisely, market research is a systematic, standardized and objective procedure of obtaining information for decision making in marketing" (Marušić, Vranešević, 2001, p. 7).

From a procedural point of view, market research is defined as a precisely defined sequence of specific research activities that are structured in the appropriate procedural steps or phases. The number of research process phases differs from author to author, but always containing all the elements required for the full and regular conduct of research. Senečić mentioned 7 process stages as follows (1997, p. 22):

1. Defining the problem and research objectives

2. Reviewing existing information

3. Defining research concept, variables and hypotheses

4. Determining sources and research type

5. Selecting methods and techniques for data collection

6. Identifying testing objects

7. Collecting, processing and analysing data.

Detailed market research elaboration is given by Burns and Bush in their schematic view of eleven steps of the research process (Figure 1).

In general, all market research activities can be grouped into four basic process steps, which are completed by additional "background" steps and round off the process of market research (Figure 2).

Figure 2 clearly shows the individual phases or steps of a market research process, whether they are basic or merely "background" process steps that make the concept more complete.

The four basic process steps are:

1. Defining the problem and research objectives,

2. Developing research plan,

3. Implementation of research plan and

4. Reporting research results.
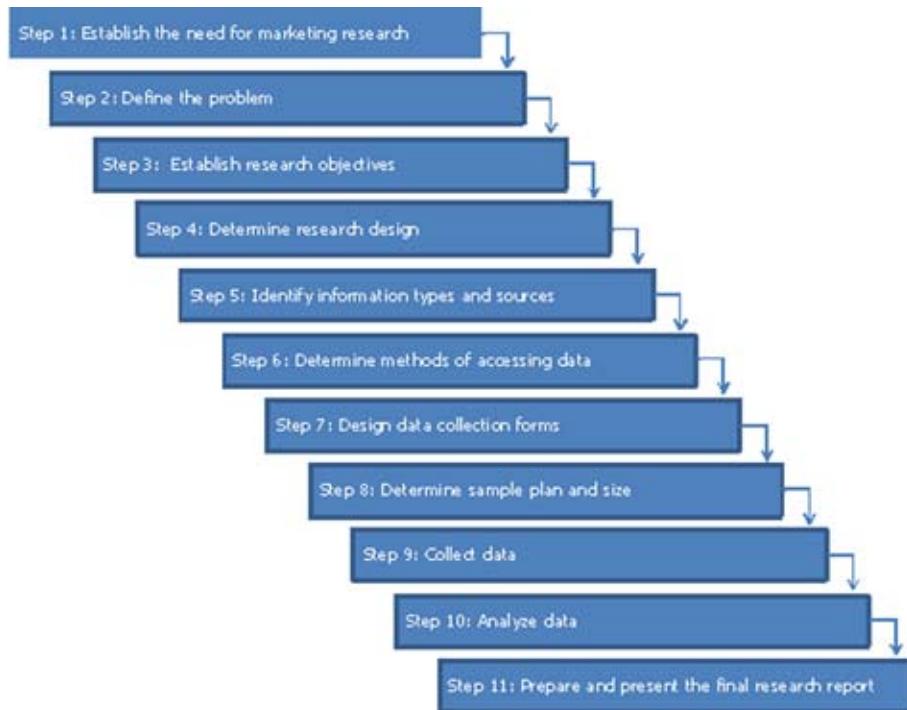
## DEVELOPMENT AND IMPORTANCE OF MARKET RESEARCH FOR PROCESS MANAGEMENT (research results)

For this paper, the one-time survey was conducted in May and June 2010 on the sample of 153 quality managers of the Croatian companies that are certified according to the requirements of the international standard ISO 9001:2008. The sample included 60 small, 43 medium and 50 large companies . The research was focused on the development and importance of market research and information on customers' requirements and their satisfaction for business processes and business results in general.
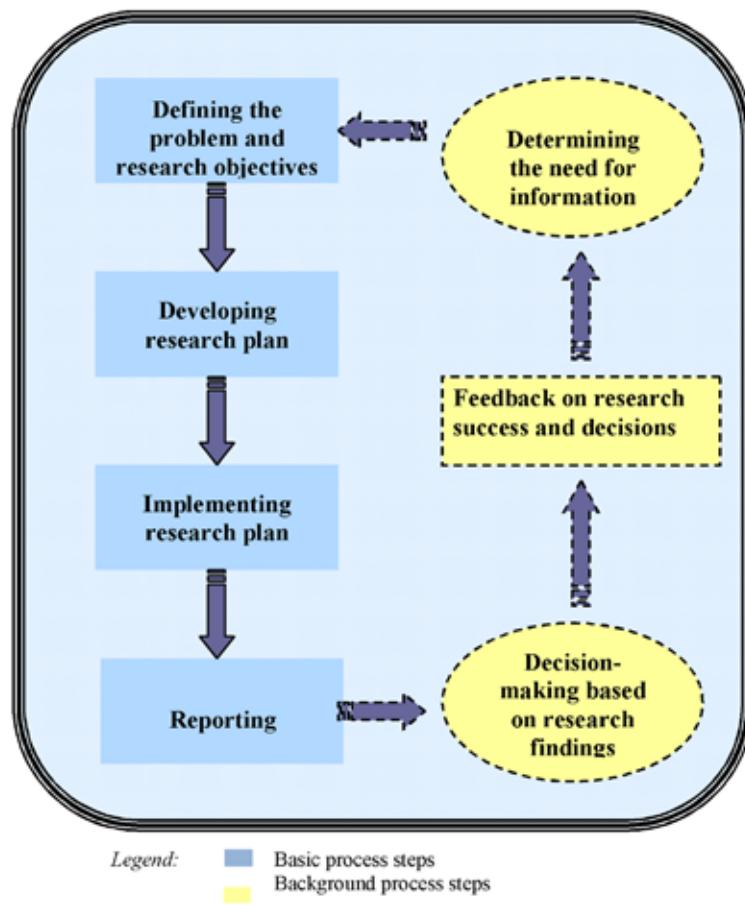
## Development and importance of market research in Croatian certified companies

During the data processing and interpretation of the research results, most of the data are examined by comparison with one of the more significant features of the surveyed companies - a period of ISO 9001:2008 certificate ownership (up to 6 years and 6 years and above). First of all, the respondents evaluate the market research development on the scale of 1 to 5, and in the companies that are certified for a shorter period (up to 6 years) market research development is rated with the mean score of 4.05, while in the companies that have been certified for 6 years and above, respondents believe that these activities are moderately developed, and give them a rating of 3.66. Between those means, there is a statistically significant difference at the confidence level of 95% (Table 1).

**Figure 1   Research process**



Source: Burns, A.C. and R.F. Bush (2003) Marketing Research, 4th ed, New Jersay, Pearson Education, p. 28

**Figure 2 Market research processes**



Source: Authors

**Table 1   Development of market research activities according to the period of ISO 9001:2008 certificate possession, t-test mean calculation**

| | | Levene's Test for Equality of Variances | | t-test for Equality of Means | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | F | Sig. | t | df | Sig. (2-tailed) | Mean Difference | Std. Error Difference | 95% Confidence Interval of the Difference | |
| | | | | | | | | | Lower | Upper |
| **Market Research Activities** | Equal variances assumed | 0,23 | 0,63 | 2,99 | 151 | 0,003 | 0,391 | 0,131 | 0,133 | 0,649 |
| | Equal variances not assumed | | | 2,83 | 95,3 | 0,006 | 0,391 | 0,138 | 0,118 | 0,665 |

Source: Authors' research

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Therefore, the t-test of mean values also indicates, at the confidence level of 95%, that, on an average, the companies certified up to 6 years have significantly more developed market research activities than companies certified for a longer period, more than 6 years. However, it is interesting to show a graphical view of the obtained results by crossing the development level of market research activities with the same variable, the period of certificate possession (Chart 1).

According to the results shown in Chart 1, the longer the company possesses the ISO 9001:2008 certificate, the higher is the share of responses „developed", and the lower is the percentage of respondents who believe that market research is absolutely or well developed. The interpretation of this result can be traced either to the initial enthusiasm and energy caused by the implementation of quality management system whose intensity has been reduced over time, so that the system is not being sufficiently improved or to the fact that respondents have acquired new knowledge and experience in quality management system, as well as in market research, so they believe that there is ample room for improvement.

Similarly, the information on the ways of defining market research activities is indicative in order to determine the level of market research development in the certified companies, which is shown in Chart 2.

From the above graphics it can be perceived that market research is generally defined as a procedure in the companies that possess the ISO 9001:2008 certificate less than 6 years. However, in the companies with older certificates, market research activities are increasingly shown as a process, in 56% of the companies, either solely as a process or as a process and as an appropriate procedure. Thus, in these companies, the mentioned activities are defined systematically and in detail as a process which needs monitoring, measurement and continuous improvements, which explains the level of market research development in certified companies.

## Development and importance of information on consumers' requirements
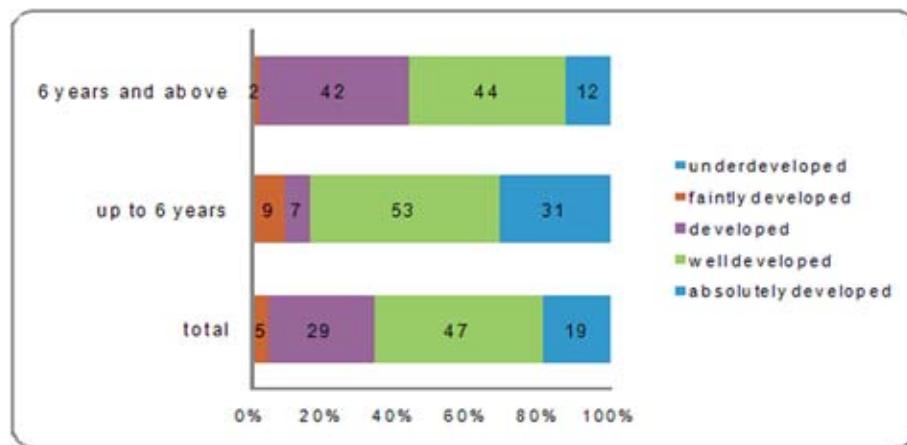
and satisfaction in Croatian certified companies

In fact, one of the more important pieces of information, which should be provided by market research and is essential for successful business processes management and business on the whole, is information on consumers' requirements and satisfaction. Therefore, it is necessary to find out the opinion of respondents on the given importance of that information in their companies (Chart 3).

Specifically, as shown in Chart 3, the half of the interviewees stated that information on consumers' requirements and satisfaction, as well as the individual inputs and outputs of processes, are essential for process management success, and are considered very important by 38% of or 59 respondents. The remaining 12% or 18 companies believe that such pieces of information are important for successful business, but not in any significant rate. Thus, it can be concluded that information on consumers' requirements and satisfaction is generally considered important for the success of business process management because these are pieces of information on primary process input and output values.
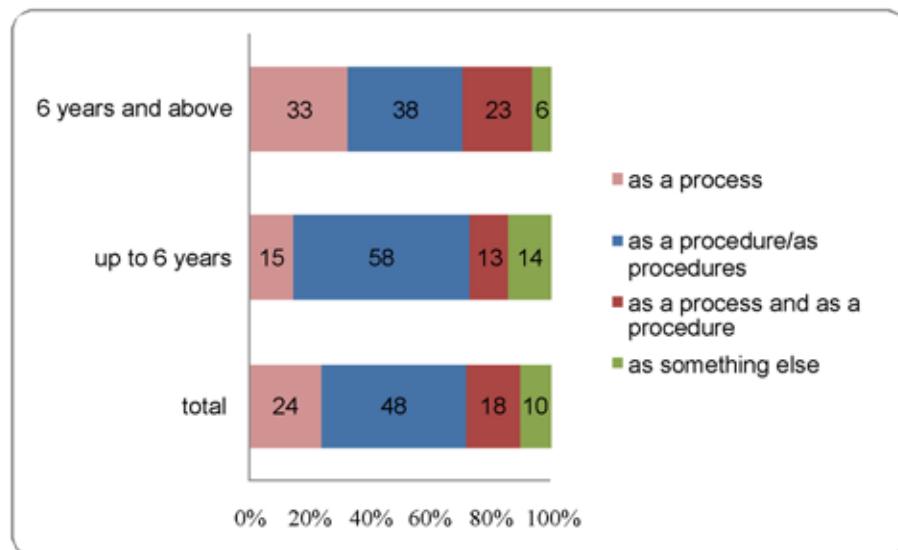
Furthermore, according to the research results, there is a noticeable growth trend of the mentioned information importance, depending on the length of the possession time of ISO 9001:2008 certificate. In other words, companies that are certified for a longer time think of the information on consumers' requirements and satisfaction as more important for successful business process management and business in general. This statement is supported by research results, since the questionnaire considered the relationship between stated information importance and the financial indicator of newly created value, total and per employee. The statistically significant difference between means is found at the confidence level of 95%, according newly created value per employee. The respondents in companies with over 200,000 kuna added value per employee estimated the importance of information on consumers' requirements and satisfaction with an average grade of 4.65, while 4.24 grade was given by the respondents from the companies with up to 50,000 kunas of added value per employee.

**Chart 1    Level of the development of market research activities in the certified companies according to the period of certificate ownership**
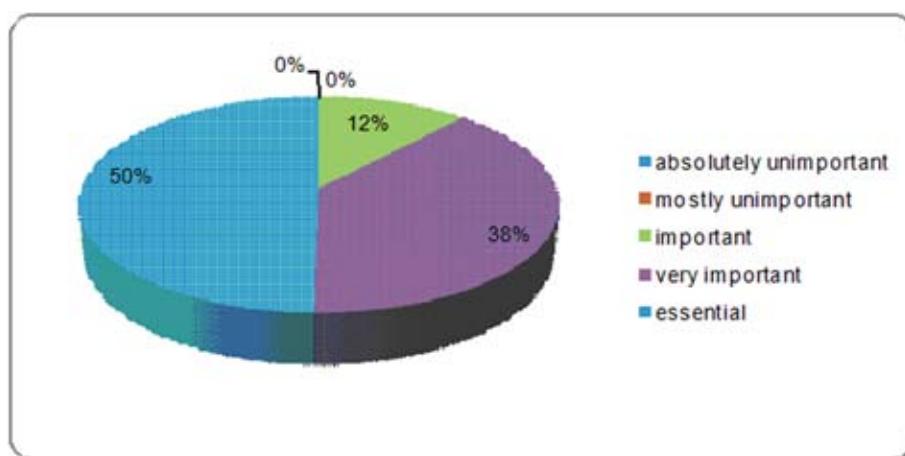


Source: Authors' research

**Chart 2    Ways of defining market research activities in certified companies according to the period of certificate possession**



Source: Authors' research

**Chart 3 Importance of information about consumers' requirements and satisfaction needed for the successful management of business processes in certified companies**



Source: Authors' research

## CONCLUSION

If Croatian companies want to adapt to new market trends and justify certification of their quality systems, they need to implement and detain consumer focus philosophy in all their business processes and activities. For that reason they necessarily have to develop the market research activities that provide important information on consumers' requirements and satisfaction, which are essential for effective business process management and their business in general.

