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IMPACT OF PERSONAL SERVICE ON CUSTOMER SATISFACTION IN FMCG RETAIL IN CROATIA

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Abstract

Globalisation and fierce competition forced companies to realize that satisfied customers are the key to long-term business success. Therefore, customer satisfaction has to be a strategic goal and a core value of the company's culture. Also, the customer satisfaction measurement has to be an indicator of everyone's contribution to the achievement of the goals if companies want to deliver superior service to their customers. The benefits of customer satisfaction are well known in practice as well as in marketing and management literature. Companies that have more satisfied customers experience higher economic returns and customer loyalty. Customer satisfaction and customer loyalty are increasingly becoming important factors in modern retailing – a market characterized by slow growth and intense competition. Analysis of the retail trade in Croatia showed that it is one of the most developed, most competitive and dynamic economic sectors in the country. The main characteristics of the Croatian retail market are concentration, internationalisation and consolidation the same as in developed markets. The latest development trend is moving toward the construction of modern shopping centres that provide various shopping services and entertainment in one place. Retailers seek to respond more efficiently and more effectively to the needs of customers by managing relationship with customers and offering them superior range and quality of assortment and service. The goal of this paper is to explore impact of personal service on customer satisfaction levels in FMCG retail in Croatia. The results of the research indicated that

the level and quality of personal service have a significant impact on customer satisfaction and loyalty but the impact of non-personal service on loyalty is even stronger. The research also provides empirical evidence of positive but weak and non-significant link between customer satisfaction and salesperson's work satisfaction. However, it is necessary to systematically manage customer satisfaction of the both external and internal customer. The results of the research have shown that retail chains are aware of the importance of CRM strategies and larger use of CRM software for this purpose can be expected in future.

Key words: marketing, retail, customer satisfaction, Croatia

Introduction

This paper seeks to identify main customer satisfaction factors in FMCG retail shopping in Croatia with special emphasis on quality of personal service. There is significant empirical evidence that customer-contact employees' work satisfaction has a positive impact on customer satisfaction. So, many companies have invested considerable resources into programs for measuring and increasing employee satisfaction. The focus of the research will be to find out how FMCG retailers measure and track customer satisfaction (both external and internal customers), how they do it and is there a statistically significant positive correlation between customer and employee satisfaction at all? The results will enable managers and other decision makers as well as scholars to identify best

practices in customer service design regarding FMCG retail shops. By doing so, managers may further improve services to their customers and gain competitive advantage.

Background

According to Kristensen et al. (1992), Zeithaml et al. (1996), McColl-Kennedy & Schneider (2000), it is well established that satisfied customers are key to long term business success (Gilbert & Veloutsou, 2006). In response to an increasingly competitive marketplace, a growing number of companies are actively using customer satisfaction measures in developing, monitoring and evaluating product and service offerings (Sui-Hua Yu, 2007). It is therefore no surprise that many service companies spend as much as half of their research budget on the measurement of satisfaction (Wilson, 2002). The benefits of customer satisfaction are well recognized in practice as well as in marketing and management literature. High customer satisfaction is associated with higher customer loyalty and enhanced reputation (Sui-Hua Yu, 2007). Also, according to the same source, an enhanced reputation can further aid in introducing new products by providing instant awareness and lower costs of attracting new customers and customer loyalty can lead to an increased purchase intentions which helps to secure future revenues, reduces the costs of future transactions, decreases price elasticity and minimizes the likelihood that customers will defect. Marketing researchers consider customer satisfaction an essential objective of corporate marketing strategies because it leads to repurchase behavior, improves the corporate image, increases word-of-mouth advertising, sales, profitability and stock value, reduces complaint behavior, marketing and warranty costs and business risk (Frank & Enkawa, 2009).

In customer satisfaction measurement researchers came up with several competing theories: the disconfirmation of expectations model, equity theory, the value-percept disparity model, and attribution theory (Frank & Enkawa, 2009). According to the same source, customer satisfaction research has come to rely on the disconfirmation model because comparative studies showed that the disconfirmation of expectations model is superior to the other theories. Customers' expectations are derived from their own accumulation of contacts with services provided for them in everyday life. From

such contacts customers accrue a generalized service expectation or standard based expectation on their day-to-day history as customers. It is from the accumulation of these service experiences that customers establish personal standards and use them to gauge service quality (Gilbert & Veloutsou, 2006). Zeithaml & Bitner define satisfaction as the customers' evaluation of a product or service in terms of whether that product or service has met their needs and expectations. Failure to meet needs and expectations is assumed to result in dissatisfaction with product or service (Wilson, 2002). In general, it is agreed that customer satisfaction measurement is a post-consumption assessment by the user about the product or service gained but Jones & Suh suggest that two distinct "types" of consumer satisfaction exist – the transaction specific and overall satisfaction (Gilbert & Veloutsou, 2006). Transaction specific satisfaction is related to a specific encounter with the organization, whereas overall satisfaction is a cumulative construct summing satisfaction with specific products/services of the organization with various other facets of the company. The overall rating resembles a more general attitude the customer has toward the specific products or services provided by the organization and such an overall impression is relatively stable over time and less sensitive to question order effects or other transition specific reactions on the part of the customer (Gilbert & Veloutsou, 2006).

However, there has been criticism of CSM in a number of marketing and management papers. Reichheld cites research carried out in the USA which found that 60 to 80% of customers who defected to a competitor stated that they were satisfied or very satisfied just prior to their defection. But according to Wilson (2002) satisfaction is a necessary prerequisite for loyalty and it is not sufficient by itself to automatically lead to repeat purchases or brand loyalty. As Dr. W. Edwards Deming, the renowned quality guru, stated: "A merely satisfied customer will go elsewhere when competitors cut its prices!" (Bhote, 1996). So, companies must go beyond mere customer satisfaction to secure customer loyalty; to go beyond just market share, which is only quantity of performance, to customer retention, which is quality of performance; to go beyond today's customers to having customers for life. Customer satisfaction is but a milestone on the long, hard road to customer loyalty and lifelong retention.

Also, in numerous publications, satisfaction has been treated as the necessary premise for the retention of customers, and therefore has moved to the forefront of relational marketing approaches. Kotler sums this up when he states: "The key to customer retention is customer satisfaction" (Kotler, 1994, p. 20). Consequently, customer satisfaction has developed extensively as a basic construct for monitoring and controlling activities in the relationship marketing concept (Hennig-Thurau & Klee, 1997). Changes in the competitive landscape mean that more and more organizations are competing for fewer and fewer customers. So, companies need to build profitable relationships and partnerships with their customers. The principles of Customer relationship management (CRM) encourage them to serve these precious customers more effectively by gearing their systems around customers and by becoming truly customer centric. Therefore CRM is not a process revolving around software. It is a strategy to help companies understand the needs of their customers, both now and in the future. According to Bob Thompson, there is a clear route to CRM success, and it always begins with that age-old tool of management – the business strategy. This strategy must then become a driver of change – both in terms of organizational structure and work processes – and these changes can then be enabled by the use of information technology (Strategic Direction, 2002).

CRM puts customers and their satisfaction in the centre by pointing all company's activities towards the customer. The main objective of CRM is to get to know the customer as well as possible in order to deliver better products, more appropriate and with higher added value (Mandić, 2007). Building relationships and partnerships to achieve a lifetime of customer loyalty requires a systematic and continuous monitoring of customer expectations and customer satisfaction with the continuous analysis of competition. So the customer satisfaction has to be a strategic goal and a core value of the company's culture. According to research by the American Management Association conducted in year 2002, the 77% of managers recognized customer satisfaction as a key value of the company which confirms that customers are the greatest value of the company (Robbins & Coulter, 2005). Also the customer satisfaction measurement has to be an indicator of everyone's contribution to the achievement of the goals in the value system. According to Porter (2009), competitive advantage

arises basically from the value that the company is able to create for its customers and therefore a potential source of competitive advantage can represent any activity in the value system. So, the company needs to downstream and upstream partners in the value chain if it wants to deliver superior service to customers. Managers are becoming managers of the entire network (Kotler et al., 2006). Except for delivering superior service and satisfaction to customers, company also has to provide at least an acceptable level of satisfaction to its other clients (suppliers, owners, employees). There is a significant empirical evidence that customer-contact employees' work satisfaction has a positive impact on customer satisfaction. The recognition of the close interrelation of these two constructs has also affected managerial practice. So in recent years, many companies have invested considerable resources into programs for measuring and increasing employee satisfaction (Homburg & Stock, 2005). According to Bhote (1996), in the age of customer satisfaction and loyalty, the internal customers must be elevated to high status – if not to that of a king, as external customers, then at least to that of a prince. From the other side, employees who are in daily contact with customers must be in all their dealings with clients adhere to the golden rule: treat your customers as you want them to treat you, as well as diamond rule: treat your customers as they desire to be treated (Vranešević, 2000). So, companies need to create a customer-oriented culture. It is a culture that respects the client's needs in all processes of a company and places them above the interests of employees, managers or owners of the company. Focusing on customers is a common value of all employees and company's activity is seen as constantly providing superior value to all customers and partners participating in the supply chain value. Research shows that in such companies the following six characteristics are routinely present (Robbins & Coulter, 2005):

1. Type of employees (friendly and outgoing employees),
2. Few rigid rules, procedures and regulations,
3. Widespread use of empowerment,
4. Employees with good listening skills,
5. Clarity role,

6. Employees who are conscientious in their desire to please the customer.

Wiersema, business strategist and lecturer named these companies, "customer-intimate" companies. According to author, these companies must pick their partners and shape their culture in order to win together (Wiersema, 1998).

Retail sector in Croatia

Customer satisfaction and customer loyalty are becoming increasingly important factors for retail market – a market characterized by slow growth and intense competition. Retailers are responding to a slow growth at home markets by expanding into new markets. The entry of foreign competition has forced Croatian retailers to change their way of conducting business in order to survive on the market. For the past 20 years retail has been one of the most developed, most competitive and fastest growing economic branches. According to Anić (2001), there were two periods in the growth and development of the Croatian retail:

- period of fragmentation of retail from 1990 to 1998,
- period of concentration of retail after 1998.

In the first phase the growth was result of the growth in the number of small private shops. According to this source, in the year 1989 there were 2.246 retail stores and 20.942 in 1996. Since 1999, the number of employees has grown and the number of stores has oscillated, so the number of employees per store has grown, which indicated that the selling area increased while number of stores decreased. With the concentration of the sector including changes in the market structure based on the size type and the entry of foreign retail chains, a new phase in the development and growth of Croatian retail begun.

In Croatia, the retail trade is statistically monitored as a part of the distributive trade. Distributive trade is defined as a set of all types of trading activities, from supplying goods from the producer to distributing them to the final consumer. It comprises wholesale trade on one's own account, wholesale on a fee or a contract basis, retail trade and repair of motor vehicles and motorcycles (Statistical Yearbook, 2010). Distributive trade holds a significant place in Croatian economy since 35% of economic agents operate in this business, it employs about 18%

of workforce and its share of GDP amounted to 9.5% in 2009. Also, distributive trade is the second largest employer in Croatia after the processing industry, as well as the biggest generator of new jobs. In 2009, there were 223.872 employed persons, of which 185.244 were in companies and 38.628 in craft businesses. Retail trade had the largest number of employed 55.08%. Distributive trade in 2009 generated a turnover of HRK 252.05 billion, of which the companies have generated HRK 241.75 billion, and craftsmen HRK 10.30 billion. A dominant role in the structure of the total achieved distributive trade turnover is wholesale and intermediation trade with 43.13% share, followed by retail with 38.12% (CCE, 2010).

Retail trade is the sale of goods to final consumers for personal consumption or use in households (Statistical Yearbook, 2010). According to changes on the Croatian retail market in the past decade retailers are faced with challenges, such as globalization, stronger competition in the local market, introduction of new technology, new forms of retail trade, e-commerce. The main characteristics of the Croatian FMCG retail market are concentration, internationalization and consolidation. The share of the top 10 retailers amounted to 16.6% seven years ago, while in the year 2009 top 15 retailers achieved 75.3% of the market (CCE, 2010). However, concentration is not specific only to Croatian retail market as globally top 10 retailers held over 30% market share in 2008 (Deloitte, 2010). Also, in the majority of European countries the top 10 retailers hold from 60% to 80%, even 90% of the market share. In Slovakia, for example, the leading 10 hold 70% of the market; Hungary is similar to Croatia with 67% while the Slovenian top 5 retailers hold 90% of the market (CCE, 2010). Internationalization is also not characteristic exclusively to Croatian FMCG retail market. This process has sped up in transition countries with the fall of Berlin Wall. The entry of foreign competitors resulted in increased market consolidation from takeovers and strategic alliances of some retailers.

In the past decade the market structure based on the size types on the Croatian retail market has changed as well. The largest share is still held by small shops but their share decreased from 53% in 2001 to 32% in 2009 (CCE, 2010) and it is still decreasing. So, retail network is still fragmented. The FMCG retailers are trying to develop large retail establishments (supermarkets and hypermarkets) prominently due to changes in the way of life and

new customer needs. The hypermarkets and supermarkets are steadily increasing their retail market share; their share in 2009 was 21%. The share of supermarkets in 2009 was 28%, cash & carry 5% and discount shops 5%, as well as other sales channels 8%. The latest development trend is moving toward the construction of modern shopping centres that provide various shopping services and entertainment in one place. Based on the estimate of the CCE Trade Department, over 2.000.000 m² of large retail facilities with more than 1.000 m² of selling space have been built in Croatia over the past 15 years. But, the construction of trade facilities in Croatia is a process characterized by territorial concentration of large outlets in larger county hubs – Zagreb, Split, Rijeka, Zadar and Osijek. However, shopping centers are extending their business activities to other county centers (CCE, 2010).

According to consumers' preferences on the Croatian FMCG retail market, consumers generally choose supermarkets (47%), small shops (23%), hypermarkets (15%), discounts (2%), and other retail formats (GfK, 2009). Also, some previous research on the Croatian FMCG retail market showed that the most important elements on which customers pay attention when they go shopping are freshness and quality of goods, richness of choice, price marking of goods, level of prices, cleanliness of shop but they are changing consistently. Certainly, customers are becoming more and more demanding, they want higher value for money and they rank loyalty programs into factors with which they are least satisfied. As reasons for dissatisfaction with loyalty program, customers often state its lack of transparency and too high limits for rewards or discounts (Marićić, 2010). So, highly competitive market with increasingly demanding customers force FMCG retailers to seek how to respond more efficiently and more effectively to the needs of customers by managing relationship with customers and offering them superior assortment and quality of products and services. Companies which have superior service quality have been found to be market leaders in terms of sales and long-term customer loyalty and retention. Because of this, companies competing in similar market niches are compelled to assess the quality of the services they provide in order to attract and retain their customers (Gilbert & Veloutsou, 2006).

Research methodology

The main goal of the research was to identify main customer satisfaction factors in FMCG retail shopping in Croatia with special emphasis on quality of personal service. Also, it was important to investigate if there is a statistically significant positive correlation between customer and employee satisfaction at all. According to Banker and Mashruwala, customer satisfaction and employee satisfaction scores are incrementally useful in predicting future profits and store closures for stores in urban locations with higher intensity of competition (Banker and Mashruwala, 2007). So, the focus of the research was to find out if FMCG retailers measure and track customer satisfaction and how they do it. According to the research goals the four main hypothesis have been proposed:

H1: The most important customer satisfaction variable is quality and a level of personal service in a store environment.

H2: Retailer's quality of personal service is positively connected with the level of consumer loyalty.

H3: Level of customer satisfaction is positively connected with level of employee satisfaction.

H4: FMCG retailers that apply continuous customer satisfaction tracking achieve higher degree of customer satisfaction.

Primary data were collected through qualitative and quantitative research. The sample included customers, front line employees and shop managers in five FMCG retail chains that are among top 15 in Croatia by market share. The questionnaire for employees encompassed most important satisfaction variables that have been identified in Croatian companies by research conducted by Economic Institute Zagreb in 2000 (Marušić, 2006). Research has been conducted in between October 2009 and January 2010 on 150 customers, 50 employees and 5 managers in Dalmatia region. Qualitative research results have been processed in SPSS statistical software and quantitative results collected from in-depth interviews through "content-analysis".

Research results

After the qualitative and quantitative research of customers in five retail chains on Croatian retail market results have identified the main customer satisfaction variables on FMCG retail market. Table 1 shows the rank of importance and customer satisfaction with the satisfaction variables on FMCG retail market. The most important factor for customers is cleanliness of shop, and then freshness and quality of goods. The kindness of the staff by importance is ranked at the third place but the availability of staff for information and advice is ranked just at the eleventh place which indicates that the quality of personal service is more important for the customers than the availability of staff. The results of the satisfaction with these factors indicate that customers are most satisfied with shopping hours and ways of payment while the kindness of the staff is ranked at the eighth place and the availability of staff for information and advice at the eleventh place.

In order to determine the strength of relationship between the kindness of the staff and overall customer satisfaction and the availability of staff for information and advice and overall customer

satisfaction, as the two factors of the level and quality of personal service, the statistical software SPSS has been used. Based on data collected from samples of 150 customers in retail chains on FMCG retail market in Croatia the bi-variate Pearson correlation method for analysis of data has been used because this method is the most appropriate when the ordinal scales of assessment are used in questionnaires. The resulting correlation coefficients for the level and quality of personal service and overall customer satisfaction are presented in Table 2. The results show a positive link between these two variables and overall satisfaction but the relationship between the availability of staff for information and advice and overall satisfaction indicates the existence of a stronger statistically significant relationship. The results of the values of correlation coefficients for the other satisfaction variables and overall customer satisfaction show that stronger and statistically significant relationship exists between overall satisfaction and variables: ways of payment, shopping hours, cleanliness of shop, freshness and quality of goods, make-up of shop, special offers and sales and presentation of goods.

Table 1. The rank of importance and satisfaction with the satisfaction factors

RANK	IMPORTANCE OF VARIABLE	SATISFACTION WITH VARIABLE
1	cleanliness of shop	shopping hours
2	freshness and quality of goods	ways of payment
3	kindness of staff	level of prices
4	presentation of goods	presentation of goods
5	make-up of goods	freshness and quality of goods
6	level of prices	availability of shop
7	make-up of shop	make-up of shop
8	richness of choice	kindness of staff
9	waiting time for checkout	cleanliness of shop
10	richness of choice of domestic goods	richness of choice of domestic goods
11	availability of staff for information and advice	availability of staff for information and advice
12	ways of payment	special offers and sales
13	shopping hours	richness of choice
14	special offers and sales	availability of special offers and sales
15	availability of special offers and sales	level of prices
16	availability of shop	waiting time for checkout

Table 2. The correlation coefficients of the level and quality of personal service and overall customer satisfaction

Factors	Pearson Correlation
availability of staff for information and advice and overall customer satisfaction	0.86*
kindness of the staff and overall customer satisfaction	0.74*

*p<0.01

According to all research results, Hypothesis 1: The most important customer satisfaction factor is the level and quality of personal service in a store environment, cannot be accepted.

Although, the availability of staff for information and advice and the kindness of the staff, as the two variables of the level and quality of personal services in a store environment, are not the most important variables of customer satisfaction, it is important to emphasize that they are still one of the most important elements of customer satisfaction. Also, according to results of in-depth interviews, it is needed to notice that the level and quality of personal services in a store environment will be the main reason for customers to change their habit to buy at this store if not on the appropriate level.

A loyal customer is not only a customer who repurchases; he is also a customer who is willing to actively recommend a store to others. So, in the survey, customers were asked to rate their repurchase intention as well as their willingness to recommend the chosen retail chain. Also, customers were asked to rate the overall satisfaction level of personal service as well as the overall satisfaction level of non-personal services. In order to determine the correlation between a level of service quality and a level of customer loyalty assessments the bi-variate Pearson correlation method for analysis of data has been used. The resulting correlation coefficients for the level of service quality and level of customer loyalty assessments are presented in Table 3.

The results show that the correlation between overall customer satisfaction level of non-personal service and customer repurchase intentions is the strongest and indicates the existence of a strong statistically significant relationship between those two constructs. The correlation between overall customer satisfaction, level of non-personal service and customer willingness to recommend

the retail chain is slightly weaker but it is statistically significant. According to all the correlation coefficients it can be concluded that customer satisfaction level of non-personal services have more powerful and statistically significant impact on loyalty than the satisfaction level of personal service, but it can also be concluded that the level of service significantly affects customer loyalty. This statement can be confirmed by the results from the survey because over 87% customers stated that the level of service quality affects their loyalty.

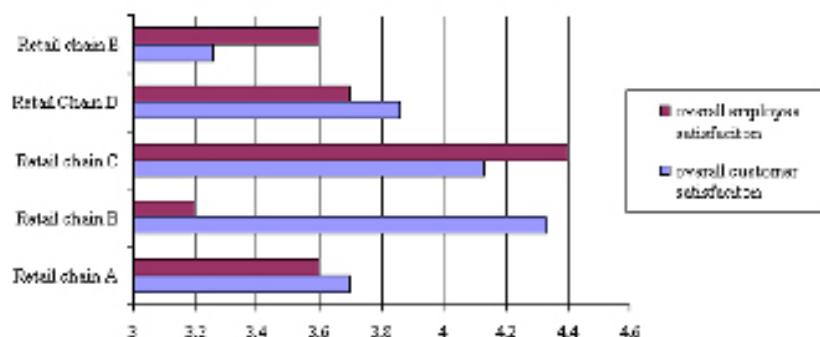
Therefore, Hypothesis 2: Retailer's quality of service is positively connected with the level of consumer loyalty, can be accepted.

For the purpose of determining the relationship between employee's satisfaction and customer satisfaction the research of employee's satisfaction has been carried out. After the quantitative research of salespersons in these five retail chains on Croatian retail market results have showed the rank of importance and satisfaction with the job's satisfaction factors. The most important variable is a good manager, and then safety and security of workplace, payment and working conditions. The salespersons are the most satisfied with acceptance of colleagues, then with confirmation of capabilities, good manager and with safety and security of workplace. The variables that would mostly contribute to greater job's satisfaction have been ranked as following: a payment and reward system, the organization of work and advancement opportunities, relationship of managers, working conditions, interpersonal relations and education, which confirms the conclusion of the research of Economic Institute Zagreb in 2000. (Marušić, 2006). For higher job's satisfaction first factors to be included are the existential ones, then environmental factors, while the job's satisfaction motivators of higher and the highest rank come at the end.

Table 3. The correlation coefficients of the of service quality and level of customer loyalty

Factors	Pearson Correlation
the overall satisfaction level of personal service and repurchase intentions	0.66*
the overall satisfaction level of personal service and customer willingness to recommend the retail chain	0.48*
the overall satisfaction level of non personal services and repurchase intentions	0.97*
the overall satisfaction level of non-personal services and customer willingness to recommend the retail chain	0.82**

*p<0.01, **p<0.05

Chart 1: Overall employee vs. overall customer satisfaction in selected retail chains in Croatia (average grade on scale 1-5, 5 being highest grade)

In order to determine the correlation between customer satisfaction and employee's satisfaction in five retail chains the statistical software SPSS v.16 is used and the correlation coefficient are obtained by bi-varient Pearson correlation method. The result has showed a weak and not statistically significant relationship between these two constructs. This is supported by the fact that the overall customer satisfaction (the both external and internal customer satisfaction) are under the influence of many different factors at the same time. Because the relationship between customer satisfaction and employee's satisfaction is weak and not statistically significant Hypothesis 3: Level of customer satisfaction is positively connected with level of employee satisfaction, can't be accepted. The same can be observed from the Chart 1 where overall employee satisfaction is drawn beside overall customer satisfaction. In retail chain B which measured the highest overall average customer satisfaction in our research

showed actually the lowest average employee satisfaction.

From the results of the survey sent to managers of relevant departments for monitoring customer satisfaction in five retail chains it can be concluded that the managers are aware of the importance of customer relationship management strategies. They consistently monitored the customer's satisfaction by using several methods like: analysis of complaints and suggestions, customers satisfaction surveys, mystery shopping, analysis of lost customer, the average size of transactions. Also, they consistently monitored employee's satisfaction and they used the direct and indirect, financial and non-financial work motivators for job's satisfaction. However, comparing these results with the results of customer satisfaction and employee's satisfaction in each chain it can't be determined that retailers who have developed a method and/or procedures for continuous monitoring of customer satisfaction achieved a higher degree of customer

satisfaction. For example, in the chain A, managers used all ways for constant monitoring customer satisfaction that are mentioned, and only that chain has implemented CRM software to support the management of customer satisfaction but it has not achieved the highest customer satisfaction. Furthermore, in the chain B, managers annually monitored employee's satisfaction and used the widest range of benefits to increase motivation at work but did not achieve the highest employee's satisfaction. Therefore, Hypothesis 4: Retailers who have developed a method and/or procedures for ongoing monitoring of customer satisfaction achieved higher degree of customer satisfaction, can't be accepted.

However, because managers are aware of the importance of the CRM strategies larger use of CRM strategies and CRM software for this purpose can be expected in future.

Conclusion

There are several quite interesting finding to be drawn from the conducted empirical research. Taking into account limits and boundaries of the research it still seems that the findings are quite opposite form the expected. Higher importance and value of non-personal over personal part of store service at first seems surprising but it is not so if complete context is taken into account. This was survey of Fast moving consumer goods stores and shoppers and there the least amount of personal service is expected. Customers are often not engaged in extensive evaluation but rather into repeated and impulse buying. It is a low involvement purchase situation where personal help or expertise is not the most important variable. As each store sells the same brands, price level is often more important as well as a large parking space, long working hours, and other amenities such as entertainment that means a lot more to modern customer than a friendly and expert staff. Research confirmed positive relationship between quality of customer service and customer's loyalty to the store as expected. The biggest surprise was to learn that customer satisfaction is not positively connected to the employee satisfaction. This result goes against most academic authors from the field that always emphasise general connection between customer and employee satisfaction. However, this was a research in FMCG setting where results showed that personal service is maybe not as important as

a large parking, low prices and good selection of products. Consequently, even if employees are not so "satisfied" but other variables of "non personal" service are set up right, consumers might be more satisfied than in stores with "happy employees" that for example lack parking or have higher prices. Finally, retail chains that monitor more closely customer satisfaction did not achieve better score in customer satisfaction in our survey. This fact can be explained and is confirmed in our in-depth interviews with the managers, that monitoring of customer satisfaction is only the first step toward implementation of actions toward improving it.

A daring conclusion of the research findings might point toward future trend for FMCG retailers. As major source of cost structure in FMCG retailing is attributed toward store personnel it seems that different nonpersonal services that so greatly contribute toward customer satisfaction will enable large retail companies to further increase profitability through focusing onto them while cutting average number of employees per store. Advances in technology such as EDI, RFID, self scanning, etc. will further contribute to such trends. Managers in the sector should therefore carefully balance costs and returns from investing and focusing on different variables of customer satisfaction in order to obtain the most efficient combination which may in turn prove to be a valuable source of competitive advantage.

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USING MULTIPLE SENSES IN SERVICE EXPERIENCE CREATING CONSUMER LOYALTY IN TOURISM

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Abstract

This study assesses the field of consumer behavior and more detail tourists decision process regarding their holiday destination. Using an empirical research that combines the concepts of destination loyalty and psychology of the consumers in tourism, emphasizing influence of emotions on service evaluation, findings indicate strong relationship between consumer personality and destination choice. Study explores why Serbian tourists were willing to recommend some tourism destinations over another in the case of Croatia, Bulgaria, Montenegro and Greece. Results from this type of study have the potential to enhance the effectiveness and efficiency of management in tourism sector by focusing on perceptions and motivations which, considering more widely and holistic with other factors, give better understanding on consumers perspective of view. Furthermore, similar surveys could be carried out among potential tourist to other countries indicating future lines of research which could contribute to the more general understanding of consumer behavior in tourism.

Keywords: brand experience, loyalty, consumer behaviour in tourism, destination image.

*Please contact the author for the figures

Introduction

The concept of tourism destination branding gains popularity and interests of researchers as a holistic concept that affects consumers in their perception of destinations and has a large influence on decision process. Therefore it is necessary to answer the questions what drives consumers in the decision process to choose the destination and at what price they will pay for? Using examples

of four destinations, we will define which factors consumers take into consideration and by which criteria they ranked them by relevance. Since this research doesn't provide sufficient sample to form universal rules, it will present the relations in the attitudes that prevail when Serbian tourists choose a specific destination for a holiday.

Consumer decision process towards tourism destinations

How Crouch (2004) points out, knowledge of consumer psychology is fundamental to successful development, management and marketing in the tourism sector. It is certain that the current recession and the crisis that emerge from it, will influence the extent and dynamics of tourism demand in the world in the coming years. In this context, appropriate tourism market research and tracking of all relevant phenomena will gain on significance. When a consumer buys a product, he buys it with all his features. Characteristics of the product, in the consumer's mind, consist of images generated by the consumer on the real and imagined benefits of products, the other people who are buying it and his image if it is bought and consumed. On this dependence between consumers and image is based old but still valid propaganda message that consumers don't buy on rational sense, but on affective choice. Geographical and time dislocation of purchasing and using tourism services and the fact that the tourism product and destination can't be significantly altered, raises the need for the creation of image type or brand which will affect consumers. All Mediterranean destinations have a natural and cultural-historical value-all are important and can basically meet the needs of tourists for the warm sea or cultural heritage. Therefore, the prices range of services, marketing and quality tourism offer, can make a difference for

tourists. Decisions about marketing activities can be outcome only from the results of end-users, in this case, tourists, discovering the reasons and motives which drive them in decision process.

The destination brand and consumer personality

According to Popescu (2008) managing destination brand is complex and depends on local people, products, policies, organizations, and other factors that influence on the perception of the destination. A successful destination brand is based on the destination characteristics and consistent message that emotionally affects tourist's, it is associated with trust and supported by the National Tourism Organization. Shimp and Saeed (1993) introduced in literature the term Country equity referring to the emotional value that occurs as a result of consumer's associations with the brand destinations. A Brand which trigger emotions is most likely to have influence on creating consumer experience, results with a purchase, and if justified his expectations, make the brand loyalty. People are constantly in using the same brand because they love familiarity with product or service. Denison and Knox (1992) pointed out that, in order to save time, the loyalty of tourists is rapidly increasing. Although consumers generally value tangible product quality, we should never neglect the lifestyle that brand represents (Gobe, 2006). Thus, three decades ago Sirgy (1982) has stated that consumers evaluate a product in relation to their personality, where the product image share certain degree of similarity with the image of the individual. Also, Daniel Miller (1994) explained the essence of this concept where people first produce and classify objects, and then those same, culturally classified and marked objects (such as those associated with the life style), produce and classify people who use refuse them. Clearly, the emotional connection between consumers and travel destinations are the basis for future buying decisions. Contrary to the opinion presented by Hyde (2000) that tourists first consider alternative destinations, then the itinerary, the attractiveness of the destination and activities, our study provided the following results. Through the recommendation as the way of emotional targeting, feelings of personal safety and consumer confidence are being projected to a particular destination, representing synonymous

with quality, and the identity of the destination image as a part of the consumers lifestyle.

Methodology

Assuming that all Mediterranean destinations offer what Greece represents in the last 50 years-the sun and sea, cultural and historical monuments, specific traditions and welcoming ambience with reasonable prices, not all destinations have the status of First choice. The subject of research was to define the stimuli that affect the tourists in the process of choosing Greece vs. Montenegro, Croatia and Bulgaria. The study reported here had essential two objectives:

1. To examine the expectations that tourists have when choosing the destination and
2. To define the factors which influence on negative perceptions of tourism destination

The following hypotheses were tested:

H1 Tourists do not make decisions rationally but on a personal evaluation of the situation in the region.

H2 The more times tourists visit a destination, it was more likely to revisit it in the future.

The questionnaires were given to a sample of 740 Serbian participants during their trip to Greece, in interval from July to August in year 2006. and year 2009. The construction of the questionnaire consisted of four parts: The first part related to demographic characteristics of respondents (place of package holiday payment, age, average income). The second part of the questionnaire contains questions that reflect the image of destinations, and define the tourist brand experience of Greece. The third part of the questionnaire comprised the type of open ended questions so the respondents get more involved in researching and to investigate the intention of the respondents and their expectations regarding future destination choice. The last, fourth part is related to the organization of trip and duration of holiday. The research was also supplemented by secondary data resources.

Results

For destinations with highly receptive nature, it is necessary that research focuses on a group of foreign tourists, in this case, tourists from Serbia. In a representative survey of the Tourism Organization of Serbia and Visa International, with nearly 20,000 people from all over Serbia, as a desirable destination for season 2009. Montenegro have chosen only 3% of the participants of this research, while Croatia gained the 5%. Serbian potential tourists for summer vacation are mostly to choose Greece, which have chosen 40% of respondents, followed by Bulgaria and Egypt, which would prefer to visit 20% of respondents. The remaining 30% of people want to travel to Latin America, or dreaming of a vacation in an exotic land of Asia. Research on habits regarding planning vacations and trips, shows that 65% of Serbian tourists planning to spend summer vacations abroad. Every tenth consumer of Serbia, however, due to financial uncertainty brought by global economic crisis, will stay at home during summer, while the rest 25% of consumers will choose holiday in Serbia. As was mentioned above, Greece is the most popular tourism destinations for our tourists. The empirical research involved deliberately selected elements that will give the profile of Serbian tourists-visitors of Greece (the question referred to the scaling of the five given answers that reflect the brand of Greece as tourism destinations in Figure 1). The experience of Greece as the country of natural, historic beauty and friendly atmosphere clearly reflects the opinion of tourists that they want to feel like at home. First authors who noticed the importance of these two factors are (Ritchie, Zins, 1978), who presented research on the influence of social behavior of the local population on the attractiveness of tourism destinations. When tourists experienced a hostile atmosphere of the local population, in the same way they experienced the destination. Further, we can conclude that the natural beauty, although shown as the main driver for the trip, actually make the element that fits into the brand personality of Greece and coincide to a large extent with performances which Serbian tourists have on themselves (their own image and lifestyle). The first author that pointed out on correlation of the personality of the consumer with a choice of destination was Plog (1972). Opposite to claims given by Cohen and Schmoll (Crouch et al., 2004.) who stated that experience of destinations represent a minor factor in intention to return, in these results, we see that the experience

of destinations, quality and value (price) have a significant impact on tourist loyalty.

Reasons for Serbian tourists to visit Greece

For the year 2009, if listed separately factors which had influence on the decision, a recommendation affects nearly 40% of respondents while choosing tourism destination (Table 1.) and that 70% of tourists have already visited Greece in previous years (Table 2.). Towards Greece as a tourism destination three attributes preferences among tourists were distinguished: the attractiveness (natural beauty), country equity as experience or friendly atmosphere and accessibility (geographic proximity), while the cultural heritage, cuisine and folk tradition were the lower ranked.

The perception of Serbian tourists towards Montenegro, Croatia and Bulgaria as a tourism destination

The main goal of qualitative determination of a tourism destination perception is to achieve a positive brand status but also to identify negative factors affecting the attractiveness of other destinations in the region. A research estimates elements that create a positive destination brand for tourists, as well as factors that deter them to elect three other destinations. As the research aims to define factors that influence the negative perception of certain tourism destinations, the analysis included similar points of interest of tourists while choosing a tourism destination, as well as the relevant factors and stimuli that formed a negative perception towards other destinations.

Here can be clearly seen the respondents perception of the three tourism destinations for the year 2009. (Table 3, Table 4, Table 5.). Having in mind that perception is formed on the basis of the media, negative recommendations from friends or relatives, or to a lesser extent, tourists own experience, we come to the conclusion that, in the decision choice of tourism destinations, the experience of a destination brand had a decisive influence on tourists. Further, summing all negative factors that influenced on the decision process (Table 6.), primary for tourists is the quality of destination offer (attractiveness). Second is the influence of political factors, the third is the price,

and past experience. The advertising have a negligible impact on consumers.

A number of scientists who investigate the destination brand are interested to find out why the brand has emotional influence on the consumers and what characteristics are important for tourists acceptability. Perception (experience) tests are different from scaling the quality, by using direct comparison of the cases (destination) to define what each destination reflects on by specific feature. As the experience is a complex, in the survey elements are distinguished and evaluated separately by respondents.

On example of Montenegro, we see that the majority of respondents (30%) allocated inadequate service as a crucial reason for not choosing this destination for holiday (Figure 2 and Figure 3). As a second stated factor is the belief that prices do not match the quality of destination offer. Comparing research results for these two years, we see that three main factors that influenced the decision process of the respondents remained the same (inadequate services, high prices and they were), but that the role of prices was more important this year than in year 2006.

On example of the Croatian tourism destination, we can see that in both observed years, political climate have a crucial impact on tourists from Serbia (Figure 4 and Figure 5). At the same time there is a significant difference in perceiving the quality of destination offer, which is 11% higher compared to year 2006. What has also changed slightly is less influence of the political climate this year (decreased by 13%), as is the case of Montenegro (less impact by 5%).

Observing Bulgaria as a tourism destination, the perception of quality is a crucial factor in process decision for choosing the destination (Figure 6 and Figure 7). Here is the also case, as with previous destinations, that tourists from Serbia have the same attitudes and opinions towards these destinations.

Decline in interest to visit Bulgaria in recent years, for up to 50%, is the result of introduction of visa regime. However, evident is tourist adjusting on the new situation with a liberalized visa regime, so Bulgaria is ahead of Croatia in interest of Serbian tourists. However, there is considerably expressed uncertainty regarding the quality of destination offer, although it is concurrent to Greece with

low prices of holiday packages. According to the information from travel agencies, Bulgaria has a 20% upgrade its quality of accommodation offer and beside good nightlife, offers very friendly atmosphere. In our research, experience of welcoming atmosphere is noticeable through the almost negligible effect of political factors on the perception that our tourists have of Bulgaria as a tourism destination. Important factor in the year 2009. is lack of advertising and the possible lack of information, which could eliminate the negative perceptions regarding the uncertainty in the quality of destination offer. In survey questionnaire, through an open ended questions, were given the following answers as cause for not choosing these destination for holiday. On the Montenegro case was quoted: unfriendly tourism workers as well as unsanitary conditions for guests. For Croatia destination specified replied, 'I do not think,' friends did not want because they think it is still uncertain', 'never been there', 'optional excursions are too expensive', 'déjà vu', 'Greece was the cheapest', 'war', 'I do not want to go where they dislike us', 'uncertainty about the security agencies and tourists'. In the case of Bulgaria, our tourists are cited as the 'next visit to the country', 'no real sea', 'not beautiful', 'cold sea', 'visa' and 'not interested'. On the bases of research conducted by YUTA (Yugoslavian Travel Agencies Association) published in papers on Tourism in July, 2008th, concerning the decision of the respondents after the abolishment of visa regime from 19.12.2009., Montenegro as a tourism destination has not been taken into consideration. Opposite, Greece as a primary choice holiday destination with 41% having in year 2009., gained 50% of interested visitors for next year. In the same research, Bulgaria with 20%, down to only 3% of potential tourists from Serbia, for the year 2010. The main reason for visiting Greece is prominent advantage of prices and therefore a common relevant factor for tourists in choosing destination. If we quote (Burkart, 1984) who claims that the users seek holiday packages benefits by lower prices thus are indifferent to the destination, we would concluded that brand destination is not the primary factor in the decision making process. Price, however, is primary factor after selecting the destination.

Conclusionos and implications

The choice between same perceived quality of tourism destination depends on how they will be

presented to potential tourists, because creation and preservation of trust is the essence of the brand. The attitude of tourists from Serbia to Greece as a friendly country is evident and is the result of many years building and strengthening ties with the Greek people in the field of economy, culture, politics and many others. They share their experiences to friends and family, as research has confirmed since the recommendation appear as almost the sole factor of influences in the decision process. The results of the research emphasize the strongest factors for visiting a specific tourism destination and create loyalty among consumers. These are: perceived attractiveness of tourism destination, in terms of quality offer and friendly atmosphere. The brand was a key factor in selection of tourism destination for the first visit, while the experience of destinations environment was a key factor for revisit. In order to become loyal tourist, it was sufficient that tourist expectations in terms of accommodation and services quality met satisfactory level and to get exactly what he paid for-value for money. Although stated as an important reason, price and geographic proximity had a decisive influence on the choice of tourism destination (Bulgaria and Montenegro have approximately same price level and geographic distance from Serbia), which leads to the conclusion that tourists are emotionally tied to the destination by looking for a friendly environment. For example, to the trip to Bulgaria is still uncertainty about the quality of destination offer and in the case of Croatia were highlighted political reasons and still not stabilized relations with Serbia. In the case of Montenegro, there is relatively even distribution of responses for all of the mentioned reasons, but the lack of advertising isn't so relevant, given that our tourists are well familiar with this destination. For the destinations which are not so attractive for tourists from Serbia, it is recommended to make marketing strategies based on cost, opposed to promoting their attractiveness. The results of the study confirm the hypotheses and suggest that a combination of friendly perceived destination brand and good price offer are decisive factors in the decision making process, as such, have both theoretical and practical application on scientific fields regarding attractiveness of tourism destinations, consumer behavior and perceptions of the destinations brand.

Limitations and future research suggestion

We should have in mind that this research investigated the visit to neighbor destinations where the recommendation, not price, was often crucial to the decision process. Since the destination visit tourists from different countries, responses and results obtained here, are specific to a group of tourists from Serbia, of particular segments of consumers (holiday packages) and do not include tourists who choose further destinations, use another form of transportation and have greater financial resources (in which the fact of greater distance of destinations implicate tourists to rely on brand of tourist agency and reputation which brand has in the market). Further research can be conduct on how residents see brand of their destination and members of other nations in order to create the basic idea on which will be based on national brand and enable the implementation of external benchmarking destination. Considering all these facts, there is a clear need for market research in detecting factors which influence the formation of consumers' perceptions and experiences with the specific tourism destination. Results will provide direction in which these factors and stimulants should be developed for more affective influence on tourist decisions process.

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INNOVATION BUSINESS MODELS: THE CASE OF EASTERN SLOVAKIA

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Abstract

Authors base their innovation business model on open innovation framework of H. Chesbrough. This framework is used in own research of the authors among enterprises in the region of Eastern Slovakia. The research is based on survey that serves as a keystone for the Causal Loop Innovation Model. The article deals also with the issue of interconnecting business culture with business model. The paper is written with the aim to find out the most effective and efficient business model to support innovative activities of enterprises in selected region and to introduce causal loops and relationships among model variables of building blocks through the system dynamics methodology.

Key words: Open Innovation, Innovation Business Model, Business Culture, Causal Loop Diagram, Causal Loop Innovation Model

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Introduction

In these days, firms have to develop their competitiveness through a combination of innovation and methods of work organization, increases in productivity and utilization of their total innovation potential within environment, in which they operate. Every company can obtain

better conditions by new trends on business. The implementation of the modern trends brings a lot advantages for the company that the company becomes able to compete in the global business. Innovation activities are a motive power of economic development; they develop possibilities of future competitiveness in form of a new knowledge, increase effectiveness and fighting power of economics mainly through SMEs. These enterprises are considered as the 'spine of innovation potential' in actual Europe. 'Innovation approach goes out from understanding of innovations as application of knowledge on creation and realization of new products, services, technologies, organization and management, which lead to overstaying of the renovation in the closed ring [Mizla, Pudlo and Pešáková, 2009, pp 1].' This innovation approach respects existence of changes and the growth of their intensity. According to many researches, the business environment is influenced by various barriers (micro, regional, macro), which keep down European enterprises from carrying out innovations. They obstruct and discontinue innovation process and thereby they negatively influence competitiveness, perspectives and future of enterprises. The article is written with the aim to find out what type of business model is the most effective and efficient to support innovative activities of enterprises in selected region. It should answer the question if an appropriate business model even exists and what form should it take within innovation businesses. The article is written within solving the project 'Business Culture of Slovak Enterprises within European Communication Space' and project 'Causal process innovation models of SMEs during economic recession'.

On the basis of information overview about pro-innovation environments, which were obtained from regional innovation strategies is possible to

identify some groups of factors, which influence enterprise innovation activity. In some cases or opposite situations can be negative factors of environment understood as threats, but also as opportunities for given business unit [Takáč, 2008, Takáč, 2008].

Cooke et al [2007] reckons that according to the regional innovation system approach, various support organizations and policy actions may promote learning and innovation at the regional level. The setting up or expansion of universities and research institutions, science parks, innovation centres, technology transfer agencies and educational institutions can stimulate and enhance the production, diffusion and application of knowledge. Other important organizations supporting innovation-based growth include venture capital firms, business angels, standard-setting bodies and development agencies. The regional innovation system approach highlights that regional authorities can shape local learning and innovation process in a significant way by providing R&D infrastructure and educational infrastructure, supporting academic spin-offs, enhancing human capital and encouraging the formation of social capital. Presence of barriers is anticipated or eliminated by adequate management. Factors of regional business environment present themselves mainly as the commercialization of products and services in other regions and affect the level and quality of the innovation capacity in a business unit.

An innovation strategy will in the future serve also as a ground for exploitation of EU financial sources for the concrete development activities. Their result is an increase of the innovation amount in region, an enhancement of the qualified labour force, region competitiveness and a decrease of the unemployment. The competitiveness of regions and companies direct depends on the rate of science and research results in practice. Science and research have direct effect on the innovations development and innovation processes in the economics of each region. These issues will have an impact on the employment as a final result and its defensibility as an economic development in the region [Takáč, 2008, pp 2-3]. From the strategic management theory about the business environment we can divide factors of a pro-innovation business environment into macroeconomic, regional and microeconomic (see Figure 1). Some of the significant microeconomic, regional and macroeconomic factors of the

business environment in Eastern Slovakia are available in Table 1.

Slovak republic has created and adopted strategic documents, regulations and recommendations of European Union with the aim to proceed to their implementation and to change unfavourable evolutional trends in this field. In general, proceedings oriented on the support of the pro-innovation environment should include mainly tools, which can influence behaviour of enterprisers, their motivation and risk aversion.

Every of mentioned factors influence the enterprise directly or indirectly; and they also create different opportunities and threats. These factors can play an important role by decision of the top management. For the elimination of wrong decisions, all alternatives should be submitted to a deep analysis of external and internal business environment. Innovations are in this case a matter of business units, public authorities can mostly help to create and support favourable pro-innovation business environment.

Business culture and business model

Every organization develops own business culture that determines manners and ways of employees' behavior inside of the organization, and manifests them to the outside. The business culture is expressed in values, business principles, or ethical norms of leader managers who transport them to their subordinates [Rudý, Luptáková and Sulíková 2001]. Each enterprise has its own specific culture that is an integral part of its identity, and that differentiates it from other enterprises, even if business culture is mainly a set of unwritten, informal but respected rules.

According to Rudý, Luptáková and Sulíková [2001], a business culture gives employees a sense of identity and belonging; it provides a vision of the company, and it establishes and reinforces behavioral norms that lead to fulfillment of business goals. Other authors define the business culture as a set of basic presumptions, values, attitudes, and norms of behavior that are shared within the organization and that are simultaneously reflected in thinking, feeling and behaving of organization members jointly with artifacts of material and immaterial nature [Lukeš and Nový, 2005].

Factors and determinants of the business culture tell us what creates influences and promotes the organization. This can help to better understand specifics of making the business by different enterprises, foresee their behavior or strategy. From internal side, business culture can be used as a significant tool for information flow, changes or for exploitation of business potential of a company.

Building blocks of a cultural system can be defined according to various authors. For example, Pfeifer and Umlauf [1993] consider following three components of the business culture.

Visions – pictures shaped by employees and linked to their participation in the company.

Approaches – tendency to think and act in a certain manner.

Values – recognized, respected and binding goods or ideas acting on human behavior.

Depending on the perspective of what forms the business culture and its elements, and how these elements can be organized and interpreted to the company, there was a loop hole formed that enables creation of various business models as a different interpretation of the content and the structure of the business culture.

Within the identification of key elements, we found that the business culture is a subjective concept differently perceived by authors and also by enterprises themselves. Thus, we generalized business culture elements into three main areas based on business activities of enterprises. First, there is a processing area, which involves the production of goods and services. This area is formed by process elements – strategy and goals formation, promotion practices, internationality (monitoring the situation on foreign markets, enabling employees to acquire international experiences, the presence of foreign capital, efforts to expand abroad), presentation of company's products and services, the way of doing business etc. Second, an organizational area contains business activities within which workers operate in the company, the hierarchy and relations among different business units and employees. An organizational area is formed by information flows, formal and informal organizational structure, responsibilities, spoken and unspoken authorities, managerial style, motivation, training and selection

of employees etc. Last, there is a social area created by soft elements of the corporate culture, an environment within which employees operate and create ideas, attitudes and values to the company. To the social elements belong working conditions, aesthetics in the company, social responsibility, atmosphere etc. There is usually different level of the business culture according to its conscious or unconscious evolution driven by managers or driven by employees.

Some authors as Šigut [2004], Pfeifer and Umlauf [1993], Brooks [2003] reckon that demonstration of business culture can be of material or immaterial nature and of internal or external manifestation. Immaterial internal manifestation of the business culture is aimed at an internal atmosphere, relations between employees, managers and subordinates, and also the form of a social contact. Immortal external manifestation of the business culture demonstrates the behavior of the whole company toward the outside, to customers, suppliers and public. The key material external manifestations are offered products and services, with the point of sale, its environment, promotion, brand, clothes of employees that influence the customer. Material internal manifestation presents a physical environment of the company where employees work as buildings, offices and so on.

However, authors of the business culture don't focus much on innovative character of enterprises that is one of the outcomes of business culture that simultaneously influences business culture and develops it. The human factor acting on innovation of processes is strongly influenced by ideas, values and approaches of creative employees. This innovative approach overflows into organizational and social side of business, where businesses improve their business models and they become a learning company able to fully exploit its business and innovation potential.

The business culture is closely tied to a business model as it predetermines the model and interacts with it. The business model forms a framework within which the business culture develops and interlinks with business activities. The business culture is similarly as the business model an integral part of each company activity and unit. According to Ostenwalder and Pigneur [2003], the business model describes the rationale of how a company creates captures and delivers the value (economic, social and other forms). A process of the business model formation is a part of a

business strategy as it contains key activities of the entrepreneurship (purpose, offerings, strategies, infrastructure, organizational structure, business methods, operational processes and policies). Authors describe the business model through nine building blocks that indicate the logic with which the company intends to make a profit. These nine building blocks form four key business scopes: customers, offerings, infrastructure and financial viability. The customer scope with three building blocks (customer segment, channels and relations with customers) indicates that the enterprise serves to one or more customers whose needs it tries to satisfy through communication, distribution and business channels within maintaining and developing good relations with customers. Offerings consist from only one building block – value offering – that determines the set of tools (products and services) with a value for a specific segment. Building blocks of the infrastructure scope are key sources, key activities and key partnerships necessary for offering and distribution of previous building blocks, whether gained from internal or external sources within networks. Financial viability consists of two building blocks. Cash flow is a product of a successful value offering to the customer segment and a cost structure reflects the financial side of all previous building blocks.

Henry Chesbrough [2006, pp 108] defines the business model as a framework to link ideas and technologies to economic outcomes. In other words, the business model answers the question of how a company uses own potential to earn money. Chesbrough also reckons that every company has a business model, whether it is articulated or not. A business model servers to the company similarly as a business plan, however more general, less detailed in financial matters and pointing out ideological side of making the business. Within his definition, Chesbrough [2006, pp 109] identified also six functions the business model encompasses:

- to articulate the value proposition;
- to identify a market segment;
- to define the structure of the firm's value chain;
- to specific the revenue generation mechanisms;
- to describe the position of the firm within the value network;
- to formulate the competitive strategy.

Open business model

The concept of the business model is differently perceived among authors, thus we chose an open innovation concept developed by Henry Chesbrough. The commercialisation of technologies and know-how generates an important part of acquiring enterprises innovation capacities. External sources of innovation activities, including new forms of companies' financing, networking, marketing and innovating in last decades, became known as open innovation. According to H. Chesbrough [2006, pp 2], open innovation is 'the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively. [This paradigm] assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as they look to advance their technology'. Accordingly, the concept of open innovation is a part of new relations development in business networks. Enterprises are less bounded to traditional business concept that stresses out an independence of enterprises within R&D and innovation activities (see Figure 2).

On the contrary, enterprises are more depend on their networks with suppliers, customers, competitive enterprises, public administration, universities and other actors on the market. Even open innovations are under these definitions more related to high-tech industries, yet this concept can be successfully applied also in lower-tech industries, SMEs or even in local/regional/national administrative as it indicates a creation of networks suitable for efficient acquiring and exploitation of innovation advantages.

An enterprise can effectively use the flow of open innovation in a suitable business model. Thus, Henry Chesbroug [2003, 2006] identified six stages of business model from traditional closed business model to fully open and flexible business model. Chesbrough claims that all enterprises can be classified within these six stages or types of business model. The change of business model is related to some external factors that shape markets on which these enterprises operate (see Figure 3).

The traditional closed business model is confronted with externalities as raising mobility of highly educated workers within sectors and also between as they take their knowledge with them (see Figure

2). This simple model indicates the driving force of knowledge mobility among enterprises, even if the real impact of workers mobility isn't captured in relevant research yet. The factor of mobility is supported by the raising availability of venture capital, including other forms of external investing partnerships, forming new business forms (as start-ups, spin-offs, clusters, hubs, nods and other). Among erosion factors are also new ways of commercialization of unused technologies and ideas, as a contradiction of leaving them lying in the deposit. The last erosion factor includes new forms of outsourcing – mainly technology and R&D outsourcing that enables quicker and cheaper development of new products or processes.

Chesbrough [2007] reckons that enterprises can be often more open than they realize, even they are not aware of the existence of open innovation or the open business model. These enterprises can intuitively follow the path from the closed toward the open business model. Thus Chesbrough identified six stages, or business model types, which represent the development from the traditional closed business model he named Undifferentiated toward the Fully open and adaptable model (see Figure 3).

Type 1 Undifferentiated business model – these enterprises work within their traditional closed business models, while they compete only on the basis of the price and accessibility. They offer products and services minimally different from competitive enterprises, similarly as some restaurants, groceries, or small shops.

Type 2 Partly differentiated business model – the second stage of a business model openness is formed by enterprises that offer slightly different products and services. Their customers are oriented more to performance, not solely to price and accessibility. However, enterprises at this stage of openness still don't dispose of sources for innovation activities that would ensure differentiation for a longer period.

Type 3 Segmented business model – segmented enterprises are competing concurrently in various market segments. The price sensitive segment provides the base for high volume, low cost production, while the performance segment supplies high margins. Enterprises at this stage are more profitable, distinctive and innovative, but they are still vulnerable to major changes that are beyond their business and innovation tension.

Even these enterprises are subordinates of the market; they are able to plan the future using of their products and services.

Type 4 Externally aware business model – enterprises at fourth stage start to open up to external ideas and technologies and that widens the scope of their business and innovation tensions. Business plans of these enterprises reckon with the in-licensing that allows cost and time reduction for the development of new projects. At the same time they are aware of the risk sharing with other actors at the market. Thus, these enterprises start to form systematic networks with suppliers and customers and share business plans and ideas with them. Externally aware enterprises allow suppliers and customers to plan their activities in conformity with own innovation activities.

Type 5 Business model with integrated innovation process – at the fifth stage of openness plays the business model the main integrative role within the company. Suppliers and customers have formal institutional access to innovation processes of the company and reciprocate in kind. They share their own road maps providing better visibility into the customer's future requirements. These enterprises usually experiment with their business models aiming to understand the supply chain back to beginning to raw materials. They are looking to find possible technological changes and cost reduction. On the opposite side, these enterprises search also for customer chain back to final consumer of the products and services. For this purpose, enterprises routinely exploit external sources for ideas and innovations, while they allow own internal ideas to flow to other business models.

Type 6 Fully open and adaptive business model – the final stage of openness is represented by major experiments of the business model including exploitation of a venture capital to explore alternative business model variants within start-ups, spin-offs, joint ventures, incubators to develop and commercialize own technologies and innovative capital outside of own business model. Key suppliers and customers become business partners within the network and they share technical and business risks. An open company is able to integrate other actors in the network in own business plans and form market segment they operate in.

Aim and methodology

The Aim of this paper is to identify what type of business model is the most effective and efficient to support innovation activities of enterprises in the region of Eastern Slovakia (Košice and Prešov autonomous region). We have carried out a survey that served as a keystone for the causal relations of the created business model. The survey was realised in a period from March 2009 till April 2010 and was aimed also at the identification of pro-innovation factors, information collection from the innovation exploitation area, innovation management and identification of innovation barriers within innovation activities in chosen region.

This research was carried out simultaneously with a second survey research that have analysed the situation of erosion factors in the region of Eastern Slovakia. According to Statistical Office of Slovak Republic, Eastern Slovakia is a base of 19,9% of all enterprises (law persons) and 24,9% of physical persons operating in Slovakia. Within examination of the process of erosion of traditional business model in selected region, we addressed 250 enterprises, from which 228 were able to collaborate. The questionnaire survey has referred to slight erosion of closed business models.

On the established results, we managed to address 33,8% of enterprises from the same sample to enquire about their business models. The second survey aimed at the business model was distributed as an on-line questionnaire, which consisted of 40 obligatory and facultative questions. The questionnaire was dedicated to the top managers, owners of enterprises or leader employees in the innovation field of enterprises. 77 enterprises have taken part in this survey, from this 58 small (75%), 13 medium (17%) and six large enterprises (8%). The rate of return was 100% thanks to a mutual agreement with approached enterprises and an on-line version of the questionnaire. Results of the questionnaire were processed in transparent graphs, which visualize percentages of answers of chosen on-line questions.

Our business model is based on open innovation framework of H. Chesbrough, who identified six stages of openness of the business model. Model was created as a basic cycle, which consists of seven areas (variables): from R&D, innovation, business culture, intellectual property, marketing, networking to financing. This cycle was transformed

to the form of Causal Loop Diagram (CLD) with more detailed relationships among defined variables as Causal Loop Innovation Model (CLIM). We believe that system dynamics offers a richer approach for understanding this complex relationship than other methods because of its ability to incorporate soft variables into this type of analysis. We have identified direct and indirect relations, which can be positively or negatively affected. According G. Richardson 'positive and negative feedback loops are the building blocks of system dynamics [Richardson, 1986, pp 158].'

Results

We analysed the situation of erosion factors in the region of Eastern Slovakia. Within examination of the process of erosion of traditional business model in selected region, the questionnaire survey has referred to slight erosion of closed business model. Slovak enterprises were manifested positively in developing networks with suppliers, consumers, competitive enterprises and some even with universities and public authorities. There is also relatively high mobility of workers between enterprises. However, the factor of mobility is influenced by economical crisis and it wasn't possible to correctly interpret the results. Nevertheless, only one enterprise was in investing partnership through venture capital and intellectual property market is still at low levels. On the established results, we managed to address 77 of enterprises from the same sample to enquire about their business models.

From the survey sample in the region of Eastern Slovakia, we managed to identify four business model types from six defined by H. Chesbrough. Enterprises which were identified as undifferentiated business models represent 32%. Enterprises of Type 2, which have partly differentiated business models, form the largest group (47%). Type 3 is represented by 18% of enterprises with segmented business model and the lowest percentage 3% creates Type 4, where are classified enterprises with externally aware business model.

Percentages of the length of business activity according to business model types are displayed in Graph 2. Among enterprises from Type 1 is possible to find out 48% enterprises, which operate on the market one or five years. Most enterprises of the Type 2 are operating at Slovak market longer than 11 years and less than 20

years (42%). Among enterprises which have partly differentiated business model are 50% enterprises, which length of their business activity is more than 10 till 20 years. Very similar situation was found by fourth business model type, where enterprises acting on the market 20 (50%) or more than 20 years (50%). From these results, it is possible to make a conclusion that Type 1 is represented by younger enterprises than higher stages of business model openness. Type 2, 3 and 4 represent mainly enterprises with length of their business activity more than 10 years.

As it is visible in Graph 3, the largest percentage of a home capital is from undifferentiated (Type 1) till segmented business model (Type 3). Only among enterprises come under Type 2 is a very low percentage 2,8% of balanced home and foreign capital. Enterprises from our sample with externally aware business model answered that they have, in each case, more than 50% of foreign capital. In lower business model stages, less than 15% enterprises have more than 50% of foreign capital. Neither of enterprises of Eastern Slovakia realized innovation through venture capital funding.

From the whole number of enterprises that took part in this survey, the largest number of enterprises classified themselves according to SKNACE Rev. 2 to the category C (industrial production) and S (other activities) with a share of 18%. In this sample, we can also find higher shares of a category F (building industry), G (wholesalers or retailers), H (transportation and storage), I (accommodation and catering services) and J (information and communication). Concerning enterprises with the business model of Type 1, the largest number is operating in category S (5 enterprises – 20%), F (4 enterprises – 16%) and the same percentage of G and H (3 enterprises – 12%). That present us, that closed model is really common in low-tech industries. Within enterprises of the Type 2, most of them are classified within a category S (7 enterprises – 19%), C (6 enterprises – 17%) and with the same percentage G and I (5 enterprises – 14%); that means low- and lower-tech industries. Within the Type 3, 36% of enterprises were categorized in category C and 21% in category F. There were also 14% of enterprises within a category S. Concerning Type 4, there were positively identified only two enterprises, one in the category C (industrial production) and one in category K (financial and insurance services). Enterprises of the fourth type are large companies operating within established networks,

but we weren't able to link categories of business activities to a business model stages and confirm assumptions about increasing technological complexity in more open business models. From this survey it was also possible to read inability of Slovak enterprises to classify themselves to a certain group according to SKNACE scale (see Graph 4).

Further, respondents had to answer a series of questions about innovation activities in period from year 2007 to April 2010. Their answers divided them into 3 groups (yes, partly yes, no).

The Table 2 displays results of innovation activity by enterprises size. Innovations were realised in 62% of small enterprises, from these enterprises 35% only partly. In 38% of small enterprises were not realized any innovations in this period. Better situation was among medium sized enterprises, where only 8% of enterprises did not realize any innovations. From large enterprises were innovations realized in 83% of enterprises and any partly realized innovations.

Table 3 presents results of innovation activity by business model type applied in enterprise. There is easy to record that innovation activity was realized from Type 2, because in Type 3 were only partly realized innovations. Enterprises in Type 3 and 4 did not have case of not realized innovations. All enterprises with externally aware business model realized or implemented their innovations. With higher business model stage increases also innovation activity in chosen regions.

The largest percentage of enterprises, which realized innovation in higher mentioned period have noticed innovation contribution in the increase of earnings (14%). This contribution was higher than in enterprises, which realized innovations partially. An increase of the customer satisfaction and improvement of products or processes were contribution with higher share. On the Graph 5, it is visible that contributions from fully realized innovations have bigger ratio of enterprises, because there were more enterprises (95) realizing full innovations. Enterprises which realized innovations only partially gained cost savings (21%), improvement of products and processes (15%) and increase of competitiveness (12%).

Survey was oriented also at the identification of innovations barriers. We identified these barriers,

while we considered internal and external factors of pro-innovation environment. Concerning enterprises which realized their innovations through a project, there was the biggest barrier lack of employees' creativity (100%). Problem with conservative suppliers and customers and unsuccessful cooperation of others was found only in a case of enterprises that didn't implemented innovation through a project. Higher percentage of barriers was identified in enterprises, which did not use any innovation project. From this result, it is possible to allege that the realization of innovation projects is might be a possibility to avoid some other innovation barriers.

Enterprises, which were classified as Type 1 and Type 4 realized their innovation activities only from own finance resources. Some enterprises from Type 2 and 3 used beside own financing bank loans, but also national and EU funds.

On the basis of realized surveys, we confirmed the logical causal relationships among some important variables of Eastern Slovak business environment. For higher amount of realized innovations is needed to cooperate with other subjects of the market, networking with others, higher level of R&D, innovation, strategic and knowledge management. Among these variables, there exists a positive or a negative relationship. Higher amount and quality of realized innovations causes higher level of intellectual property, knowledge of employees and business competitiveness. Also customer satisfaction is a significant element in innovation process of enterprises. All this depends on degree of the business culture, which is very important issue in the business model. An enterprise has to be prepared to respond to a great amount of internal and external factors (barriers/threats or opportunities) of the business environment.

Discussion

Innovation activities and increase of competitive position of regions is stated as the most important issue of strategic plans of individual regions in Slovakia in general and also specifically for Eastern Slovak Regions. The status as a low-cost labour base is getting to be weakened due to significant economic growth, emigration of labour power and subsequently due to the stronger demand for higher wages. These are the main reasons why innovation in all its forms (new business models, management techniques, products, and services)

is vital to the continued economic growth and success of the Prešov and Košice regions.

Transfer of technologies, innovations and know-how is the main tool of innovation development due to the insufficient production of new technologies in the regions.

Positive increase of R&D expenditures was observed in Košice Region since 2002. This positive change was observed until 2005 in Prešov Region. Year 2006 was an exception where R&D expenditures decrease around 20% comparing to 2005. Opposite situation was observed in Košice region where 40% increase of expenditures on R&D activities comparing Year 2006 with 2005 was studied [Mizla, Pudlo and Pešáková, 2009].

We have to note that demand for R&D outputs is very weak in the region. Eastern Slovak companies are not so much interested in the creation of new progressive products or technologies. This situation can be connected mainly to small share of products that brings new extra added value in the structure of total production in Slovakia. Moreover, the most of Slovak exporters run their businesses on the markets where competition is small; and they use low price strategy usually. R&D investments are the means by which the productivities, sales, and profits of a firm can be increased.

Lundvall [2002] explains the accumulated causal relationship between technology and the economic growth of a firm. He insisted that R&D and technological innovation leads to a growth through the capital accumulation caused by the raising of the technological capability; further, the growth of the capital also becomes a source of the investment into the R&D as incentives. The study of Moizer and Towler [2004] demonstrates that the accumulated knowledge would generate profits. For example, increasing the budget for R&D investment would lead to increased R&D activities, thereby affecting the accumulation of technological knowledge, which would finally influence the profit [Kim, Choi, 2009].

Innovation Business Model

On the basis of analyses and survey research, we were able to outline some of building blocks of the business model (BM). As we closely analyzed collaborating enterprises, we identified seven basic features that can serve for further identification

of the business model openness according to H. Chesbrough (see Figure 4).

We consider financing, R&D, innovation activity, management of intellectual property, marketing, business culture and networking as main indicators of the business model. These building blocks are interlinked and influencing each other (see Table 4).

Financing

Financing of the business activity is an important indicator of the BM as it points out a way of managing business processes from financial side. It includes not only a source of funding, but also areas enterprises prefer to fund, and the way they manage that. Every type of the BM use own financial sources, bank and non-bank loans and credits for business processes funding. Other ways of funding are developed from the third stage of the BM. The BM of Type 1 is unable to influence earnings, and doesn't count with a budget for innovation, marketing or R&D. The second type allocates some finances to support marketing; however it lacks regular funding of innovation activities. From the Type 3, enterprises use alternative financial sources from national or EU funds to develop innovation strategies and support R&D activities. These financial sources are supplemented by investment partnerships like venture capital from the Type 5. Fully open BMs share funding of some business activities as marketing, innovation and R&D with their network partners.

R&D

Research and development of new products, services or processes are tightly linked to innovation and IP management. BMs of Type 1 and Type 2 lacks R&D management. At a third stage, BM incorporates R&D within innovation process. At fourth stage, enterprises realize that it isn't necessary to have own technological laboratories and R&D employees if these are more effective and efficient to outsource. Thus, enterprises aren't forced to invest into R&D on a regular basis; fixed costs into R&D are changing into variable costs. R&D becomes a systematic and planned process. Internal and external R&D activities are incorporated into all business processes in Type 5. Enterprises share some outcomes of

their R&D activities - from ideas, inventions to final technologies – with their business partners in the network. R&D is interlinked with business strategies of sustainable development. Fully open and adaptive enterprises use networks to share costs, risks but also gains from R&D with their network partners. Enterprises with BMs of Type 5 and Type 6 are able to commercialize their R&D outcomes, even byproducts, at secondary R&D markets. BMs from Type 4 are able to develop new R&D strategies, they form start-ups or spin-offs to further support potential ideas outside own business model. Similarly they exploit venture capital, eventually other forms of investing partnerships, create clusters, joint ventures and other new forms of business to support R&D activities.

Innovation and Intellectual Property

These two building blocks are taken from H. Chesbrough [2006] identification of the BM within six stages of its openness. The BM of Type 1 lacks innovation of its products and services as well as management of intellectual property (IP). Type 2 creates some differentiation of products or services and additionally, generates occasionally some IP through innovative outcomes. In the segmented BM is innovation planned organizational process as a part of firm's sustainability. IP is usually managed as someone's responsibility inside the firm, whether it includes buying or selling IPs. With the evolution of the BM to the fourth stage, innovation becomes a cross-functional activity and IP is managed as an enabling asset, helping access adjacent markets and generate value. A company with the fifth type of the BM shares its innovation roadmaps with suppliers and customers, and its access is reciprocated by those parties. IP is managed as one of the kind of financial asset within a profit centre. Fully open enterprises realize that innovation of the company's BM itself is a part of the company's innovation task. IP is managed as a strategic asset, helping the company enter new businesses, align with suppliers and customers, and exit existing businesses. The management of innovation and IP is involved in every business unit of the company and the company participates at the secondary emerging markets of innovation and IP.

Marketing

Marketing is a part of the BM as it develops a process of selling products and services through promoting them to customers. However, this promotion is determined first to attract consumers; it isn't its sole purpose. Marketing serves as a channel for the expression of the business model, including business culture, values or norms. In the undifferentiated BM are management of marketing activities abandoned and they aren't integrated into business processes. If enterprises ever use marketing, it tends to be only as a basic promotion of offered products and services. Enterprises of the first type are unable to create own market segment and form it according own needs as their products or services are of same nature as of competitors, undifferentiated or only in an unnoticeable way. The approach of the BM of the second type toward marketing is still vague and intuitive. Enterprises rarely form business units aimed for marketing activities. They tend to outsource marketing services ad hoc to increase their turnover. However, these enterprises are aware of the need to promote its products and services for strictly economical reasons. These BMs are able to create own market segment. Products and services they offer are more differentiated as of Type 1. Thus, they are fit to predict the future use of their products and services, but not a long term sustainment.

An organized form of the marketing is more common from the third stage of the BM openness. It isn't necessary to have own marketing department if outsourced marketing services are more effective and cheaper. These enterprises are able to create own market segments, influence their development and enlarge these markets. They are aware of the importance of marketing and thus they create marketing strategies. Nevertheless, the need to promote products and services, as well as to create and develop market segments, is still of economic nature. At financial instability is marketing one of the first in funding cuts. This tends to change at the next stage of the BM, as enterprises accept marketing as one of the mean of financial stabilization. These enterprises usually create own marketing units as marketing becomes an important part of selling processes. Customers and suppliers start to become a part of innovation processes as enterprises widens the scope of activities to collateral markets. Business plans and strategies, and marketing strategies, are created

for longer periods because enterprises are able to influence market segments and manage own sustainability. From this type of the BM, enterprises start to experiment with marketing, innovate marketing tools, and experiment with marketing strategies.

Fifth type of the BM integrates marketing into main business processes as the brand becomes enabling asset of the company. Marketing strategies are shared with other participant in the network. Key customers and suppliers are integrated into innovation processes while the enterprise enlarges at new markets and industries. Enterprises are aware of the significance of market and marketing research and they invest in research activities, usually jointly with network partners. This collaboration can grow into complex cooperation of network participants in marketing activities. Enterprises in the network share their marketing strategies with other participants and they adapt them to each other to support partners' strategies as well as own. These enterprises recognize that the network is a part of their success. Within the network they cannot only enlarge the scope of their action but also regulate the evolution of markets and industries.

Business Culture

Artifacts of material and also immaterial nature that an enterprise demonstrates on the outside and the inside establish a business culture of the enterprise. We define business culture and its factors in the chapter Business culture and business model. In connection with the BM interpretation we found common features of the business culture in six types of the BM. Undifferentiated BMs tend to neglect a lot of business culture features. However, every enterprise demonstrates a business culture of its own; a difference is in their formalization and in providing them by own ways or methods.

A closed model uses business culture features checked by years or observed from other businesses. They use them to demonstrate more to customers abandoning internal environment, while these manifestations are more of material nature. The first stage of the business culture lacks motivation of its employees, some added value of its products and formal expression of firm's values, positions and norms. The business culture of the second type is more developed, however still not coordinated by the authority.

Business culture features are still oriented toward the outside, and are more intuitive than organized. At the third stage of the BM openness, enterprises start to be aware of the importance of culture as a demonstration of own values toward the outside and simultaneously inside toward own employees. Enterprises knowingly develop some business culture features, while they use to formalize these within business plans and strategies.

Externally aware enterprises purposefully integrate business culture features into business strategies and plans, while they tend to develop as material as immaterial features both toward business environment and toward own firm. The fifth type of the BM integrates the business culture into all business processes. The business culture becomes an integral part and manifestation of the business model. Cooperating businesses, customers and suppliers understand the business culture of the firm as well as all employees. Fully open and adaptive BMs are not afraid to experiment with the business culture and its features; they integrate new features and activities into own culture as they adapt to changing circumstances on the market. Enterprises are open to other business cultures and they purposely interlink own business culture to the business culture of other participants in the network.

Networking

Networking presents a building block that influences other building blocks and is inevitably influenced by them. Each enterprise has its own way of creating networks basically with own customers and suppliers. These networks widens as the business BM opens for new actors on the markets. Networking activities are interconnected with innovation activities of the firm as it creates new channels of idea/knowledge/technology flows between network participants. On the other side, networks serve also as a medium for cost and risk sharing (we further discussed the issue of networking in Pelegrinová and Pešáková, 2010). Efficiency of a network can be described also through some indicators as a number of intellectual property; a number of innovations, inventions, open-innovations; the power of the network (calculated as a number of contracts/transactions between network participants); the power of the network core (calculated as a number of projects within the network); transactions of network members within the network vs. outside of

the network (ratio); the critical mass (minimal and maximal number of network members effective for network functioning); key performance indicators used in financial analysis for example volume of sale, income, ROI, ROA, debit rate, and so on [Pelegrinová and Pudlo, 2010, pp 21-23].

Thus, we have analyzed networking of enterprises at different BM based on a physical network topology. The network topology defines various models or maps of interconnecting computers and servers in the network, while their models are principally taken from the graph theory. We identify line, bus, star, tree, mesh and fully connected network according to the definitions of BISCI [2002, pp 121-133], Groth and Skandier [2005, pp 10-15].

A closed, or undifferentiated, BM is shaped as the bus network, where an enterprise is connected to the channel similarly as consumers or suppliers. The enterprise is not able to influence the network as it consists of more independent participants. Consumers aren't motivated by any added value to choose exactly the product or services offered by enterprises of first type.

As the business model passes to the second type of the BM, the network it creates allows further developing relations to other actors involved in the network, primarily through suppliers and consumers. However, the company is still only one of the hosts connected to the network that doesn't allow radical extensions or managing the network. The network is dependent on the ability of the knowledge/technology/ideas to travel around the ring.

A tree network topology indicates that a segmented enterprise is developing new channels and that not solely through primary suppliers and consumers. This map presents hierarchical shape of a network, where the enterprise could be positioned as an important channel of the network, or an integral part of it. The network develops hierarchical relations with various offshoots where the flow of knowledge/technology/ideas is usually initiated by network leaders.

At the fourth stage of the BM, networks become less hierarchical as other participants in the network become of the same importance. In this kind of network topology is each host connected to a central enterprise or hub that serves also as a main information channel. The enterprise creates

and shapes own network, while it interlinks this network with similar networks of business partners, competing enterprises, public authorities, or R&D centers. Thus, the star network can extend itself to other nodes.

A mesh network topology is effective and efficient with smaller number of participants however, with stronger ties and links among them. Enterprises in such a network are looking out for new information channels, while flowing knowledge/technology/ideas can find themselves the best and shortest paths for realization.

The final stage of BM openness is presented by fully connected network where information can freely flow from and to various participants of the network. Enterprises are sharing innovation contributions, technological and finance risks with partners in the network.

CLIM

It is impossible to explain the Innovation Business Model on the basis of a simple linear relationship. Therefore, it becomes necessary to understand the complicated closed feedback loop circulation within variables in order to understand the business innovation process. System dynamic approach is based on the logical causal relationships among variables and long-term prediction. As analysis subject is understood a dynamic and holistic behaviour and feedback relationships are understood as focus. CLD helps us to understand and communicate the interactions that determine the dynamics of the system. System behaviours are generated from within the system and are the result of one or more causal (or feedback) loops. Dynamic and systematic thinking is believed to explain the behavioural pattern of problems as a lapse of time rather than to detect the cause of the problem for a specific time. Traditional definitions of variables influences in CLD are [Catalina Foothills School District, 2003]:

1. An 'S' means that both variables move in the same direction. If the first variable increases, the second variable will be greater than it would have been otherwise; a decrease in the first causes the second to be less than it would have otherwise been. (A '+' may be used in a similar although not identical fashion).

2. An 'O' shows that the two variables change in the opposite direction. If the first variable increases, the second will be less than it would have been otherwise; a decrease in the first variable causes the second to be greater than it would have been otherwise. (A '-' may be used in a similar, although not identical, fashion, because the traditional definitions of positive and negative links fail in a wide variety of cases).

"The reason that each of these links is inconsistent with the traditional definitions is that each represents a rate-to-level connection (a 'conserved flow'), while the definitions are applicable only to information links. [Richardson, 1986, pp 160]." For a conserved flow, the variable at the tail of the arrow is the rate of change (the derivative) of the variable at the head of the arrow. So the traditional definitions work for links that represent proportional relationships, but fail in every case representing accumulations of a rate of flow.

Is better to use and understand following definitions [Richardson, 1986, pp 160]:

1. A has a positive influence on B if an increase (decrease) in A results in a value of B which is greater (less) than it would have been had A not changed. A similar definition for a negative influence is easy to invent.
2. A has a positive influence on B if A adds to B, or if a change in A results in a change in B in the same direction. A has a negative effect on B if A subtracts from B, or if a change in A results in a change in B in the opposite direction.

So in CLD can be used two kinds of links:

1. Additive (Rate-to-Level) links – solid arrows
2. Proportional (Information) links – dotted arrows

Solid and dotted arrows in CLD represent, respectively, conserved flows and information links. A CLD may be 'reinforcing' and grow, or shrink, until acted upon by a limiting force, or 'balancing' and move toward, return to, or oscillate around a particular condition. Reinforcing loops are marked with an 'R' in the centre; balancing loops are indicated with a 'B' in the centre. The main cycle according to Innovation Business Model is represented by bold solid arrows. Two short commas represent time delay. According to identified relationships between factors of business environment, survey results and building blocks

of Innovation Business Model we created CLIM, which is displayed on Figure 6.

Conclusion

Open innovation present new opportunities for enterprises to improve their access to markets, cost reduction, and to maximally exploit their internal sources and business potential that could otherwise remain unused. On the other hand, an open business model presents also new challenges for enterprises with established business model and conservative thinking. The most interesting and significant benefit of an open business model should be a financial advantage of the conversion of some fixed costs into variable cost. Open businesses also share not only ideas and technologies, but also costs and risks with their business partners. An enterprise with open business model can benefit as well from commercialization of unused ideas and profit from secondary market of innovation and intellectual property. Indirect benefits can be found in own ecosystem of open enterprises, which encourages development of complementary products and services, or support employees mobility for more efficient transfer of knowledge and information.

According to the Chesbrough [2007] interpretation of business models, he believes that all enterprises can find themselves within this six-stage scale of the business model. However, some of his definition excludes most enterprises from opening up their business model because of a lack of technology assets; even they dispose of other characteristics of a more open business model. This exclusion refers to lower-tech industries. At the same time, small and medium enterprises (SMEs) are excluded because of the lack of human sources, available capital or they are simply excluded because ideas they might have are not of commercial character, even they are able to form organized and efficient networks, share ideas similarly as more open business models.

To analyze the issue of business model and innovation activity of enterprises in Eastern Slovakia, we used two questionnaire surveys to ascertain the conditions of business model erosion factors and openness of business models in selected region.

Data shows us that the regions have benefited from innovation that comes from foreign multinational

companies operating in the region rather than from local companies, universities and research institutions. Thus, in case that the companies choose to move their operations elsewhere, their innovation will depart with them. It is under question whether the culture of innovation will remain and sustain in the region and for how long time without insufficient financial support. This situation is more urgent in the Prešov Region than Košice Region.

Within surveys we were able to identify seven building blocks of the business model: financing, R&D, innovation, intellectual property, marketing, networking and business culture that allowed us to further develop the concept of business model. For better understanding of the basic cycle within variables of the Innovation Business Model, a Causal Loop Innovation Model was created that presents the system dynamics and its subsystems.

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STUDENT'S PERCEPTIONS AND INTENTIONS TOWARDS ENTERPRENEURSHIP: THE EMPIRICAL FINDINGS FROM THE UNIVERSITY OF DUBROVNIK-CROATIA

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Abstract

For decades entrepreneurial activity is recognized as a significant contributing factor to the economic vitality of any country. The purpose of this paper is to investigate the perceptions and intentions towards entrepreneurship of students from the University of Dubrovnik, Croatia and to find out whether they are ready for the entrepreneurship activities. The empirical research is conducted on students of business economy at the University of Dubrovnik and who are expected to enter in the process of entrepreneurship. The research instrument is survey questionnaire with 21 questions which covered five dominant areas: demographic characteristics, type of potential business, financial aspects of business, the way of implementing a business idea and the source of information needed to generate idea on the market.

This paper is based on the descriptive statistical analysis which has shown the satisfying level of students' intentions on entrepreneurship and their willingness to enter in the world of entrepreneurship.

KEY WORDS: University students, entrepreneurship, entrepreneurship perceptions, entrepreneurship intention

INTRODUCTION

It is well known that a career in entrepreneurship offers significant opportunities for individuals to achieve financial independence and benefit the economy by contributing to job creation, innovation, and economic growth. Today's students are tomorrow's potential entrepreneurs. Being an entrepreneur, one who is self-employed and who initiates, organizes, manages and takes responsibility for business, provides a personal challenge that many individuals prefer over being an employee working for someone else. Entrepreneurs accept the personal and financial risks that go with owning a business but they also benefit directly from the potential success of business (Segal et al., 2005.). Being an entrepreneur is correlated with the uncertainty, risk, hard work and persistence, some new creations and improvements which often lead to pressure, stress and frustration. In order to cope with these problems the entrepreneur has to be prepared. Their knowledge of entrepreneurship is likely to shape their perceptions and intentions to start their own business in the future.

In recent years, fostering entrepreneurship has become a topic of the highest priority in public policy throughout most industrial countries. Fostering entrepreneurship through education and training has also received increasing attention from the Universities in many countries. In this context, well-educated entrepreneurs are of paramount interest. It has been found that the

self-employed more often have a formal university education compared to people in wage and salary employment (Robinson and Sexton 1994.).

Because of the mentioned, this study tries to discover student's perception's and intentions towards entrepreneurship of students from the University of Dubrovnik in Croatia which are the results of the educational program.

The paper is structured as follows: in Section 2, the literature review on the effects of the universities' entrepreneurship education and training on students' entrepreneurial intentions is presented. Then the methods applied in the study are described (Section 3) and research findings are presented in Section 4. Section 5 present concluding comments.

LITERATURE REVIEW

Entrepreneurship intention has been extensively researched in the past decades and continues to be of interest to researchers due to its importance to the development for many countries (Hart and Harrison, 1992; Graham and McKenzie, 1995; Mazzarol, Volery, Doss and Thein, 1999; Nabi and Holden, 2008; Ismail, Khalid, Othman, Jusoff, Abdul Rahman, Kassim and Shekh Zain, 2009). The literature on entrepreneurship intention includes factors influencing entrepreneurship intention such as education (Kolvereid, 1996; Mazzarol et al., 1999; Ismail et al., 2009,) personality traits (Boyd and Vozikis, 1994; Gartner, 1988; Henry, Hill and Leitch, 2003; Ismail et al., 2009), perceived feasibility (Krueger, 1993) and education and training (Nabi and Holden, 2008).

Entrepreneurship intention refers to the action of an individual's attitudes toward the outcomes of that actions and individuals self efficacy (Douglas and Fitzsimmon, 2008).

Studies on entrepreneurship intention often used behavioural intention models to explain the link between influencing personality factors and entrepreneurship intention. One common model being used is the Shapero's (1982) "Entrepreneurial Event" model which is similar to Ajzen's (1991) "Theory of Planned Behaviour" model (Nabi and Holden, 2008).

One of the most widely and successfully applied theories for predicting behavioral intentions is the theory of planned behavior. This theory can be

considered as a solid model for explaining and predicting entrepreneurial intentions (starting a business). It implies that a person's intentions are the immediate antecedent of behavior. This theory has wide acceptance in many behavioral science disciplines and has been used empirically in a variety of settings to predict and understand behavioral intentions (Segal et al., 2005). To researchers and theoreticians it offers a significant opportunity to understand and predict entrepreneurial activity. According to Krueger et al (2000), entrepreneurial activity can be predicted more accurately by studying intention rather than personality traits, demographic characteristics, or situational factors.

Many studies to date simply describe entrepreneurship courses (Vesper and Gartner, 1997), discuss the content of good entrepreneurship education (Fiet, 2001) or evaluate the economic impact of courses by comparing takers and non-takers (Chrisman, 1997). The education influences on entrepreneurship activities could be observed from many researches results. Some researchers have proposed a positive link between entrepreneurship education and entrepreneurial attitudes, intention or action, but the evidence is still not strong (Gibb Dyer, 1994; Robinson et al., 1991; Krueger and Brazeal, 1994). Some empirical studies do confirm that there is a positive impact of entrepreneurship education courses or programs at universities on perceived attractiveness and perceived feasibility of new venture initiation (Tkachev and Kolvereid, 1999; Fayolle et al., 2006). Several researchers have called for more research to answer the question if entrepreneurship education can influence entrepreneurial perceptions and intentions (Donckels, 1991; Kantor, 1988; Krueger and Brazeal, 1994; McMullan et al., 2002). Authors such as Sexton and Bowman (1984) have claimed that entrepreneurship education has to be considered as an extension of entrepreneurship itself.

According to the research conducted in 1990s, one third of Harvard Business School graduates ended up working for themselves (Timmons, 1994). Cases in other countries provide similar findings (34% of Irish students and 40% of UK students were interested in starting their own business in 1980s. Other study reported that 3% of Norwegian students preferred selfemployment. In Singapore 62% of surveyed students had intentions to start their own business (Wang and Wong, 2002). Most of the survey shows that education in

entrepreneurship encourages students to start their own business.

In Republic Croatia students' intentions towards entrepreneurship have been researched at the University of Split (Bakotic and Kružić, 2010). This study has shown that more than 67% of Croatian respondents students have a strong entrepreneurship intention. If we compare this with results from other countries the consistency with research results from the US and Singapore could be observed. While the comparison with the UK and Irish students shows that Croatian students have a greater entrepreneurship intention.

METHODOLOGY: RESEARCH DESIGN AND RESEARCH OBJECTIVES

To examine the personal characteristics of students and their intentions towards entrepreneurship as potential entrepreneurs survey was created to research student population of business economy who attended the courses „The Principles of Management“ and „Small Enterprise Management“. The questionnaire is part of the empirical research served as the main instrument for collecting primary data. The sample for this study consisted of the responses to the 20 questions survey by 120 business students at the University of Dubrovnik, and was conducted in October 2010. Surveys were completed anonymously during regular class time, with a response rate of 100 percent.

Our primary objective was to better understand these students' decision to become self-employed or work for others. This study was not a simulation using students to predict the behavior of managers or other non-student populations. Rather, this was a study of people actually beginning to face career decisions. However, they are students; we can not be certain that their intentions are durable and clear. Also, our findings may not be generalizable to non-student populations.

Collected data were statistically analyzed using computer software packages for processing qualitative and quantitative data of social research- SPSS (Statistical Package for the Social Sciences). In this paper descriptive statistical analysis has been used.

RESEARCH FINDINGS

The empirical part of the article has shown the intentions of students of the Department of Economics, University of Dubrovnik towards entrepreneurship. These findings will be elaborated through the use of descriptive statistics, which will show the absolute and relative values of all variables used in the research.

Further analysis of data in the following table shows the profile of respondents who participated in empirical research of this paper.

Table 1 shows the standardized of profile of respondents by gender, country of birth, social background and work experience of participants as well as owning a family business. Data from the table show the dominance of women (75.8%) in a sample survey which is a logical result, because the questionnaire was conducted at the Faculty of Social Sciences, Department of Economics, where the predominance of female subjects is expected. The standardized profile of respondents also included country of birth because of the proximity of Bosnia and Herzegovina and the positive trend inscription of these students, therefore, the representation of students from Bosnia and Herzegovina is relatively high, with a share of 14.2%. Social background of the respondents shows the representation of labour origin of respondents with 40% after which it follows intellectually with 26.7%, civil service with 19.2%, 10% trade and fishing origin with a slight 4.2%. The results show that 75% of respondents do not own their own business within the family while the other 25% of respondents own a family business, them 78.3% have a services as a principal activity. It is interesting to stress a high percent proportion of respondents with work experience of 81.7% which indicates a consciousness of subjects for the necessary work experience before founding his own enterprise. Such data is found in Table 2, which indicates that 90% of respondents considered that it is necessary to gain some work experience and habits before starting own business.

Table 1 Profile of respondents who participated in the research

VARIABLES	MODALITIES VARIABLES	ABSOLUTE FREQUENCY	PERCENT (%)
Gender	Male Female	29 91	24.2 75.8
Country of birth	Croatia Bosnia and Herzegovina	103 17	85.0 14.2
Social origin	Intellectual Labour Trade Civil service Fishing	32 48 12 23 5	26.7 40.0 10.0 19.2 4.2
Ownership of an enterprise owned by the family	Yes No	30 90	25.0 75.0
Principal activity	Tourism and catering Trade Services Not declared	7 7 12 94	5.8 5.8 10.0 78.3
Work experience of respondents	Yes No	96 22	81.7 18.3

Source: Research findings (N=120)

The following table shows the intentions of respondents in the conceptualization of business ideas, the necessary experience and ability to manage own enterprise.

Table 2 Distribution of respondents by the conceptualization of business idea

Respondents ability to manage own enterprise	Yes No	50 70	41.7 58.3
Form of business	No idea Clear idea Any form of entrepreneurship	42 43 35	35.0 35.8 29.2
Needed work experience	Yes No	100 12	90 10

Source: Research findings (N=120)

The variable form of entrepreneurship indicates equal representation of respondents who have a clear idea of entrepreneurship (35.8%) and those who have no idea (35.0%) in establishing their own businesses. The remaining 29.2% of respondents indicate undefined and hesitant trend in performing various entrepreneurial activity. These results can be linked with the ability of participants in foundation

of their own enterprises, 58.3% of respondents are considered inadequate or incompetent to manage their own enterprise.

The following table shows the distribution of respondents according to desirable entrepreneurial activities.

Table 3 Distribution of respondents by desirable entrepreneurial activities

Desirable entrepreneurial activities	Absolute frequency	Percent (%)
Industrial production	8	6.7
Business services	41	34.2
Trade	13	10.8
Tourism	40	33.3
Catering	4	3.3
Finance and accounting	14	11.7
Total	120	100.0

Source: Research findings (N = 120)

Shown distribution is a logical representation of frequency where activity like, business services (34.2%) and tourism (33.3%) occupy a leading position in the segment of desirable entrepreneurial activities in this area of the country.

Table 4 shows the distribution of subjects of motivation towards entrepreneurship through absolute and relative frequencies.

Table 4 Distribution of respondents by motivation towards entrepreneurship

Respondents' motivation towards entrepreneurship	Absolute frequency	Percent (%)
To become independent person	40	33.3
To become the creator of Ideas and ventures	13	10.8
Capability to use their own skills and abilities	38	31.7
To earn potential large amounts of money	22	18.3
Possibility to explore new market opportunities	7	5.8
Total	120	100
Limits of motivation		
Enough economic development	27	22.5
High tax giving	29	24.2
Lack of co-financing of entrepreneurship from government and banks	27	22.5
Market insecurity	30	25.0
Personal reasons (continued education, marriage)	7	5.8
Total	120	100
Social contributions to the growth of motivation		
Increase the employment	30	25.0

Source: Research findings (N = 120)

The table 4 shows a strong motivation of students towards entrepreneurship in the hope of achieving their own independence as well as opportunities to show their abilities and skills in managing their own businesses. Apparent limitations that occur when students of business are attributed to market uncertainty, high tax payments, insufficient economic growth and a lack of state funding that are represented in relatively equal proportions. On the other hand, positive factors in the performance

of entrepreneurial activities that can contribute to social development of respondents is seen as increasing economic development (48.3%) and employment rate (25%).

The following table shows the distribution of subjects through the financial aspects that contribute in foundation of own enterprise.

Table 5 Distribution of respondents towards financial aspects of business

Expected disposal of financial aims	Absolute frequency	Percent (%)
I do not know	46	38.3
Nothing	1	0.8
Insufficient amount of money	20	16.7
Sufficient amount of money	53	44.2
Total	120	100
Borrowing money for foundation of own business		
Nothing	10	8.3
Enough to start own business	53	52.5
Not enough to start own business	14	11.7
I do not know	33	27.5
Total	120	100
Refund of money invested in starting own enterprise		
Now	8	6.7
For six months	7	5.8
After one year	49	40.8
After three years or more	48	38.3
Money is not priority	10	8.3
Total	120	100
Financial aims		
To become rich	19	15.8
To earn for a decent living	83	69.2
To cover expenses of business and life	18	15.0
Total	120	100

Source: Research findings (N = 120)

Expected financial contributions to the subjects found in a sufficient amount of money to start entrepreneurial activity (44.2%) while 38.3% of them do not know or are not sure about the possible financial contribution expected in the case of starting their own enterprise. More than half of respondents (52.5%) believed that they still need to borrow enough money in order to perform successful business activities. Furthermore, respondents felt that they would refund their money after one year of operation (40.8%) and after three years and more (38.3%). This information

shows the real attitude of students towards the performance of entrepreneurial activities which take time to achieve specific financial performance. This same relationship was obtained in the table of financial aims, in which 69.2% of respondents expected to earn enough for a decent life and to ensure their primary needs.

Table 6 shows the distribution of respondents by different motives to start entrepreneurial activity.

Table 6 Distribution of respondents by using a different ideas in the foundation of own enterprise

Implementation of business ideas	Absolute frequency	Percent (%)
Establishment of a new business	84	70.0
Take over and management of family business	15	12.5
Purchase of already existing business	8	6.7
Franchise	6	5.0
Something else	7	5.8
Total	120	100
The Idea for foundation of own enterprise		
Family business	14	11.7
Recommendations	15	12.5
Fairs	2	1.7
Newspapers	3	2.5
Internet	26	21.7
All above	90	50.0
Total	120	100
Preference to operate own enterprise		
Employer of own enterprise	21	17.5
Manager of own enterprise	56	56.7
Company owner of an enterprise	31	25.8
Total	120	100

Source: Research findings (N = 120)

Implementation of business ideas, subjects found in the establishment of new enterprises, as many as 70%. The reasons for such a large percentage reflected in the need of students to contribute to the economic development of any new innovation or idea. The ideas of founding own enterprise, 50% of respondents found in proposals such as a family business, referrals, trade fairs, newspapers and internet. However, 21% of students considered internet and its possibilities as a best source for good ideas. Furthermore, students their own position in enterprise sees to perform complex

tasks of management. They probably believe that such position in an enterprise can demonstrate and prove their ability, entrepreneurial skills and justify their preferences for entrepreneurial activities (see table 3).

The following table shows the distribution of subjects and their activities before starting their own enterprise.

Table 7 Distribution of respondents by taking a various activities before foundation of an enterprise

Activities before foundation of an enterprise	Absolute frequency	Percent (%)
Explore the market	69	56.7
Visit local trade fairs	1	0.8
Explore the consumer attitudes	24	20.0
Talking with the owners of similar businesses	25	20.8
Something else	2	1.7
Total	120	100
Collection of information about entrepreneurship		
Internet	55	45.8
Contact with Chamber	8	5.0
Journals and other professional literature	3	2.5
All above	50	41.7
Something else	3	2.5
Total	120	100

Source: Research findings (N = 120)

Respondents believe that the basic step in foundation of own enterprise is exploration of the market (56.7%) while other respondents equally believe that the key priority is to explore consumers' attitudes (20.0%) and talking with the owners of similar activities to gather quality experience (20.8%) according to which respondent indicates positive intentions. Collecting the necessary information to begin entrepreneurial activity 45.8% of respondents will collect from the internet, while 41.7% of respondents, except information from the internet, would inform through various newspapers and other professional literature or through contacts with the Chamber of Commerce.

DISCUSSION AND CONCLUDING COMMENTS

In time of crisis entrepreneurship and entrepreneurial activities seems to be very important. Formal education plays an important role in developing entrepreneurial capacities and that is the main reason why this research is focused on testing entrepreneurial perceptions and intentions amongst business management students. This study examines whether business students from the University of Dubrovnik, Croatia

have an intention to pursue into entrepreneurship. To generate the overall conclusion about student's profile and their perceptions and intentions towards entrepreneurship all results can be summarized as follows:

1. Student's profile: the majority of respondents are female (75.8%) with a labour and intellectual social origin (66.7%), born in Croatia (57.3%), majority of student's have work experience 81.7% and 25% of surveyed student's are from the family that owns family business.

2. Student's perceptions and intentions towards entrepreneurship can be presented in five categories:

-Business idea and its realization: the majority of respondents, 70%, want to start their own business as a new enterprise with a preference to manage their enterprise (56.7%). They find their ideas from different sources: internet, recommendations and family business (more than 50%).

-Type of potential business: 58.3% of surveyed student's think that they do not have ability to manage their own business, 35.8% have a clear business idea, 90% think that needed work experience is very important and the most

desirable entrepreneurship activities are: business services (34.2%) and tourism (33.3%).

-Motivations towards entrepreneurship: the majority of respondents wants to become an independent person (33.3%), the most important limits of motivation are: market insecurity (25%) and high tax giving (24.2%) while the most important social contribution to the growth of motivation is: economic development and market (48.3%)

-Financial aspects of business: the most important financial aim is sufficient amount of money (44.2%), 63% of student's think that they have enough money to start their own business (52.5%), 38.3% of student's think that they will refund their money after three years and the most important financial aim is to earn for a decent living (69.2%).

-The source of information needed to generate business idea and its success market realization: the most important activity before foundation of an enterprise is market exploring (56.7%) and the most important source of information about entrepreneurship is Internet (45.8%).

According to the results, it could be concluded that student's from the University of Dubrovnik, Department of Economics have a strong entrepreneurship perceptions and intentions. This could be observed from their dominant answers in every observed dimension of perceptions and intentions towards entrepreneurship. Our results confirm the findings of previous studies in terms of the significant relationship between entrepreneurial intentions and its antecedents and thereby lend further support to the application of Fishbein and Ajzen's theory of planned behaviour to predicting and understanding entrepreneurial behavior.

This could be explained by a new trend which has been developing in Croatia as a result of the post process of transition which promotes and encourages the entrepreneurship activities by many Government measures and incentives, as well as by new entrepreneurship educational programs. So according to these results it could be assumed that the entrepreneurship educational program raises the awareness of important entrepreneurship issues as well as creates a realistic perception of entrepreneurship problems.

This study is not without its limitations. First, the sample of this study is on Croatian public university using students in the business related courses. Future studies could include other Croatian public

universities so larger sample could be used to support the findings in the present study.

Secondly, this study follows the model adapted from Ajzen's Theory of Planned Action

(Ajzen, 1991). There are other models that could be adapted in examining entrepreneurship intention such as the Shapero's model (1982) and Davidsson's Model (Davidsson and Honig, 2003). Perhaps, in future, other studies could examine this issue by integrating these two models.

Overall, the findings in this study provide useful insights on the factors influencing entrepreneurship intention. Such understanding could assist individuals to become successful entrepreneurs and in turn, contributing to the growth of the country's economies and global competitiveness.

At the end it can be concluded that student's from the University of Dubrovnik are ready to cope with the complex entrepreneurship actions with an obligation for permanent education which should be focused on their further development in a market competition.

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CUSTOMER AS AN ACTIVE PARTNER IN CREATING OFFER IN BANKING SERVICES

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Abstract

The aim of this paper is to determine the role of customers in creating value in banking services.

In today's highly competitive and rapidly changing banking markets the development of new services becomes critical and customers participation in this process is increasingly emphasized both in theory and practice. Customers should be perceived not only as buyers but also as individuals who define expected values and help the company deliver the most desirable benefits. Customer participation in this process can be important for decreasing development time and enhancing the attractiveness of the company's offer. It can also improve the effectiveness of the product development process. Consequently, it has an impact on customer value as the company intangible asset.

The paper is based on the analysis of qualitative data and on secondary sources of information.

Key words: customer participation, value creation, customer relationships, marketing, banking services

Company's offer in the concept of relationship marketing

Relationship (partnership) marketing, which has been developing since the 1980s, has greatly changed the understanding of the company's market offer (product) and the way it is developed. Since partnership marketing results in creating lasting and effective customer relationships, offer development should be based on the idea that the quality of offer and the way it is developed should result in building and strengthening customer relationships. Otto (2004) emphasizes the necessity of incorporating elements contributing to the development of relationships into the product structure. It is understood as both enabling

customers to design their own offers at the level of a real product, and influencing an offer at the level of an augmented or a potential product. In practice, it does not have to mean a completely new product, but it facilitates the choice of the most advantageous combination of elements currently offered (the level of a real product) or possible to be offered (the level of an augmented product and a potential product).

Referring to the concept of relationship marketing it should be underlined that offer should be examined from a broader perspective. A company offer is understood as a physical property, as well as related customer service and cooperation. Relationship marketing understands an offer as a value for customer. Increasing servicization of the economy has resulted in focusing on the consumption process, not only on the product as the only source of the value for customer. The inseparability of services makes that the value for customer is created mainly in the consumption process, and the customer is engaged in creating this value. Consumption, being a special kind of experience and a source of feelings, is seen as a major source of values. An experience lodges itself in customer's consciousness if it is significant for him/her and influences his/her emotions. The value for customer is equated with the value of relationships established while the value is defined, created, communicated and offered. From a relationship perspective both service providers and customers should be engaged in identifying and creating the value for customer. On every step of this process the customer, as an active participant in the market, gains experience, which eventually constitutes the value he/she receives.

To sum up, customer value is not developed in the historical way, with the company conceiving the product concepts, researching customers and then engaging them in various research and development initiatives, leading to product roll-

out some time later. According to the relationship marketing priority customers are involved in real-time interaction with the company, as it seeks to move more rapidly to meet customer requirements. Products are being cooperatively designed, developed, tested, piloted, provided, installed and refined. The product is the output of a process of close collaboration that creates the value customers want for each component of the product and associated services. It comprises an aggregation of individual benefits customers have participated in selecting and designing. Such a product may be unique and highly tailored to the requirements of individual customer (Gordon, 1998).

Customer role in the process of offer development

A specific way of understanding the product in the concept of relationship marketing which has been presented above, leads to a change in the position and the role of the customer in the process of developing offers. Discussions on this subject focus on the recognition of customers as active participants in the process of developing offers. Customer's involvement is seen as an opportunity to establish strong and lasting relationships.

Customers' attachment to a company, thanks to appropriate forms of cooperation, results in customers' certainty that they can obtain maximum expected value as a consequence of their attachment. The customer is no longer satisfied with the fact that s/he has the right to verify values of purchased offers, which are called 'post factum values' (Rogoziński, 2006). The term 'anticipated value', which is connected with customer's participation in created value, is also found in the literature.

The implementation of this concept is facilitated by a rapidly changing environment, especially the development of an Internet. These changes cause that customers are increasingly perceived as significant for defining and creating anticipated values. At present, when discussing relationships between participants of an exchange it is necessary to focus on the degree of customer involvement, which varies according to the stages of customer value preparation. Assuming that the process of value creation involves defining, developing, communicating and offering this value, the

customer can contribute the development of value which s/he expects.

According to this concept, customers belong to a strong network, co-create and extract the value of business, they cooperate and co-participate in offer development. Managers are therefore forced to treat customers not only as individuals but also as a part of an organization they manage. Thus, managers must establish effective and systematic communication with their customers (Prahalad, Ramaswamy, 2000).

The competitiveness of the company is increasingly determined by its ability to solve individual customers' problems. As has been emphasized, at present, customer value does not result from the product features, but from the opportunity to co-create the offer in a concrete time, place and context (Prahalad, Ramaswamy, 2005; Honebein, Cammarano, 2006; Davison, Kiernan, 2003). Thus created value comprises both unique tangible features and symbolic (emotional) features. Relationship marketing recognizes the significant role of every customer, not only as an offer purchaser, since every customer helps a company determine and provide the most valuable benefits. These values are created by the seller and the buyer through their continuous cooperation and mutual effort. Therefore the experience of co-creating an offer becomes real value for the customer. Customer participation makes the offer more attractive, thus influencing its value as a company's resource. Being the focus of a service provider, the customer is treated as:

1. a co-creator of a service;
2. a co-producer of a service;
3. a user of a service.

The above shows that customer participation in products and services development can take different forms. Customers can simply express their opinions, contribute their ideas about how to develop new offers, or co-produce an offer. In the first case an organization refers to customers' opinions and their earlier experience since they determine customers' decision-making process (Edelman, 2003; Mazurek-Łopacińska, 2006). Personal contacts characteristic of services market, and the development of the Internet get customers engaged in the dialogue with companies. Customers often initiate this dialogue since they want to pass their opinions. Customers'

experiences enable companies to develop a well-positioned offer as far as tangible and symbolic features are concerned. Another, definitely more advanced form of customer participation in the process of value creation refers to customer's previous experience, as well as his/her knowledge and skills. As active participants in the dialogue with companies, customers serve as new sources of competences (Mazurek-Łopacińska, 2006; Szymura –Tyc, 2000; Prahalad, Ramaswamy, 2000). Competences contributed by customers serve as a function of these skills and eagerness to learn and experiment, as well as abilities to engage in an active dialogue. Enterprises encourage their customers to express their opinions, convey their ideas and participate actively in the process of creating values. Enterprises use their customers' collective knowledge in order to co-opt their competences into their own portfolios. Thus, enterprises treat customers as members of an organization. This, in turn, helps enterprises enhance their competitive advantage.

An increasingly important role of customers as co-designers of the enterprise's offer and the tendency to co-opt customers' competences into organization's competences has led to the development of a new management philosophy called "customer managed enterprise". Thus, a widely-used abbreviation CRM, i.e. Customer Relationship Management has changed into CMR, i.e. Customer Managed Relationships (Wind, 2005). Building interactive customer relationships requires organizational changes within an enterprise. All employees working directly with customers are engaged in interactions. It requires systems that will provide employees with knowledge necessary to communicate effectively with customers at a place and time chosen by the latter.

Co-creation vs. an increase in customer value as company's resource

It needs to be underlined that value created jointly by the company and the customer and offered to the latter influences customer value, thus determining company's potential for long-term development. The subject of customer participation in the development of new products and services has been widely presented in the literature (Lovelock, Young, 1979; Mills, Morris 1986; Kelly, Donnelly, Skinner, 1990). Published research findings show positive correlations between customers'

involvement in the development of new products and their market success (Eisingerich, Bell, 2006; Athanassopoulou, Johne, 2004; Brentani, 1995; Drew, 1995; Martin, Horne, 1993; Brentani, 1991). Eisingerich and Bell (2006) stated that in financial services the co-creation of an offer is an important element influencing the behavioral customer loyalty. Increased customer participation in the process of value creation can reduce customer switching behaviour and defections. Moreover, customer participation can be a vital source of cross-selling that allows firms to identify clients' unmet needs, enhance customization and propose new business.

Assuming that customers are the company asset that influences company's market value, one has to conclude that active cooperation with customers results in the improvement of variables determining the company value. These variables comprise an increase in cash flows and their acceleration, an increase in stability and predictability of cash flows, as well as an increase of the residual value.

Customers' involvement in defining market offer (values) results in more attractive and customized offers. Mutual involvement and shared experience of cooperating contribute to the establishment of emotional relations. The uniqueness of an offer value, which is perceived in a tangible dimension, as well as value perceived symbolically (an emotional state) increase probability of customers' return and repurchase. They also enable companies to extend a range of services, which are used as a result of the implementation of cross-selling and up-selling strategies. Close cooperation leads to the creation of unique configuration of values, which cannot be obtained from competitors, i.e. the package of values. All these activities translate into an increase in cash flow.

One has to remember that the co-creating of an offer does not only translate into an increase in the number of transactions with customers, and an increase in the range of services. Benefits derived from cooperation with customers in the process of offer creation relate also to the so-called relationship benefits delivered by customers. Relationship benefits are derived from the fact that customers express positive opinions about the company, and they encourage others to become customers of a particular company. Thus, customers create a positive image of a company, and they attract new customers that can bring extra profit to the company.

The role of cooperation in the process of increasing customer value as a company's resource is also related to exchanging information and sharing customers' knowledge. This knowledge, which is important to the company, is gained from maintaining customer relationships, and it refers to the quality of an offer and services, customers' needs (hidden and openly expressed) and strategies used by competitors. This information may trigger the modification of processes within an organization, as well as the development of product innovations. Thus, it reduces costs of process implementation and increases in cash flows. Cooperation between customers and suppliers translates into an increase in income since it reduces costs relating to gathering information about customers' needs and preferences. Collecting information through cooperation with customers is far more economical than conducting research surveys.

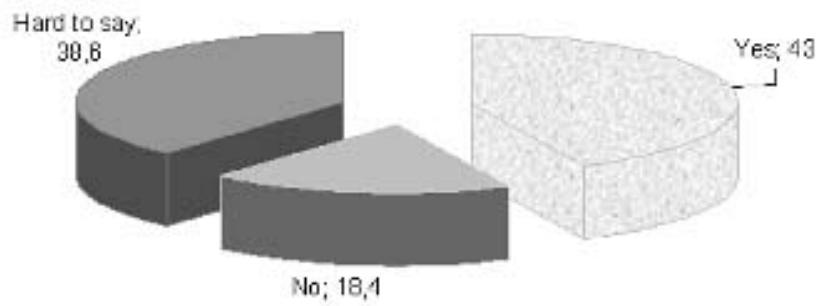
The potential of the knowledge gained from customers' involvement in co-designing offers can lead to the acceleration of cash flows. More reliable and quickly available information can accelerate the process of developing new offers, reduce or eliminate the risk of delayed conceptualization and realization of solutions offered by customers. Faster and more precise identification of future requirements of the market enables suppliers to penetrate the market and obtain faster cash flows. Moreover, customers tend to purchase offers they have co-designed more quickly. Taking advantage of the potential of customers' knowledge gives the means to predict changes and plan company's development more accurately, taking account of changing market conditions. This reduces uncertainty and results in more stable and predictable flows. Customers' cooperation, their involvement in the process of an offer development, as well as providing them with various forms of passing on information from suppliers enable companies to collect valuable information, which would often be impossible to gather in other ways, about varied needs and expectations, as well as about the market on which the company operates. This knowledge can serve as the basis for current competitive advantage and future cash flow from outside the forecast period, reflected in the residual value of a company.

Methodology

In order to accomplish the objective, that is to determine the role of the customer in creating value in banking services, research has been conducted. In the research primary sources of information were used. They included the results of two studies. The first one was conducted by the employees of Marketing Department of University of Szczecin. It concerned the identification of the degree to which respondents were ready to co-create company's offers, and the determination of forms of cooperation they were involved in as active recipients of the offered value. The research was conducted in 2010 and it comprised 350 residents of West Pomeranian District. 292 correctly completed questionnaires were returned, which means that the response rate exceeded 82%. Another piece of research was a self-study conducted among 12 banks operating in Poland. Primary research was direct research run in the form of a personal interview conducted by the author with the use of a questionnaire as a measuring tool. The interviewees who took part in the survey were either banks' presidents or people indicated by them as entitled and competent to respond to the survey. The study was carried out between January and April 2008. It examined the identification of customer's role in financial institutions, as well as the identification of banks' positions as far as the role of customers as co-designers of offers was concerned.

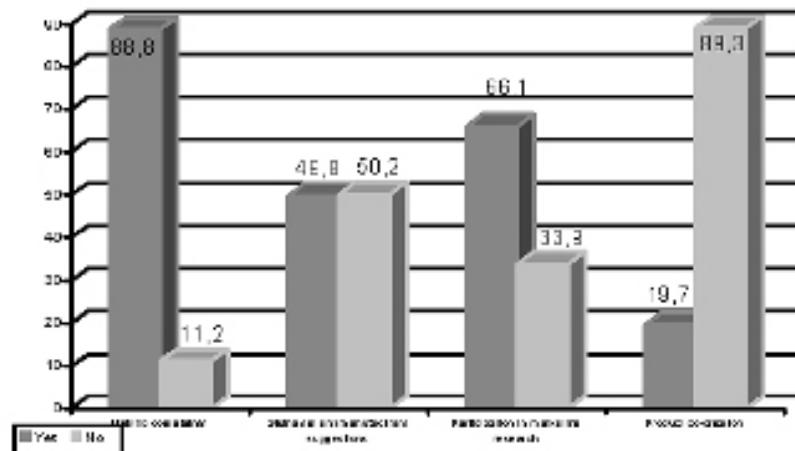
Tendencies and forms of offer co-design – opinions expressed by citizens of West Pomeranian District

The research carried out by the Marketing Department at Szczecin University confirmed the tendency towards a growing activity among consumers who wish to participate in the dialogue on companies' offers and become their partners. The research shows that slightly more than 40% of the respondents would participate in creating and testing of new offers (figure 1).

Figure 1. Willingness to co-create company's offer

Source: research results run by Marketing Department at Szczecin University

Unfortunately, the number of customers who have had the opportunity to co-create company's offer is still small. Only one out of ten customers declared his/her participation in such activities, which mainly comprised making complaints (89%) and participating in marketing research (66%). Almost half of the respondents decided to give companies their suggestions in a written or spoken form. Companies hardly ever cooperated with their customers in order to involve them in product definition (figure 2).

Figure 2 Consumers' activity in contacts with the seller, manufacturer

Source: research results run by Marketing Department at Szczecin University

The customer as a co-creator of value in banks operating in Poland

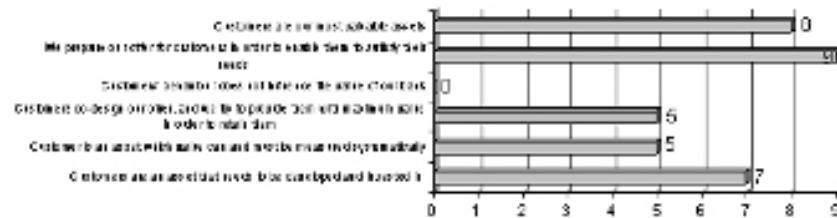
The customer is undoubtedly the focus of marketing activities undertaken by banks. This tendency is also confirmed by the direct research, where the vast majority of respondents declared that they customized their offers (figure 3).

As has been stressed, at present, customers are important not only as addressees of offers, but also as companies' asset. Customer participation is important in the development of new services that are either relatively complex, such as consultancy; or relatively long-lasting, such as banking. On the one hand, for banks customers are the focus of their strategies since they are increasingly demanding and well-prepared for taking independent decisions on their finances. On the other hand, customers are described by Violino and Van Collie (1996) as 'reasons for all bank's transactions ...the aim of every decision that is taken by a bank, and every technical investment is to serve to the advantage of the customer and to bring profit to the bank. Everything else is of secondary importance.' The recognition of customer's role in changing market environment leads to modified perception of the customer on the market of banking services. In this context the customer is perceived by banks as the most important 'resource' in the process of value increase. None of the surveyed entities stated that customers are unimportant to its value. Customers guarantee present and future cash flows. The conducted research indicates that banks recognize the role of customers and cooperation with them as a key element of their competitive potential. All entities confirmed their declarations

as to the recognition of customers as a resource in the survey where they stated that customers constitute their most valuable asset.

The cooperation between a supplier and customers is a long-term process, and the degree to which a company is able to satisfy their customers' needs largely depends on its readiness to pass on essential information. The cooperation in creating offers is of particular importance on the services market, since services, being relatively risky, require trustworthy partners. These features characterize banking services. Therefore, active customer participation in creating offers plays an important role in the process of providing banking services (Zineldin, 1996; Kowalczyk, 2004). It is underlined that customers' participation can result in better understanding of reasons behind purchase decision-making processes, which in turn can result in better quality services. The necessity of involving purchasers in the service process has only been noticed by banks that participated in the survey. Banks tend not to involve their customers strictly in the process of banking offer development (figure 4 point 1). Five out of twelve institutions declared that they cooperated with customers while developing their offers, and they retain customers by providing them with the best possible value. The group comprised Nordea Bank Polska S.A., ING Bank Śląski S.A., Citibank Handlowy S.A., BZ WBK S.A. and Millennium S.A. Empirical studies indicated that this partnership is based on encouraging customers to express their opinions and put forwards their ideas, rather than on close cooperation in order to work out a stand that would be satisfactory to both the customer and the bank (figure 4 point 3).

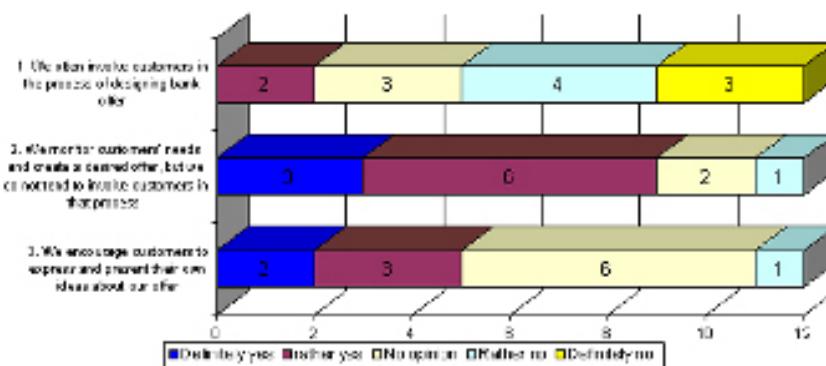
Figure 3 The role of the customer in a bank (number of responses)*



* The sum of answers does not equal the number of respondents, because they could indicate maximally three answers.

Source: Based on self-study.

Figure 4 Position of banks with reference to the role of the customer as a co-designer of an offer



Source: Based on self-study.

Conclusions

To sum up, the concept of relationship marketing appreciates the role of customers not only as purchasers but also as individuals who determine expected values and provide the company with the most desirable benefits. These values are therefore created together with customers and result from continuous cooperation and a mutual effort made by both the seller and the buyer. The surveyed banks recognize customers as the most important asset used for increasing their value. Thus, customers need to be systematically developed and invested in, since only then they will guarantee future cash flows.

The paper shows that the need to involve customers in the process of offer creation begins to be noticed by banks. Currently, financial institutions are unlikely to engage customers in the service development process. Cooperation in this field deals with encouraging customers to express opinions and submit their own ideas (so-called indirect prosumption), using e-banking (semi-active direct prosumption), and using customers' experiences by creating the so-called expert advisory bodies (active indirect prosumption). Co-creation of an offer does not involve a close cooperation between a bank and its customers in order to establish a satisfying position for both the former and the latter, or providing customers with possibilities of modification of bank offers (active direct prosumption). It can be assumed that the limited character of prosumption in banking services stems from their uniqueness and related legal restrictions, as well as from the threat of an increased risk of deterioration in liquidity.

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MAKING KNOWLEDGE WORKERS PRODUCTIVE - A CROSS-INDUSTRIAL VIEW

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Abstract

Since Peter Drucker stated that one of the great management challenges of the 21st century would be to make knowledge workers productive, there has been an abundance of research on this topic. Despite this fact, still no empirically founded answer from a cross-industrial point of view has been brought forward as to the specific challenges that might be involved in making knowledge workers productive.

This paper closes this research gap by summarising the indicators employed in five knowledge-intensive organisations from different business sectors for the assessment of knowledge workers' performance and by subsequently deducing the specific challenges involved in the management of knowledge workers.

Key words: knowledge worker, expert, productivity, management

Challenges: Rendering knowledge workers productive

'The most important, and indeed the truly unique, contribution of management in the 20th Century was the fifty-fold increase in the productivity of the MANUAL WORKER in manufacturing. The most important contribution management needs to make in the 21st Century is similarly to increase the productivity of KNOWLEDGE WORK and the KNOWLEDGE WORKER.' (Drucker 1999a, p.135)

One of the great achievements of Peter F. Drucker is said to have been his ability to anticipate key management challenges decades in advance (Byrne & Gerdts 2005). He defined the work on the productivity of the knowledge worker as one

of the key 'management challenges of the 21st century' (Drucker 1999a; Drucker 1999b).

In one respect, Drucker was unquestionably right: Nearly all surveys of past decades point to a fundamental structural change in the labour markets of the OECD countries:

- There has been, from 1985 onwards, a 10 percentage-points increase in so-called 'derivative services', e.g. consulting, coaching, teaching, researching, developing and management work (Weidig et al. 1999; Dostal & Reinberg 1999; Dostal 2001; Reinberg & Hummel 2002).
- The number of occupations of the categories 'manager', 'professional occupation' as well as 'associate professional and technical occupation' has increased by 10 percentage-points over the last two decades (UK National Statistics 2000; Baldwin & Beckstead 2003; Beckstead & Gellatly 2004; UK National Statistics 2006; Davenport 2005; US Department of Labor 2006; Brinkley 2006).
- The demand for employees with an academic education has increased by 190 percentage-points between 1975 and 2004 whereas the demand for employees with a lower educational background is continually decreasing (Weidig et al. 1999; Kleinert et al. 2000; Dostal 2001; Reinberg & Hummel 2002; Reinberg & Hummel 2005; OECD 2006a; OECD 2006b).
- Levy & Murnane (2006) noted a disproportional increase in the demand for two skill requirements within the US labour force between 1979 and 1999: 'expert thinking' and 'complex communication'. In contrast to this development, they observed that the demand

for manual and routine cognitive skills has been continually decreasing within the same time frame.

In regard to the second statement of Drucker's statement, i.e. that the productivity of knowledge workers will be the crucial challenge for 21st century management, he initiated a stream of research into the description, measurement and enhancement of knowledge workers' productivity (Ray & Sahu 1989; Sumanth, Omachonu & Beruvides 1990; Alvesson 1995; Grossmann, Pellert & Gotwald 1997; Horibe 1999; Pfiffner & Stadelmann 1999; North 1999; Paradi et al. 2002; Alvesson 2004; Davenport 2005; Suff & Reilly 2005; Baldry et al 2005; Brinkley 2006; Stam 2007; North & Gueldenberg 2008) – a stream of research that does not seem to come to an end neither in the near nor in the not so near future.

This paper aims at corroborating three theses:

1. Up to now, there is no such thing as a concept of what knowledge workers' productivity implicates, relating to the business practices of knowledge-intensive companies. Different concepts of knowledge worker productivity have been rather developed from certain academic viewpoints than with a view to daily business practices.
2. Consequently, the challenges involved in making knowledge workers productive have not been stated with a view to the business needs of knowledge-intensive companies. Therefore, a revised and more specific problem definition is required with a view to the 'management challenges of the 21st century'.
3. Both theses root in a lack of empirical research on this matter in general and on a

lack of cross-industrial empirical research into knowledge-intensive businesses in particular. The research paper here presented undertakes to close said research gap.

In order to corroborate these three theses, the paper starts with a brief review of general concepts of knowledge worker productivity (chapter 2). Those concepts are being reviewed and, as a consequence, an alternative research design is being proposed (chapter 3). Chapter 4 exhibits the major outcomes of the research with respect to concepts of knowledge worker productivity from a cross-industrial point of view on the one hand and involved challenges on the other hand. Finally, practical management conclusions for rendering knowledge workers productive will be deduced (chapter 5).

Concepts: Knowledge worker productivity

It is evident that 'productivity' in the traditional meaning of 'relation between quantity of output in relation to amount of input' (Gutenberg 1958; Pedell 1985) cannot be applied to knowledge work. When summarising the different approaches to knowledge worker productivity, one can distinguish three different concepts which will subsequently be labelled as 'performance concepts' (chapter 2.1), 'authoritative concepts' (chapter 2.2) and 'contribution concepts' (chapter 2.3). These three concepts can be traced back to different academic disciplines: The 'performance concepts' originate in research of cognitive psychology into expert performance, the 'authoritative concepts' have derived from research into the sociology of professions and the 'contribution concepts' stem from approaches to knowledge management (Figure 1).

Figure 1: Classification of knowledge worker productivity concepts

	Performance concepts	Authoritative concepts	Contribution concepts
Disciplinary origins	- Cognitive psychology: Research into expert performance	- Occupational sociology: Research into professions	- Business management; Research into knowledge management
Major performance indicator	- Clarity and accuracy of the solution of domain specific problems	- Level of authority over a defined knowledge area	- Degree of contribution to the knowledge of an organization

Performance concepts

The first attempt at grasping knowledge worker productivity is based on the fact that in every domain, there are individuals who are able to continually and repeatably accomplish outstanding results, as compared to average performers. Taking this viewpoint, cognitive psychology has tried to describe and explain this phenomenon, investigating experts and their performance in domains such as jurisdiction, physics, engineering, mathematics, education, finance and consulting (Larkin et al. 1980; Chi et al. 1981; Sweller et al. 1983; Posner 1988; Krems 1990; Patel & Groen 1991; Boshuizen et al. 1992; Gruber & Ziegler 1996; Sonnentag 1996; Hron 2000; Bredl 2005; Chi 2006; Feltovich et al. 2006). It was found that experts distinguish themselves from average performers by the way in which they represent domain-specific problems as well as in the strategies which they apply in solving such problems: They solve domain-specific problems more efficiently, more effectively and more accurately. This cannot be attributed to general intelligence, but to the way in which they group, store and retrieve domain-specific information. This skill is regarded to be a result of 'deliberate practice' in the respective domain over an extended period of time. Since their performance is measured by the amount of time spent on solving a given domain-specific problem and by the quality of the results (in comparison to novices), the two performance measures here applied can be labelled as measures of 'performance' in the traditional meaning.

Both measures have been assimilated and specified in productivity measurement models such as IBM's 'Function Point Analysis' for software development, which tries to measure development productivity by the amount of business functionality that an information system provides to a user (Garmus & Herron 2000), Ray & Sahu's (1989) 'Operations-Based Productivity

Model', which tries to grasp knowledge worker productivity by indices assigned to categories of job characteristic and work places, or Paradis et al.'s (2002) 'Data Envelopment Analysis', which measures knowledge worker productivity according to 'Decision Making Units' (DMUs).

Authoritative concepts

However, since the efficiency and effectiveness of work are frequently difficult to assess, especially when embedded in a social context, there exists an alternative approach to determining whether knowledge work has been successful. It is a simple indicator at work in the daily operations of an organisation: This indicator becomes explicit when an individual has gained more or less exclusive authority over a certain domain, be it hierarchical or a knowledge domain. For authority over a hierarchical domain, i.e. over a group of people on a broader scale, sociology-of-occupations representatives have coined the term 'professions' (Parsons 1939; Millerson 1964, Larson 1977; Abbott 1988; Hitzler 1994; Hesse 1998; Huber 1999; Mieg 2001; Pfadenhauer 2003). Even though the views of sociologists differ widely with respect to the indicators applied in categorising an occupation as a profession as well as with respect to the reasons offered for the emergence and evolution of such expert occupations, the tasks ascribed to professionals are viewed as being basically similar by adherents of the psychological perspective: Professional tasks have been defined as 'applying abstract knowledge to particular cases'. The sociological point of view, nevertheless, differs from the psychological one in regard to the features determined which make an expert a professional: not primarily outstanding performance, which would be difficult to observe and measure, but exclusive authority over a particular domain of expertise such as the domain of curing diseases or the domain of jurisdiction.

In other words, professionalism can be described as socially institutionalized expertise. In order to maintain this authority on an individual level, the respective professional has to demonstrate expertise (Abbott 1988; Mieg 2001; Pfadenhauer 2003).

Therefore, a knowledge worker can also be regarded as being 'productive' if he or she has achieved exclusive authority over a certain domain.

This point of view has been adopted mainly by sociologically inclined management researchers such as Wallace (1995), Blackler (1995), Keuken (1996), Pfadenhauer (2003) and Alvesson (2004), the latter emphasising, above all, the importance of rhetoric management, image and social processes in knowledge-intensive companies.

Contribution concepts

A third approach to determining knowledge worker productivity focuses less on individual performance, as cognitive psychologists maintain or on the performance of some occupational groups, as propagated by occupational sociologists, but rather on the contributions an individual or a group make to a certain business.

Since the contribution of knowledge workers does not consist in physical changes resulting from manual work, but in the identification, acquisition, generation, dissemination, application, in the retention and the assessment of knowledge, researchers in knowledge management are looking for approaches in order to identify, acquire, generate, disseminate, apply, detain and assess knowledge in organisations (Nonaka & Takeuchi 1997; North 1999; Willke 2001; Davenport 2005; Hasler Roumois 2007; Probst, Raub & Romhardt 2010).

From this perspective, a knowledge worker's productivity cannot solely be defined by outstanding individual performance or by his attaining an exclusive status. The core of this productivity concept rather lies in the contribution an employee makes to a certain business. This contribution may consist in the acquisition, generation, dissemination, application, retention and / or assessment of knowledge. It is the contribution to an organisation's business that counts, and not the achievements of a single person or a group of persons.

This approach has been adopted by scholars like Sumanth, Omachonu & Beruvides (1990) who proposed a model which adds the 'contribution criterion' to the 'efficiency' and 'effectiveness criteria' of 'white collar worker productivity'. Peter Drucker (1999a) emphasised the importance of regarding knowledge workers as assets, thus enhancing the contribution to an organisation, and Tom Davenport (2005) as well as Pfiffner & Stadelmann (1999) and Francis Horibe (1999) try to distinguish management interventions according to the type of activity a knowledge worker performs, i.e. creating, distributing or applying knowledge.

Questions: Research gaps and research design

How have above-mentioned concepts been created? In order to answer this question, three types of methodological approaches can be distinguished:

Firstly, purely theoretical approaches, stating general characteristics of 'experts', 'professionals' respectively 'knowledge workers' and corresponding management guidelines on the basis of literature reviewed and of personal experience, however, omitting any systematical empirical foundation (e.g. Horibe 1999; Pfiffner & Stadelmann 1999; Davenport 2005).

Secondly, deductive approaches, testing particular hypotheses in regard of performance, motivation, identification or commitment of engineers, researchers, consultants, physicians or academics in a narrow business segment by usage of quantitative statistical methods and generalising the outcome as attributes of 'experts', 'professionals' resp. 'knowledge workers' on the whole (e.g. Wallace 1995; Hron 2000; Baldry et al. 2005).

Thirdly, inductive approaches, generating a theoretical framework for the management of engineers, researchers, consultants, physicians or academics in a narrow business segment by usage of qualitative methods and generalising the outcome as attributes of 'experts', 'professionals' resp. 'knowledge workers' (e.g. Alvesson 1995; Keuken 1996; Blackler 1995).

The first type of studies can be regarded as insufficient in empirical foundation, the last two

kinds as too narrow in scope for a generalisation for the management of experts, professionals respectively knowledge workers.

Furthermore, the different disciplines dealing with the same subject matter from different points of view, i.e. cognitive psychology, occupational sociology and knowledge management research, seem not to take much notice of one another (Mieg, 2000).

Hence, despite above-mentioned research results, we still lack certain knowledge on the meaning of knowledge workers' productivity in different industries and on the specific challenges involved in the management of knowledge workers' productivity.

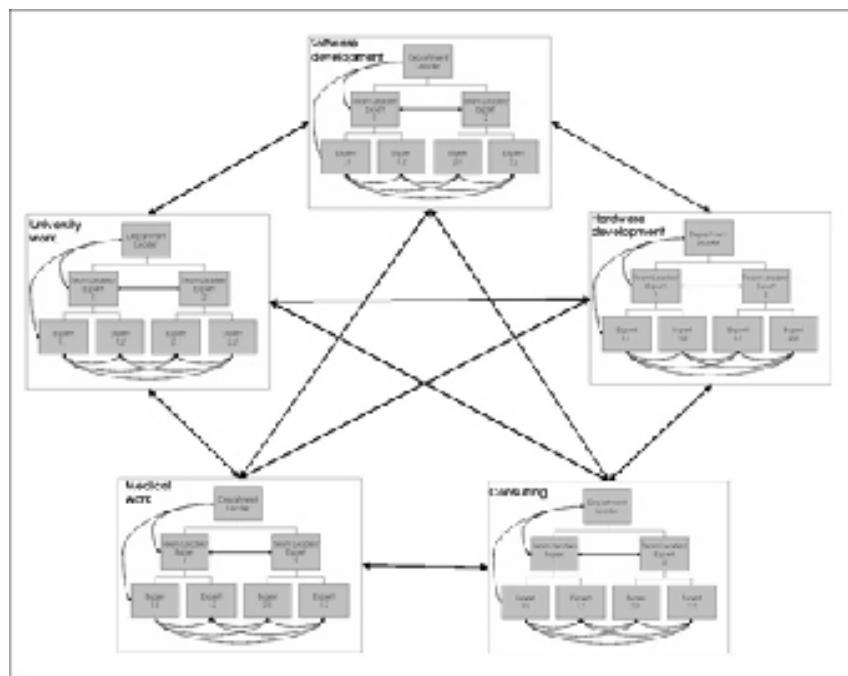
These findings call for a cross-industrial empirical research, aiming at answering two questions:

1. What does 'performance' mean with respect to the notion of the knowledge worker?

2. Which challenges are involved in the management of knowledge workers' performance?

This paper presents answers to these two questions, based on a cross-industrial empirical research carried out in five different organisations commonly regarded as 'expert', 'professional' or 'knowledge-intensive' organisations in previous treatises (Grossmann, Pellert & Gotwald 1997; Alvesson 2004; Davenport 2005; Brinkley 2006): a software development company, a hardware development company, a consulting company, a hospital and a university. In these organisations, 42 semi-structured episodic face-to-face interviews (Bortz & Döring 2003; Lamnek 2005) with experts and their managers from three hierarchical levels were conducted by the author. The data gathered by means of interviews were subsequently coded and interpreted with the aid of Atlas.ti, Version 5.5.4 (Figure 2).

Figure 2: A cross-industrial research design on the productivity of knowledge workers



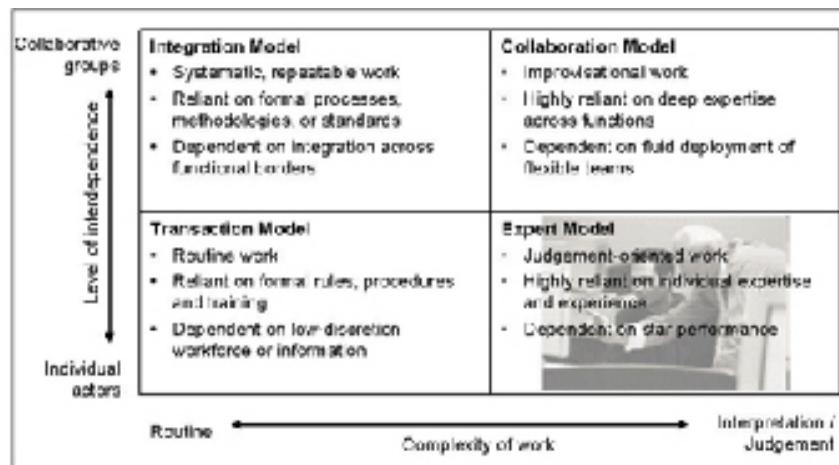
In order to keep the results comparable, the focus of the study was not on the knowledge worker in general, but on that proportion of knowledge workers termed 'experts'. Davenport (2005) provides a useful classification for a differentiation between a specific class of experts and knowledge workers in general (Figure 3).

Following his approach, different types of knowledge workers differ in the way in which they transform knowledge into business value: by carrying out routine or complex tasks, by performing individual or collaborative work etc. (Davenport 2005). The specific contribution of

experts to business value consists in their capability of professional discernment, i.e. in applying a comprehensive body of knowledge to individual and rather complex cases. This is the core feature in the work of engineers and consultants as well as of researchers, teachers and physicians.

Owing to confidentiality agreements with all participating organisations the results here presented have been described in an aggregated and abstracted manner. Hence, the original data cannot be disclosed, only referenced.

Figure 3: A classification structure for knowledge workers (Davenport, 2005, p.27)



Research: Knowledge worker productivity revised

Concepts for knowledge worker productivity

The first question raised by the study and posed to experts as well as to their line managers was, 'What is performance in your respective type of expert work?' In this study, only those performance factors are referred to, which have been named by experts and their managers independently. Therefore, it can be concluded that the indicators referred to are shared collectively within the respective organisation, that they may be regarded as collectively motivationally directive and, hence, part of the organisational culture (Sackmann 1991).

a. Software development

For the software development company (Erne, 2009a), the predominant performance indicators were:

1. 'Good software', further specified by terms like 'correctness', 'stability', 'maintainability', 'expandability' as well as 'clarity and transparency of coding'.
2. 'Planning compliance', indicated by 'achievement of milestones' and 'correctness of resource estimation'.
3. 'Quality of interaction', perceived in the 'communication and cooperation behaviour' of the software developers, in an 'appropriate broaching of topics towards different stakeholders', in the 'proactive communication of relevant topics'

- to management representatives' as well as in 'professional behaviour' in general.
4. 'Innovation behaviour' with respect to the products and processes of the organisation, measured by 'patent filings', 'integration of existing solutions', measures 'to reduce lead times' and to 'detect software bugs earlier in the development process' and the number and quality of improvement initiatives.
 5. 'Personal skill development', which was basically regarded by management representatives to be the 'ability to move on to other topics according to business demand', and 'development of comprehension for the entire software system' beyond single functions was a crucial factor for the experts.
 6. 'Compliance with work standards', which includes development processes deployed by the head office - despite criticism from experts as well as line managers - and project-specific agreements.
- b. Hardware development
- For the hardware development company (Erne, 2009b) we found a very similar picture:
1. 'Good hardware quality', which can be measured by static and dynamic hardware tests, by a 'robust design', by 'parts per million (PPM) failure rates' and, moreover, by 'conformance to specifications'.
 2. 'Planning compliance', which is represented by the indicators 'conformance to specifications', 'achievement of milestones', 'compliance with the planned development budget as well as the product target costs' and the 'correctness of resource estimation' for a development project.
 3. 'Acquisition rate': Since hardware developers have direct contact with their customers, the increase of hardware projects is viewed as another success factor of a hardware developer's work.
 4. 'Quality of interaction with the relevant stakeholders', which refers to 'communication and cooperation behaviour with all internal interfaces as well as with different customers', a 'low escalation rate within the organisation', the 'appropriate broaching of topics towards different stakeholders' and, again, 'professional behaviour'.
 5. 'Innovation behaviour', which is indicated by the development of 'competitive solutions for the future' in regard to critical topics such as 'power dissipation concepts' and 'electromagnetic compatibility', and by the number and quality of improvement initiatives.
 6. 'Personal skill development', which refers to an 'enhancement in the appreciation of the whole circuit system' beyond the particular task as well as to the 'development of know-how on specific topics'.
 7. 'Compliance with work standards', which refers to the observance of development processes which control the cooperation of the different specialists in hardware development.
- c. Consulting
- The experts and managers in the consulting company (Erne, 2009c) mentioned:
1. 'Accepted solutions and working solutions', which means, above all, 'functioning systems' on the customer's side, secondly, 're-usable solutions' and, thirdly, the 'number of critical situations'.
 2. 'Number of requests for a certain consultant', which is indicated, to describe it quite vividly, by 'how often the phone rings' when a client tries to reach a certain consultant. This is a clear indicator for an opportunity to acquire new projects.
 3. 'Acquisition rate' in customer projects, which can be measured by the turnover achieved by the end of the business year.
 4. 'Quality of interaction with relevant stakeholders', which is represented by the 'quality in which a consultant broaches topics within and outside of the organisation', by 'one's visibility within the business sector', by 'professional behaviour', by the 'creation of an image of being a trusted advisor for the customers', by the 'visibility within the organisation and the professional community' as well as by 'cooperation and communication with customers and other stakeholders' in general.
 5. 'Innovation behaviour', which refers to the ability of the consultants to take up new topics from customers, from market trends and / or from the organisation on a yearly basis such as 'Green IT' or 'Service-Oriented Architecture (SOA)', which, in turn, can be used for public relations activities,

customer projects, development projects and acquisition projects.

6. 'Personal skill development' with respect to the acquisition of knowledge required for actual projects as well as to the acquisition of knowledge which is marketable to customers, colleagues and the expert community.

7. 'Compliance with work standards', which refers to conformity observance with common documentation standards, with defined methods as well as with general organisational administrative rules.

d. Medical work

The doctors and their chief physicians in the hospital (Erne, 2009d) stated the following performance factors:

1. 'Medical outcome', which can be measured by clinical indicators such as blood loss, mortality rates, post-operative complication rates, on the one hand, and by more subjective indicators such as patient condition and patient satisfaction, on the other hand.

2. 'Quality of interaction', which relates, again, to collaboration with colleagues from the same and other related medical disciplines, a proactive communication of newsworthy issues to the chief physician, and to the target-group related broaching of topics, e.g. the condition of a patient in ward meetings or the description of a treatment and its outcomes in discharge letters.

3. 'Innovation behaviour', which relates to the institutionalisation of interdisciplinary core areas within the hospital such as the collaboration between surgeons and internists on certain kinds of cancer treatments, and to the establishment and financing of research and training activities in order to enhance the medical standard of a certain discipline.

4. 'Medical skill development' is regarded as one of the crucial indicators for an individual's performance and is being ensured by various measures such as regular trainings and conferences, individual discussion before and after surgery, personal feedback, joint ward rounds and the controlled delegation of responsibilities.

5. 'Compliance with work standards', which affects transparency and tidiness when performing a

surgery on the one hand as well as compliance with diagnostic and therapeutic methods proven in use.

e. University work

The professors and deans of a university (Erne, 2009e) mentioned the following performance indicators:

1. 'Quality of research and lectures', which can be assessed by indicators like 'internationality and topicality of research projects and lectures', 'feedback of relevant stakeholders within the scientific community', 'academic success of students' and the 'attractiveness of an academic activity for scholars'.

2. 'Quality of interaction with relevant stakeholders', in this case, the representation of a faculty or research team to other stakeholders, the ability to bring forth convincing arguments for the acquisition of resources as well as the ability to build up supporting networks within the university.

3. 'Innovation behaviour', which refers to the establishment and funding of research activities, the number and quality of papers, conferences and lectures of a certain professor, the acquisition of partners for research activities and the number of research positions and, especially, professorships assigned to a faculty or team due to these activities.

4. 'Reputation with relevant stakeholders' such as the scientific community, colleagues and students, which can be regarded as an outcome of the successful realisation of the first three indicators.

5. 'Compliance with work standards' such as timely provision of indispensable information to the dean, the adherence to defined procedures for the filling of a vacancy, the establishment of research centres or the maintenance of research databases.

In short: It is neither productivity in the traditional meaning of the term nor one of the different productivity concepts presented in chapter 2 which is regarded to be the key performance factor in the work of experts. Rather, five discrete key factors can be regarded to be the predominant performance indicators for expert work across all investigated business segments. Some of these performance indicators have already been mentioned in previous concepts (e.g. Ray & Sahu 1989; Drucker 1999a), but never been brought

forward as a coherent system based on cross-industrial empirical research.

With respect to the current projects or cases, these performance indicators are (marked in dark grey in Figure 4):

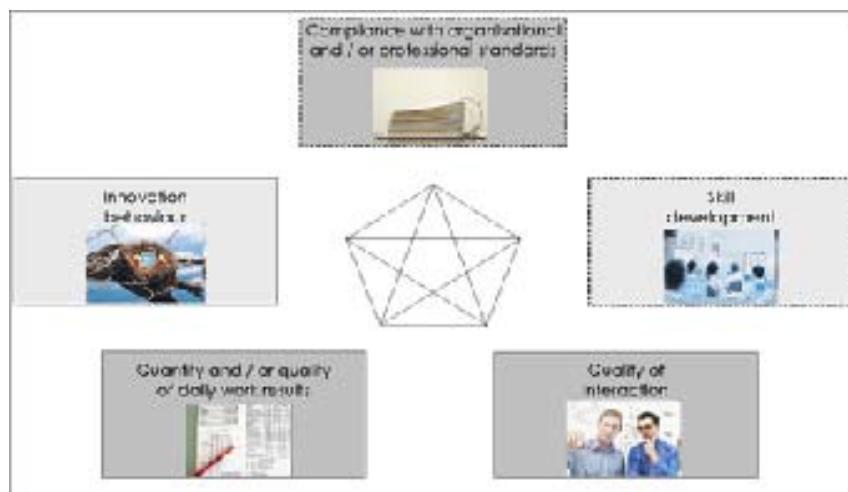
- Quantity and/or quality of daily work results, which differ widely between the different business segments.
- Quality of interaction, which relates to cooperation and communication with different stakeholders, to the quality of representation of specific topics within the respective organisation as well as to varying target groups and the way in which competence and professionalism towards different stakeholder groups are being displayed.
- Compliance with work standards, which can - depending on the individual organisation - be

either of a professional kind (and, then, relating to professional methods) or of an organisational nature (and, then, relating to administrative standards).