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# HOW TRANSNATIONAL COMPANIES ARE AFFECTED BY GLOBALIZATION

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## Abstract

*Globalization is both a highly dynamic and contested process. The complaints, coming from different parts of economics and life are often ignored by results. For many people and companies, globalization is that force spreading the Good, as ideas and liberties. The pragmatic orientation towards a better society is on the way to change concepts and behaviors while political movements still go only on global products to ease debt burden.*

*People and countries face a multitude of specific problems of economic progress and social development, regardless their geographical position or GDP level. Other problems deepen the natural environment whose management extend beyond national borders and require extensive cooperation of states, within suitable international relations.*

*Transnational companies still make high profit controlling large shares of global capital, potentially used to increase production. They generate the bulk of goods and services exports worldwide, providing or closing the access to different foreign currency and products. They are important suppliers of technology and know-how, strategic knights and pawns enhancing local performance and environmental competitiveness.*

*The main question today is centered of their future and role. Therefore our paper runs along with a holistic approach of the potential TNCs role in robust development beyond people's dreams, convictions and efforts boundaries for accounting the real value and profit.*

Globalization, as a complex and intensively active process allow for alternative tools to understanding not only the world elements as a developing trend but also regional economies, societies, and cultures - as living parts of a highly integrated super network (of ideas communication and transportation patterns, and trade). The term of globalization, usually and mostly associated to capital labor and trade refers less to the dynamic integration of awareness and responsibility of nations, economies and companies inside the global game plays in some classical ways: trade, foreign and investment, capital and labor flows, technological and military presence. Behavioral education and its influence is less considered and exemplified. Therefore we take herein in mind that the term can also refer to transnational circulation of ideas, languages, traditional culture and behavior through acculturation, as an aspect, gone through the global.

Undoubtedly other definitions may report to a broad term referring to international economic activity and social relations as extended integration, interconnectedness or interdependence. Beyond international trade and investment increment, free international production and capital flows, labor movement and migration, products, services and technology usage, exchange of awareness as part of knowledge gives different and complex directions for change, in the above mentioned fields and activities. The results can definitely differ as new potential patterns of strategy and criteria to consider for a better and robust development. Fresh

dimensions of the same globalization process of production-encouraged by winner comparative cost advantages should rely on the fact that big is not always best but could become sounder if capitalized added value is calculated and required. Narrowly seen from the markets-access corner, it watches over commercial policy and trade barriers. But other opportunities, linked to people awareness and responsibility and a new behavior and capitalized added contributions are always behind finance, information and knowledge.

No matter how contested it is, despite the complaints, no praises are missing. Globalization is taken as a good force when spreading the good ideas of democracy, a better civil society and political movements' gone global when products can ease the debt burden. Whether globalization process allows some people to get better conditions of life and work, and bring economic and political benefits to countries that know taking its advantage, other people and nations face the hard side of it {Costea, 2009]  and are obliged to abandon the idea of that market able to save the nation and solve their problems. With beneficial effects on democracy, some national elites succeeded to replace dictatorship [Stiglitz 2005] but not that one of international finance. Along with the current complex situation, lot of countries had to reconsider their sovereignty, when debts were talking into consideration.

Among the voices against globalization some do not provide to their countries anything else but a deepening social polarization. That sort of economic growth leading to urbanization gives the farewell to retailers operating in international arena that might feel devastated when commercial giants carry on all business at a larger scale.

It is true that most of researchers find that the emerging countries got a big chance opening their gates to the entire world. But most of them did it slowly and according to old formulas and traditions keeping them inside the same cage of economic discomfort. It was that theoretical development happened horizontally able to hide the structural weaknesses of the long run  Costea, Angheluta, 2010]. Those countries have benefited from globalization to boost exports, and consequently, to develop at a faster pace. Sometimes that fast step shows the economic osteoporosis faster than believed. They developed beyond protective public care, ignoring to sustain the collateral sides of business: people education, legal economy

strengths, strong legal frame consistency and maturation. Some countries sustained the big companies to get more capital and create new jobs. Keeping a close eye on them we noticed that lot of the efforts remained unrewarded because they were done in the wrong direction.

China has recently eliminated the trade barriers at a quite of distance from the open market orientation time boarded by a very fast step of economic development.  They got the big side of the global pie but when quality is considered things are not entirely spoken yet.

The crisis that everybody enjoys to talk about touched both rich and poor countries and is generally evaluated as the largest after 1929. Very few people are able to see that its roots are not at all global but very local and caused by lack of potential in understanding the right need of economic education and right direction of development.

Now people notice that developing economies are driving recovery but serious risks to the global economic outlook are still in place. The World Economic Situation and Prospects for 2011, as specialists emphasize are that the risks of high unemployment rates, premature withdrawal of policy stimulus, currency wars and a renewed widening of global imbalances darken the global outlook. People keep talking about fragile recovery. It is told that the world economy retrieval has started since middle of 2010; therefore active, coordinated fiscal and monetary measures are needed to reinvigorate it and help boost worldwide employment. What people forgot is that there is no possible long term development beyond real contribution in production and infrastructure, only based on financial and monetary tools. A slower growth might be expected at any time in 2011 and 2012. It will hardly come no matter how much the UN baseline forecast will show for growth of world gross product (WGP) - 3.1% in 2011 and 3.5 % for 2012. Figures like shows were on the TV screens and journal pages every week . They change even more rapidly than the seasonal fashions In such context, several policy challenges are to be discussed in greater detail, with the main purpose of being implemented as quickly as possible, including the optimal design of fiscal policies as well as the coordination between industrial on one side and fiscal and monetary policies on the other side; the provision of appropriate assistance should take the place of necessary support for

both developed and developing countries when addressing the fallout from the crisis and the coordination of policy measures at the international level. International coordination and policy of transnational companies will be essential for the recovery to work. In a pessimistic scenario of fiscal adjustment and prolonged currency volatility, Europe, currently projected to recover very slowly could be facing a double recession. Similar fates of either stagnating or falling back into recession could be awaiting Japan and the United States. Further the UNCTAD for recovery prospects some other key challenges are to be considered [2011]

1. understand and develop a  fiscal culture and  new patterns for getting and using the right stimulus packages to avoid the political insertion in the economic life and the hidden economic proliferation;

2. Redesign public assistance and financial stimulus leading to the right sense of application of measures that directly support job growth, reduce income inequality and strengthen sustainable production capacity;

3. Build a  sound synergy between the public role of State and TNCs need for contribution in all societies they develop any activities allowing the to get huge profits;

4. Ensure the environment for a stable and complex evolution (economic and societal) avoiding financial engineering bringing developmental deficits;

5. Find complex ways to build not only credible and effective policy coordination but also a sound  global economy and outstanding unique into its diversity society

As transnational companies emerged along with globalization, and their success is due to this freedom acquired within the globalization process, they got not only the cream of business but also the empower of the it. Thus they easily captured the opportunities created by divergent, unbalanced government policies, strategically positioning themselves gain control from both cross-geographic labor arbitrage and the consumption growth. Their profits rise with the opportunities to serve the changing needs of business and civilians all-around the world. If things remain the same, the world will get the disastrous consequences of an economic lifting unprofessionally done and this

new face of it will ruin the entire world. At present there are signs that some of TNCs understands the needs and act accordingly giving to the ethics and social aspects a greater importance and sustaining.

The other, contrarily they reduced the total number of employees during the crisis and the number of affiliates in host countries too, which deepened in some countries can host critical economic situation. These measures are specific transnational corporations as their primary objective in such circumstances is to withdraw in the mother country, where possible try to keep the number of affiliates, or even increase it if possible.

Corporate are still strong, are well infiltrated abroad, leading the many other economies in the world who benefit from many advantages (income, commodities, economic relations), but the outcome can not be guaranteed by anyone. This crisis has shaken the large corporations and imposed them to change behavior, eliminating the negative sides and effects mainly against the developing countries where their subsidiaries are. This way, the future uncertainty can touch them at any time, as strong as at anytime other company.

| Citi Group Inc, USA | Assets | Employees | Foreign affiliates | Affiliates in host co |
|---|---|---|---|---|
| 2006 | 1884318 | 337000 | 506 | 75 |
| 2008 | 1 938 470 | 322800 | 723 | 75 |
| 2009 | 2 002 213 | 263000 | 601 | 75 |
| GE.Capital Co, USA | | | | |
| 2006 | 543665 | 81 000 | 785 | 51 |
| Allianz Se GE | | | | |
| 2006, | 1 357 702 | 166505 | 613 | 48 |
| 2008 | 1 367 062 | 182865 | 612 | 52 |
| 2009 | 822418 | 151800 | 444 | 58 |
| Bnp Paribas France | | | | |
| 2006 | 1 898 186 | 132507 | 517 | 49 |
| 2008 | 2 969 315 | 173188 | 425 | 48 |
| 2009 | 2 948 928 | 201740 | 596 | 61 |
| Soc Gen France | | | | |
| 2006 | 1 261 478 | 115134 | 298 | 50 |
| 2008 | 1 616 599 | 160430 | 345 | 53 |
| 2009 | 1 467 086 | 160144 | 277 | 57 |
| HSBC Holdings PLC UK | | | | |
| 2006 | 1 857 520 | 300920 | 574 | 47 |
| 2008 | 2 527 465 | 331458 | 683 | 54 |
| 2009 | 2 364 452 | 309516 | 485 | 54 |
| Ubs Ag Swiss | | | | |
| 2006 | 1 961 327 | 78 140 | 293 | 33 |
| 2008 | 1 926 209 | 77 783 | 432 | 35 |
| 2009 | 1 290 410 | 64 293 | 602 | 38 |

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# PERCEIVED VALUE IN THE CULTURAL SERVICES

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*Abstract*

*The perceived value is the essential result of the marketing activities and is a first-order element in the relationship marketing. A number of studies in the marketing literature have focused on the customer perceived value but these did not pay attention to investigate the cultural services. The main objective of our exploratory research is to reveal the relationship between the perceived value and the purchase and the consumption of the cultural services. First, we study the concept of the perceived value evaluating two approaches to the conceptualization of the perceived value. We follow the approach of the multi-item measures for the development of the customer perceived value. In order to respect this methodology we carried out a qualitative study, six mini focus groups were conducted among adult consumers in a Hungarian Region. The most important conclusions of our qualitative study are that the customers have a holistic evaluation of the perceived value of the cultural services, and the functional expression appears clearly against the emotional ones relating to the contact personnel and the installations of the provider, and to the cultural product. Finally, we give the frame to the quantitative research.*

*Key words: Perceived Value, Cultural Services, Focus Group, Cognitive, Affective*

## Introduction

Providing value to the consumers is relevant to the business organizations, the society and the consumers. From the consumer's point of view, they can appreciate the economic benefits (Peterson, 1995), obtaining a service better adapted to their needs, or additional services (Gwinner et al., 1998; Rust et al., 2000). Another type of benefits to the consumers is the social benefits arisen from establishing a relationship. Previous studies have shown that keeping a consumer can be up to ten times cheaper than attracting a new one (Heskett et al., 1990), so companies have to make efforts retaining the consumers, attempting to minimise their migration. At the same time, the customers who are satisfied with the relationship generate a trust (Goodwin and Gremler, 1996).

In this sense, a strategic change is necessary within organizations, orienting management around the value perceived by the consumer, in order to carry out successfully a relationship strategy (Ravald and Gronroos, 1996; Rust et al., 2000). The first step for this consists of knowing what perceived value really is, how customers form their valuations, and how it can be measured in order to use it as an instrument of management.

Zeithaml (1988, pp. 14) has suggested that perceived value can be regarded as a "consumer's overall assessment of the utility of a product (or service) based on perceptions of what is received and what is given." The most common definition of the value is a value-for-money conceptualization. Other authors have also suggested that viewing value as a trade-off between only quality and price is too simplistic (Bolton and Drew, 1991).

Since perceived value has been found to be an important indicator of the repurchase intentions (Petrick, 2002; Petrick et al, 2002; Woodruff, 1997) the providers could benefit from refined measures of the construct. Valid and reliable measures of perceived value would allow for comparison of value between service programs, and would allow individual providers the ability to identify the dimensions of perceived value in which they perform well or poor. Thus, the purpose of the current study is to develop a multidimensional scale for the measurement of the perceived value of a service.

In the last ten years there have been important changes in the market of the cultural industry. The cultural business has undergone changes in the

financing of the sector, changes in consumers' demand for services, technological changes, and the entry of new competitors from abroad. The cultural infrastructures, the cultural activities and the creative industries can be a major part of a region's attractiveness and a tool for its economic development. Besides, culture can be a source of the common identity, the shared values, and it influences the quality of life of the region' population. There are significant differences in the structure of household annual expenditure among the EU member states due to the different economic, cultural development and specific features in lifestyle. The share of expenditure on recreation and culture is the most notable in countries with high living standards (Austria 12.6%, Sweden 13.3%), this main group accounts for 8.5% of the total expenditure in Hungary. (Hungarian Central Statistical Office, 2009).

The aim of present paper is to explore the value perceived by the consumer in the cultural sector. In this sense we will make first step to develop the scale of measurement of the perceived value in case of the cultural activities, used previous scales namely SERV-PERVAL developed by Petrick (2002) and GLOVAL developed by Sanchez et al. (2006) in the tourism sector. Our paper is fundamentally structured in three parts. The first explains the concept of perceived value and its importance in relationship marketing. In the second part the current research is presented. The final section sets out the conclusion of the study.

## Theoretical background

This section contains the various definitions of the perceived value that have appeared in the literature during the last two decades. Conceptualisations of the perceived value are also reviewed.

## Definitons of the Perceived Value

Perceived value is an abstract concept with meanings that vary according to context. In marketing the perceived value is typically defined from the consumer's perspective. The customer perceived value is usually defined in services marketing literature as "The customer's overall assessment of the utility of a product based on perceptions of what is received and what is given" (Zeithaml, 1988. pp. 14.). According to the definition, the perceived value is based on the customers' experiences and seen as a trade-off between benefits and sacrifices (Flint et al., 2002, Grönroos, 2000) or between the quality and the sacrifices (Monroe, 1990, Ravald and Grönroos, 1996), which can be divided into the monetary and the psychological sacrifices (Dodds and Monroe, 1991). The sacrifices have originally included primarly the monetary sacrifices such as price and acquisition costs, but they have been extended to include also perceived non-monetary price and the risk of the poor performance (Liljander and Strandvik, 1993, Monroe, 1990). However, different definitions of the perceived value seem to display a variety of meanings (Woodruff, 1997, pp. 141.). Moreover, such definitons are developed according to the changes in the consumers' behaviour. Cravens and Piercy (2003, pp. 14.) argue that perceived value consists of "the benefits and costs resulting from the purchase and use of the products". Another definition of the perceived value (Iglesias and Guillen, 2004. pp. 374), suggest that perceived value represents "an exchange of what is received and what is given". Keller (1998, pp. 178) is of the opinion that "consumers combine quality perception with cost perception to arrive at an assessment of the perceived value". We collected definitions from different authors concerning the customer perceived value. These definitions are summarized in Table 1.