With regard to future developments, the named indicators are (marked in light grey in Figure 4):

- Innovation behaviour with respect to business or professional improvements, which is of varying importance to different individuals and in differing business segments, but has always been named as an important indicator together with the quality of day-to-day work.
- Skill development with respect to either the depths of skills, to the ability to arrive at an overview over a particular topic or to the adaptation of skills to new market demands.

Figure 4: Performance indicators for experts in different business segments



Challenges in rendering knowledge workers productive

While performance indicators for experts are widely shared across different business segments - apart from a few exceptions not treated here in depth -, differences with respect to the specific challenges faced when attempting to enhance performance in experts within and between organisations can be observed.

The differences observed can be roughly clustered into two strategy categories labelled as 'black box management', on the one hand, and 'white box management', on the other.

The 'black box management' strategy has been followed in all organisations studied. This strategy is best described by the original words of above-mentioned managers themselves:

In the software development company, between software developers and their department heads,

'You have to take care that you do not enter the space of these techies.' (Erne, 2009a, 115) 'Don't interfere.' (Erne, 2009a, 103)

At least partly in the hardware development organisation, between hardware developers and their line managers, 'As a manager I am not the best expert. I think, once, in the past, in this company, there existed the approach that the manager has to be the best hardware developer. Today, this is fortunately no longer required. Moreover, it would no longer be achievable.' (Erne, 2009b, 69)

In the consulting company, between consultants and their line managers, 'What we have here, in this organisation, are nothing but *prima donnæ*. Don't tell them.' (Erne, 2009c, 93)

In the hospital, between the administrative director and the physicians, 'As an administration manager I have a decisional authority. ... But this is a theoretical authority. ... Since, if I issued a directive here, ... every department would demonstrate to me that it does not work this way.' (Erne, 2009d, 90)

In the university, between the deans and the professors in their department, 'A dean can govern a faculty [...] with respect to budget topics. He is less able to take influence in issues of research or contents of research.' (Erne, 2009d, 55)

To sum up, in this system, there exists a sphere of professional work, on the one hand, and a sphere of business work, on the other hand, with some overlaps in the area of the definition and prioritisation of topics (not objectives) and in the sphere of performance appraisal. A system a consultant called 'governance' in contrast to 'management' (Erne, 2009c, 63).

The 'white box management' strategy was also identified in all organisations studied:

In the software development company, between software developers and their team leaders, 'The technical team leaders are responsible for controlling the code. ... A few people are reviewing the code, are reviewing the code together. Then, the code is checked with respect to maintainability.' (Erne, 2009a, 101)

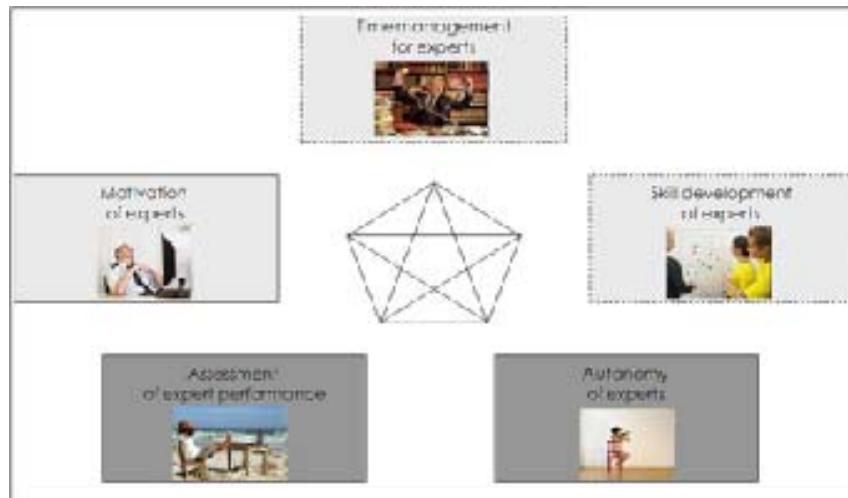
In the hardware development organisation, between hardware developers and their group and team managers, 'That is what we expect from a manager, that when he is in a technical business

that he does not simply act on an abstract level, but that he has a bit more comprehension of it. Otherwise, he is unable to assess if .. he has been told the truth or if things are going out of track since he cannot assess these things by himself. And that would be bad.' (Erne, 2009b, 93)

In the consulting company, between first-level certified consultants and their second-level certified colleagues as well as their stakeholders in the project, '[...] Yes, as I worked together with a second-level certified colleague, this colleague has just defined what meetings we are going to schedule together with the customer and what we want to achieve in each meeting. ... By structuring it this way, it turns out: Okay, what do we have to do in between in order to be well prepared for the next meeting.' (Erne, 2009c, 71) '[...] Important is also the feedback I get from, from the associates working in the same project, i.e. not from the consultant himself, but from the others /ehm/ .. colleagues from sales, in the first place.' (Erne, 2009c, 37)

In the hospital, between chief physicians and the doctors as well as the scientific community, 'I always tell my physicians: ... If I observe that one of you becomes sleazy, for example, in stitching up or anything else, ... I will tell them: Please take care that you do it properly. ... Since, if we do not do it properly, then our trainees do not see any necessity to do it properly either.' (Erne, 2009d, 93) 'Since, today, the tumor treatment is no longer unilateral, that means not only a matter of surgery or radiation therapy or internists, but rather an interplay of these three disciplines [...], we regularly hold an interdisciplinary meeting on every case. In this meeting, the therapeutical path is being defined by consensus. Certainly, there are different opinions from time to time. Therefore, you have to take care to define it by consensus.' (Erne, 2009d, 77)

In the university, between professors and research assistants as well as the scientific community, 'I told my employee, the first I had hired, I told him: Okay, we are going to do a journal paper together. I have here the preliminary version which I have done. /Eh/ Make something of it. [...] Then, we tried, in joint discussions, to make a journal paper. We were lucky that the first one was accepted. /Eh/ For him, this meant a great success. /Eh/ In the first place, for my employee, since he learned what you have to do here: How do I quote properly?



How can I define a problem accurately? What are the objectives of my paper?' (Erne, 2009e, 25) 'I want to experience the success. I think, when I do work in the field of differential equations, when I go to a conference, then I want, when I go to this conference, I want to deliver a great presentation for which I get the feedback: That is great what this guy has done. You see, that is, we want to play in the first league and be competitive on a global scale.' (Erne, 2009e, 33)

Dependent on the strategy employed in order to manage experts, the 'black box management' strategy as well as the 'white box management' strategy are confronted with some challenges which they have in common while two challenges are specific to the 'black box management' strategy. The common challenges are depicted in dark grey boxes in Figure 5 while the challenges which have been named independently of the management strategy are displayed in the light grey boxes (Figure 5).

a. Assessment of expert performance

The first challenge which is typical for the 'black box management' strategy is the difficulty to assess expert performance: In contrast to manual work in which a physical result can be 'touched', compared and measured, it seems difficult to pin down the performance of experts for associates who do not belong to the professional sphere. In this respect, the statement of a business unit head from the software development organisation can be viewed as being paradigmatic for all other

statements, 'We try to make the performance of our associates measurable. [...] But we are not in a timbering, we are in a high-technology business segment. [...] Therefore, we have to use auxiliary indicators.' (Erne, 2009c, 53) These auxiliary indicators are, 'positive feedback by two customers, 'peer recognition, ... which refers to the level of recognition a developer obtains from his team colleagues ... managers, team members.' (Erne, 2009a, 49-53) In other words: For the qualitative part, the scope of performance indicators assessed by the supervisors comprises: quality of interaction, especially a convincing and visible representation of competence and performance to important stakeholders (Pfadenhauer, 2003), visible activities in the field of product and process innovations, and compliance with organisational standards. This observation clarifies why especially these performance indicators are applied by managers of the 'black box management' system, i.e. the line managers of the software and consulting company, the administrative director of the hospital as well as the deans of the university faculties. The following reasons for the challenge of assessing experts' performance have been named: the number of possible indicators, as presented in the previous chapter, the number of independent variables which influence the result of a surgery, of a development result, of a conference or a customer decision, the long time frame during which feedback is available on the results of an expert's action in development or medical work, and the physical and/or intellectual distance a 'black box manager' has to the professional sphere.

b. Autonomy of experts

Strongly linked with the difficulty of assessing the performance of experts adequately is the challenge of governing highly autonomous experts. This autonomy can equally be observed in the 'black box management' system where the software developers, consultants, hardware developers, physicians and professors form a kind of an enclosed group in a professional sphere which is clearly distinct from the sphere of administration. This has been clearly stated by a faculty dean, a statement which can be viewed as being exemplary for all other cases, 'In a nutshell, our lecturers are pure 'sole member companies'. .. They perceive me as an administrator. That means, if they need anything, they prefer to come to me, but apart from this case, they want to be left alone. In this perspective, they are a pure 'sole member company' without liability, certainly. A small company, but without liability.' (Erne, 2009e, 59) This mainly applies to the case when administrative tasks are to be performed by experts, as reported by the administrative director of the hospital (Erne, 2009d), the managers of the software company (Erne, 2009a) and the consultants in the consultancy company (Erne, 2009c). As reasons for this challenge, a lack of incentive measures in some organisations (such as the university), the dependency of 'black box managers' on the commitment, cooperation and communication of their experts in order to achieve results and the role behaviour of experts as experts in knowledge-intensive businesses were mentioned.

c. Skill development in experts

The skill development of experts has been perceived as a third challenge imposed on the management of experts. This challenge has been broached in three different directions: From the strategic point of view of the department heads, the main challenge is the direction in which the skills of their experts should be developed according to business strategy. The central challenge in the management of experts is, as the department head of the consulting company stated, 'that we recognise in time where the train is heading to and /eh/ that we, consequently, take the right measures in order to guide the associates to the right direction with respect to /eh/ behaviour and mindset as well as skills and technologies. That is /eh/ the biggest challenge.' (Erne, 2009c, 133) Another perspective is being taken by the department heads following the 'black box management' strategy: Here, the

focus is clearly on the development of 'soft skills' such as self-presentation and communication, especially for engineers showing a certain degree of 'autism', as was stated by Guenther Dueck (2007) and referred to by some software managers and engineers (Erne, 2009a). A third way in which the skill development of experts has been approached is the formation of professional skills, especially true for 'white box management' systems. In these systems, quality assurance of professional work as well as enhancement of productivity seems to be dependent on one variable: the professional skill of the expert. Hence, everything is focussed on the formation of these skills. In hospital work, for example, this is done by direct instructions, ward rounds, conferences, case studies, coaching, feedback and regular on the job training (Erne, 2009d). Therefore, the challenge of skill development is being viewed differently, but in every perspective as being a crucial one.

d. Motivation of experts

As a fourth challenge, the interviewees in the different business segments have named the motivation of experts. Similar to skill development, the challenge to motivate experts is elicited by different reasons. A first reason is to retain 'valuable assets' into which extensive endeavours in education have been invested, as especially the software managers, hardware managers and physicians stated (Erne 2009a; Erne 2009b; Erne 2009d), 'I have recently lost my three best surgeons, .. they have been trained to the highest standard, all of them have done more than five thousand surgeries, .. they went to a private clinic. .. Three surgeons. For twelve years, they have been trained here. .. And endowed with five thousand surgeries, and many, many congresses, .. they simply left.' (Erne, 2009d, 267) A second perspective on the motivation topic is the motivation for the accomplishment of specific tasks such as the acquisition of another consultancy project by the end of a year, 'Here we have alternative .. governance measures with respect to remuneration. We are on an, .. on an incentive plan. That means, seventy percentage of our, our .. income is fixed, the rest is variable. In this variable segment, I can identify, selectively, .. small challenges. That are challenges .. I say: Man, .. give it all. If we get that opportunity in the third quarter, then that will make .. a thousand Euros extra for you.' (Erne, 2009c, 061) In contrast to the thesis that payment does not motivate knowledge workers (North & Gueldenberg, 2008), payment

for specific tasks is being regarded as being a very effective instrument in motivating experts to undertake specific efforts (Erne, 2009c). A lack of incentives is also being viewed by the deans and professors of the university as one reason why it is so difficult in this organisation to motivate highly autonomous lecturers (Erne, 2009e). Another important factor in keeping experts motivated is the job content, the opportunity of skill development and a sound balance between regulations and autonomy – a balance, however, which could not really be specified in detail by anybody.

e. Time management for experts

The fifth specific challenge for rendering experts productive has been named completely independently of the management strategy and the business segment: the aligning of the tasks which an expert has to accomplish with the time disposable. This challenge had been already found by Peter Drucker who emphasised the necessity to organize one's own job, in contrast to the Tayloristic system in which the job organises the employee (Drucker 1999a; Drucker 1999b). The findings of the study, however, do not bring to light many improvements on the individual, team or organisational level. Therefore, one of the main challenges the software engineers perceived was, that, when 'different tasks have to be done at the same time .. /ehm/ .. generating the right ideas on what has to be done in the first place.' (Erne, 2009a, 071) For the hardware developers the biggest challenges are 'the moving targets. Not only internal targets, but the targets which come from outside and punch through everything.' (Erne, 2009b, 047) Similarly, consultants 'permanently work in several streams in parallel. It is not the case that they are faced with one task which they accomplish and, then, they get the next task. But this company, unfortunately, works in the way that unbelievably many work streams are scattered over the day, the week or the month.' (Erne, 2009c, 059) The same is stated by the physicians, 'What imposes the greatest stress on me .. is the acute day ward, since it is permanently crowded. When I want to go and make the ward round, .. you do not get away from it. Yet, I have my plan. When I am on duty, I want to start the ward round at 3 p.m. or 3:30 p.m., in this timeframe, .. that means to look after the in-patients. But this heteronomously directed work, it, it .. annoys me.' (Erne, 2009d, 095) And, finally, the university professors, 'I believe, .. the challenge is to organise one's week

in a way not to be diverted by all the different topics.' (Erne, 2009e, 105) Hence, the term 'time management' comprises a couple of different, yet strongly linked challenges: the workload in general and the administrative workload in particular, the parallelity of many topics, multiple stakeholders, task switching and the amount and correctness of input information. With respect to these topics, the perception of the interviewees is that these issues have to be solved on an individual level, not on a team or organisational level.

With the outline of the performance indicators and the challenges named by managers and experts in different business segments and presented in this paper a scope definition can be outlined of how to enhance productiveness in knowledge workers which goes beyond the scope definition proposed to this day.

Conclusions: Rendering knowledge workers productive

The main topics which require further research on the question of how to render experts productive are, according to the study in different business segments here presented, the following:

a. Define clear performance indicators for expert work

The study showed clearly that performance indicators for expert work as well as for the stakeholders who are assessing these indicators are multiple and ambiguous. Management systems such as management by objectives, which are in place in all organisations studied, do not solve the problem, but rather exacerbate it. Therefore, the first strategy for rendering experts productive is to establish few, clear, business-specific performance indicators which do not necessarily have to be measured, but which can be assessed according to defined indicators. This practice was followed in the 'white box management' systems, especially in hospital work, '[With respect to the performance indicators] there is no doubt for me: .. There are two indicators: the first is the medical assessment of the output. This can be measured by objective parameters. [...] The second one is, of course, [...] the subjective appraisal by the patient if he is content with the performance.' (Erne, 2009d, 47-51)

b. Establish knowledge symmetry

In the black box management systems, it became very clear that a stakeholder like a line manager only can gain influence on the performance of experts if he or she is able to compensate for the knowledge asymmetry on a professional level. As the department head of the consultatants stated, „I have one advantage over the consultants: I work / ehm/ .. /ehm/ on a higher level and know, know some specific details in different, .. different knowledge areas, which they do not know. Yet, they would like to know these details very much, especially if they are related to political discussions. And they use this.“ (Erne, 2009c, 121) In this way or in other ways, a line manager has to provide value-adding knowledge or service to the experts, which makes the relationship between the two interdependent and symmetrical. Otherwise, it is nearly impossible to gain influence on an expert's work.

c. Develop strategies and measures for skill development

The importance which has been assigned to strategic and operative skill development in nearly all organisations studied is in contrast to actual strategies and measures in place. Most interviewees named personal preferences for a skill development, but did so rather randomly and focussed on professional skills in the ‘white box management’ system. Since the quality and performance of expert work are strongly linked to individual skills – much more so than in manual work -, there have to be additional and new ideas of how to integrate skill development into day-to-day work. In the technical spheres of hardware development, one can find good examples for corresponding measures, ‘For this reason I have .. agreed in my team meetings, that we, /ehm/ .. that they, the associates who have all their specific knowledge domain, .. report regularly what they do at the moment, which technical approaches they follow, [...] so that they arrive at an understanding of the whole system and not only on that of their own [module].’ (Erne, 2009b, 037) The examples in hospital work have already been depicted in the previous chapter.

d. Find appropriate measures for the motivation of experts

As the results of the study have shown, the topic of motivation as well as the measures to produce and enhance motivation have to be assessed differently:

There is a general task of retaining experts, as Drucker (2009a, p.142) stated, as ‘assets’. This is being viewed by experts and managers as an issue of payment, balance of regulations and autonomy, work content and the opportunity to learn. In other words: It is a topic of remuneration and job design, and in contrast to the statements in a broad corpus of literature which only focuses on the last two parameters. A second topic is the motivation for certain tasks by incentives. Here the incentives have not been defined apart from financial ones. In university work professors and deans heavily focussed on another incentive, ‘the possibility to gain reputation.’ (Erne, 2009d, 61) The different kinds of incentives and their effectivity on different kinds of experts have not been fully explored.

e. Keep experts focussed

As stated by all interviewees in all business segments, the most common challenge for rendering experts productive is an appropriate handling of the workload in general and the administrative workload in particular as well as multitasking, task switching and, equally, a proper information handling. Since the effects of these working modes have been well explored, it can be viewed as one of the great risks to the productivity of experts, approximately accounting for a 20% to 40% loss in productivity (Rubinstein, Meyer & Evans 2001; Monsell 2003; Spira & Feintuch 2005). Furthermore, it may not be solely solved on an individual level by finding an appropriate personal working mode, as the interviewees have perceived. Since it is a common feature across all business segments, which results, according to the interviewees, in a bulk of uncontrolled tasks building up, one of the management challenges will be to find ways to reduce these ‘task cascades’, to design jobs and to assign tasks in a way in which all challenges can be addressed: focussing expert work, motivating it, making skill development in the workplace possible, creating a balance between regulations and autonomy and, thus, making expert performance assessable. According to our study, these are the tasks for rendering experts productive. Tasks which have to be accomplished yet.

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EXCISE TAX POLICY AND CROSS-BORDER PURCHASES OF AUTOMOTIVE FUELS

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Abstract

In a small open country, drivers can either purchase automotive fuel within the country or abroad. A simple demand model is used to test the proposition that changes in excise tax policy caused the decline of purchases in the country, and to delineate the effects of the excise tax policy from the effects of the simultaneously occurring economic crisis. To do that, short- and long-run, and direct- and cross-price elasticity are estimated for the purchase of gasoline and automotive diesel in five regions: four border regions and the interior. For the estimation of "volume of transportation" elasticity, vehicle crossings through road sites with automatic traffic meters are used. The simulations indicate that more than half of the decline in the purchase of automotive fuels can be attributed to excise tax policy. However, the enhancement of tax revenues generated by excise tax policy significantly exceeded the drop of the sellers' earnings.

Keywords: retail trade, taxation, time series model

JEL: L81, H2, C22

Introduction

Slovenia is a small open country and most consumers can buy automotive fuel, either within the country or abroad. Automotive fuel is but also an important source of tax revenues, which forces the government to keep domestic retail sale price of automotive fuel competitive to retail sale prices in neighbouring countries.

In December 2008, Slovenian government increased excise taxes on automotive fuels to cope with a general fall in other tax revenues. The purchase of automotive fuels declined considerably

in 2009, and the sellers of automotive fuels began to blame the excise tax policy for the decline. To prove their case they asked for an analysis which would confirm their claims. The aim of the analysis was therefore to estimate the effects of the changes in tax policy to purchases of automotive fuels, revenues of the sellers, and tax revenues. To do that it had to delineate the effects of the altered tax policy from the effects of simultaneously occurring economic crisis.

The rest of the paper consists of a short description of the Slovenian gasoline and automotive diesel market. It is followed by a short overview of related literature and a description of how monthly data on prices, quantities, and amounts of transportation were obtained or generated and why the market was partitioned. A simple demand function is specified next taking into account the fact that prices are set administratively which implies that there are no problems with causality. Panel least squares and an error correction method are used to estimate short and long run price and "income" elasticity assuming symmetric and for asymmetric responses to price changes. The paper ends by a short description of the actual use of the model in answering the questions put by the sellers of automotive fuels.

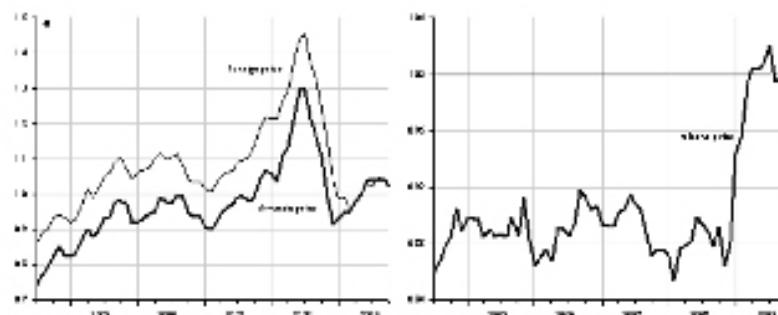
The framework of the analysis

Two markets for automotive fuels are explored: the gasoline market and the automotive diesel market. Prices of gasoline and automotive diesel are set using the "administrative price determination model", introduced in 2000. The model adjusts the "production" (pre-tax) price to the oil price in the Mediterranean and US dollar exchange rate every two weeks. The administratively set "mark up" of a seller is added to pre tax price which

is to cope with the market structure – only two companies controlling approximately 90 percent of the market. By adding 21 percent value added tax and excise tax (in absolute value per litre), the retail sale price is determined. The “production” prices determined by the model do not differ greatly from “production” prices in four neighbouring countries and fluctuations are very similar. The difference in the retail sale prices between Slovenia and neighbouring countries is therefore the result of administrative “mark up” and taxation. Manipulating excise tax each fortnight thus allows the government to directly determine the current retail sale price of automotive fuels

and, also, indirectly – depending on price elasticity of demand – quantities, tax revenues, purchases and the earnings of companies selling automotive fuels. As automotive fuel is an important source of tax revenue, government kept the retail sale price below the price in neighbouring countries. Indeed, in the observed period, gasoline and automotive diesel in Slovenia were approximately ten percent cheaper than in neighbouring countries, the average domestic price of gasoline being € 0.991 for a litre and € 0.971 for a litre of automotive diesel, while corresponding “foreign” prices were € 1.154 and € 1.078, respectively.

Graph 1 - Retail sale prices of automotive diesel

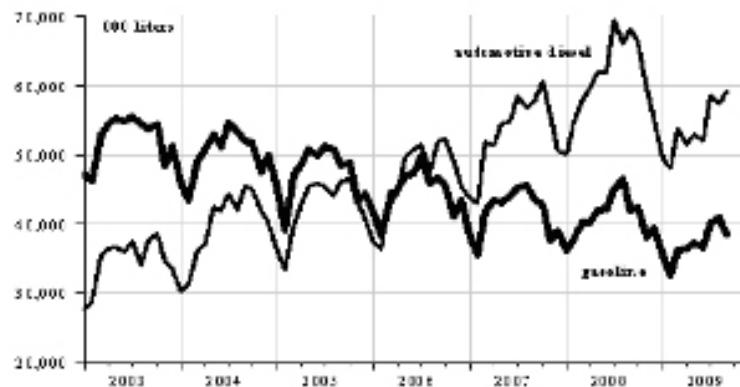


In the observed period, 2003–2009, the gasoline stations sold a monthly average of 47.2 million litres of automotive diesel; the quantity increased from 34.8 million litres monthly in 2003 to 62.0 million litres in 2008. During the same period, the average monthly quantity of 45.7 million litres of gasoline decreased from 52.4 million litres in 2003 to 41.1 million litres in 2008.

In December 2008, the government began to increase excise taxes on automotive fuels to cope with a general fall in other tax revenues. In effect, the government used the then drop in world oil prices to enhance tax revenues by keeping retail sale price of automotive fuels unaltered. This altered previous policy, which had kept domestic retail sale prices well below retail sale prices in neighbouring countries. Indeed, in 2009, the gap

between domestic and “foreign” prices for gasoline narrowed and the gap between domestic and “foreign” prices for automotive diesel disappeared entirely.

The purchase of automotive fuels declined considerably, and the sellers of automotive fuels began to blame the excise tax policy for the decline. The decline however was also a result of the economic crisis which began at the same time and which was reflected in the decline in transportation, due not only to the drop in economic activity in Slovenia and four neighbouring countries, but also in other Eastern European countries such as Romania, Poland, Ukraine and Slovakia, which use the transit through Slovenia for their imports and exports.

Graph 2 - Quantity of gasoline and automotive diesel**Table 1 - Tax policy in Slovenia and neighbouring countries in 2009**

	Austria	Croatia	Hungary gasoline	Italy	Slovenia
price before taxes	-22.7	-13.5	-14.4	-12.0	-15.4
taxes	+3.9	-4.8	-7.9	-2.9	-18.7
retail sale price	-7.6	-8.7	-10.6	-5.9	+2.9
	automotive diesel				
price before taxes	-21.5	-17.8	-14.4	-16.7	-22.3
taxes	+4.2	-4.4	-10.8	-2.2	-25.4
retail sale price	-8.7	-11.4	-11.3	-10.2	+0.6

A short overview of related literature

Most empirical studies of price and income elasticity of demand for fuels deal with the subject in the framework of a traditional expenditure model and attempt to distinguish between short- and long-run elasticity. They use national or household-level data and different econometric techniques. More recent studies deal with the consequences of non-stationary and co-integrated time series, which imply that short-run elasticity should be estimated using an error correction method. A survey of international research dealing with responses to fuel price changes (D. J. Graham and S. Glaister, 2002) reports large differences in countries between short- and long-run price elasticity, often dependent upon the estimation technique used. Nevertheless, the conclusions of most studies are similar; short-run price elasticity of demand for automotive fuels is relatively low, long-run price elasticity is higher and income elasticity is high.

Recently, the possibility of a link between elasticity of demand for automotive fuels and fuel efficiency has come to the fore as researchers analyze the implications of fiscal policies for traffic levels, vehicle emissions and environmental issues (see Romero-Jordan et al., 2010).

The aim of the research presented in this paper was to quantify the effects of excise tax policy in the road fuels market, which is heavily exposed to cross-border shopping. This brings us to many different concepts of interest such as distinction between elasticity on the national and local level (Crotte, A. et al., 2010; Besley and Rosen, 1998), long and short run elasticity, price asymmetry (Bettendorf, L. et al, 2003) etc. Nielsen (2002) created a theoretical model which explains why net cross-border purchases not only flow from large to small countries, but also in the "wrong" direction, (i.e. from small to large countries) if tax rates in the large country considerably exceed tax rates in

the small country. Devereux et al. (2007) provided a general theoretical framework for the distinction between horizontal and vertical tax competition in excise taxes; they relate elastic demand for taxed goods with the likelihood of cross-border purchases and smuggling, which plays a role in the case of cigarettes but not gasoline in the empirical part of their study. The role of excise taxation for the convergence of producer and consumer prices in Europe is analyzed in two articles by Dreher and Krieger (2008, 2010).

Data

The analysis is based on monthly data on gasoline and automotive diesel purchases from a sample of 320 gasoline stations, or approximately 64 percent of gasoline stations in the country. The stations in the sample are well spread throughout the whole country, alongside major highways crossing the country, and connecting three neighbouring countries (Austria, Hungary and Croatia) with Northern Adriatic ports and Italy. Gasoline stations were grouped into four border regions and the interior. The spatial distribution of gasoline stations into five regions resembles the distribution which is used by the sellers who consider the distance from the border being the major determinant for the classification.

Relative price of fuel in a region is the retail sale price in Slovenia divided by the retail sale price in the corresponding neighbouring country. For the interior, the relative price is the domestic retail sale price divided by the "foreign" retail sale price, which is a weighted average of retail sale prices in neighbouring countries – the "weight" being the number of road vehicle crossings in the relevant border region. The monthly domestic price level is calculated as a weighted average, the weights being the number of days in a month for which a particular price was set by the "price determination model".

Monthly data on the volume of road transportation were obtained from daily data on vehicle crossings 13 sites with automatic car and truck crossing meters. Four sites were situated on the roads in the region bordering Italy, three in the region bordering Austria, two in the region bordering Croatia and one in the region bordering Hungary. Three sites on the ring around the capital, Ljubljana, represent the interior. If a time series at a crossing site was interrupted for technical reasons or new roads,

the dynamics on a nearby site was used to fill the gaps.

The shares of trucks in total vehicles in the various regions differ considerably, ranging from 7.7 percent in the interior to 48.9 percent in the border region with Hungary. High standard errors reflect seasonal oscillations. The dynamics (yearly growth rates) in Table 3 and Graph 3 (trucks only) indicate that economic crisis significantly reduced truck crossings, particularly in the border regions. In the first nine months of 2009, there were 25 percent fewer crossings than in the same period in 2008; in the interior region, the number of trucks was only 3 percent lower.

The model

A simple demand function should answer a "simple" question: Was the decline in the purchase of automotive fuels in 2009 caused by the economic crisis or by changes in excise tax policy, and/or what share of the decline can be attributed to the former and what to the latter? As prices are set administratively, the causality and, therefore, the specification of the demand model is straightforward; price and "volume of transport" being independent variables, quantity of automotive fuel sold being the dependent variable. A multiplicative form enables straightforward estimation of price and "volume of transport" elasticity. As gasoline is only used by cars, while automotive diesel is used by both, cars and trucks, the demand equations for automotive diesel have two "volume of transport" variables: car crossings and truck crossings.

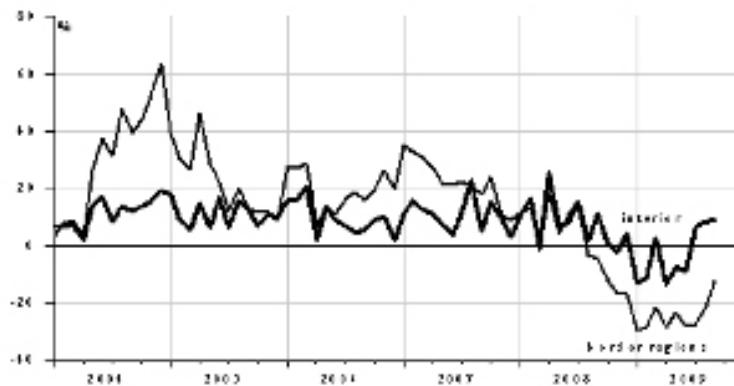
Because Slovenia's size and income level differ from the size and income levels of neighbouring countries, which affect price and income elasticity, one could expect asymmetry, i.e. that the response to a one percent change in the domestic price of automotive fuels differs from the response to a one percent change in the corresponding "foreign" price. One could further expect that asymmetry is stronger in demand for gasoline used only by cars and weaker in demand for automotive diesel, as a large share of diesel is sold to truck drivers who cross the country comparing relative prices. Namely, they can cross Slovenia without purchasing fuel in the country, their horizontal response to price changes can be expected to be strong – even in the case of low-price elasticity.

Table 2 - Crossings of road vehicles (monthly averages)

border region with	site	cars vehicles		trucks		share of trucks
		average	SD	average	SD	
Italy	Škofje Loka	408 757	99 713	12 333	3 607	3.0
	Kozina	157 898	49 920	11 809	2 566	7.1
	Fermič	354 573	131 257	75 757	39 973	21.4
	Vrtojba	220 070	50 549	47 042	10 302	21.3
Total		1 145 307	183 788	145 741	27 351	12.8
Austria	Ljubljana	287 507	57 999	17 721	2 744	6.6
	Šentilj	152 179	21 110	13 135	10 500	28.3
	G. Radgona	137 949	30 238	5 916	1 200	4.3
	Total	872 570	79 417	63 521	12 577	10.0
Croatia	Obrežje	26 350	68 570	32 287	5 417	12.4
	Gruskovje	243 532	116 576	25 354	4 847	10.4
	Total	504 889	183 788	57 601	9 265	11.4
Hungary	Energava	149 500	54 749	73 217	28 507	46.9
Slovenia	LJ-North	897 387	74 696	53 341	9 470	5.9
	LJ-South	821 260	108 107	75 684	16 177	9.2
	LJ-East	818 923	97 561	65 392	12 438	8.1
	Total	2 537 195	304 007	197 004	39 012	7.7
TOTAL		5 029 461		642 184		10.7

Table 3 - Dynamics of cars and trucks in the period 2004–2009

	cars		trucks	
	interior	border regions	interior	border regions
2004–2009	4.45	8.65	8.63	13.77
2004	5.76	4.94	11.62	30.77
2005	3.77	2.89	11.30	22.69
2006	3.05	12.16	9.82	19.48
2007	3.23	5.96	10.97	23.00
2008	4.48	13.92	8.16	1.67
2009	7.10	-0.60	-2.95	-24.59

Graph 3 - Yearly growth of truck crossings

The demand function is of the following form:

$$Y_t = \beta_0 * Pdt\beta_1 * Pft\beta_2 * T1t\beta_3 * T2t\beta_4 * Xit\beta_5 * ...ut \quad (1)$$

or

$$Y_t = \beta_0 * (Pdt/Pft)^\beta_1 * T1t\beta_3 * T2t\beta_4 * Xit\beta_5 * ...ut \quad (2)$$

where:

Y_t – quantity sold in period t,

Pdt – price of gasoline or automotive diesel in Slovenia,

Pft – price of gasoline or automotive diesel in Austria, Italy, Hungary or Croatia,

Pdt/Pft – relative price,

$T1t$ – crossing of cars,

$T2t$ – crossing of cars,

Xit – other relevant factors affecting purchases,

ut – random error,

β_1 – elasticity of demand for domestic (relative) price,

β_2 – elasticity of demand for “foreign” price,

β_3, β_4 – “volume of transportation” elasticity of demand,

β_5 – elasticity of demand of other relevant determinants;

According to basic textbook economics, the position of the demand curve is set by the volume of transport or number of vehicles crossing the sites with traffic meters, while the slope is set by the price elasticity of demand. In Equation (1), the value of β_1 should be negative and the value of β_2 positive; β_2 could be considered to be cross-elasticity of demand, while automotive fuel in a neighbouring country can be considered a nearly perfect substitute for automotive fuel in Slovenia. If value of direct price elasticity exceeds 1, a one percent increase of price would cause a fall of quantity of more than one percent, which would lower purchases, earnings of the sellers, and tax revenues; if direct price elasticity is less than 1, the quantity and the earnings (determined as a product of quantity and administratively set mark-up for a liter) of the companies selling fuel would decrease, while purchases and tax revenues would increase. The opposite effects of cross-elasticity are similar. The values of β_3 (crossings of trucks) and β_4 (crossings of cars) are positive.

If there is symmetry in the responses of drivers to changes in domestic and "foreign" prices, i.e. if only relative prices matter, Equation (1) can be replaced by Equation (2).

To diminish the effects of other factors (long-run changes in fuel efficiency, changes in the structure of vehicles, etc.), which also affect the quantity of gasoline and automotive diesel – and because we are interested in what happened in 2009, price and "volume of transportation" elasticity were estimated for the period 2006/01 – 2009/09 only. The number of observations was therefore reduced to 45 for a region or to 225 for all five regions. Long- and short-run demand elasticity for gasoline and automotive diesel was estimated by OLS panel regression and for each region separately, assuming symmetry and also allowing for asymmetric responses. The short-run elasticity

was estimated using an error correction method. The results are presented in Tables 4 and 5.

The behaviour of car drivers in regions differ and the differences are in accordance with expectations. In the neighbouring Austria and Italy, people are richer than in Slovenia, while people in Croatia and Hungary are poorer. In the region bordering Italy (the area with the most expensive gasoline), the quantity increases more than the number of cars driving in the region; this would imply that tourists (visits peak in the summer months) buy relatively more gasoline in Slovenia than local population, which buy a bigger share in winter months. High price elasticity reflects large price differences. In the region bordering Austria, the quantity of sold gasoline fluctuates with the number of car crossings in the region, and price elasticity is close to -1. Car drivers from Croatia and Hungary, which are both poorer and non-euro countries, are apparently less willing to buy gasoline in Slovenia, and both react strongly to relative prices. Finally, price elasticity of demand for gasoline in the interior is very low.

Demand for automotive diesel differs from the demand for gasoline. The price elasticity for automotive diesel in the interior is much higher than price elasticity of gasoline, which reflects the importance of transit for the whole country intersected by two highways. The demand is price elastic in the regions bordering Austria and Italy, and inelastic in the regions bordering Croatia and Hungary.

Graphs 4 and 5 are illustrative. Graph 4 exhibits actual and estimated quantities of gasoline in all four border regions; the data are obtained by summing actual and estimated values of the border regions, while Graph 5 exhibits actual and estimated quantities of automotive diesel sold in the interior.

Table 4 - Long-run and short-run prices and “volume of transportation” elasticity of demand for automotive fuels with a symmetric response to price changes

border region with	gasoline			diesel			
	β_1	β_3	β_5	β_1	β_3	β_4	β_5
panel long-run	-1.650 (-0.95)	0.294 (6.9*)		-1.341 (-7.95)	0.298 (10.19)	0.038 (13.1)	
short-run	-0.873 (-4.51)	0.471 (19.05)	-0.080 (-3.37)	-0.791 (-4.63)	0.310 (14.87)	0.492 (16.50)	-0.142 (4.93)
Austria long-run	-0.024 (-3.02)	0.970 (9.00)		-1.765 (-6.4*)	0.787 (7.90)	0.271 (2.91)	
short-run	-0.477 (0.91)	0.879 (8.53)	-0.445 (-3.37)	-1.208 (-2.26)	0.658 (5.18)	0.287 (2.55)	-0.171 (1.44)
Croatia long-run	-1.514 (-8.03)	0.419 (13.7)		-0.421 (-2.36)	0.310 (10.97)	0.626 (7.86)	
short-run	-1.393 (-3.26)	0.389 (12.3)	-0.163 (-2.15)	-0.094 (0.25)	0.265 (7.63)	0.385 (5.22)	-0.763 (4.97)
Hungary long-run	-2.418 (-5.01)	0.054 (1.60)		-0.495 (-1.95)	0.272 (9.21)	0.791 (0.99)	
short-run	-1.393 (-3.26)	0.389 (-0.39)	-0.163 (-2.15)	-1.229 (-4.35)	0.311 (5.36)	0.695 (5.95)	-0.371 (-3.35)
Italy long-run	-1.835 (-2.75)	1.535 (11.37)		-1.500 (-3.03)	0.95 (7.46)	1.22 (0.07)	
short-run	-0.299 (-0.61)	0.841 (7.8*)	-0.117 (-1.40)	-0.715 (-1.50)	0.427 (5.16)	0.035 (0.62)	-1.531 (-2.28)
interior long-run	0.182 (-1.23)	0.951 (0.56)		0.638 (-4.19)	0.695 (3.70)	0.565 (5.43)	
short-run	-0.329 (-1.35)	0.770 (8.59)	-0.519 (-3.97)	-0.330 (-1.17)	0.521 (8.93)	0.419 (8.89)	-0.316 (-3.57)

Table 5 - Long- and short-run price and “volume of transportation” elasticity of demand for automotive fuels with an asymmetric response to price changes

border region with:	gasoline					diesel				
	β_1	β_2	β_3	β_5	β_1	β_2	β_3	β_4	β_5	
panel long-run	-1.55 (-5.98)	1.58 (8.36)	0.254 (8.30)		-0.310 (-1.16)	0.665 (3.44)	0.276 (9.79)	0.675 (13.21)		
short- run	-0.80 (-4.18)	1.177 (5.48)	0.469 (18.4)	-0.001 (-3.32)	-0.03 (2.85)	0.774 (4.45)	0.299 (14.01)	0.477 (5.55)	-0.109 (-5.22)	
Austria long-run	0.270 (-0.06)	0.950 (3.73)	0.737 (5.90)		0.424 (1.20)	0.786 (2.00)	0.657 (6.00)	0.002 (0.02)		
short- run	-0.233 (-0.41)	0.614 (-0.67)	0.803 (8.28)	-0.565 (-4.28)	-0.455 (-0.89)	1.164 (2.76)	0.471 (1.82)	0.139 (1.44)	-0.495 (-3.49)	
Croatia long-run	-1.503 (-5.68)	1.514 (7.54)	0.418 (10.7)		-0.149 (-0.58)	0.374 (2.08)	0.298 (10.02)	0.535 (5.41)		
short- run	-0.003 (-2.21)	0.795 (2.11)	0.404 (14.73)	-0.357 (-3.07)	-0.232 (-0.59)	-0.197 (-0.36)	0.265 (7.88)	0.402 (5.26)	-0.805 (-6.53)	
Hungary long-run	-0.970 (-1.44)	1.966 (4.16)	0.028 (0.47)		-0.097 (-0.26)	0.364 (1.38)	0.241 (6.72)	0.728 (0.59)		
short- run	-0.774 (-1.81)	1.501 (3.58)	0.349 (5.02)	-0.172 (-2.19)	-0.605 (-1.99)	1.163 (4.06)	0.500 (5.84)	0.391 (5.66)	-0.350 (-2.85)	
Italy long-run	-1.882 (-2.86)	1.570 (2.54)	1.695 (10.47)		-1.367 (-1.54)	1.437 (2.48)	0.823 (5.10)	1.205 (0.25)		
short- run	-0.363 (-0.68)	0.398 (0.69)	0.035 (7.11)	-0.110 (-1.25)	-0.698 (-1.94)	0.735 (1.41)	0.422 (4.74)	0.692 (9.88)	-0.152 (-2.10)	
interior long-run	-0.123 (-0.29)	0.457 (-0.22)	0.572 (0.58)		-0.553 (-2.24)	0.745 (3.72)	0.694 (3.81)	0.474 (4.25)		
short- run	-0.178 (-0.60)	0.252 (0.65)	0.704 (7.25)	-0.080 (-1.16)	-0.272 (-1.19)	0.355 (1.46)	0.529 (7.16)	0.400 (8.65)	-0.327 (-3.60)	

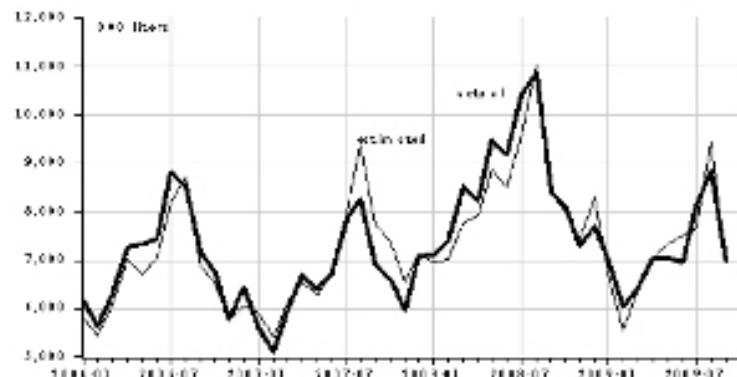
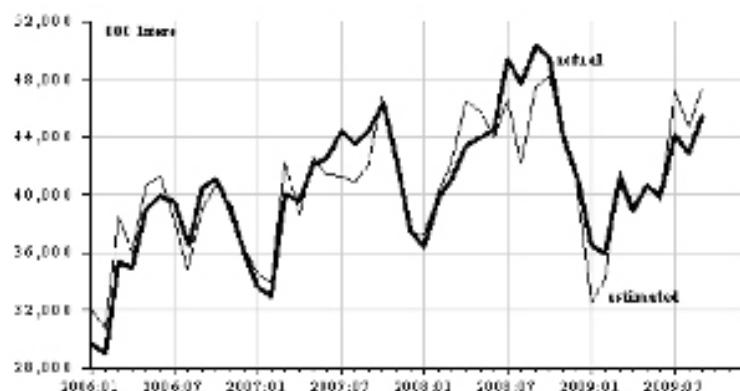
Graph 4 - Actual and estimated quantities of gasoline in the border regions**Graph 5 - Actual and estimated quantities of automotive diesel in the interior**

Illustration of the actual use of the model

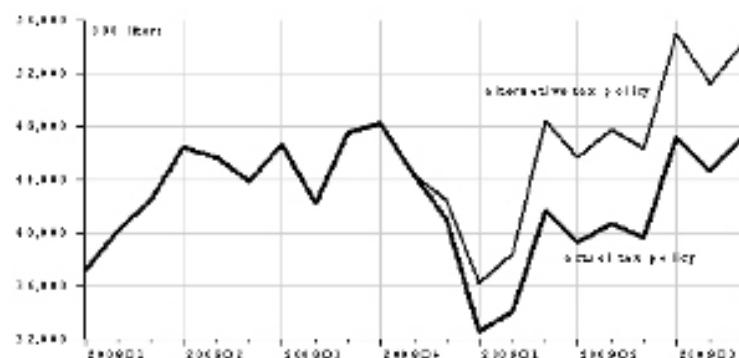
Effects of excise tax policy on quantities, purchases, earnings, excise taxes, value added taxes, and tax revenues

Excise tax policy in the period 2003–2009 had three distinct periods: a period of “neutral” policy in which excise tax in euros changed frequently (partly because of the fluctuation of the Tolar, the former Slovenian currency, towards the euro) since the middle of 2005; this was followed by a period in which the excise tax was fixed and thus automatically anti-inflationary; and finally the period

after December 2008 in which the government tried to compensate for the loss of tax revenues by increasing the excise tax on automotive fuels. The shift from the second to the third period is analyzed here. The effects of actual retail sale prices for gasoline and automotive diesel form the control solution which is compared to experimental solution in which prices of fuels (excise tax policy) remained unaltered. In such a case, gasoline and automotive diesel would be approximately 15 percent cheaper. Graph 6 illustrates the effects on the quantity of automotive diesel in the interior. The overall effects of alternative excise tax policy (i.e. keeping excise tax for gasoline and automotive diesel unaltered) are summarized in Table 6.

Table 6 - Overall effects of alternative excise tax policy for the sellers and government in the period 2008/12 – 2009/9

border region with:	AT	HR	HU	IT	? borders	interior	Total
quantity (litres 000s)	10,416	4,020	2,445	23,068	39,946	58,545	98,493
purchases (€ 000s)	728	-587	658	7,811	8,432	45,485	-37,034
earnings (€ 000s)	808	321	184	1,793	3,116	4,470	7,587
excise tax revenues (€ 000s)	-3,557	-4,27	-371	748	-3,606	81,473	-65,380
VAT revenues (€ 000s)	123	-98	2	1,268	1,295	-7,579	-6,284
tax revenues (€ 000s)	-3,434	-525	-369	2,017	-2,311	59,052	-71,363

Graph 6 - Quantity of automotive diesel in the interior and quantity if excise policy is unchanged

In short, by increasing excise taxes, government collected an extra € 71 million (€ 65 million of excise tax and € 6 million of value added tax), consumers paid € 37 millions more. On the other hand, gasoline stations sold 98.5 million litres less and lost € 7.6 million in net revenues.

To illustrate the results, let us look at January 2009. If excise tax policy had remained unaltered, gasoline stations would have sold 1.229 million more litres of gasoline (1.142 million in the border regions and 87,000 in the interior). Purchases would have diminished by € 2.171 million (a € 2.511 million drop in the interior and a € 340,000 rise in the border regions). The gasoline stations would have earned € 100,000 more (€ 93,000 in the border regions and € 7,000 in the interior) on

“mark up”. The government would have collected € 1.819 million less from excise taxes (€ 289,000 more in the border regions and € 2.118 million less in the interior). Tax revenues from VAT would have been € 374,000 lower (€ 45,000 higher in the border regions and € 419,000 lower in the interior). Finally, total tax revenues would have been € 2.213 million lower, due to a loss of € 2.537 million in the interior and a gain of € 334,000 in the border regions.

The effects of the alternative tax policy on the automotive diesel market would have been greater. Gasoline stations would have sold 5.149 million more litres of automotive diesel (1.767 million litres in the border regions and 3.652 million litres in the interior). Purchases would have decreased

by € 366,000 (an increase of € 246,000 in the border regions and a decrease of € 613,000 in the interior). Gasoline stations would have earned € 413,000 more (€ 135,000 in the border regions and 278,000 in the interior). The government would have collected € 2.379 million less from excise tax (€ 471,000 in the border regions and € 1.908 million in the interior). The revenues from VAT would have been € 61,000 lower (an increase of € 41,000 in the border regions and a decrease of € 102,000 in the interior). Altogether, tax revenues would have fallen by € 2.440 million, (€ 2.010 million in the interior and € 430,000 in the border regions).

Separation of the tax policy effects from the crisis effects

Long-run price elasticity of demand was used to establish the effects of the changes in excise tax policy in the period 2008/12 – 2009/9 by comparing

the experimental solution to the control solution. The experimental solution was easy to define as “no change in excise tax policy”. To define the “absence of economic crisis” scenario is not so straightforward. Indeed, “income” in the demand equation was replaced by transportation activity, which is measured by the number of car and truck crossings. Therefore, the question is: what would happen if there were no changes in the number of crossings and/or what is a “normal” number of crossings? The “normality” is defined as the number of crossings if growth rates from the period 2005/1 – 2008/7 would also continue after August 2008 (considered the starting point of the crisis). As the crisis hit truck transportation and transit particularly hard, the illustrative results in the rest of the paper confined to automotive diesel market only. The results of the simulations which enable the partitioning of the effects of the crisis and the tax policy on the quantity of automotive diesel are shown in Table 7 (litres) and Table 8 (shares).

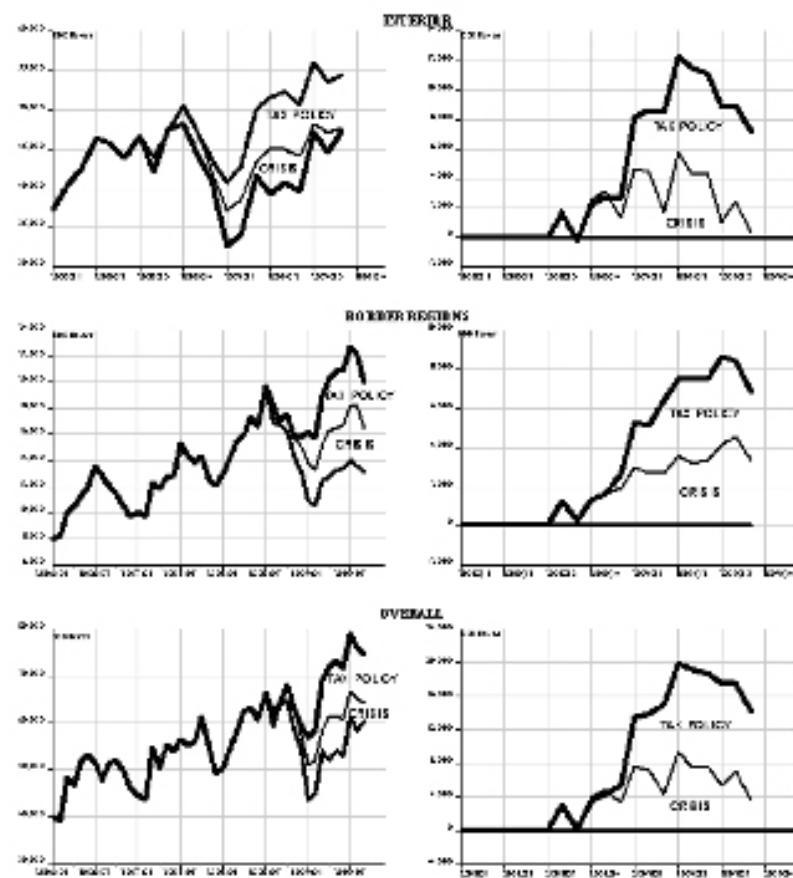
Table 7 - Partitioning of the crisis and excise tax policy on the quantity of automotive diesel (000 litres)

	Interior			Border regions			Total		
	crisis	tax policy	total	crisis	tax policy	total	crisis	tax policy	total
2008/12	1,348	1,382	2,630	1,905	837	2,639	3,253	2,018	5,274
2009/1	4,599	3,652	8,185	2,957	1,757	5,260	7,535	5,419	13,445
2	4,463	4,285	8,637	2,696	1,824	5,173	7,152	5,210	13,510
3	1,673	6,807	8,534	2,682	3,042	6,460	4,355	9,849	14,995
4	5,827	6,398	12,320	3,530	3,059	7,528	9,357	9,458	19,848
5	4,298	7,098	11,596	3,194	3,455	7,570	7,497	10,563	19,125
6	4,376	6,674	11,160	3,319	3,322	7,692	7,095	9,906	18,701
7	1,053	7,783	8,836	4,151	3,376	9,032	5,204	11,150	17,430
8	2,430	6,522	8,958	4,575	2,848	8,467	7,005	9,370	17,455
9	319	6,891	7,213	3,317	2,802	6,891	3,936	6,694	14,094

Table 8 - Contribution of the crisis and tax policy to the decline in quantity of automotive diesel sold (shares)

	Interior		Border regions		Total	
	tax crisis	policy	tax crisis	policy	tax crisis	policy
2008/12	0.49	0.51	0.75	0.25	0.62	0.38
2009/1	0.56	0.44	0.63	0.37	0.58	0.42
/2	0.51	0.49	0.58	0.42	0.54	0.46
/3	0.20	0.80	0.47	0.53	0.31	0.69
/4	0.48	0.52	0.54	0.46	0.50	0.50
/5	0.38	0.62	0.48	0.52	0.42	0.58
/6	0.40	0.60	0.50	0.50	0.44	0.56
/7	0.12	0.88	0.55	0.45	0.32	0.68
/8	0.27	0.73	0.62	0.38	0.43	0.57
/9	0.04	0.96	0.54	0.46	0.27	0.73

Graph 7 - Split between the effects of excise tax policy and the crisis



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A TALE OF TWO NATIONS – EMPIRICAL EXAMINATION OF INFLUENCE OF NATIONAL CULTURE ON PERCEIVED SERVICE QUALITY

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Abstract

This paper presents an examination of national culture's influence on perceptions of service quality. Direct measurement based approach towards measuring perceived service quality is adopted and implemented in this research, while national culture is conceptualized using Hofstede's framework. A review of previous studies linking dimensions of national culture with perceived service quality dimensions is undertaken and used as a basis upon which differences between service quality perceptions between national groups are hypothesized.

Empirical research was undertaken using a sample of hotel guests from two national groups.

By means of regression analysis, contribution of service quality dimensions in explaining total perceived service quality across two national samples was observed. Analysis of empirical data confirmed hypothesized differences between national samples. Finally, an analysis and discussion of research result's implications for services marketing theory and practice is provided.

Keywords: services marketing, perceived service quality, national culture

Introduction

Marketing of services has, in the course of past 30 years, grown from an area of limited interest for members of academic community, into a

fully fledged field of scientific inquiry. Reasons for this change are several, and can be found in the changing role services have had in modern economies. This change is primarily reflected in ever increasing contribution services make to national GDP of developed countries. Increased focus on services and resulting recognition of particularities of their management and marketing led to a realisation that an approach significantly different from goods marketing is required in order to successfully market services. Hence, requests for models particularly aimed at managing and marketing services arose. As a result of these incentives, research in services has led to recognition of distinguishing characteristics of services: Intangibility, Heterogeneity, Perishability, Inseparability of production and consumption and lack of ownership. Those characteristics have been considered the major differentiating factor in marketing approaches between services and goods. Furthermore, it can be said that major problems usually considered to be service marketing specific are caused by specificities of services – examples of which in service organisations can be found in failure to differentiate service offering from competition, difficulties in keeping a continuous standard of service delivery, while on consumer-side problems can appear in lack of possibility to evaluate a service provision prior to its consumption.

Due to all the specificities of services, striving for achieving service quality as perceived by the service customer has been deemed very important by scholars and practitioners alike. This is understandable, since increased incidence

of the positive perceptions regarding service provision and consequently increased customer satisfaction can lead to higher profitability of service firms. Linkages between satisfaction with service provision and profitability of service enterprises have been an intensively researched area during the past 20 years. Major contributions to this research have been made by several authors, some of which will be briefly mentioned. Reichheld and Sasser wrote their seminal paper on the topic in 1990, indicating the significance of customer retention for a service organization, reflected in potential profit generated or lost over an average customer lifetime with the firm. Further contributions have been made by Heskett, Jones, Loveman, Sasser and Schlesinger (1994) who established a notion of the service-profit chain, defined as "relationships between profitability, customer loyalty and employee satisfaction, loyalty and productivity" (*ibid.*:164). These authors have shown that customer satisfaction is a driving force behind customer loyalty and thus plays a major role in keeping current customers and generating positive word of mouth and referrals. In their 2006 article, Gupta and Zeithaml provide several generalisations based on a comprehensive review of studies looking into impact of customer metrics on firms' financial performance. Among other, they indicate a significant positive impact of customer satisfaction on financial performance in service businesses. Although these linkages were shown to be asymmetrical and non-linear, with intensity of the satisfaction-profitability link varying both across industries and across firms within an industry, general direction of satisfaction-profitability relation can hardly be questioned.

It is evident from the above discussion that a clear definitions and research of sources of customer satisfaction in service settings is necessary in order to provide opportunities for companies to achieve a mutually beneficial relationship with their customers. Relating to the previously discussed link between customer satisfaction and profitability, the importance of understanding interaction between perceived service quality and customer satisfaction becomes clear. Although service quality cannot be considered to be the only determinant of satisfaction (Oliver, 1994), it is nevertheless an important contributing factor. Whilst the causality of these two constructs has long been a debated topic, prevailing conceptualisation today, supported by numerous pieces of research (Cronin & Taylor, 1992; Oliver, 1994; Lee, Lee & Yoo, 2000), is the

one holding that satisfaction is a higher construct to service quality. In accordance to that notion and based on whole previous reasoning, research of quality issues in service settings presents an important field of interest for management of all organisations to which service offerings present a substantial segment of total market offering as "continuous improvement in service quality is not a cost but an investment in a customer who generates more profit than the margin on a one-time sale" (Reichheld & Sasser, 1990:107).

Service quality – conceptualisation and measurement

Definitions of quality vary significantly since it is a concept that "means different things to people according to the context" (Lovelock & Van der Merwe, 1999, p.485). Initial efforts towards conceptualising and developing quality indicators and measurements in services originated from the goods sector. However, due to specificities of services, that knowledge could not provide adequate basis for management of quality issues in services (Parasuraman, Zeithaml & Berry, 1985) and eventually it became apparent that service quality required separate theoretical foundation. Using Garvin's (1988; cited by Lovelock & Van der Merwe, 1999) classification of perspectives on quality, it could be argued that user-based definition of quality has been given the most attention in services marketing since consumer perceptions of quality are most important in defining service quality in general (Grönroos, 2000, p.63). Hence, a generally accepted definition of service quality states that service quality can be defined as customer's attitude or global judgment about the superiority of a service (Robledo, 2001; Robinson, 1999; Bitner & Hubbert, 1994). As a result of such view of quality, necessity for customer-based perceived service quality measurement emerged. Seminal works in the area of consumer-perceived service quality conceptualisation and measurement have been those of Parasuraman, Zeithaml and Berry (1985, 1988, 1991). Conceptualising service quality as a five dimensional construct, they developed SERVQUAL - an instrument aimed at measuring service quality using a battery of 22 questions, clustered into five service dimensions (Tangibles, Reliability, Responsiveness, Assurance and Empathy). Furthermore, these dimensions were deemed to be generic by the authors in their initial papers. In the original

SERVQUAL instrument, customer expectations and performance perceptions were used as a basis for calculation of scores for individual elements. Following that, gap between expectations and perceptions on each of the elements of the construct was calculated by subtracting mean values of perception and expectation scores across items. Based on distribution of items into various dimensions, service quality on each of the five dimensions would be calculated and finally an overall service quality score was obtained by averaging scores across five dimensions.

However, SERVQUAL has been a topic of substantial criticism and a debating point on several conceptual issues to which it did not clearly relate (for a more detailed discussion of these issues see e.g. Cronin and Taylor (1992) and Teas (1993)). As a reaction to SERVQUAL alternative measurements have been devised, of which one of the most well-known has been Cronin and Taylor's SERVPERF. These authors argued that in measuring perceived service quality, performance is in fact a sufficient measure. Consequently, based on SERVQUAL's battery of items – which were recognised as being an adequate outline of service quality determinants, they developed a questionnaire instrument which they named SERVPERF. While similar to the SERVQUAL in that it was based on the same set of items and the measurement scale, a significant modification was made in terms of instrument administration. Namely, quality measurement using SERVPERF uses performance ratings based on which an overall measure of quality is calculated. Cronin and Taylor managed to demonstrate their instruments' superiority over SERVQUAL in terms of higher predictive power, a finding additionally confirmed by Parasuraman, Zaithaml and Berry (1994). Nevertheless, SERVPERF also became an object of criticism due to its questionable diagnostic ability regarding service shortfalls (*ibid.*). As a potential solution for this issue, use of importance weights on service quality items has been proposed. Introduction of this element into SERVPERF instrument would present a step toward developing a measure conceptually closer to 'adequacy-importance' model of attitude measures (Mazis, Ahtola, & Klippel, 1975) – which could present a significant conceptual improvement of the measure itself since it would be closer to view of services quality judgements being effectively attitude-like. Although a potentially fruitful field of investigation, this line of research has been neglected by main-stream academic community

with relatively few service quality related articles exploring this domain, leaving various adopted versions of SERVQUAL and SERVPERF as dominant approaches in measuring quality in service sector instead.

National culture as a determinant of perceived service quality

As it has been noted in various papers looking at questions of culture's influences on consumer behaviour – culture is a factor which shapes the way individuals go about performing their tasks and determines how they perceive outside world. Linking such a notion of culture with 'interactive' nature of services – i.e. the fact that provision of most services imply some extent of interpersonal contact, it becomes clear that individual's cultural background could be an important factor in determining performance standards for service activities. Specifically, standards used for defining the 'ideal' combination of firm's performances on each dimension of service quality could prove to be dependent on particular cultural environment. If existent, this interaction of culture and service quality would be easiest to observe in inter-cultural service encounters, since general rules of behaviour and roles as dictated by culture are called upon into effect usually when an individual operates outside its familiar cultural space (Keesing, 1974, p.85). Research on such linkages has in fact been undertaken by several authors, however - before providing an overview of those studies, culture as a concept needs to be defined.

When it comes to question of what culture is and how to define it, the consensus is rather hard to achieve. This is understandable given that culture is a phenomenon characterised by its intangible nature. Culture is a complex, multifaceted phenomenon, manifested through various means – behaviours, language, traditions, etc. Culture has been an object of study in various fields – anthropology, sociology, psychology. As a result of this variety in approaches toward studying culture, various views of what culture is have emerged (Groeschl and Dohtery, 2000). Furthermore, using the term 'national culture' can be a source of some concern as it is understandable that individuals within one national state do not necessarily all share the same characteristics in terms of values held. However, this issue is not necessarily a problem, depending on certain prerequisites being satisfied. In his article, Steenkamp (2000) notes that national

boundaries and citizenship of a certain country can be used as meaningful proxy for culture if there is a reasonable amount of cultural homogeneity within country and cultural differences between countries. This does not mean that inhabitants of a country are completely homogeneous in terms of their cultural characteristics, nevertheless "there are forces pushing to a meaningful degree of within-country commonality" (*ibid.* p.36). These forces are present in majority of modern countries, and are embedded in standardised systems of education as well as political and legislative systems, which have resulted in similar values systems (or mental software, as termed by Hofstede) shared by major groups in the population (Hofstede, 2003, p.11). Empirical evidence of existence of such systematic differences between populations of different countries can, among others, be found in works of Hofstede (2003), Schwartz (1994) and Trompenaars (1997). Thus, a national culture can be illustrated by means of modal distribution of values held by its members.

Although a single definition or conceptualisation of national culture does not exist, one of the conceptualisations used extensively in marketing studies has been developed by Geert Hofstede. Defining culture as "collective programming of the mind which separates members of one group or category of people from another" (Hofstede and Hofstede, 2005, p. 4.), he established a framework which has allowed for cross cultural comparisons based on the notion of dimensions of culture. Being an "aspect of culture which can be measured in relation to other cultures" (*ibid.*, p.23), these dimensions represent sets of values related to various problems faced by individuals and societies, and they have been defined as Individualism (IND), Masculinity (MAS), Power distance (PDI) and Uncertainty avoidance (UAV). In addition, and relating to Asian specific values, Hofstede added another dimension which he termed Long-Term orientation (initially – Confucian Dynamism).

Linking service quality perceptions with dimensions of culture in literature

As it has been noted, service production and consumption in majority of cases presents a highly interactive economic activity, with high level of involvement of individuals in the process of service design and delivery. Indeed, the specificities of services have resulted in services marketing being

often referred to as interactive marketing (Grönroos, 2001). The importance of understanding the interactive nature of culture's influences on service provision lies in fact that in service marketing an important shift of focus in business planning and execution is present in comparison to the classical production. Whereas in production the focus is on a physical product, individuals set about shaping the "service concept, i.e. an idea about how the quality-generating resources should function and what result they should achieve for the customer" (*ibid.*: 150) need to understand the customer's views and priorities in relation to various elements of service quality in order to effectively and efficiently employ their resources. This in turn allows for both pre-emptive and adjustment steps to be taken in order for service firm's positioning in terms of quality supplied to match characteristics preferred by the customers (Imrie, Cadogan & McNaughton, 2002). This is where the question of culture's influence on service quality perception comes into play. Even while initial service quality conceptualisation of SERVQUAL had been undergoing its initial adjustments, with SERVPERF and other measurement instruments being developed, questions of potential cultural influences on service quality were being raised.

One of the first papers on this subject was written by Malhotra, Ulgado, Agarwal, & Baalbaki in 1994. They suggest a series of hypothesis relating the level of economic development of countries with expected service practices, recommendations for service practices and hypothesised importance of service quality dimensions. Although a valuable step in the right direction, this analysis was limited in encompassing the whole potential set of interactions between culture and service quality. This can be better understood if we know that Hofstede, in his work on national culture dimensions, has shown that national wealth acts as an explanatory variable in explaining only some of dimensions of culture (namely IND and PDI indexes). Further significant research in this area was undertaken by Anna Matilla. In her two 1999 papers she looks at the influence of cultures on service perceptions using comparison of American and Asian customers in high-class hotels, and (in her second study) at trade-offs made by customers of Western and Asian origin in their choice of various service configurations. Results of her first study indicated that purchase motivation impacted overall satisfaction of customers in hotels since "business travellers acted as a relatively homogenous target

market, regardless of cultural background" (1999a, p. 384). However, leisure travellers were more diverse in their evaluations of service in hotels, with customers of Asian origin generally scoring lower on overall satisfaction in comparison to customers from Western countries. Mattila attributed these differences to several factors – communication context, culture bound service-orientation and the power distance culture dimension as defined by Hofstede. However useful these findings might be, an important conceptual problem rises from the fact that groupings of customers in this particular case were very loose. Namely, the author treated Asian and Western customers as distinct but internally homogenous groups, whereas it is obvious that there are significant variations among individuals within these broadly defined groups in terms of cultural dimensions of their home countries. Matilla's second (1999b) study used Hofstede's cultural dimensions and Hall's (1990) communication context frameworks. She tested several hypotheses linking various aspects of service delivery and quality (physical surroundings, customer-service employee interactions, self-service delivery model, hedonic or pleasure-generating elements of service) with cultural dimensions. Although limited in scope of culture and service quality relations encompassed, Mattila's findings have contributed to both academic exploration of cross-cultural service quality issues, as well as indicated potential uses of insights from her research in business practice.

Initial interest in these issues led to further research. Most elaborate works aimed at determining links between service quality dimensions have been those of Donthu and Yoo (1998), Furrer et al. (2000), Tsikriktsis (2002), Tsoukatos and Rand (2007) and Kueh and Voon (2007). Although these authors conduct their investigation in various service settings, and with varying methodologies, they are guided by same fundamental assumption of direct and quantifiable links between service quality dimensions and dimensions of culture. All of the papers present a similar approach in their overview of literature on both concepts as they use Hofstede's conceptualisation of culture and, for the major part, lean toward disconfirmation conceptualisation of service quality, as SERVQUAL-based expectations battery of items have been used as basis for analysis and formation of linkages

with culture dimensions. However, differences in their views of potential linkages between various elements of service quality and culture dimensions surface already in their hypothesis formation phase, as their exploration of potential links varies from six (Donthu & Yoo, 1998) to 25 (Fuhrer et. al, 2000; Kueh & Voon, 2007). Furthermore, direction of hypothesised links varies between authors, partially based on varying service settings in which they conduct their research, but also based on their varying interpretation of various aspects of cultural dimensions potential for influence on expectations from service quality items. Furthermore, these authors use adopted Hofstede survey in order to measure cultural values on individual level, which is a practice specifically warned against by Hofstede.

Additionally, some of the papers aforementioned included additional analysis aimed at providing further insights regarding potential influences and interactions in service quality domain. Examples of these additional insights can be found in Furrer, Liu and Sudharshan (2000), who present a practical application of service quality dimensions - culture dimensions relations by defining several cultural profiles with appropriate 'ideal' service quality dimensions' profiles, which have potential for use, as the authors themselves term, as a segmentation and resource allocation tool. Tsikritis (2002) uses control variables (gender, age and nation) in his model to illustrate that there also is a partial influence of gender and age of respondent on service expectations. Finally - Tsoukatos and Rand, in their 2007 paper aim at looking at the influence of culture on service quality and customer satisfaction by linking importance ratings of service quality dimensions with cultural traits of individuals and final satisfaction ratings. However, in their case, they use expectation scores of GIQUAL (a form of SERVQUAL adjusted for Greek insurance industry) items as proxy for importance ratings. As authors state "the expectations scores, measured with 7-point Likert scales, are used as indicators of the importance of the 25 GIQUAL items to customers. The importance of dimensions is denoted by the average of the scores of the items that operationalize dimensions" (p. 475). For culture dimensions measurement, authors use individual-level measurement instrument developed by Fuhrer et al. (2000).

Table 1 - An overview of research results reported in papers linking dimensions of culture with service quality dimensions

STUDY	NO	MAS	PDI	UAV	LTO
Demir and Yıldız (2006) Banking	+ Reliability + Responsiveness + Assurance + Empathy + Tangibles	- Reliability + Responsiveness + Assurance + Empathy + Tangibles	- Reliability + Responsiveness + Assurance + Empathy + Tangibles	+ Reliability + Responsiveness + Assurance + Empathy + Tangibles	+ Reliability + Responsiveness + Assurance + Empathy + Tangibles
Jumer et al. (2006) Banking	+ Reliability + Responsiveness - Assurance + Empathy + Tangibles	- Reliability ^a + Responsiveness - Assurance ^b + Empathy ^c + Tangibles	- Reliability + Responsiveness + Assurance + Empathy + Tangibles	+ Reliability + Responsiveness + Assurance + Empathy + Tangibles	+ Reliability + Responsiveness + Assurance + Empathy + Tangibles
van Maanen (2002) Web site	+ Reliability + Responsiveness + Assurance + Empathy + Tangibles + Interactivity	- Reliability ^a + Responsiveness + Assurance + Empathy ^b + Tangibles ^c + Interactivity	- Reliability + Responsiveness + Assurance + Empathy + Tangibles + Interactivity	+ Reliability + Responsiveness + Assurance ^b + Empathy ^c + Tangibles + Interactivity	+ Reliability + Responsiveness + Assurance ^b + Empathy ^c + Tangibles + Interactivity
Tsakiris and Ment (2007) Insurance Industry	+ Reliability + Responsiveness + Assurance + Empathy + Tangibles	- Reliability + Responsiveness - Assurance + Empathy + Tangibles	- Reliability + Responsiveness + Assurance + Empathy + Tangibles	+ Reliability + Responsiveness + Assurance + Empathy + Tangibles	+ Reliability + Responsiveness + Assurance + Empathy + Tangibles
Kaur and Vaidya (2007) Foodservice	+ Reliability ^a - Responsiveness ^b - Assurance ^c + Empathy ^d + Tangibles ^e	- Reliability ^a + Responsiveness ^b - Assurance ^c + Empathy ^d + Tangibles ^e	- Reliability + Responsiveness - Assurance ^b + Empathy ^d + Tangibles ^e	+ Reliability + Responsiveness + Assurance ^b + Empathy ^d + Tangibles ^e	+ Reliability + Responsiveness + Assurance ^b + Empathy ^d + Tangibles ^e

a) insignificant relationship;

b) significant relationship with direction reverse to hypothesized

c) tangibles dimension score has been inferred from visual appeal and design elements of WEBQUAL

d) partial support since only visual appeal segment of tangibles was significantly related to masculinity

Note: '+' indicates positive relationship, '-' negative relationship, while 'o' indicates hypothesis of no relationship. Relationships marked with x have not been tested.