**Table 1. Definitions of the Perceived Value**

| Definition | Author(s) |
| --- | --- |
| The customer's overall assessment of the utility of a product based on perceptions of what is received and what is given | Zeithaml, 1988. pp. 14. |
| A tradeoff between the quality or benefits they perceive in the product relative to the sacrifice they perceive by paying the price | Monroe, 1990. pp. 46. |
| Consumer choice is a function of multiple consumption values. These are functional, social, emotional, epistemic and conditional value. The consumption values make differential contributions in any given choice situation. The consumption values are independent. | Sheth et al., 1991. pp. 160. |
| A customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goal and purposes in use situations | Woodruff, 1997. pp. 142. |
| The consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given | Sweeney, 1999. |
| The customers' assessment of the value that has been created for them by a supplier given the trade-off between all relevant benefits and sacrifices in a specific use situation | Flint et al, 2002.. pp. 171. |

## Conceptual Framework of the Perceived Value

In the literature there are two main approaches to the conceptualisation of the perceived value. The first one defines the perceived value as a construct devided two parts, one of the received benefits (economic, social and relational) and another of the made sacrifices (price, time, effort, risk and convenience) by the consumer (Grewal et al., 1998, Cronin et al, 2000). According to the definition by Zeithaml (1988) the perceived value arises from the personal comparison of the obtained benefits and the made sacrifices. Consequently this concept is highly subjective and personal one (Parasuraman et al, 1985). Besides it is a utilitarian perception which contains the components of the benefits and the sacrifices of the consumers. The benefit component that a consumer receives from the purchase includes the perceived service quality and the psychological benefits (Zeithaml, 1988). The sacrifices are the monetary and the non monetary components: price, time, energy, effort, inconvenience. Thus for the consumer to purchase the service or to purchase it again it has to be delivered with value either by incorporating benefits or by reducing the sacrifices.

The second approach is based on a multidimensional construct of the perceived value (Woodruff, 1997, Sweeney and Soutar, 2001, Sánchez et el, 2006). This concept includes the functional dimension and the affective dimension, examining the consumer's purchasing behaviour. The functional value is determinded by the rational and economic valuations of the consumers, and the service quality forms this dimension. The affective dimension is divided into an emotional dimension and a social dimension. Authors (Sheth et al, 1991) deal with the multidimensionality of the perceived value and recognize the cognitive and affective aspects. Sheth (1991) identified five dimensions of the value concept: social, emotional, functional, conditional and epistemic. They defined the functional value as a perceived utility of the service attributes. The emotional value consists of the feelings or the affective states generated from the experience of the consumption. The social value is the acceptability at the level of the individual's relationships with his social environment. The epistemic value is the capacity of the service to

surprise arouses curiosity or satisfies the desire for knowledge. Finally, the conditional value refers to the situational factors such as illness or specific social situations (Sheth et al, 1991). In a later study Sweeney and Soutar (2001) did not consider the epistemic and conditional dimensions. The conditional value was omitted because it arises from the situational factors, whereas the epistemic value was left out because the surprise aspect might only be apparent for hedonic products. These authors reduced the five initial dimensions to three: functional value, social value and emotional value, and they designed a scale of measurement of the value known as PERVAL. Based on the work of Zeithaml (1988) the authors divided the functional value into quality and price. These two components have different affects on the perceived value for different consumers. Consequently the perceived value scale comprised four dimensions: quality – performance, price – value for money, emotional value and social value. This scale was tested based on the consumers' perceptions of consumer durable goods in a retail purchase situation to determine what consumption values drive purchase attitude and behaviour. In different choice situations the researchers can investige the consumers' decision relating specifically to the perceived utility of a choice at buy level (buy or not buy), product level (product type A or product type B) or brand level (brand A or brand B). Their value construct was validated through the variety fields including economics, social and clinical psychology.

Some authors (Sánchez et al, 2006) developed a scale of measurement of the post-purchase perceived value (24 items) called GLOVAL in the tourism sector. This scale includes six dimensions of the perceived value. Four of them correspond to dimensions of the functional value: functional value of the establishment, functional value of the contact personnel, functional value of the service quality and functional value price. The two remaining dimensions refer to the affective dimension of the perceived value: the emotional and social value.

According to Petrick (2002) the dimensions of what the consumers receive from the purchasing services include the quality, the emotional response, the reputation obtained from the services, the monetary price and the behavioural price. The SERV PERVAL scale was developed by Petrick (2002) investigated to the leisure services among American consumers and was applied in other studies (Petrick, 2004.)

From the literature it is evident that authors who use the concept of value as a multidimensional one agree that two dimensions can be differentiated: one of a functional character and another emotional or affective. The factors in the functional dimension include value for money, versatility, (Sweeney et al, 1999), service quality (Sánchez et al, 2006), non monetary sacrifices (Sweeney et al, 1999, Petrick, 2002) and price (Sweeney and Soutar, 2001, Petrick, 2002). At the same time the affective dimension contains the feelings or emotions generated from the services. (Table 2.)

In addition many studies have concluded that service quality positively affects the perceived value (Cronin et al, 2000, Petrick, 2002, Sanchez, 2006). The connection between the perceived value and the consumer satisfaction or future intentions debated in the service marketing literature. The literature seems to suggest that satisfaction depends on the perceived value (Anderson et al, 1994), and the future intentions are determined in part by perceived value. However Sanchez et al (2006), Sweeney and Soutar (2001) argue that perceived value is a positive predictor of the consumer satisfaction. Bolton and Drew (1991) link the repeat purchase intentions to the perceived value in their study of continuous telephone service. They have found that the service quality is a direct antecedent of the perceived value which in turn is a direct driver of the purchase – repurchase intenrions. Previous empirical results indicate that consumers' favourable behavioural intentions are positively influenced by their perceptions of the value (Grewal et al, 1998, Petrick 2002, Zeithaml, 1996). Moreover empirical findings (Oh, 2000, Cronin, 2000) point out that behavioural intention is a consequence of the satisfaction.

## Current research

We introduce our research is divided into four parts. First, we look over the consumption construction of the cultural activities in Hungary. Second, we formulate the topical questions. Next, there come methodology of empirical study, and our results.

**Table 2. Dimensions of the Perceived Value**

| Dimensions | Author(s) |
| --- | --- |
| Functional, emotional, conditional, social, epistemic | Sheth et al, 1991. |
| Functional, emotional | Grönroos, 1997. |
| Quality, price, acquisition, transaction | Grewal et al, 1998. |
| Functional-quality, functional-price, emotional, social PERVAL | Sweeney and Soutar, 2001. |
| Quality, monetary price, behavioral price, emotional, Reputation SERV-PERVAL | Petrick, 2002. |
| Functional, emotional, social GLOVAL | Sanchez et al, 2006. |

## Consumption of the Cultural Services in Hungary

In general the empirical studies analyse the cultural consumption based on the level of the person and the household (Bukodi et al. 2006, Gfk Hungary and TÁRKI, 2008). These studies focus the termporal change, the intensity of different type of the cultural activities and concentrate the main differences explained from social and wealth status.

In case of the household we have to emphasize the impact of the urbanization grade from the place of residence point of view. The households in capital and county seat are above the average, but the households in villages are below the average in point of the cultural products. In the personal consumption the differencies on the score of the place of residence are considerable. In case of the personal cultural consumption we can take into account the differencies between the inside (at home) and outside (out of home) cultural activities. According to the data (Bukodi et al, 2006) the outside cultural activities are dependent on the consumers' ages. The persons with 31-40 years of age most go to the movies, theatre, concerts and the outside cultural activities are decreasing late in life, people follow domesticity. Besides, the consumers' consumption of the cultural products is increasing to advance up on the educational levels. Authors conclude that in Hungary the cultural consumption has a significant relationship with the social status, the education level, the occupation and the income. Therefore the consumers' cultural lifestyle is associated in the dimensions of the social status (Table 3).

The authors acknowledge that lifestyle of Hungarian population determines its consumption (Gfk Hungary and TÁRKI, 2008). The elite consumers purchase more expensive and pre-organization required cultural services. At the same time the middle cluster prefer the simple easy accessible cultural activities that need least resources. There are in special situation the hedonist young people because they are the first place in the consumption of the simple and easy accessible culture, but they are above the average of the high quality and expensive culture supposedly due to the university lifestyle. They differ from the "low cluster" who rejection the high quality culture.

In all fields from trade to culture we see the rise of network relationships between organizations, groups and individuals. Moreover, the rise in cross-border communication will also erode the operational authority and the competence of the nation. Experts' opinions vary as to whether this development is negative or positive. The digitalisation of the culture is an ongoing process with which all cultural organisations are confronted. Nowdays the culture is a visual one owing largely to the dominance of television, film and advertising.

**Table 3. Frequency of the cultural activities per one consumption unit by the social-economic characteristics of the reference person in Hungary**

| Social-economic characteristics | Number of the cultural activities in the past 12 months (occasion) | | | | |
|---|---|---|---|---|---|
| | Movie | Library | Theatre | Museum | Concert |
| **Gender** | | | | | |
| Male | 6.4 | 11.6 | 3.4 | 2.8 | 2.6 |
| Female | 12.0 | 8.2 | 2.9 | 2.4 | 2.4 |
| **Place of residence** | | | | | |
| Village | 5.7 | 11.7 | 2.2 | 2.0 | 2.9 |
| Town | 5.7 | 14.7 | 2.8 | 2.8 | 2.6 |
| County seat | 5.1 | 11.1 | 3.4 | 2.6 | 2.5 |
| Capital | 7.4 | 8.7 | 3.8 | 2.9 | 2.0 |
| **Age** | | | | | |
| 30 age or under 30 years of age | 7.5 | 13.3 | 3.1 | 2.5 | 2.1 |
| 31-40 years of age | 4.2 | 8.7 | 4.2 | 3.0 | 3.7 |
| 41-50 years of age | 3.4 | 10.2 | 2.7 | 2.4 | 2.0 |
| 51-60 years of age | 2.6 | 10.2 | 2.7 | 2.5 | 2.3 |
| 61-70 years of age | 1.9 | 12.2 | 2.6 | 2.4 | 2.4 |
| 71 years of age or older | 1.2 | 19.7 | 2.5 | 2.1 | 2.8 |
| **Education** | | | | | |
| Below primary level | 1.4 | 13.3 | 1.7 | 1.4 | × |
| Primary education | 6.4 | 12.2 | 2.7 | 2.5 | 2.3 |
| Vocational education | 4.8 | 7.2 | 2.0 | 1.9 | 3.2 |
| Secondary education | 7.8 | 9.3 | 3.3 | 2.5 | 2.0 |
| Grammar school | 5.8 | 14.0 | 2.9 | 2.3 | 2.2 |
| College level | 4.7 | 11.1 | 4.0 | 3.0 | 2.5 |
| University level | 5.7 | 18.8 | 4.9 | 4.4 | 2.9 |
| **Occupy** | | | | | |
| High-middle managers | 4.6 | 10.1 | 3.0 | 2.2 | 2.1 |
| Professionals | 4.1 | 19.5 | 4.5 | 4.2 | 3.1 |
| Clerks | 5.9 | 8.0 | 3.1 | 2.5 | 2.5 |
| Sole proprietorship | 5.6 | 11.0 | 3.8 | 2.9 | 1.4 |
| Skilled workers | 5.0 | 5.3 | 2.1 | 2.2 | 3.1 |
| Unskilled workers | 4.3 | 8.6 | 1.9 | 1.7 | 1.8 |
| Agricultural workers | 6.4 | 7.3 | 2.6 | 2.1 | 1.4 |

Researchers oppose TV watching to the cultural activities carried out of the consumer' house and they found that five-six percent of the population not at all wath TV programs. They found that place of residence and the occupation influence the average length of time to watch television on workday and at weekend. The frequency of TV watching is above the average in county seat and the non workers less watch television on any days of the week than the workers. The results show that relationship between the watching television and the age is formed U shape on workdays under 30 years of age and older than 60 years watch much more television. At the same time the middle aged fall into line with the seniors at weekends. The study found that consideration the length of time to watch TV is decreasing along the hierarchy basic – middle – high education.

Recent study (Csepeli – Prazsák, 2008) oriented to explore the relationship between the Internet and the culture at Hungarian Internet users. According to their results there is association the kind of culture understanding, the frequency of Internet usage, the mode of the Internet usage, and the supposed impact of the Internet on the culture. These authors recognized four clusters based on the culture understanding: popular culture approach cluster, high culture approach cluster, cultural nihilistics cluster, and heterogeneous culture approach cluster. The consumers with popular culture approach and with heterogenous culture approach put more significance down to

the online activities then the consumers with high culture understanding. In virtue of the attitude to the Internet it was established a new variable. They found two goups first is the net-citizens who rarely use Internet and they do not apply much services, second the net-tocrats who often apply it and are widely used. The results show the more comprehensive was thought about the culture by the consumer the more positive impact of the Internet on the culture. They conclude that the relationship between the Internet and the culture not so problematic for the Internet users than other people think about it.

In order to explore the refined structure of the cultural consumption we have to assign the further direction in this paper.

## Research Questions

In regards to services the repurchase intention and the consumer loyalty is often predicted solely by measures of the consumer satisfaction and the service quality (Petrick, 1999). Further, just because a consumer is "satisfied" with a service, does not necessarily mean the service is a good value. It is quite possible a consumer who is very satisfied with a service, may consider it a poor value if the costs for obtaining it a re perceived to be too high. On the contrary, a moderately satisfied consumer may find a service to have good value, if they believe they receive good utility for the price paid. Zeithaml (1988) argued that some consumers perceive value when there is a low price; others perceive value when there is a balance between the quality and the price. Thus the components of perceived value might be differentially weighted for different consumers.

Our research aims to explore the post-purchase perceived value of the cultural activities.

Research questions are following:

• How do the consumers interpret the culture?

• How the consumers evaluate the overall perceived value in cultural activities?

• What are the components that constitute the consumers' evaluation of the perceived value in the cultural services?

If we understand in depth what perceived value is we will be able to relate it to other important variables in the management of the consumer relations.

## Methodology of our Research: Qualitative Phase

In this exploratory study we utilised focus groups as our principal research method. The qualitative research is particularly useful to explore the consumers' opinions and to gain preliminary insights into the research phenomenon. For egzample, Sweeney et al. (2001) used six focus groups to discuss the consumers' ideas and opinions held about the consumption value. Differenc products (clothing and durable goods) were used to stimulate the participate thinking in different directions.

In April of 2010, we conducted six mini focus groups among the adult consumers in a Hungarian Region. We decided for applying the mini focus group because it can cover the dynamics of the group interview by active participation of the four-five members in the conservation. In addition we considered important aspect from the research topic front of view to establish the homogenous groups in wich it is a little social difference and the group members speak their mind ahead of the attendance. Besides, the practical consideration assisted the mini focus group. In general, it was very hard to make an appointment for the group interviews because of the group members' work. Furthermore, the mini focus group was favorable for the moderator because the conservation and the group members' reactions could be managed, controllable, and there was also understood the process of the creation of the individual opinion.

We determined the target population for the selection of the group members, we examined the consumer' perceived value associated with the cultural services in one region (Western Transdanubia) west part of Hungary. The limits of time and financial accounted for the narrowing of our primary research. We relied on the broader surraundings in case of the asking for the group members of the six mini focus groups and we took the contact with them by informal way. We composed an interview guide for the conducting of the small group conservation and I personally carried out them in the interest of standardized construction. We summarized the demographical features of the members of six focus groups in Table 4.

**Table 4. Group members of the focus groups by Demographics**

| Age groups | Place of residence | | |
| --- | --- | --- | --- |
| | Population of county seat | Population of other towns | Population of villages |
| Young aged | 1 group secondary and high school | 1 group primary and secondary school | |
| Middle aged | 1 group secondary and high school | | 1 group secondary and high school |
| Senior | | 1 group secondary and high school | 1 group secondary and high school |

We paid attention to the selection of the group members that different age's persons got into the distinct groups and the residents from all of the county seats, the other cities and villages represented. The consumers' education influences the attitude to the culture, the culture friendly or culture averse behaviour therefore we insisted particular the educational qualifications.

## Qualitative Research Results

Because of lacking research about the perceived value in the cultural industry it seems necessary to complete the theoretical review with a qualitative research.

The topic of the focus group interviews can compartmentalize three main sections, these are the following:

• The meaning and the role of the culture is in the life of the group members

• The aspects of the evaluation and the decision are in the consumers' cultural activities

• The impact of the cultural activities is on the group members and the values associated with cultural services

First the focus group members were asked some questions to discover the concept of the culture in their life. The first thing thought of a hearing the word "culture": theatre, museum, exhibition, cinema, library, performance, entertainment, recreation in high standard, talking with people of different cultures, chatting evenings, wine taster,

self-education, concert, folks art program, dancing party, reading, religion. These words show that culture is expressed in many different types on the one hand the classical cultural services and providers on the other hand the entertainment and to spend spare time with relatives, friends at home or out of home. After then we collected information about the most important culture related activities of the group members; besides the date and occasion they met first with them.

Next consumers were asked which factors influence their culture related activity. The group members' answers have resulted more main factors: time, money, accessibility, age, season, company, transport modalities, school, and hobby. There were two opposite opinions about the time: "Spare time, work – he has opportunity in the evenings and over the weekend." "There is time for that she wants." In general the money is important for the consumers: "…principally the price, circumstances, and the purpose determine…" "It is not cheap the high standard culture." One person lives in a town where there is not good theater; other person lives long distance from the theater of the town. At the same time that lives in big town, there are more opportunities. As seniors, pensioners do not travel too far. Most of them do not like to relax alone; they go with her family, or friends. Some of them spend their spare time solo or in society, too. The pupils often have to collect themes for homework in library.

We asked the group members to speak about the aspects taken notice for evaluation the different cultural services. The most important is the price (student boy, pensioner), the quality, the quality-

price ratio of the cultural service, worth the money, comfort, personnel attitude, personnel is nice, friendly, polite, helpful and do its work well, reputation, reliability. The reputation is fairly important because it contributes the confidence, the person who received and the creation that appreciated at the given industry, their cultural services appropriate. The discount is not important, no object for some of group members. The different cultural activities were used in each focus group to stimulate participants thinking in their evaluation process. The consumers make an overall post purchase evaluation taking into account features relating both to the cultural product and to the provider that delivered it. Besides they evoked positive and negative experiences on the score of their purchase. In this phase of our research we revealed the consumers' opinions about the consumption value. It became clear why the participants valued a cultural activity a greater range of the value items. Items of the value generated from the attributes of the cultural product and the cultural corporation. The consumers were asked why these attributes were important and made benefits for them in cultural activities.

In order to explore the emotional expressions we encouraged the participants told us how the cultural activities had an effect on them. The focus group members told about their feelings, experience ("pleasure, filling up with knowledge, energy for daily program, splitting from the weekday, after work we can do another thing, and one mention repeatedly through years, appreciation, it is a high feeling") and social environment ("to participate on programs give opportunity to meet and to talk to friends"). After the positive experience the emotional affection for one evolves, the consumers like and come back; they like to go to the habitual places where they are known.

The results of our qualitative study denote that the consumers value all elements of the cultural activities which influence on their decision and consumption experience. This approach confirms the experiential nature of the cultural services and the perceived value. The post-purchase perceived value evolves after the decision to purchase of the cultural service and the consumption of it. Satisfaction with most of the parameters to the cultural service enhances the repetition but does not guarantee it. We conclude that consumers have a holistic evaluation of the perceived value to the cultural services and the functional dimensions

distinct from the emotional ones. Among the functional dimensions we can identify the quality of the cultural service, the price of the cultural service, the non-monetary sacrifices, equipment of the cultural provider, and professionalism of the contact personnel. The emotional dimensions contain the behaviour of the contact personnel, the consumers' feeling to the cultural provider, and the affects of the cultural service. Finally the community and the reputation are to the social variable.

On the basis of this exploratory phase we developed an initial scale of measurement of the perceived value. Besides we applied SERV-PERVAL scale developed by Petrick (2002) and GLOVAL scale validated by Sanchez et al. (2006) to measure the overall perceived value in tourism sector. We adapted the previous scales to the specific characteristics of the cultural sector. Our initial scale consist 44 items; 19 functional items (five relating to the cultural provider equipment, five relating to the cultural service quality, four relating to the price of cultural service, five relating to the professionalism of personnel), 16 emotional items (four relating to the cultural provider, eight relating to the contact personnel, four relating to the cultural service), and 9 social items (five relating to the provider, four relating to the cultural service).

The qualitative phase of our empirical research helps for preparing and conducting the quantitative research. Following the appropriate method we make a judge to refine the initial scale of measurement of the perceived value in the cultural activities. We ask experts of service marketing and master students on marketing course to evaluate the items obtained from the focus groups and adopted scales. The target population of our quantitative research is consumers participated in cultural activities more than 18 years of age in two Hungarian regions. One region is situated in the middle of our country and the other one is in west part of Hungary with many cultural organizations. The planned sampling method is random to use quotas for towns and villages and stratified by age. We have to formulate the hypoteses to our research questions. After this we construct the questionnaire and make a pre-test to ensure the content validity of the perceived value scale.

## Conclusions

In Hungary the majority of families primarily decreased the cultural expenses in consequence of declining the living conditions. It was contributed to this that the prices of the cultural services run high because of the operational costs. Besides the structure of the cultural consumption was changed but there remains a need for experiencing an exhibition, a live performance by a symphony orchestra, or by a theatrical company.

In our paper the post-purchase perceived value has been studied to measure the overall perceived value of the cultural activities where the consumer evaluates not only the consumption experience but also the purchase experience. Our initial scale considers the perceived value of the service acquired, together with the perceived value of the provider equipment and of the provider personnel. The scale takes into consideration functional and affective aspects to measure the overall perceived value. The functional aspects include valuations of the equipment, the contact personnel, the quality of the cultural service and the price. The affective dimension is divided into an emotional dimension (feelings) and a social dimension. Future quantitative study could result the reliability and validity of the perceivde value scale including the components of the perceived value in case of purchase and consumption of the cultural services and to understand how the consumers evaluate the overall perceived value

In cultural product context satisfaction is a comparison of the pre-purchase expectations and the post-consumption experiences. The perception of the cultural product quality and value affect satisfaction furthermore the satisfaction influence the consumer' behavioral intentions. A better understanding of these relationships can provide cultural managers insight into knowing consumers'experiences and behavioral intentions, and adjust their cultural services to meet the consumers'needs.

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# WEB 2.0 PROMOTION TECHNIQUES IN HOSPITALITY INDUSTRY

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## Abstract

*Changing economic conditions, new forms of consumer behaviour, and especially new technologies are likely to cause the emergence of new or growth of existing hospitality market. In developed economies increasing attention is given to the study of the role of new technologies in the field of hospitality.*

*It is necessary to point out that technological progress is a key factor of modern hospitality industry. Web 2.0 technology has changed fundamentally the very nature of e-marketing in hospitality. General characteristics of Web 2.0 promotion tools are openness, freedom and collective intelligence. Most European hotels on the market have started developing e-promotion strategies for the web. As a result, e-marketing is growing at a dramatic pace and is significantly impacting on tourists.*

*Following the above assumptions the paper will analyze the available data on primary level of marketing opportunities using the technology in hotel business in Croatia, using scientific methods of web quality evaluation, analysis and synthesis, comparison and compilation. As a result, there is a need for the introduction of new web 2.0 promotion strategies in order to increase the competitive advantage of hotels. Also, the paper will present future directions and suggestions which could develop e-promotion strategies in hospitality industry, especially using Web 2.0 technologies.*

## Introduction

Modern Internet technology has changed fundamentally the very nature of marketing, and especially, promotion in hospitality. Traditional promotion activities are being modified into their electronic equivalents which gives rise to an entirely new and particular form of e-promotion in hospitality. (Law et al., 2004).

The rapid evolution of the Internet and the World Wide Web in the 1990s as a means for the global sharing of information has opened up a whole range of new techniques in promotion practice. The Internet serves as a new promotion channel for e-travellers and suppliers of hospitality products and services.

Promotion in hospitality in the very complex environment becomes increasingly difficult without effective media considerations, and planning strategies. It is important to say that technological progress and its applications are key factors in creating competitive advantage in the modern hotel business. The Internet, as the most significant technological phenomenon today, provides hospitality operators with completely new competitive promotion opportunities, which makes the main idea of this paper.

## Promotion and Web 2.0 Terminology

Given that the hospitality operator is the infrastructural base of tourism and travel in a broader sense, e-promotion in the hospitality market should be viewed in the context of these phenomena.

When considering the e-marketing scene at this time, it is possible to distinguish the following terms: e-promotion and Web 2.0.

As one of the elements of marketing mix promotion has an important place in hospitality industry. Because of intangibility and secluded place of purchase and consumption, it is necessary to create a composite hospitality product to present to the final consumer. Promotion involves disseminating information about a hospitality product, hospitality product line, hospitality brand, or hospitality company.

E-promotion is a cross-functional process for planning, execution and analysis of communication focused on attracting, maintaining and multiplication of the number of clients on the Internet. Using innovative technologies, e-operators in hotels and restaurants can improve efficiency and effectiveness of traditional communication mix.

The term Web 2.0 is associated with web applications that facilitate interactive systemic biases, interoperability, user-centered design, and developing the World Wide Web. A Web 2.0 site allows users to interact and collaborate with each other in a social media dialogue as consumers of user-generated content in a virtual community, in contrast to websites where users (prosumers) are limited to the active viewing of content that they created and controlled. Web 2.0 is about revolutionary new ways of creating, collaborating, editing and sharing user-generated content online. (Wikipedia, 2010).

## Impact of Technology on Promotion in Tourism and Hospitality Industry

E-promotion is a cross-functional process used for planning, execution and analysis of communication aimed at attracting, maintaining and multiplying the number of clients on the Internet. By using innovative technologies, operators in tourism and hospitality industry can improve both effectiveness and efficiency of the traditional offline communication mix. The techniques and media of modern marketing communication have contributed to accelerated obsolescence of traditional forms of mass communication. The concept of e-promotion as a form of integrated marketing communication has been developed, where new communication technologies make it possible for marketing experts to avoid the problem of distance from the buyer, caused by long distribution chains, market internationalization and focusing on one-way forms of marketing communication, such as advertising. New technologies make it possible for operators to establish direct connection with the buyer, thus creating interaction and relationship with them. Interactive media provide an opportunity for marketing experts to establish dialogue with consumers, unlike traditional media which only support one-way and unfocused communication from operators toward end consumers. (Ruzic, et al, 2009)

Promotional activities on the Internet use all the phases of the marketing process of tourism and hospitality industry. It is necessary to create pre-purchase interest before customers decide to set out on a journey, because the product of tourism and hospitality industry should be made virtual and brought closer to the potential guest as much as possible. The time that guests spend in the facility itself can also be used to provide many additional services, and tourists can be informed about such services through the Internet. Finally, the Internet provides the possibility for promotion of numerous post-sale services and an opportunity to disseminate promotional ideas for the purpose of creating loyalty and potential repeated purchase. Owing to interactive technologies, e-marketers are able to communicate with and satisfy each individual consumer.

The development of communication relationship based on the Internet technology provides exchange of information between operators in tourism and hospitality industry and guests, thus making it possible to assess progress, adjust the set goals and marketing business operations in variable conditions. Basic tenets connecting the integrated e-marketing communication and personalization of relationships with tourists are (Zineldin, 2000) as follows:

- Technology is an essential part of every hotel operator.

- Tourists become visually and technologically more literate and they expect the same from those offering services in tourism.

- Internet technology exerts its influence on marketing activities and relationships by having an impact on communication and coordination among partners.

- Internet technologies and systems are a foundation for development of successful relationships.

- Personalization of relationships results in large savings and reduces the need for corrections and subsequent adjustments.

- Automation of e-communication results in cost reduction and it also reduces insecurity and risks.

- Technological advancements cannot be ignored. Therefore they should be included in all aspects of marketing communications and customer relationship management.

- All participants in the value creation chain benefit from e-marketing communication and personalized relationships.

- Efficiency of relationship personalization significantly grows along with the growing use of technology.

- Under the influence of the above listed trends, theoretician Chaffey describes basic changes that have led to the shift from the traditional to e-communication (Chaffey, et al):

- A shift away from "push communication" toward "pull communication" – traditional media such as TV and radio are known as "push" media, while the Internet is a "pull" medium where consumers actively search for information.

- A shift away from monologue toward dialogue – the Internet provides two-way communication, while communication by means of other electronic media is one-way communication.

- One-to-many communication gains characteristics of one-to-one communication, when the operator promotes the product individually toward every consumer by means of a personalized message.

- One-to-many communication gains characteristics of many-to-many communication, through online groups and social networks.

- Traditional communication with lean-back interaction becomes communication with lean-forward interaction, where consumers, if they cannot find the information they have been looking for, quickly turn to competition, to other websites.

This results in new, changed habits in consumer behaviour, which is in the first place characterized by the use of the Internet as an information, communication and transaction channel. Having a look in the future, this category is in constant progression at the wider global level. Research of the European and global practice in tourism and hospitality industry evidently shows growing competitiveness of business operators whose business operations are based on the modern Internet technology.

## Importance of Web 2.0 Promotional Techniques in Hospitality Industry

The concepts of today's e-marketing complement each other to form an online marketing mix by means of a sub-element of online partnerships, which constitute the main idea of web 2.0 technologies by connecting people in a virtual environment.

Social networking has become a synonym for Web 2.0. It denotes active participation in online partnerships, i.e. groups of users with common interests gathered around an Internet service. Web 2.0 functions on the following tenets:

- Individual creation of user content available to everyone,

- Convergence of all media into one,

- Massive number of users and quantity of content,

- Participation,

- Openness,

- Interactivity,

- Focus on users,

- Spreading according to the principle of viral marketing.