Research hypothesis

Literature review provides several areas of interest which warrant further research. Based on the review it can be seen that earlier research has clearly indicated possibility of national culture exhibiting an influence on perceptions of service quality when comparing evaluations from individuals from varying national groups. However, findings from previous studies can hardly be called consistent, hence further investigation and conceptual development regarding this link could prove to be a valuable source of insights into relationship dynamics present between these two concepts. Furthermore, methodological issues identified in earlier studies – particularly lack of consistency in using national samples in research, and opting instead for an approach which stratified

available respondents (often from the same national background) into differing 'cultural' groups based on their responses to adopted (Hofstede's) or custom created questionnaires can be deemed highly questionable if research setting is taken into account. Taking all of the above into account this research aims at investigating contribution of individual dimensions to explaining overall perceived service quality while strictly controlling the characteristics of respondents in terms of cultural background. Such an approach should significantly add to the existing body of knowledge by providing support for or against the idea of cultural influences on perception of service quality while at the same time controlling sample characteristics more strictly.

Based on all the arguments presented above, the authors propose the following hypothesis: Contribution of service quality dimensions to total perceived service quality will vary significantly between groups coming from differing national cultures.

Research methodology

Questionnaire used for the purpose of collecting data was divided into three main segments. In the first segment, perceived service quality was measured using 21 item derived from original SERVQUAL instrument, and adopted for use in hotel settings. Perception of overall service quality was measured separately using a single question. Since the data used in this research was gathered as a part of a wider research project, two additional questions, data from which was not used in this paper, measuring customer satisfaction

and recommendation intentions of respondents were included in the second segment of the questionnaire. Final portion of the questionnaire consisted of general demographic questions regarding respondents' sex, age, education, length of stay and purpose of visit (leisure or business). In order to ensure equality of research instrument across respondents from various countries, the questionnaire was translated and back translated from Croatian to Slovenian and Czech language.

Questionnaire was administered in a three star, all-inclusive hotel in Croatia during summer season. During this period, vast majority of hotels' guest came from Czech republic and Slovenia. Since these two nations display sufficient differences in three out of four culture dimensions for which Hofstede's score were readily available (Table 2), they were deemed as an acceptable data source for the purpose of this research.

Table 2 – Values of Hofstede's cultural dimension indexes for groups included in research

ORIGIN OF RESPONDENTS	CULTURAL DIMENSIONS VALUES			
	HDI	IND	N MAS	UAV
Czech Republic ¹	57	52	57	74
Slovenia ²	26	106	20	71

Sources: (1) Hofstede and Hofstede (2005); (2) Jazbec (2005)

Sampling technique applied was convenience sampling. After initial control of questionnaires, a sample of 151 usable questionnaires was acquired (out of total 191 questionnaires returned). Next step in data preparation was control for potential significant differences in terms of demographic characteristics between samples. In order for research findings to be valid, samples acquired should not display any significant differences across national groups. Samples were tested for differences on demographic characteristics of sex, age and education. Since no statistically significant differences were found, data from these samples was deemed acceptable for use in subsequent steps of the analysis process.

After determining the equivalence of samples on demographic criteria, equivalence of perceived

service quality dimensionality needed to be established between two samples included in this research. Since factor analysis was not an option due to sample size constraints, measurement instrument equivalence across samples was used as the best approach available, and formerly used in similar studies (e.g. Patton et al. 1994). As indicated by Patton et al. (*ibid.*), in order to determine similarities or differences a measurement instrument exhibits when used in different national samples, it is necessary to statistically evaluate the instrument by means of three tests – internal consistency, parallelism and reliability test. Internal consistency and parallelism were evaluated using correlation between values of individual items and ratings for each of the service quality dimension which those items form (ratings for dimensions are calculated as an average of

ratings for items it consists of). Using guidelines provided in Pallant (2005) and Patton et al. (1994) correlation coefficients for items measuring the same construct should not vary significantly and should not be smaller than 0.3. Paralellism test consists in comparison of correlation coefficients between different dimensions, which should display relatively similar values in order to be considered to

measure a common construct. If these two criteria are met, a scale can be considered to overall measure a common latent construct. Finally, to determine equivalence of a scale used in differing contexts, scale reliability needs to be established. Indicator used for determining scale reliability in this case was one of the most commonly used ones – Cronbach's alpha.

Results of the analysis for both samples are provided in the following tables.

Table 3 – Correlation and reliability coefficients (respondents from Czech republic)

Dimension	Correlation coefficients		
	Items - Dimensions (range)	Dimension-Dimension (average)	Reliability (alpha)
Tangibles	0,348 - 0,526	0,717	0,719
Responsiveness	0,546 - 0,666	0,735	0,814
Empathy	0,491 - 0,754	0,723	0,804
Security	0,564 - 0,652	0,667	0,810
Reliability	0,513 - 0,705	0,719	0,816

Table 4 - Correlation and reliability coefficients (respondents from Slovenia)

Dimension	Correlation coefficients		
	Items - Dimensions (range)	Dimension-Dimension (average)	Dimension
Tangibles	0,307 - 0,548	0,620	0,657
Responsiveness	0,531 - 0,768	0,727	0,818
Empathy	0,436 - 0,672	0,668	0,781
Security	0,446 - 0,549	0,662	0,663
Reliability	0,320 - 0,526	0,632	0,614

*with elimination of question no. 4 from the questionnaire, alpha coefficient value improved from ,620 to ,683

In general, it can be noted that both samples provided similar results, with Czech sample providing somewhat stronger indicators across the board. However, as no significant deviations could be identified among samples in terms of measurement instrument equivalency, data was deemed suitable for further analysis.

Contribution of service quality dimensions to overall perceived service quality

Contribution of individual service quality dimensions to overall perceived service quality

was investigated by means of multiple regression analysis. In order to use this technique, certain prerequisites—including absence of multicollinearity and autocorrelation, normal distribution and homoscedasticity of residuals have to be met. Consequently, prior to analysis and interpretation of results, data gathered in two national samples acquired during fieldwork was tested on all of the indicated prerequisites. Since all of the tests resulted in favourable outcomes, indicating no inherent issues in the final dataset, the next step in the analysis – calculation and comparison of regression coefficients, could be undertaken.

Results of the regression analysis are provided in the following table.

Table 5 – Results of regression analysis for Czech and Slovenian respondent samples

Quality dimensions	Standardised coefficients	
	Beta (CZE)	Beta (SLO)
Tangibles	0,492**	0,251
Responsiveness	0,021	0,327
Reliability	0,100	0,235
Empathy	0,318*	0,074
Security	-0,064	-0,056

* p<0,01; ** p<0,05

As observable from the results provided, analysis of the data from the sample of Czech respondents has indicated that the highest single contribution in explaining overall perceived service quality, reflected by regression coefficients, was made by the tangible elements of the service, with coefficient 0,492, significant at 0,01 level. Apart from this, the only regression coefficient which had been found to be significant was the coefficient for Empathy dimension (0,318 at 0,05 significance) while other coefficients were found to be insignificant. Analysis of data gathered among respondents from Slovenia reveals a different pattern of dimensional influences. Namely, the analysis reveals that highest coefficients were related to Responsiveness dimensions dimension (0,327) followed by tangible elements of service (0,251) and reliability (0,235), all significant at p<0,05. Dimensions of Empathy and Security were not

found to significantly contribute to explanation of overall perceived service quality.

Comparison of these two sets of regression coefficients does indeed reveal considerable variation in significance and intensity of dimensional regression coefficients across these two national samples. Hence, it can be concluded that research hypotheses is in fact confirmed – i.e. structure of dimensional contributions toward overall perceived service quality does in fact vary significantly among groups of individuals whose main differentiating characteristic is variation of their national background.

Discussion of findings and research limitations

This paper provides an analysis designed as a contributing step on a road toward better understanding of cultural influences on perceptions of service quality. Contribution of service quality dimensions to overall perceived service quality has been analysed across two samples of hotel guests from different national backgrounds, while at the same time strict control of both samples' structures was conducted in order to ensure their equivalence in terms of key demographic indicators.

In order for a comparison to be made possible, measurement equivalence of the instrument across samples had to be established. Hence, necessary analysis was undertaken in order to indicate eventual deviations from expected patterns of item groupings in measurement instrument - i.e. eventual lack of consistency between measurement items supposed to measure same latent constructs (service quality dimensions). Results of this analysis provided support for notion that data gathered from two samples did in fact display similar characteristics in terms of measurement equivalence, thus allowing for further analysis. Such findings are in line with previous studies which have indicated that structure of service quality concept is generally not country specific.

Regression analysis applied has indicated significant differences between contribution service quality dimension make toward overall service quality perceptions across samples. Respondents from Czech Republic were found to generally rely more on Tangible elements, followed by Responsiveness in their quality judgements. Data gathered from Slovenian respondents on the other side, revealed Responsiveness and Reliability, followed by Tangibles as the most influential elements in forming their quality judgement. These findings are very important in that they indeed provide support for the idea that cultural influences can be observed when individuals from varying cultural backgrounds make their quality judgements about the same service experience. Furthermore, while there are dimensions of service quality which do not significantly contribute to quality judgements in each of the samples considered, conclusions regarding the reasons for such findings should be made with caution. One explanation for such finding might be relatively small sample sizes

from each of national groups (62 Czech and 89 Slovenian respondents). Such samples would only allow for strong to medium relationships to be detected (Field, 2009), hence some of the potential influences might remain unidentified due to this constrain. The other potential explanation could be that some of the important service quality dimensions remain undetected when instruments developed in different cultural environments (primarily northern American, as it is the case with SERVQUAL) are used across varying national samples. However, in order to confirm this view, a significantly wider range of national samples would have to be covered by analysis.

Limitations of this research are mainly due to, previously recognised, relatively small sample size. Specifically, sample size prevented application of some of the more advanced statistical techniques (such as factor analysis or SEM) thus limiting the scope of findings that could be arrived to, while it also limited the diagnostic ability of the techniques applied. Additional limitation can be identified in the number of national groups/samples included in the research. Inclusion of additional nationalities could certainly provide further insights and possibility for identification of potential patterns between values of cultural and perceived service quality dimensions.

Conclusions and recommendations for further research

While general in their nature, findings of this study are nevertheless valuable as they do warrant further research of the problem and raise some practical questions in the area of service marketing and management in situations in which cross-cultural interactions are likely to occur.

Practical questions can be divided into two general topics of interest. The first one relates to the questions of management of service operations in aforementioned situations of services which are high on cross-cultural interactions. Understanding dimensional structure of service quality construct, its' potential variations and contribution of individual dimensions toward overall quality judgements could provide managers of service organisations with valuable insights in terms of optimal resource allocation. Second set of questions relates to the issues of business practices transferability in service sector across nations. In

an era of internationalisation of numerous service businesses, potential for failure due to lack of 'cultural compatibility' of service practices is higher than ever. Insights into both of these areas could be provided with further research of the general topic of this paper.

In terms of further directions, and in order for future research of this topic to provide actionable insights into the problems of relation dynamics between culture and quality perceptions, additional studies should be undertaken with similar methodological scrutiny in terms of sample composition. One of potentially most fruitful paths of inquiry, which could further expand findings of this paper, could be found in parallel application of perceived service quality measurement instruments and instruments aimed at measurement of cultural characteristics of different groups with, once again it should be emphasized, particular scrutiny regarding sample composition in terms of nationality of respondents origin. As it has been noted in introductory segments of this paper – while research applying such dual approach in terms of measurement instruments applied has already been undertaken, in most cases there was very little control for respondents nationality, or the cultural groups were defined very widely (as in case of Matilla's studies). Such a 'relaxed' approach to control of such an important characteristic can result in limited or even completely flawed view of the true influence national culture exerts on service consumers' judgements since findings will be based on post-hoc designation of cultural groups in a sample (i.e. based on results of 'cultural' questionnaire) rather than it being ad-hoc (based on respondent's nationality). Again, this is a fact indicated by Hofstede himself in his recommendation against use of his instrument for measurement of values of cultural dimension indicators on individual level.

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IDENTIFICATION OF CHANGES IN SMALL AND MEDIUM-SIZED ENTERPRISES IN AUSTRIA – A QUALITATIVE RESEARCH

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Abstract

The following paper deals with change management in small and medium-sized

enterprises. Such enterprises are often neither able to define necessary changes nor to implement changes sustainably. This is caused by missing resources or the tools therefore are not available. Particularly small and medium-sized enterprises suffer from the general pressure of change through the economy. This qualitative research has been done by five interviews in five Austrian companies of different sizes, different industries and different economical situations. The purpose was to get an information about how changes are identified and how these were implemented on a sustainable basis. This paper has the aim to identify how potential change requirements in regards to the strategy, the organisation, the planning of these change requirements, the implementation and the effectiveness of the implementation is done in different companies. The paper comes up with different approaches to identify and implement changes on a sustainable basis. The tools refer to the targeted group of an organisation like individual (person), team (group of people) or organisation (company). As a last deliverable the paper consists of a proposal for a change management concept for small and medium-sized enterprises.

Purpose

This paper analyses the different tools and methods in small and medium-sized enterprises to identify and implement changes. From that perspective it was important to explore how these changes were identified, planned, implemented and whether the changes got measured to identify the effectiveness.

Approach

The research was conducted by qualitative interviews with five Austrian companies of different sizes, different industries and different economical situations to gather as many approaches as possible.

Findings

Apart from a litany of different tools to identify and implement changes it is remarkable that especially the successful companies – from a financial point of view – use a systematic and integrated approach. This means that they observe the strategic change requirements and develop a road map or deduce projects from these strategic change requirements.

Value

On the one hand different approaches to tackle any change management problems with an idea how other companies take care of that but probably more important is the change management concept to implement changes on a sustainable basis. This concept is an output of the interviews and the literature review.

Key words

Change management, Tools for change management, Change management concept

Introduction

A lot of treatises have been published about the necessity of change and Herscovitch and Meyer state (2002, p.474) that:

Given the accelerated rate and complexity of changes in the workplace, it is not surprising

that there is a large and growing literature on the causes, consequences, and strategies of organizational change. What is surprising, however, is the paucity of research on employee reactions to change.

Adcroft, Willis and Hurst (2008, p.40) write that now change is happening faster, it is more dramatic and dynamic than ever before. Information is available faster, product life cycles are decreasing and business is globally-oriented. Especially the globalisation has forced a lot of companies to increase their competitiveness in regards to either quality and/or cost.

Change is omnipresent these days and Stanleigh (2007, p.35) defines some change drivers which are mergers and acquisitions, innovation, technology, restructuring, declining sales/market share, globalisation, expansion, growth and sense of urgency.

Due to the financial crisis a lot of companies were forced to fire people as a result of financial pressure within the company. As a consequence these companies had to re-organise their processes, structures and sometimes even the strategy. All the above mentioned influences result in a necessity to change the organisation and unfortunately a lot of companies are not able to adapt the necessary processes because a lack of change management. According to the Forschungsgemeinschaft Qualität (2010, p.5) the execution of change processes is crucial to innovation and the continuity of an organisation. It furthermore states that change is executed very unsystematically and this is caused due to a lack of financial and human resources.

That was the reason to observe the approach of different companies to identify and implement such changes. Small and medium-sized enterprises were chosen as usually these companies suffer more from economical fluctuations as the financial resources are not as big as the basis from international companies. Furthermore small and medium-sized companies often lack in the necessary resources not only to identify but also to implement changes on a sustainable basis.

This paper discusses the different approaches of five different Austrian companies and takes a look

at how changes were identified and implemented. As a result it comes up with a change management concept for small and medium-sized companies to identify and implement changes on a sustainable basis.

Research design

This qualitative research has been conducted by interviewing five different companies in Austria. The interviews were done on a semi-structured basis as this approach tries to take the best of the structured and unstructured approach. Myers (2009, pp. 121 – 125) explains that it gives the researcher some structure, while allowing for some improvisation. This improvisation is important for the researcher because it gives the interviewee the opportunity to add important insights as they arise during the conversation, while previously prepared questions provide some focus as well. One disadvantage is that this approach does not deliver as consistent results as the structured approach. The researcher defined small and medium-sized enterprises with different amount of employees, with different business models and in different economical situations. The reason for that is to get an as much heterogeneous picture as possible.

The interview checklist consisted of seven different areas:

- 1.) Recognition of strategic change requirements.
- 2.) Recognition of organisational change requirements.
- 3.) Planning of change requirements.
- 4.) Implementation of change requirements.
- 5.) Check of efficiency in regards to implementation.
- 6.) Preventative actions against resistance during change process.
- 7.) Reactive actions against resistance during change process.

Table 1: Interview-summary incl. business model and economical situation

Company and Interview Nr.	Amount of employees	Business model	Economical situation
C1	15	Service	Very stable and successful
C2	300	Production	Financial crisis
C3	450	Trading	Turnaround successful and positive trend
C4	21	Production	Very stable and successful
C5	50	Production and trading	Losing market share and financial results are decreasing

Mentioned tools

The interviewees mentioned also tools within each question and the targeted group within the organisation like individual (person), team (group of people) or/and the organisation. These tools are mentioned in table two below.

In regards to strategic change requirements there were four tools from two different companies mentioned – namely the competitor analysis, PIMS®, SWOT and Porter's five forces. C1 used the competitor analysis combined with Porter's five forces to identify strategic change requirements. C4 used PIMS® and the SWOT analysis.

The organisational change requirements are handled only in company C1 and C4 as well. These are deduced from the strategic change requirements. C1 took the outcome of the competitor analysis and Porter's five forces to identify any necessary organisational changes. C4 set up a SWOT analysis, identified any necessary organisational changes and discussed these changes individually with the respective people within the yearly appraisal interviews. At the end of the process the necessary organisational changes were discussed and responsibilities were decided.

The planning of change requirements is done by project management in company C1, and C3. C4 works with PDCA, C5 with management by objectives and C2 with action plans.

In regards to implementation of change, implementation efficiency and preventative actions against resistance the companies use the same methods as for the planning. It is significant that especially C2 defined the action plan as not satisfactory as there is no concept but just an accumulation of tasks without any strategic thinking behind it. Another important outcome is that the interviewees defined methods for preventative actions but during the interviews it came out that only C1 takes care of that point. This company used project management and within that process the change/project manager conducted a risk assessment which was used to define any risks regarding resistance of people.

In reference to reactive actions there were two answers from two different companies.

C1 controls change with project management and checks the originally assumed benefits after a certain time frame when the project is closed. If these are not fulfilled anymore, it is seen as an indicator for reactive resistance. C4 works with key performance indicators in conjunction with the PDCA cycle and with that approach it can be seen immediately if the process is not working or not performed according the standard operating procedure. C4 sees it as an indication for resistance if people do not work according the approved standard operating procedure.

Table 2: Tools and targeted level of organisation

Area	Tool	Individual	Team	Organisation
Recognition of strategic change requirements	Competitor analysis	x		x
	Profit Impact of Market			x
	Strategic PIMS			
	SWOT	x	x	
Recognition of organisational change requirements	Poister's five forms	x	x	
	Competitor analysis	x	x	
	SWOT	x	x	
Planning of change requirements	Appraisal interviews	x		
	Project management	x	x	
	Plan Do Check Act cycle (PDCA)	x	x	
	Management by objectives	x		
Implementation of change requirements	Project management	x	x	
	Plan-Do-Check-Act cycle	x	x	
	Management by objectives	x		
Check of efficiency in regards to implementation	Action plans	x	x	
	Project management	x	x	
	Plan-Do-Check-Act cycle	x	x	
	Management by objectives	x		
Preventative actions against resistance during change process	Action plans	x	x	
	Project management	x	x	
	Plan Do Check Act cycle	x	x	
	Management by objectives	x		
Reactive actions against resistance during change process	Action plans	x	x	
	Project management	x	x	
	Key performance indicators in conjunction with PDCA	x	x	

Conclusion of the interviews

The above mentioned tools are a mix of all interviews but the remarkable information is that especially the successful companies – from a financial point of view – use a systematic and integrated approach. This means that they observe the strategic change requirements and develop a road map or deduce projects from these strategic change requirements. That has the advantage that these companies do not only link projects with the strategy but also have a systematic approach to plan, implement and measure the efficiency with that approach. Especially C1 and C4 follow that systematic and integrated approach which means that they identify strategic change requirements and use the same tools for the identification of organisational change requirements. Another issue is that only C1 dealt with preventative actions to avoid resistance and only C1 and C4 observed whether there is any reactive resistance although Paton, Beranek and Smith (2008, p.97) write that change resistance is natural and an expected part

of any organisational change. They underline that understanding why and how opposition to change occurs, and developing the ability to respond is crucial to succeed or a contempt could be the reason for the failure of change efforts.

Especially in the companies C1 and C4 the management commitment to change management was very distinctive and the change process was driven by the management and according to Zairi and Sinclair (1995, p.24) leadership is the most important facilitator of large transformation efforts. On the other hand it has to be mentioned that the companies are rather small and linked with that the management influence is rather high in comparison to the other companies C2, C3 and C5.

Further research could be done on whether small companies do not have problems in regards to change execution generally and management commitment is secondary. Another research topic could be whether successful change management leads to better financial results.

Change management concept for small- and medium-sized enterprises

This part of the paper is the output of the qualitative research and best-practices collected within the interviews. The author defines seven stages to implement changes on a sustainable basis:

- 1.) Objectives and targeted effect of change defined by the project sponsor.
- 2.) Definition of a change manager/change facilitator.
- 3.) Identification and involvement of participants, key persons/stakeholder.
- 4.) Project charter to support project management.
- 5.) Execution of a kick-off meeting.
- 6.) Closure of the project.
- 7.) Check the success of the project.

- 1.) Objectives and targeted effect of change defined by the project sponsor

The Project Management Institute (2000, p.16) defines the sponsor as the individual or group that provides the financial resources for the project. It could be a superior, the CEO or a manager of an organisation. Adcroft, Willis and Hurst (2008, p.44) underline that firstly an organisation has to gain an understanding of the complex web of activities and processes before setting the objectives of a transformation. Saka (2003, p.493) writes that change means uncertainty and managers are expected to generate clear and adequate formulation of what the problem is and where they would like the organisation to be. Almaraz (1994, p.10) underlines that as well as she states that the difference between how the organisation looks at present and how it is expected to look after the change is an important issue. According to some interviewees it is very important to clarify not only the objectives but also the targeted effect with the sponsor. The objectives must be specific, measurable, accepted and appropriate, realistic and time-bound. According to Vakola, Soderquist and Prastacos (2007, p.272) it is recommended to execute competency management to support strategic change. This means that not only the

objectives are defined but also the necessary competences of the employees.

2.) Definition of a change manager/change facilitator

One critical success factor is that not only the change manager and the sponsor are clear about the objectives but also both parties are committed to them. Another critical success factor is the change manager as this person is the change facilitator. Buchanan & Badham (1999, p.610) define the change agent in their paper as any individual seeking to reconfigure responsibilities, structures, outputs, processes, systems, technology, roles, or other resources. The author does not agree with this definition as according the feedback of the interviewees it is recommended to set-up a role profile with the tasks, necessary skills and authorities to secure an efficient change process as well as this person should have managerial competences. Hartley, Benington and Binns (1997, p.62) refer as well that change agents may be senior line managers or those specifically charged with managing the processes of organisational development and cultural change in an organisation.

3.) Identification and involvement of participants, key persons/stakeholder

At this stage the change manager identifies relevant people who have to be a part of the project team or have to be involved necessarily. It could be of huge impact if process owner or key persons are forgotten during this phase. Greif (2004, p.166) defines key persons as door openers for change. According to the Project Management Institute (2000, p.16) stakeholders are individuals that are actively involved in the project, or whose interests may be positively or negatively affected as a result of the project execution or project completion. Furthermore they may exert influence over the project and its results.

Adcroft, Willis and Hurst (2008, p.43) describe that change must involve many stakeholders within the organisation be they instigators or drivers of change or simply those who are affected by the change.

Brooks and Bate (1994, p.181) state that the promise of change, and the uncertainty linked with that, create anxiety and Diefenbach writes (2007, p.137) that people are quite sensitive about how change is introduced, communicated and discussed, if and how their viewpoints are not only being heard but seriously taking into account. Considering that, the active involvement and consideration seems to be a critical success factor.

4.) Project charter to support project management

According to the interviewees it is highly recommended to execute change by using a systematic project management approach. According to a recent survey of Mc Greevy (2009, p.305), he defines applied project management as one key factor for a successful change management and Adcroft, Willis and Hurst (2008, p.43) state that for many organisations, a change program is only likely to give desired results if it is planned and directed. The basis of the approach is the project charter which consists of the initial and the target situation, the project objectives and project scope. The Project Management Institute (2000, p. 51) states that project scope management includes the processes required to ensure that the project includes all the work required to complete the project successfully. The agreement on scope between project sponsor and change manager is a key success factor of project management. Information about the project team, necessary project marketing, project reporting and project risks should also be available in the project charter. As a last part it consists of a provisional project plan to estimate resources, time frames and investments. The project charter could be seen as a contract between the sponsor and the change manager.

5.) Execution of a kick-off meeting

The kick-off meeting should be conducted to build-up a team, defining project rules and organisational topics but above all to transfer the existing information to the team that all people have the same level of knowledge. Furthermore it is essential to discuss the project charter and to get commitment from the team. This step is crucial

for the further procedure of the change project and Cronenbroeck (2004, p.55) underlines the importance to get the full commitment of the team and to clarify the framework of the project.

6.) Closure of the project

In this phase the project is finished and the project charter is measured against the real results. It is very important to celebrate the project closure with the project team. This is not only necessary in regards to motivation but also as an official end of the project.

Cronenbroeck (2004,pp. 87-8) suggests a final presentation to the sponsor to inform him about the results of the change project as well as an actual-theoretical comparison. Furthermore the change manager informs the sponsor about any necessary actions which have to be fulfilled to achieve project success.

7.) Check the success of the project

According to Saka (2003, p.493) organisational members tend not to question the status quo unless they are faced with a necessary change factor e.g. financial or political crisis and it is difficult to break habitual routines that are embedded in past learning. After a certain time period a success review is recommended by some interviewees. This is necessary to check whether the implementation of change took place on a sustainable basis or whether people went back to the initial condition.

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TOURISTS' BEHAVIOUR IN THAI HOMESTAY BUSINESS

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Abstract

Eco-tourism has recently become more popular worldwide. Thailand's tourism, which is one of the most important sectors of the Thai economy with highest earning of foreign currencies, has thus embraced this trend by promoting homestay service. However, homestay service is commonly known to be unreliable and often fails to meet tourists' expectations, possibly causing unstable business performance. Understanding tourists' behaviour could provide insightful information and help improving and assuring their performance. Therefore, the purpose of this study is to investigate the basic needs of travellers and the behaviour of Thai and foreign tourists visiting homestay in Thailand. The analysis is based on the questionnaire conducted among those two groups of tourists. In order to address this question, various statistical tests and pair wise comparison between the behaviour of both groups are employed and discussed. The study finds that both Thai and foreign tourists rank safety and security as the most influential factor for their decision to visit homestay. On the other hand, foreign tourists tend to ignore the price issue while local tourists overlook the information access issue. When the actual level of tourists' satisfaction with homestay is analysed, it can be seen that for Thai tourists, persons with age between 21-41, graduate from college or university, with middle income, tend to be more satisfied with homestay visit. As for foreign tourists, safety and security, and their first-time experience with homestay influence their satisfaction level. The investigation of Thai and foreign tourists' behaviour in homestay could well provide information for entrepreneurs to properly respond to tourists' increasing and changing demand.

Key words: *Tourism, Consumer Behaviour, Homestay*

Introduction

Tourism is one of the most important sectors of the Thai economy. It earns the country highest foreign exchange. Recently, worldwide tourism pattern has changed, with eco-tourism becoming more popular. To catch up with this changing trend, Thailand's tourism sector adjusted itself and embraced homestay as a new form of doing business. With its rich natural resources, and cultural and traditional uniqueness, Thailand thus has high potential in eco-tourism in terms of building up its activities on natural adventure, experiencing local way of life and tradition and cultural exchange. Moreover, those attractive and unique eco-tourism activities directly provide financial benefits to and empower local people with environmental consciousness. The Thai government has continually promoted the development of homestay in various tourist destinations throughout the country. However, homestay often faces the common problem of service failure and unreliable service, leading to its unsustainable profitability. Having the solution, an increase in the quality of its service provision and improvement in tourists' perception on Thai homestay could be a main key to resolve those problems. Homestay entrepreneurs need to understand their customers' behaviour and preferences in order to be able to fulfill their expectations. This knowledge could further help them improve their competitiveness in the tourism market.

Although many literatures, for example, Sonmez and Graefe (1998), Sirikaya and Woodside (2005), Kozak, et.al (2007), and recently Tasci and Boylu, (2010), well explain the consumers' behaviour on

tourism service, there are few studies focusing on the area of homestay service. Therefore, the contribution of this research is divided into twofold objectives. Firstly, this research aims to provide academic contribution to tourism research area of interest especially in the case of homestay. Another objective is to study the behaviour and preference of tourists visiting homestay in Thailand, and to analyze the relevant determining factors of tourists' decision to visit homestay, with an emphasis on two groups of tourists, namely Thai and foreign, in order to make a comparison. The findings would provide insightful information to not only homestay entrepreneurs but also policymakers to respond to basic needs of tourists and raise homestay service's quality standard. This could help entrepreneur provide fine-tuning service and reduce expectation failure in homestay in Thailand. To approach answer of this open interest, various descriptive statistics, including mean, frequency distribution and percentage distribution, of demographic characteristics and the level of satisfaction of each relevant factor are discussed. The paired sample t-test of mean and one-way ANOVA with Scheffe condition are also employed to explain the behaviour and the level of satisfaction of Thai and foreign tourists on Thai homestay. Finally, stepwise linear regression is applied to investigate the explanatory power of specific variables in influencing tourists' satisfaction from homestay service in Thailand.

The remainder of this study is organized as follows. The next section broadly contains relevant literatures while section three briefly describes the aspect of empirical methodologies. Section four presents descriptive statistics and empirical results. The last section provides a brief summary and concluding remarks.

Factors Determining Tourists' Behaviour

As it is commonly known, there are several determinants affecting consumers' behaviour, including tourist consumer behaviour (Sirikaya and Woodside, 2005). This behaviour may be influenced by a number of factors, for example, economic, political or temporal incidences, taking place both in visitors' home countries and in destination countries. These factors are difficult for tourism businesses to manage and control (Kozak et al, 2007). However, there are other factors that involve tourism businesses' characters and

management, for instance, price setting, location, and so on.

The study of tourist consumer behaviour is a complex issue due to service sector's various intrinsic natures, such as intangibility, inseparability of production and consumption, heterogeneity, and perishability. These characters of tourism service could create different levels of perception in terms of uncertainty and risk of unexpected occurrences during travelling in consumers' mind. In buying tourism service, consumers require a large amount of information and anticipate the consumption, creating images and expectations (Ramona, 2008). As a consequence of its specific characters, various factors are involved in tourists' buying behaviour and preference such as safety and security, different nationalities, and the uniqueness of service provision which have been a focus in a growing body of empirical evidence in this area.

Risk has been identified as a major concern for international travellers (Sonmez and Graefe, 1998). To decrease the degree of risk in unexpected circumstances, one may require the high standard of safety and security. People's perception of the safety and security of a destination is highly likely to influence behaviour such as destination choice, quality experience, satisfaction, loyalty, and word-of-mouth (Sonmez and Graefe, 1998; and Tasci and Boylu, 2010). The UNWTO includes safety and security as a determinant of quality tourist product, along with other five standards, which are hygiene, accessibility, transparency, authenticity and harmony (UNWTO, 2003). Safety and security concerns of tourists are associated with risks of different types, which can be categorized into six groups: functional risk, financial risk, time risk, physical risk, psychological risk, and social risk (Tasci and Boylu, 2010). Moreover, safety and security can be discussed in the forms of terrorism and political unrest (Fletcher and Morakabati, 2008). These risks, leading to safety and security problems, are often destination-dependent. High-perceived risk and safety concerns have appeared to be a central issue of visitors' decision-making evaluations. The three important destination-based factors, which have recently become the most influential factors on visitors' decision-making when choosing their holiday destination, consist of terrorism, natural disaster and health disease (Kozak et al, 2007). They find that those three factors have negative effect on travelling decision. Moreover, Tasci and Boylu (2010) mention that

positive perception of hygiene and health, and safety and security have statistically significant impact on trip satisfaction in the case of Turkey by using stepwise regression. Although there are rich literatures that discuss the role of safety and security, the question is still open in the case of homestay service.

Another factor affecting tourist buying behaviour is destination image. Crompton (1979) argues that destination image constitutes the beliefs, ideas, and impressions that a person has about a destination. A number of researchers acknowledge the influence of destination image on travellers' decision-making regarding destination selection (Shani et al, 2009). As for the formation of image, Gartner (1993) argues that it is the development of a wide variety of forces that act separately or jointly to form a destination image in the eyes of the potential or actual tourist. These forces may come from induced sources, autonomous sources, and organic sources. Shani et al (2010) argues that there is growing evidence that autonomous sources enjoy a higher degree of reliability among potential travellers.

As for the difficulty in evaluating service quality, tourists rely on personal sources of information with different search patterns before purchasing to reduce perceived risk, suggested by Murray (1991). The level of information access is thus widely discussed and still opened to question. An advance in information and communication technology makes the level of information access for tourists higher. The higher level of information access allows consumers to bypass some intermediaries when purchasing tourism services (Walle, 1996). It also makes direct marketing easier for tourism businesses. With this advance, direct marketing changes its form from sending travel information by post to disseminating it via electronic medium. Although computer and technology leads to the expansion of direct marketing, it is not always in competition with traditional tour agencies. A number of examples, such as a computerized airline system, indicate the use of internet to augment, instead of competing with travel agents. In further, because of the increase in the number of internet users, internet as the powerful gateway to information accessibility has been found to have significant impact on tourists for their decision involving service (Wu, 2002; and Yankholmes and Akyeampong, 2010). Wu also suggests that internet marketing is involved in consumer behaviour which

depends on its personal character. Murphy and Tan (2003), on the other hand, mention that customers have less chance in receiving a reply to their e-mail inquiry. This information technology accessibility with different search channels and information providers is then included in this study.

The world has become more integrated, but it has not yet completely globalized. Previous studies also agree to that people with different nationalities behave and prefer differently. Nationality is thus another important determining factor to explain tourist behaviour and preference on homestay service. According to Pizam and Sussmann (1995), people in the tourism industry aware that tourists from different origins behave in different ways in buying tourism service. As quoted in their work, a number of empirical studies support their argument, for instance, Groetzbach's work (1988) analyses the differences between travel behaviours of Muslims and Arabs comparing with those of Europeans. Pizam and Sussmann (1995) summarise the past investigations on this matter that, whether using direct or indirect methods of assessment, they find a great deal of evidence suggesting that tourists' nationality influences their behaviour. In further, Tasci and Boylu (2010) provide evidence that the Germans have less tolerant to undisciplined personality and way of life, while British tourists seem to be tolerant to differences and less demanding when it comes to service. However, proximity in terms of geography, climate, and culture may lessen the impact of nationality differences on trip satisfaction.

Finally, socio-demographic structure of individual tourists, education, income, gender and past experience, for instance, is also explored in assessing the level of trip satisfaction. Mossberg (1995) find that socio-demographic profile and past experience significantly explain the different levels of tourists' satisfaction with service. More recently, Tasci and Boylu (2010) provide an evidence of a negatively strong relationship between a secondary school degree and trip satisfaction to Turkey while other levels of education and socio-demographic variables have slight effect. The tourists' socio-demographic characteristics unquestionably influence their needs and expectation from tourism service, but the challenge here is to point out the key explanatory characteristic items.

As mentioned earlier, a number of studies have elaborated on the influence of various factors on tourists' buying behaviour and preference.

However, these works focus on a macroeconomic framework, which concentrates on tourist's behaviour towards countries or regions in order to make a comparison. Moreover, there is hardly any evidence in the case of tourists' behaviour for specific tourism products that particularly differentiate from other places. Based on the previous work in this area of interest, there are very few researches undertaken with a focus on trip to homestay and trip variables to demonstrate the differences in satisfaction. Thus, this paper aims at analysing factors affecting tourists' behaviour with emphasis on the case of Thai homestay business.

Methodology

A survey instrument with questionnaires was developed to assess Thai and foreign tourists' preferences on homestay service in Thailand. A total of 1,111 tourists, consisting of 593 Thai respondents and 508 foreign respondents with 35 different nationalities, visited Thailand during July to September 2010 were conveniently surveyed. The type of sample used for this study is not the purposive sample strictly on experience in visiting homestay while the size of the sample can be justified to be properly applicable for stepwise regression analysis. As for foreign respondents, this survey was thus used to gather information from tourists, who had and had not made trip to homestay, before leaving Thailand. In order to measure the preferences and key determining factors, the questionnaires are structured by focusing on levels of satisfaction with homestay service, price, electronic information access, and safety and security items that tourists consider important in influencing their decision to make trip to homestay. Respondents were asked to evaluate those four variable-related items that were assessed on a five-point Likert scale ranging from 1 to 5. The more positive rating is assigned the higher values (e.g. 1=not satisfied at all and 5=extremely satisfied). Similarly, the overall satisfaction with trip to homestay was structured by the same framework as variable-related items but it was to be rated by respondents who had the experience on homestay only. Moreover, demographic information is also included in this investigation since the socio-demographic structure can reveal tourists' preference framework on travel as mentioned by Martin and Woodside (2008), and Barbieri and Mahoney (2010), for instance.

To obtain this information, the respondents were asked to answer the multiple-choice questions regarding specific socio-demographic items.

Descriptive statistics (mean, standard deviation and frequency distribution), paired sample t-test of different mean and one-way analysis of variance (ANOVA) with post hoc Scheffe test (Sheffe, 1953) of multiple comparison procedure are applied for all tourists who had or had not experienced in homestay. In further, stepwise regression model is employed to address the predictability of potential factors, including selected socio-economic information items, and satisfaction with homestay in Thailand (in average term of related items on homestay service, price, electronic information access, and safety and security). The stepwise analysis is used to analyze only tourists (sample data) who had experienced with homestay service and the estimating regression is as follows:

$$SAF_n = f + \sum_{i=1}^S \sum_{n=1}^N \alpha_i SOCIO_{i,n} + \sum_{j=1}^V \sum_{n=1}^N \beta_j VAR_{j,n} + e_n$$

where SAF_n is the trip satisfaction level with homestay of individual or tourist n , Φ , α_i and β_j are the interested parameters to be estimated and e_n is the disturbance term of individual n . Letting $SOCIO$ and VAR are the independent variables and denote the socio-demographic information and satisfaction of buying factors of individual n .

To make pairwise comparison between preferences and behaviour of Thai and foreign tourists, the population size will be divided into two sub-sample groups; 1) Thai tourist and 2) foreign tourist. The stepwise model is consequently regressed twice in this study. The variable, S , of $SOCIO$ in case of foreign tourists consists of 19 items with six different groups of nationalities whereas there are 13 items included in the regression of Thai tourists. VAR for both sub-sample groups contains four buying variables as mentioned above. It must be noted that test statistics for significant explanation of each variable in above equation is under the null hypothesis of individual estimated parameter i and j indifferent from zero; , for instance. The test statistics for such a hypothesis are t-test statistic at a conventional level of 5% significant level ($\alpha=0.05$) or 95% confident level.

Results and Discussions

Descriptive Analysis:

Table 1 shows the country distribution of the respondents. It can be seen that Thai respondents account for just over half of all samples, 53.9%. As for foreign respondents, most are from Western European countries, accounting for 27.4% of all foreign respondents, followed by the US and Canada, and the UK, accounting for 18.3% and 16.5%, respectively. Table 2 demonstrates the descriptive statistics of demographic variables used in this study as well as respondents' past experience of homestay. It shows that the largest age group for both Thai and foreign respondents is 21-40 years of age, with 89.9% for the Thai and 74% for foreigners. However, foreign respondents with ages below 20 account for 15% whereas it is merely 1.7% for Thai respondents. This implies that Thai people start travelling at a later age than the others in the sample group. The finding evidence could reflect the typical Thai way of bringing up children which is less independent than that of its Western counterparts.

As for gender and education, both Thai and foreign groups are slightly dominated by males, university graduates. Over two-third of both responding groups work in the private sector. Meanwhile more than 60% of total respondents (62.6% and 65% of Thai and foreign respondents, respectively) have never visited homestay. Among those who have experiences with homestay, most of them had a short visit, spending 1-5 days. Foreigners spend longer time visiting homestay than Thais.

Table 3 shows the descriptive statistics of the respondents' rating for determining factors of their travel behaviour and preference. On average, for both Thai and foreign respondents, safety and security ranks the highest as their travel determinant. This supports an argument made by Tasici and Boylu (2010) that tourists' concern over safety and security are a global matter. Local and foreigners are alike in terms of their awareness for this issue. Information access ranks the lowest for Thai respondents while price ranks the lowest for foreign respondents. Both groups rank homestay

service as the second most influential factors for their homestay buying decisions. Nonetheless, when homestay service is broken down into sub-issues, it can be seen that the Thais seem to pay more attention to natural environment of homestay. On the other hand, foreigners tend to attach importance to learning ways of local life when visiting homestay.

Another point that should be noted is the difference in the level of influence of information access on Thai and foreign respondents. As can be seen from Table 3, foreign respondents rate information access, on average, 3.84, while the Thais rate only 3.38. This may be because the long-distance and unfamiliarity make the availability of information through various media playing an essential role in foreigners' decision making. In contrast, Thai people can get access to more direct information sources, such as word-of-mouth, less relying upon mass media or travel agency.

Table 4 presents the results of paired samples t-test with 5% significant level on determining factors for Thai and foreign respondents. As for Thai respondents, all paired comparisons are significant, meaning that each pair of these determining factors is statistically and significantly different in influencing the behaviour of Thai respondents. For foreign respondents, almost all paired comparisons, with the exception of price-information access, are significant. It means that foreign respondents indifferently regard price and information access as the determinant of their travelling decision. Table 5 shows the findings of pair wise comparisons between Thai and foreign respondents' behaviour associated with each of four explanatory factors. The t-test statistics demonstrate that among four paired comparisons, only two are significant, i.e. the case of information access, and safety and security. It indicates that the differences between Thai and foreign tourists in considering information access, and safety and security as their determining factors for staying at homestay are statistically significant at conventional level. In other word,

Table 1 Country distribution of the respondents

Country	Frequency (%)
Western European Countries (France, Germany, Italy, Spain, Netherlands and Belgium)	139 (27.4)
U.S. and Canada	98 (19.3)
U.K.	84 (16.5)
China	81 (15.2)
Japan	49 (9.5)
Australia and New Zealand	30 (5.9)
Other Asian Countries (India, Korea, Thailand, Taiwan and Malaysia)	26 (5.1)
North European Countries (Denmark, Sweden and Norway)	18 (3.5)
Middle-European Countries (Slovenia, Hungary, Romania, Poland and Slovakia)	11 (2.1)
Armenian Countries	8 (1.5)
All Foreign Respondents	618 (48.1)
U.S. Respondents	513 (51.5)

Table 2 Demographic characteristics and experience in homestay of respondents

Index	Thai (%)	Foreign (%)
Socio-demographics		
Age		
Less than 20	12 (1.7)	79 (16.0)
21-30	539 (78.6)	376 (74.0)
41-60	47 (6.9)	53 (10.1)
More than 60	2 (0.3)	3 (0.6)
Gender		
Male	305 (51.9)	292 (58.5)
Female	265 (48.1)	207 (41.5)
Education		
Secondary School Graduate	55 (9.5)	108 (20.7)
College Graduate	110 (19.8)	40 (7.9)
University Graduate	377 (68.6)	257 (50.9)
Master's or Ph.D	45 (8.1)	101 (20.5)
Occupation		
Private Employment	495 (71.8)	334 (65.5)
Government Employment	69 (10.0)	89 (17.5)
Undergrad., postgrad., etc. Student	60 (10.1)	46 (9.4)
Domestic Employment	9 (0.5)	24 (4.7)
Others	15 (2.5)	7 (0.7)
Income		
Less than 10,000 Baht (1,000 USD)	197 (33.1)	191 (37.8)
10,001-20,000 Baht (1,001-2,000 USD)	382 (64.1)	360 (67.9)
20,001-30,000 Baht (2,001-3,000 USD)	70 (11.2)	39 (7.5)
More than 30,001 Baht (3,001-5,000 USD)	0 (0.0)	37 (7.3)
Experience of Homestay		
Experience:		
Never	37 (52.8)	330 (65.0)
One Time	162 (27.0)	93 (18.5)
More than One Time	60 (10.2)	35 (6.7)
Days of Staying		
Never	37 (52.8)	330 (65.0)
1-6 days	227 (37.4)	110 (21.2)
7-10 days	-	38 (7.2)
More than 11 days	-	99 (19.0)

Note: % is percentage of frequency

Table 3 Descriptive statistics of determining factors for foreign and Thai respondents

Satisfactory Variables	Thai Respondents		Foreign Respondents	
	Mean	SD	Mean	SD
Homestay Service (Average of 6 items)	3.84	1.58	3.64	0.86
Natural environment	4.27	0.79	3.01	1.09
Learning way of life local	4.04	0.71	4.26	0.89
Local culture	4.10	0.72	4.17	0.93
Local tradition	3.70	0.71	3.82	1.07
Cultural exchange with villagers	3.41	1.55	4.12	0.87
Price (Average of 3 items)	3.82	1.71	3.01	0.76
Inexpensive price of meal	-	-	3.06	0.81
Reasonable price of accommodation	4.19	0.70	3.06	0.81
Price compare to other similar countries	3.07	0.72	3.66	0.81
Price compare to other tourist in Thailand	3.34	0.91	-	-
Information Access (Average of 4 items)	3.88	1.88	3.84	0.78
Convenience in purchasing package	3.95	0.55	3.75	0.78
Convenience to access the information provided by tourism Authority of Thailand / Ministry of Tourism and Sport through website or media	3.04	1.24	3.77	0.87
Convenience to access the information provided by travel agency through travel agent media	3.02	1.70	3.77	0.63
Convenience of homestay facilitated through personal contact	3.25	1.24	3.68	0.65
Safety and Security (Average of 4 items)	4.07	1.56	4.00	0.80
Safety of homestay	4.15	0.58	4.37	0.81
Safety of body and property during the stay in homestay	4.20	0.70	4.06	0.81
Community involvement	3.15	1.08	3.78	0.92
Community cleanliness	4.15	1.71	4.00	0.67

Note: SD is standard deviation.

information access, and safety and security have a significantly different level of influence on Thai and foreign tourists' buying decision. This is in line with the results of Table 3 which shows the higher rank of information access by foreign respondents than by Thai respondents. The familiarity with destinations due to closer distance makes the access to information via media and agency less important as a deciding factor for Thai tourists. Although both Thai and foreign respondents give the highest rate for issue of safety and security as their determining factor, there may be some differences in the way they consider the matter. This is because safety and security of a destination closely relates to its image or perception that tourists have about that destination. Foreign tourists, with no experience of the place, tend to perceive risks at a macro level while local tourists, being close to the place, tend to look at risks by a specific area. Despite safety and security scores the highest mean both for Thai and foreign respondents (Table 3), the difference

in their perceived risks may be a reason for a significant t-test result on this issue (Table 5).

According to Table 5, another two factors that show the insignificant difference between Thai and foreign respondents are homestay service and price. The insignificance of homestay service between Thais and foreigners could be explained by less varieties of service pattern provided by Thai homestay entrepreneurs. Prices offered are thus at narrow range. Homestay is also more likely classified as a niche market, depending on location, geography, climate, culture and tradition and way of life of destination. Its service then serves for a particular group of tourists who intently explore and adventure original and unique atmosphere of destination. As a result, Thai and foreign tourists place undifferentiated preference and expectation to homestay service and price. It must be noted that Thais and foreigners tend to significantly expect more on nature and culture exchange, respectively.

Table 4 Paired samples t-test on the average determining factors for foreign and Thai respondents

Pairs	Mean	SD	SEM	95% C.I. of the mean difference		t-stat.	Sig.
				Lower	Upper		
Thai Respondents							
Holiday Services Price	0.12	0.24	0.02	0.06	0.18	4.03	<0.001
Holiday Services Information Access	0.36	0.37	0.04	0.49	0.03	5.02	<0.001
Holiday Services Safety and Security	0.18	0.25	0.02	0.16	0.27	4.71	<0.001
Price-Information Access	0.44	0.39	0.04	0.37	0.51	-2.21	<0.001
Price-Safety and Security	-0.26	0.72	0.03	-0.31	-0.19	-8.44	<0.001
Information Accessibility and Security	-0.38	0.43	0.02	-0.46	-0.33	-7.05	<0.001
Foreign Respondents							
Holiday Services Price	0.10	0.28	0.02	0.07	0.18	2.74	<0.012
Holiday Services Information Access	0.38	0.34	0.04	0.01	0.15	2.15	<0.001
Holiday Services Safety and Security	0.28	0.34	0.04	0.36	0.21	7.80	<0.001
Price-Information Access	0.22	0.34	0.04	0.06	0.35	0.63	<0.500
Price-Safety and Security	-0.38	0.63	0.04	-0.46	-0.30	-6.28	<0.001
Information Accessibility and Security	-0.38	0.63	0.04	-0.46	-0.30	-6.29	<0.001

Note: SEM is standard error of the mean, CI is confidence interval, t-stat is the value of t-statistic, sig. is significant level, d.f. is the degree of freedom, d.f. of t-test in case of Thai and foreign respondents is 592 and 507, respectively.

Table 5 Paired samples t-test on respondents (Foreign versus Thai) for the average determining factors

Pairs	Mean	SEM	95% C.I. of the mean difference			d.f.	Sig.
			Lower	Upper	t-stat.		
Holiday Services	0.02	0.04	-0.06	0.10	0.48	1201.2	<0.001
Price	0.09	0.04	-0.06	0.09	-0.10	1245.3	<0.001
Information Access	0.45	0.03	0.36	0.57	6.70	1267.3	<0.001
Safety and Security	0.13	0.04	0.21	0.05	3.40	1212.0	<0.001

Note: See notes in Table 4. Paired t-test is under the assumption of unequal variance between foreign and Thai respondents.d.f. is Satterthwaite's degrees of freedom.

The results of one-way ANOVA with post hoc Scheffe's multiple comparison test on determining factors are reported in Table 6. The results show statistically significant differences in two factors, i.e. price and information access. As for price, Chinese respondents' rating is significantly higher than that of the Western European respondents. It can be said that the Chinese attaches more importance to the price issue than the Western European does. Despite of its statistical insignificance, Chinese respondents seem to focus on the price factor more than the UK and Thai respondents do, with the α level of 11-12%. In addition, the average value of three items of price (Table 6) illustrates

that Chinese tourists place the highest concern on price comparing with other nationalities. The finding from this study is consistent with March (1998) and Wen-Pan and Laws (2001). March presents that Chinese holiday-makers in Australia spend little on accommodation and food, preferring a budget three-star hotel. Furthermore, Wen-Pan and Laws indicate that most outbound tourism from China takes the form of an all-inclusive coach tour. This may be because Chinese tourists are conscious about price and inclusive coach tour is the traveling form that travellers can effectively control their costs. The finding evidence of high ranking on price can possibly be explained by the

economic condition of Chinese people. Asia Pacific Foundation of Canada (2002) points out that due to the generally low level of disposable income in China, for many potential Chinese tourists, traveling cost is an important factor in product choice, especially for first-time travellers.

Additionally, Thai respondents' rating on information access is significantly lower than that of the US and Canada, Chinese, and Japanese respondents. This implies that the American, the Canadian, the Chinese, and the Japanese place more importance to the access to homestay information than the Thai does. Apart from this, it must also be noted that Thai respondents, although not at a significant level, give less priority to information access than the UK and Western European respondents do, with the α level of 12-14%. The result of ANOVA on information access for Thai respondents is consistent with the mean value of four sub-groups under this topic (Table 3), which is quite low value. This may be due to their familiarity with the destination. On the contrary, Chinese respondents focus more on this issue than Western European respondents do, with the α level of 8.8%.

As for safety and security issue, although the one-way ANOVA test does not find any statistically significant differences between groups of respondents, all 11 groups, including Thai tourists, pay much attention to this matter, as it can be seen that all groups averagely rate this issue more than four on a five-point Likert scale.

Another interesting aspect of Chinese tourists' behaviour is shown by the highest rating given to all traveling choice criteria by Chinese respondents, according to the mean rating values of four traveling criteria (Table 6), and unreported post hoc Scheffe test. This can be interpreted that Chinese travellers seem to place high but, more or less, equal importance to all choice criteria listed here and they tend to demand for all and are less willing to trade off one criterion for another. Becken (2003) argues that although Chinese are very interested in foreign culture, they rarely speak English and prefer to eat Chinese food. His discussion supports this study's findings of which Chinese traveling attitude and pattern is generally not-so-adventurous, less friendly to new environment, demanding for high quality, very conscious and less flexible on price. These

particular Chinese traveling characteristics make it a challenging task for Thai homestay business to gain share on huge and potential Chinese tourism market.

In contrast with the Chinese, respondents from the UK and the Western European countries give varied rating levels to these choice criteria. It seems that they put different priorities regarding these issues and are likely to be more flexible while making traveling choice. This may be a result of long tradition of travelling of the British and Europeans, dated back since the colonial era. Tasci and Boylu (2010) explain British tourists' characteristic of friendliness and flexibility as the heritage from Thomas Cook, the first person who founded a travel agent.

Stepwise Regression Analysis:

Nonetheless, the above evidences are the findings from various statistic tests to address tourists' decision making to visit homestay and their travelling behaviour. It focuses on the general perspectives of both potential and actual tourists. Therefore, it is difficult to draw out the accurate level of tourists' satisfaction from the above analysis.

This part, as a result, tries to circumvent by exploring their satisfactory variables with reference to homestay visits. The stepwise regression analysis is employed to investigate the relationship between tourists' satisfaction with homestay and four main factors determining traveling behaviour as well as selected demographic and other related variables. The main objective of this regression is to decide to what extent these variables can significantly influence satisfaction of tourists who have experience visiting homestay. Table 7 summarises all variables used in the regression and provides their preliminary statistics.

Table 8 shows the results of stepwise regression, which demonstrates that among 23 independent variables used in the regression on Thai respondents who had visited homestay, only six variables are statistically significant, at the α level of 0.05%. These six variables, consisting of the age of 21-41, the income level of 30,001-70,000 Thai baht per month, college graduate, university graduate, homestay service, and information access, play a significant role in determining Thai tourists' satisfaction with homestay visit. The significance of these variables indicates that

Thai young travellers (age between 21-41), people with middle-income, people with high education receive a high level of satisfaction from visiting homestay. This may be because this group tends to be friendly, open-minded, and easily adjusted to new environment. These characters can be served well by homestay which offers new experience of tourism. It should be noted that all significant demographic characteristics are consistent with one another. Aged 21-41 is an age when average persons usually graduate from college or university and start working and receive stable salary. The significance of homestay service reflects that Thai homestay provides unique and up-to-expectation service to Thai tourists. Furthermore, access to information via electronic media, social network, and various forms of modern communication channels significantly and positively affects Thai tourists' satisfaction with homestay visit.

Unsurprisingly, safety and security is statistically insignificant in determining Thai tourists' satisfaction received from homestay trip. This can be explained that Thai people already familiar

with local environment of homestay and current situation of the surroundings, thus, having less concern about this issue comparing with those six variables of traveling criteria.

The result of stepwise regression on foreign respondents who had visited homestay shows that three out of 23 independent variables, i.e. homestay service, safety and security, and first-time visit, are statistically significant. The significance of safety and security can be explained by the unfamiliarity of foreign tourists with Thailand in general. When people unfamiliar with a destination, they tend to develop perception about that place. With negative publicity about recent political turmoil in Thailand, it is inevitable for foreign travellers to develop perceived risks and uncertainty, leading to the concern over safety and security during their homestay visit. This makes this issue become a key influential factor for their satisfaction with homestay trip. And from the regression result, foreign tourists are actually satisfied with safety and security of their homestay trip.

Table 6 Results of one-way ANOVA on the overall (average) ranking of determining factors

Country	Homestay Services	Price	Information Access	Safety and Security
Western European Countries	3.52	3.75	3.96	4.13
US and Canada	3.68	3.65	4.02	4.03
US	3.61	3.71	3.72	4.03
China	3.55	4.09	4.17**	4.17
Japan	3.48	3.25	3.96	4.04
Australia and New Zealand	4.03	3.72	3.97	4.12
Other Asian Countries	3.51	3.77	3.96	4.42
Northern European Countries	4.03	3.69	3.94	4.53
Eastern European Countries	3.51	3.66	3.73	4.35
Asian Countries	4.17	4.00	4.32	4.67
All Foreign Nationalities	3.84	3.81	3.84	4.03
Thailand	3.34	3.83	3.38**	4.07
Total	3.53	3.82	3.89	4.13

Note: See Table 4. *Significantly higher than Western European Countries (less than 5% level).

** Significantly lower than US and Canada, China, and Japan (less than 5% level).

***Significantly higher than Western European Countries (at 8.8% level).

Table 7 Descriptive statistics and frequencies of variables determining level of satisfaction with trip to homestay

Variable	Total Respondents n=221		Foreign Respondents n=178	
	Mean	SD	Mean	SD
Dependent variable (Independent variable)				
Level of satisfaction with trip to Homestay				
Independent variables				
Gender (M/F-male/female)	46.61	0.56	45.92	0.50
Age (% 1-21-41 2-22-30)	61.69	0.42	61.89	0.50
Level of Education				
Secondary school graduate (% of graduates)	4.97	0.70	31.76	0.77
College graduate (% or graduation)	13.67	0.94	43.52	0.80
University graduate (% of graduation)	71.35	0.45	31.78	0.41
Occupation				
Private employment (1)-Private employment, 0-others	67.87	0.40	39.29	0.47
Government employment (1)-Government employee, 1-1-others	22.17	0.42	38.54	0.39
Undergraduate/Graduate student (1)-Undergraduate/Graduate student, 0-others	5.96	0.21	6.92	0.29
Level of Income				
1-200-20,000 Euro (1-00- 20,000 USD) (9) 1-11 discharge, 0-others	10.12	0.47	39.50	0.49
21-201-200,000 Euro (1-07-16,000-1,500) (5) 1-11 discharge, 0-others	45.35	0.34	31.18	0.50
Geographical country of respondents				
Western European countries (1)-Western European countries, 0-others	-	-	39.34	0.49
US and Canada (1)-US and Canada, 0-others	-	-	10.28	0.37
UK (5)-UK, 0-others	-	-	14.34	0.38
China (2)-China, 0-others	-	-	1.78	0.39
Japan (5)-Japan, 0-others	-	-	9.82	0.25
Americas and Asia (2)-Americas and Asia, 0-others	-	-	8.11	0.21
Number of days in homestay				
One day trip	72.40	0.42	47.79	0.50
More than one day trip	26.79	0.44	32.25	0.50
Days of staying in homestay	1.57	0.54	3.32	1.40
Determining factors				
Homestay services	4.21	0.57	4.02	0.51
Food	3.82	0.65	3.76	0.47
Information accuracy	3.75	0.61	3.64	0.51
Safety and security	4.11	0.55	4.16	0.70

Note: n is a numbers of respondents, SD is standard deviation, % is percentage of frequency. Dummy variables with values of 1 and 0 are created to avoid the singular matrix problem in regression. Determining factors are the average value of its items.

Table 8 Result of stepwise regression of level of satisfaction with trip to homestay

Variables	Betaed Coefficient	SE	Std. Significance Coeff.
Thai Respondents:			
Constant	1.721	0.318	5.430
Age (≥ 1)	0.150	0.070	2.145
Level of income [0.001-70,720 Baht (0.00-0.0001 US\$)]	0.282	0.114	2.441
College graduate	0.474	0.120	3.954
University graduate	0.258	0.106	2.326
Homestay service	0.190	0.025	7.550
Information accessibility	0.150	0.047	3.220
Adj.R ² 0.215 F statistic 19.021 (< 0.001)			
Foreign Respondents:			
Constant	0.254	0.403	0.633
One-time trip	0.139	0.108	1.268
Homestay service	0.151	0.020	7.550
Safety and security	0.402	0.079	5.090
Adj.R ² 0.175 F statistic 21.069 (< 0.001)			

Note: SE is standard error, Adj.R² is adjusted R². α is significant level at 5%.

Another significant factor for foreign tourists' satisfaction with homestay is their status as first-time visitors. This may be explained that due to differences in various backgrounds, foreign travellers with the first time experience of homestay can be very much impressed by Thai identity, reflected in homestay service, in terms of cultural, natural, ways of life, and so on. This good impression occurs more readily for the first-timers and may not be clearly felt during tourists' repeated homestay visit.

Conclusion

This study aims at analyzing tourists' behaviour in Thailand's homestay. The investigation analyses various determining factors and their effects on tourists' behaviour and preference. Understanding the determinants could enable homestay entrepreneurs to adjust themselves and improve their service provision to travellers, bringing their businesses in line with other standardised tourism establishments. The study employs widely-used statistical tests and empirical analysis, such as, pair wise comparison t-test, one-way ANOVA, stepwise regression. The findings from this study demonstrate that the most important criterion for visiting Thai homestay for both Thais and foreigners

is safety and security. However, Thai tourists place lower concern on safety and security than other nationalities, due to the familiarity with visited destination, except British tourists who seem to possess friendly and adventurous characteristics. The concern over this issue includes both the safety of Thailand in general and that of homestay's area in particular. As a result, the safety and security issue is beyond homestay business to control. It is up to the authority concerned to handle this matter and ensure safety and security for tourists, which, in turn, will increase their trip satisfaction. The Thais, at the same time, give the lowest requirement on information accessibility. Homestay entrepreneurs as well as government agencies, such as Tourism Authority of Thailand, should thus provide up-to-date and accurate information via various channels of powerful information communication technology to serve foreigners.

Although homestay service influences the trip satisfaction of both Thai and foreign tourists, the particular service of their interest is different. Thai tourists are more satisfied with natural beauty of homestay and surrounding areas. On the other hand, foreign tourists are likely to expect more from service that allows them to experience local ways of life. These differences indicate that if homestay entrepreneurs want to appropriately serve their

customer, they need to know their target groups with proper market segmentation. Surprisingly, Thais and foreigners do not differentiate in price issue or cost of traveling as the result of pair wise t-test shows.

Remarkably, Chinese tourists give highest ranking for all traveling criteria comparing with other nationalities, including Thais. Knowing that China is a new target market of tourism business resulting from its economic expansion and openness, Thai homestay entrepreneur should pay much attention to huge challenge to meet its high preference on homestay. Interestingly, British tourists seem to be friendlier and more adventurous and open-minded than others, even Thais. UK market could possibly offer the highest potential expansion for Thai homestay tourism as well as the Western European countries.

From the stepwise analysis of tourists who had experienced homestay tourism, it provides interesting evidences that for Thai tourists, middle income and age between 21-41 years old are positively and statistically significant in explaining the level of satisfaction with trip to homestay. The college and university graduates positively satisfy with homestay experience. Intuitively, potential market group of Thai travellers for homestay in Thailand tend to be well-educated with middle income and young to middle age. Not surprisingly, overall trip satisfaction with Thai homestay of foreign travellers positively depends on the uniqueness and identity of homestay service and safety and security in various terms. Meanwhile, Thais do not significantly have their concern on safety and security issue due to familiarity with place of destination. It also seems to be that the service Thais and foreigners receive from homestay tourism is as they expected, according to the positive explanatory power of information access and the first time experience of homestay from Thai and foreign regression analysis, respectively.

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POSSIBLE SELVES AND CONSUMER BEHAVIOR IN FIRST TIME MOTHERS AS RELATED TO SHOPPING FOR BABY GOODS

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Abstract

This research focuses on the purchasing cycle and the consumer behaviour of first time mothers and their variance with regards to the mothers' age, education and marital status.

Many studies have examined the changes in the household structure, from the traditional family (mother, father and children) to modern family structures that include divorce, unmarried couples or single mothers.

Becoming a mother for the first time involves many aspirations, goals and fears with which they have to deal. These major changes affect the mother's possible selves.

This study examines the relationships between the mothers' anxiety level, the depth of their information search, and the evaluation phase. This relationship was tested against the status of the mother, either having a married or unmarried co-parenting arrangement with a partner, or single mothers by choice (no relationships with the child's father).

The pilot research includes 46 first-time mothers who gave birth in the last two years in Israel. The interviewees varied as regards age, level of education and marital status, and were interviewed about their consumer behaviour habits as related to baby goods such as stroller, crib, changing table or carrier.

Based on the results of these interviews, we built a model explaining consumer behaviour of first-time mothers based on the various characteristics described above.

Key words: First-time mothers, possible selves, parented mother, evaluation, shopping goods.

Introduction

Becoming a mother is a significant transition amongst Israeli women. Every year some 45,600 women become mothers for the first time, 8.3% of whom are single with no co-parenting relationship with a father. Most of them use the sperm bank to get pregnant (source: Israel Central Bureau of Statistics, 2008, pp 178-203)

The average age of childbearing in Israel is 26.8. The Israeli Ministry of Social Welfare passed a law in 1992 confirming a single parent is one who has a child who lives with her and

- a) Is not married or have a common law partner;
- b) Is married but has lived separately from her partner for at least two years and has started legal proceedings to end the connection; or is an abandoned wife; or is separate from her partner, has lived for 90 days at least in a shelter for battered women, and has started proceedings to end the connection (unless the Welfare Board determines that such a step might endanger her or her child's life);
- c) Is a new immigrant, in Israel between 12-24 months, whose partner has not immigrated to Israel, and who has no other partner.

Kornfein, Weisner, and Martin (1977) classify single mothers, including mothers in their late 30s, as independent and choosing to have a baby on their own as "nest builders".

This paper observes the correlation between age, education and former experience with children amongst both parented and single mothers as regards their buying goods for the baby. Parented mothers were either married or in a cohabiting relationship with the baby's father, while single mothers have no co-parenting relationship with a man and decided to get pregnant and bear a child alone.

Social and consumer studies demonstrate significant linkages between the age of the mother's formal education, her income and marital status and the evaluation stage of baby goods purchased in terms of collecting data, the anxiety level, and the period of time she devotes to this (Kalmuss, Davidson, and Cushman 1992; Kalmijn, 1996; Lerman, 2002). It further analyzes the influence of demographic variables for a single parent and parented mothers as related to time, effort and anxiousness when starting to shop for baby goods.

The model suggested by this author shows that single first-time mothers have a higher anxiety level, spend more time before making a purchase and rely on professional data sources, compared to married or parented first-time mothers. It further refers to education as a conditional variable reducing the anxiety level both in parented and single mothers: the more educated the mother the lower her anxiety level prior to decision-making.

Literature review

Anxiety and possible selves of the new mother

Anxiety is subjective, experienced as tension and occurring in the nervous system. It is manifested as

(1) State anxiety, experienced when something causes an appropriate and temporarily anxious feeling and then retreats until a 'normal' sensation is again experienced; or

(2) As trait anxiety, which is the 'preset' level of anxiety experienced by an individual who has a tendency to be more anxious

Several researchers such as Hock, McBride, and Gnezda (1989), Stifter, Couleau, and Fish (1993), and Hsu (2004) measured the mother's separation

anxiety both before and after birth. Another method of measurement employs the State-Trait Anxiety Inventory questionnaire, developed by Spielberger, Gorsuch, and Lushene in 1970. Two facets of anxiety are explored therein, each with twenty items for measurement, using a State Anxiety Inventory (SAI) and a Trait Anxiety Inventory (TAI). The former measures situational anxiety while the latter measures baseline anxiety. The items are rated on a 4-point scale, with a higher score equating a greater anxiety level. Spielberger et al. (1970) find that the test-retest correlation for the TAI is higher than that for the SAI. Despite the fluctuating test-retest correlations for the SAI, which reflect its validity in measuring state anxiety, the internal consistency of the SAI, as measured by the Cronbach's alpha score, has been found to be high. The essential qualities evaluated by the STAIS anxiety scale are apprehension, tension, nervousness, and worry. The scores rise in response to physical danger and psychological stress, and drop as a result of relaxation training. On the STAIT anxiety scale, consistent with the trait anxiety construct, psychoneurotic and depressed patients generally have high scores.

A mother's anxiety regarding her first child often includes worry, sadness, guilt and fear that she cannot provide her child with his needs and will not be a good mother. The changes experienced by the new mother during the transition prior to and following the pregnancy is associated with the mother's "possible selves identity" (Reder and Duncan, 2003; Banister and Hogg, 2006).

Pregnant women wonder about their new possible selves. "What kind of women do I want to be?" "What kind of mother do I not want to be?"

These conflicts are more substantial amongst single mothers than parented mothers due to the fact that the former are more concerned about their income ability and have less time or possibilities to adjust to their new identity and to prepare the growing new nest (Glezer, and Wolcott, 1997; Hand and Hughes, 2004).

Time as a paradigm amongst first-time mothers

Carrigan and Szmigin (2004) have found a correlation between dealing with time issues and consumption behavior amongst first-time pregnant mothers indicating that relative to their

time available and income some mothers will shop around convenience stores looking for the best quality while others will bargain for low cost products.

As first time purchasers, the "good mother" is dealing with complex decisions and choices for herself and for the baby.

Carrigan and Szmigin (2004) conducted qualitative interviews with focus groups of first-time mothers in their third trimester of pregnancy on their values and attitudes when purchasing and on choices. They assert that a first baby will influence the buying process as consumption will express parental values and product usage. In their research the link between dealing with time issues and consumption behavior were based on Dapkus' (1985) three dimensions as follows:

1. Time as change and continuity ("Doing in time"): the conflict between the regular habits and the will to have a healthy diet for themselves and the new baby.
2. Time as limit and choices ("Becoming in time"): the way the expectant mother deals with time, since having a baby is a complex innovation demanding considerable time spent making purchases and seeking information before and after delivery
3. Time as tempo1 ("Pacing in time"): since pregnancy is a temporary stage expectant mothers try to use this period as best they can to collect data and information pertaining to food, clothes and others products for themselves and for the baby

Some respondents in their research adhered to the advice of experienced and informed peers, while others followed their instincts. For some of the respondents it was a choice between new items and used items from previous mothers. Many found they were limited by their financial budget, but had considerable choice and variety in baby goods. On the one hand they were overloaded with information regarding what to buy for the first baby (from magazines, friends, and walking in stores) but on the other hand their choices were limited for budgetary considerations.

Belk (1985) and Kamineni and O'Cass (2003) show the link between materialism and the consumers' characteristics (age, gender, education, household with one or two parents, etc.). Their studies further

show that older new parents have greater difficulty adjusting to the transition than young new parents: they focus more on health care products for themselves and for the baby during the pregnancy and thereafter.

Consumer behavior of first-time mothers

Involvement can be defined as "a temporary perception of product importance based on the consumer's desire to obtain particular extrinsic goals that may derive from the purchase and /or usage of the product" (Bloch and Richins, 1983: 72).

In this study we focus on buying goods for the baby including a stroller, crib, carrier and dresser table. All products are of high importance for the mother because of the need for them and their significance for the baby's health.

The perceived risk felt by the new mother towards baby goods purchased for the first time motivates her high involvement and the complexity during purchasing.

Perceived risk is a popular region for researchers arising from uncertain buying as a consequence of a potential negative outcome (Dholakia, 2001).

Storey and Davies (2005) note that babies take first priority in the new mothers' purchases, who only thereafter buy for themselves.

In their qualitative work Andersen, Sorenson and Kjaer (2008) interviewed mother's groups in various provincial cities (small, middle and large) on their consumption behavior of baby's clothing from supermarkets and premium brands. The findings show that the mother's purchases of clothing indicate the extent of good mothering. Thus a perfect mother will buy designer products, and a less good mother will purchase goods from the supermarket.