Social networking is based on social software which is intended for building and controlling of social networks. Many social networking services are at the same time services for blog hosting. Social networks connect people of all kinds of interests, and the use of social networks in

business environment is currently growing. In most cases social networking services make it possible for users to create their own user profiles. Users may connect with each other if there is a social connection between them. Most often it is required that both users confirm mutual connection. Services also implement privacy controls, so that users can choose who will have access to their data or who can contact them. (Carnet, 2011).

For guests to connect into a social network, the following pre-conditions should be met (Casalo, et al, 2008):

- Trust – This is considered to be an important prerequisite, because communication risk is higher as communication does not take place face to face.

- Commitment – communication through social networks creates the feeling of attachment to the brand, thus creating loyalty.

- Satisfaction – The feeling of pleasure arising from interaction with other network users.

- Sustainability – Operators need to actively update the content on social networks to encourage users to interact. Otherwise there is a lack of interest and participation in the network fades away.

The most significant classic social networks are Facebook, My Space, Hi5, Bebo. They also find their use in hospitality industry. The following Facebook marketing activities are recommended to hotels (Hospitalitynet, 2011):

- Create a hotel profile – The first and the main step is to create a profile, selecting a name that should be closely related to or have the same name as the hotel and the place where the hotel is situated. It is also possible to include a picture into the profile, or the hotel logo or mascot. The data have to be accurate and adjusted to the real hotel data as well as to those data found on the website.

- Post an invitation to an event at a hotel, inviting friends to participate and offer special activities, discounts and rewards.

- Post some pictures and videos – Hotel staff can be used to make some videos about the hotel, its offer, interior, exterior. In addition, it is recommended to create funny albums with

photos taken at various events at the hotel and tag hotel friends so that their friends could find them more easily.

- Share new articles that journalists have published about the hotel. This is a good way of spreading good reputation of the hotel, thus maintaining the hotel image.

- Create Facebook groups – hotel marketers can create new groups related to the hotel activity in an attempt to invite friends of an already existing profile into the new group by means of viral marketing.

- Create a Facebook page. This option was added in 2009. It is a sort of a combination between a profile page and a group page, designed specifically for businesses. Facebook pages are more customizable according to user's needs, but fans of your page cannot invite their friends to join.

- In addition to promotional content, job openings can also be posted to the profile.

- Purchase of social ads in the way that these are connected to the hotel link, where it is possible to book accommodation. They can be also placed in the Facebook News Feed, which means they will be clicked on more often.

- Start a poll – Marketers are given the opportunity to analyze the market in terms of current events related to the hotel, quality of service, staff friendliness and helpfulness, etc.

- Sponsor a Facebook application – most often funny games shared among friends and posted to their profiles.

To achieve full success, the above strategies should be combined with other e-marketing strategies. It is specifically due to the above stated characteristics that other social networks have also gained wide popularity in all spheres of the human society. This applies to tourism and hospitality industry as well, which appears to be ideal for accepting web 2.0 technologies.

## Overview of Web 2.0 Techniques in Tourism and Hospitality Industry

Other most important web 2.0 social networks in tourism and hospitality industry will be presented here.

Social bookmarking is an online practice of organizing and saving links and their tagging with key words or tags so that such content could be more easily available and searchable to all Internet users. After the content has been tagged, it can be shared with other network users. There are three main advantages of using bookmarks for marketers in hospitality industry (Blizzardinternet, 2010):

- Sharing a bookmark to the linked computers, for example, within the hotel,

- Sharing a bookmark with your friends and observing and following their bookmarks,

- Sharing bookmarks with other users present in the network, where favourite web pages are marked with comments and in this way the hotel is promoted to millions of visitors.

Social Bookmarking has a great marketing potential, because it is a way for guests to "vote" for a hotel website. If a large number of visitors tag your hotel site with the same key word, there is a great possibility that this is really true. This is very important information for future hotel visitors. It is envisaged that the number of bookmarks will also have an impact on the position of the website on search engines. Search engines index sites with social bookmarks and those which are tagged by visitors on the search engine. In this way the number of visits to the site increases, based on recommendations from previous visitors or hotel guests. The most important bookmark sites should be mentioned here. In terms of optimization, Delicious is the largest and the most powerful social bookmarking site in the world. Users save over 100.000 websites a day. After logging in, a small icon is added to the user's browser, and the selected site is added to the user's profile by a single move. If a sufficient number of service users add the hotel website as their bookmark in the period of several days, the hotel will first appear on the page of the most popular bookmarks, and then on the first page, which can result in 10,000 to 20,000 visitors in several days. This process can be repeated on a monthly basis. If the hotel appears on that popular page and first page, many bloggers will notice it and, depending on the quality of the bookmark, they will write about it and provide a link. Such actions may result in hundreds of links in a few days, and this is then reflected also on the hotel rating (SEO, 2010). During the authors' search of the website, using "hotel" as the key word, the most frequent bookmarks came from websites www.kayak.com/ (19448) and www.tripadvisor.com/ (11385). The names of people who posted a bookmark can also be seen on the web pages as well as the statistics through a selected period, from the first tag.

Other services include: http://www.connotea.org/, http://www.citeulike.org/, http://www.librarything.com/, http://www.sitebar.org, http://www.furl.net/index.jsp, http://www.stumbleupon.com/, http://www.blinklist.com/, http://www.digg.com/ http://www.rawsugar.com.

Comment & Reputation services are web 2.0 services aimed at improving discussions and link conversations on the web. Every good reputation service has the following goals (AVC, 2011):

- Identification of terms and people that can be trusted by the user,

- Identification of incorrect source of data,

- Linking other terms which are relevant for user,

- Sharing user's content which is considered relevant by the user,

- Posting reputation of other user to user's profile.

The best known Comment & Reputation service is Disqus. (http://disqus.com). After opening a profile, the user can moderate comments, share them with other users as well as mark them as correct, incorrect or as spam. Introduction of profiles of hotel websites should be certainly considered in the context of hospitality industry to encourage and develop discussions that users would then share among themselves and post to their profiles. Some of the settings make it possible to reply to a posted comment or to 'like' it. Hotel image can be improved through such interactive communication and free promotion can also be provided.

Blog platforms or Weblog software (blogging software, blogware) is software which has been created to simplify opening and maintaining of

blogs. This is a specialized CMS system which supports authorizing, entering and posting of blog news and comments, with special functions for content management. It is necessary to make a distinction between blogging services and blogging software. Blogging services include Typepad, Wordpress.com and Blogger, where a third party maintains user's blog and takes care of its hosting. On the other hand, blog software is an application which is set up and maintained by the user him- or herself (Wordpress, Movable Type).

Taking Wordpress, the leading global blog platform, as an example, the search for "hotel croatia" returned only 2.243 results, which is a small share compared to the search results for "hotel", which returned 1.034.667 results. The first position under this search term is currently held by Ice Hotel Japan, while Hotel Opatija has the highest rank among Croatian hotels. Most blogging services are used free of charge. Therefore their implementation in e-marketing strategy of a hotel is recommended.

Microblogging is a type of blog service that has a limited number of characters per post. This limitation has resulted in features, protocols and behaviours that are entirely unique to microblog users. The most used global microblog is twitter.com, where the content of the message often exceeds the maximum 140 characters; in such cases we add a link to the site containing the information we want to share with our friends and spread it in this way (Wilson, 2008). If we liked someone's message very much and we think it might be interesting to other members of the Twitter community, we can Retweet or, shortly, RT. The user who created RT in this way gives credit to the user who had found great content. Of course, everybody likes their message being retweeted, because this means that their posts are smart and important not only for them, but also for the entire Twitter community. Geographic location can be currently included in the tweets, but it does not refer to a specific place, for example, a museum or a coffee shop. Suggestions on how to use this service in hospitality industry are given below (Hotelmarketing strategies, 2010):

• Use the service primarily to gain insight into consumer's opinion about the hotel, competition and the entire industry,

• Use it to the benefit of consumers by sending them travel advice and recommendations,

depending on the tourist destination, climate, culture, language, religion, etc.

• Share interesting content found by marketers,

• Encourage ideas by Twitter friends,

• Send important news, special offers and discounts,

• Use the service to help users, to take the load off the free info telephone line.

SMS/MMS/Voice services are similar to live stream services. However, their function is specialized for linking of all user services that have the possibility of SMS, MMS and voice communication, like: Yahoo! Messenger, Google Talk, AIM, Windows Live Messenger, Skype, classic e-mail, etc. They can be found on all mobile devices with internet access. For example, the principle of the service http://jott.com/ is reduced to simplified communication in the following way: user calls a phone number and leaves his/her message on the operator's server. The message is then converted to text, which is automatically sent through an e-mail, chat, or posted on the website.

Niche networks are specialized social networks that are thematically related to one of the human activities according to which people are categorized in individual groups (art, tourism, sport, science, business, fashion, health, etc.). The best known specialized social networks are LinkedIn, My Space, Plaxo, Ning, etc. The LinkedIn network is best analyzed as an example as it has a separate group for hospitality industry, where it is possible to find profiles of business partners sorted according to the country and the town in which the hotel is situated. The partner's profile provides information that the partner posted to the hotel profile (address, contact, the number of employees, seat, foundation year, form of organization, etc.). The most important specialized social networks for tourism and hospitality industry include (Socialmedia answers, 2011):

• wayn.com

• travbuddy.com

• gusto.com

• woophy.com

• everytrail.com

- tripconnect.com

- couchsurfing.com

- lovento.com

- mytripbook.com

The above networks allow users to exchange information, experience, recommendations, photos, videos and other useful information important for organization of a trip. This improves the quality of decision making and reduces the risk when buying a tourism and hospitality industry product.

Customer service networks are networks that offer the widest aspect of services for Internet users, among which Google and Yahoo should be emphasized. The text is further focused on Google as the global market leader and the most valuable global brand.

Google is currently the most used Internet search engine, offering a wide range of services to Internet users, from website and digital media search (Google search), sending and receiving e-mails through an Internet browser (Gmail), digital world map search (Google Earth), social networking (Google groups), video sharing through the Internet (Google video). The services applicable in the tourism and hospitality industry will be listed below.

Analytics should be emphasized here as a very useful statistical online tool, especially for web administrators and site owners. It is possible to track the number of visitors who stay on a web page, the part of the world from which they visit the site, compare the number of visits for several different time periods, etc. Also, it is possible to track how many visitors have visited the site from any town in the world, and which link has led them to the observed site. Google Analytics provides special reports for marketers in hospitality industry engaged in online sale, which show geographic segmentation of users buying on the site.

Further account of social networks in tourism and hospitality industry includes Location services, among which the network Dopplr should be specifically mentioned. The service has been created only for travelling and it provides the possibilities of sharing personal and tourist plans to the friends that you are connected to, and locating them on the geographical map. During the journey

and after its completion it is possible to publish various contents which thus become available to network users. Tourists are given the opportunity to find advice related to travelling to particular tourist destinations, which is obtained from other travellers. (Dopplr, 2011)

Video services are services that provide the possibility to post, comment, evaluate and share videos. It is currently the most visited site among the mentioned ones. For online marketing strategy of a hotel it is important to post videos about the hotel as well as to encourage communication among previous and future guests. The following should be mentioned, among others:

- http://video.google.com/

- http://www.youtube.com

- http://www.vimeo.com/

- http://eyespot.com/

- http://ourmedia.org/

- http://vsocial.com

- http://www.videojug.com/.

Document services and Picture services are services functioning according to the same principle as You Tube. The difference is that interaction takes place with documents that can be in different text formats (doc, pdf, rtf, ppt, etc.); or pictures in various formats. The best known document services are Scribd and DocStoc, and they offer the possibility for e-learning. Applied to the hospitality industry, here it is possible to publish newsletters, annual reports, presentations, advertising brochures, and other promotional materials that encourage interaction and for which guests show their interest. The best known picture services are Flickr, Smugmug and Zooomr. In that aspect hotels should post photos from various events organized at their venue, photos of the interior and exterior, as well as encourage guests to exchange such content and make their comments.

## Research Results

The methods of research undertaken for the purpose of this paper were literature review, online questionnaire, website analysis and a case study. This empirical research project was conducted by

the authors, which means that there were certain limitations to the scope of the research. Therefore, it was the intention of the authors to develop a representative sample, so that all Croatian hotels (four and five stars) were included.

Online technology, especially through the use of possibilities offered by WEB 2.0, provides numerous marketing opportunities, so in literature there is a range of terms describing certain e–marketing techniques in the hotel industry. The most significant ones at this moment are listed here: [15]

- Instant Messaging

- Internet Relay Chat (chat rooms)

- Internet Discussion Forums (bulletin boards)

- Location Based Services (mobile phone and GPS related)

- Social Network Services (MySpace.com, Facebook.com)

- Social Guides  (TripAdvisor.com)

- Social Bookmarking (Del.icio.us, Google Notebook)

- Social Reputation Network (eBay.com)

- Weblogs, Blogs, Podcasts, Videocasts, Micro-blogs

- Social Citations (Citeulike.org)

- Peer-to-peer Social Networks (file sharing)

- Virtual Presence (GoToMeeting.com)

- Virtual Worlds & Massively Multiplayer Online Games (MMOGs; World of Warcraft, Second Life)

- Internet Telephony (VOIP; Skype.com, GizmoProject.com)

- Wikis & Collaborative Writing/Editing (Google Docs & Spreadsheets, Wikipedia)

Authors' primary research shows that websites of Croatian hotels with four and five stars have not fully developed the possibility of promotion through Web 2.0 technologies. Mobile Internet, MMOG's, Social Citations, IRC or IM are not offered on any site, while the Internet Telephony, Virtual Presence RSS feed and Social Bookmarking and barely used. Among Web 2.0 technologies most hotels promote themselves on Tripadvisor, Facebook and You Tube.

The results indicate that despite the low use of new technologies, five-star hotels tend to use Web 2.0 technology on their websites slightly more than four-star hotels on the Croatian market.

## Conclusion

The rapid development of modern telecommunication and digital technology, and the resulting Internet technology, provides a number of new possibilities in e-marketing in hospitality industry.

It is possible to conclude that e-marketing and Web 2.0 usage will grow at a dramatic pace and significantly impact market behaviour in hospitality. Further research will be focused on the significance of certain Web 2.0 functions of websites.

**Table 1. Web 2.0 research in Croatian hospitality industry**

| Technology | 4 stars hotels (%) | 5 stars hotels (%) |
|---|---|---|
| Instant Messaging | 1,626 | 0 |
| Internet Relay Chat | 1,626 | 0 |
| Internet Forums | 18,7 | 12,5 |
| Social Network Services (Facebook) | 41,46 | 50 |
| Social Guides (Tripadvisor) | 91,87 | 100 |
| RSS Feed | 0,813 | 0 |
| Social Bookmarking | 19,51 | 18,75 |
| Weblogs | 23,58 | 62,5 |
| Social Citations | 0 | 0 |
| Peer-to-peer Social Networks | 77,24 | 100 |
| Virtual Presence | 4,878 | 6,25 |
| Virtual Worlds & Massively MMOGs | 0 | 0 |
| VOIP – Internet Telephony | 5,691 | 18,75 |
| Mobile Internet | 0 | 0 |

Source: authors' research

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# ENHANCING EGOVERNMENT IN MONTENEGRO – USING KNOWLEDGE MANAGEMENT FOR CREATING KNOWLEDGE SOCIETY

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## Abstract

The waves of eGovernment are rising very fast through almost all public administration, or at least most of the public administrations around the world, and not only the public administration, but also the entire government and all of their organization as a whole. The government uses information technology, and above all the internet or web network, to facilitate the exchange of services between government agencies and citizens, businesses, employees and other non-governmental agencies. With efficient and transparent information exchange, the information becomes accessible to the society (citizens, business, employees etc.), and as a result of these procesess the society itself becomes the information society or knowledge society. This paper discusses the knowledge management for e-government development in significance and role. Also, the paper reviews the role of virtual communities as a knowledge management mechanism to support eGovernment in Montenegro. It explores the need for knowledge management in eGovernment, identifies knowledge management technologies, and highlights the challenges for developing countries, such as Montenegro in the implementation of eGovernment. The paper suggests that knowledge management is needed to facilitate information exchange and transaction processing with citizens, as well as to enable creation of knowledge society.

Key words: information, eGovernment, knowledge management, knowledge society

## Introduction

Technology initiatives and reform of administrative processes and in general, implementation of ICT in Government, made it possible to realize that governments are composed of a dynamic mix of goals, structures and functions. eGovernment initiatives essentially presents the efforts for complex changes with the intention to use of new and advanced technologies in order to support the transformation of the operations and effectiveness of government that arised as a result of the introduction of new initiatives for more efficient operations and the enforcement of the operational functions of government. The new challenges of public administration in the 21 Century are to create e-Government.

eGovernment can be defined in narrow and broad sense. The Strategic Plan for eGovernment, in the state of Texas (Department of Information Resources, State of Texas, January 2001), eGovernment is defined as: government activities that use electronic communications among all levels of government, with citizens and business community, including: acquisition and providing products and services, giving and receiving orders, delivery and search of information, and complete financial transactions.

Gartner (2000) gave a broader definition: "eGovernment is the continuous optimization of service delivery processes, participation and control of voters through transformation of internal and external relationships using technology, Internet and new media."

Recognizing the implications of e-Government, it can be defined as - the ability to obtain government services through non-traditional electronic way, providing access to government information and completion of government transactions from anywhere, at any time and in accordance with the requirements of equal access - offering the potential to transform the public sector and build the relationships between citizens and government. Theresa A. Pardo states his functions as follows:

Citizens' access to government information. Providing access to government information are the most common digital government initiatives.

Facilitating general respect. eGovernment can also include providing electronic access to services that facilitate compliance with a set of rules or regulations.

Citizens' access for personal benefit. Electronic benefit transfers and online applications for public assistance and workers compensation are examples of services that enable electronic access to citizens in order to achieve personal gain.

Procurement, including bidding, purchasing and payment. Applications for the purchases are allowing government agencies to feel the benefits that exist in the private sector using the eCommerce applications. These include catalogues of electronic retailers, bid proposals and tabulations, electronic purchasing and payment transactions within government and between government and business entities that meet the needs of both government agencies and private trading partners.

Government-to-government integration of information and services. Integrated service delivery programs within government agencies and between different levels of government, requires electronic integration and sharing of information.

Participation of citizens. Online democracy involves access or contact with elected officials, discussion forums, online meetings, voter registration, and at the end online voting. These services are developed in order to meet the needs of the whole community.

From a technical perspective, eGovernment are integrated tools that include three possible sets of new technologies: the infrastructure, solutions and the exploitation of public portals. eGovernment infrastructure can enable the implementation of specific applications to address specific problems and management issues in government. So, in providing of the Internet access and e-mail service available at public portals, the most positive impact will come from those solutions and services that can be accessed by exploitation of public portals with these communication tools. On the basis of internal and external government telecommunications and Internet infrastructure, exploitation of public government portal, provides the solutions that enable electronic delivery of public services.

Thus, the eGovernment can be defined as the way the governments use the most innovative information and communication technologies, especially web-based internet applications, to provide citizens and businesses more comfortable access to government information and services, to improve the quality of services and provide much more opportunities for participation in democratic processes and institutions.

## KM in eGovernment

Recently, the management of knowledge began to emerge and be used in the public sector. In the UK, for example, eEnvoy whose office was established in 1999th and has been replaced by the eGovernment Unit, in 2004, introduced the concept of knowledge networks in 2000 followed by knowledge enhanced government (KEG). Development agencies such as the World Bank also established a secretariat for the knowledge management and within it presented a knowledge assessment methodology (KAM). One of the major reasons for this development was the sudden appearance and use of information and communication technology (ICT) in the last decades of the 20th century and early 21st century in all forms of business.

Knowledge workers have emerged as a key resource for the rapid economic development. India has, for example, undertook a unique initiative among developing countries, by establishing a national knowledge commission in order to make possible to use knowledge to affect on economic development. In any case, with expanding of education and including a growing number of people throughout the development, it is necessary to deal with the problem of education of unemployed people. The phenomenon of Finland as a leading knowledge economy, which in the past faced with

the economic crisis, presents a success story how knowledge influenced the economic development. Information and Communication Technology (ICT) and e-Government have an important role when it comes to the level and the impact on knowledge on economic development.

## The importance of knowledge management for eGovernment

eGovernment as a virtual organization that aims to provide public management and public services / services, is not involved in the creation of material resources, but it involves the knowledge management systems that contain significant features. Knowledge management in the eGovernment environment presents new management concepts and new management methods, having an important role in promoting the transformation of government functions, improve government efficiency and the image that people create about the government. In particular, the importance of implementing knowledge management in eGovernment can be divided into the following three aspects :

## To be conductive to enhance governments competence

During the process of economic globalization, the competitiveness of the overall national power, and economic competitiveness depend on the competitiveness of the government. In the e-Government environment, knowledge management includes knowledge as their most important resource in order to maximize access to and use of knowledge with aim to improve the competitive power of government. With that approach the governments showed that in the knowledge management, the knowledge is the essence of all processes, and they take appropriate measures to encourage employees to continuous improvement and increased sense of competition while enhancing the overall competitiveness of the government's innovative capacity and contingency forces.

## To be conductive to raise governments' service quality

Knowledge Management which appears and occurs in the eGovernment environment presents the electronic workflow that needs to be controlled, reflects the cooperation between different sectors and awareness of employees regarding cooperation. Knowledge management is circulating around the acquisition of knowledge, skills analysis, knowledge process, distributing knowledge and other ways, in order to understand the standardization of services and experiences of the major processes, and in order to increase efficiency of the government offices and service quality.

## To be conductive to promote healthy development of eGovernment

During the process of governance in modern governments, knowledge management is required. Knowledge management plays an important role in the transition to the paradigm of Governance in the government and improvement of administrative capacity in government. Separation from the knowledge management would lead to a situation in which different information resources in work independent, and also to a situation in which an electronic government is unable to form the entire body. Knowledge management can build an effective knowledge base, clean up various channels of information workflows, establish a knowledge-sharing, and promote development of eGovernment.

## Knowledge management models in eGovernment

From a macroeconomic perspective, the process of knowledge management in e-Government is similar to the same processes in companies, to a certain level, but it's also different in its essence when it comes to goals and intentions. The first needs to provide services to the community and the others need to increase the competitiveness and profitability of the company. Based on the software and hardware environments in eGovernment, the conceptual model of eGovernment consists of knowledge-collections subsystem, a knowledge organization subsystem and a knowledge applications subsystem, and they are shown in

the figure Fig.1. There are independent as well as mutually supportive relationships between these three subsystems.

## Knowledge collection subsystem

The knowledge collection subsystem is an input system in e-Government knowledge management system, which is the foundation of knowledge management. This system focuses on the area of knowledge in government. His initial collection contains a wealth of knowledge and information resources which need to be identified and which need to be used by the other two systems. This subsystem includes the knowledge recognition, the knowledge acquisition and the knowledge accumulation of these three knowledge management processes.

1. Knowledge recognition. Knowledge recognition is the first step in knowledge management process. From the perspective of cognitive theory analysis, knowledge can be divided into explicit knowledge and tacit knowledge. Explicit knowledge can be used exclusively for data, formulas, language, symbols and other expressions which can easily be stored, exchanged and shared. Tacit knowledge is highly personalized and hard-formatted knowledge and it is rooted in the personal experience, intuition, insight and values. Both types of knowledge by its nature are not characterized by visibility, and in that sense it is necessary to identify them, making them transparent in order to create and create basis for its application.

2. Knowledge acquisition. Knowledge acquisition refers to access to knowledge from external organizations and in a way that it will be easy to use from the aspects of the organization. eGovernment means access to a knowledge through databases, internet and online forums, blogs, search engines, network data mining. Knowledge Management in eGovernment aims to "capture" the necessary knowledge and skills necessary for relationships with governments, regardless of where this knowledge is located. It can easily access to knowledge through the computer databases, and monitor trends in network and server to help the government to achieve maximum efficiency and decision making.

3. Knowledge accumulation. Knowledge creation process of exporting of knowledge assets must be accelerated and stored in e-government to be conductive to knowledge application and knowledge innovation. Dominant systems of knowledge through a process of knowledge creation and establishment of a portfolio can be stored in databases of e-Government knowledge in the form of documents. The biggest advantage of tacit knowledge is the fact that it is difficult to clearly define it using a system of symbols. Governments should pay particular attention to those employees who have tacit knowledge, in an effort to foster loyalty and a sense of belonging and also to encourage them to accumulate their knowledge.

## Knowledge organization subsystem

Knowledge organization subsystem is the core of knowledge management, to the orderly process of mixed knowledge. This subsystem is the bridge that connects knowledge collection subsystem with knowledge application subsystem, and its functions may directly affect the function of knowledge application subsystem, and even the success of the entire system of knowledge management. This subsystem includes the classification of knowledge, knowledge depot and knowledge map, three knowledge management processes.

1. Knowledge classification. Knowledge classification is the base of effective knowledge application. In the e-Government activities a lot of complicated knowledge will be produced. The classification of knowledge according to content and application is very useful for civil servants in administrative jobs, in order to quickly retrieve the necessary knowledge and improve efficiency in search of knowledge. They can not still find or create new knowledge through the integration and the decomposition of knowledge.

2. Knowledge depot. Knowledge depot is the government's electronic database of information. Knowledge depot generally contains three types of content: first, the government's electronic resources of knowledge, including institutions, experience and wisdom of management and operations of e-Government; second, the internal organization resources, including

e-Government organizational structure, internal information sector etc.; third, the intelligence resources, including international development policy, comments on policies, customer requirements and other details. In short, knowledge depot will make information and knowledge within the organization better structured, able to share and exchange the knowledge, and to facilitate collaboration and communication between organizations.

3. Knowledge map. Knowledge map is a system for navigating the electronic resources of knowledge, which provides an environment for learning, helping employees and customers from the community quickly to find the necessary sources of knowledge, shows the distribution of resources overall eGovernment knowledge. Knowledge maps can also provide a system for search and navigation of knowledge depot through it by the user; describe the flows of knowledge in e-Government, to express knowledge about the administrative processes using charts. Knowledge maps are a guide to the knowledge depot, as well as the crucial link in establishing knowledge management system.

## Knowledge application subsystem

Knowledge application subsystem is the output system that represents a system of knowledge management. Its user interface is the final visible part. This subsystem colligates the results of the other two subsystems, cleans and organizes relevant information, and provides them to different users in different ways. It may also create knowledge based on the two other subsystems. This subsystem includes knowledge sharing, knowledge exchange and knowledge creation three processes to knowledge management.

1. Knowledge sharing. Knowledge sharing means that information and knowledge about e-government is as open as possible, so that each of the civil servants has access to and uses the knowledge and information provided by other users. Knowledge is power, but power is not created due to the confidential knowledge, but because of the sharing of knowledge. The biggest difference between knowledge and other curable material is its expanded role in the process of sharing. The owners do not lose their knowledge through

the sharing and free access to knowledge, instead, knowledge will become greater, and it will allow access to the innovative effects of knowledge accumulation. In addition, knowledge is subjective, specific knowledge or experience does not necessarily represent value for someone, but it can be very valuable to another person. Knowledge sharing is very easy to implement to progress of the entire organization of learning.

2. Knowledge exchange. The key of knowledge management is to establish an organizational structure and culture in eGovernment, which can enable knowledge-sharing with employees, and make the exchange and communication effective through various mechanisms. Knowledge and information will be upgraded and the owners of knowledge will be inspired by the process of integration and exchange. The second function is to spread knowledge sharing tacit knowledge to some degree.

3. Knowledge creation. Knowledge can be created through the interaction between the visible knowledge and implicit knowledge, which is known as knowledge conversion. In the eGovernment environment, knowledge creation is the process of knowledge conversion, which includes four models (socialization, externalization, combination and internalization). More specifically, socialization refers to the transformation of tacit knowledge to tacit knowledge; it is a process of sharing experience and association of tacit knowledge. Externalization implies that tacit knowledge becomes explicit knowledge, which represents the process of expressing tacit knowledge through the concept and language. The combination leads to the creation of new knowledge through adaptation, addition, composition and classification, which represents the processes that synthesize a system of explicit knowledge through an independent composition of explicit knowledge. Internalization is a process of individual absorption of explicit knowledge and its conversion into tacit knowledge.

## What is knowledge management for eGovernment?

On the macro level, knowledge management (KM) can be defined as the impact of knowledge

in order to achieve the goals of productivity and competitiveness of the national economy. At governmental level, knowledge management for the government may be defined as the impact of knowledge in order to improve internal processes, the formulation of government policies and programs and for effective delivery of public information to increase productivity. Finally, knowledge management (KM) for eGovernment can be defined as the management of knowledge for and by e-Government in order to increase productivity. KM4Eg  a management tool that serves the decision makers in government and their program implementers.

The government has always been the main user of knowledge. The primary function of government is the decision-making process and eGovernment provides unique support to a decision-making processes. Government also contains the largest repositories of information and databases and e-Government can help in their effective management. Governments have always had access to the best technologies and technological solutions in order to be able to manage their relationships. In recent years the explosion of information also emerged, and it is very important to know how to manage such information. Not all information are equally applicable to any process of decision making, and generally to any process within the government, so in that case e-Government plays a significant role because it enables more efficient and more transparent management of such information. In addition, using e-Government enables easier search of information by end users, and therefore, not only by government employees, but also by citizens, businesses, NGOs, etc. Also, the access to information is much easier, i.e. the higher amount of information is available.

## Pyramid of knowledge in eGovernment

The pyramid of knowledge is often used by scholars of management of knowledge. Knowledge management (KM) for e-Government has four components, namely:

a)      data, which consist of facts and figures

b)      information, which represents interpreted data (data + interpretation)

c)      knowledge, which uses the information (data + interpretation + use) and

d)      wisdom which is the application of knowledge (data + interpretation + use + application), as shown in Figure 3. It can be noticed that wisdom, which is here defined as the application of knowledge rather than knowledge per se, is the highest form of knowledge.