These findings support the assumption that purchasing baby goods, even if at the expense of the mother's purchases, affect her self-image as a mother.

Demographic characteristics of first-time mothers

Family status

In recent years the number of single mothers 2 in Israel increased three-fold compared to the last century (Israel Central Bureau of Statistics, 2008:178-203). The number of single mothers by choice is also increasing globally (Wolfinger, 2008). In Iceland 63% of the new births are by single mothers, in Denmark it is 50%, in Norway 54%, and USA 43%. In 2007, 14% of the mothers in Israel were single mothers with no co-parenting relationship.

Most of the single mothers (64%) were born in Israel, have a higher education (72%), and work in a full-time job (75%). The average age of the first birth among single mothers is 36.1 years compared to parented mothers who averaged 27.1 years of age.

Being a single mother is a stressful transition in the family life cycle and a critical decision for the parent. Since the period of childbirth can be longer and postponed before embarking on a career, many women do not want to wait for Mr. Right, and the alternative to being a single mother is neither rare nor uncommon (Hill, 2009).

The new family life cycle concludes the stage of being a single parent.

The literature on single parent households notes the work overload experienced by them but offers little empirical evidence for a difference in the contribution to household production between one parent and two-parent frameworks. Sanik and Mauldin (1986) observe that single parents suffer strong social and emotional consequences due to the absence of a spouse, and bear all the responsibility for homemaking, child care and employment. Researchers find that single mothers have little or no time to relax after working all day, while Schlesinger (1977) discusses the social isolation and loneliness of single parents.

Age

A review of the literature concerning age and the transition to motherhood indicates that age has

a crucial influence on stress amongst first-time mothers (Bouchard, Mylene, and Amanda, 2008)

Research, in general, shows that in recent years more women are choosing to delay motherhood not only because they have not found their desired partner but also because they have other alternatives for self-fulfillment prior to childbirth. These characteristics are shared by most older first time mothers (after the age of 35), with a high educational level (76.4% of the older mothers have higher education), a professional occupation, who are career-focused and have often made a career move to a distant capital (Merlo 1995; Weston, Soriano and Qu, 2006).

Teenage mothers, with a socio-economic disadvantage, present the opposite attributes – they are young, have often barely completed high school, and lack financial assets.

Young mothers (up to the age of 35) are more concerned about their financial savings and abilities to provide regardless of their family status, while mature mothers (in their late 30s) whether single or partnered, face the "Maternal wall" (Swiss and Walker, 1993). The barriers combining career and motherhood are likely to be a big challenge for the mother trying to combine work and motherhood, but research amongst first-time mothers shows that they postpone motherhood for many years, but are then dedicated to being a mother and stay at home to care for the baby. They have more saved income, squander less, and are more aware of saving and of financial security for themselves and the newborn compared to younger parents (Chi-Ching, 1995; Powell and Powell, 2001).

Single parenting entails far more financial stress than for parented mothers, who will return to work much faster than the latter. Mature-aged mothers are more rational, since their decision-making and preparation is different, and they are more prepared for motherhood than young mothers (Bouchard et al., 2008). Furthermore, older partnered or single mothers will be more prepared and less worried than young single and partnered mothers

The ability of mature-aged mothers to adjust to changes compared to normative aged mothers is discussed in other studies (Hall, Wulff, White, and Wilson, 1994; Kapinus and Johnson, 2003; Campbell, Lackenbauer, and Muise, 2006).

Education

Education as a prejudiced character for mothers' behavior has been studied in the literature, which shows that mothers with a post high-school education focus on buying educational goods for the baby, notably books, educational toys and didactic games (Krein and Beller, 1988; Kalmijn, 1996).

In the child's early years the mother has a greater impact on the child's education than the father, while in high school the influence is the same (Krein and Beller, 1988).

Bronfenbrenner's ecology model (1979, 1986) implies a link between mother's education, the household framework and consumption. Households with two parents who have a post-high school education invest greater sums of money in

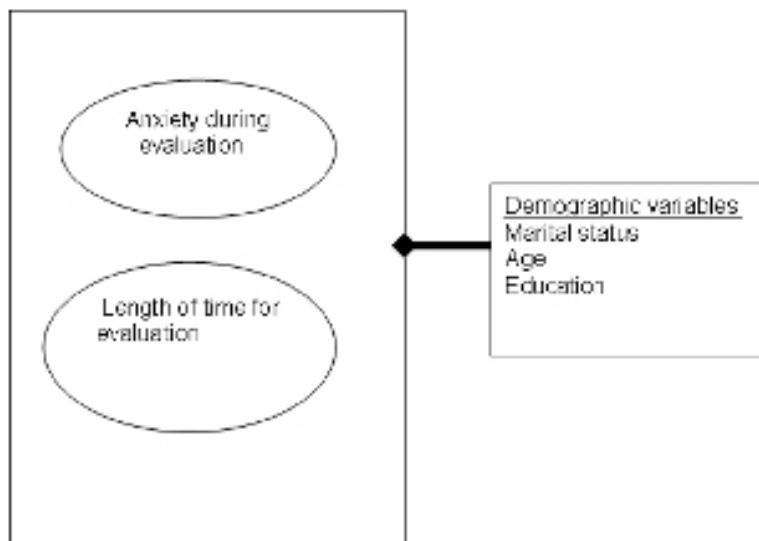
formal and informal educational consumption, and focus on creating a separate and quite environment for the child to learn and play (Bronfenbrenner, 1986).

This paradigm matches the research by Goodnow and Collins (1990), who suggest that married first-time mothers with higher education will buy more didactic games, books, and educational goods compared to other first-time mothers.

The suggested model

Based on the literature review the author proposes the following model predicting the mother's consumer behavior, based on family status, age, education and income.

Conceptual model of first-time mothers and demographic characteristics



Hypothesis 1

Single first-time mothers have a higher level of anxiety during purchasing shopping goods for the baby than parented first-time mothers.

Because of the importance of family status in related consumer behaviour and the global increase in single mothers it will be interesting to explore the correlation between family status and the anxiety level regarding shopping goods

Hypothesis 2

Single mothers will spend more time in consumption behaviour shopping for baby goods than parented mothers.

Based on the literature review dealing with consumer behaviour it will be interesting to explore the amount of time spent in consumption behaviour for baby goods relative to family status.

Data and methods

Sample

The research was based on personal interviews with 46 mothers in baby health care in Israel between October 2010 and January 2011.

The dependent variables were mother's age at the time of the first birth, education and family status. The sample embraces 20 single mothers and 26-parented mothers, all of whom gave birth in the last two years. Sixteen of the first-time mothers were aged 18-24, twenty-three mothers were aged 24-35, and seven mothers were aged 35-44.

Twenty-one mothers lacked higher education, and 25 first-time mothers had a higher education.

Table 1 presents a profile of the key demographic characteristics of the sample.

Measurement

Anxiety: This dependent variable was measured using the State-Trait Anxiety Inventory questionnaire, developed by Spielberger, et al. (1970), and presented in the review of the literature.

The amount of time spent by the mothers searching for baby goods is measured through questions that included how much time they spent seeking information prior to purchasing and how much time they actually spent purchasing.

Control variables: The mothers' age of transition to motherhood, education and family status were measured using demographic questions referring to each variable. Age was categorized as 24-34 and 35-45; education was classified as low (up to high school) and high (post high school) education and family status was a single or parented mother.

Table 1: Sample characteristics

N	Single mothers	Parented mothers
20	26	
Age (years)	M= 32.9 SD= 4.58	M= 33.78 SD= 5.85
Baby's age (months)	M= 11.22 SD= 4.50	M= 9.23 SD= 5.86
Education (number of years)	M= 16 SD= 2.47	M= 15.38 SD= 1.17
Income below average	21.1%	17.4%
Income average	68.4%	73.9%
Income above average	10.5%	8.7%

Results

First, total scores were calculated on the anxiety scale for each participant and for each of the scales regarding the subjective duration of the time allotted for searching for baby items and the objective duration of time allotted for searching baby's items. The total scores for all the scales were calculated as the mean of all the items in the relevant scale. Thus, a high total score on the anxiety scale reflected a high feeling of anxiety. A high total score in the subjective and objective search time scales reflected a lengthy search. In order to calculate the total score for the extent to which the participant consulted professional others regarding baby items, the first item in this scale (i.e., "consulted with my partner") was omitted. The total score was therefore calculated as the sum of the remaining items in this scale, thus a high score reflected a high tendency to consult with professional others. We now turn to examine the research hypotheses.

Hypothesis 1: Single first-time mothers have a higher level of anxiety during purchasing shopping goods for the baby than parented first-time mothers.

To this end, we first examined whether there are demographic factors correlated with the levels of anxiety. Pearson correlations revealed that levels of anxiety were correlated with years of education, $r = -.38$, $p < .01$, such that less educated mothers reported higher anxiety than educated mothers. Levels of anxiety were also correlated with the level of family income, $r = -.31$, $p < .05$, such that mothers from low-income families reported greater anxiety than mothers from high-income families. Therefore, in order to prevent a possible distortion, these two variables were controlled in the examination of the first hypothesis. In order to examine the difference in anxiety levels between parented and single mothers a one-way ANOVA analysis was conducted, with marital status as the independent variable, anxiety as the dependent variable, while controlling education and family income. As predicted, the anxiety level of single mothers ($M = 2.58$, $SD = 0.49$) was slightly higher than the anxiety level of parented mothers ($M = 2.33$, $SD = 0.38$). This difference was significant, $F(1,42) = 4$, $p < .05$, thus confirming our hypothesis.

Hypothesis 2: Single mothers will spend more time in consumption behaviour shopping for baby goods than parented mothers.

This hypothesis may be divided into two secondary hypotheses. In the first secondary hypothesis, the time allotted for searching for baby items was measured by the subjective duration. In the second hypothesis, the time allotted for searching for baby items was measured by the objective duration. Descriptive statistics are presented in Table 2.

Table 2: Means (and SDs) of the subjective and objective durations reported as a function of marital status

	Single mothers	Parented Mothers
Subjective duration	1.93 (0.68)	2.12 (0.02)
Objective duration	2.32 (0.89)	2.17 (0.76)

The data presented in table 2 suggests that whereas for the subjective duration, mothers spent more time searching for baby items than single mothers (in contrast to our prediction), the opposite pattern was found as predicted for the objective duration.

Each of these differences was put to an independent-samples t-test analysis. The difference between single and parented mothers in the estimates of the subjective duration of time was not significant, $t(44) = -0.74$, ns., as was the difference between single and parented mothers in the estimates of the objective duration of time, $t(44) = 0.57$, ns. Therefore, the second hypothesis was refuted.

Discussion and limits

One of the most basic events in a woman's life is the transformation generated by giving birth. The internal and external world changes irrevocably as the new personality experiences profound adaptation to the baby's needs. Throughout history women have devised strategies, and sometimes adopted rites, devised by other more experienced women, to aid them in this process. The need for support reflects the consciousness of the issues associated with birth, including the risk of infant and maternal mortality. Despite the low level of threat to the infant's and mother's wellbeing due to modern obstetric care, the worry and concern still exist for all parties.

Based on the findings of this study we can see that parenthood emphasizes the financial attention to expenses, income and saving. It increases the disagreements between new fathers and mothers as to whether they can support and provide for the baby's needs. Will they be able to save money? Can they manage the financial burden of a child? New parents become more aware of their expenses, income, saving assets and so on in the past and currently. They find themselves forced to adopt more reasonable buying habits that may entail postponing large expenditures (such as car, electrical goods or even moving house) and first consider buying goods for their first baby rather than themselves.

The study suggests that being a first-time mother, in a co-parenting relationship, reduces the anxiety over consumption of high involvement goods for the baby, probably because the parents consult among themselves and make the decisions after evaluation and discussion. First-time single mothers must take decisions regarding another person all alone, bearing all the responsibility by themselves (Halle, et al., 2008).

Fathers play a significant role in the transition to a family with a new born baby by supporting and participating in the child's development as early as during pregnancy (*ibid*). Single mothers have the same obligations towards the newborn but must cope with the new person in their life on their own.

The study also shows that new mothers do not spend different amounts of time according to their family status. Both single and parented mothers use their time as needed to evaluate and estimate baby goods prior to making a decision.

The complexity of the transition to first-time motherhood raises many questions such as what references and data sources are used by the new mothers and what significance is related to each source? What other demographic variables influence the new mother's consumption behavior? What is the percentage of e-purchases relative to data sources for single versus parented mothers. Other questions that should be studied are the differences between single and parented mothers in their behavior after buying the baby's goods, and their evaluation after purchasing. Finally more research should be conducted into the nature of the decision process amongst new mothers relative to their income and previous experience with babies.

The increase in the number of single new mothers makes it potentially viable, from the baby's point of sales, to have an improved marketing strategy to adjust goods and performance of an exclusive orientation to this niche and thus fulfill its needs completely.

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METHODOLOGICAL CHALLENGES FACED AND SOLUTIONS FOUND IN THE ANALYSIS OF SOUVENIR BUYING BEHAVIOURS

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Abstract

This paper looks at the methodological challenges involved in a PhD project which strived to gain deeper understanding of souvenir buying patterns of tourists. This contribution sets out to describe and evaluate the various steps taken in the process of qualitative data analysis. In addition, it traces and documents the transformation from a massive amount of data as a starting point, to a conceptual model as the final target. Furthermore, the so-called 'reduction and abstraction process' is documented by introducing the various interim results of the process, going from a preliminary working model through a rich description with embedded propositions, then providing an interpretive model based on propositions, before constructing tables as a basis for the final product of the research project, the conceptual model of souvenir consumption.

Keywords

tourism, souvenirs, buying behaviour, interpretive analysis, research methodology

Introduction

The present paper represents a critical reflection focusing on the methodological part of a PhD thesis which set out to investigate the souvenir buying behaviour of travel-experienced British tourists visiting Switzerland. The existing body of literature in the area of souvenir consumption was found to be highly fragmented and largely dominated by quantitative approaches (Swanson & Horridge, 2006). There turned out to be two basic problems: a) the absence of a comprehensive understanding of the souvenir consumption phenomenon, and

- b) a lack of meaningful empirical data based on which understanding could be achieved.

Point of departure

In view of Creswell's (2003) prompt that only a meticulously defined research problem can lead to a meaningful study, and Locke et al.'s (2000) reminder that a clearly stipulated statement of purpose is needed to understand why a certain study is to be conducted, the first procedural step in this research process consisted of defining a point of departure in the form of a statement of purpose. The actual wording of the statement of purpose and the subsequently crafted research objectives and research questions were heavily influenced by Wearing and Wearing (2001), who reminded the researcher that the predominant aim of research in this domain must be to "get inside the heads and hearts of the tourists themselves" (p.155). Other authors very prominently subscribe to this idea of moving tourism towards becoming a more person-centred phenomenon (Swanson, 2004; Morgan & Pritchard, 2005).

With a clear understanding of the overall aim of the research project, it was now time to ponder the philosophical framework in which the project would unfold. This basic set of beliefs of the researcher is known as a paradigm (Goodson & Phillimore, 2004). Stating such a paradigm in a research project signifies that the enquirer adheres to certain assumptions about what will be learnt and how the learning will take place (Creswell, 2003). In a similar vein, Lincoln and Guba (2000) maintain that a paradigm offers a condensed description of how the world operates. When it comes to the establishment of a paradigmatic stance,

the literature proposes a confusing collection of different approaches, and often the boundaries are blurred. However, it can be asserted that the two extremities are positivism on one side of the spectrum and constructivism/interpretivism on the other. The latter, often associated with qualitative research, emphasises relativism. "Reality is not objective, single and divisible but socially constructed, multiple, holistic and contextual" (Decrop, 2004 p.157). Researchers recognize that their own background shapes their interpretation. Rather than start with a theory, inquirers generate or inductively develop a theory or pattern of meaning (Creswell, 2003) and the focus is on the particular social context rather than the world in general (Hackley, 2003). Neuman (1997) summarizes perfectly the basic philosophical stance in constructivism/interpretivism and in contrast to positivism: "We cannot test theories against hard, objective facts because all facts are shaped by our beliefs. ... Facts we observe are always an imperfect, indirect and distorted representation of what actually exists" (p.46).

A series of arguments suggested that the study should be carried out under the constructivism/interpretivism paradigm. These arguments were:

- This research project was about understanding and interpreting a phenomenon;
- It is based on the understanding that reality is socially constructed and contextual. This means that the phenomenon of souvenir consumption happens in and is influenced by the social context in which it takes place;
- To fully grasp the meaning of souvenir buying, an interactive and co-operative relationship between the researcher and the souvenir buyer must be achieved. Otherwise, the research remains superficial, and truly grounded findings will not be possible;
- It must be the aim of this research project to present data which prides itself on richness and width in order to document the phenomenon as fully as possible;
- The research project was destined to adopt a holistic inductive approach in which a theory or pattern of meaning was the natural outcome of the empirical fieldwork.

The stipulation of this basic research stance preconditioned the application of methods stemming from the qualitative toolkit. However, Denzin and Lincoln (1998) give a word of warning with reference to the research process in general and to the qualitative avenue in particular: "Research is seen as a messy, non-linear process, with the researcher being innovative and creative

in seeking out the different pieces of the puzzle until he reaches a point when he is able to present as complete a picture as possible. There is not one set of methods that can bring total insight, the concept of objectivity is rejected, and consequently, there is no perfect outcome, no right answer to research questions posed. The messy research process is highly subjective, not through choice but because that is the nature of social research" (p.38).

In an interpretive research environment, the focus is clearly on meanings as opposed to facts (Hackley, 2003). This does not, however, mean that theory is not at play, and Silverman (2007) embraces this issue by stipulating: "No research can ever be 'theory-free'!" (p.97). In response to Vignali & Zundel's (2003) complaint that "... marketing academia has been criticised for lacking the ability in theory generation due to the application of positivistic methods" (p.205), this research project explicitly wanted to go beyond the scope of a typical constructivism/interpretivism application in which the final aim is the construction of a rich detailed description of the central phenomenon. In fact, the PhD aimed at applying a pattern theory approach to provide a more tangible and theory-driven contribution to knowledge. In view of the special requirements of the research project, it seemed particularly appropriate to follow the 'theory building from cases' approach as proposed by Eisenhardt and Graebner (2007). The authors claim that this approach is an optimal bridge from rich qualitative data to mainstream theory. Based on their suggestions, the individual primary informants' accounts were considered as isolated experiments. "But while laboratory experiments isolate the phenomena from their context ..." (p.25), this approach capitalizes on the rich, real-world context in which the phenomenon occurs. In this multiple-case environment, each case serves to provide replication, contrast, and extension of the emerging theoretical pattern.

In terms of the overall strategic approach used in the research project, phenomenology was considered to fit best in the research configuration, and the following arguments were advanced to support this decision:

- It allows tapping into people's beliefs, perceptions and emotions;
- The method accurately reflects "the importance of context and process in understanding behaviour" (Silverman, 2007 p.67);
- Phenomenology is not primarily meant to explain causes. Instead, it tries to provide rich descriptions of how things are experienced by those involved (Denscombe,

2003); d) The method accepts or even celebrates the possibility of multiple realities which can be self-contradictory, irrational, or even bizarre.

Data collection

Consistent with the methodological choices made earlier, the data collection process was subdivided into six distinctive steps: 1) A literature review of parent fields and the immediate subject; 2) Qualitative observations leading to field notes and first insights; 3) In-depth interviews with two primary informants as a pilot test, leading to audio recordings; 4) In-depth interviews with the remaining seven primary informants, leading to audio recordings; 5) In-depth interviews with six secondary informants, leading to audio recordings; 6) Transcription of in-depth interviews.

Based on the literature review, the second step of the data collection process was started. The group of unobtrusive measures which observations are part of encompasses methodologies which do not involve direct elicitation of data from the research subjects. Unobtrusive measures contrast with interviews and questionnaires in that they try to find indirect ways to obtain the desired data (Webb, et al., 2000) often without the knowledge of the people observed (Veal, 1997). The outcome of observation is a detailed description of why a culture is the way it is. Gibbs (2007) reminds us in this context that field notes generated through observations are not simply a recording of facts and they do not simply mirror reality. Instead, field notes involve active processes of interpretation and sense-making (Emerson, Fretz & Shaw, 2001). This part of the data collection process yielded roughly 50 pages of field notes that were ready to be analysed further.

Steps three to five were dedicated to in-depth interviews as a method of data collection. Jennings (2005) points out that interviews are thought to be the most popular method of data collection within the social sciences and they are typically used to interpret and understand the world in which we live. In the context of this research, the in-depth interviews were deployed in their unstructured format to take the interviewer into the world of the individual under study, allowing the discovery of categories and logic by which the interviewee sees the world. Silverman (2007) explicitly advocates the use of so-called 'naturally occurring data', i.e. data which exist independently of the researcher's

intervention. Potter (2002) proposes five arguments in favour of working with this specific type of data and all of them seem to match perfectly with the objectives outlined for this research: a) Naturally occurring data does not flood the research setting with the researcher's own categories; b) It does not put people in the position of disinterested experts on their own and others' practices and thoughts; c) It does not leave the researcher to make a range of more or less problematic inferences from the data collection arena to the topic, as the topic itself is directly studied; d) It opens up a wide variety of novel issues that are outside the prior expectations embedded in interview questions; e) It is a rich record of people living their lives, pursuing goals, managing institutional tasks and so on.

The final step, number six, consisted of transcribing the interview-based audio recordings, and this process produced 400 densely filled pages of transcripts.

Reduction and abstraction

The spectrum of literature covering aspects of data analysis in a qualitative context is extremely wide. Good examples of mainstream contributions or detailed considerations include Griffin (2007), Potter and Hepburn (2007) and Rapley (2001). Creswell (2003) argues that the process of data analysis involves making sense out of text and image data, and Dey (1993) points out that the main aim of analysis is to recognize and make explicit the classifications used by subjects. The whole process of analysis can best be described as breaking down data into bits and then 'beating' the bits together again. While Dey (1993) and other authors have suggested convincingly structured procedures of data handling, the actual adaptation of such standard approaches to the needs of a specific research project is mainly left to the researcher. In contrast to data analysis in the quantitative world, a qualitative approach requires a good deal of intuition, creativity, and empathy to gain insights which "make the implicit, explicit" (Hackley, 2003 p.71). In the case of this research, the major lines were influenced by Dey (1993) and his suggestions for a rigorous procedure to be followed when analysing qualitative data: Description – Classification – Making connections
– Finding focus – Reading and annotating
– Creating categories – Assigning categories
– Splitting and splicing – Linking data – Making connections. Thematic analysis, in which extracts

of interviews are reported to illustrate particular categories (Silverman, 2007), was used throughout the analysis process. Since qualitative data analysis should be seen as an iterative process in which the researcher generates meanings through repeated reading, interpretation, re-interpretation, and substantiation, the Hermeneutic Circle as introduced by Holbrook and O'Shaughnessy and cited in Hackley (2003) was adopted as the leading orientation in the analysis phase. In fact, hermeneutics are ideal for the analysis in this project as Thompson, Pollio and Locander (1994) rightly notice: "Hermeneutic research seeks to elicit insights into the 'unspoken' background of socially shared meanings by which a person interprets his/her experiences" (p.432).

While the hermeneutic approach informs the way in which the analysis process is organised structurally, the researcher often finds him/herself confronted with a voluminous collection of qualitative data which needs processing. Eisenhardt (1989) humorously refers to this challenge as the danger of "death by data asphyxiation" (p.540). Indeed, Gibbs (2007) points out that the idea of analysis implies some kind of transformation that leads, through analytic procedures, to a considerable reduction of data in terms of their volume. What Dey (1993) refers to as 'creating categories' and 'assigning categories' is nowadays commonly called the coding process. In this phase, text passages or fragments are analysed, interpreted, and assigned to an existing or soon-to-be created category, thereby leading to an often hierarchical structuring of the data.

The data analysis process is clearly understood as a multi-stage process. The sequential steps are (in continuation of the data collection steps described above): 7) Data-driven coding (see Figure 1 for a screenshot of the software-based coding-process) of primary informants' transcripts leading to the 'Three-phase model of souvenir consumption'; 8) Within-case analysis/interpretation based on primary informants; 9) Cross-case analysis/interpretation based on primary informants; 10) Rich description based on primary informants leading to the 'Rich description with embedded propositions'; 11) Further analysis/interpretation and data reduction leading to the 'Interpretive model based on propositions'; 12) Coding with a given list of codings of secondary informants' transcripts; 13) Analysis/interpretation, comparison with propositions and interpretive model leading

to the 'Construct tables'; 14) Further analysis/interpretation and data reduction leading to the 'Conceptual model of souvenir consumption'; 15) Discussion of findings.

Results

In view of the roughly 400 pages of data it seemed essential that the first step should be to design and implement a rigorous reduction and abstraction process which would reduce the amount of data and yet still keep the essence for future analysis. The process is depicted in Figure 2.

The first interim result shown in the reduction and abstraction process chart is the 'Preliminary working model' (depicted in Figure 3) which summarizes the findings of the extensive literature review. This model consolidates, contextualises, and visualises the many individual and barely interconnected bits of knowledge which exist in the literature regarding the phenomenon of souvenir consumption. This interim result in the research process attempts to capture the essence of the phenomenon and to present the main themes and the potential gaps of knowledge at a glance.

As a first and very early result directly derived from the early coding procedures, the 'Three-phase model of souvenir consumption' as depicted in Figure 4 shows that the actual content of the accounts collected could be roughly subdivided into three distinct phases which all belong to the overarching souvenir buying process.

Consistent with the phenomenological stance prevailing in this study, the next interim result was the 'Rich description with embedded propositions' consisting of roughly 300 detail-filled pages of which a sample page is shown in Figure 5. The description represents a first-time, and due to the embedded propositions, a much more conceptual understanding of the phenomenon. In contrast to many qualitatively informed investigations in which the rich description represents the final point of the process, this study considered the rich description as a highly important interim result ultimately leading to a conceptual model at a considerably higher level of abstraction. Nevertheless, the rich description of the phenomenon under study is vital for obtaining a better understanding of it.

The next step documented in the reduction and abstraction process consisted of detaching the

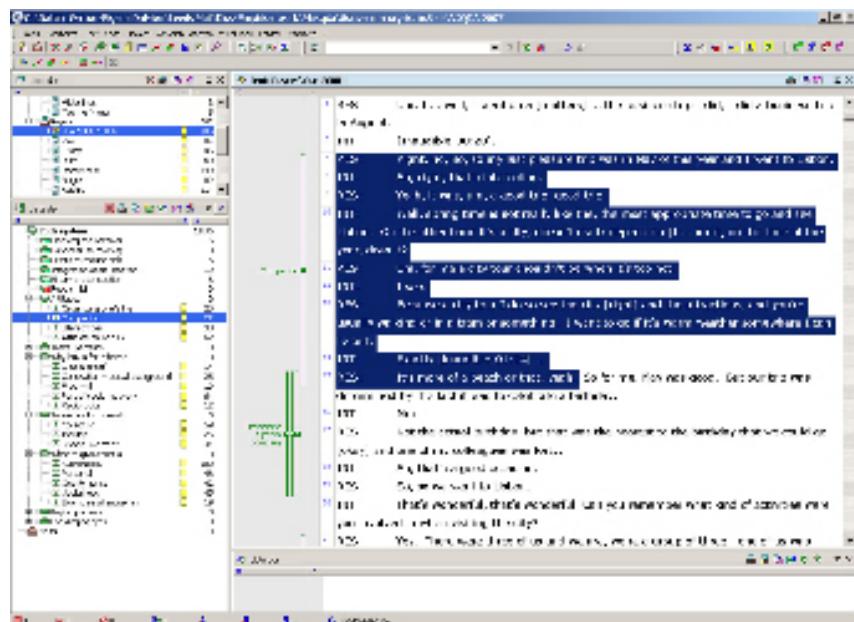
propositions from the rich description and re-contextualising them in a new format. The so called 'Interpretive model based on propositions' is depicted in Figure 6. This model is an attempt to conceptually represent the souvenir buying process while being strongly grounded in empirical data. While the drawing up process of the interpretive model in itself helped to conceptualize the phenomenon and to advance understanding even more, new insights began to emerge with every intermediate version of the model. Probably the main insight gained from this phase was that the phenomenon is not simple and uni-dimensional in nature but highly complex and multi-faceted.

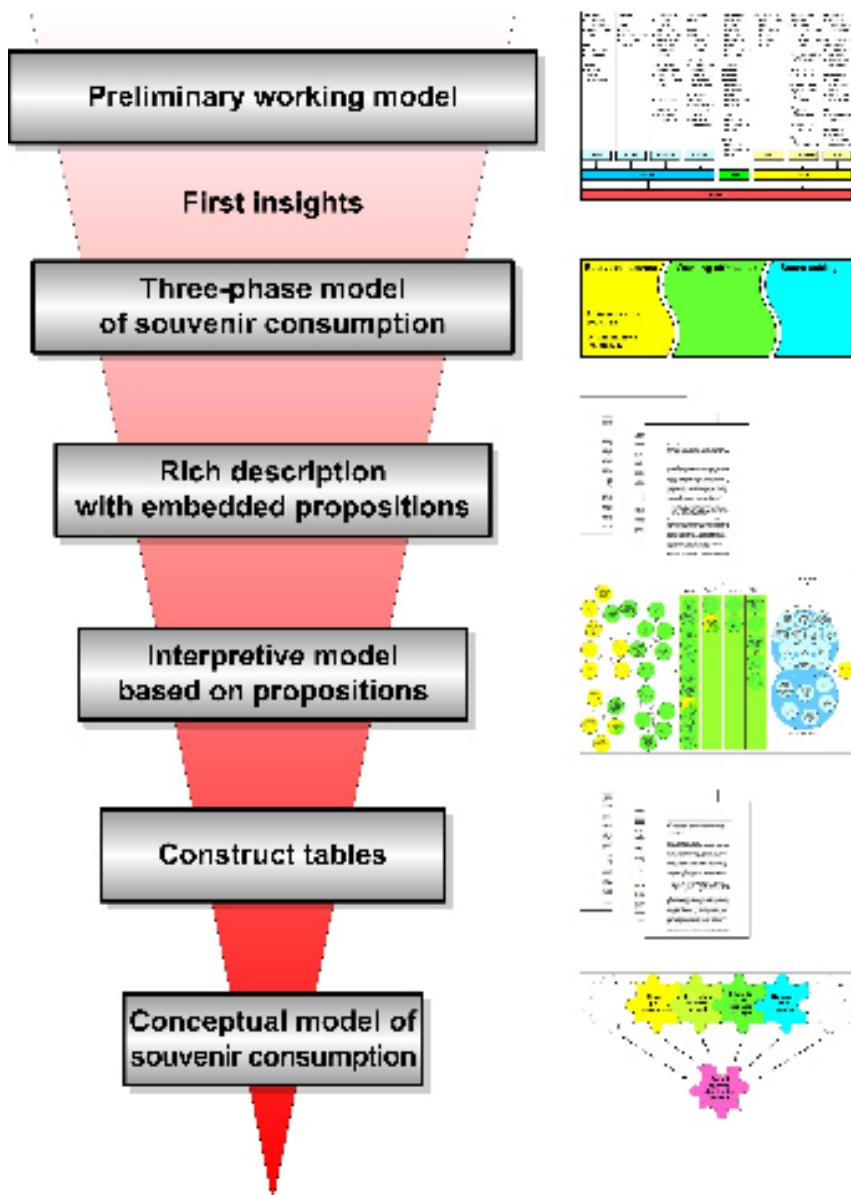
After further attempts to reduce data volume and at the same time increase the level of abstraction, five fundamental concepts gradually emerged. A first draft of a conceptual model confirmed that the detected constructs indeed stood in a clearly defined relationship with each other. Before achieving a final conceptual mode, it was seen as essential to gather supporting evidence for each of the proposed constructs. The respective evidence was aggregated in 'Construct tables', of which a sample page can be seen in Figure 7. Construct tables in a qualitative analysis environment are an ideal means to emphasize the rigorousness of the research process and the robustness of the achieved results.

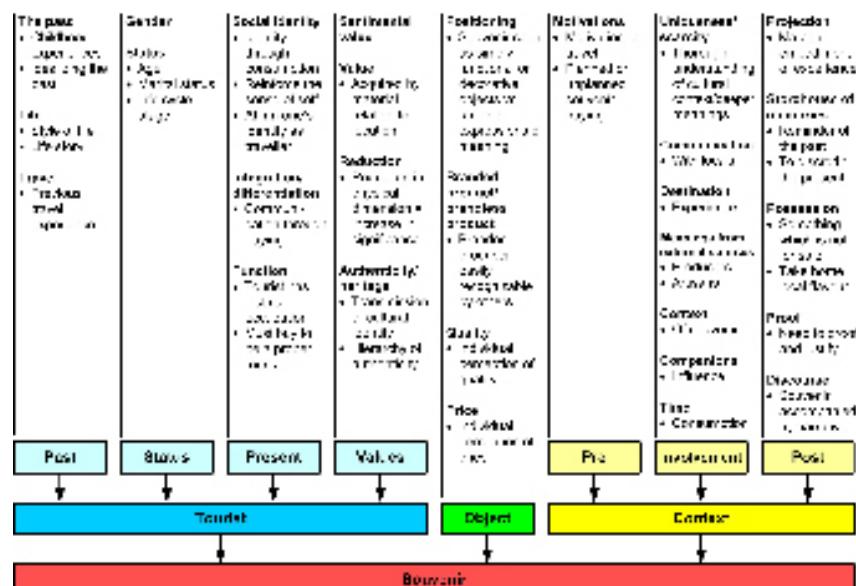
With an admittedly rather demanding and overly complex 'Interpretive model based on propositions' in hand, it was now time to reduce complexity further and extract the pure essence of the phenomenon under consideration. In consequence, the 'Conceptual model of souvenir consumption' emerged, and this is depicted in Figure 8. In line with its predecessor models, this represents a process through which souvenir buyers tend to navigate. The contribution to knowledge can be identified from different viewpoints: a) It describes and therefore deepens understanding of the phenomenon; b) It represents an attempt to formulate theory describing the phenomenon; c) It supplies a conceptual framework based on which a large number of questions in the context of souvenir consumption can be addressed and issues raised; d) It can be positioned as a central knowledge repository.

Conclusions

The paper underlines the vital importance of a rigorous approach throughout the process of qualitative data analysis. At the same time, it is argued that a generous portion of imagination and creativity, paired with a well developed sense of curiosity, are needed to reveal the true meaning of what people say.







If we listen to Alexi this time, we can again feel the importance of the usefulness factor in her souvenir buying decisions.

'Well, one of them is actually a cover for a box of tissues. ... One of the things I bought was a cover for the box so it's got a carved hole in the top where the tissues come out ... but it distinguishes it. It just makes it look so much nicer than a horrible cardboard box.'

While usefulness is undoubtedly present in her example, I tend to entertain the suspicion that usefulness is often employed as a smoke screen to counteract a perception of kitsch, which could potentially exist for people seeing the object. It appears as if such end usefulnesses are experienced as 'bad' items on neutralise the other. Let's summarise this situation in some propositions:

Proposition 11a

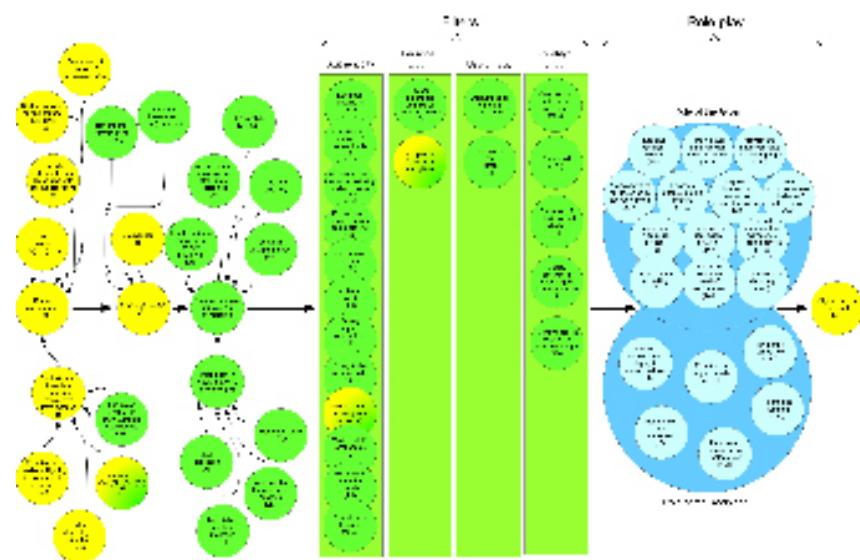
It appears as if the usefulness of the object is an important factor in tourists' souvenir buying decisions.

Proposition 11b

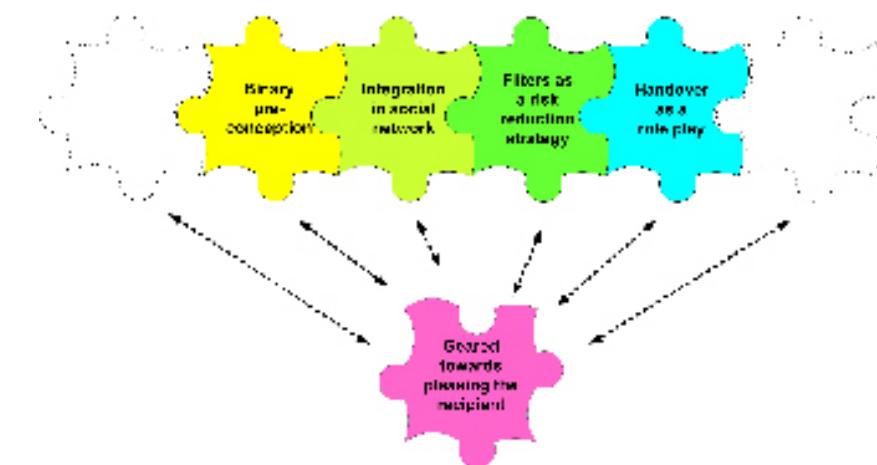
Usefulness and kitsch are likely to be opposite poles and one can neutralise the other.

While the usefulness in the example above is not undeniably understandable, it appears as if the demand for usefulness can be easily satisfied by a purely hypothetical usefulness. Alexi continues:

'Well, (laughs) this is a little while ago but some friends and I used to have a competition to choose to bring back the wierdest alcoholic drink we would find (Laughs) and, we just stockpiled all this stuff like Monart liqueur and weird, weird.'



Construct title		Geared towards pleasing the recipient
Position of customer in 'conspicuous model of souvenir consumption'		
Conceptualized definition		Recipient & the spinster of souvenir consumption activities – an attempt to please the recipient – Importance of how the souvenir is perceived by the recipient
Supporting evidence from primary informants		
Carlos	I used to show, you, that I am... then I think of them... yes, well I bought something for them, so they... ... this is one of the things, yes, to catch their attention to somebody... ... Yes, because it's not enough to say, hello."	
Smith	What I do tend to do is bring handicrafts over. And if I saw, for instance, a really beautifully carved box or something that wasn't very heavy to carry... then I might think, oh somebody would... ... you know like my son, might like that.	
Peter	But they did enjoy it you know it gave them a smile and it's nice to give someone something that makes them smile so."	
Molly	So now I buy less, with more discernment and with conscious thought as to whether someone will appreciate something or even want it. We have too much stuff anyway don't we?"	



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Figure 4: Three-phase model of souvenir consumption

Figure 5: Rich description with embedded propositions

Figure 6: Interpretive model based on propositions

Figure 7: Construct tables

Figure 8: Conceptual model of souvenir consumption

Titles for Figures

Figure 1: Screenshot coding process

Figure 2: Reduction and abstraction process

Figure 3: Preliminary working model

FINANCIAL STATEMENT ANALYSIS

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FINANCIAL STATEMENTS

A financial statement (or financial report) is a formal record of the financial activities of a business, person, or other entity. In British English—including United Kingdom company law—a financial statement is often referred to as an account, although the term financial statement is also used, particularly by accountants.

For a business enterprise, all the relevant financial information, presented in a structured manner and in a form easy to understand, are called the financial statements. They typically include four basic financial statements, accompanied by a management discussion and analysis:[1]

1. Balance sheet: also referred to as statement of financial position or condition, reports on a company's assets, liabilities, and ownership equity at a given point in time.
2. Income statement: also referred to as Profit and Loss statement (or a "P&L"), reports on a company's income, expenses, and profits over a period of time. Profit & Loss account provide information on the operation of the enterprise. These include sale and the various expenses incurred during the processing state.
3. Statement of retained earnings: explains the changes in a company's retained earnings over the reporting period.
4. Statement of cash flows: reports on a company's cash flow activities, particularly its operating, investing and financing activities.

For large corporations, these statements are often complex and may include an extensive set of notes to the financial statements and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statements are considered an integral part of the financial statements.

Purpose of financial statements by business entities

"The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions."^[2] Financial statements should be understandable, relevant, reliable and comparable. Reported assets, liabilities, equity, income and expenses are directly related to an organization's financial position.

Financial statements are intended to be understandable by readers who have "a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently."^[2] Financial statements may be used by users for different purposes:

- Owners and managers require financial statements to make important business decisions that affect its continued operations. Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures. These statements are also used as part of management's annual report to the stockholders.
- Employees also need these reports in making collective bargaining agreements (CBA) with the management, in the case of labor unions or for individuals in discussing their compensation, promotion and rankings.
- Prospective investors make use of financial statements to assess the viability of investing in a business. Financial analyses are often used by investors and are prepared by professionals (financial analysts), thus providing them with the basis for making investment decisions.
- Financial institutions (banks and other lending companies) use them to decide whether to grant a company with fresh working capital or

<p>extend debt securities (such as a long-term bank loan or debentures) to finance expansion and other significant expenditures.</p> <ul style="list-style-type: none"> • Government entities (tax authorities) need financial statements to ascertain the propriety and accuracy of taxes and other duties declared and paid by a company. • Vendors who extend credit to a business require financial statements to assess the creditworthiness of the business. • Media and the general public are also interested in financial statements for a variety of reasons. <h3>Government financial statements</h3> <p>The rules for the recording, measurement and presentation of government financial statements may be different from those required for business and even for non-profit organizations. They may use either of two accounting methods: accrual accounting, or cash accounting, or a combination of the two (OCBOA). A complete set of chart of accounts is also used that is substantially different from the chart of a profit-oriented business</p> <h3>Financial statements of non-profit organizations</h3> <p>The financial statements of non-profit organizations that publish financial statements, such as charitable organizations and large voluntary associations, tend to be simpler than those of for-profit corporations. Often they consist of just a balance sheet and a "statement of activities" (listing income and expenses) similar to the "Profit and Loss statement" of a for-profit.</p> <h3>Personal financial statements</h3> <p>Personal financial statements may be required from persons applying for a personal loan or financial aid. Typically, a personal financial statement consists of a single form for reporting personally held assets and liabilities (debts), or personal sources of income and expenses, or both. The form to be filled out is determined by the organization supplying the loan or aid.</p>	<h3>Audit and legal implications</h3> <p>Although laws differ from country to country, an audit of the financial statements of a public company is usually required for investment, financing, and tax purposes. These are usually performed by independent accountants or auditing firms. Results of the audit are summarized in an audit report that either provide an unqualified opinion on the financial statements or qualifications as to its fairness and accuracy. The audit opinion on the financial statements is usually included in the annual report.</p> <p>There has been much legal debate over who an auditor is liable to. Since audit reports tend to be addressed to the current shareholders, it is commonly thought that they owe a legal duty of care to them. But this may not be the case as determined by common law precedent. In Canada, auditors are liable only to investors using a prospectus to buy shares in the primary market. In the United Kingdom, they have been held liable to potential investors when the auditor was aware of the potential investor and how they would use the information in the financial statements. Nowadays auditors tend to include in their report liability restricting language, discouraging anyone other than the addressees of their report from relying on it. Liability is an important issue: in the UK, for example, auditors have unlimited liability.</p> <p>In the United States, especially in the post-Enron era there has been substantial concern about the accuracy of financial statements. Corporate officers (the chief executive officer (CEO) and chief financial officer (CFO)) are personally liable for attesting that financial statements "do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by th[e] report." Making or certifying misleading financial statements exposes the people involved to substantial civil and criminal liability. For example Bernie Ebbers (former CEO of WorldCom) was sentenced to 25 years in federal prison for allowing WorldCom's revenues to be overstated by \$11 billion over five years.</p>
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Standards and regulations

Different countries have developed their own accounting principles over time, making international comparisons of companies difficult. To ensure uniformity and comparability between financial statements prepared by different companies, a set of guidelines and rules are used. Commonly referred to as Generally Accepted Accounting Principles (GAAP), these set of guidelines provide the basis in the preparation of financial statements.

Recently there has been a push towards standardizing accounting rules made by the International Accounting Standards Board ("IASB"). IASB develops International Financial Reporting Standards that have been adopted by Australia, Canada and the European Union (for publicly quoted companies only), are under consideration in South Africa and other countries. The United States Financial Accounting Standards Board has made a commitment to converge the U.S. GAAP and IFRS over time.

Inclusion in annual reports

To entice new investors, most public companies assemble their financial statements on fine paper with pleasing graphics and photos in an annual report to shareholders, attempting to capture the excitement and culture of the organization in a "marketing brochure" of sorts. Usually the company's chief executive will write a letter to shareholders, describing management's performance and the company's financial highlights.

In the United States, prior to the advent of the internet, the annual report was considered the most effective way for corporations to communicate with individual shareholders. Blue chip companies went to great expense to produce and mail out attractive annual reports to every shareholder. The annual report was often prepared in the style of a coffee table book.

Moving to electronic financial statements

Financial statements have been created on paper for hundreds of years. The growth of the Web has seen more and more financial statements created in an electronic form which is exchangable over the Web. Common forms of electronic financial

statements are PDF and HTML. These types of electronic financial statements have their drawbacks in that it still takes a human to read the information in order to reuse the information contained in a financial statement.

More recently a market driven global standard, XBRL (Extensible Business Reporting Language), which can be used for creating financial statements in a structured and computer readable format, has become more popular as a format for creating financial statements. Many regulators around the world such as the U.S. Securities and Exchange Commission have mandated XBRL for the submission of financial information.

The UN/CEFACT created, with respect to Generally Accepted Accounting Principles, (GAAP), internal or external financial reporting XML messages to be used between enterprises and their partners, such as private interested parties (e.g. bank) and public collecting bodies (e.g. taxation authorities). Many regulators use such messages to collect financial and economic information.

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bookings and dynamic packaging." (European Travel Commission 2005)

Another issue is dis-intermediation, where traditional intermediaries such as travel agencies and tour operators are skipped in the tourism value chain as tourists may deal with service providers directly. DMOs may strengthen the trend towards dis-intermediation by means of their Destination Management Systems (DMSs), which are expected to be instrumental in achieving a certain degree of independence from travel agencies and tour operators, by encouraging consumers to book directly with local service providers. Fact is that the importance of DMSs is rising steadily. A study from the Centre for eTourism Research at the University of Surrey predicts an evolution from operational DMSs to strategic Destination Integrated Computerised Information Reservation Management Systems (DICIRMSs)¹³. In its conception a DICIRMS is an advanced DMS, digitising the entire tourism industry in a destination and integrating all aspects of its value chain. It provides the info-structure for communications and business processes between all stakeholders, including consumers, service providers, distributors and DMOs. DICIRMSs are expected to allow DMOs and local SMEs to readdress the structure of the distribution channel, to gain intra-channel distribution power and to improve their returns on investments. To a certain extent, these developments can assist DMOs to enhance the competitiveness of their destinations, to differentiate their products and to attract niche markets. DICIRMSs empower local coordination of tourism products as well as reinforce the DMO's power within the tourism distribution channel. As a result, both locals and tourists can benefit in the long term, whereas the sustainability of local resources can be improved (cf. Buhalis 2003).

E-Marketing And E-Commerce In Tourism

Developments in ICT influence all marketing functions and the electronic marketplace brings new ways of marketing. It is obvious that ICT slashes marketing cost, removes intermediaries, and redefines marketing relationships (Rayport & Jaworski, 2001). The potential benefits resulting from e-commerce can be grouped into two categories:

- Improved effectiveness of current activities

- Broaden opportunities and new activities.

E-commerce has been defined as being "every kind of commercial contact or transaction between two or more parties, being done with electronic means and network, and having as direct or indirect aim to sell products and services" (Demetriadis & Baltas, 2003: 40). It seems that this definition encompasses all marketing activities. Rayport & Jaworski (2001) suggest that in order to compete in the electronic era, businesses must be prepared to use technology-mediated channels, create internal and external value, formulate technology convergent strategies, and organise resources around knowledge and relationships. On the marketing side, communication and customisation are among the new demands of the knowledge economy, whereby mass markets are a phenomenon of the past and interactive markets are the future (Wind & Mahajan, 2001).

ICT influences on marketing mix

Evidence shows that ICT influences nearly every aspect of services marketing and the main stages in the marketing mix (Middleton, 2001). Kotler has restated the "Ps" (Product, Price, Promotion and Place) as "Cs" to reflect the consumer orientation that is central to modern services marketing thinking in an era of growing competition (Kotler & Armstrong, 1999).

Product means Customer value; Price means Cost to the consumer; Promotion means

Communication; and Place means Distribution, access or Convenience.

Moreover, the original four variables have been expanded to encompass People, Process (of service delivery) and Physical Evidence or design. These new marketing orientations are particularly relevant in the tourism field (Law, 2002a).

ICT has various influences in the fields of tourism and marketing. The Internet constitutes a medium of interactive communication and offers multiple uses for marketing purposes.

Technological developments enable customers and businesses alike to change the way that they conduct exchange transactions, which are the core of all marketing (Hanson, 2000; Middleton, 2001).

- There is an imperative need for an integrated planning and implementation of e-commerce initiatives and Web presence.
 - Beyond the strategy's formulation and organizational planning, the development of an Internet business presence involves some particular and specific actions in order to ensure its quality, thereby, contributing to the general marketing strategy's effectiveness.
 - Evidence indicates that failing to introduce innovations, such as ICT, is due either to the lack of strategic planning or to the non-acceptance and implementation of the strategy in-house (Porter, 2001; Demetriades & Baltas, 2003). Therefore, the integration of e-commerce activities into business operations should be considered as a 'top-down process', which must be supported by general management.
 - Finally, the e-commerce operation is not an aim per se, neither an activity that might be developed independently and implemented separately. It should be incorporated as a new media that serves current or future corporate general strategy and aims.
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THE BUSINESS UNCERTAINTY AND VARIABILITY MANAGEMENT WITH REAL OPTIONS MODELS COMBINED TWO-DIMENSIONAL SIMULATION

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Abstract

Within any firm, there are multiple short- and long-term goals along the path of value creation and maximization. In general, there are three approaches to corporate valuation (discounted cash flow, relative and contingent claim valuation). The paper presents a model developed by us what is a special combination of the above mentioned three methods in frame of a simulation model. To develop this modell we would have liked to achieve a more accurate estimation of the corporate value. The maximization of the corporate value are affected by many variable and uncertain factors. To execute the simulation we use a two-dimensional Monte Carlo simulation what manages separately variability and uncertainty of the model variables. The two-dimensional simulation model creates new opportunities for risk assessment too. The model has been solved using of the several packages of the R statistical system. The paper presents the model and its applicability. Our experience shows that a combined model can be better managed risk, as a separated model can do itself what is supported by the results obtained. However, the combined model improves the estimation of the corporate value.

Key words: corporate valuation, risk, uncertainty, variability, real options

Introduction

The value creation has been played a central role in the corporate thinking since 1990 years. Copeland-Koller-Murrin (2000, p VIII and p 3) write in their book: „We believe that clear thinking about valuation and skill in using valuation to guide business decisions are prerequisites for success in today's competitive environment. ... Underlying it is our basic belief that managers who focus on building shareholder value will create healthier companies than those who do not. We also think that healthier companies will, in turn, lead to stronger economies, higher living standards, and more career and business opportunities for individuals.”

Putting value creation into first place gives the companies advantages over their competitors realizing a profitable and a sustainable growth which is affected by different risk factors. Nearly all analysis of the corporate valuation are confronted with some type of risk. A quantitative approach to risk analysis is proposed as the most appropriate way to deal with this problem. The quantitative approach of the risk analysis can generate such an insights that help both analysts and decision-makers to raise right questions about the corporate valuation problems. Companies that manage risk well will also succeed in making money. In our article we are dealing with the measurement of the value creation and the corporate valuation using a new approach of the quantitative risk assessment.

First of all, we would like to clarify the concept of risk. Studying the risk literature we can conclude that there is no clear consensus as regarding in the risk concept, and we can find many discussion about the risk but only few useful definitions. We believe that one of the basic works in risk topic is Knight's book published in 1921. Knight (1971) set out to parse the difference between risk and uncertainty. We are thinking that Knight's distinction between risk and uncertainty, many of authors are not properly interpret. On the other hand, Knight tried to define the difference between the objective and the subjective probability. However we conclude that Knight's distinction between risk and uncertainty has been taken to differentiate between the insurability/uninsurability of probabilistic outcomes. Knight has been found that the risk meant a situation in which one could assign probabilities to outcomes and in case of an uncertainty situation they could not. This interpretation of risk and uncertainty is often found in today's economic thinking. We can read a critique of Knight's definition in Holton's article. (Holton, 2004) Holton writes, "A criticism of Knight's definition is the obvious one that it really is not a definition of risk. According to common usage, risk entails both uncertainty and exposure – possible consequences." (Holton, 2004, p 20)

We can meet some more or less different definitions of the risk in the economic and financial literature. (Chavas, 2004; Gallati, 2003; Horcher, 2005; McNeil et al., 2005; Pflug–Römisch, 2007; Tapiero, 2004) Taking into account the different risk definitions, we use the risk in the following sense. Risk are a situation where damaging event(s) may occur but are not fully predictable. Risk results from the consequences of undesirable outcomes. The risk are specific to each economic entity. Object of risk can be any resource used by the organization. We essentially accept Holton's approach of the risk concept, and it follows, we think that the uncertainty is a part of the risk. In Holton's opinion the risk consists of two essential components: exposure and uncertainty, and risk requires both exposure and uncertainty. (Holton, 2004, p 22)

The risk has one or two components, namely

Risk = Variability and/or Uncertainty

The need to use the quantitative methods for characterizing variability and uncertainty in risk assessment has received increasing attention

recently. The distinction between variability and uncertainty in the context of risk assessment has been described by several authors [Hofmann-Hammons, 1994.; Cullen-Frey, 1999]. Variability and uncertainty should treated separately because they each have different decision making and different implications for interpretation of a probabilistic assessment of economic risk.

Variability is a special feature of the system parameters what can be defined for instance with respect to time. Variability can be represented by a frequency distribution showing the variation in a parameter over time. A frequency distribution which represents a variable quantity is referred to as a variability distribution. The variability is an intrinsic randomness of a phenomenon that cannot be reduced.

Uncertainty in the context of risk assessment arises due to a lack of knowledge and skill regarding the true value of some risk related parameter. The lack of knowledge related to an empirical quantity can be described as imprecision or inaccuracy. Uncertainty can be reduced with collecting of better data and/or creating better models.

According to Wilson and Shlyakhter, such type use of the risk is increasingly becoming accepted. The uncertainty can be specified with probability distributions, while the variability with frequency distributions. (Molak, 1997) According to Vose (2008) the risk can be divided into same two parts, but he takes in account the variability as a special case of uncertainty, and he is referred the two part together as a total uncertainty. In our opinion, such a partitioning of the risk is important in order to the decision making may require a different managerial approach.

Data and Methodology

To co-manage the uncertainty and variability, a software (AuvTool) was developed by Frey and Zheng in frame of an environmental research project in the Computational Laboratory for Energy, Air and Risk of the North Carolina State University's Department of Civil Engineering. AuvTool is a free software tool for statistical analysis of variability and uncertainty associated with fitting parametric probability distributions to data sets. (Zheng-Frey, 2002)

Using the methodology established by Zheng and Frey, Pouillot and his colleagues have developed two packages (*fitdistrplus*, *mc2d*) in the R statistical system. (Pouillot et al, 2010) The R statistical system was chosen to the company evaluation because we have more possibilities to combine several methods in evaluation of the constructed model.

We have used the *fitdistrplus* package to specify a distribution from data corresponding to a random sample drawn from a theoretical distribution that we want to describe. This package provides several possibilities to calculate statistical indicators and plot diagrams which may help us to select which distribution to fit among the potential candidates. This package uses the maximum likelihood method or the matching moments estimation. In case of fitting continuous distributions, we can compute Kolmogorov-Smirnov and Anderson-Darling statistics.

mc2d means Two-Dimensional Monte-Carlo (Monte-Carlo à 2 Dimensions) simulation. This package provides:

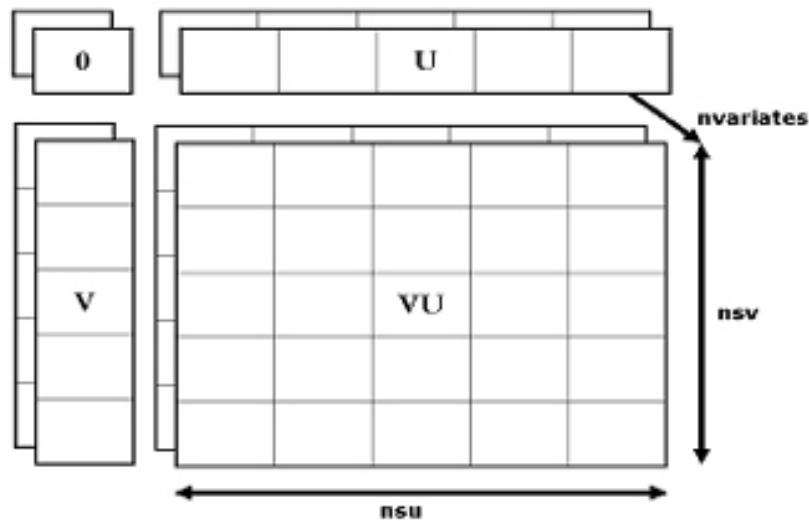
- several probability distributions;

- tools to construct One-Dimensional and Two-Dimensional Monte-Carlo Simulations;
- tools to analyse One-Dimensional and Two-Dimensional Monte-Carlo Simulations.

A two-dimensional Monte-Carlo simulation is a Monte-Carlo simulation where the distributions reflecting variability and the distributions representing uncertainty are sampled separately, so that variability and uncertainty may be assessed separately in the output. (Pouillot et al, 2010)

In the *mc2d* model, variability and uncertainty are not treated separately although they are two different concepts. (Figure 1) A 2-dimensional Monte Carlo simulation simply consists two Monte Carlo loops, one nested inside the other. The inner one deals with the variability of the input variables, while the outer one deals with uncertainty. For each uncertain parameter value in the outer loop a whole distribution is created in the inner loop based only on variability. In this way changes in variability-dependent frequency distributions under the influence of parameter uncertainty can be quantified.

Figure 1: Structure of mc2d model



(U-uncertainty, V-variability, VU-combination of uncertainty and variability)(nsu-number of uncertainty factors, nsv-number of variable factors) (Pouillot et al, 2010)

A very common sampling method for propagating variability or/and uncertainty is the two-dimensional Monte Carlo simulation. Random samples of model input parameters are selected according to their respective assigned probability distributions. Once the samples from each input distribution are selected, the set of samples is entered into the deterministic model. Then the model is solved as it one would do for any deterministic analysis. The model results are stored and the process is repeated until the specified number of model iterations is completed. We have been used the Monte Carlo simulation as a risk analysis technique in which probable future events are simulated on a computer, generating estimated rates of return and risk indexes.

In this paper, we have created a valuation model using the model for private firms described in the Damodaran's book (Damodaran, 2002) and the opportunities of the two-dimensional Monte Carlo simulation.

The private firms range in size from small family businesses to some that rival large publicly traded firms. The principles of valuation remain the same, but there are estimation problems that are unique to private firms. The information available for valuation tends to be much more limited. In addition, the standard techniques for estimating risk parameters require market prices for equity that is lacking for private firms. Because of these problems, to evaluate these companies we need special methods. (Damodaran, 2002)

The new economy provides a challenge for the corporate decision-maker. Corporate valuation may no longer depend on traditional fundamentals but rather on future expectations. However, real-life business conditions are a lot more complicated nowadays. Real options are useful in valuing a firm through its strategic business options. Real options is a systematic approach and integrated solution using financial theory, economic analysis, management science, decision sciences, statistics, and econometric modeling in applying options theory in valuing real physical assets in a dynamic and uncertain business environment. (Mun, 2002) The key advantage and value of real option analysis is to integrate managerial flexibility into the valuation process and thereby assist in making the best decisions. Key questions center

on defining the right input parameters and using the right methodology to value and price the option. (Brach, 2003)

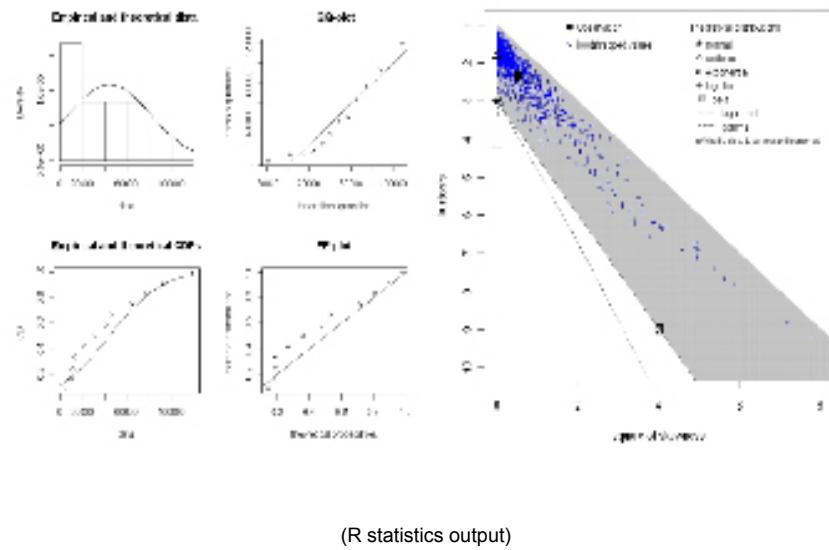
The Monte Carlo simulation requires to generate random numbers of different distributions. To analyse and test the distributions we have used the several functions of 'fitdistrplus' package. In Figure 2 we can see the results of the distribution test of the company's net profit. The 'descdist' function of 'fitdistrplus' package has a bootstrapping possibility using the boot argument in the function call. We have computed the Anderson-Darling statistics to check the distribution of the data.

The distribution of all the input data were examined using the package 'fitdistrplus'. The input data of the simulation were generated using the normal, beta and triangular (Kotz-van Dorp, 2004) distributions.

The valuation model

The basic data processing and the model compilation were implemented in Microsoft Excel 2007 spreadsheet program. Datasets are frequently given as Excel worksheets. The calculations associated with the model were implemented in frame of the R statistical system, through the Excel. The model has been compiled in an Excel spreadsheet using RExcel application developed by Thomas Baier and Erich Neuwirth. The RExcel application allows the use of packages and functions of R statistical system from an Excel spreadsheet. Using R within Excel allows access to both the easy-to-use tools for data entry and manipulation available in Excel and the power and precision of the advanced statistical methods available via R. (Heiberger-Neuwirth, 2009) Connecting the two systems we can make use of the advantages of both systems and in this way we can more effectively carry out the necessary calculations.

For the base calculations, we used the financial data of the company from the past 10 years (2000-2009). The base data of the model were the several value of balance sheets and income statements. In frame of base calculations we determined several ratios what are necessary to model calculations and the simulation.

Figure 2: Diagrams of data distribution test by fitdistrplus package

The model essentially consists of four parts:

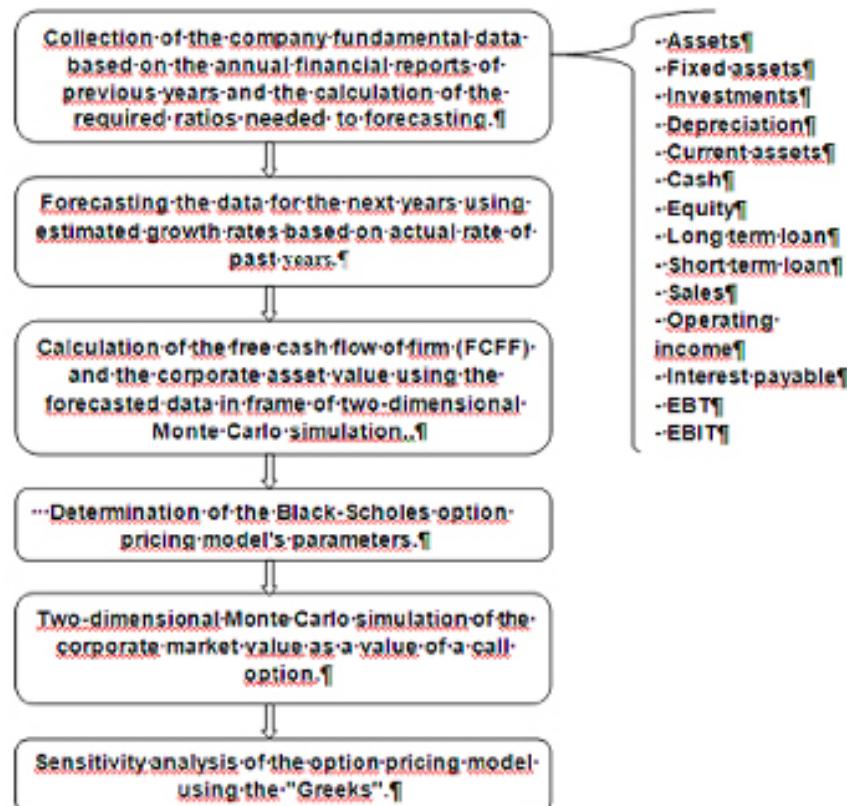
1. base calculations,
2. determination of the free cash flow of firm (FCFF),
3. determination of the corporate asset value (using FCFF two stage model)
4. calculation of the corporate market value (using a real option model)

The current model is an improved version of earlier models. (Figure 3) The corporate asset value in the earlier model was appeared such as a point estimate, it was used as deterministic input data for the option pricing model. Currently, the company asset value is also determined through the simulation model.

To determine the corporate market value we have used the Black-Scholes options pricing model. The value of a real options depends on five basic variables:

1. the value of underlying risky asset – corporate asset value;
2. the exercise price – face value of the company loans;
3. the time to expiration of the option – weighted average maturity of company loans;
4. the standard deviation of the value of the underlying risky asset – variance of the firm's equity;
5. the risk-free rate of interest over the life of the option - treasury bond yield rate.

The calculation is essentially based on the assumption that a stock exchange firm's market value is the stock market capitalization that is the multiplication of the number of shares and the market price of shares. In generally, the shaping of the market price plays a role in two fundamental things , the company's actual performance and the investor expectations. The riskiness of the company is reflected by the volatility of stock prices.

Figure 3: The process and the raw data of the corporate valuation

(own work)

The simulation program has been generated 1000 random numbers in case of each random variables.

The element's number of the result vectors will result in the multiplication of the element's number of the variable and uncertain parameters. In our case the number of elements in the simulation result vector were one million elements. The mc2d package provide a possibility using 'mcmodel' procedure to link several functions and expressions called during the simulation in a model what we can evaluate using 'evalmcmodel' procedure.

Results

The raw data necessary to the modeling was collected from the financial statements some

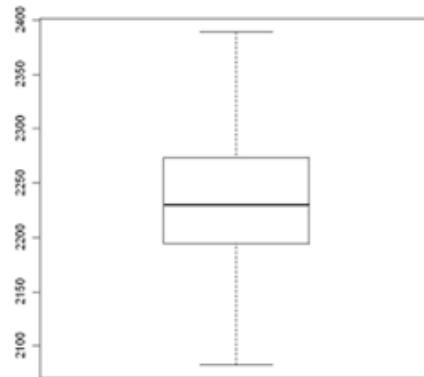
of the companies listed on the Budapest Stock Exchange

The simulation statistical results are presented in Table 1. The value of the coefficient of variation is 2.38%, which is a very low value. The interquartile range (IQR) is also very small value: 77 million HUF. The 5% confidence interval of the corporate value is 2 143 – 2 339 million HUF, which shows that the estimated values are located in a relatively narrow interval around the mean. All these can be easily seen in the boxplot diagram (Figure 4) and in the histogram (Figure 5) what was made from simulation result.

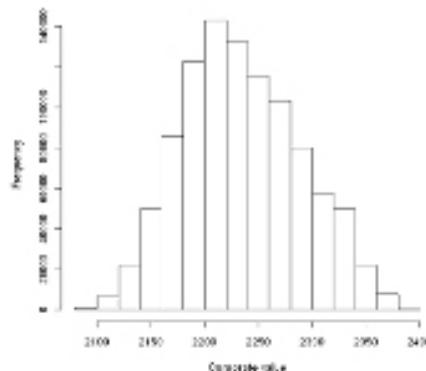
Table 1: The statistical results of the simulation (million HUF)

<i>Statistical indicators</i>	<i>Value</i>
Mean	2 235,0
Standard deviation	53,2
Minimum	2 122,0
2.5%	2 143,0
25% - 1st quartile	2 196,0
50% - Medián	2 229,0
75% - 3rd quartile	2 273,0
97.5%	2 339,0
Maximum	2 375,0

(own work)

Figure 4. Simulation result – Distribution of corporate value

(R statistics output)

Figure 5. Simulation result – Distribution of corporate values

(R statistics output)

The program has been made an estimation of the median using the Wilcoxon signed rank test with continuity correction, and the estimated value (95%) is 2 233.45 million HUF what is very close to the mean.

To measure how the value of an option will change when one of the input variables changes while the others remain the same, we have used the „Greeks” ($\delta=0.7021$, $\gamma=6.86 \cdot 10^{-7}$). Delta means the sensitivity of the option price to the movement in the underlying asset. Gamma is the Delta’s sensitivity to small movement in the underlying asset price.

Conclusion

Value measurement – forecasting and risk assessment – is a very complex and difficult problem. The goal of our research was to develop a corporate valuation model for the companies. Our experience shows that a combination of methods improves the final result. The developed model includes the most important risk factors what affect the value of company. The combination of the free cash flow and real options methods makes it possible to better take into account the effect of the risk.

Our experience obtained by model solving has shown that the use of two-dimensional Monte Carlo simulation, can also help to achieve better results. It may be important to separate the risk factors, but should be made more precise separation of

them: what are the variable factors and what are the uncertain factors.

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PERCEIVED BRAND PARITY – AN ANATHEMA IN MARKETING?

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Abstract

Kottman (1977) claims, that 'The idea of parity is an anathema in marketing. It is antithetical to the notion of differentiation, and product differentiation is regarded as the lifeblood of successful national brand marketing and advertising'. And indeed like Iyer/Muncy (2005) state and Weers (2008) agreed '...there has been surprisingly little research on (...) brand parity perception.' But growing markets with more and more products and thereby diminishing uniqueness of brands support the need of research in this topic.

In order to define the scope of perceived brand parity, the paper will also look into fields of study which are closely connected with this topic like product parity, brand similarity and product similarity.

Starting with a detailed definition of the main term, the paper will include a brief description of the development of perceived brand parity in literature, followed by a critical discussion of the most important works.

Based on that, possible directions of future research will be shown and a research gap concerning the perceived brand parity on the German automotive market will be analysed

Keywords: perceived brand parity, brand similarity, product similarity, automotive market

Introduction

The first and basic function of a brand is to serve as a reference mark for the offerings of a company (Keller/Lehmann 2006). By this a brand simplifies the customer's choice between similar products; it promises a specific quality level and reduces

the risk of malediction as it stimulates trust. Brand awareness, image trust and reputation are the best guarantee for future earnings and they justify a price premium, which means that people will pay more for technically the same product. As the top management realized in the last decades that brands are nearly the most valuable assets they have in their company the demand of academic research has grown strongly as well (Kapferer 2003). Today a step is reached where brand differentiation and brand positioning is not a secret anymore. But nevertheless some brands fail in reaching a unique image even if they follow all important issues of differentiation. According to that, brands are perceived more and more similar in several product categories and hence become replaceable. Consequently, the value of the brand will decrease as well. For that reason it is not enough to research how brands can be positioned and differentiated, maybe we have to think the other way round: Why are some brands perceived as similar by the consumer?