Knowledge can be stored within the 4P: 1) Places - written and saved in an existing document or database, 2) processes - integrated into existing already known business processes, 3) people - knowledge that has a particular individual, and 4) pieces - distributed among several people or processes (such as value chain). - Curley and Kivowitz 2001, p-46

## eGovernment in Montenegro

As already mentioned, information and communication technology (ICT) can help public administrations to deal with many challenges. However, the ICT should not be in the spotlight. Instead, attention should be focused on the use of ICT combined with organizational change and new skills to improve public services, democratic processes and public policy, which is the meaning of e-Government.

eGovernment uses modern information and communication technologies, especially Internet, to make information about public services closer to citizens in an easier and simpler way, and enable them to quickly and easily perform transactions (various payments, registration, etc.)..

For the successful implementation of eGovernment projects, among other things, it is necessary to use clear indicators, with which progress of development can be measured. Through indicators, achievements of goals is followed, and the goals are usualy defined by strategic documnets in most of the countries. The purpose of using the indicators is to monitor progress in the establishment of e-Government. The main purpose is to monitor the development of electronic services for citizens /nationals and electronic services to businesses and compare such results with the results of the region.

Citizens, enterprise, social system

eGovernment environment

Knowledge recognition

Knowledge acquisition

Knowledge accumulation

Knowledge collection subsystem

Knowledge classification

Knowledge depot

Knowledge map

Knowledge sharing

Knowledge exchange

Knowledge creation
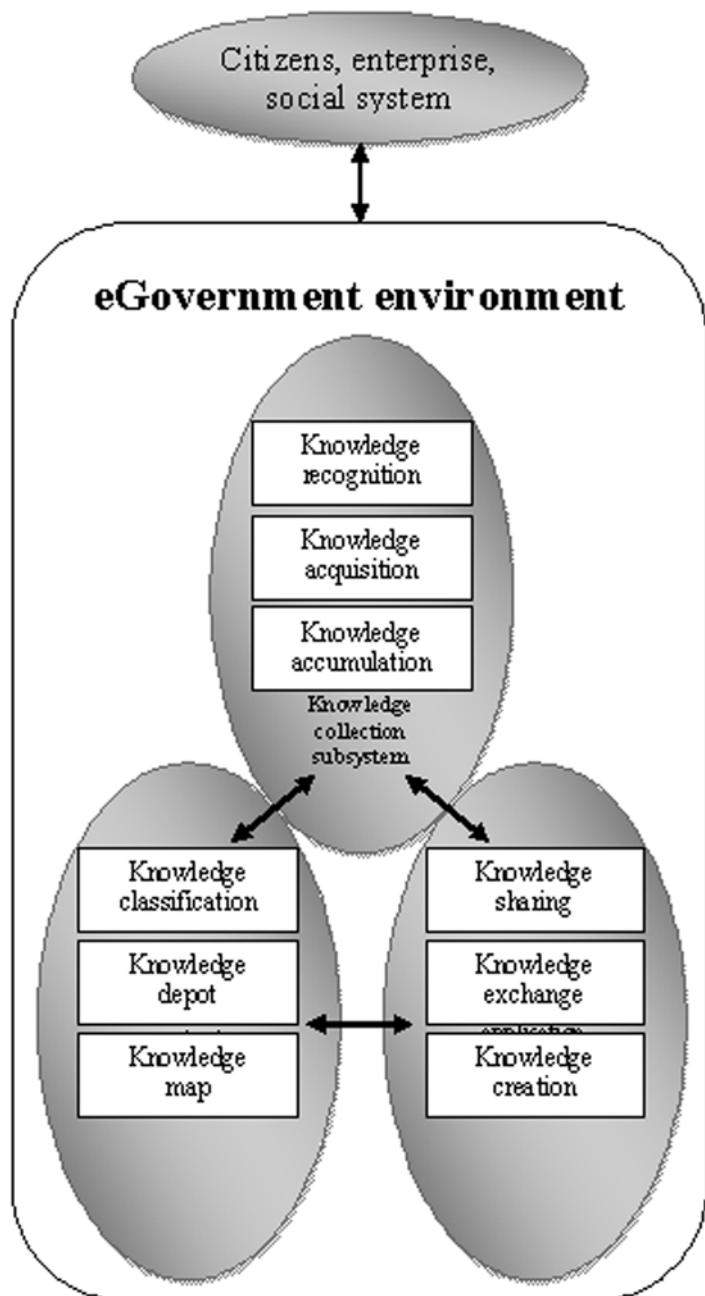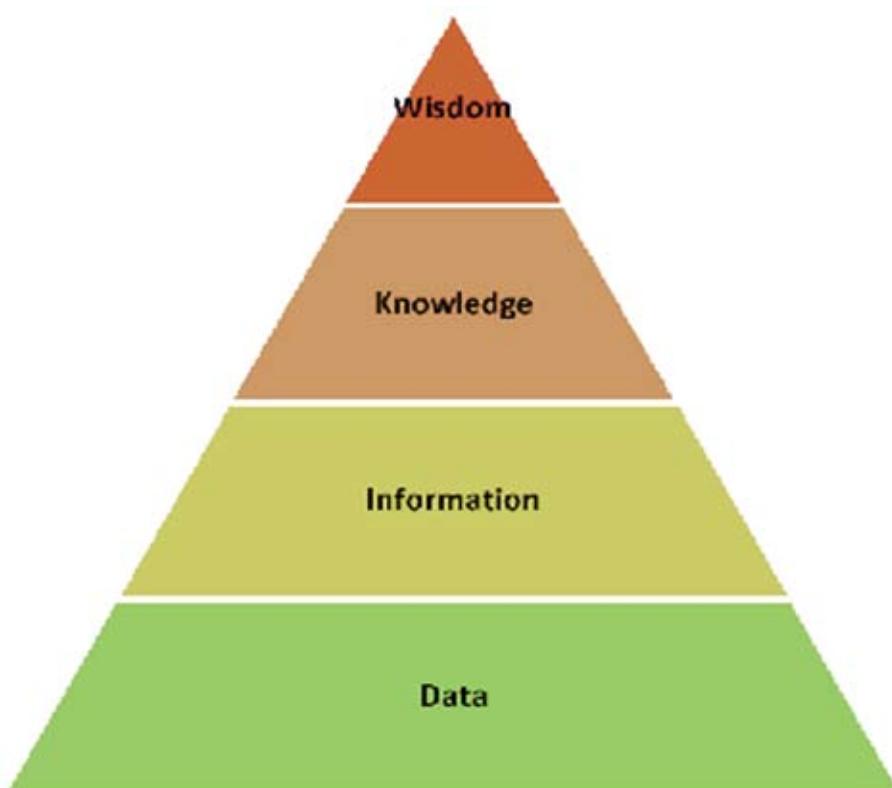
Figure 1. Knowledge management model of eGovernment

**Figure 2. Knoweldge Pyramid in eGovernment**
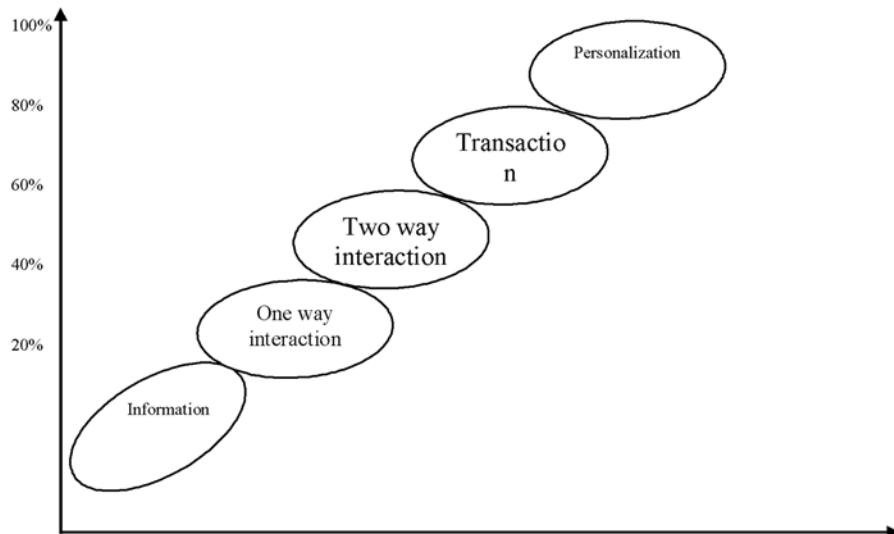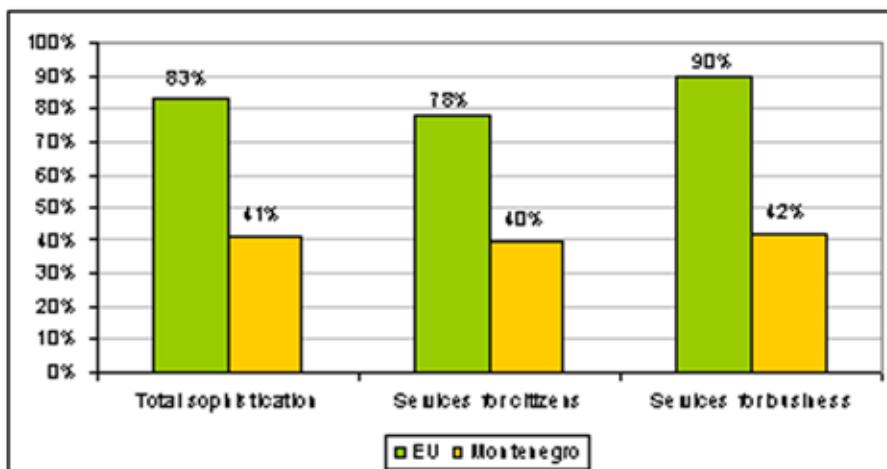


In Montenegro, the Ministry for Information Society, with its Strategy for Information society development for the period from 2009 to 2013, has envisaged the monitoring of development level of the basic eGovernment services annually. The first survey was conducted in the late 2009. The research was measuring the level of eGovernment development which was monitored and implemented through network/internet; i.e. to which extent the electronic services are already available to citizens and business. Together with each measurement of eGovernment development, existing internet pages and search of possible new pages are followed, which will allow users to perform activities with public administration over a network or other communication channels.

Research related to the assessment of the degree of development of 20 basic eGovernment services, which are defined in the policy documents of EU countries and also of the countries in the region (i2010 and eSEE Agenda Plus) for the first time,

internally, are made in late 2009. In order to clearly define the directions of further development of electronic services in public administration, in all models, in Montenegro, we need to view the current situation and based on that and following the trends in the region, focus development in the right direction.

## Analysis of eGovernment services in Montenegro

Sophistication of services is graded based on an assessment of development of twenty services that the European Commission has assessed as a base and a model for the sophistication of services. Based on this model it establishes a level of sophistication of service that goes from the basic level - access to information, to the highest level - personalization/targetization.

**Figure 3. Sophistication of online services**



**Figure 4. Comparative review of the degree of sophistication of services in Montenegro and the EU in 2009**



The total level of sophistication of eGovernment services in Montenegro, based on research carried out was 42%, which is a huge gap comparing to the EU countries, where in 2009 level of sophistication of services was 83%. The survey included 20 basic public services, and in this respect, the sophistication of services to citizens was 40% while the level of sophistication of services by businesses was 42%. The difference in the level of sophistication of the services to citizens and service to businesses is noticeable in all countries where the survey was carried out.

When it comes to complete online service availability in Montenegro, no service is completely available online. Montenegro is lagging behind EU member states, both in terms of overall sophistication, but also individually, when it comes to services for citizens and service for corporate clients - Figure 4.

If we take a look at the level of sophistication of the twenty services in Montenegro separately, we come to a conclusion that the majority of services (10) were developed to the second level. Seven services meet only the first level, while the three services are on the third level of development. As noted above no service is fully available online.

## Conclusion

The primary objective of a country should be the creation of a knowledge society. This means two things above all: first, reflecting the fact that ICT not only makes the economy to be productive, but also entails significant social and cultural changes, and second, it implies that the odds available to a knowledge society should be open to all citizens so that future knowledge society was inclusive and cohesive. Therefore, the future society should be inclusive in the greatest extent possible. In order to develop the information society in one country it is necessary not only to have access to advanced electronic networks, but also to have the capacity to use this network for online services, eCommerce, communication, social networking, etc.

As already noted, the concept of eGovernment is perceived differently around the world. eGovernment is more about the process of reform, the way that government operates, shares information and delivers services to external and internal users. More specifically, eGovernment uses the information technology (such as WAN, Internet and mobile computing) to transform relations with citizens, businesses, and other governmental entities. These technologies can serve different purposes: better distribution and delivery of government services to citizens, improving interactions with business partners and industry, allowing citizens access to information, and much more effective management control. The resulting benefits can be reduced corruption, increased transparency, greater convenience, revenue growth and/or reducing costs.

As Jim Melitski described on his eGovernment page "Around the world, public organizations begin their eGovernment journey simply by publishing static information on the internet and establishing online presence, in the hope that they will also feel the increase in efficiency, effectiveness and organizational effects." (Jim Melitski, 2001). With the emergence of more and more attractive contents, and more applications and services, researchers and practitioners begin to seek consensus between the eGovernment charts and initiatives. eGovernment can be defined as a continuum that goes from the provision of information when organizations and public agencies publish static information on the Internet, to the web interactive communication and eTransactions, and also integrated government services provided by the principle of a single point of access.

Creating conditions for the Information Society are providing the essential conditions for Montenegro to continue to develop it, and to fully integrate itself into the global economy, much more intensive than using any other technology. Such an approach will create a favourable environment not only for the development of the ICT sector, but also for faster implementation of these arrangements in all other sectors, especially in the economy and civil society.

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# EVENTS AND DESTINATION MANAGEMENT – CAR LAUNCH IN LISBON

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## Abstract

*This paper will explore the Events industry and will characterize it as such, in particular on its conceptual definition, its organizational structure and actors, the relationship between the Tourism Industry and Events and its impacts (social, cultural, environmental, economical).*

*In the second and most practical part, we analyze a medium-sized event - a car launch of an international known brand for its vendors and dealers worldwide during 16 consecutive days.*

*The focus of this study is the impact of the event in a square located in an old district of Lisbon, known for its urban harmony and its quiet everyday life.*

*Being public space, this venue was the part of the overall program of the event that presented the greatest challenges, both in planning (communication, licensing and formal aspects), as in the operational level of the event (with daily living with the local community, media and staging of the event).*

*In this context, all the elements and actions involved in such process were collected and analyzed. The overall objective is to develop a screenplay for mid-sized Events in public spaces in a city.*

*Key words: Events, Destination Management, Car Launch*

## Introduction

Events are an integral part of our lives. They are constantly noticed in the media: internet, newspaper, television and advertisements. Currently, governments are betting on the Events and Tourism for the development of the economy of both regions and country. Aiming to attract visitors, management and marketing of destination image are essential tools in this strategy. Enterprises use Events as a key to promote and strengthen their brands and products and the increasing involvement of communities only enriches the range and variety of themes and concepts that Events can produce.

This paper will focus on a medium size Event, a family car launch of a known brand, presented in Lisbon to its international dealers in June 2008, during 16 consecutive days. The Event moved thousands of passengers at the International Airport of Lisbon, hosted about six thousand people in a five star hotel and used in exclusivity (during that period) the Lisbon Coliseum (2.846 seats), the Cordoaria (4.000 square meters exhibition hall) and the Flores Square (a public space).