Definition and scope of perceived brand parity

According to Muncy (1996, p 411) perceived brand parity is defined as '... the overall perception held by the consumer that the differences between the major brand alternatives in a product category are small.' Jones and Dos Santos (2005, p 30) follow the same definition and they further assume that '... in large part perceived.. parity should arise from actual .. similarities among brand features, but the persistence and breadth of (reported) brand parity is so high ..., it seems plausible that factors other than feature differences give rise to perceptions about parity.' In other words, brand parity is the opposition of brand differentiation. But while brand differentiation is usually related to a

specific brand, parity concerns a whole product class (Muncy 1996). That indicates that the more unique the respective brands of a product category are perceived by the customer the less brand parity exists and the lower is the interchangeability among the brands in the product class. Generally speaking, brand parity appears within a whole product class when key brand options become significantly undifferentiated in the consumer's mind. That is most often the case in mature market, where qualitative homogenous brands try to compete.

Most of the papers about perceived brand parity refer to the definition of Muncy (1996) (e.g. Jones/Leite dos Santos 2005, Iyer/Muncy 2005, Müller 2008, Ramirez/Goldsmith 2009, Burmann/Arnhold 2008). This definition is surely true, but not comprehensive enough.

In order to ensure, that the term in focus is considered from all possible viewpoints, perceived brand parity is now discussed based on issues referring to Walsh (2002) and Weers (2008). Based on an extensive literature analyses Walsh (2002) identified seven constitutive elements of the construct 'consumer confusion' (1 object reference, 2 consumer reference, 3 unconsciousness of consumer confusion, 4 consciousness of consumer confusion, 5 similarity of stimuli, 6 overload of stimuli, and 7 lack of clarity of stimuli). In order to give a clear definition of the construct 'brand image confusion', Weers (2008) summarized these seven aspects into four (1 object relations, 2 personal relations, 3 state of consciousness and 4 source of stimuli) and explained based on them his term of interest.

After an extensive literature review of perceived brand parity and related fields of studies, the author concludes, that the four aspects of Weers (2008) can be used also to define brand parity, as the research fields brand image confusion and perceived brand parity are very closely connected.

- Object reference: Object reference describes the object in focus, which may cause brand parity perception. In some works about parity perceptions the object in focus is not clearly stated. The authors do not clearly differentiate between product and brand (Kottman 1977b, Walsh 2005). The difference between a brand and a product is that '...a product is anything we can offer to a market for attention,

acquisition, use or consumption that might satisfy a need or want. ...A brand is therefore more than a product, because it can have dimensions that differentiate it in some way from other products designed to satisfy the same need.' (Keller 2008, p 3) That means, that a brand is perceived multidimensional and therefore perceived brand parity might also be a multidimensional construct.

As the name implies the centre of attention has to be the brand. Furthermore, for brand parity perception, the object in focus is not one specific brand, but the brands (or the major alternatives) within one product category (Muncy 1996, Baumgarth 2003).

If high brand parity is perceived, the consumer cannot identify significant differences between the brands. The brands failed in their principal duty: to serve as guidance in the decision making process and to give a unique positioning.

- Personal reference: Personal reference describes the group of persons in focus, which may perceive brand parity. The persons in focus are the consumers and the interested parties of the product category of interest.
- State of consciousness: In addition to Walsh (2002) and Weers (2008), the element 'state of consciousness' is divided into two perspectives in the context of perceived brand parity: state of consciousness of the consumer (receiver), and state of consciousness of the brand provider (sender):

a) consumer's point of view: In general the state of consciousness can assume two shapes. The consumer can be aware about a specific phenomenon or not. If the consumer is not aware of the similarity of brands, he buys accidentally the product of brand B, as he thinks it is a product of brand A. This is often caused by a physical conformity of two brands (Weers 2008). In this context the legality of imitation strategy and me-too-brands are discussed (Kapferer 1995). This process is rather a topic concerning consumer confusion or brand similarity, not perceived brand parity. If the consumer is aware of the similarity of brands and convinced that the brands offer him exactly the same he will react absolutely deliberately. Weers (2008) mentioned based on Mitchell/Papavassiliou (1999) five possible reactions of consumers, who are aware of their

confusion: breakup/suspension of the purchase, clarification of the purpose of the purchase, selective decision, delegation of the purchase decision and search of additional information. In terms of the phenomenon perceived brand parity, the consumer is aware of the (subjective perceived) similarity of the brands within a product category. If the consumer would not be aware of this state, he would not perceive it. It is a construct in the consumers mind and hence it is possible that consumers have low parity perceptions for a product category where the brands are functional mainly equal and perceive a high parity for a product category where the brands are functional rather dissimilar (Muncy 1996). The perception of brand parity influences the attitude of the consumer; he will be less brand loyal, more price sensitive and will perceive market information as less useful (Muncy 1996). This attitude changes might result in a modified purchase decision process.

b) brand provider's point of view: The brand providers built specific brand images in order to differentiate from the competitors. While brands which follow a differentiation strategy have obviously failed and will suffer, brands which follow a low price strategy might profit by growing perceived brand parity within the product category. As perceived brand parity is a construct in the consumers mind, it cannot be directly influenced by the brand providers. Companies, who follow a low price strategy or an imitation strategy, might try to come as close to an established brand as possible. But brand parity does only exist, if a majority of brands within a product category are perceived as similar. Perceived brand parity is not consciously caused by brand providers.

- Source of stimuli: Walsh (2002) mentioned three possible sources of stimuli as constitutive elements of consumer confusion: Similarity of stimuli, Overload of stimuli, and lack of clarity of stimuli.

Similarity of stimuli, describes the missing differentiation between different stimuli in context with similar brand features or similar advertising. Based on the identical looking brands the consumer concludes, that they offer him the same quality (Weers 2008).

Overload of stimuli means that the consumer is simply overcharged by the quantity of stimuli. Consumers tend to perceive brands more similar

with a growing number within one product category (Bijmolt 1998).

Consequently, concerning perceived brand parity the similarity of stimuli and the overload of stimuli are important.

The lack of clarity of stimuli means that the consumer is not able to identify clearly the meaning and the benefit of the stimuli. But the consumer does not assume that the brand is similar to another one. He is just confused about the core values of the brand or considers the brand as unreliable.

Distinction between brand parity and related terms

The meaning of brand parity can be further clarified by examining how it differs from related constructs. Based on the definition given above, a clear distinction between perceived brand parity and related terms is given in the following.

Brand similarity

The main difference of brand parity and brand similarity is the object reference. While brand parity refers to a whole product class with unlimited brands, brand similarity refers to specific brands and the direct pair comparison. For investigating brand similarity most works use therefore paired comparison. According to Bijmolt (1998) brand similarity is defined as 'Attributes on which two brands have values that are (about) equal will cause the pair to be perceived as relatively similar, whereas attributes on which two brands have values that are (highly) different will cause the pair to be perceived as relatively dissimilar.'

By imitating a strong brand in terms of design, packaging etc, manufacturer can consciously cause brand similarity. They might profit from the image of the original brand or simply by getting the consumer to buy the me-too-brand by mistake.

Product parity and product similarity

As the word implies, product parity refers to products and not to brands. Product parity focuses on functional similarities among products within a product class and fades out brand image and related brand associations. When the products are functionally nearly the same and do all satisfy the

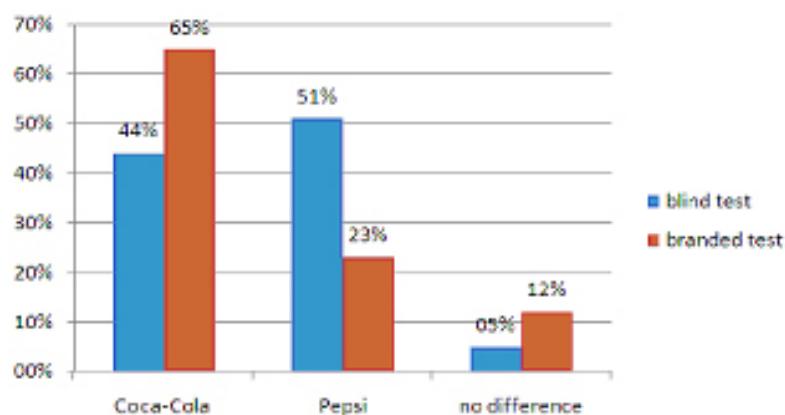
consumers need in the same way, product parity is said to be. The choice for buying a specific product is than not rational anymore, but brand based.

The main difference between product parity and product similarity is again the object reference. While product parity refers to a whole product class, product similarity refers to specific products and the direct pair comparison. According to Lefkoff-Hagius/Mason (1993) product similarity is defined '... in terms of the consumer's judged distance or proximity between products. The closer one product is to another, the greater the similarity.'

Product similarity and the influence of brands towards the perception of the consumers can be impressively demonstrated by so called 'blind tests'. Within a blind test, products of a product category are presented neutrally. That means

that the consumer is not able to see elements of identification like brand name, brand logo, special packaging or price. The products in the test can only be separated by physical differences of the products (Keller 2008). The most famous blind test is the so called 'Cola-test' and was conducted by Chernatony & Mc Donald in 1992 (Chernatony/Mc Donald 1998). When tested blindly, 51% of the test persons chose the PEPSI drink and 44% chose the COCA-COLA-drink, while 5% of the probands perceived the drinks as similar. In a second step, the subjects again were asked to choose between the two drinks, this time the drinks were fully branded so that the consumer knew exactly if he was drinking COCA-COLA or PEPSI and the results changed significantly. Now 65% of the subjects chose COCA-COLA and only 23% PEPSI, while 12% perceived the drinks similar.

Fig. 1 results of blind test (Chernatony/Mc Donald 1998)



This simple experiment shows clearly that the brand has a significant influence on the perception of the consumer.

Communication parity

The more similar products are, the more important is the brand. Communication in terms of advertising serves to position a brand clearly and to build a specific and unique brand image. If the communication succeeds, it is possible that technically identical products are perceived as

completely different, as they have different images in the consumers mind. But to promote similar products is very difficult, as the advertising cannot be informatively and straight forward (Kottman 1977a/b).

But it can be observed, that with growing product parity, the advertising of the products adjusts as well. That results in confused consumers, which cannot differentiate between the advertising of different products and finally cannot differentiate between the brands, which leads to a higher

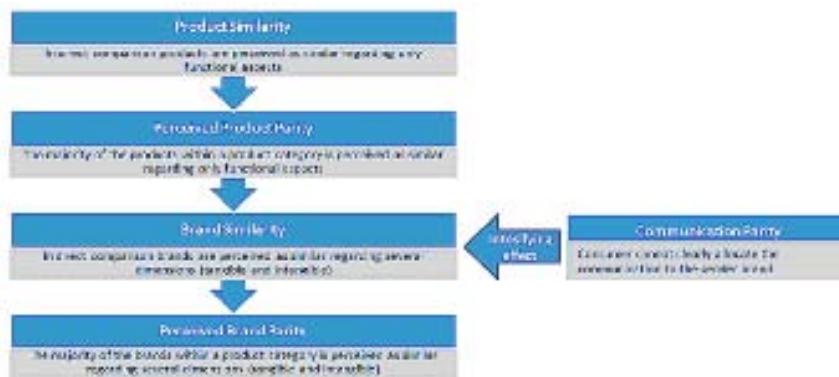
perceived brand parity within the respective product category.

Argumentations the other way round can also be found in literature. Giges (1988) states that when parity perception is high, consumers are less interested in advertising. So fighting parity with advertising cannot be target-aimed in this

case, as the consumer would not pay attention on information which might change their perception (Muncy 1996).

The relation of the above explained items are visualized in the following graph:

Fig. 2 the relation of product similarity, perceived product parity, brand similarity, perceived brand parity, communication parity



Perceived brand parity as autonomous construct

Up to now there is only very little research, which deals directly with perceived brand parity in the above described way. Due to this in the following paragraph also works are mentioned, which claim that they deal with perceived product parity, but do in fact address brand parity in the here used sense.

Detection of the phenomena of perceived brand parity

Kottman (1977a,b) firstly addresses the problem of promoting parity products. He did not give any empirical evidence, but by discussing three types of possible product differentiation techniques in advertising he examined the feasibility of promoting a parity product informatively and straightforwardly on the consumer good market. His main conclusion was that parity products cannot be promoted in an informative and straightforward way; advertising

for parity products is 'more poetic than factual, more dramatic than informative, more emotional than logical' (Kottman 1977b p 38). In other words, the advertising has to focus more on the benefit of using the brand not the product.

To decide if this is a right conclusion it is important to understand which attributes of a brand influence similarity judgements and therefore increase the probability of brand parity within a product category. If the intangible attributes have a greater influence the assumption of Kottman can be supported.

Lefkoff-Hagius/Mason (1990) examined the existing discrepancy in what is important to consumers when judging the similarity of products and what is important to them when evaluating products for purchase. The findings show, that beneficial attributes are relatively less important in similarity judgments, whereas characteristic attributes and image (intangible) attributes were relatively more important in similarity than in preference assessments (Lefkoff-Hagius/Mason 1993).

Inspired by the works of Lefkoff-Hagius/Manson (1990) and own research Muncy (1990) caught attention of the topic of researching and explaining perceived brand similarities. Within research focused on cognitive brand loyalty he included a measure of perceived brand similarities across the product category and found that perceived brand similarities explained the greatest part of variance in brand loyalty. He did a similar study for information research and here too, brand parity was the highest explaining variable.

Developing of scales for Measuring perceived brand parity

Encouraged by these findings, Muncy (1996) introduced the paper 'Measuring perceived brand parity', where he developed a scale for measuring brand parity and conducted a survey with a national sample of consumers to validate the construct and to test the effect brand parity has on key consumer behaviour.

To create a valid scale, Muncy generated eight items by asking students about statements that described products based on their similarity to other brands. After three iterations and using several student samples, the final scale was made which consists of five likert-type items scored on 5-point scales (strongly disagree to strongly agree). The scale was included and recommended by the handbook of marketing scales (Bearden/Netemeyer 1999) and was used (often modified for the respective area) in several research (e.g. Bristow/Schneider/Schuler 2002, Jones/Leite dos Santos 2005, Goode et al 2005, Sirikit/Natthapong 2006, Müller 2007, Fuchs 2008):

- I can't think of many differences between the major brands of XXX.
- To me, there are big differences between the various brands of XXX.
- The only difference between the major brands of XXX is the price.
- XXX is XXX; most brands are basically the same.
- All major brands of XXX are basically alike.

Muncy's scale is a multi-item measurement. Multi-item measurements have the advantage that they do not measure a construct by only

asking one question and achieve by this a higher and measurable reliability (Müller 2007). For measuring the reliability of a scale the factor cronbachs alpha is used. In literature a cronbachs alpha over 0.7 is seen as satisfactory (Hair et al 2006) Muncy's scale achieves a cronbachs alpha of 0.9. When investigating the Muncy scale Müller (2007) noticed, that expect item 3, which addresses the price differences, the other items all deal with the same subject in a different wording. This may also cause the high cronbachs alpha (Müller 2007).

Walsh and Mitchell developed in 2005 a scale for measuring perceived product similarity. The finale scale consists of the following six items:

- Sometimes I want to buy a product seen in an advertisement, but I can't clearly identify it in the store among the variety of similar products.
- Most brands are very similar, making it difficult to distinguish them.
- After watching a series of commercials on TV, it often happens that I cannot remember the brand but only the product.
- Because of the great similarity of brands, it is difficult to detect differences.
- Some brands look so similar that I don't know if they are made by the same manufacturer.
- Because of the great similarity of brands, it is often difficult to detect new products.

The main criticism on this scale is that they use the terms brand and product within one scale. Hence it is not clear if the consumer perceives the brands or the products as similar. A further weakness of the work is that they not even mention Muncy's scale and findings.

Perceived brand parity in conjunction with other constructs

Furthermore, Muncy (1996) investigated the relations among brand parity with cognitive brand loyalty, price sensitivity, and perceived utility of marketplace Information on the market for laundry detergent, shampoo, and toothpaste. He justifies the hypotheses as follows:

- Cognitive brand loyalty and perceived brand parity: If the consumer perceives all brands within a product category as similar, there is no

reason for him to be loyal towards a brand, if another brand offers him exactly the same.

- Price sensitivity and perceived brand parity: If the consumer perceives all brands within a product category as similar, there is no reason for him to pay a higher price for a specific brand.
- Perceived utility of marketplace information and perceived brand parity: If the consumer perceives all brands within a product category as similar, there is no reason for him to do further information research. Only if he realizes differences he will conduct information research in order to find out what these differences are.

The findings support all three hypotheses and show that the consumers who perceive high parity seem to be less brand loyal, more price sensitive and to a lower amount susceptible to marketplace information (Muncy 1996).

In 2005, Muncy and Iyer focused on the role of brand parity in developing loyal customers and they discovered that 'parity moderates the relationship among customer satisfaction, quality perceptions and brand loyalty' (Muncy/Iyer 2005 p 226).

While the above mentioned publications focus on factors, which are influenced by perceived brand parity, Jones/Leite dos Santos (2005) explored factors, which might affect parity perception. They investigated the influence of personal factors (dispositional optimism, self-efficacy, need for cognition, novelty seeking and satisfaction with the status quo), market beliefs (scepticism toward advertising, consumer novelty seeking) and processing factors (involvement in the purchase decision, cognitive effort, intention to choose the best) towards perceived brand parity. They found that, among the tested personal factors, only Self-Efficacy showed a marginally significant impact and among the market beliefs, only Consumer Novelty Seeking showed a significant impact on perceived brand parity. Concerning the processing factors, all three constructs were significantly correlated to perceived brand parity, but all three measures showed high levels of intercorrelation.

Even if the survey has several limitations (e.g. student sample n=64, intercorrelations among independent variables), this perspective gives a new impulse and earns further research.

School of thoughts

Perceived brand parity is a neglected topic in marketing research. As brand differentiation is seen as the 'lifeblood of marketing' (Kottman 1977) brand parity might be an anathema in marketing.

Two schools of thoughts exist for the significance of brand parity in the area of brand management (Muncy/Iyer 2005). Many brand and advertising experts think that parity should be fought with everything a company has. They provide evidence that parity reduces the chance of developing loyal customers. For them the solution lies in creating the quality and services needed to create loyalty and therewith fight against parity.

The second school of thought states that parity is a natural outgrowth of a product's evolution and that brand managers have to learn to live with parity. Over time all products run the risk of gliding into parity, and it is the duty of the advertising to manage this in the best way. According to them brand parity is not negative for all brands in the product category. It depends on their position in the life time cycle and their chosen strategy. Companies who follow a low price strategy may profit by growing brand parity in their product category, while firms pursuing a differentiation strategy will suffer (Muncy/Iyer 2005). Lamons (1994) describes a parity ladder, developed by Bellack, showing the marketing efforts depending on the position of the products in their parity evolution:

- Level 1: Introduction of a 'revolutionary new product'. There are no competitors in this field and the consumers see clearly the advantages by using this pioneer product. The duty of the advertising is to create awareness and to gain acceptance. In the product life cycle this phase is called introduction. No brand parity exists, as no competitors exist.
- Level 2: The first copycat competitors move into the market. The advertising emphasizes the areas in which the one product is better than the other one. Depending on the product category the differentiations are often made by technology approaches, or through brand performance association (Keller 2002). In the product life cycle this is the phase of growth. Brand parity is very low at this stage.
- Level 3: More and more competitors arrive in the market. The importance of the products'

price is growing. In the product life cycle this is the phase of maturity. The advertising concentrates on newly added product features in order to give the customer rational justification for choosing the perspective product. Brand parity is slowly increasing.

- Level 4: The products in the market assimilate and for the consumers it becomes more difficult to identify differences. Product parity now clearly exists. The consumer often decides based on recommendations or own experiences with the respective brand. The duty of the advertising is to communicate intangible added value and to differentiate by brand imagery association and consumer insight association in order to avoid communication parity. We are now in saturation phase of the product life cycle. Brand parity is a topic brand managers should address.
- Level 5: Level five, according to Bellack's Parity Ladder, is where all products or services are essentially viewed as equal. In the product life cycle this would be the phase of decline. To avoid this, Lamons suggests differentiating by making the customer understand the company behind the product. If a company is able to implement a customer orientated company culture and promotes that credibly, it is more likely that the customers remain loyal even in weak times. (Vignali et al 2002)

Both schools of thought accept that perceived brand parity does exist and both have their own ways to deal with it, but neither of them gives reasons or empirical evidence why parity perception does occur in the consumers mind.

Perceived brand parity on selected markets

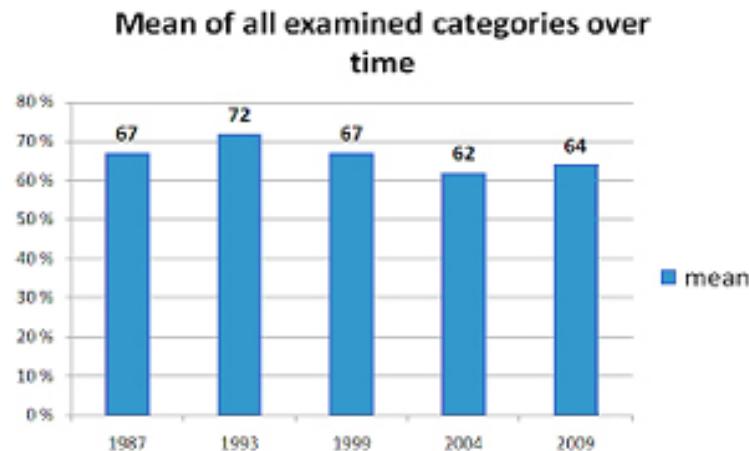
The German market of fast moving consumer goods

The offer of fast moving consumer goods on the German market is enormous. The German consumer can choose between 1.250.000 brands of which 10% are advertised and 910 new products enter the market each week (BBDO Consulting 2005, Munziger/Musiol 2008).

The brand parity survey of BBDO Consulting measured the brand parity perceived by the consumers for 29 different product categories in 2009 – after 1987, 1993, 1999 and 2004 (BBDO Consulting 2009).

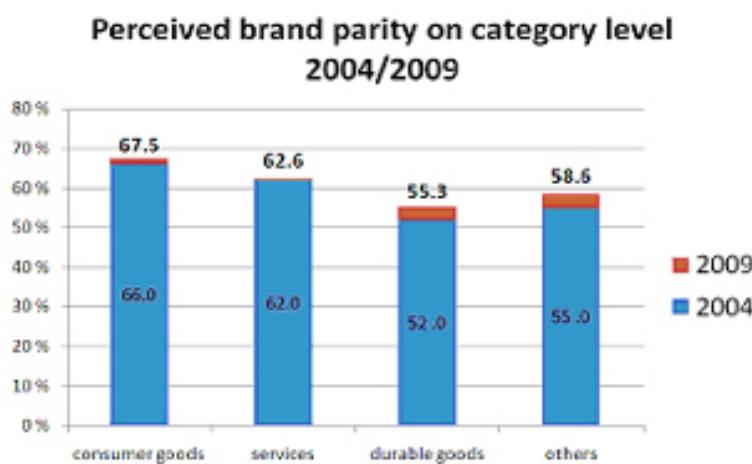
The Marketing news of 24th October 1986 reported results of a survey conducted by BBDO in March 1986. The main results of this first survey were that 'products like disposable razors, laundry detergents, beer, cigarettes, paper towels and deodorants perform basically the same' (Marketing News 1986). Furthermore, they detected in the same survey, that consumer satisfaction for brands was very high. They concluded, that high satisfaction and high parity perception within a product category is a barrier for introducing new brands, as the motivation to change to a new product, which offers nearly the same is very low, when the consumer is satisfied with his familiar product. They suggest to create brand images 'that make products more personally relevant to the consumers' (Marketing News 1986).

As the graph below shows, the perceived brand parity remains constantly high during the years:

Fig. 3 mean of all examined categories over time (Kullmann 2006/BBDO Consulting 2009)

But the comparison has to be drawn carefully, as the sample and the amount of investigated product categories varies over the years. While the sample of the first study consisted of n=248 respondents, the samples in 2004 and 2009 were much higher (2004: n=2.000; 2009: n=1034) and drawn representatively to the German population (Marketing news 1986, BBDO Consulting 2009).

Overall the perceived brand parity increased from 62% in 2004 to 64% in 2009. In both years the highest perceived brand parity is measured for FMCG, but the strongest growth of perceived brand parity can be quantified for durable goods (+3,3%) and others (+3,6%).

Fig. 4 perceived brand parity on category level (BBDO Consulting 2009)

The product categories with the highest perceived brand parity in 2009 are petrol (84%; 2004: 80%), laundry detergent (81%; 2004: 73%) and dairy products (76%; 2004: 72%) in contrast the product categories perfume (44%), clothing (43%) and automobiles (34%) achieve the lowest scores for perceived brand parity. Nevertheless the interchangeability in the automobile branch increased significantly by 5%-point. The pharmacy segment (10%) and the pc segment (9%) gain the highest growth in perceived brand parity.

High brand parity scores can be observed within the product categories, where the purchase risk is very low, as the products have a low price. Low brand parity scores can be measured for product categories where the brands are charged with emotional values, like perfume and clothing etc. (BBDO Consulting 2005)

The German media market

In the last years the 'media crisis' was an intensively discussed topic. A literally explosion of the media market leading to a lack of brand differentiation combined with an increasing complexity of product offerings are said to be the main drivers of the media crisis. In the 1990ies a rapid growth of the market could be observed: at that time 1371 new magazines have been launched on the media market within ten years and 1995 about 3500 titles were available (Hildmann 1997).

The market research company icon added value conducted in August 2005 and August 2007 a survey in order to measure the level of parity on the German media market (icon added value 2005). They carried out 1.066 (2005) and 1.071 (2007) online Interviews. The sample was drawn representatively to the German population.

The aim of the survey was to give an idea of the level of perceived brand parity and first hints for possible causes for existing perceived brand parity. The survey investigated different media genres like TV channels, radio channels, daily newspapers and magazines (news magazines, TV magazines, men magazine, economic magazines, car magazine, living magazines, and women magazines). Perceived brand parity was very high throughout all genres; the highest perceived parity was measured for women magazines: 90% (in 2005) and 92% (in 2007) of the respondents have seen no or only a marginal difference between the

offered women magazines. The biggest differences are perceived between TV channels (perceived brand parity 48% in 2005 and 51% in 2007) and between radio channels (perceived brand parity 50% in 2005 and 54% in 2007), although the perceived parity has grown significantly. Even in segments which are dominated by one top of mind brand, the interchangability is high.

The authors conclude that perceived parity is a central problem in most segments of the media market. The high potential of brands is wastes, as they do not follow a clear positioning and are less innovative. They go along with Muncy's argumentation that perceived brand parity will result in a decreasing loyalty, increasing price sensitivity and a shrinking interest of information search.

Central limitations of the surveys of BBDO Consulting and icon added value are that they measures perceived brand parity one-dimensional. Thereby they cannot give information why parity perception occurs but show trends in the development over time.

Conclusion and directions for further research

On Markets where perceived brand parity has occurred, the following similar developments were observed. The markets literally exploded and transformed from sellers' market to buyers' market. The rapid growth of these markets led to quite homogenous offerings concerning product quality and so the uniqueness of brands declined. According to the parity ladder of Lamons this development starts with products which become more and more similar, leading to brand images of the products becoming more and more similar, leading to communication strategies which become more and more similar. This results in price wars and discount battles, which finally destroy the brands.

At first sight this seems relatively unimportant for the automotive market, as brand differentiation is seen as strength of the German automotive market: 'The German Automotive market shows itself brilliant, when it comes to the differentiation of their car brands' (Gottschalk 2005). But watching the trends on the German automotive market this topic becomes essential.

In the past decades, the automotive sector experienced a rapid growth leading to a fragmented market, which is divided into various segments, lines, body types and models (Becker 2007). In order to differentiate and thereby be more successful, the manufacturers of the big car brands serve nearly each market segment (Ebel et al. 2003). This strategy leads to quite homogenous markets with regard to product quality and thereby diminishing uniqueness of car brands.

Furthermore, an ongoing consolidation of the automotive industry can be observed. The number of car manufacturers declined from thirty-six in 1970 (Becker 2007) to thirteen in 2010. As the number of brands did not decline in the same extent, more brands are consolidated within one manufacturer. Consequently, common part strategy is conducted in order to reduce costs. If the common part strategy becomes obvious to a current or potential buyer, he or she will find it to be in disagreement with the brand in question. This becomes significant especially in case of mass and premium brands sharing common platforms (e.g. Jaguar x-type/ Ford Mondeo; Porsche Cayenne/ VW Toureg) or when vehicles, which are identical in construction are sold under different brands and on the same market (e.g. Peugeot 107 and Citroen C1) (Ebel/Zatta 2005).

These developments may lead to increasing perceived brand parity on the German automotive market. The brand parity report 2009 of BBDO Consulting supports this: 'Though the automotive industry remains the branch with the smallest perceived brand parity, the substitutability of the brands increased significantly from 29% in 2004 to 34% in 2009.'

When we finally examine Muncy's definition of perceived brand parity with regard to the German automotive market, new interesting research questions do appear:

'... the overall perception held by the consumer that the differences between the major brand alternatives in a product category are small.'

- Overall perception: How is the overall perception of the consumer regarding brand parity of automotive brands composed? Which dimensions do influence the overall perception of brand parity on the German automotive market?

- Major brand alternatives: Which brands are the major brand alternatives for the consumer? Is it right to focus only on the major brand alternatives or do all brands of a product category have to be considered? What are relevant product categories on the German automotive market, and how can they be defined (segmentation).

- ...are small: How can 'small' be quantified?

Future research should address these questions.

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KNOWLEDGE MANAGEMENT AS CRITICAL ISSUE FOR SUCCESSFUL PERFORMANCE IN DIGITAL ENVIRONMENT

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Abstract

Knowledge management is only 15 years old, but in spite that it represent a distinct contribution of the private sector where the concept of knowledge as a "competitive advantage of the company" and "knowledge capital" hold the sway. One of the reasons for this development has been the emergence of information and communication technologies (ICTs) in the last decade. This paper present importance of knowledge management in companies, the possibility of management and leaders to recognize it and discussing the key issues related to operational of human in knowledge sharing among staff to staff and staff to customer. Networked organization, as an open system and the characteristics of the digital economy and interact with the development of new ways of doing business creates the preconditions that knowledge as a resource continually produced and used. The essence of successful business is the distribution and increase the amount of knowledge among employees in the organization at all levels. The knowledge that employees possess and proper management are prerequisites to achieve the competitive advantage of an organization. Also, the paper reviews the necessity of higher exploitation of knowledge management in Montenegrin economy, as a mechanism of improving the competitiveness on global market.

Key words: knowledge, knowledge management, information technology, digital environment

From information to knowledge as a resource of information economy

Access to information is a prerequisite for survival in the modern world that is characterised by global economic and political dynamics relevant for each and everybody. Making adequate use of information, transforming it and creating knowledge out of it requires competence and opportunity.

Information and knowledge are crucial assets of the global society. The losers are those that do not promise market gains. The promotion of such emerging structures of a global society is at the wake of a global knowledge society, where knowledge contributes to advancement of every citizen.

From the standpoint of concrete business management, new understanding of the economy in particular emphasizes the importance of intangible resources and networking, as a new organizational structure. Using new resources affect the changes in the sphere of work, ownership and management.

New resources are knowledge of employees, knowledge and skills of managers to manage and exploit knowledge at all levels of an organization. Property is becoming more spiritual (information and knowledge), not the principle of material (land, labour, capital).

Today, almost nothing can be imagined without the application of advanced information technology that is just a consequence of the proper use of knowledge in process research and development. Information technology is a tool that allows us to better locate and use existing or create new

knowledge. Possess the right information at the right time an individual or organization to proactively conduct and timely response to change. However, knowledge does not reside in the book, the software program, technological solutions, they contain only information. Man creates knowledge, increases it, promotes, implementing, teaches others, uses it or abuses it. It is necessary to know how to properly use or apply knowledge (productive knowledge), that requires an organized and systematic work on the application of knowledge to new opportunities. In order, for employees, to be able to use information correctly, the company needs to develop methods and ways to manage the knowledge. This requires a methodology, discipline and process to convert this potential into practical operation. Failing that, most of the available knowledge does not become a productive, but will remain at the level of information.

What market make preponderateis just the fact that the market economic activity is organized around information and knowledge as centers of all activities. In today market compared to the successful economic sectors or industries are those which have as their object the production and distribution of knowledge and information before the production and distribution of goods or material form of knowledge. Traditional industries, which are now synonymous with success in the international market, are restructured its operations and focused on the knowledge and good use of information as basic resources.

This new period of economic development (the new digital economy) Drucker called the management revolution - until the period of application of knowledge on tools, processes and products known as the Industrial Revolution, the application of knowledge to work is called a revolution of productivity.

Knowledge management, imperative in electronic environment

Changes in the way of doing things, by reversing the effect of adjustment challenges companies in the region, enabled the creation of new knowledge as the only adequate resources to achieve a better competitive position relative to other market participants. These changes can be grouped into several trends that characterized the modern business in a turbulent environment:

- Knowledge as a critical success factor for company - linking the use of specific skills and knowledge of individuals and organizations in order to achieve a better competitive position in the market become imperative to contemporary managers;
- The time for decision making is getting shorter - decisions that are made in real time have far-reaching consequences, so it is often necessary to react proactively. The focus is on the analytic attitude and conceptual knowledge;
- Relationships between employees are becoming more complex - using networked form of communication on the one hand allows the dissemination of knowledge, and the other reduces the physical contact and the ability to control and measure productivity of employees. The focus is on individuality, creativity, independence, a possibility of encouraging new ideas;
- Information technology literacy is a requirement - with a new pre-conditions of work and life and so far known pattern of consumer behavior is changing. More demanding and more aware of consumer demand, changing its philosophy, its requirements are more sophisticated, and the company in a position to have to respond to individual customer requirements and anticipate a strategy that will respond to their needs in the future.

The organization and individuals often collect more information than they need to make a decision, and some information that may be of great benefit to the organization (such as the number and cause of lost consumer who are dissatisfied with poor service or poor quality) is usually not collected because they are difficult to come. Knowledge management (KM) allows this kind of data collection that will make it possible to reach high-quality information. It is, in fact, the most effective use of intellectual capital in the process of a business. Quality use of corporate knowledge, its location and systematization, may be critical issue to generating new ideas and thus the complicated process of turning knowledge into better sales, higher profits and better marketing.

The most important division of knowledge at the corporate level, in terms of management strategy is the implicit and explicit knowledge. Explicit knowledge is that which is clearly identifiable

and formally codified, while implicit knowledge is knowledge that employees possess and nowhere formalized. From the aspect of KM is most difficult to manage implicit knowledge because it is by its nature in some indefinable way (not written anywhere and formalized) and its codification and transfer required employees will in order of sharing that knowledge.

The broadest approach to this concept is a reflection on KM as a process that represents the union of three components : people, process and technology. The goal of a modern organization is that all business processes as a process of knowledge. This starting point includes creation of knowledge, capture of knowledge, storing of knowledge, sharing knowledge with others and Application of knowledge in a way that will contribute to creating added value to the organization. Value creation as the primary determinants of successful companies is the interaction effects of financial, physical and intellectual capital, according to type of activity that the company is undertaking. In companies that are fully converted to electronic business intellectual capital makes 98% of the value creation process.

Whereas in its first generation KM concentrated on the organisations and analysis of data and information, on storing documents and making them available through search and retrieval, second generation KM focuses on people. Skills of using information purposefully, storing information as knowledge in human brains and making knowledge available in human interactions are key aspects of the largely shared present-day view of KM.

Learning is the essence of KM, changing and adapting the way of doing things to new challenges is its result. A learning organisation is aware of its assets in terms of experiences, organises its work around its experiences – bringing together the right people with the right knowledge at the right time – to make good use of good practices, and cares about developing its competence through looking for innovations. In this way it becomes a flexible modern company with an extensive culture of innovation, and knowledge becomes a resource that is involved in all processes of the organization that creates value for customers.

Networked organization – source of knowledge

Social structure, competence, and once stable, now, in accordance with all visible and invisible social reconfiguration, starts work in far more diffuse, more fluid and dynamic terms. Instead of the traditional, vertically-hierarchical and homogeneous-system concept of social structure, more and more are discussed, horizontal, plural-hierarchical or network understanding of the structure of society. The whole world becomes a network thanks to the Internet, and such a network configuration of relations among actors in the economic and social activities leading to increasing flexibility, dynamism and efficiency of the whole system. The particularity of the new social order is reflected in its complexity and dynamics of development.

Networked organization, as an open system and the characteristics of the digital economy, in interaction with the development of new ways of doing business creates the preconditions that knowledge as a resource continually produced and used. The new organization, or a new way of shaping the company's business (as the company is now a term that can not be excluded and separate from the network) in the global network is developing and transforming the new features, necessary for modern ways of doing business. Organizations that base their strategy on knowledge can create competitive advantage by developing skills, abilities, competencies, products and processes that competitors can not imitate and thus create the basis for the development of new competitive advantages.

The essence of successful business is the distribution and increase the amount of knowledge among employees in the organization at all levels. Instead of narrow specialization, a broad education (which is expanding and adapting to the needs) is increasingly seeking. This is one more reason that companies in the 21 century must become learning organizations or organizations of knowledge, and new society, a society of knowledge. Different attitude and conception of knowledge as a resource opens up many horizons to management and employees, all in order to improve customer satisfaction, and therefore increase business efficiency performance of the company.

Development organizations in the future will depend on whether they have enough money to invest in training and development of their employees as their greatest value. Human capital, intellectual capital, is becoming a strategic resource and taking important place in long-term planning in an organization.

From the information value chain to value chain of knowledge

KM aims to increase efficiency and effectiveness of an organization, allowing employees at all levels to use their knowledge, experience and skills, get the real information that will enable the achievement of company's objectives. KM has a very complex character, but it is the imperative of modern management.

KM aims: to improve the effectiveness of organizations by increasing intellectual specialization and ability to do the right things, to increase the effectiveness (doing the right things on the right way), to reduce rework, improve concentration and eliminate work that can be automated. The aim of the organization based on knowledge includes congenitive learning, regeneration and sustainability.

KM provides the way of organizational adaptation, survival and increase the expertise of employees in the turbulent business conditions, despite the increasing and unpredictable changes in the environment. Essentially, it is the realization of organizational processes which requires the synergistic combination of features of information technology (data collection, information processing and knowledge creation) and the creative and innovative capacity of people.

Thanks to the dual nature of KM organization and management is being developed in two directions. Internet and complementary technologies such as group support systems, applications to access the timing of projects, databases, audio and video conferencing primarily enable the improvement of automation, workflow and process management in the organization. On the other hand KM uses all these technologies and their results in the creation of new and renewal of existing knowledge - a process that represents a new way of managing innovation. In this regard all business processes involve creation, dissemination, reproduction and application of knowledge in order to better

organize and achieve strong synergies. This concept makes the transition from the concept of 'information value chain' to 'value chain of knowledge'. He assumes connecting employees, managers and professionals across organizational boundaries in order to improve knowledge sharing, joint action and project management as part of the way everyday business processes.

Drucker believes that it is a theory that places knowledge at the center of the production process can explain the new, information economy, the new structure of market share and value these companies, economic growth and innovation. New knowledge is the key to success and competitive advantage of the company and the management is to identify, properly distributed and used in business. In the business process it is recognized through three phenomenal forms:

- improving processes, products, services;
- exploitation - continual use of existing knowledge for the development and elaboration of new and different products, processes and services;
- genuine innovation (that proactively affect the needs and customer satisfaction through new product and service, with features that previously did not exist).

All three forms or methods of application of knowledge should not be separated because each is equally indispensable, and their synergistic effect it is a qualitative difference that defines success as opposed to the failed company! It is very important to note that the amount of knowledge (quantitative aspect) is not nearly the importance that has the productivity of knowledge (its qualitative impact).

Internet and information technology in KM function

KM is a strategic use of collective knowledge of the company in the aim of making profits and increasing of the market share. Property or the value of knowledge (ideas, concepts and know-how) are produced electronically collecting, storing, distributing and directing corporate knowledge.

The concept of e-business, Internet-based platform enables real-time personalization. It actually means to manage relationships with customers

in real time, or more precisely personalize - focus the company's needs, behaviors and intentions of individual customers and meeting customer needs, as he wants when he wants.

Holistic approach to KM presupposes integration of many applications, software, and platforms into a unique model that the company brings multiple benefits.

Customer Relationship Management (CRM) aims at managing the interactions between an organization and its existing and potential customers as a relationship, instead of individual unrelated transactions. CRM software enables the organization and its employees to "know" its customers via their profile (pattern of past transactions), and to provide them with the most fitting services. Leading CRM systems embed analytical solutions, that facilitate performance tracking of customer-facing processes across the enterprise.

Content management (and workflow) systems are designed to make users more knowledgeable (or at least more informed) by offering on-line access to many of the organizations' documents. Intelligent content management systems are developed to overcome the difficulty of finding the right information, by supporting document categorization, by tracking document use, and by considering context.

Greater use of expert systems based on the Web, such as artificial intelligence impact the change of organizational structure, staff reductions (technical staff), decentralization and increasing the powers and responsibilities of each employee. Application of new technology and business process reengineering realized impact on the knowledge and skills of employees. Hence may be a need for training, retraining, relocation or even release a certain number of employees. While this is a price change that brings e-business benefits are still much higher at the global level. One of the main benefits is to increase knowledge of the individual, his independence of independence on one hand, and the company's ability to use knowledge and expertise employed in order to achieve better business results. In this way it creates knowledge which remains in the company, shall be adopted, shared and influence to take some concrete action and value creation.

Rise of Knowledge Worker and Knowledge Leader

The process of adopting KM and construction plan and strategy for the implementation of KM is very complex and for its implementation is a key requirement to create the organizational culture that will support and sustain the cooperation and confidence of all employees. Primarily it is important to change the approach to the work that employees have, influence the reduction of fear and resistance of change, creating a positive climate that is the condition spreading and sharing knowledge within the organization, and thus enables the measurement of the value that is created in the organization. For this complex process is essential manager, leader, who, thanks to its special characteristics and skills, these conditions fail to provide a smooth process of KM in the organization and its transformation into a usable resource. All this requires new leadership skills, which its functions based on the classic command and control is increasingly started to create on the function of coordination, networking and routing. Specifically, the success in the implementation of the knowledge program required so-called knowledge leader, who (with his characteristics, skills, knowledge and energy) directs the organization towards a successful KM. Such a leader in its management based on the strengthening of trust between employees and their constant improvement and development, team work, creating and sharing knowledge, encouraging innovative solutions and creativity.

What is characteristic for KM is the problem of measuring knowledge worker productivity. Probably the biggest contribution to management of the 20th century is fifty times increasing of productivity of the production workers, or 3.5% per year. It is believed that the greatest economic and social achievements of the 20th century, mainly based on this increase. The biggest challenge for management of the 21st century is how to measure the productivity of knowledge workers. He is, as opposed to production workers (who wasn't the owner of the means of production) the owner of his knowledge and his job is a specific and creative, so it is very difficult to control, monitor and manage. For these reasons, motivation and teamwork becomes the tool of the future of modern managers, as well as its ability to coordinate, share responsibilities and employee involvement in decision-making. The facts which daily confirm the importance of

management skills and teamwork are increasing growth in market value of high tech companies (such as Microsoft, Google, or Cisco Systems), whose market value are 20 times greater than the book.

Numerous studies suggest that competitive companies in the West annually invest between 3 and 5% of their income on education of their employees. In the case of a critical situation, such as changes in strategy, process re-engineering, implementation of quality improvement and so these investments are much higher. At the same time companies expect their employees to spend more time on their approach in education. For example, the company Motorola is expected to, at least 5%, of work time each employee has to spend in education, because knowledge acquired in the formal education system are not permanent and relatively fast becoming obsolete. It offers its employees 40 hours of education per year with a tendency of further increase. Of course the level and amount of new knowledge is different from employee to employee, and so are the engineers think they should spend 10% of working time expanding their knowledge, to keep up with innovations. Managers, unlike all others, must spend 20% of working hours per year, for their own education, to prevent obsolescence. There is a rough estimate that American companies to education and development of its employees are investing as much money and effort as well as all universities and colleges together, so for example IBM is in the 1987th years spent on the education of their employees more than \$ 750 million, which is more than the total revenue of Harvard that year.

It is similar in other developed countries, where education becomes the most important investment in their future development, a place where the company is constantly learning, educate and develop.

Leadership skills (as an individual, conceptual skills and knowledge) holds a primary position in the secondary activities of KM as a fundamental characteristic of organizational culture focused on coordination, control and performance measurement and qualification of each of the primary activities.

Successful companies - 3M, Best Buy, BMW, BP Amoco, Canon, Fuji Xerox, Hewlett Packard, Intel, Nokia, Siemens, Royal Dutch Shell, Sony, Toyota,

Unilever and Xerox, have over time turned into so-called corporate leaders, with the expressive characteristics of leadership skills. Some of these companies such as 3M, Toyota and Xerox, have become little more than companies that use KM, they transform themselves into KBO - Knowledge Based Organizations. What is important (and as the above authors emphasize in particular) is that leaders in this knowledge-based companies, not strive to manage knowledge within their companies, but looking for a way that based on the experience and knowledge-based methods (knowledgeably manage) are managed, to achieve competitive advantage. This is the basic characteristic of a leader of knowledge - transforming their organizations into knowledge-based organizations that will use the knowledge to achieve results that are not easily applicable or competition can easily reach.

Leaders of knowledge need to integrate KM with the knowledge development and has to be sure that knowledge is embedded in the activities, management systems and infrastructure of the organization. Leaders of knowledge as a major asset and resource organizations recognize the skills and initiate and support the processes of conquest, creating, storing, sharing and applying knowledge, clearly stimulate innovation and learning and using a clear, open, efficient and effective communication.

Leader in a changing and complex business environment must be able to see the extraordinary potential employee staff, to promote a radically different, that is not afraid of threats and to provide opportunity for every employee. In an environment where the values and rewards the skills of the individual, it is important to establish a culture that recognizes the implicit knowledge and encourages employees to share it.

This model of leadership in the literature is increasingly called leadership background - leadership that creates the organizational culture in which different employees in different situations, depending on the demands and needs of the environment, their aspirations, abilities and skills impose the rest of the company as a leader and lead in the direction you need. This is the most radical, but the best benefit of KM process, from the aspect of the company, it allows knowledge workers to fully come to the fore, to use management processes become visible, and shared knowledge available to everyone in the

organization. All this also contributes to the added value to the organization, effective and efficient decision-making in the extreme form of added value for consumers, which in turn differentiate the company from the competition in the market.

In the process of managing the knowledge implicit in particular come into focus the ability of managers and leaders of knowledge. The biggest problem in modern business conditions is the possibility of fluctuation of employees from one organization to another (especially when it comes to competing companies) and the transfer of implicit knowledge that are part of the value of the organization in which the employee has. This in a way once again brought the very essence of the duality of the new, digital economy.

Networking as a primary form of business may be the answer to this question and the solution is more efficient codification of tacit knowledge into explicit and at the same time his division in the organization, and then the outside (external). In this case, using just the benefits of information technology in the further expansion of knowledge and its transformation into external knowledge. Separate forms of acquisition of knowledge that has emerged thanks to the Internet in and virtual organizations as a result of this kind of business is the process of creation and acquisition of knowledge in so-called strategic alliances. Although they are formed on a project basis and are limited time frame, have a great potential for gaining new knowledge. Experience of companies with whom to cooperate and which have already operated similar businesses and their intention to knowledge is almost free source of information and knowledge to other companies that further the limits of knowledge. This of course can have

a negative connotation, especially for large conglomerates and organizations because some participants in the chain, and some partners may use the association for business espionage.

Actually online community of companies involved in complementary activities enabled the systematization and faster and better utilization and greater availability of necessary knowledge. It is worth it for this kind of cooperation and exchange of knowledge is an organized system of trust, loyalty and credibility of the participants. Basic characteristics of leaders who successfully manage knowledge processes of knowledge sharing based on ability and skills of coordination, the way of motivation, with emphasis on cooperation, trust and reliability.

The benefits of knowledge management

The focus of the company is increasingly transferred from the products and services to the resources - knowledge and innovation as the specific possibilities offered by networked system operations. Knowledge is constantly networking, expanding, creating, creating new value for consumers, and companies are increasingly based on its success and differentiation from the competition at a greater expertise, management and marketing. Creative approach to the process of KM always results in increased efficiency, higher productivity and increased revenues in each business function.

If we consider the importance of KM in terms of efficiency, effectiveness and innovation then its effect can be represented as follows :

Table 1: Knowledge management in terms of efficiency, effectiveness and innovation

Indicator	Impact on organizational processes
Efficiency	Improving the quality of services and products (for consumers);
	Better project management;
	Better preparedness response to external events
	Increase of customer satisfaction
Effectiveness	Reducing production costs relative to sales volume
	Shorter preparation of operations
	Faster decision making
	Faster delivery of products
Innovation	Increase in the percentage of new products and services
	Larger number of patents per employee
	Encouraging innovation and change rather than passive tracking competitors
	A number of ideas in a knowledge management

Consequently, successful KM process allows companies the following benefits:

- The use of innovation by encouraging the free flow of ideas;
- Reduce timeframes required for the reaction to changes in the environment - rapid adaptation;
- Multiple use of existing knowledge influences the elimination of redundant and unnecessary processes - reducing costs;
- Increased revenue faster and adequate placement of products and services in the market;
- Reduce employee turnover by recognizing the value of employee's knowledge and adequate remuneration;
- Creating a database of collective, organizational knowledge of the company - control knowledge in all areas of action and use in practical applications, problem solving, response to changes in the environment, the needs of users;
- Increasing quality of services and reducing the time needed to diagnose problems and company's reactions (of finding an appropriate

solution) using the 'deep knowledge' of employees, business partners and customers.

- Increase the value and usefulness of the total knowledge that the company has.

The success of the whole process of KM requires the orientation of the entire company in the process and involvement of all levels about ing. This imposes the need to increase their knowledge and competence management at all levels.

With the global aspect of the overall flexibility and efficiency of economic system is reflected through the success of individual companies in the world market, and is therefore necessary to be continually investing in scientific development and education on the one hand and technological progress with others.

Affirmation of creative and original, individuals and whole systems can be independent of the states in process of involving and use all the advantages of the new economy. That is the specificity of networked, new information economy that provides opportunities for all participants. In the Montenegrin market-wide business practice confirmed the first signs of 'awakening', with more and more clear orientation to innovation and knowledge as factors of future competitiveness.

In these conditions, which require adjustment to the new situation changes the paradigm of modern management, a manager learns and transforms its activities into new forms of leadership with an emphasis on cooperation, the use of resources and willingness to constantly change management process. In Montenegro, first step being included in the process of KM are the obviously, most companies are presented on the Internet, with dynamic web pages, and individual companies, such as those in telecommunications, banking and tourism using a variety of applications, software and integrated platform. In large part this process is taking place due to the fact that most of the companies privatized and are now part of large international companies. In that process is becoming ever greater transfer of information, knowledge and use of e-business models. Of course this affects the development of new ways of managing the entire process of conducting business.

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INFLUENCE OF CORPORATE BRANDING ON LAUNCHING ORGANIC COSMETICS BRAND IN COSMETICS CHAIN IN CYPRUS

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Abstract

Purpose/Research Aim

Based on consumer and employee research, this paper investigates how the corporate branding strategy influences on a successful product line extension towards organic cosmetics in a retail chain of perfumes and cosmetics stores in Cyprus.

Rationale of research

Marketing for organic cosmetics encouraged by the growing environmental consciousness among the customers is a recent phenomenon in global business. In the light of these developments, it seems important for a retail chain of perfumes and cosmetics stores, to use its competitive advantage and effectively apply brand leverage towards organic cosmetics.

Design/methodology/approach

The research approach embraced both, exploratory qualitative and explanatory quantitative research. For obtaining qualitative data, eight senior managers were interviewed. For obtaining qualitative data on what the company's employees know and believe related to organizational culture perceived to be the cornerstone for successful corporate branding, in-depth interviews were conducted with ten employees of the stores.

This qualitative part informed the quantitative part of the study consisting of a survey with 120 respondents about how the customers perceived the company.

Findings

The using of a corporate branding strategy in an advertising campaign may prevent the creation and positioning of distinct brand images or identities for the organic brand reflecting a different concept and philosophy compared to the corporate or other individual brands.

Keywords: Organic cosmetics, Corporate branding, Product line extension, Cyprus

Introduction

Indicating a transition from product to corporate branding, Morsing and Kristensen (in Yu Xie and Boggs, 2006:348) stated "the study of branding has traditionally been dominated by an emphasis on product brands, the focus of which is on the unique features associated with a particular item of a firm's product portfolio. However, the fast innovation, increased service levels and diminishing brand loyalty characterising today's marketplaces have led to corporate branding becoming a strategic marketing tool".

In order to operate in global markets which are increasingly homogeneous, the authors of this paper hold that the companies' positioning should

relate to other factors rather than solely the products or services to create meaningful distinctiveness and competitiveness. In addition, a higher level of complexity and shortening Product Life Cycles led to the emergence of corporate branding (Appel-Meulenbroek et al, 2010:48).

Literature Review: A Congruence between External and Internal Markets

The concept and the differentiating contribution of corporate branding is concisely defined by Appel-Meulenbroek, et al. (2010:47): "in markets where competition is tough and product differentiation is no longer sufficient to maintain credible market positions, companies more often specifically position the entire corporation, with all its tangible and intangible aspects, to increase their competitive position. This concept, labelled corporate branding, is about disseminating values and emotions symbolized by the company: the corporate brand". In the same vein, Harris et al. (in Xie and Baggs, 2006:349) agree that "the assumption for creating a corporate brand is that a corporate brand will support all aspects of the firm and differentiates the firm from its competitors". Relating to implementation aspects, Hatch and Schultz (2003:1052) suggest that "corporate brands need to be managed in relation to the interplay between vision, culture and image. Achieving this requires effective dialogue between top management, external stakeholders and members of the organisational culture. Effective corporate branding will come with dedication to honest self-assessment, responsive attitudes toward stakeholders, and respect for the values that attract all parties to the corporation". Confirming Hatch's and Schultz's view, it has been argued (Corporate branding, 2010) that successful corporate branding often stems from a strong coherence between what the company's top management seek to accomplish (their strategic vision), what the company's employees know and believe (lodged in its organizational culture), and how its external stakeholders perceive the company (their image of it). Misalignments between these three factors, in turn, may indicate an underperforming corporate brand. Also relating to both, internal and external markets, Xie and Baggs (2006:349) mentioned that "corporate brands can increase the firm's visibility, recognition and reputation to a greater extent than can product brands" and "offer more chances for strategic or brand alliances, and play an important

role in the recruitment and retention of valuable employees".

Summarizing, by establishing a corporate brand a company can distinguish and differentiate itself in the minds of all its stakeholders. For product brands the focus is on customers and for corporate brands a wider stakeholder view applies. Consequently, a corporate brand is seen to provide an umbrella of trust for the company in extending its product or service line and even in diversifying into dissimilar products and services (Balmer and Gray, 2003:985).

A more differentiated view as to the contribution of corporate branding is that of Yu Xie and Boggs (2006:350) commenting that product branding might entail advantages and disadvantages for firms: on the one hand, it is flexible and allows firms to position and appeal to different segments in different markets but, on the other hand, it can result in high marketing costs and lower brand profitability. A further critical perspective as to corporate branding is provided by McDonald et al. (in Yu Xie and Boggs, 2006:350) arguing that a firm using a product-brand strategy rather than corporate branding will experience less damage to its corporate image if one of its individual brands fails.

On the positive side, the corporate branding strategy, when it creates strong brands "have quite a profound strategic impact – they make customers loyal and less price-sensitive" (Kay, 2006:745). For that to achieve, Valaster and de Chernatony (2006:762) introduce the importance of leadership believing that for creating the strong brand the role of leaders in the organization is crucial. Their role is: first, being "responsible for coherently and consistently defining and driving a corporate brand's identity", and, second, "leaders mediate between organisational structures and individuals. By doing so, leadership facilitates internal brand building through initiating and facilitating behavioural changes consistent with the desired brand identity".

Finally, comparing different recent research studies, it is possible to say that in present time the corporate branding strategy gains increasing ground in modern business. However, corporate branding is more complex than product branding and differs by a congruence of the company's vision, corporate culture and communication with stakeholders. The aim of the present research

was to identify as to what extent a corporate branding strategy is conducive to the extension of the product line as to organic brands.

Research results and discussions

Regarding an important issue in successful corporate branding found by the literature review the company's top management should accomplish their strategic vision. Eight managers were interviewed to elicit their views on that representing the first research objective. The company's strategic vision in launching a new organic brand according to the interviews of eight managers relates to:

- creating loyal customers interested in organic products without chemical overload
- to achieve the customers who are looking for low price cosmetics
- pass the message about environmental consciousness
- communicating with consumers in a socially responsible way
- creating awareness of the new organic cosmetics brand.

The Marketing Manager and Area Managers strongly believe that launching an organic brand will provide an opportunity for the company to approach the target market of customers who have an environmental consciousness. These are customers who are interested in the products' rich nutrients and essential oils being without chemical overload. This is reflected by the following statement of a Brand Manager:

"There is a trend to use products that are kind to the skin and without chemicals. These products are for the people who are looking for the cosmetics with natural smell and light texture. Organic cosmetics are for women and men in any age".

Expanding on the customer profile, another Marketing Manager of the cosmetics chain states the following view:

"The main segment of customers the company is going to approach is the people in the age 25 to 40 who are interested in cosmetics without chemicals and consumers who are interested in low budget

cosmetics. The main result is to satisfy the needs of consumers who are looking for organic and natural cosmetics, following the healthy lifestyle, to extend the product range and to send the message to the consumers about social responsibility".

The Brand Manager of the organic cosmetics brand and Marketing Manager of the chain commented that the organic brand is lowly priced, and the budget for advertising and promotion is limited. The main sources for advertising the new organic cosmetics brand are advertisements in different magazines and, especially, in the own magazine and website of the chain. The brand manager stated in this context:

"The organic brand has a low budget for advertising, and the company tries to communicate with consumers through sending press-releases to advertising agencies and to the different magazines, based on the topics of beauty and fashion. Personal selling and advertising the brand in the own magazine of the cosmetics chain are very important for creating the awareness about the brand and for the promotion".

Six of eight managers unanimously commented that the chain has a low advertising expenditure for supporting the organic brand, and that this is the reason why the organic cosmetics brand creates only low awareness. The findings reflect a series of debatable inconsistencies regarding the company's launch strategy implying that the organic brand is of lower priority: a low price policy and low budget allocation is generally inconsistent with the branding philosophy; the low price is also inconsistent promoting values such as beauty and fashion. Confirming and exemplifying a strategic inconsistency, three of five store managers mentioned that there is no "fit" between the concept of the chain of traditional perfumes and cosmetics and that of the organic brand. Cosmetics were positioned mostly as premium brands with high prices and the concept of organic brand uses a low priced brand comprising products oriented on the customers with environmental consciousness and a high awareness about benefits of using natural and organic products.

Addressing a potential societal contribution, the Brand Manager of the organic brand commented:

"It is a brand that contributes to society and with all its energies tries to protect the environment and

to make a contribution for saving the planet and helping the poor people of Africa".

This issue points to the necessity of developing an efficient CSR strategy to support the different philosophy of the organic brand. Kitch (in Polonsky and Jevons, 2006:346) stated that "failure to deliver on stakeholder expectations, whether unintentional, implied or not, will result in reputational damage. As such, managers need to keep all the stated and implied "promises".

The chain in Cyprus, by launching the organic cosmetics brand, tries to convey the message about its environmental consciousness and to communicate this in a socially responsible way. Regarding the tactics of communication, the brand manager strongly believes that the main factors of decision-making by consumers are relating to factors such as a pleasant atmosphere in stores, positive word-of-mouth and approachable and communicative employees. It becomes apparent that the role of a beauty consultant is of paramount importance. Probably to a higher extent compared to other brands, the employee is the face of the company, and personal selling by motivated people is a main success factor when launching organic products.

A summary of the content analysis applied is provided in appendix 1.

The second issue of successful corporate branding strategy relates to what the company's employees know and believe about the state of the organizational culture. Ten employees were interviewed to achieve this second research objective.

Seven of ten employees believe that the company doesn't offer professional growth opportunities, and the rate of employee turnover is high. Nine of ten employees believe that the chain draws significant attention to issues like the uniform, customer service, and outlet atmosphere, length of working hours and working conditions and safety at work place. Moreover, eight of ten believe that the salary's level is quite low, which explains the high level of turnover. Implying to a lack of empowerment, more than half of the interviewed employees think that internal communication must be improved and employee's questions and suggestions must be taken in consideration. All interviewed respondents believe that company is a social responsible one with a human and socially oriented corporate culture.

Summarizing, the corporate culture is perceived by the employees as follows:

- a human and social oriented corporate culture;
- low personal growth opportunities, high employee turnover, a low level of salary and poor internal communication

Contradictory to the literature review, in general, the corporate culture does not seem to be conducive to the corporate brand's success. Based on these statements, the employees can hardly be called 'brand ambassadors'. The importance of existing employees has been repeatedly stressed by the literature due to the rise of the service era with employees being central to corporate brand management. Internal branding focuses largely on the adoption of the branding concept inside an organisation to ensure that employees deliver the brand promise to the external stakeholders (Foster et al, 2010:401). Based on these findings, the employer is well advised to giving more attention to employee's needs.

Also, the role of leader is crucial in this context to empower and involve employees so as to increase the internal communication between top-management and individuals in the organization.

The third issue of a successful corporate branding strategy is how the external stakeholders perceive the company. For that reason, 120 consumers were quantitatively surveyed to achieve this third research objective. Organic cosmetics were available in the retail stores of perfumes and cosmetics chain in Cyprus along with other non-organic brands which provided the opportunity for the customers to determine their respective preference.

According to the cross-tabulation analysis (see appendix 2), about 85% respondents agree that the chain has a leadership position in the cosmetics market of Cyprus. At the same time and in line with the views of the managers, about 35% of respondents disagree that the chain spends enough for advertising of organic brand and 39% took a neutral position in answering this question. Although the consumers seem to be aware of the brand character of the company, consumers favour higher levels of advertising expenditure on organic cosmetics brand by the chain to increase the awareness of the organics cosmetics brand in Cyprus.

Reversely, about 58% of respondents agree that the chain has a high overall marketing budget. It shows that the chain spends enough for advertising and marketing activities, and a strategy of the company might be to pursue a corporate branding strategy instead of an individual brand strategy.

75% of respondents agree that the chain, with launching the organic brand, does this in a socially responsible way appealing to environmental consciousness and making a contribution to saving the planet.

A further consistency of the findings from the managers and consumers is that about 45% of respondents believe that no "fit" exists between the concept and vision of the perfumes and cosmetics chain and those of the organic brand.

An equal support to all the brands presented in the perfumes and cosmetics chain is required to lift the, so far, low budget for the organic brand to an equivalent competitive level, which, so far, enjoys a bigger marketing budget. Moreover, the results of the correlation analysis (see appendix 3) point to a relationship between advertising expenditure on the parent brand and the strength of the organic cosmetics brand. That means that if a chain of perfumes and cosmetics stores will not spend enough for marketing support for organic cosmetics brand, the exclusive awareness of the chain as a whole is not a sufficient condition for increasing the awareness of the organic cosmetics brand and could lead to failure of line extension.

A large number of variables were entered into the stepwise regression model, in order to find which variables are significant for the success of organic cosmetics. Finally, R^2 , the coefficient of determination, is a measure of the degree of fitting of the regression model to the data and shows the explanatory power of the regression model. A value of R^2 closer to 1 indicates a good fit. In our model, the value of R^2 was 0.923 which is satisfactory (See Appendix 4). The factors which have the biggest contribution to the success of organic brand according to the regression analysis are: fair price, strength of organic brand, issue of safety to the environment and "fit" between organic brand and cosmetics chain. The results (See Table 1) showed that 19 of these independent variables

were found to be significant, with p-values smaller than 5%. In other words, 19 independent variables are playing significant role in the success of product line extension with organic cosmetics brand.

Summarizing, the brand strategy of a perfumes and cosmetics chain should embrace the corporate brand, the specific traditional brands as well as the newly to be introduced organic brand in a balanced manner.

Findings from the quantitative data applying correlation analysis and multiple regression analysis imply that for increasing the awareness of the organic cosmetics brand, the main favorable factors are: product performance, the issue that organic cosmetics are not tested on the animals, fair price and high quality. Hence, a consistency between the qualitatively and quantitatively derived research findings could be established.

Conclusion

Summarizing, the coherence required by literature between the strategic vision of the company, employees' perceptions about organizational culture and consumer's perceptions about the company is confirmed. To realize the vision of the company, corporate branding is used versus a product branding strategy advertising the whole company in TV and radio. Individual exclusive brands are advertised, mostly, in the own magazine of the cosmetics chain, website and promoted by the personnel in the stores.

The gaps of a branding strategy of launching an organic brand are seen to relate to the differences between the conceptual "fit" between that of the organic brand and that of the chain as a whole, low advertising expenditure on the organic brand by the cosmetics chain, as well as to low motivation of employees.

Conclusively, the using of a corporate branding strategy in an advertising campaign may prevent the creation and positioning of distinct brand images or identities for the organic brand reflecting a different concept and philosophy compared to the corporate or other individual brands.

Table 1: Stepwise regression results showing the significant factors for the success of organic cosmetics

Model	Coefficients ^a								
	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Collinearity Stat.		
	B	Std. Error	Beta				Tolerance	VIF	
10	(Constant)	-3.322	.344		-9.673	.000			
	Far price	.624	.029	.804	18.347	.000	.402	2.489	
	Strength of Organic brand	.260	.028	.468	9.052	.000	.289	3.459	
	age	.298	.027	.391	8.810	.000	.385	2.532	
	Product fragrance	.201	.019	.427	10.830	.000	.450	2.181	
	Variety seeking behavior of consumer		-.115	.024	-.234	.4858	.000	.333	3.004
	Outlet atmosphere	.501	.032	.355	15.306	.000	.206	3.403	
	Product performance	.152	.024	.308	6.351	.000	.326	3.073	
	Ingredients	-.964	.040	-.262	-14.233	.000	.139	7.178	
	Safe for environment value	.298	.031	.383	8.932	.000	.083	2.181	
	High advertising expenditure	.146	.018	.322	7.521	.000	.422	2.371	
	Brand name	.177	.019	.432	9.158	.000	.348	2.872	
	Leadership of parent brand		-.257	.032	-.432	-8.078	.000	.262	3.819
	packaging		-.207	.020	-.587	-10.558	.000	.266	3.750
	High level of competition	.296	.024	.502	10.489	.000	.234	4.273	
	Opportunity to profit		-.087	.037	-.232	-3.550	.001	.291	3.436
	Safe for skin value	.395	.059	.404	6.726	.000	.212	4.713	
	Success of line extension	.274	.037	.552	7.380	.000	.197	7.200	
	Fit between parent brand and Organic brand		-.185	.023	-.497	-8.110	.000	.266	3.437
	Good value for money		-.003	.034	-.123	2.014	.047	.211	4.745

a. Dependent variable: successnew

Appendix 1: Results of content analysis

<u>Success factors</u>	<u>Was mentioned</u>	<u>Was not mentioned</u>
Product variety	4	4
Product packaging	7	6
Product fragrance	3	5
Trend	7	1
Staff	6	2
Value safe for skin	7	1
Value safe for environment	8	1
High quality	6	2
Value social responsible	7	1
Fairly priced	8	1
Sales promoted	2	6
Promotion free sampling	7	8
Discounts ex quantity	7	8
Double points on bonus card	3	5
Educational programs	7	8
Sponsorship	7	8
Events with celebrities	7	8
Advertising in press	5	3
Advertising on TV	1	7
Advertising on radio	7	8
Advertising by direct mail	7	8
Advertising in the website	7	8
Place/allet	2	6
Positive word of mouth	1	7
Low competition with brands in BL	3	5
Good merchandising	2	6

<u>Failure factors</u>	<u>Was mentioned</u>	<u>Didnt mention</u>
Low advertising expenditure	6	2
No samples	3	5
No testers	7	5
No leaflets	2	6
No advertising support material	2	6
Bad location in the store	1	7
Bad merchandising	1	7
Low awareness of Organic Surge	7	1
No "fit" b/w BL and Organic Surge	3	5

Appendix 2: Results of cross-tabulation analysis

Consumer's evaluations of Organic Brand and cosmetics chain:	(dependent variables):			
	disagree	neutral	agree	
reliability of Organic Brand	3.33%	12.50%	84.16%	100%
fairly priced	2.50%	3.33%	84.17%	100%
good reputation of Organic Brand	6.67%	46.67%	46.67%	100%
positive word of mouth	4.17%	14.17%	81.67%	100%
social responsibility of the chain	15.79%	8.33%	75.83%	100%
positive perceived value	2.50%	29.17%	68.33%	100%
trust to beauty advisor in the cosmetics chain	5.83%	7.50%	86.36%	100%

Factors of successful product line extension (independent variables):

	disagree	neutral	agree	
high level of competition	45.83%	32.50%	21.67%	100%
leadership of the cosmetics chain	NA	15.00%	85.00%	100%
variety seeking behavior	7.50%	8.17%	85.33%	100%
strength of Organic Brand	42.34%	45.83%	15.83%	100%
High advertising expenditure of the chain on Organic Brand	35.0%	39.17%	25.83%	100%
high overall marketing budget of EL	25.0%	21.67%	53.33%	100%
success of previous line extensions	15.83%	15.83%	70.83%	100%
"fit" between the cosmetics chain and Organic Brand	45.0%	26.66%	28.32%	100%

Appendix 3: Results of correlation analysis

		Strength of organic Brand	Success of line extensions
monthly personal income	Pearson Correlation	.245? ?	-.081
	Sig. (2-tailed)	.007	.381
	N	120	120
High advertising expenditure on organic brand	Pearson Correlation	.308? ?	.262? ??
	Sig. (2-tailed)	.000	.004
	N	120	120
High overall marketing budget of the chain	Pearson Correlation	.182? ?	.411? ?
	Sig. (2-tailed)	.047	.000
	N	120	120
Leadership of the chain	Pearson Correlation	.219? ?	.521?
	Sig. (2-tailed)	.000	.000
	N	120	120

Correlation is significant at the 0.01 level (2-tailed)

Correlation is significant at the 0.05 level (2-tailed)

Appendix 4: Percentage contribution of the individual factors of R Square

Variables	R Square/ Percentage to Total R Square
1 Fairly priced	.274
2 Strength of organic brand	.167
3 Age	.038
4 Fragrance of the product	.038
5 Variety seeking behaviour of consumer	.026
6 Outlet atmosphere	.033
7 Product performance	.042
8 Ingredients	.042
9 Safe for the environment	.070
10 High advertising expenditure	.020
11 Brand name	.021
12 Leadership of perfumes and cosmetics line	.028
13 Packaging	.010
14 High level of competition	.024
15 Opportunity to pre-test	.014
16 Safe for the skin	.015
17 Success of previous line extensions	.012
18 Fit between organic brand and cosmetics chain	.048
19 Good value for money	.003
Total:	.923

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A CONSUMER BEHAVIOR ANALYSIS OF THE COSMETIC INDUSTRY IN CYPRUS: THE CASE OF THE SEVENTEEN BRAND

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Abstract

Purpose

The purpose of the research is to examine the brand status of "SEVENTEEN" cosmetics brand in Cyprus and to evaluate the possible strategy to be followed in order to enhance its brand image and how this specific brand affects customer's choice. It examines the marketing of Seventeen, the Seventeen's supply network and how it affects its brand image. It also examines how globalization and the global competitors affect Seventeen's branding strategy.

Additionally it examines the Cypriot cosmetic market, and more specifically what affects their purchasing decision about cosmetic products and the perceptual map of local users in relation to its position strategy.

Key Words: *Branding, Promotion, Marketing Strategy*

Research Aim and Objectives:

Aim:

The aim of the research is to examine the brand status of "SEVENTEEN", the strategy to be followed in order to enhance its brand image, how brand affects customer's choice and the strategy management plan of the company.

Objectives:

1. Examine the existing literature on branding, marketing and strategy.

2. Identify the importance of branding in the cosmetic market of Cyprus.
3. Identify the influence which globalization can have in the cosmetic market of Cyprus.
4. Examine how an SME company can survive against the giants (local and international) of the cosmetic market.
5. Understand how this market works and the local dominant players.
6. Investigate and examine the existing as well as new customer's attitude and behavior related to cosmetic branding and its importance.
7. Identify company's operational problems.
8. Provide suggestions of IMC techniques and recommend strategies to be followed.

Literature Review:

The value to business of owning strong brands is incontestable. Brands that keep their promise attract loyal buyers who will return to them at regular intervals. The benefits to the brand owner are that forecasting cash flows becomes easier, and it becomes possible to plan and manage the development of the business with greater confidence. Thus brands with their ability to secure income, can be classed as productive assets in exactly the same way as any other, more traditional assets of a business (plants, equipment, cash, investments as so on) (www.interbrand.com). A successful brand is an identifiable product, service, person or place, augmented in such a way that the buyer or user perceives relevant

unique added values which match their needs most closely. Furthermore, its success results from being able to sustain these added values in the face of competition (Chernatony et al, 2003). Customer satisfaction is the outcome felt by buyers who have experienced a company performance that has fulfilled expectations. Customers are satisfied when their expectations are exceeded. Satisfied customers remain loyal longer, buy more, are less price sensitive and talk favorably about the company. Customer satisfaction has to be measured and there are several established ways of doing this (Kotler, Wong, Sanders, Armstrong, 2005). It requires managers to develop strategies that are appropriate to the specific circumstances of an organization- but these circumstances will change over time. It also needs some clarity on which issues are more important than others and an ability to reconcile the conflicting pressures from the business environment, an organization's strategic capability and the expectations of stakeholders (Johnson, Scholes, Whittington, 2005). Reconfiguring a supply network sometimes involves parts of the operation being merged-not necessarily in the sense of a change of ownership of any parts of an operation but rather in the way responsibility is allocated for carrying out activities. The most common example of network reconfiguration has come though the many companies that have recently reduced the number of direct suppliers. Dealing with many suppliers prevents the operation from developing close relationship with a supplier (Slack, Chambers, Johnson, 2007). One of the more popular and intrinsically satisfying views of IMC is that the messages conveyed by each of the promotional tools should be harmonized in order that audiences perceive a consistent set of messages. Above the line and below the line communications need to be molded into one cohesive bundle (Fill, 2002). For Lancôme, all women share the same vision of life: charm, seduction and self-confidence. That's what everyone calls it the 'French Touch' (www.lancome.com).

For a customer buying a product or a service important role in his/her decision is the brand behind the product. So in the cosmetic market or industry branding is very important. The strategy, the communication strategy, the operational management and the marketing strategy are enhancing the brand of a company if are pointing to the correct actions.

Methodology:

For the successful achievement of the objectives required for the research both, secondary and primary data will be used. Qualitative and quantitative surveys and in- depth interviews will be conducted.

Objective 1 will be researched through secondary research i.e. secondary data (books, journals, articles and websites). The secondary data will be collected through articles of branding from different magazines like cosmetics or marketing magazines, newspapers articles, books on marketing and branding, websites related to branding and different marketing journals.

Objectives 2, 3, 6 and 8 will be researched through the primary quantitative research i.e. primary data (make a research assigned to the customers in order to understand SEVENTEEN's position in the market , the awareness of the Brand, brand loyalty, problems, competitive advantages etc.). It will be conducted through a homogeneous stratified random sample and approximately 100 questionnaires will be distributed within Cyprus. The sample is homogeneous because the element in each stratum will be women (due to the reason that SEVENTEEN products are addressed to women) and stratified because each element will belong to a stratum of age (we will divide the population into age groups).

The 4th and the 5th objective will be achieved by collecting data through qualitative primary research. A research assigned to the intermediaries will be conducted through a questioner, to identify SEVENTEEN's market share, the awareness of the Brand, the problems facing the first-tier customers, the problems facing the first-tier customers which affect their image etc. The questionnaire will be distributed through a simple random sampling (finite population) of 30 selected customers (perfumeries, beauty stores and pharmacies) within Cyprus.

In-depth interviews with key position persons and Managers (local and international) to understand their opinions about the brand status, the way the company performs their operational works, their advertising campaign and the suggested strategies to be followed (Objectives 7 & 8).

The project is reliable because of the sample size (for n=100, Marginal error=9.8%, for more the error

will be less), and valid because we will conduct the questioners with people (women) using cosmetic products taking place in the perfumeries the beauty stores and the pharmacies.

Conclusions

Cypriots are among the most prosperous people in the Mediterranean region, and the culture and habits of Cypriot women are changing. Cypriot women are dealing more with their appearance and beauty and for this reason they use more cosmetic products. Cypriot women are found to spend more than the EU12 average spend and even more than Greek women according to World Economic Database, Coliba Statistics and the researcher work.

The factors that affects more customers' decision for buying cosmetic products are first quality and then brand name and price. According to Dodson (2009) building cosmetic brands that consumer trust and identify with, is big business. According to Slack, N. et al. (2007) high quality goods or services can give to an organisation a competitive edge, and quality is a major influence on customer satisfaction or dissatisfaction. Mohiuddin (2009) refers that to make color cosmetics more acceptable to consumers, manufacturers will have to convince them that their products are good value. The women prefer to shop cosmetic products firstly from beauty shops, secondly from beauty shops in malls, and third from pharmacies. Seventeen's customers prefer to shop from malls first and then from pharmacies. Very importantly the results of market survey coincides with the work done by Teller, C. as described in his article "Shopping streets versus shopping malls-determinants of agglomeration format attractiveness from the consumers' point of view" in 2008 that malls are gaining ground against street shops.

Practical Implications

This paper besides its academic value it aims to assist any organization in Cyprus in the cosmetic industry to design a Marketing Strategy that will affect the consumers' decision in selecting a brand. Additionally it can assist the organization in developing an effective IMC campaign and finally the appropriate action that needs to be taken by SEVENTEEN in an effort to improve its Brand image and consequently maximize profit.

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CUSTOMER KNOWLEDGE MANAGEMENT: TOWARD SOCIAL CRM

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Abstract

Customers are often cited as one of the most important 'assets' of contemporary organizations. However, value of both customer relationships and the knowledge 'extracted' from them are often limited to the information technology (IT) domain, as the issue of implementing customer relationship management (CRM) software packages. In addition to a more embedded view of CRM, the 'social' trends relevant for customer relationships, exemplified in the use of social networking tools and other 'social software' (such as Wiki-based pages, fora, chat pages, etc.) on the Internet, are identified and analyzed. It is argued that the 'social CRM' could be improved by taking into account the already existing theoretical and practical tenets of the virtual community model, as developed by contemporary sociology and communication sciences.

THE CUSTOMER-RELATED KNOWLEDGE: THEORETICAL ISSUES AND PRACTICAL RELEVANCE

The contemporary economy is being increasingly based on the value of knowledge, new ideas, designs, business models..., which are being labeled as 'intellectual capital' (Wickramasinghe & von Lubitz, 2007). Corporate assets are, therefore, not correctly valued, as a significant amount of total company value can be attributed to the intangible factors, which are not captured by the traditional accounting. Those include the value of human talent, customer relationships and 'stocks' of already accumulated knowledge (such as best practices/lessons learned, insights into

competitors and their practices, etc.) - either stored in databases, or reflected by the company's rules, procedures, structures, etc. (Stewart, 1999).

The long-established perspective to managing organizational performance – the market (marketing) orientation – urges all organizations, regardless of sector to which they belong (profit, public or nonprofit) – to focus their efforts toward serving the needs and interests of their users/customers and other relevant stakeholders by collecting information relevant for understanding their behavior, distributing it within the organization and using it to generate adequate response (cf. Kohli and Jaworski, 1990). In the context of valuing knowledge as a relevant source of organizational success, analysis of the customer relationships can be considered a 'natural' extension to the market orientation. This venue of thought is being reinforced by the rapidly advancing information and communication technologies (ICTs), which enable organizations to maintain and utilize massive databases of consumer-related data. Collection and analysis of such data is especially valuable to companies operating on the business-to-consumer market (and/or organizations from other sectors addressing the needs of a massive pool of potential stakeholders), as technology makes it easy to track and fulfill the needs of small customer segments, or even individuals. At the other hand, companies on the business-to-business market and similar organizations can use also make use of the contemporary technology to enhance their customer/stakeholder relationships. For instance, in the past, almost the one and only way to maintain a good relationship with a major stakeholder was a personal (face-to-face) contact, while nowadays meetings in person can be partially replaced by

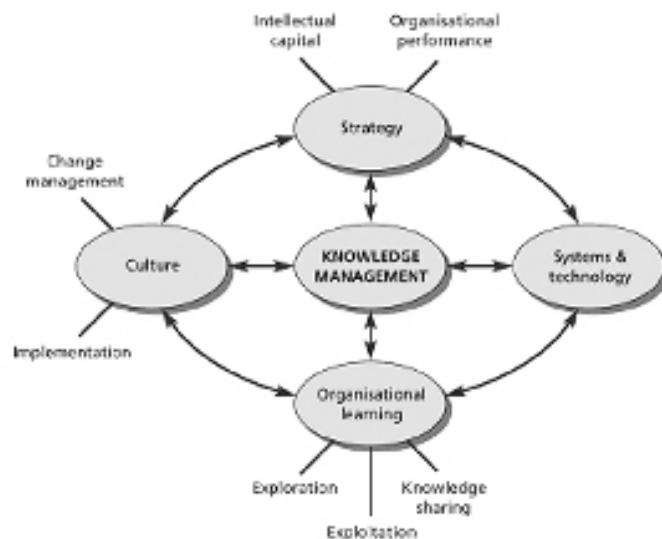
other forms of computer-based communication and information exchange. In addition, information systems belonging to different organizations can be interlinked, in order to provide an information overview of the partnering organization, which makes the mutual relationship much more transparent than before. The same applies to the Internet-based quotation and bidding systems, oriented toward the suppliers.

Therefore, the emergence of a new field, whose very name - the Customer Relationship Management (CRM), represents a multi-faceted construct, seems like a logical outcome of the previously described trends. According to Payne (2005, 19-20), there is a continuum of perspectives describing the CRM, starting with a narrow, IT-based definition, implying that CRM can be actually reduced to the correct implementation of a specific technology. Other significant values on this continuum include integration of technological solutions for handling customer data and the strategic perspective toward CRM, which associates the CRM concept with the strategic considerations of maintaining successful customer (and/or stakeholder) relationships (*ibid*, 20-22). However, the customer-related information is usually considered as a 'fuel' for ICT systems, which help marketers make better decisions, leading, ultimately, to the more profitable customer relationships. The holistic approach to relevant knowledge, held by customers, should require the organizations to address the following forms (Bueren et al, 2004, 4): (a) knowledge about customers, i.e. information about prospective buyers (leads), offers, transactions and contracts, services delivered, complaints resolved, etc.; (b) knowledge for customers, comprising the forms of knowledge required to fulfill the marketing orientation of an organization, i.e. to successfully respond to customer needs and (c) knowledge from customers, providing feedback related to products, services, marketing/managerial actions, etc.

Therefore, it is suggested that organizations should manage the integral whole of knowledge held by customers, usually being scattered across different organizational subsystems. While CRM

is an adequate manner to address the issue of integrating knowledge about customers, the managerial approach referred to as Knowledge Management (KM) is called for the integration of knowledge for and from customers. Namely, KM is a 'general' approach to managing available intellectual capital of the organization by identifying, using and sharing appropriate forms of knowledge within the organization, with the assistance of ICTs and in accordance to the fundamental determinants of the organizational culture (Jashapara, 2004, 12). Proponents of KM often indicate that it is an all-encompassing approach, which brings into a single framework different knowledge-related initiatives, as depicted by Figure 1.

However, the role of customers and their assessment of knowledge relevance can not be found in the previous, system-based approach to managing the 'organization's intellect'. Therefore, an integration between the CRM and KM is called for, in order to find the answer to the question what is the customer-relevant knowledge. The importance of evaluating the intellectual capital from the customers' (clients') perspective is even more important when the customer development path is considered. Namely, customers are being developed from the 'introductory level' (in which occasional transactions with an organization take place), to loyal customers, who purchase often, but still do not feel involved into an organization's business (Anderson & Kerr, 2002, 20). The most important customers are the 'advocates', who are actively supporting the organization and promoting its products/services (*ibid*). CRM is often being practiced under the motto 'retention is cheaper than acquisition' (Gibbert, Leibold & Probst, 2002, 6), but this might be applicable exclusively for the organizations which analyze and share only information about the customer, instead of trying to 'get into customers' heads' and create value-creating customer partnerships (*ibid*). Table 1 further illustrates the other relevant starting positions of both the KM and the CRM, as well as how they should fit together in a larger framework.

Figure 1. The knowledge-management framework (Jashapara, op. cit., 10)**Table 1. Proposed larger framework for Knowledge Management and Customer Relationship Management**

	Knowledge Management (KM)	Customer Relationship Management (CRM)	Integrated KM & CRM approach
Source of knowledge	Internal knowledge, incorporated into the organization	Knowledge about customers	All forms of knowledge related to customers (knowledge about, for and from customers)
Objectives of the approach	Discovering, using and sharing internal knowledge	Identifying and finding patterns in the knowledge about customers	Discovering, using and sharing knowledge about the customer in all contexts possible
Role of customers	Passive	Captive	Active
To whom does the approach concentrate?	Employees who do not use and/or share their knowledge	Captive customers	Emancipate customers
Business benefit	Achieving internal efficiency, sharing lessons learned	Identifying best customers and maximizing their life-time value, ensuring profitability through customer satisfaction and loyalty	Learning in active partnership with customers, in order to accumulate and sustain innovation relevant for the customers; achieving marketing orientation

Adapted from: Gibbert, Leibold & Probst, 2002, 3

The new, integrated approach, referred to as the Customer Knowledge Management (CKM) by both Gibbert, Leibold & Probst (2002) and Bueren et al (2004), should also integrate the benefits from the systematic management of knowledge assets and evaluation of their relevance from the customers' point of view, which also affirms the notions developed within the marketing orientation context. Actually, CRM, when associated with the holistic, system-based customer perspective, can be actually assessed as being the Customer Knowledge Management. So, it might be suggested that there is even no need for the new approaches to be developed, if the existing ones are integrated and implemented in the 'correct' manner.

THE CUSTOMER KNOWLEDGE MANAGEMENT APPROACH AND THE VIRTUAL COMMUNITY CONCEPT

The 'online'/'cyberspace' (i.e. computer-mediated) worlds are often considered as 'transcending' systems, as they seem to surpass the traditional space-time limitations, which serve as limits both to community membership and the frequency/character of interactions among the community actors, as well as with the relevant external social entities (cf. Susser, 2002). The very beginning of such 'virtual communities' can be, to a certain extent, linked to the concept of self-regulating social relationships. Namely, during the early '90s, individuals, connecting both to the proprietary online services popular at that time, as well as to the Internet, have started developing new approaches to social organizing. These new social forms had been evolving out of small groups of computer enthusiasts, such as the San Francisco Bay area-based Whole Earth 'Lectronic Link (WELL), vividly described by Rheingold (1993). Development of new, 'virtual' social entities was rapid and spontaneous, with multiple forms springing from the new communication technologies (the Usenet, Internet Relay Chat - IRC, Multiple Users' Dungeons – MUDs, etc. – see, e.g. Kollock & Smith, 1998, for an overview). Although rather complex and divergent to the outsider, behavior of their members is still ruled by the idea of 'netiquette' – a sum of good practices of online neighborliness, but still leaving enough flexibility for the new forms of behavior and emergence of new structures within such a community.

In social sense, emergence of online/virtual communities has been usually associated with individual freedom of expression and affirmation of the principles of modernity (Slater, 2003). However, organizations from both profit and the nonprofit sectors have started structuring the online social interactions as means of connecting to their customers/clients/users and other relevant stakeholders. Such communities are sometimes related to a certain product/brand and sponsored by a commercial entity, but they can be also actively managed, in order to enhance customer/stakeholder relations, as recommended by Kim (2000). For instance, major (free) software products, such as the Linux operating system, are being developed and actively supported by communities of programmers and other computer enthusiasts (Raymond, 2000). All kinds of actors from the profit sector are following suit, both the 'pure' e-businesses, such as the eBay.com and Amazon.com, as well as the more 'traditional' companies, including Harley Davidson (via the Harley Owners' Group, which has multiple 'official' Web sites, which can be accessed at <http://www.hog.com>).

These companies use their customers' knowledge in order to promote their products/services, enhance the corporate image, as well as to help customers connect to each other and exchange their experiences. eBay.com (<http://www.ebay.com>) – a global marketplace, facilitating peer-to-peer auctions for many categories of merchandise, relies heavily on buyers' feedback information and ratings of different sellers, in order to 'weed out' unreliable sellers from the marketplace. Amazon.com asks customers to review books (and/or other items, such as toys, apparel, electronics...) they have used, which helps the company to better inform customers about the products offered. In addition, almost anyone can act as Amazon.com's retail agent by joining the Amazon associates (<https://affiliate-program.amazon.com>), a program enabling customers to make their selection from the Amazon's range of products and display it on the own Web page. All purchases made via such an agent are eligible for a commission fee, which can be paid out to associates' bank account, or used via a gift certificate. In this manner, Amazon uses knowledge of its customers as experts for specific subject areas, as those are encouraged to compile list of products considered most useful to them, as well as to write reviews, recommendations, etc. Although these approaches might seem a little

unusual for the nonprofit and public organizations, the rising pressures to increase the level of professionalism and service provided to users/clients (see, e.g. Dart, 2004, for the nonprofit sector and Box, 1999, for the public sector), should certainly affirm such developments as standard practices. However, it should be noted that the personal contact and genuine understanding of customers' (stakeholders') interests should not be underestimated in the age of ICT-based approaches to achieving marketing orientation, which is especially significant for the organizations wishing to maintain good relationships with a handful of influential stakeholders. Companies focused on business-to-business market apply this approach almost 'spontaneously', as for them maintaining a good personal relationship with decision makers from other companies was and still is a key for a successful CRM. Furthermore, personal contact seems to be the only way for the exchange of some specific technology related information. In a wider context, related to the social responsibility of the profit sector, one should be also aware of the potential social effects of the new business approaches, as some authors (see, e.g. Rifkin, 2000) warn of harmful influences emerging from 'commodification' of primary social relationships and community membership(s).

TOWARD A (MORE) SOCIAL CRM

The 'information revolution' has brought along access to the information from multiple media, as well as previously unprecedented development of peer content and communication, which can even be regarded as a new and distinct kind of ('social') media (Walther, 2011). The interest of electronic media users to produce and consume their own content has been associated to the developments in technology, enabling 'common people' to use the World Wide Web applications (i.e. Web 2.0 technologies) as platforms for publishing and consuming peer information (O'Reilly, 2007). The best examples of companies (and/or nonprofit organizations) making the use of peer information in their business models include Wikipedia (user-generated encyclopedia), Flickr, del.icio.us and other Web sites for photo sharing, collective bookmarking and other forms of online collaboration, SourceForge Web site for the open-source developers, personal 'Web logs' (blogs), etc. (op. cit.). However, of all those, the most popular for Internet users (as well as the

most catching subject for the causal observers) seem to be the social networking sites. Those services, based on Web 2.0 principles, enable their members to either maintain the existing social relationships, or develop completely new ones, by enabling individuals to communicate, share information about themselves, browse through the list of own (and others') social contacts and use (other) different online tools (Boyd & Ellison, 2007). Although the use of such Web sites (e.g. MySpace, Facebook, etc.) might seem as 'fun', it is often also a form of socialization, especially for teenagers. Since they serve both the purpose of the public diary, as well as a source of legally available information to advertisers, government agencies, etc., users of social networking need to be aware that the information they share online is not guaranteed to be private (Barnes, 2006). In addition, users may have difficulties in exporting their data from one social networking service to another, if they wish to do so, since the fundamental idea of the World Wide Web and the Internet, in general, has been the openness and interoperability, instead of creating private 'walled gardens' of data (Au Yeung, 2007).

In terms of CRM, these new services enable extremely easy collection of information about and from the customers, since the social networking users readily reveal a great deal of their customs, likes and dislikes, and other relevant marketing data. At the other hand, they are creating a social context for the marketing campaigns of organizations willing to use the social networking as a new platform for their KM/CRM initiatives. Namely, knowledge for the customers can be created by their peers, which has been acknowledged by the advertising practice of the world's largest social networking Web site Facebook.

The most important 'business asset' provided to an organization's KM/CRM initiative is the 'social graph', i.e. the structure of the virtual community, created by the online social networking, demonstrating who are its members and what are their social connections (Fitzpatrick & Recordon, 2007). This creates opportunities for targeted advertising, featuring the all-present Facebook's 'like button', enabling Facebook members to publicly demonstrate their affection toward a cause, product/service, brand, organization, etc. In this way, Facebook has, according to a recent article published in Ad Age, "became the biggest relationship-marketing provider for many

brands" (Neff, 2010). Effectiveness of Facebook's approach is further enhanced by the opportunity to report to each of its members how many of one's social connections 'like' a certain offer, which introduces the 'social metrics' into the advertising and relationship-building contexts .

To sum up – customers/users/clients matter, more than ever before, but in order to serve them well, organizations need not only to collect and analyze all existing forms of related knowledge in an information system, but also to engage in relevant conversations, which go on in user communities anyway (Greenberg, 2010). The development of social networking sites makes these user communities accessible to the marketing departments as never before and, in such a manner, creates opportunities for development of comprehensive and innovative CRM frameworks.

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CONSUMER PERCEPTIONS OF CORPORATE SOCIAL RESPONSIBILITY IN THE GREEK MOBILE TELECOMMUNICATION INDUSTRY

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Abstract

It is an indisputable fact that Corporate Social Responsibility (CSR) has emerged in recent years, as both an important academic construct and a pressing corporate agenda item. A number of researchers have emphasized the crucial role of CSR initiatives in providing the companies with a series of benefits. From a marketing perspective, some of the benefits for socially responsible companies are higher purchase intentions and advocacy behavior, like positive Word of Mouth. Considering the growth of CSR initiatives by companies it becomes important to understand better the consumers' reactions to them. This paper seeks to examine the relative importance that consumers attach to CSR and CSR initiatives and their impact on consumer behavior in the Greek mobile telecommunication industry. The results indicate that Greek consumers consider the CSR very important, rank the CSR initiatives which focus on the environmental protection highly, are willing to change service provider for a more social responsible one and last but not least, they are more sensitive to negative CSR publicity than the positive one.

Key Words - Corporate Social Responsibility, Mobile Telecommunications, Negative Publicity

Introduction

Corporate Social Responsibility (CSR) is the new buzzword and seems to benefit a firm in many ways. This is the reason why both academics and practitioners have shown an intense interest in CSR and the body of research has been growing steadily. Despite the large body of the literature, Sen and Bhattacharya (2001) highlighted the need for further examination of the effects CSR initiatives have on consumer behavior. This need is even more apparent in Greece where most of the big companies have engaged with the concept of CSR, without however knowing the impact on consumer behavior.

Indeed, over the past decade, in Greece we have witnessed the gradual increase of CSR initiatives by companies in different sectors. The banking sector is one of the leading in CSR initiatives followed by other leader companies in various industries, such as alimentation, insurance and cement producers. In 2000 a small number of companies established the Hellenic Network for CSR (HNCSR). Today all the big companies in Greece have joined HNCSR as active members.

Additionally, the same year the Athens Chamber of Commerce established awards for the leading companies in CSR domain. Furthermore, in 2002 the Greek Advertisers Associations (GAA) launched the "Social Excellence Award" for the best advertising focus on societal or environmental issues (Tsakarestou, 2005). It is obvious that, over the previous decade, CSR became a very popular concept for companies in Greece.

Likewise, the three main mobile telecommunication companies in Greece have taken important initiatives and made serious efforts to consider their values and actions from the CSR point of view. All the companies issue separate reports for their CSR activities that disclose information about their contributions during the year. The most interesting CSR initiatives, among others, are recycling programs for old mobile phones, establishment of telemedicine programs in public hospitals, financing of university research projects for mobile phone applications aimed at assisting the blind with orientation and navigation and other initiatives focusing on environmental, cultural and athletic activities.

The aim of this paper is twofold: to shed light on issues relating to the consumers' perception and reaction to CSR initiatives taken by mobile telecommunication companies, and to explore the relative importance that consumers attach to CSR and CSR initiatives and investigate the impact of CSR initiatives on consumer behaviour in the mobile telecommunication industry. The contribution of this paper primarily lies in extending previous research in CSR field in mobile telecommunication industry. Another important contribution of the paper concerns the emerging managerial implications because the more knowledgeable we are about CSR and consumer behavior, the more effective CSR initiatives can become.

Conceptual Background

CSR is the concept that modern businesses have responsibilities to society that extend beyond their obligations to the stockholders or investors in the firm (Carroll, 2007). From a different point of view, Mohr et al. (2001, p. 47) define CSR as "a company's commitment to minimizing or eliminating any harmful effects and maximizing its long-run beneficial impact on society." The implementation tool of CSR is corporate social initiatives, which are the "activities undertaken by a corporation to

support social causes and to fulfill commitments to corporate social responsibility" (Kotler & Lee, 2005, p. 3). The domains of CSR are diverse (Sen and Bhattacharya, 2001). Generally, the dimensions in past studies and business practice includes environment protection, personnel and employee support, community support, equal opportunity, products, corporate philanthropy, disclosure of social information, representation of women, and representation of minorities (Carroll, 1999; Owen and Scherer, 1993; Sen and Bhattacharya, 2001).

CSR has proved to generate numerous benefits for those firms that engage in socially responsible actions. Such benefits, from a marketing perspective, include consumers' positive product and brand evaluations, enhancement in brand image and personality, store attractiveness, brand choice, brand loyalty and commitment, brand identification, identity attractiveness, brand recommendations, advocacy behaviors and firm value market (Creyer & Ross, 1997; Brown & Dacin, 1997; Drumwright, 1994; Handelman & Arnold, 1999; Osterhus, 1997; Sen & Bhattacharya, 2001; Mohr & Webb, 2005; Oppewal et al., 2005; Sen et al., 2006; Du et al., 2007; Marin & Ruiz, 2007; Madrigal & Boush, 2008; Wigley, 2008; Gupta & Pirsch, 2008).

One of the major research questions examined by researchers is the will of consumers to pay more for a social responsible product or willingness to change their buying preferences for more social responsible companies. Thus, according to Auger et al. (2003) consumers express willingness to pay more for products made ethically (e.g., soap with no animal testing) a result which is in accordance with Creyer and Ross's (1997) research. In the same vein, in Cone (2004) research the 86% of Americans state that they are likely to switch their brand choices for brands associated with causes if they have the same price and quality. Moreover, Sen and Bhattacharya (2001, 2003) suggest that consumers are more likely to be loyal to those companies, promote them to others, and be resilient to negative publicity about them when they identify with them.

Although researchers conclude that a positive relationship exists between CSR actions and consumer attitudes towards a company (Sen & Bhattacharya, 2001; Du et al., 2007, Wigley, 2008), consumers are found to be more sensitive to negative CSR information. This negativity bias exists when consumers react more strongly

towards corporate irresponsibility than towards corporate responsibility (Folkes & Kamins, 1999; Creyer & Ross, 1997; Sen & Bhattacharya, 2001; Mohr & Webb, 2005). Therefore, it is more likely that consumers want to punish irresponsible companies than to support with their purchase choices the social responsible (Creyer & Ross, 1996; Bhattacharya & Sen, 2004). In support of this, a Cone (2004) research found the 90% of consumers in USA stating that they will change brands if they are informed that a company conduct social irresponsible actions and 81% will speak negatively for the company to their friends and families. In this vein, Wanger et al. (2008) examined the consumers' perception of corporate social irresponsibility in the retailing sector.

Research Questions

This study investigates the following research questions:

1. What is the relative importance that consumers attach to CSR and CSR initiatives in the mobile telecommunication industry?
2. The impact of CSR initiatives on consumers behaviour: a) consumers' willingness to talk positively about the socially responsible company (word of mouth), b) consumers' willingness to legitimate the company's operation in the local community, c) consumers' willingness to work for that company, d) consumers' willingness to invest in that company and e) consumers' willingness to buy the company's services.
3. Consumers' willingness to change service provider for a more socially responsible company with the same quality and price and willingness to pay higher price.
4. The impact of positive and negative CSR publicity on consumers' behavior.

Study & Procedure

For the aforementioned purposes a questionnaire was designed, composed of four parts. In the first part of the questionnaire, the respondents were asked to evaluate the importance of the CSR concept in the mobile telecommunication sector and, most importantly, CSR initiatives. The CSR initiatives scale contains a set of 11 CSR

initiatives. More specifically, the CSR initiatives were Environment protection, Environment friendly products, Consider the interests and needs of their stakeholders, Human rights, Promote the right use of cell phones, Reinvestment of profits to the local community, Production of useful services and products, CSR Suppliers, Corporate Philanthropy, CSR reporting and Maximizing the shareholder value. In our study, the respondents were asked to rate all initiatives separately on a 7-point Likert-type scale ranging from 1=not at all important to 7=very important.

In the second part of the questionnaire, the respondents were asked questions measuring the impact of CSR initiatives on willingness: to talk positively about the socially responsible company (word of mouth), to legitimate the company's operation in the local community, to work for that company, to invest in that company and finally to buy the company services. The third part of the questionnaire consists of two questions which measure the respondents' willingness to change service provider for a more socially responsible company with the same quality and prices as well as their willingness to pay more for the same service provided by a more socially responsible company. Finally, the fourth part of the questionnaire measures the impact of positive and negative publicity on consumers' behaviour. Furthermore, demographic information was also collected.

The questionnaire was designed to be completed without external guidance from the distributor. Due to the exploratory nature of our research, a convenience sample of 220 respondents was used. The respondents were men or women between 18 and 70 years who are users of mobile telecommunication services. Of the respondents, 40.5 % were women and 49.5 % were men; 72.7 % were between 18 and 30; 17.7% were between 31 and 50; 9.5% were above the age of 51. 18.6% had at least a high school diploma, 44.5 % of the sample had a bachelor's degree and 36.8% had a master's degree.

Results

Greek consumers stated that CSR is important for mobile telecommunication companies to support CSR initiatives. More specifically, the 51.8% of consumers consider CSR as very important and the 35.9% as important, in summary 87.7% of the

sample stress the importance of CSR in mobile telecommunication sector. As expected, women consider CSR more important than men ($t= 1.351$, $p=0.001$), but other significant differences were not found between the age and education levels.

Table I shows the perceived importance of CSR initiatives in mobile telecommunication sector. The results show that environmental issues and initiatives were ranked the highest, followed by the interests and needs of their stakeholders, human rights, and then promoting the right use of cell phones, reinvestment of profits to the local community, production of useful services and products, CSR suppliers, corporate philanthropy and CSR reporting. An interesting finding is the lowest ranking for the maximization of the shareholder value which in Carroll's CSR pyramid is one of the primary responsibilities of the companies. A significant main effect of sex of respondent on ranking human rights initiatives was found: 6.07 versus 5.53 ($t= 3.023$, $df=218$, $p<0.001$). We undertook additional comparisons to identify other differences in the sample, but the only significant difference was found to be that the older respondents were far more likely than the younger ones to evaluate the CSR initiative to buy only among social responsible suppliers as more important ($F= 6.208$, $sig. 0.02$, $p<0.05$).

Furthermore, in Table II a total of 79.1% of respondents stated that they intended to talk positively about the socially responsible company, while 85% legitimate the company's operation in their community. Moreover, the results show that the majority of the public (and we can therefore assume most consumers) express great willingness to work for a social responsible company (95%), invest in that company (75.9%) and buy the company's services (61.8%). The 80% of consumers state that they will change service provider for a more socially responsible company with the same quality and price. On the other hand, if they must pay a higher price, the positive responses decrease to 43.6 %.

The results clearly show that negative publicity has a substantial impact on consumers' willingness to

change the service provider and willingness to work for that company. More specifically (Table III), the 75% of respondents state that will change service provider in the case of negative publicity, while the percentage decreases to 61.4 % in the case of positive publicity. The same negative bias also exists in the consumers' willingness to work for that company, since only the 38.6 % of respondents gives a positive response, while the 72.7 % of respondents answers that they will work for a company in the case of positive publicity for social responsibility. A very interesting result was that the consumers' willingness to change company with the same working and salary conditions reached the 87.3 %.

Discussion

The literature on CSR has often stressed that CSR should allow a company to build better relationships with a variety of stakeholders (consumers, employees, investors etc). The results of our research offer a variety of interesting findings for managers pursuing CSR initiatives.

The majority of Greek consumers has a positive attitude for CSR and considers that it is very important for mobile telecommunication companies to support CSR initiatives. These results are consistent with other research that demonstrates the need for more CSR initiatives. The results show that Greek consumers expect that the mobile telecommunications companies will engage in environmental initiatives and these expectations strongly suggest the need for that industry to think green.

Firms who engage in socially responsible behavior will gain word of mouth, legitimization to operate in local communities, gain talent and loyal employees, investors and customers. On the other hand, the social irresponsible companies will have substantial impact on consumers' behavior, indicating that the negative bias exists. The differences between various demographics groups indicate that companies must take into consideration these differences when implementing CSR initiatives.

Table I: CSR initiatives importance

Table I: CSR initiatives importance	Mean	Std. Deviation
Environment protection	6.26	1.148
Environment friendly products	6.10	1.070
Consider the interests and needs of their stakeholders	5.86	1.313
Human rights	5.80	1.345
Promote the right use of cell phones	5.26	1.261
Reinvestment of profits to the local community	5.23	1.442
Production of useful services and products	5.23	1.254
CSR Suppliers	5.20	1.439
Corporate Philanthropy	5.17	1.494
CSR reporting	4.88	1.497
Maximizing the shareholder value	4.24	1.481

Table II: The impact of CSR initiatives on consumers behaviour

Table II: The impact of CSR initiatives on consumers behaviour	No	Yes	No	Yes
Willingness to talk positively about the socially responsible company (<i>word of mouth</i>)	20.5*	79.1	Willingness to invest in that company	24.1 75.9
Legitimacy the company's operation in the local community	15.0	85.0	Willingness to buy the company's services	38.2 61.0
Willingness to work for that company	6.0	96.0	Willingness to change service provider for a more socially responsible company with the same quality and price.	56.4 43.6
* %				

Table III: The impact of Positive and Negative CSR Publicity on consumers behaviour

Table III: The impact of Positive and Negative CSR Publicity on consumers behaviour	No	Yes	No	Yes
<i>Positive Publicity</i>			<i>Negative Publicity</i>	
Change service provider	39.0*	61.4	Change service provider	25.0 75.0
Willingness to talk	17.7	82.3	Willingness to talk	17.7 82.3
Willingness to invest in that company	50.0	50.0	Willingness to invest in that company	50.0 50.0
Willingness to work	27.3	72.7	Willingness to work	61.4 38.6
			Willingness to change company w/ the same working and salary conditions	12.7 87.3
*%				

Mobile telecommunications companies must take into consideration some key mediators capable of measuring and explaining the success of the CSR policies. First of all, consumers' identification with the positive and meaningful social identity of a socially responsible company (Bhattacharya & Sen, 2003). Second, the suggestion of Webb and Mohr (2005) that being a leader on a social issue is one powerful way for a company to enhance consumers' and employees' identification with it. Third, the suggestion of Schröder and McEachern (2005) that the companies need to ensure that their business practices are fully consistent with the values expressed in their CSR initiatives. Furthermore, other mediators of success are the trust assigned by consumers in companies and their CSR initiatives (Pivato et al., 2008) and finally consumers' knowledge for CSR initiatives (Wigley, 2008).

Corporate social responsibility in Greece is still in his infancy. Companies use CSR as a tactical instrument, and this is the reason that most of CSR projects in Greece are on short term. CSR could give great benefits to companies, if they use it strategically and proactively. Our efforts, while exploratory in nature, present a starting point for future research on CSR in the mobile telecommunication industry.

Limitations and Scope of Future Research

Although this study has certain limitations, some of these offer opportunities for further research. First of all, the results should be interpreted with caution given the fact that the present research uses a convenience sample causing an overrepresentation of some demographic groups. An interesting extension of this study would be to repeat it with a more representative sample.

Secondly, we only used the classical approach of CSR and we did not take into consideration two new dimensions: a) the impact on customer behavior of CSR initiatives versus more customer-centric initiatives (McDonald & Rundle-Thiele, 2008) and b) the impact of Corporate Social Irresponsibility, with an interesting first contribution made by Wanger et al. (2008). Several future directions for research stem from this limitation as well as the need for further examination of the impact of the negative publicity for CSR or Corporate Social Irresponsibility.

Furthermore, another proposition could be a shift in view from corporate social responsibility to Corporate Social Performance (CSP) which would require companies to report on the effectiveness of the programs and policies implemented (Rundle-Thiele et al., 2008). All the above research will lead to a better appreciation of the consumer interpretations of CSR activities and will give important guidance to senior executives who have the responsibility of developing and communicating CSR activities.

Finally, extending this research by looking at the perceived importance of CSR initiatives at other industries would be interesting.

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BUSINESS STRATEGY AS A SITUATIONAL FACTOR OF SUBSIDIARY PERFORMANCE MANAGEMENT

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Abstract

The aim of this paper is to point out how certain market strategies adopted by subsidiaries influence the design of corporate performance management systems. It is based on contingency theory which argues that there is no best way of structuring organisations. Instead, organisational controls should be tailored to the specific internal and external context of the organisation. The paper is structured as follows: In a first step, a brief overview on performance management systems is given. Moreover, the historical development of contingency theory and its application to subsidiary controlling is discussed. Subsequently, different strategy typologies that can be found in literature are reviewed and re-classified according to their influence on management control system design. Finally, these categories are analysed in terms of their influence on the choice of performance measures, the design of incentives and the planning process. It is argued that strategic business units (SBUs) that follow more innovative or expansive strategies should be controlled with the help of more non-financial performance measures compared to rather conservative SBUs. Furthermore, top-management remuneration in such SBUs should consist of variable parts to a greater extent. Also it is argued that the planning process in innovative SBUs should be less formal.

Key words: Performance measurement, contingency, subsidiary controlling, management control system

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Introduction, goals and methodology

In today's economy, the importance of company groups is very high. There are a number of economic concepts and reasons which attempt to explain the emergence of large company groups, for instance the realisation of economies of scope (synergy effects) and economies of scale (size effects) as well as acquisitions as a growth strategy (Burger & Ulbrich 2005, p 51; Faul 2004, p 44; Krupp 2007, p 1).

As a result to increased organisational size and complexity, a growing divisionalisation can be observed among large companies (Horváth 2006, p 541). Divisionalisation refers to companies being comprised of multiple responsibility centres. It is a form of decentralisation, i.e. a form of delegating decisions and tasks to lower hierarchical levels (Merchant & Van der Stede 2007, p 445; Schumacher 2005, p 68; Faul 2004, p 39). Motives for a decentralisation are above all an increased flexibility for subsidiaries to react to market demands, to reduce the work load of the corporate centre's management and motivational effects due to increased responsibility and freedom of subsidiary managers (Schumacher 2005, p 68; Faul 2004, p 40).

From the point of view of the central company group management, decentralisation is accompanied by the question how an orientation toward corporate

objectives can be ensured on all organisational levels (Horváth 2006, p 10). The relationship between the central corporate management and its subsidiaries can be described as a principal agent problem which is a concept from New Institutional Economics (Schmidbauer, 1998, p 45; Jensen & Meckling, 1976, p 308). A principal agent relationship is primarily characterised by the following two aspects: First, the principal's and the agent's interests are divergent and the agent acts opportunistically, i.e. is likely to misuse the delegated authority for his own benefit. Second, the agent is able to enforce his own interests, since there is information asymmetry in favour of the agent (Weber & Schäffer 2006, p 25).

Performance management systems (PMS) are a key instrument of subsidiary controlling. The correct use of performance measures combined with incentives can help overcome the two problematic characteristics of the principal agent relationship: On the one hand, they can help reduce information asymmetry between the corporate centre and subsidiaries. At the same time, they ensure an orientation toward corporate objectives on all levels of the organisational hierarchy.

According to contingency theory, there is no best way of structuring an organisation and its management systems (Morgan 1998, p 44; Jackson 2000, p 110). Instead, the optimal design depends on situational factors (Drury 2004, pp 695-696; Jackson 2000, p 110). Contingency approaches argue that also PMS design should be made contingent on certain situational factors. For this paper, business strategy of subsidiaries has been chosen as an example for a situational factor. Literature provides companies with recommendations for the design of PMS depending on certain strategies.

One goal of this paper is to provide a theoretical basis for the discussion about the design of PMS in company groups. At the same time, it is intended to point out strengths and limitations of contingency theory and to show how theoretical contingency approaches could be tested against reality. Last but not least, the authors' intention is to provide theoretically and empirically well-grounded guidelines for corporate managers in practice.

In terms of methodology, this paper belongs to the theoretical strand of contingency research. That means that hypotheses are developed by analysing, synthesising and critically discussing existing literature. This literature review is

complemented by the authors' own thoughts, ideas and assumptions. However, in this paper, no empirical research will be presented.

The structure of the paper is as follows: First of all, the conceptual background of this paper is established by presenting a framework for the discussion of PMS which will be used as a structure for the discussion in the last chapter. Moreover, issues of performance management in a company group context will be discussed. Next, a discussion of the methodological and research background will follow, before the actual topic – how PMS can be tailored to strategy – will be addressed and hypotheses will be formulated in the last chapter.

Conceptual background

Performance management systems

Performance management has gained lots of attention in academia in the last decade. Especially in older papers, it is often referred to as performance measurement. However, only few authors make an attempt to sharply define the term (Schreyer 2007, p 28). Moreover, the term is used for a variety of different concepts in business and economics ranging from securities and portfolio analysis (Fischer 2001) to the optimisation of manufacturing plants (Tangen, 2004).

Neely, Gregory & Platts (1995, pp 80-81) define performance measurement system (PMS) as a set of metrics used to quantify both the efficiency and effectiveness of actions. The authors of this paper define the term PMS more broadly. Here, a PMS not only includes the set of metrics, but also the planning and control process in which targets for the performance measures are set and also the incentive system attached to the measures. These three parts of the PMS are illustrated in the figure below and will be used as a framework for the discussion of PMS in this paper.

Academics criticise that research has recently paid too much attention to ex post performance measurement instead of ex ante management (Broadbent & Laughlin 2009, p 283). If the metrics are mistaken as mere ex post measures, they do not help improve performance substantially (Koller, Goedhart & Wessels 2005, pp 406-407). Instead of measuring performance ex post it must be made

sure that in each decision that is made in daily business, the goal of value creation is considered (Koller, Goedhart & Wessels 2005, p 405). Effective performance management thus requires a thorough understanding of the underlying factors that influence value creation and a consideration of all the three components of PMS which will be discussed more in detail below.

The set of metrics (performance measures)

Traditionally, performance measurement focused on financial measures (Langfield-Smith, Thorne & Hilton 2009, p 691; Schreyer 2007, p 26). That was until the 1980s when there was a growing realisation that traditional performance measures would no longer fulfil the requirements of new competitive realities such a need for flexibility or rapid response to customer expectations (Kennerley & Neely 2003, p 214; Chow & Van der Stede 2006, p 1). Therefore, modern PMS place a greater emphasis on a balance between financial and non-financial measures (Langfield-Smith, Thorne & Hilton 2009, p 694). Today, there is a variety of performance measurement concepts. A prominent example is the Balanced Scorecard (BSC) by Kaplan and Norton, but there are also less known concepts such as the Performance Prism by Adams and Neely (Horváth 2006, p 563).

Financial performance measures have been heavily criticised by academics and practitioners (Langfield-Smith, Thorne & Hilton 2009, pp 692-694; Neely, Gregory & Platts 1995, p 106; Tangen 2004, pp 726-727). The following are often-cited points of criticism: First, they describe consequences of decisions and actions, not causes. Therefore, they are not helpful in analysing the past and also provide limited guidance for future action. Second, they lack timeliness, i.e. they only display results of decisions with delay. Third, they supposedly lack strategic focus and even may conflict with strategic objectives.

Despite the weaknesses of financial measures, modern concepts of performance measurement can (of course) not completely renounce on financial measures (Horváth 2006, p 562). Furthermore, there is a tendency in literature to ignore potential weaknesses of non-financial measures (Chow & Van der Stede 2006, p 2). Thus it has to be further examined if a blanket judgment against all financial

measures is justified and if there are possibilities to remedy the weaknesses by improving design or usage of the measures or other parts of the control systems. A thorough analysis of dysfunctions and biases in financial performance measures has recently been presented by Britzelmaier & Schlegel (2010) with the result that many of the problems associated with financial performance measures are a consequence of an incorrect application rather than inherent failures of the measures. On the other hand, in certain contexts non-financial measures are indeed more suitable which will be discussed below.

The planning and control process

The mission of a company is usually a very abstract notion. In order to be implemented, it has to be broken down to more operational strategies and goals. There is a "logical continuum" (Kaplan & Norton 2001, pp 69-72) that ranges from the company's mission to its performance measures. The process of breaking down a company's vision to performance measures as shown in Figure 2 is also referred to as deployment (Bititci, Carrie & McDevitt 1997, p 524).

PMS compare actual performance with a budgeted target or an external benchmark (Langfield-Smith, Thorne & Hilton 2009, p. 691; Hoque 2003, pp. 142-143; Simons 2000, p. 7). Therefore, as a first step, targets have to be set. In contrast to classic budgeting, plan figures of PMS are formulated with reference to persons and objects (Horváth 2006, p. 562).

The deviations between target and actual values should be analysed in order to trigger an ex post learning process. While in so-called single-loop learning only the realisation of activities is adapted as a result to deviations, double-loop learning involves bringing into question planning premises and strategies (Dittmar 2004, pp. 73-75; Gladen 2008, p. 32). However, it has to be mentioned that in terms of employee motivation and reward, an adaption of the original performance target is problematic.

With the help of the planning and control process, PMS fulfill an important function: the information function (Ewert & Wagenhofer 2008, p 521; Schumann 2008, pp 87-88). They convey information from lower levels to top management (bottom-up), but also help communicate the strategy

and plans top-down to lower levels (Simons 2000, p 4; Langfield-Smith, Thorne & Hilton 2009, p 691). Additionally, they help managers to compare their own performance to previously set targets and to take corrective actions in time (Hoque 2003, p 142; Otley 1999, p 369). This enables well-founded management decisions (Bititci, Carrie & McDevitt 1997, p 524). Due to the information function, they help resolve the principal agent problem since they reduce the information asymmetry between the principal and the agent.

Incentive System

The third component of PMS is important for another purpose: The behaviour control function (Ewert & Wagenhofer 2008, p 521; Schumann 2008, pp 87-88). PMS can be used to control behaviour of managers by monitoring their performance and using it as a basis for compensation (Hoque 2003, pp 142-143). Also, benchmarking between several subsidiaries or with external parties can be done (Burger & Ulbrich 2005, pp 349-353). This way, the second characteristic of the principal agent conflict can be resolved: Interests of the principal and the agent are aligned.

Subsidiary performance management

In a company group context, not only the mission has to be broken down to operational performance measures, but also the measures have to be broken down to lower-level organisational units (Britzelmaier 2009, p 175). Thus, it can be said that breaking down objectives is carried out two-dimensionally: deployment (mission to performance measures) and delegation (company group to lower organisational levels) as illustrated in the figure below.

The primary structure of a company group is determined by the legal ownership structure. However, the legal structure is overlaid by an operational structure in so-called dual organisations (Borchers 2006, pp 240-241). The relevant point of view for the purpose of this paper is economic (as opposed to legal), i.e. the operational structure is relevant. Speaking of a subsidiary in the meaning of this paper does not necessarily mean that it is a separate legal entity. A division of an enterprise might for instance have the same economic characteristics as a legally independent subsidiary of another enterprise.

But also from an economic point of view there are several ways to subdivide a company group. It is conceivable to use two existing concepts for the demarcation: First, the concept of a cash generating unit (CGU) from the International Financial Reporting Standards (IFRS) which is used for impairment tests could be applied. A CGU is "the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets" (IAS 36.6). Second, the concept of a strategic business unit (SBU) as defined in strategic marketing could be used. A SBU is a product-market combination which is strategically independent from other SBUs (Huch, Behme & Ohlendorf 2004, p 445).

Methodological and research background

An outline of contingency theory

Before contingency theory emerged in the 1950s, the prevailing notion of traditional organisational and management theory was that certain principles are universally applicable to all circumstances (Kieser & Kubicek 1992, p 47; Jackson 2000, p 110). Contingency theory – which was primarily oriented toward organisational design – argues that there is no best way of structuring an organisation (Morgan 1998, p 44; Jackson 2000, p 110). Instead, the optimal design depends on situational factors (also referred to as contingent factors or contextual factors) since they impose constraints on the organisation (Drury 2004, pp 695-696; Jackson 2000, p 110).

The design of formal structures depending on the context is assumed to have an influence on the effectiveness and efficiency of an organisation (Jackson 2000, p 110; Kieser & Walgenbach 2007, p 43). Therefore, management should be concerned with aligning contingent variables and the management system in order to achieve good fits (Morgan 1998, p 44; Drury 2004, p 696).

In the meantime, the application of contingency theory has been extended to a variety of management fields such as motivation and leadership (Wunderer 2007, pp 311-313) and also management accounting and information systems (Otley 1980, p 413).

It is argued that also the design of PMS should depend on situational factors. It has to be

emphasised though that a PMS must be designed in the context of an overall organisational control system which has also implications on models and empirical tests (see the problem of model underspecification discussed below).

In a company-group context, contingency approach can mean two different things: A company group-specific approach or a subsidiary-specific approach. The first possibility means that the general design of subsidiary controlling is made contingent on context factors of the company group as for instance Maier (2001) does in his doctoral thesis. The second possibility is also discussed under the keyword standardisation vs. differentiation. By differentiation, it is meant that the characteristics of subsidiary performance management should not be universal across the company group but designed individually for each subsidiary depending on the respective situational factors (Borchers 2006, p 238).

In this paper, business strategy of subsidiaries is presented as a subsidiary-specific context factor. It is argued that the components of the subsidiary PMS should be designed differently depending on the individual strategy of the subsidiary.

Contingency models and empirical tests

Contingency theory literature and research can be classified into two strands: Authors from the theoretical strand speculate or hypothesise on possible contextual factors and their effects. This type of research provides input for subsequent empirical studies. In contrast, empirical research intends to figure out an appropriate match between organisational design and the contextual factors empirically. Most empirical studies are based on questionnaires (Drury 2004, pp 696-697).

Empirical research on contingency theory is conducted with the help of multivariate analysis, i.e. variables are assumed to interact with each other. In the case of contingency models, variables have different effects in different contexts (Easterby-Smith, M., Thorpe, R. & Jackson, P. 2008, p 271).

In the figure below, a simplified contingency model is shown. It can be seen that the performance of a company depends on the characteristics of the PMS. However, in different contexts (contingent factors), the characteristics of the PMS have different effects on performance.

Empirical studies involve lots of difficulties. A major problem in empirically testing a model of PMS is that PMS are only one component of management control. Thus the effects of the PMS have to be isolated from other organisational controls. Thus there is the danger of model underspecification, i.e. several controls influence the behaviour of employees but the result is only blamed to part of the control system (Chenhall 2003, p 131). Further problems are the enormous number of possible factors, as well as the definition and measurement of abstract variables. This measurement problem not only occurs for the contingent factors but also for the outcome (performance). Additionally, there is a potential of drawing wrong conclusions from observed correlations since they might be merely statistical correlations instead of economic causalities (Chenhall 2003, pp 135-136; Drury 2004, p 697).

Empirical approaches differ in terms of their dependent and independent variable. Arising from the difficulties in measuring performance, there are so-called selection studies which only examine the relationship between contextual factors and the control system of companies without addressing the question whether a certain combination leads to a better performance (Chenhall 2003, p 155). That means they only examine the relationship between the first two boxes in the figure above. Critics claim that studies should include performance as the dependent variable (Chenhall 2003, p 135). Proponents of such studies, however, argue that rational managers will not employ systems which do not enhance performance so that insights about the adoption of systems in practice do provide helpful insights (Drury 2004, p 698; Chenhall 2003, p 135). They use simple correlations or linear regression without taking into account the relationship between various contextual factors (Chenhall 2003, p 155).

Interaction approaches use situational factors as moderating variable in order to see how it influences the relationship between control system elements and performance. Moderating variables can also be combined with intervening models in order to separate direct and indirect effects on the outcome by specifying causal paths between different variables (Chenhall 2003, p 155).

System approaches test multiple fits between variables simultaneously and how performance varies with different combinations. The statistical models used (e.g. Euclidean distance or cluster

analysis) require large sample sizes (Chenhall 2003, pp 155-156).

This paper can be classified as belonging to the theoretical strand. In the following chapter, hypotheses will be generated which provide input for possible empirical studies.

Tailoring performance management systems to strategy

Re-classifying strategic typologies

Strategies of SBUs can be classified in a variety of ways. Here, besides Porter's (1985, p 61) generic strategies of low cost, differentiation and focus which are assumed to be known, two concepts which are of particular interest in contingency research will be presented: Defenders, prospectors and analysers which was introduced by Miles and Snow (1978) as well as build, hold, harvest and divest which is especially promoted by the Indian-American professor Govindarajan (Hoque 2004, pp 487-488; Verbeeten 2005, pp 15-16). In a contingency context, many researchers reduce the concepts to a continuum between two extreme poles. This has among others the advantage that the strategy can be quantified on a Likert-type scale – for instance ranging from 1 (harvest) to 5 (build) – in empirical research. This simplification will also be made in this paper in order to provide a basis for empirical research. Hence, the typologies which are shown in the figure below result from the strategic concepts.

Subsidiaries with a build strategy have above all the goal of increasing market share, even at the expense of short-term financial performance. They are likely to be cross-subsidised by other subsidiaries. The harvest strategy implies maximising short-term earnings and cash flows. Harvesting subsidiaries are net suppliers of cash (Shank & Govindarajan 1992, p 15).

Prospector firms are looking for opportunities in the market and try to maintain their reputation of being an innovator. Defenders define a segment of the market and try to defend their stable domain. They attempt to produce and distribute products as efficiently as possible in their narrow segment (Miles et al. 1978, pp 550-552).

The specific needs in terms of control systems for build, prospector and differentiation strategies are similar. The same is true for harvest, defender and low cost strategies. This is especially because they face a comparable level of uncertainty (Shank & Govindarajan 1992, pp 16, 21). Furthermore, they have the same implications for short-term versus long-term profit trade-offs. Build, prospector and differentiation strategies for instance tend to include large R&D expenses which decrease short-term profit (Shank & Govindarajan 1992, pp 16, 21). In order to ensure the long-term focus of such strategies, particular attention has to be paid to the solutions against short-termism of managers.

Consequently, for the further proceeding of this chapter, the strategies are classified into two new categories according to their implications for PMS design as shown in the figure below.

Contingent design of performance management systems

Choice of performance measures

Companies with high-uncertainty strategies are likely to have critical success factors such as a high level of innovation, creativity and staff involvement (Merchant & Van der Stede 2007, p 728; Shank & Govindarajan 1992, p 20). Besides difficulties to express these factors in financial terms, an excessive use of financial measures might influence managers to neglect these factors as investments in the factors only pay off in the long run (Hoque 2004, p 488). Therefore, more emphasis should be placed on non-financial measures compared to firms pursuing low-uncertainty strategies (Verbeeten 2005, p 16; Hoque 2004, p 488; Shank & Govindarajan 1992, p 19). Additionally, these factors might even be difficult to measure with non-financial measures, so that they might have to be evaluated subjectively (Verbeeten 2005, p 16; Merchant & Van der Stede 2007, p 728).

In contrast, companies with low-uncertainty strategies should rather focus on financial performance. Especially a focus on cost reduction is common (Merchant & Van der Stede 2007, p 728). This might include a more elaborate cost accounting and less aggregate financial measures – for instance individual cost items – included in the evaluation of managers.

There is empirical evidence that companies with high-uncertainty strategies indeed do use more non-financial measures, for instance from a study among 52 New Zealand manufacturing firms by Hoque (2003, p 496) and a study among Dutch organisations by Verbeeten (2005, p 5). However, Verbeeten does not find support for the hypothesis that companies which better align their PMS with their strategy outperform their peers.

H1: Subsidiaries with high-uncertainty strategies are managed with the help of more non-financial measures

H2: Company groups that manage their high-uncertainty subsidiaries with the help of more non-financial measures outperform their peers

Planning and control process

For subsidiaries with high-uncertainty strategies, there is a limited possibility to plan in advance and predict targets accurately so that budgets are more of a short-term planning tool rather than a tool for control (Shank & Govindarajan 1992, pp 17-18). The system in general is more informal and there is a participative decision-making environment instead of a top-down determination of targets. In contrast, controls of subsidiaries with low-risk strategies are tighter with an emphasis on budget achievement. Furthermore, procedures are more formal, standardised and centralised (Merchant & Van der Stede 2007, p 728).

H3: Controls of subsidiaries with high-uncertainty strategies are more informal and participative

H4: Company groups that manage their high-uncertainty subsidiaries with more informal and participative controls outperform their peers.

Incentives design

Concerning the design of the incentives, the following suggestions are made for companies with high-uncertainty strategies: First, the measurement horizon should be extended in order to give long-term incentives for managers to pursue innovative strategies and not only focus on short-term gains. Shank & Govindarajan (1992, pp 19-20) furthermore propose to define a relatively high proportion of total compensation as variable bonus in order to encourage managers to take greater risks which is necessary to increase

market share. Moreover, more reliance should be placed on subjective judgments by superiors since it is hard to measure objectively the long-term effects of effort put into the development of critical success factors. However, this might be inappropriate in a subsidiary controlling context due to the information asymmetry involved.

H5: The performance of managers of subsidiaries with high-uncertainty strategies is measured over longer time periods .

H6: Company groups that measure the performance of their high-uncertainty subsidiaries over longer periods outperform their peers.

H7: Managers of subsidiaries with high-uncertainty strategies are compensated with a higher proportion of variable bonuses.

H8: Company groups that compensate managers of subsidiaries with high-uncertainty strategies with a higher proportion of variable bonuses outperform their peers.

Conclusion

Summary and evaluation of the results

In this paper, an introduction to PMS in a company group context was given. Based on a literature review, it was discussed how PMS can be adapted to the business strategy of a subsidiary. The result of the discussion are eight hypothesis about the relationship between strategy, performance management and the performance of a company. For this purpose, contingency theory was presented as a framework to the discussion.

The authors' intention was to collect and synthesise literature from this field and review the guidelines for practitioners that are given in literature. Although some empirical studies were cited, a major limitation of this approach is that some of the main references provide limited empirical prove for their arguments. Therefore, it has to be emphasised that the hypotheses made above require empirical testing.

Additionally, for an empirical test, the hypotheses might have to be further refined and operationalised. For instance, a measure for a company's performance will have to be found which could be a financial summary measure. However, the

definition of performance depends on the individual purpose of each study. Therefore, a further operationalisation is renounced by purpose.

Further research opportunities

As discussed above, contingency models as presented in this article are very difficult to test empirically and have major limitations. Therefore, further effort should be put in the development of holistic models that take into account the overall context of the organisation and at the same time include all the major aspects of a management system.

Furthermore, more empirical research can be conducted on the topic. The hypotheses of this paper might be a good starting point. The research on PMS can also be extended to the relationship of PMS and performance with other contextual factors such as organisational structure or size of a company.

A possible research design might be a mixed methods approach. Internal company information on PMS probably needs to be gathered with the help of survey research (primary data). The performance of a company could be derived from publicly available financial data such as financial statements of stock market data (secondary data).

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MARKETING CONCEPT FOR DURABLE GOODS SALES MANAGEMENT

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Abstract

This article addresses the implication of the marketing concept for sales management in the durable goods market based on a case study of "Stroykomplex" Ltd., which specializes in fireplace retail and wholesale. It illustrates the application of a logical concept of the «Six Ws» by outlining logic and an analytical methodological framework for marketing sales management of the company – channel. The case study presents the results of the marketing research on the regional consumer durable market.

Key words: sales management, marketing channels, company – channel, logical concept of the Six Ws, durable goods.

As a rule, issues, concerning sales management are regarded in the framework of producer's distribution policy. We consider that sales management concept is to be researched, based on market particular features, as well as key competences of companies, forming marketing channels.

Sales management marketing concept, to a significant extent, is based on such terms as 'marketing channel' and 'sales triad'. The nature of marketing channels and distribution theories were put forward by G.L.Bagiev, D.Barkan, B.Berman, G.Bolt, Yu.Witt, J.Dent, P.Dixon, Ph.Kotler, E.Dikhti, E.Coughlan, J-J. Lambin, J.Lampkin, R.Macauley, F.Moati, V.Naumov, V.Rosenblum, H.Hershgen, Ch.Fatrell, L.Stern, J.Evanas, O.Yuldasheva, etc.

American Marketing Association defines marketing channel as a set of practices or activities necessary to transfer the ownership of goods, and to move goods, from the point of production to the point of consumption and, as such, which consists of all the institutions and all the marketing activities

in the marketing process [1]. Russian scientists tend to regard marketing channel as the area of communications for all the organizations, interacting within the process of goods and services delivery to customers. For instance, V.Naumov defines marketing channel as a customer-oriented sphere, where business partners cooperate. This sphere is characterized by multi-sided communicative flows, emerging in the process of goods and services delivery [2, p. 9].

The object for the current research is to be determined as intermediary elements (stated in scientific literature as firms-channels) of the marketing channels in the process of goods and services delivery from producers to customers [3, p. 111].

The term 'sales triad' allows outlining three basic components of the selling process:

- sales, performed by producers or specifically created structures
- distribution as a sphere of all the intermediary buyers
- delivery – goods and/or services transfer to customers [4, p. 20].

Firm-channels activities deal with the two latter stages of the above-mentioned chain.

The 'six Ws' logical model has been chosen as the key analytical tool by the authors. Long ago, in II – I centuries BC the Greek rhetor Hermagoras of Temnos, as quoted in pseudo-Augustine's *De Rhetorica* defined seven "circumstances" as the loci of an issue: Quis, quid, quando, ubi, cur, quem ad modum, quibus adminiculis (Who, what, when, where, why, in what way, by what means). At present, the 'six W's' model is an extensively used

tool. [5, 6]. It was even used in forming marketing mix 4P (product, price, place, promotion).

In sales management one of the first researchers to use the 'six W's' model was D.Barkan, the professor of the High School of Management, who suggested to regard sales management concept structural analysis as 'the system, containing six interrelated questions, which...allow to form clear vision of profit-gaining mechanism within the process of marketing channels functioning and, to a certain extent, its opportunities and limitations, which might become obstacles for their efficient functioning' [3, pc. 110]. The 'Six W's' model in sales management', concerning firm-channels is shown on the Figure 1.

Structural analysis of the sales management concept, based on the 'Six W's' tool was performed by the authors in the durable goods market. 'Stroycomplex', ltd. was chosen as the target of research. The company was established in Yekaterinburg in 1991 and was the first Ural company to launch European fireplaces selling and ready-to-operate installation in 1996. At the same time the first shop-showroom 'European fireplaces' started its operations in Yekaterinburg. Since 1998 the company has been developing the chain of its regional branches, specializing on fireplaces retailing across the large Ural cities, such as Tyumen, Chelyabinsk, Magnitogorsk, Miass. A new subsidiary was opened in Perm. Currently the company positions itself as the only Ural importer of fireplaces, as it has been directly cooperating for a long time with such European producers as «Chazelles», «Palazzetti», «Nordica», «Arkiane», «Don-Bar», «Schiedel» and so on, whereas its competitors only buy from their wholesale dealers in Moscow and Saint-Petersburg.

The information base for structural sales analysis was formed by the primary data, collected during the field research of the fireplaces market in Yekaterinburg, expert interviews with 'European fireplaces' sales force, as well as secondary data, received from public media along with the Internet sources. The statistical analysis of customers polling was made with the usage of SPSS software.

1. What do we sell? The fireplaces market was formed in the West quite a long ago, whereas in Russia it only formed in the 1990s. Fireplaces are classified as durable goods, containing several specific marketing features:

- Complex production cycle, long-lasting period of new models launch into the market and high dependence on cutting edge technologies. Thus, up to the mid-1990s traditional wood burning fireplaces had dominated the market with the share of 73.1%. Since 1997 gas-operating fireplaces superseded the wood burning ones as the leading models within the market. Another stage in market development was connected with electrical fireplaces launch. This type of fireplaces might be used in private houses, as well as residential buildings. The first bio-fireplaces were launched into the Russian market in 2005-2006.
- Relatively high price. Prices for fireplaces vary from 5,000RUR to 10,000RUR for electrical units up to several thousand rubles for exclusive ones. As a majority of durable goods, fireplaces are goods with the high level of income elasticity of demand. Fireplaces are classified as innovative, high-priced goods, possessed by less than 10% of Russian population. [7]. As a rule, fireplaces are being used in country houses. Sales of traditional fireplaces correlate with private housing construction trends.
- Long-term period of making customer choice and purchasing. Customers usually make their choice about the fireplace purchase within two to four weeks (in certain cases, the purchase is postponed for several months), as they compare up to ten models.
- Factors of fireplaces customer choice. Fireplace combines functionality and aesthetic elements of décor. However, it is the second aspect, which is concerned to be the crucial one, when making a customer choice. Fireplaces heating systems are considered to be non-economical in the Ural climate conditions, so they act as a luxury unit for interior design. This thesis is proved by the market research, conducted by the author (Figure 2).
- The necessity of guarantee and warranty. Consolidated customer expenses on purchasing and using a fireplace include retail price, as well as installation and maintenance costs.
- Durable goods depreciation. Along with wear and tear, depreciation is also to be considered

as the factor of major importance, which is linked to fashion changes in décor.

Having researched product line in 'European fireplaces' retail chain we concluded that, in terms of product policy, company positions itself as the provider of de lux European trademarks, inaccessible for the competing retailers. Taking into consideration our data of market concentration, calculated on the basis of Herfindahl-Hirschman index, we might state that suppliers management is well diversified in Stroycomplex, Ltd., with its market power assessed by us as reasonable.

2. To whom do we sell? Companies, operating in the fireplaces market are targeted on adult households with high level of income. Generally, their target audience is represented by businessmen and top-managers. Market research, conducted by the authors, as well as expert interviews show that certain customer groups, having similar characteristics and behavior of the 'European fireplaces' retail chain might be outlined. First of all, these are middle income customers, considering price as the key factor of making a buying decision. They pay increased attention to 'low end' models. That's why they might choose construction teams, specialized on brick cladding as an alternative to fireplace purchase. However, this segment has a big potential, as in the recent years demand is growing on 'economy class' country houses and terraced houses. Secondly, these are clients with above average incomes. They prefer to buy imported high-priced fireplaces (Table 1). The key factor for this segment is fireplace outlook, as well as casing. This segment, narrow, but steady also includes high-income customers. This segment is the hardest for being researched. The above-mentioned customers tend to choose expensive de lux models. The third segment is formed by designers and architects, choosing fireplaces for certain projects and recommending the chosen models to customers. The key factors of choosing fireplaces are outlook and technical specifications, whereas customers set pricing limitations. Customer is also the person to make a final decision. We also suggest to regard commercial (hotels, health resorts, saunas, restaurants, etc.), as well as non-commercial organizations, as a particular segment.

3. When do we sell? Demand seasonality is a specific feature of the fireplaces market, assuming

regular growth and reduction periods in sales. Sales are usually peaked in July-August, as well as November-December with a considerable decline which usually falls on January-February. Seasonality factor is to be taken into account both in planning sales and stock, as well as for choosing the correct timing for advertising campaigns and sales promotions launch.

4. Where do we sell? Fireplaces marketing channels are shown in Figure 3. The company is using geographical expansion strategy, according to the quadrant 'old product – new market' in the Product/Market Ansoff matrix, assuming that the company is developing new distribution channels and forming new customer groups.

5. How do we sell? Opinion poll resulted in the fact that Yekaterinburg citizens are poorly informed about the fireplaces market. The main information sources are shop bright signs and selling points location in the central streets of the city. Another important communication sources are the Internet and word-of-mouth advertising. No interviewed person had chosen 'radio spots', 'TV commercials' or 'Magazines'. The 'European fireplaces' retail chain primarily uses outdoor advertising, Internet-advertising, as well as social networks. Consequently, massive advertising campaigns, as well as establishing partnership relations with cottage-constructing companies and private architects and designers have sufficient potential.

6. Who sells? Contemporary concept of strategic management, including its developing niche – resource approach assumes that firm's key competences are primarily connected with its personnel. Firm's selling 'Megacompetence' is a specific resource, according to the resource approach. Selling force plays the key role in company's profits. 'European fireplaces' consumers were asked to assess the level of service in the selling points. 11% consider the level of service as 'satisfactory', 50% - 'good' with 39% putting 'excellent' marks. Therefore, there's a sense for the 'European fireplaces' company in identifying areas of clientele loss within the selling process. Also, a range of drawbacks was outlined due to employees' interviewing, including staff turnover, lack of career development, low self-discipline among the sales force, low level of installation services.

Table 1 Target market segmentation using Cluster Analysis

Segment	Characteristics
«Urban legends» or «Critics»	<ul style="list-style-type: none"> - Sociodemographic: between 30 and 45 years, married with children; urbanized; the family's monthly income – 25,000 to 50,000 RUR - Behavioural: attitude to product is negative and hostile, a fireplace is an useless interior item that occupies a lot of useful space, high costs, difficult installation, complex operation, fire risk. Their attitude is not based on any experience or real knowledge of the market, the negative stereotypes influence their attitude visible consumption.
«Generation Y» or «Young aesthetes»	<ul style="list-style-type: none"> - Sociodemographic: young and dynamic, age group – 18 - 30, single, urbanized; the monthly income – about 40,000 RUR - Behavioural: attitude to product is enthusiastic, a fireplace is a beautiful interior item used informally to support social – class membership assigned on the basis of occupational status or income
«Lares and Penates» or «Family guys»	<ul style="list-style-type: none"> - Sociodemographic: age group – over 30 years, married with children, country property owners (cottage, town-house); the family's monthly income – 50,000 to 80,000 RUR - Behavioural: attitude to product is positive, family-oriented values, family traditions benefits sought - fireplace is a great centre piece for family gathering, makes a room more attractive and inviting.
«Functionalists»	<ul style="list-style-type: none"> - Sociodemographic: age group – over 30 years, married with children, country property owners (cottage, town-house); the family's monthly income – 50,000 to 80,000 RUR - Behavioural: attitude to product is positive, benefits sought might be described in the following characteristics: rationalized, practical, functional, the relevance of aesthetics to practical design - effective synthesis.
«Champions»	<ul style="list-style-type: none"> - Sociodemographic: age group – over 40 years, married with children or divorced, country property owners (cottage, town-house), high middle income housing segment, the family's monthly income – over 100,000 RUR - Behavioural: attitude to product is positive, typically, they are «the bandwagon» (friends, socio class); fireplace belongs to a certain set of everyday household items and furniture, high standards of sophistication and quality, famous brands, unique projects.
«Rockstars»	High income housing segment. This segment is the hardest for being researched. The above-mentioned customers tend to choose expensive and lux models; fireplace as works of art; the idea of furniture is to be a symbol of status and take on a role in comfort and versatility; benefits sought might be described in the following characteristics: luxury, pompous magnificence,oulent, cult of this world

What Is To Be Done? For the company – channel there are clearly obvious restrictions on making marketing decisions on «What?» and «Whom?». Gradually it needs to shift focus from "assortment depth and assortment width" to a «good – service continuum». Furthermore the importance of services in the continuum continue to grow. However the company – channel has an almost absolute freedom of management (questions «Where?», «When?» and «Who?») and it allows to combine marketing tools and methods to drive greater sales.

In the post-financial crisis period for «Stroycomplex» Ltd, identifying new ways to improve customer satisfaction and increase revenue can be of the

utmost importance. The company expects to see new opportunities for growth through:

- customer service improvement project;
- backward integration, seeking control of business at wholesale level of the channel, for geographic expansion into new potential markets of Eastern Russia;
- development of the lower middle class segment («economy models»);
- partnership with construction companies, private architects and designers (Co-branding).