This paper will analyze the impact of this Event in the Flores Square, known for its quietness. In the square took place the informal dinner for the guests of the brand. This was undoubtedly the part of the program that presented the greatest challenges concerning the planning (communication, licensing and other formal aspects) and the operational level of the event (daily contact with local people and media and program implementation).

Regarding the previous items, there is a set of reflections which should be done in this paper

- How to select an efficient team for this event?

- What logistical decisions have to be taken?

- What issues should be considered in the decision of implementing an event in a public space?

- What public authorities to be contacted?

- What documents are needed for organizing an event in a public space (in Lisbon)?

- What legislation is available at the local level to help agencies meet their obligations and rights?

- What safety measures must be observed? Which ones are imposed?

- What support was needed by shopkeepers and residents?

- What guarantees and compensations had to be given to the square shopkeepers and residents?

The analysis of the above questions will define the strategic and operational planning for medium size Events in city public spaces.

## Events and Tourism

Currently, an Event is a tourism service in which consumers, institutional organizations of tourism, private tourism enterprises, tourism service providers and sponsors, cooperate to achieve a unique event, creating Value.

Expressions such as: event, success, result, occurrence, memorable, organization, set of activities, are part of the keywords used in many papers on the subject.

Conceptually some authors identify an event as a tourist attraction or a tourist leisure activity. It will be important first to realize the differences between these concepts.

According to Cunha (2001) a tourist attraction is any factor that causes the displacement of people out of their habitual residence, and by itself or together with other guarantees the existence of tourism activities. Recreational tourism is the set of all activities, which contribute to improve or enhance the conditions of attraction, comprehending the visitors' leisure time and the experiences arising from their stay in the visited place.

Using the previous definitions we can conclude that in the case of a tourist attraction, the event may have a role to grant it moments of uniqueness and singularity. In the case of recreational tourism, an Event may or may not be confined to its primary purpose. It can go far beyond the animation itself, assuming for example promotional purposes.

These definitions follow the concept of Event given by Jago and Shaw (1998) considering it as a unique happening or with an infrequent occurrence, limited in duration, providing consumers a time of leisure and social opportunity that go beyond the experiences of his everyday life - the Events that attract or have the potential to attract tourists, are often organized to increase the visibility, image and knowledge of a region.

To achieve the objectives of Tourism Events in a given destination, it is necessary to assign responsibilities to Events agencies, as Destination Management Companies (DMC), and/or to government organizations, however, this industry also includes other elements such as service providers.

After a detailed situational analysis, each destination must identify its competitive advantages in organizing Events. In this analysis, it is important to assess the impacts associated with the genesis of the event, which are, in general, social, cultural, economic, environmental or political.

The social and cultural impacts may enhance awareness and participation of people, broadening their horizons and exposing them to new ideas, making them feel that their territories may have other uses, or vice versa, the social and cultural impacts may create the opposition of the local community for the disturbances that an Event can cause.

## Case Study

TLC - Events in Portugal was the Destination Management Companies (DMC) selected to manage the logistics of launching a new car model in Lisbon, for having submitted the highest bids, considering the received briefing:

- the host city would have to provide easy access by air and not many bureaucratic processes for about 5.600 guests, aged 25 to 55 years, coming from 93 countries;

- to accommodate 400 people per night (for 16 consecutive nights) in a five star hotel,

- to provide venues for conference and social gathering;

- to select roads that would enable a good experience to test-drive.

The global event started at the Lisbon International Airport where daily, about 350 people arrived from different countries. The team welcoming the participants was responsible for solving any problem at the airport (as lost luggage) and for the guests transfer to the 5 star hotel.

A cocktail followed the check-in in the hotel. After it the participants were transported to the Lisbon Coliseum where the Business Meeting would last about 2 hours, between 17.00 to 19.00, consisting in the new car model launching and in the presentation of the financial results of the International Automobile Brand.

Around 19H00 the participants were taken to the Flores Square where dinner would be served. Dinner was half buffet and guests could choose between the terraces of the local restaurants (working exclusively for the Event) or cozy corners in the square; the Portuguese gastronomy experience was complemented with various entertainment and music.

Up 22H30 there were buses available to transport guests back to the hotel, ending the dinner at 00H00.

On the second day, the morning began with the transfer to the Cordoaria (4.000 square meters exhibition hall), where about 90 cars were lined up to go for the test drive. The itinerary covered various types of roads and breathtaking scenery. Returned to the Cordoaria a buffet lunch (international gastronomy) was served and after it the guests were taken to the airport (transfers out).

At the same time about 350 people would arrive at the Lisbon Airport and the entire program was repeated during 16 consecutive days.

## The Flores Square

The Flores Square is an urban area with about 1000 m2 located in an old neighborhood of Lisbon,

where the dinner of the Event took place daily, involving:

- decoration of tables for cocktail and tables on the terraces;

- colorful lighting environment;

- uniforms for employees matching with the colors of the exposed cars and with the environment of the Square;

- Kiosk illuminated and decorated with newspaper, providing drinks for guests on the terrace around;

- a lounge area with low couches and candle lanterns at a corner of the garden;

- all restaurants located around the square and their terraces working exclusively for the Event, contributing for an experience of Portuguese cuisine;

- entertainment with alive music and dancing.

In terms of logistics on site is summarized in Table 1 all concerns which should be managed daily for the evening/dinner Event.

Venue Requirements - Use of Public Space

As the Flores Square is a gardened public space and a residential area it was essential to comply with a set of requirements to be able to use it as a venue for the Event.

As it was referred before, the Event was firstly communicated to the City Council (CML), more specifically to the Tourism Department. The responsible for that Department informed TLC Events that licenses had to be obtained in the City Department of Urban Environment - Direcção Municipal de Ambiente Urbano – charged for managing the environment, public space and green spaces.

In fact it became a long and bureaucratic process evolving many City Council Departments, as it is listed:

- Department of Public Space Management - Departamento de Gestão do Espaço Público (DGEP)

- Identification of the main organizers/sponsors and Events agency;

**Table 1 – Daily logistic in Flores Square**

| Before Dinner (17H00/19H00) | Closing the Square to non-residents' traffic | Exposure of the new car models | Placement of fences and cleaning of the Square and amenities | Scenario setting | Managing the staff entrance |
|---|---|---|---|---|---|
| | Dinner for staff | Artists rehearsals | Tests of light and sound | Catering preparation | Extra security at the entrance |
| | Arrival of paramedics | Distribution of Walkie talkies | Check of the rented apartments for artists | Briefing the operational team | Management of transit and arrival of buses |
| During Dinner (19H00/24H00) | Management of the participants arrival / Management of the Security (venue and people) | Management of queues at the buffet stations / Control of schedules to accomplish the licenses | Management of empty seats on the restaurants terraces | Cleaning management | Catering control and supervision |
| After Dinner (24H00/01H00) | Management of buses departures | Disassemblies and cleaning of the area | Loading of production and scenarios materials | Removal of fences | Last cheking to ensure the normal functioning of the Square the next day until 17.00 |

- Description of the Event;

- Event program referring the dates for equipment assemblage, technical rehearsals, and equipment dismounting;

- Sketch demonstrating the environment to create in the Flores Square, including a map for the Venue restricted area;

- Extended concept of the Event including the description of the planned entertainment and respective back-up structure in case of rain;

- Plan for the equipment and gardens restoration of the Flores Square (later accompanied by an officer from the Department of Environment and Landscape);

- Plan for the equipment deployment, such were the tent for catering support, the stage, the bar, the terraces, the buffet stations and the area for cars display;

- Plan for security and policing the Square;

- Plan for the reservation of Square 24 parking spaces and the closure of some accesses, considering alternatives to the local community;

- Plan with the itineraries for buses (not forgetting that the Venue took place in an old neighborhood where the streets are relatively narrow), the staff, artists and catering itineraries (only considering the main suppliers because there were many more involved);

- Requirements for using some Flores Square equipment, such were public toilets, kiosk, phone booth, fountain, water supply points (under supervision by an officer from the Department of Environment and Landscape), electrical power (under supervision by an officer from the Department of Construction and Maintenance of Mechanical and Electrical Installations);

- Plan for the garbage recollection from the Flores Square;

- Plan for the signage, advertising and presentation of the car brand;

- Description of Flores Square shopkeepers participation in the Event;

- Statement about the Event to the local community and respective declaration of no objection;

- Letter from TLC Events stating the formal request to the Department of Public Space Management;

- Copy of all insurance contracts, assuring that none of the compulsory was missing;

- Department of Environment and Landscape - Gardens Division

- Flores Square Garden Restoring Program - authorization and definition of responsibilities;

- Request for water supply for irrigation of green spaces and plan for everyday cleaning

- Plan for assembling the technical equipment without damaging the green spaces.

- Municipal Direction for Economic Activities - Direcção Municipal de Actividades Económicas (DMAE)

- Request of license to operate an itinerant entertainment, involving handling and food manufacture;

- Description of facilities and equipment in the rented apartment which served as a regeneration area for catering;

- Request of license for the daily concerts in the Square.

By indication of DGEP (the Department of Public Space Management) contacts were established with the Parish Council (JFM), since a favorable opinion to implement the project would depend from it. The JFM is closer to the residents and shopkeepers, knowing their needs and sensitivities; in fact their agents followed the whole project and their opinions were always respected. They were also an important element in defining the plan for the Square restoration.

Apart from licensing it was necessary to ensure essential services (described in previous paragraphs); mentioning only the main suppliers: Building enterprise to restore the Square equipments; Garden Maintenance enterprise to redesign the Square green spaces; Police to regulate traffic and for surveillance of the 24 parking spaces; Catering enterprise; Security enterprise; Cleaning enterprises (Square and apartments); Laundry services; Square restaurants working exclusively for the Event; Tourist Guides and Hostesses; Transportation of clients and staff.

## Event Social Impacts

To measure some of the social impacts took place, one year after the event, a survey to Square shopkeepers (many living in the neighborhood). The obtained response was 60% from the possible universe of respondents.

Among the most relevant results it was found that:

- 83% of shopkeepers had a positive opinion of the Event before its achievement, 17% were hesitant about it - these results remain the same in the post-event assessment;

- for 17% the general information about the event was very well conveyed, to 66% was transmitted satisfactory and to 17% was poorly transmitted;

- about the benefits of the Event, 66% highlight the restoration of Square and also 66% emphasized the projection of Lisbon as a tourist destination;

- as less positive factors, 50%indicate the small involvement and participation of the local community in the Event, 17% found that the local community shopped less in the Square during the Event.

- about the willingness to receive a new event of equal size/dimension, 68% was very receptive to it, against 32% who showed some doubts or are not willing to repeat the experience.

Regarding the institutions and agents linked to the achievement of the Event we collected the following opinions:

- The JFM (Parish Council) stressed the daily presence of a representative (employee) from the DMC (TLC Events) in the Square in order to respond promptly to any arose problem; also the quality of the transmitted information about the Event among the local community was underlined.

- The CML (City Council) assessed the Event in a positive way, despite the problems caused by the occupation of public space for a month (including assembling and disassembling); considered of particular relevance was the projection/promotion of Lisbon and the restoration of the Square sponsored by TLC Events.

- The TLC-Events highlights the bureaucratic and slow licensing process which required strong commitment from the team, stressing that these disadvantages were overcome by the results with the restore of the Square and the positive feedback from local community,

mainly from shopkeepers who demonstrated a willingness to repeat the experience.

## Final Conclusions

This paper focused the launching of a new car model in Lisbon, namely the organization and management of the "Evening Event" in the Flores Square.

It was intended to set the strategic and operational planning of such an Event, to inventory logistics of an Event in public space, to list the legal issues, to study the advantages and disadvantages of using public space for local communities.

Regarding the theoretical framework we found a considerable number of studies about Events planning and management, however, most case studies focus on musical Events, cultural and sporting Events. There are few studies that address the business Events therefore the relevance of this paper.

In this paper our concern was mainly to gather and to organize the available material related to the described Event, namely at the planning and operational level.

To complement the referred data the Square shopkeepers were inquired and the representatives from the institutions linked to the Event were interviewed. These objectives were achieved because all institutions and 60% of the shopkeepers accepted to answer our questions.

We confirmed in this paper that the Events industry is based in a system that is divided by type and size, as each Event arises from the variable mix of management of a program, its objectives and configuration and its audience. We should add that the Events industry has its own actors and impacts and also that nowadays Tourism industry uses the Events to promote destinations and to increase tourism growth.

To implement an Event three major phases should be considered: the plan, the operation/execution (on site), the post-event (handover).

In the considered case study, the Event began with a briefing from the client, which contextualized the Event, pointing out its type, size, concept and main objectives.

This document was presented to several DMC which shared brainstorming with the client (car brand) and accepted inspection visits, before being submitted to competitive pitch which should include proposals and budgets.

After analyzed and evaluated the proposals, Lisbon was chosen to be the host city and TLC Events the local agent for the Event organization. Up this point, the client and the Events production international company worked together with TLC to develop the Event program. As one they defined the strategies to choose definitively the venues and all kind of service providers.

Considering the "Evening Event" the fundamental was to fulfill the clients' objectives having in mind the budget and the licenses which could be obtained to organize the Event in a public space.

Meeting the considerations raised in this paper's introduction, we should stress again that the success of an Event is strongly linked with the choice of the people to be involved in the preparation and execution of the Event and that these should be selected according their expertise. The operating team must demonstrate strong leadership skills combined with good physical preparation, being imperative to work with passion throughout the whole process.

In addition we should have the same level of concern in the choice of service providers who must be deeply informed and involved in the nature and objectives of the Event.

Regarding the logistics is extremely important to take into account the characteristics and requirements of the Event physical space. As a public space has usually serious and specific determinants, we suggest checking the actual feasibility, availability and infrastructures, before the first inspection visit.

For organizing a successful Event in a public space it is necessary: to plan it timely; to communicate it to the competent institutions; to inform constantly the local community about the Event's development; to present counterparts as the restore of the public place; to appeal to the understanding of residents for the nuisances (such as accessibility, street blockages, noise or littering), presenting alternative solutions to their problems. It is crucial in minimizing the problems to be aware and to respect the daily routines of the local population; otherwise they will not feel confidence in the DMC

or will feel that the legacy, the restore of Square, will be worthwhile.

The existing legislation (in Lisbon), which regulates issues related to the occupation of public space, is poorly suited to the realm of corporate Events; in fact it is thought for fairs, markets, newsstands sales and trading activities in public areas. Many of the requirements/licenses had to be adapted to this Event, based on the collective common sense.

Having the organization of the described Event in mind, we suggest that a city which wants to be promoted though Events, mainly in public spaces, should review its entire licensing process. Also the creation of a specific office/department in the City Council to ensure the licensing process would encourage DMC to organize Events in that city.

Summing up, this paper seeks to demystify the apparent easiness of planning an Event in a public space but above all to demonstrate that the private sector, under the umbrella of Tourism Events, can contribute to improve the proud of local communities though the restore of their public spaces.

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