Figure 1 – Structural analysis of firm-channels sales management concept regarded in the framework of 'Six W's' model

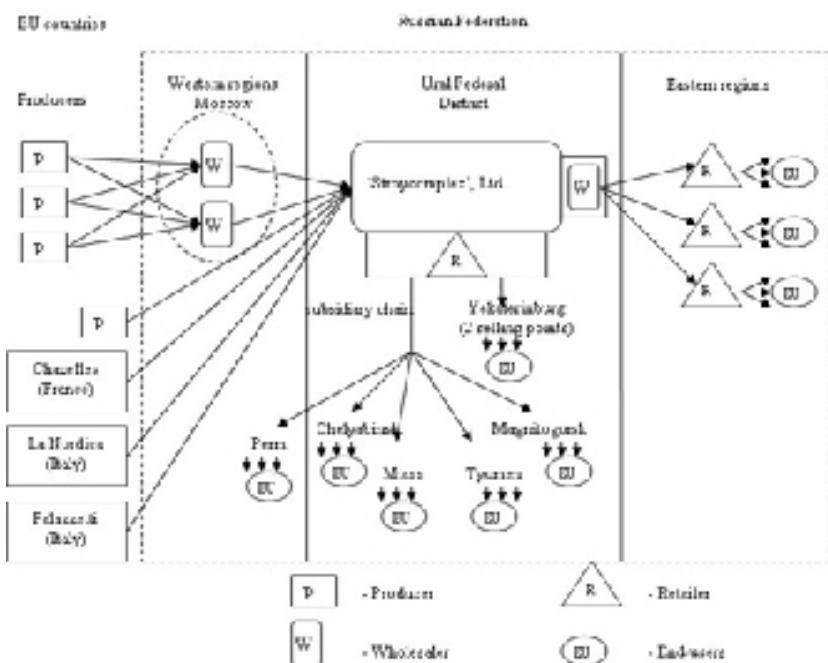


Figure 3 - Marketing channel development of 'Singeraples' Ltd

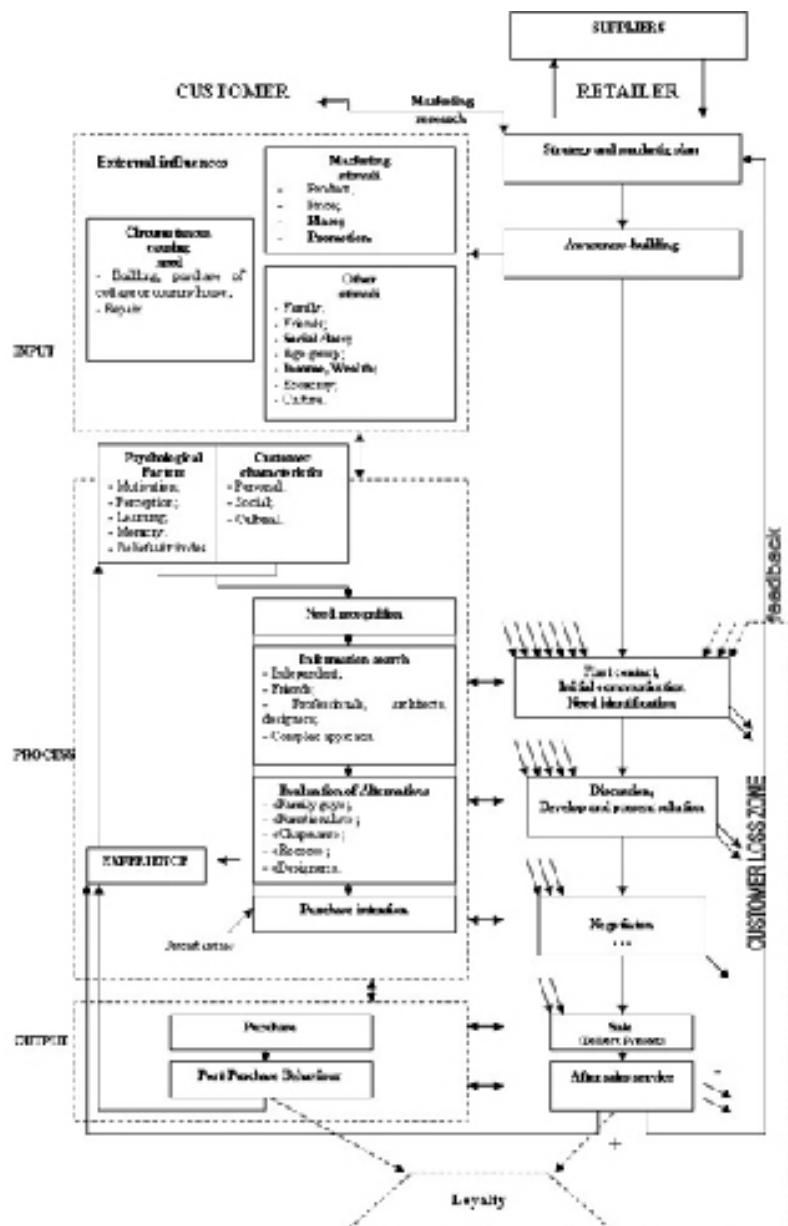


Figure 4 - The interface between the sales and buying process

Conclusion

The research showed that one of the key factors allowing to be ahead of the competition might become marketing approach to sales management with the usage of 'Six W's' model. This kind of approach allows building up the scheme of marketing management, based on market requirements. It can also optimize customer-related management and form company's long-term competitive advantage, based on marketing channels effective functioning.

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A CRITICAL LITERATURE REVIEW ON CONSUMER ACCEPTANCE OF PRODUCT INNOVATIONS

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Abstract

The aim of this paper is to give a critical overview on the current state of innovation acceptance literature. Research in the field of innovation acceptance started in the 1940s with studies on the spread of new agricultural techniques. Since then this new field of academic interest has developed rapidly incorporating concepts of other social sciences as psychology and marketing. The vast majority of studies currently been published in this field use a model originally developed in the field of psychology, the Theory of Planned Behaviour (TPB). The TPB is a model for predicting individual behaviour by postulating that human behaviour is rational and based on systematic use of available information. Behaviour is determined by intention which in turn is determined by three fundamental factors, the Attitude toward the Behaviour, the Subjective Norms and the Perceived Behavioural Control.

Critics, however, argue that human behaviour is more complex than this model reveals and that it is not in any case based on the rational application of given information. Additionally the fundamental factors in this model are difficult to be operationalised and many items used for these factors in the case of innovation acceptance were found to be heavily interrelated.

Keywords: Innovation Acceptance, Innovation Diffusion, Theory of Planned Behaviour, TPB.

ORIGINS OF INNOVATION ACCEPTANCE RESEARCH

The roots of diffusion research extend back to the beginnings of social science in Europe. In the history of religion, as well as in some aspects of culture and folklore, much attention was devoted to the diffusion of new ideas and beliefs within a society (Katz 1999, p. 144). However it took until the early 20th century that diffusion research had made its way into the scientific tradition. Being one of the forefathers of sociology and social psychology, French lawyer Gabriel Tarde, was the first who observed and analysed how new ideas flourish within the French society at around 1900. In his influential book "Laws of imitation" Tarde (1903) dealt with the central question of compatibility that is, the goodness of fit between the attributes of a diffusing item and the social and psychological attributes of the potential adopter (Katz 1999, p. 150).

One reason that innovation acceptance took long to be established as a distinct research field was the very lack of commonalities between the many different fields of diffusion studies, ranging from agriculture to linguistics, medicine or psychology. It was only when Everett Rogers (1962) combined the diffusion studies in an interdisciplinary manner and thus developed a common framework that diffusion research was accepted as a research field of its own. Since then the scope of innovation acceptance research has broadened as more and more disciplines became involved. Early studies mainly focused on rural sociology, investigating the spread of new farming techniques, but soon scholarly interest tailed off somewhat to other disciplines such as communication, public

health and marketing. Since about 1990, the number of diffusion studies strongly increased, with many focusing on the rapid spread of new communication technologies like the internet and mobile applications (Rogers 2003, p. 83). Despite these important pieces of work, scientific research in the field of innovation acceptance is still in an early phase and far from consensus regarding central questions of individual behaviour in the innovation acceptance process (Keeling 1999, p. 59; Venkatesh et al. 2003, p. 427; Silva 2007, p. 256).

ROGER'S DIFFUSION PARADIGM

Although Rogers (1962) based his framework, which today is known as the diffusion paradigm, on many early diffusion studies, the Ryan and Gross (1943) investigation of the diffusion of hybrid seed corn in Ohio, more than any other study, influenced the methodology and theoretical framework of innovation acceptance studies until now. In this detailed field study it became apparent that a certain diffusion process develops because potential customers do not adopt an innovation directly after it becomes available to them, but only with a - varying - time gap. These different time lags build the fundament for the categorisation of adopters as (1) innovators, (2) early adopters, (3) early majority, (4) late majority, and (5) laggards(Rogers 2003, pp. 22–23). Plotting the adoption of an innovation over time on a frequency basis will result in a normal, bell-shaped curve or – if the numbers of adopters are cumulated over time – in a S-Shaped curve of adoption (Rogers 2003, p. 272).

The term adoption in this regard describes the decision of an individual “to make full use of an innovation as the best course of action available” (Rogers 2003, p. 177), while the term diffusion describes “the process by which an innovation is communicated through certain channels over time among the members of a social system” (Rogers 2003, p. 11). Recognizing that adoption is based on a hierarchical mental process, scholars in many disciplines have developed divergent phase models of innovation acceptance. Even though the terminology and the categorisation of process-steps vary throughout these models, there is a common basic structure in most of them: The innovation-diffusion process is essentially an information-seeking and information-processing activity in which an individual is motivated to

reduce uncertainty about the advantages and disadvantages of the innovation (Binsack 2003, p. 9). The most basic phases of this process are: (1) Knowledge, (2) Persuasion, (3) Decision, (4) Implementation, and (5) Confirmation (Rogers 2003, p. 170). In the knowledge stage the individual usually plays a relatively passive role when being exposed to new information about an innovation. However some individuals do intentionally expose themselves to ideas that are compliant with their interest, needs and existing attitudes (Rogers 2003, p. 171). At the persuasion stage the individual forms a favourable or unfavourable attitude towards the innovation. Attitude in this context is best described as “a learned orientation, or disposition, toward an object [..], which provides a tendency to respond favourably or unfavourably to the object” (Rokeach, 1968, cited by Gross 1992, p. 515). In developing a favourable or unfavourable attitude towards an innovation, an individual may need to mentally apply the new idea to an anticipated future situation before deciding whether or not to try it (Rogers 2003, p. 175). The persuasion and decision stage are usually the main interest of innovation acceptance studies, although recently the consequences of innovation gain increased attention (Rogers 2003, p. 442).

THEORY OF REASONED ACTION

The question why certain innovations spread more quickly than others and why some innovations do fail is one of the major concerns in the field of innovation diffusion research today (Gottschalk & Kalmbach 2005, p. 221). In order to develop a predictive instrument towards the rate of adoption of an innovation one of the well-known models in the field of social psychology, the Theory of Reasoned Action or TRA, was incorporated into innovation acceptance research. The Theory of Reasoned Action or TRA was developed from Fishbein's (Fishbein 1967) Theory of Attitude which in the original formulation was largely adapted from Dulany's (Dulany 1968) theory of propositional control (Fishbein & Ajzen 2010, p. 17). In general, the model aims at predicting individual behaviour by postulating that human behaviour is based on the systematic use of available information through the formation of beliefs. Ajzen and Fishbein (Ajzen & Fishbein 1980) propose that behaviour is determined by intention which in turn is determined by two fundamental factors, the Attitude towards the behaviour and the Subjective Norms. Attitudes are basically the positive or negative evaluations of

the behaviour in question, while norms represent the perceived social pressure to engage or not engage in the behaviour in question. (Fishbein & Ajzen 2010, p. 21). Developing this model further, Ajzen (Ajzen 2002) introduced a third factor, the Perceived Behavioural Control, representing the beliefs of a subject that he or she is able to perform the behaviour in question or that he or she has actual control over performing the behaviour. This addition was necessary because the TRA has lacked the ability to deal with behaviour of individuals under non-volitional control (Sattabusaya 2008, p. 48). The revised model is referred to as the Theory of Planned Behaviour or short TPB. The TRA and TPB can be considered together here since from a theoretical point of view the TRA simply examines a special case of the TPB - that is, a case of planned behaviour in which there is sufficient perceived behaviour control (Greve 2001, p. 442).

Being heavily employed in contemporary social psychology, the model developed by Ajzen and Fishbein has proved to be successful in many behavioural domains. Especially in the field of innovation acceptance the TPB model became one of the most famous theoretical frameworks for researchers (Venkatesh et al. 2003, p. 427). In a meta-analysis based on 185 independent studies (Armitage & Conner 2001), the TPB was found to account, on average, for 39% of the variance in intentions. Given the fact that before the introduction of these models most studies accounted for, at most, 10% of the variance in behaviour this was a definite advancement (Ajzen & Fishbein 2004, p. 432). Other, more behaviour specific, meta-studies even exceeded these results. On average if the measures of the theory's construct comply with the principle of compatibility, are reliable, and have convergent and discriminant validity, the theory can account for about 50% to 60% of the observed variance in intentions towards a specific behaviour (Fishbein & Ajzen 2010, p. 283). Considering that even carefully assessed predictor variables contain random error of measurement, successful research based on the TPB model tends to approach the theoretical limits of predictive validity.

CURRENT TRENDS IN INNOVATION ACCEPTANCE RESEARCH

Despite the success of TPB model as a predictive instrument, it has been argued that there is potential

room for improvement. Some investigators have suggested it may be possible to further improve the TPB model by adding more predictors to the model (Sattabusaya 2008, p. 51). Examples, such as "Attitudes towards uncertainty" (Braithwaite, Sutton & Steggles 2002, pp. 761–764), "Trust in Salesperson's expertise" (Teo 2009, p. 274), Stress "Coping Strategies" (Cui, Bao & Chan 2009, p. 113) or "Self-Identity" (Smith et al. 2008, p. 314) were proposed as possible extensions to the TPB. Empirically, however, most of these variables can be regarded as background factors since the majority of their variance is moderated by behavioural, normative and control beliefs (Fishbein & Ajzen 2010, p. 293). In addition many of these factors might only be particularly useful in specific behavioural contexts. "Moral Concerns", for instance, will play only a minor role in the purchase of prevalent consumer goods as tooth paste or biscuits (Sparks & Shepherd 2002, p. 318). In general, extending the model with context-specific factors contradicts the universal approach of the TPB, which is aimed at covering all kinds of human behaviour. Some researchers, however, have consciously developed the model further to be applied in special types of innovation acceptance research. One well-known example in this category is the Technology Acceptance Model (TAM), which is an adaptation of the TPB specifically tailored to the acceptance of computer information systems at the workplace (Jaensirisak 2002, p. 199). Even though the original aim of the TAM is to explain the determinants of computer acceptance for job-related purposes, the model is increasingly applied to behaviour across a broad range of end-user computing technologies (Davis, Bagozzi & Warshaw 1989, p. 985). As Bagozzi (2007, p. 244) stated there are already more than 700 citations of the original paper of Davis. In the course of these papers, the usefulness of TAM was validated by several empirical meta-studies with the majority considering the model as a "robust, powerful, and parsimonious" (Venkatesh & Davis 2000, p. 187) tool for predicting and explaining user acceptance in the case of information technology. The most distinctive feature of the TAM is the use of a salient belief set which is called Perceived Usefulness (PU) and Perceived Ease of Use (PEU). Davis, Bagozzi & Warshaw (1989, p. 320) claim that these two constructs are the essential elements in determining the user's attitude towards a technology. PU is defined as "the degree to which a person believes that using a particular system would enhance his or her job

performance" (Davis, Bagozzi & Warshaw 1989, p. 320), and PEU is defined as "the degree to which a person believes that using a particular system would be free of effort" (Davis, Bagozzi & Warshaw 1989, p. 985). In essence, perceived ease-of-use (PEU) reduces uncertainty about the cause-effect relationship involved in the innovations' capacity to solve an individual's problem, while perceived usefulness (PU) describes the anticipated positive effect of using this IT-System.

Next to a growing body of researchers, who focused on extending the model with several new constructs, recently some researchers also tried to integrate the existing models in order to employ the complimentary and explanatory power of the models taken together. In an attempt to recognize the strengths and weaknesses of virtually all technology acceptance models developed so far, Venkatesh et.al.(2003) incorporated Rogers Innovation Diffusion Theory, the TRA and TPB as well as the TAM and several other specialized innovation acceptance models into one unified model, which was consequently referred to as the United Theory of Acceptance and Use of Technology (UTAUT). The huge number of psychological constructs that initially derived from the different models was reduced by means of significance and unique explained variance. As a result five main variables, next to four main moderators, remained in the unified model. According to the UTAUT intention to use a technology thus posits three direct determinants: (1) performance expectancy, (2) effort expectancy, and (3) social influence, while usage behaviour has two direct determinants, (1) intention and (2) facilitating conditions. Significant moderating influences were found of experience, voluntariness, gender, and age (Venkatesh et al. 2003, pp. 468–470).

CRITICISM ON INNOVATION ACCEPTANCE RESEARCH

Despite their persistency and increasing popularity, critique on the innovation acceptance models has emerged in recent years. Scholars have argued from a theoretical as well as from a methodological point of view against the paradigm of using such causal models for the explanation of individual innovation acceptance behaviour.

One of the major critiques on the Theory of Reasoned Action is that not all behaviours are

logical or rational. In general, irrational behaviours are not uncommon to most individuals. In fact "it would be hard to argue that behaviours that impair one's health or well being, [...] as drunk driving, are either goal-related or rational" (Gibbons et al. 1198, p. 1164). It seems convincing that individuals often act irrational and that due to this fact predictive models for human behaviour are deemed to fail in the real world. But even though this criticism seems plausible, it ignores a very important fact. Whether a given behaviour is rational or not is not of any particular importance in the context of the TPB model. It is assumed that in the course of their lives people form various kind of behavioural, normative and control beliefs. Some of which might be perfectly correct, based on logical trains of thought, while others might be inaccurate, misinterpreting or biased by wishful thinking or other self-serving motives (Fishbein & Ajzen 2010, p. 303). No matter how unfounded or biased people's beliefs may be, their attitudes, subjective norms, and perceptions of behavioural control are assumed to follow reasonably from these beliefs to produce a corresponding behavioural intention, and ultimately to result in behaviour that is consistent with the overall tenor of the beliefs (Bamberg, Ajzen & Schmidt 2003, p. 176). On other words the TPB model is able to cope with irrational behaviour as long as it is based on irrational beliefs formed at an earlier point of time.

Another basic criticism is that the three main factors within the TPB model are not independent. Several studies have argued that subjective norm has a crucial effect on attitude (Teo 2009, p. 276). This is not particularly surprising, since, as a general rule, people who are important to me will encourage me to perform behaviours that produce positive outcomes and to avoid behaviours that are likely to lead to negative outcomes. Just as well it is unlikely that people form positive attitudes towards a behaviour, which they know is not under their control (Fishbein & Ajzen 2010, p. 204). It is thus important to recognize that although the three components of the TPB model are conceptually distinct, empirically there is likely to be at least some overlap among these factors.

One major critique on a more theoretical level is that, at least in principle, a good theory should be able to be rejected (Silva 2007, p. 251). Meta-Analysis revealed Studies with an explained variance of the three factors ranging from 14% to 92%. A low explained variance was usually

not blamed on the theory but rather attributed to a poor operationalisation of the variables or on the lack of additional, behaviour-specific factors. The fact that such results are not used to reject the TPB model has raised critic that the theory is infallible by definition (Ogden 2003, p. 425). Ajzen and Fishbein (Ajzen & Fishbein 2004, p. 431) on argue that there is nothing inherently wrong with their model when one of the three factors has no significant contribution to the prediction of intention. Rather such a result signals that the factor in question has no relevance for intention in this specific behaviour. If all three factors (i.e., attitude, subjective norm, and perceived behavioral control) would fail to predict intention, however, the TPB would be disconfirmed (Ajzen & Fishbein 2004, p. 431). This case was not reported so far by any TPB study.

Ajzen and Fishbein's argument, however, is not entirely convincing. Greve (2001) for instance argues that a study using the TPB theory produces noncontingent or necessarily true hypothesis since the reverse relation is obviously contradictory or at least nonsensical. Imagine, for instance, a study reveals that the more negative the attitude and the perceived norms towards using computers, the stronger the intention to use a computer. These results would not only be highly surprising but also so illogical that they would be entirely unbelievable (Greve 2001, p. 443). Hence from a theoretical point of view the TPB theory can only be rejected in the case that none of the three factors is in any relation to the intention towards behaviour. It is hard to imagine a technology, however, which can be adopted without the user having any beliefs towards it. Thus regarding the TPB model through the lens of Popper's principle of demarcation the theory remains as virtually unfalsifiable(Silva 2007, p. 259).

Much of the criticism on the methodology applied in the context of the TPB model is quite common to empirical research. For instance Ogden (Ogden 2003, p. 426) questioned that responses to a given questionnaire will reveal pre-existing states of mind rather than beliefs that have been generated during the completion of this questionnaire. Especially when the individual has none or only limited experience with the behaviour in question the risk of generating new beliefs is rather high. From a behaviourist perspective, it is thus dangerous to attempt to measure attitudes and intentions about the use of a new product (i.e. car navigation)

when people neither have any experience of using this product, nor have experience of using the technology this product is based on (in this case automobiles) (Keeling 1999, p. 167).

It is also a well-known fact that structural models can not confirm any causal logical chains in a definite way. Thus empirical studies claiming to approve the TRA/TPB model are sometimes labelled "pseudo-empirical" (Greve 2001, p. 442; Silva 2007, p. 257). This critique is quite common for structural models and usually can be avoided by defining a valid and reasonable logical chain. Definite certainty for its underlying causal relationships, however, will never be achieved by empirical research (Popper 1972). As Lakatos has stated, "Statistical significance is perhaps the least important attribute of a good experiment; it is never a sufficient condition for claiming that a theory has been usefully corroborated" (Lykken (1968) cited in Lakatos & Musgrave 1970, p. 176).

CONCLUSION

In sum the TPB model has, despite its criticism on theoretical as well as on methodological grounds, proven to be a valid prediction model for behaviour in many cases. Its applications in the field of innovation acceptance are promising, since the validity of the model in this behavioural category was confirmed by virtually all studies conducted in this context so far (see Ellen, Bearden & Sharma 1991; Pavlou & Fygenson 2006; Tansuhaj et al. 2001; Dwivedi, Lal & D. Williams 2009; Pelling & White 2009; Ramayah et al. 2009; Hashim 2008; Kwong & Park 2008; Omar & Owusu-Frimpong 2007). Criticism on the theory, however, is justified since many studies that applied this paradigm have not produced any contribution to knowledge. Providing empirical evidence that attitudes, subjective norms, and behavioural control have an influence on innovation acceptance is an almost tautological line of reasoning and thus cannot be regarded as a benefit to the body of knowledge. Rather than providing more empirical evidence for the validation of the TPB model, future research should be directed at uncovering the underlying beliefs towards innovation acceptance in specific scenarios. This would require a paradigm shift from the positivistic approach, which currently dominates this research field, towards a more interpretative or post-positivistic approach. In their latest publication, Ajzen and Fishbein (2010, p. 98) have already followed this path by suggesting that

future researchers should adopt a triangulation of research methodologies, incorporating a precursory qualitative stage to elicit underlying beliefs towards the behaviour in question. If scholars in the field of innovation acceptance direct their future research according to these guidelines, the results of their work will promise new insights into the process of individual technology adoption beyond what is already known today.

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EMPOWERING COMMUNITIES IN THE ‘BIG SOCIETY’ - VOLUNTARISM AND EVENT MANAGEMENT ISSUES AT THE CHEETHAM HILL CROSS-CULTURAL FESTIVAL

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Abstract

This paper advances the authors’ earlier work on the theme of contemporary religious and cross-cultural festivals by examining management issues associated with mounting such events. Several UK cities are encouraging events based upon the religions and cultures of the diverse communities within their boundaries, aiming to develop further as visitor destinations but also to address social cohesion issues in areas which have experienced racial tension. However, while such events may indeed assist destination product development and act as instruments of social policy (Stone & Millan, 2010), their success is usually heavily dependent upon voluntary effort, volunteers being drawn from the various faith communities involved. Based upon primary research conducted at the 2010 Cheetham Festival in Manchester, UK, this paper examines event management issues associated with voluntarism. Volunteers often lack events management training and experience and, inevitably, their attentions are usually focused on the ‘day job’ elsewhere. Volunteer enthusiasm often wanes after events, meaning that monitoring and evaluation may not be undertaken (Getz, 2005). The paper examines volunteer ‘burn out’, and makes reference to proposed strategies to improve volunteer satisfaction and retention (Gaskin, 2003; Downward & Ralston, 2005; Garner & Garner, 2010). Public sector bodies working for economic development and social welfare are generally very supportive of such events, but their priorities for resource allocation frequently lie elsewhere. Appropriate levels of resourcing, and volunteer management strategies, are essential

to optimize the contribution of these innovative events to the new UK government’s ‘Big Society’ agenda of empowering communities to take action on locally-identified issues.

Key words - Cross-cultural; Tourism; Faith; Voluntarism; Event Management

Introduction

The study focuses upon the innovative Cheetham Festival visitor event held annually in the Cheetham Hill district in Manchester, UK. This contemporary religious and cross-cultural festival is considered worthy of study because it is rooted within the diverse resources of religion and culture to be found of the Cheetham Hill area. Numerous British towns and cities stage ethnic and cultural festivals, but most are monocultural in nature: very few attempt to stage cross-cultural celebrations similar to that at Cheetham Hill. This unusual event serves both as an informal and popular event attraction for local people and visitors, but also acts as an instrument of social policy aimed at improving social cohesion there. This paper advances the authors’ earlier work on the theme of contemporary religious and cross-cultural visitor events by examining management issues associated with mounting such events.

Manchester is a multicultural city, and the Cheetham area north of the city centre is particularly so. Cheetham has been the focus of successive waves of immigrants, each bringing their own religions and cultures, and part of the rationale for the

festival is to celebrate the richness and diversity of the societies and cultures hidden behind run-down shopfronts and occasional patches of dereliction in a part of north Manchester which might not even be distinguished by passers-by as a discrete district. The area suffers from a high degree of social deprivation and occasional racial tensions, and one of the festival's purposes is to address peoples' lack of knowledge and even intolerance of each others' faiths, thus contributing to social cohesion and the reduction of inter-community tension. Staged annually for the past seven years, this small-scale cross-cultural festival involves the opening of several places of worship to the public over a weekend in September (Stone & Millan, 2010). The prime motive of most attendees is a wish to learn about other religions and cultures, and most would not normally have had any such contact with other faiths. Most people elect to visit venues of faiths other than their own, and even individuals declaring themselves as holding no religion or belief stated that they too enjoyed the event.

This paper examines some of the detailed issues related to such special events necessarily involved in empowering communities to take action, including event production and organisation with particular reference to issues related to the use of volunteers, financial resources, publicity and marketing, and relationships with the Big Society ethos.

Context: Academic Literature

Most of the extant literature upon volunteering at tourism-related and other events focuses on events in general, and sports events in particular; relatively little focuses specifically upon volunteering at cultural events such as the Cheetham Festival. The prime reason for this is perhaps because of the profile and popularity of mainstream sport, which generates enthusiasm amongst individuals and groups happy to help meet the substantial level of demand for volunteers at many such events, and which in turn attracts research interest from academics. Recruiting and managing volunteers has become a key factor in the success of sporting events, and without volunteers many such events cannot run (Downward & Ralston, 2005). There is little available material on the exigencies of planning and managing visitor-oriented events with volunteers, a central part of the theme of this paper, however.

The academic literature upon volunteers at sporting events suggests that they exhibit numerous characteristics in common with volunteers in other contexts. Given the importance of volunteering to many events, some of the academic research in the subject field analyses the factors that motivate individuals to volunteer. Some of the key factors motivating volunteers' involvement with sporting (and other) events include:

- working with others, being part of a team
- perceptions of belonging to a community, reflecting a solidarity dimension
- personal development: improving employment prospects for some, addressing personal development for others; and
- social contact and friendship
- volunteering as leisure: a recreational activity associated with enjoyment

(After Downward, Lumsdon & Ralston 2005; Downward & Ralston, 2005; Henderson, 1984; Kemp, 2002)

It seems clear by extension that such findings may be yet more relevant for cultural- and faith-based events like the Cheetham Festival than they are for sporting events. In addition, it has been established that volunteers at ethno-cultural based events are strongly motivated by pride in their culture and a desire to maintain ties to ethno-cultural groups (Saleh & Wood, 1998).

Volunteers identify strongly with event activities, and the more passionate each individual is in that manner, the more likely they are to sustain their interest in each event (Monga, 2006). The initial decision to volunteer is likely to be based on altruistic motivations, while repeat-volunteering decisions hinge more on relatively egotistic motivations (Winniford et. al., 1995). However, volunteers of all stripes frequently lack experience and need specific training so that they might contribute to the optimal development of their event (Getz, 2005); and even then it may be surmised that they might not be capable of performing their allotted duties with the level of competence which might be expected from professional staff. Another potential problem for event success may be volunteer 'burn-out', which may inhibit events developing to their full potential and even present a challenge to their long-term continuity (Gaskin,

2003; Downward & Ralston, 2005; Garner & Garner, 2010). This may particularly be an issue at events which, without sufficient resources to provide training to ordinary volunteers and event managers, necessarily rely on the accumulated experience of the volunteers of previous years to run successfully at all. Most volunteers are motivated and enthusiastic about running the event on day but, perhaps understandably, much less so regarding the organisation behind it, which is the task of the committee.

The Big Society

The UK Prime Minister David Cameron launched an initiative termed the 'Big Society' in July 2010, the idea being that government should work to enable community engagement, empowering communities to take responsibility for local issues, and promote local innovation and civic action rather than acting in a 'top down, top-heavy, controlling' fashion (Kisby, 2010). Founded upon an ethos of social conservatism, a central element of such initiatives to promote the public good and achieve fairness and opportunity for all is the inculcation of a culture of volunteering, a task said to be the responsibility of every citizen: 'We need to draw on the skills and expertise of people across the country as we respond to the social, political and economic challenges Britain faces' (Cameron, 2010). A major part of Cameron's declared political philosophy since 2005, the PM asserts that 'The Big Society is about a huge culture change, where people [...] in their neighbourhoods don't always turn to officials, local authorities or central government for answers to the problems they face but instead feel both free and powerful enough to help themselves and their own communities' (Kisby, 2010, op. cit.). Tangible measures to support the new policy direction are to include:

- support for the creation of neighbourhood groups across the UK, especially in the most deprived areas
- training provision for a new generation of community organisers
- support for co-ops, mutuals, charities and social enterprises
- a new Big Society Bank, which will provide new finance for neighbourhood groups, charities,

social enterprises and other nongovernmental bodies.

(Cameron, 2010)

Study Methodology and Method of Working

The study was conducted in and around the Cheetham Hill district of north Manchester in spring 2010. In order to examine management issues associated with mounting contemporary religious and cross-cultural visitor events, a strategy was devised to collect primary data with the aid of a Research Assistant. Semi-structured respondent interviews comprised the key data collection technique, scheduled with twelve individuals closely associated with planning, management and resourcing functions related to the annual Festival. Data of a mostly qualitative nature were collected, analysed using template analysis, and interpreted in order to explore, describe and explain the themes of the study.

Event Production – Management and Staffing

The Festival was conceived by representatives of the various faith groups in Cheetham Hill. It is organised, managed and delivered by the Greater Manchester Faith Tourism Group, an informal organisation with a multi-faith membership. The festival is linked to the North West Multi Faith Tourism Association, which aims to raise awareness of the diverse religious heritage of the English north-west, said to have the greatest diversity of faiths in the UK, and to make this heritage accessible through 'unlocking the tourism potential of sacred sites'. The NWMFTA is in turn supported by the former North West Development Agency, and also North Manchester Regeneration (of the city council). The NWMFTA and Marketing Manchester work towards a goal of developing the 'faith tourism' product with the long-term aim of attracting international tourist markets. Financial support for the Cheetham Festival's various constituent projects is sourced from North Manchester Regeneration amongst others.

Volunteers at the Cheetham Festival

The success of the Cheetham Festival is heavily dependent upon voluntary effort, typical for such non-profit events. The festival employs no-one, and all of those working there do so in a voluntary and unpaid capacity. Volunteers are drawn from members of the various faith communities involved to staff both the festival organising committee and to provide the various necessary visitors services over the weekend of the event.

The festival organising committee is made up of representatives of the various 'host' communities in the Cheetham Hill area of north Manchester. Each of the seven participating venues is represented on the committee by a representative of their community. The key roles are those of chairman and treasurer, who together drive the efforts of the committee to organise the festival. Each member of the festival organising committee works in their free time to serve a cause they see as valuable and worthwhile; the success of the Festival depends heavily upon individuals' goodwill rather than the commercial motivations which underly more conventional events. The Cheetham festival committee's membership includes the Chairman, who ministers to members of his Anglican parish in Cheetham Hill; the Treasurer, who works as Educational Officer at Manchester Jewish Museum; and others include representatives from the Cheetham mosque and gurdwara. The work of the committee is mostly seasonal, peaking during the critical pre-festival period from May to September. Committee members are presented with an intense workload during over that period each year, but individuals are not always able to attend meetings because of the pressures of each of their 'day jobs'. The Cheetham Festival Committee is informal, and while its meetings are minuted committee members are not subject to election and the chair has no formal authority over individuals. That notwithstanding, however, the very fact that the Festival has been held annually for the last seven years indicates that such informal and ad hoc arrangements for the organisation and management of such a visitor event are sufficient.

Staff working over the festival weekend at each of the faith venues are drawn from their congregations and volunteer for various reasons including goodwill and altruism, and also a desire to explain their faiths to others and contribute towards social cohesion. The various faith representatives on the Greater Manchester Faith Tourism Group

committee seem to experience no problems recruiting sufficient volunteers each year, and while visitors describe them as 'friendly', 'welcoming', and 'informative' many lack experience and no-one receives training in event management practices. Volunteer 'burnout' and retention seem not to have been significant issues for the operation of the festival in recent years, although given the central importance of volunteering to the event's success volunteer management strategies for venue staff and perhaps the committee might be considered a priority for the future.

Shone & Parry's text (2004) outlines that the event management process requires a wide range of functions to be executed, including:

- Setting objectives
- Planning - to include budget, sponsorship, operational plan, logistics, health and safety and marketing
- Organising, preparing and implementing the event
- Divestment and legacy: close-down, cleaning, payments, evaluation, feedback and recording, site restoration and handover, monitoring and evaluation

(Shone & Parry, 2004)

Inevitably, the range of these functions which might be discharged at any given event is related to the resources available to the event organisers. Clearly, events mounted by informal and charitable organisations are likely to have far fewer available resources than commercial ones, and at the Cheetham Festival operational aspects of the event are discharged, while the processes of feedback, monitoring, and evaluation are not fully addressed. North Manchester Regeneration staff recognise the pressures under which the Cheetham Hill festival operates, and while they recognise the value of such post-event divestment and legacy functions there is a clear recognition that the informal group of volunteers which stages the event lacks the resources for these, and increases the possibility of volunteer 'burn-out'. One respondent stated 'All of us who are running it at the moment are wearing too many hats and have too many responsibilities'. The research has shown that only so much can be asked from a volunteer-run event in comparison to what might be expected at a commercial one, however valuable the data thus generated may

be to assist with future applications for financial support.

In contrast to many more conventional events, there is no budget to provide training for volunteers. Committee members have not been trained in approaches and techniques for event management or in skills for seeking sponsorship, and those fronting the event in each of the faith venues are similarly untrained. The informal nature of the event probably adds a great deal to its charm and appeal, and although inevitably issues may arise over health and safety issues and the possible need for trained first aiders, for instance, the local police and others provide discreet security services at some venues. In dealing with practical aspects of the event, interviewees made very little reference to the guidelines developed by the Health and Safety Executive for running events. One risk associated with the voluntaristic nature of the management of the Cheetham Festival is that its success relies heavily upon the input of a few enthusiastic, energetic and charismatic people. In the highly unfortunate event of some unpredictable mishap befalling one of those people, particularly the committee chair or the treasurer, it seems likely that Cheetham Hill's distinctive cross-cultural festival would cease to exist.

Financial Resources

Cheetham Festival is a relatively low-budget event which relies largely upon volunteer goodwill to run. The event is free of charge to visitors, including entry to the faith venues, cultural activities, entertainment, and food tasting. The 2009 Festival weekend cost six thousand pounds and the most expensive one about twelve. The chair of the festival committee submits an annual application to a range of public sector sources for financial support for festival promotion and operation. A proposal to erect large hoardings advertising the event at each end of the main road through Cheetham Hill received much support amongst local residents, but the available budget was insufficient. The relatively low cost of the festival is a key reason for the continuing support of the public agencies. It is regarded as good value for money in the way it attempts to deal with issues of deprivation and social cohesion within the community in a limited though holistic manner, but there is a disparity between the extent of the problems of the Cheetham Hill district and the relatively limited scale of the resources devoted to

one of the very few initiatives aimed at addressing them, however partially or imperfectly. Monitoring and evaluation data might enable objective judgements on the efficacy of the event in terms of both the visitor economy and social welfare and cohesion to be made. Previous research suggests the festival has potential to develop as part of the visitor economy given its attraction for visitors from outside Manchester (Stone & Millan, 2010).

Until 2006, publicity for the event was undertaken only by the Faith Tourism Group, whose limited resources meant that little could be done in practice. However North Manchester Regeneration had been planning to 'celebrate North Manchester's cultural diversity' as part of efforts to regenerate the district (Manchester City Council (Undat.) A Strategic Regeneration Framework for North Manchester. Manchester: Manchester City Council), recognised the potential of the Festival, and commenced providing financial support to the festival committee in that year. The Cheetham Festival is funded under the budget headings of 'economic regeneration' and - much more unusually - 'social cohesion', and is part of the City Council's wider social policies. Aimed at enabling the festival to be run, making it more attractive, and raising attendance levels, this financial support is provided for publicity and other purposes including covering the cost of the food and activities provided at the venues, and the cost of the free tour buses. North Manchester Regeneration funds 'put the glue in the mix to keep it all together', as one public sector informant commented. Despite this, several visitors surveyed in 2009 remarked that they had only found out about the event indirectly: it seems that the event publicity could be further improved, although whether this small-scale event could withstand a significant increase in the number of attendees is a moot point.

In 2010, however, the marketing budget for the North Manchester area was reduced by over one-half, with potential implications for the Festival. One impact of the recent dramatic reductions in local authority expenditure in the UK may be that volunteer-led events such as this aimed at improving the quality of life of local residents in disadvantaged areas may downsize or even cease to be staged in future. In the event, funding was secured for the 2010 festival, but the prospects for 2011 are uncertain. Despite a statement that resources will be made available to 'manage the transition' in declining state support, whether relatively small-scale visitor events like Cheetham Festival be

prioritised in the distribution of funds remains an issue. This is not such a novel situation for this and many similar informal events - funding for the festival has always been allocated on a year-by-year basis, with no guarantee in any one year that funds would be available in the next, which has meant that producing a long-term development plan for the event is difficult or impossible. As once-supportive external agencies disengage, then, the burden of staging an ambitious event aimed at addressing public goals in terms of both the visitor economy and social policy may fall increasingly upon charitable and volunteer effort.

In light of the economic climate, Cheetham Festival organisers may have to plan for lower levels of resources in future, along with many similar public sector-supported events. A considerable proportion of the current budget is devoted to the provision of free food and drink at the various venues, indicating an obvious area where economies might be made. Withdrawing provision would perhaps adversely affect part of the ethos of the event, because of the centrality of food and drink to most cultures and their connotations with welcome and the giving and receiving of something tangible. Also, several festival visitors commented positively on the food and drink provided at faith venues. Sponsorship seems an obvious avenue to consider, sourced perhaps from groceries, restaurants and catering suppliers throughout Manchester, though the organisers of the event have little or no expertise in raising sponsorship or obtaining charitable grants. Instituting entrance charges at each faith venue would run counter to the general ethos of the event, and would also have implications for event publicity. The UK national Heritage Open Days project, which provides valuable publicity via its web site and other means, and contributes nine hundred pounds to the event budget, but this is on the condition that venues do not levy admission charges. In terms of event marketing, the communication strategy is likely to move away from print-based materials – despite there being a perception that ‘certain communities respond better to print than to other means’ – and become more focused on web-based channels. Social media may offer another avenue, too, as might establishing firmer relationships with local print media. The option of making a small charge for food provided at each venue could also be considered.

Monitoring and evaluation will be even more important in future to support any case made for

the continuation of funding. This is necessary for several reasons, not least of which being the need for local authority and other funding sources including the government English Heritage agency to justify any future allocation of financial support to the Festival. Amongst study respondents, the festival is generally regarded as providing good value for the public funds expended upon it, an investment which was characterised in a functionalist manner by North Manchester Regeneration officers as a ‘neighbourhood management tool’. The absence of event monitoring, evaluation and feedback is recognised as a weakness by both the public and third sector organisations involved. Structured monitoring, evaluation and feedback similar to that employed at other events in Manchester would enable public officials to ‘...[articulate] what difference is actually being made’ (Manchester City Council respondent). Linked to this, attention needs to be paid to developing an event legacy strategy over the long-term (Getz, 2005; Shone & Parry; Bodin et al, 2003) and recommendations for future editions of the event.

Cheetham Hill is a disadvantaged locale which is lacking in ‘social capital’ relative to other, more middle-class neighbourhoods of Manchester and the north-west region. If funding for projects such as the Cheetham Festival is withdrawn, the result may be that the communities of Cheetham Hill are yet more marginalised than at present.

The Cheetham Festival in the Big Society

The Cheetham Festival offers a prime example of coproduction in the delivery of public services by users and their communities, bringing together a wide variety of stakeholders in the public domain in a manner perhaps intended by the Big Society ethos (Bovaird, 2007). It is ‘radically decentralised’, addressing in its way ‘social recovery’ alongside economic recovery, and volunteering is a central pillar of the initiative. Manchester city council’s recent response to the Big Society initiative is the ‘Be Proud: Love Manchester’ programme, the summer 2011 theme of which is Discovering Our Communities, seeking to encourage Mancunians to celebrate and enjoy their communities together and improve neighbourhood life, encouraging active citizenship as a mean of promoting community cohesion (Kisby, 2010) and perhaps social justice too. The city council is perhaps not the ideal channel to engage with faith communities in the way that the ad hoc Cheetham festival committee

can, and one study respondent indicated that, if the council were to make some form of direct approach to one or more of the district's faith communities, 'the community would be a bit reserved in their responses'. By virtue of being close to their constituents and, as part of the third sector, at one remove from local government and associated agencies, the organisers are seen as having the legitimacy and institutional independence to motivate members of the community to volunteer in order to deliver a successful event. The organisers' perceived legitimacy and competence also enables them to deal with the council and other public bodies which provide the majority of the necessary funding and access to the expertise of their marketing and design professionals. That said, it was interesting to discover that, while the coproduction concept seems a robust one, the chair of the organising committee declared that he maintained 'no dialogue [with] the policymakers'.

Other community events in north Manchester include several local 'In Bloom' projects, and more dynamic showcase events including:

- an extreme BMX sports event in Blackley
- the 'Crumpsall Carnival' and several other annual events there, and
- the Mostyn parade, another seeking to address community cohesion in light of community tension in the district
- but the Cheetham Hill event is one of the few with the ability to gain the interest of visitors from outside the confines of the local area.

While it seems clear from the research findings that each of the various bodies and groups involved in the Cheetham Festival have differing priorities and opinions about the precise role and policy context of the event, in combination they are indeed taking responsibility for local issues and promoting social action in enabling a successful festival to be staged each year primarily via a culture of voluntarism, central to concepts of the 'Big Society'. The issue is the extent to which communities are empowered to take action, and the proposals to train community organisers and provide support for the neighbourhood groups and social enterprise including the new 'Big Society Bank' are welcome in this context. While voluntarism seems to work to an extent, the opinion amongst many respondents was that committee members cannot cope with any

more tasks than they are undertaking at present. If the resources were made available for a dedicated member of staff to be appointed, the event could be developed significantly, including perhaps increasing the number of annual events and also extending the 'multifaith tour' from one weekend in autumn to all-year operation including many of the faith venues around the city of Manchester, either on a self-guided basis or delivered by Blue Badge tourist guides. One interviewee suggested that a further development to overcome the issue of capacity constraints might be to hold an open-air festival in a public park to include faith tents, cultural events, music, food, and childrens' activities. However, this might detract from the uniqueness of the festival as being faith venue-based. North Manchester Regeneration clearly considers the festival to be valuable and to have potential for development alongside Manchester's other visitor-oriented events, but at the same time recognise that the likely scale of resources necessary are probably unavailable at the present time. There is also the feeling that, however much the development agency might enthuse about the prospects for the event, it is 'owned' by the Greater Manchester Faith Tourism Group whose membership seem content with their current informal festival offering.

The outcomes of this research seem to indicate that Big Society concepts may not necessarily be effective in all locations. The North West Multi Faith Tourism Association projected that the establishment of the Greater Manchester Faith Tourism Group would encourage similar initiatives all over the city, but in practice the only tangible outcome to date has been the Cheetham Festival. Where there is an absence of a coherent groundswell of concern about local problems, and dedicated individuals with the time and energy to spare to champion volunteer action to address social issues, the limits of voluntarism may be revealed, and particularly in more deprived districts. Also, while event volunteer motivations are typically driven by a pride in individuals' culture and a desire to maintain links with ethno-cultural groups, younger individuals tend to have a more peripheral involvement in such activities and are more motivated than 'core' volunteers by social rather than cultural factors (Saleh & Wood, 1998). If over the passage of time younger volunteers cease to identify strongly with their parents' and communities' faith and culture, there may be

ramifications for the long-term sustainability of festivals and events like at Cheetham.

Conclusion

The Cheetham cross-cultural festival is a celebration of successes in the community, one key one perhaps being the tolerance and understanding between some very disparate ethnic, social and cultural groups which enable the event to be staged at all. It is a small-scale event depending heavily on limited resources, staffed wholly by volunteers, and held in venues which are not primarily designed as visitor attractions. It utilises neighbourhood resources to bring visitors to a district of Manchester with precious few other attractions and simultaneously addresses social issues in a manner which could be copied in towns and cities elsewhere in the UK and abroad. Perhaps the Cheetham Festival, which originated as a genuine grass-roots initiative, is leading by example in showing how the Big Society can actually work, and that people can live great lives in great neighbourhoods. Appropriate levels of resourcing and volunteer management strategies are essential to optimize and continue the contribution of this imaginative event to the 'Big Society' agenda. The degree to which the festival contributes to social cohesion and inter-community acceptance and respect should be studied, but its success should not be weighed solely in terms of crude attendance figures: one informant made the point that 'You don't have to attend the festival: just knowing that there is a celebration of recognition is enough for some people'.

It seems clear that Cheetham Hill would be the poorer without its cross-cultural festival. Some interview respondents consider that this unusual event is at the early stages of its life cycle and, though modest in scale and impact at present, has substantial potential for development. Unless the Big Society is big enough to recognise the potential of this and similar events with the allocation of appropriate resources, the aspirations of the Festival will continue to exceed the modest realities of its scale and execution. For the festival to continue to grow, volunteer management strategies may be instrumental to retain the dedication and motivation of the existing volunteers, and to provide the necessary knowledge and training.

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A LITERATURE REVIEW OF PUBLIC RELATIONS IN PUBLIC HEALTHCARE

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Abstract

Public relations or PR is a multifaceted discipline with no standardized definition. It is the discipline which looks after organization's reputation, with the aim of earning understanding and support and influencing opinion and behaviour. PR is planned and sustained effort to establish and maintain goodwill and mutual understanding between organization and its publics. Traditionally, PR belongs to marketing and is considered as a branch of promotional activities. However, some authors consider PR as a managerial function since it deals with the organization's relations with both internal and external public. The ambiguity of PR will probably bring even more theoretical discussion among marketing and management experts. The roots of PR reach far into the history, but the fundaments of the modern concept of PR could be found in the pioneering propaganda efforts against the British Monarchy during the American Revolution. Besides its use for commercial and political purposes, PR also plays an important role in the context of public healthcare communication activities. Like never before, PR in public healthcare is faced with so many challenges and expectations. Today's PR has to deal with a broad perspective of health related issues and needs of target markets, together with taking into account financial aspects of healthcare services. It is the goal of this paper to provide better understanding of the application of PR in the public healthcare system and to detect possible gaps in the available literature.

Keywords: public relations, PR, public healthcare

Introduction

Public Relations or PR for short is a concept of relations and/or communication with the target audience which consists of organization's internal

and external public. Compared with e.g. advertising, PR is considered as a relatively young and fast growing discipline. PR, as a part of the marketing communications or promotional mix, is widely used in the commercial sector. However, its applications could also be found in the non-commercial area. One, from the public point of view, very important non-commercial area is the public healthcare system. Due to its nature, the public healthcare system is often being criticized by wider public, professionals and academics. Consequently, the public healthcare system could be considered as a non-commercial area with the continuous need for effective public relations activities.

This paper provides an overview of the public relations literature, with the special focus on the aspects of the use of PR within the public healthcare system. First, a role of public relations within the commercial marketing context is explained, together with the brief historical overview of the discipline. Second, PR is analyzed from the perspective of social marketing, with specific focus on the public healthcare system. Based on the literature review, the authors' main goal is to detect possible gaps in the body of knowledge and establish a theoretical framework which will be used as a starting point for the future empirical research.

Public relations and marketing

Defining public relations

Finding the right definition for public relations is not an easy task. There is no central definition widely accepted among both practitioners and theoreticians. In 1979, Harlow tried to come up with the general definition of public relations, yet he found almost 500 different definitions (Euler,

2009). With no doubt, this number only grew during the last forty years. As Hazleton and Bolton (1989, p. 13) suggested, "PR is an emerging social science discipline" which is highly influenced by practice and different academic disciplines. Consequently, PR is considered as a multifaceted field which increases its complexity and makes Public Relations even more difficult to define (Davis, 2007; Fawkes, 2008).

PR also evokes many controversies. Scholars from different areas cannot agree whether PR belongs to marketing or is a separate management area. From the traditional marketing point of view, PR is considered as a part of the promotional mix, together with advertising, sales promotion, personal selling and direct marketing. In this context, PR could be defined as "...a body that serves the department of marketing." (Kotler and Keller, 2008, p. 594). PR could also be defined as a marketing program that encourages purchase and consumers satisfaction through credible communication of impressions and information (Harris, 1991). As Seitel (2006, p. 39) suggested, PR "is marketing of an organization [...] to relay information about that organizations products".

Goldman (1984) defined public relations within the marketing context as an activity being concerned with marketing strategy for development of means and ends related to buying and selling. Public relations academics however argue that when public relations is considered strictly as a marketing tool, public relations becomes technical, non-strategic, short term task (Grunig, 1992). But the times when public relations were known as having the purpose of supporting sales through media coverage is long gone:

"Overall, one may say that Public Relations is concerned with creating a favorable image, or, to use a less emotive word, a favorable reputation [...] The emergence of reputation as a factor in the marketing mix leads onto the extension of the classical 4Ps into five. The fourth P of promotion (which more properly should be perception) now has to be considered as those activities which are involved with the product (brand image) and those concerned with the company (corporate image). It can be said that whether or not a product is purchased is dependent on five factors: the product, its price, its availability, the brand image and the corporate image [...] In so far as PR is the function which builds reputation or corporate image it can

be seen then to have a direct correlation to sales and hence to profit" (Davis, 2007, p. 130-131).

Many definitions imply that PR belongs to the field of management, since its goal within the organization is to plan, analyse and implement various communications with the public. It is considered as a "relationship management" (Ledingham and Bruning, 1998) or, as Grunig and Hunt (1984) suggested, it a process of managing communication between the organization and its public. According to the recent trends, PR is positioned at the very top of the corporation hierarchy. Following this idea, the Chambered Institute for Public Relations (CIPR, 2010) sees PR as:

"...the discipline which looks after reputation, with the aim of earning understanding and support and influencing opinion and behaviour. It is planned and sustained effort to establish and maintain goodwill and mutual understanding between organization and its publics."

Broom (2009, p. 25) argues that "Public relations is the management function that establishes and maintains mutually beneficial relationship between an organization and the public on whom its success or failure depends". The Public Relations Society of America (PRSA) offered explanations of what PR really does:

"Public Relations helps an organization and its publics to adapt mutually to each other [...] PR is an organizations effort to win the co-operation of groups of people [...] helps organizations effectively interact and communicate with their key publics" (Davis, 2007, p. 6).

However, marketing and public relations, although being separate management functions, overleap in order to achieve companies goals. As Davis (2007) suggested, PR contributes to marketing's goals by maintain and providing a hospitable social and political environment. Kotler (1991) argued that public relations can contribute to marketing in four objectives: Awareness, credibility, stimulation and holding down promotion costs. However public relations and marketing are separate fields like finances, accounting, human resources, law etc. Just because public relations correlates more with marketing than with other branches of an organization don't mean that it is a part of marketing strictly. Marketing was being known as a "big brother" to public relations but clearly it just

uses parts of public relations for bettering itself, therefore it would be better to say that they are equal "brothers" of an organization.

The rivalry between marketing and public relations will continue on but never the less it is undisputable that marketing will continue on concentrating on consumer's needs and wants, while public relations will continue enhancing relationships internally and externally. However, there are also suggestions to join PR and marketing. For example, Kotler suggested that public relations and marketing could be joined into marketing public relations (MPR):

"...a healthy offspring of two parents, marketing and public relations. MPR represents an opportunity for companies to regain a share voice to win share of mind and heart; it also delivers a better, more effective voice in many cases" (Kotler, 1991, p 29)

As an ambiguous term, PR is rather difficult to define. Due to its multifaceted nature, public relations could be considered as a part of both marketing and management. It is a set of activities which is used to manage organization's image and relationships with both internal and external public.

Functions of public relations

Due to its multifaceted nature, the role of public relations could be further clarified through the description of its main functions. As Broom (2007) proposed, the main functions of PR are:

- Internal relations – refer to the communication processes aimed at organization's internal public. Internal relations manage the communication inside the organization, managing the information that employee's receive. Public relations department organizes communication programs to keep employers motivated. It can be said that internal relations takes care of everyone inside the organization.
- Publicity – is sometimes considered as a separate element of the promotional mix, but traditionally it is considered as a function within the PR. Publicity refers to the communication activities provided by an outside source in cases when the communicated information is valuable as news to the wider public. Being mostly a free of charge communication, publicity is the hardest form of communication to control. There is no control in when the information is used, how it is used and if it is used. Therefore, it even borders with gossip. Publicity, as a tool of public relations, is used for all aspects of our lives, from political use, marketing use, image clarification, etc.
- Lobbying – is a narrow specialized branch of public with the goal to create and maintain relations with government and governmental bodies to influence legislation and regulations. Because of popular believes that lobbying is related to bribery and threats, it is highly criticized and frowned upon. Despite that general mark, lobbying is a legal way to influence government decision making. Most countries in the world have a certain organization where lobbyists are registered and where they report their work.
- Advertising – could be considered as a media for placing PR messages. In this context, PR uses advertising as a tool to approach wider public through mass media by controlling the content, placing and timing. Although advertising typically falls under the category of commercial goods or services marketing, it is not solely reserved for it. Public relations can use advertisements as part of the communication effort with external public in order to improve corporate image, tackle some environmental issue, motivate volunteers, etc.
- Public Affairs – refers to the specialised part of PR that "builds and maintains relationship with government agencies and community stakeholder groups in order to influence public policy" (Broom, 2009, p. 35). Public affairs can be explained as "...PR tactics applied to government relations strategies to produce excellent public policy" (Long, 2002, p. 17).
- Press Agentry – is a field in PR that attracts public attention more than it builds public understanding, following the pattern "more the news coverage, the better". It creates stories to attract the media and gain public notice (Brooks, 2009).
- Investor Relations – is also known as financial relations. It is part of public relations that work in publicly held corporations (i.e. joint stock companies). Investor relations communication activities are focused on a specific target group, the investors and the financial

community (e.g. investment banks). The goal of investor relations is to raise the value of company's stocks (Peterson and Martin, 1996).

- Development – (or advancement) is a part of public relations that is most commonly used in non profit organizations. Because non profit organizations depend on donations, fees and volunteers, they become dependent on campaigns and special events to gain public support and contributions (Broom, 2009). As Broom explained development is a specialized part of public relations that only focuses on raising money for non profit organizations through maintaining relationships with donors, organizing charity events, auctions etc.
- Issues Management – is a function of public relations that anticipates, prepares and reacts in crisis or whenever there is a need to respond to public policy issues. Issues Management preserves the relationship of an organization and its public (Lauzen, 1997; Heath, 1997).

Brief historical overview of public relations

Public relations, although articulated in many words and forms was used at the beginnings of primary civilization (Cutlip, 1994). One way communication that influenced viewpoints is traced from the earliest civilizations. Archaeological dig in Iraq discovered a farming bulletin from 1800 B.C. that told farmers how to harvest and sow their crops (Broom, 2009). Fundamental elements of Public Relations also appear in the scripts of king spies in ancient India. It showed that besides espionage the spies were expected to inform the king about the public opinion and spreading positive image of the king and the government (Basham, 2004).

Ancient Greeks considered the public will, while the Romans coined the expression vox populi, vox Dei – the voice of the people is the voice of the God (Cutlip, 1994). Many centuries ago, England also used public relations, where Kings maintained Lord Chancellor as "Keepers of the Kings Conscience" or as a third party needed to operate communication between kings and the people (Hilsdale, 1995). At the Early Modern Era, a form of Public Relations way named propaganda. The word propaganda was invented in the seventeen century by Catholic Church as Congregatio de

Propaganda Fide- Congregation for propagating the faith (Broom, 2007).

The modern roots of public relations begin in United States. Public relations first appeared during the American Revolution as propaganda against the British Monarchy (Bradley, 1999). However, various promotional activities in the US can be traced all the way to seventeen century and the first settlements on the East Coast (Lefler, 1967). In 1641, Harvard College started the first known systematic effort to raise funds using public relations (Cutlip, 1997). The activity was conducted by preachers who were sent to England where they realised the need for a brochure which would assist them in their activities (*ibid*). And so in 1643 the "New England's First Fruits" was written becoming the first public relations pamphlets (Morison, 1935).

It is common knowledge that public relations tools are often used in political purposes. During those revolutionary periods in the United States the ground for developing public relations flourished (Jensen, 1967). Campaigns to shape public opinion and move masses go back to Revolutionary War and Samuel Adams. Adams and his revolutionaries understood that the strength lies in the people and their support and knew how to channel that strength and manipulate it. They worked on arousing and organize public opinion using pen, platform, staged events, symbols, news tips etc. Their main assumption was that "man kinds are more led by their senses then by their reason" (Broom, 2007, p.106). Adams would use existing events or create new ones to serve his purpose (Davidson, 1941).

Political movements in the 1820s developed public relations to a new extent (Cutlip, 1995). The first presidential campaigns during the President Andrew Jackson created the press secretary function (Schlesinger, 1945). As literacy was growing and people gained their political power the need for campaigning became necessary. President Jackson formed his "Kitchen Cabinet" unofficial collection of advisers formed mostly by former newspaperman to help him get his ideas across (Harding, 1947).

Fast development of industry and railroads growth of population and development of cities and wire communications in the post Civil War America evoked the beginnings of public relations for the twentieth century (Wolff, 1965). During

that monopolistic era of power and wealth, contemporary public relations came to life (Cutlip, 1995). With the changing environment, the need for managing relationships with public raised:

"Corporations gradually began to realize the importance of combining hostility and courting public favor. The expert in public relations was an inevitable phenomenon in a view of the need for the services he could provide" (Curti, 1964, p. 134).

The first corporate public relations department was established in 1889 by George Westinghouse in his electric corporation (McDonald, 1962). To goal of his PR department was to manage public opinion during the dispute Thomas A. Edison (*ibid*).

By many, the "father of public relations" in the twentieth century was Ivy Ledbetter Lee. As a former New York newspaper reporter, he started to work on a political campaign of Seth Low as a candidate for the New York's mayor (Moon, 1964). In 1906, while working as a representative for a coal mine operators, he issued a "Declaration of Principles" which evolved press agency and publicity into public relations. His declaration made clear that public should not be ignored or fooled. He started the handouts to reporters which are today called press releases which brought favourable press coverage to the coal miners and therefore himself for doing a great job. He started using the term "public relations" sometime around 1919 (Broom, 2007). Not only was he a pioneer of public relations, his point of clarifying the topic of public relations is still being used.

Next important era for public relations was the beginning of World War I. Until the WWI public relations were mostly used (accept in political campaigns) as a defence "mechanism". But with the beginning of war and the need of mobilizing people, it became provoking (Mock and Larson, 1939). President Woodrow Wilson, familiar with the power of public, established the Committee on Public Information (CPI) with the goal to influence public opinion in favour of the war effort (Creel, 1947). Under the leadership of George Creel, CPI became a powerful organization of scholars, journalists, artists, press agents etc. and created a masterful propaganda for influencing public's opinion (Mock and Larson, 1939). As Lasswell (1927, p. 220) mentioned, "...the fact remains that propaganda is one of the most powerful instrumentalities in the modern world".

PR was rapidly evolving until the stock market crash in 1929. After that, it shifted to public awareness (Broom, 2007). More and more institutions that were helping people after the crash needed means to communicate. Business owners used public relations as a counterfeit to Roosevelt's criticism and legislative reforms (Rollins, 1962). That era also formed a new major figure in public relations the political-campaign specialist. The first political campaign agency was opened by Clem Whitaker and Leone Baxter in 1933. The Time magazine referred to them as "the acknowledged originals in the field of political public relations" (Cutlip, 1994, p. 598).

Next important era for public relations started in the sixties and the birth of "racism", "sexism", "consumerism" etc. (Broom, 2007). New social changes, public awareness and in general turbulent change in living brought to public demonstrations (Carson, 2002). Businesses and institutions had to become more aware of the public. In the sixties up to the middle of the eighties communication became the two way channel that could no longer focus only on domestic relations. Dr Martin Luther King and the whole "hippie" generation wanted to be heard, wanted to communicate. Technology and international relations forced public relations to evolve (Pearson, 1990).

The so called new era, the computer era, revolutionized public relations. The internet changed everything. The two way communications, the information accessibility lost control. New paths for public relations opened making the practice more challenging. IT development provides new opportunities for PR:

"Access made 'self publishing' a reality, leading to less control over the public information system by traditional media, to greater diversity in points of view, to increased interest in organizational transparency, and to precisely targeted communication with stakeholders" (Broom, 2009, p. 132).

Public relations in the context of public healthcare

A brief historical overview of the public healthcare development

Public healthcare, according to its definition, consists of organized health efforts directed to communities rather than to individuals, relying on a combination of science and social approaches (Novick and Morrow, 2008). The history of public healthcare can be traced to ancient times and shamans that cured and prevented disease (Porter, 1998). During fifth and fourth centuries B.C. a Greek doctor Hippocrates explained disease and therefore rejected supernatural causes (Adams and Arbor, 1976).

A step towards creating beginnings of the public healthcare started in the sixth century in Europe during the outbreak of leprosy. Physicians separated patients which brought to opening of "leprosaria", leper houses and the beginning of quarantine. It is estimated that by the end of twelve century there were more than 19,000 "medical" houses open in Europe (Frontinus, 1950). By the middle of fifteen century, major cities in Italy established boards of health who were in charge of investigating existence of plague, establishing quarantine, issuing health passes, arranging burials and managing leprosaria (Cipolla, 1976). In Germany, between 1779 and 1816, a major contribution to public health was made by Johann Peter Frank, a hospital administrator, published a six volume proposal "System of Complete Medical Policy" where he showed a scheme of governmental programs to promote health and protect population from disease. (Ackerknecht, 1982). Next and one of the most important steps in defining public health was publishing of "Report of a General Plan for Promotion of Public and Personal Health" in 1850, authored by Lemuel Shattuck, first president of the American Statistical Association. This report brought fifty recommendations and a model of state public health law (Rosen, 1993).

In the twentieth century complexity of public health problems led to the establishment of academic programs to expand research. University of London and Harvard University were the pioneers of those research programs. By the mid twentieth century, public health activities had evolved into fields of: communicable diseases control, environmental

sanitation, maternal and child health services, health education, occupational and industrial hygiene, nutrition, and, in most developed countries, the provision of medical care (Wallace, 1998). Today it can be said that public health services function all around the World preventing diseases and influencing behavioural factors.

Social marketing and public healthcare

The concept of public relations within the healthcare is grounded on the fundaments of social marketing. As it is known from the previous sections, public relations can function as a part of marketing mix. When it comes to public healthcare, public relations lead a crucial part in social marketing.

Kotler and Zaltman first introduce the concept of social marketing in the early seventies (Kotler and Zaltman, 1971). The authors defined social marketing as "the design, implementation, and control of programs calculated to influence the acceptability of social ideas and involving considerations of product planning, pricing, communication, distribution, and market research [...] it is the explicit use of marketing skills to help translate social action efforts into more effectively designed and communicated programs that elicit desired audience response. (ibid, p6). More recently, the definition of social marketing has been re-shaped as "the use of marketing principles and techniques to influence a target audience to voluntarily accept, reject, modify, or abandon behaviour for the benefit of individuals, groups, or society as a whole." (Kotler, Roberto and Lee, 2002, p. 5).

Nevertheless, social marketing has encountered some controversy when it comes to public health care. As Willcocks (2008) noted, the application of marketing to health care has been the subject of some scepticism from various sources, not least healthcare employees, due to the following reasons:

- marketing is more about commercial as opposed to healthcare objectives;
- the competition upon which marketing is based will bring about the pursuit of profit and not quality of care;
- health care is different from other services/products, and is less amenable to the techniques and approaches of marketing;

- healthcare is, to a large extent, an intangible service, while marketing primarily deals with tangible products;
- healthcare is a unique service because of the individual freedom of clinicians;
- healthcare operates with unpredictable demand; and it is ambiguous in terms of being unable to offer a precise definition of the “customer”.

In spite of the criticism, social marketing could create benefits to healthcare and the public:

“The discipline of marketing offers public health organizations a variety of concepts and strategies for understanding and motivating behaviour change in specific populations of interest. Public health organizations use these techniques not only to influence individual health behaviour, but also to build public support for core public health policies and institutions. Using a marketing approach can therefore enable organizations to improve the effectiveness of specific health interventions and to strengthen the institutional capacity of the public health system as a whole. [...] The appropriate use of marketing can help public health practitioners be more effective in today’s environment.” (Lothenberg and Siegel, 2008, p. 621-623).

Communications, as in every interactive field, plays an important role in the context of social marketing and healthcare. As Evans (2006, p. 1208) stated, “social marketing messages can aim to prevent risky behaviour through education or the promotion of behavioural alternatives”. But social marketing shouldn’t be used just for communicating; its sole porpoise shouldn’t be just public relations. Social marketing evolved from commercial marketing and its framework, so it includes market research, public segmentation, competition, marketing mix, consumer orientation and monitoring (Grier and Bryant, 2005).

Specific communication role of public relations within public healthcare

Communication plays an important role in the context of public healthcare. The role of communication in performing the public healthcare services could be summarised as follows (Harrell, Baker and The Essential Services Work Group, 1994; Morrow, Hirano, and Christensen, 2008):

- Monitor health status and solve community health problems. Communication role: Deliver relevant health status information to communities, particularly changes in rates that suggest the need for intervention; provide an opportunity for communities to voice concerns about perceived health problems.
- Diagnose and investigate health problems and health hazards in the community. Communication role: Notify individuals and communities of potential health hazards (e.g. issue traveller’s advisories in areas with known vector-borne disease transmission).
- Inform, educate, and empower people about health issues. Communication role: Use multiple levels of communication, including social marketing and community education, to bring about healthy lifestyles.
- Mobilize community partnerships and action to identify and solve health problems. Communication role: Assist in the development of coalitions and partnerships that will lead to collaborative action.
- Develop policies and plans that support individual and community health efforts. Communication role: Inform the public about new laws that affect health, such as laws protecting the confidentiality of human immunodeficiency virus/acquired immune deficiency syndrome information; share draft planning documents with stakeholders as a means to receive input and generate investment and outcomes.
- Enforce laws and regulations that protect and ensure safety. Communication role: Share information with the regulated community to facilitate the adherence to proper licensing and safety standards; ensure easy access (e.g. web site availability) to the required forms and rules relating to licensing and regulation.
- Link people to needed personal health services and ensure the provision of health care when otherwise unavailable. Communication role: Inform medically underserved population about opportunities for health care and the need for preventive services.
- Ensure a competent public health and personal health care workforce. Communication role:

- Inform public health practitioners and health care providers about training opportunities, such as satellite video-conferences.
- Evaluate effectiveness accessibility and quality of personal and population-based health services. Communication role: Inform policy makers about the efficacy of population-based health services.
 - Research for new insights and innovative solutions to health problems. Communication role: Publish results of applied research in peer-reviewed journals so that other agencies can translate findings into more effective public health practice.

Like never before, public healthcare is faced with so many challenges and expectations. Thanks to the development of internet, health related news travel around the globe almost instantaneously. However, their sources are usually journalists with no formal medical education. While some 60 years ago PR practitioners in healthcare had an easy job to create awareness and preference for healthcare since the healthcare organizations of that time enjoyed public support and sympathy (Tomic, Lasic and Tomic, 2010), today's PR has to deal with much broader perspective of health related issues and needs of target markets, together with taking into account financial aspects of healthcare services (Traynowicz-Hetherington, Ekachai, and Parkinson, 2001; Cutlip, Center and Broom, 2003).

Public health is of critical importance to everyone. In today's world of bioterrorism and threatening epidemics, public healthcare institutions create a border to global threats towards health and security (Institute of Medicine, 2003). Through public relations public health care creates "effective delivery of health care at the front line" (Millward and Bryan, 2005, p. 13). Malpractice, scandals, mistakes and misunderstandings occur in medical and health care like in any other organization. Because of the nature of public healthcare, it is the task of PR to help in bringing public health care institutions and public together by providing accurate information. Furthermore, PR should be used for both internal and external public in the process of focusing of the user's (i.e. patient's) wants and needs, because "...patients sometimes feel treated as numbers, are made to wait too long, do not have their condition or treatment explained sufficiently, feel lost in the system,

receive poor customer service, are denied choice and experience basic lapses in care" (Department of Health, 2007, p. 23).

However, there are also some mixed emotions towards the use of PR among public healthcare professionals. While there is a presence of enthusiasm towards PR when it produces highly desirable outcomes (e.g. a news coverage for a flood evacuation plan, fund-raising for some social cause, etc.) (Springston and Weaver Lariscy, 2005), the PR activities are highly scrutinised for their return on investment (Hutchins, 2001).

Conclusion

PR is considered as a multifaceted field which belongs to both marketing and management. Scholars from different marketing and management areas have been trying to address the problem whether public relations is a separate management field or is it limited to the field of marketing. As the literature review shows, their opinions are relatively opposed and there are also certain tendencies for the merger of different marketing functions in order to address the multifaceted nature of PR. Nevertheless, the ambiguity of PR will probably bring even more theoretical discussion among marketing and management experts.

Assessing the topic from the public healthcare perspective, it could be concluded that public relations, as a social marketing communication tool, plays very important role in today's very challenging environment. Social marketing and public relations are recognized by the public healthcare system as the concept focused on users and their needs. However, there is a certain research potential for further investigation of the practical application of PR within the public healthcare system, especially in less-developed countries. Furthermore, the practical aspect of PR in the public healthcare could also be comparatively approached from both marketing and management perspective.

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IMPLICATIONS OF SOCIOLOGICAL THEORIES FOR BRAND AND CONSUMER RELATIONSHIP STUDIES

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Abstract

The present work, through a conceptual framework, envisages consumption as a process in which the product/brand is seen as a generator of cultural meaning, necessary both to the consumer and the producer/company to relate to other individuals/stakeholders and to position them within their context of reference, according to the Giddens's Structuration Theory. The company should therefore set up a communication process along the lines of Habermas's Theory of Communicative Action, in order to establish its own brand as useful to the consumer in his/her pursue of social classification. The communication process aims both at announcing the company's presence and at establishing an interpersonal relationship with the consumer, based on mutual learning.

This mutual condition, and the practice of constant dialogue between the company and the consumer, could help reaching a common vision of reality. It would mean differentiation and/or social participation to the individual, and the establishment of a link with the social landscape to the company, paramount for corporate survival.

The paper gives useful hints about creating and maintaining relationships between companies and consumers. The cultural meaning acknowledged by the consumer with relation to the product/brand is a sign of the fragmentation, plurality and liquidity of the market, which all push the company towards tactical and strategic adjustments.

Key words: Brand Management, Social Theories, Consumer Behaviour, Structuration Theory, Theory of Communicative Action

Literature Review

The purpose of this paper is to illustrate, through the introduction of a conceptual framework, the dynamic relationship existing between companies and individuals, both being categories of social players that mutually interact, maintain and transform their roles within their respective contexts of action.

This interpretation is based on a number of theories that are either sociological, such as those by Sewell or Giddens or managerial, such as the living system approach by Golinelli, where the interaction between company and individuals affect the status of the players involved and that of the relevant contexts (Sewell, 1992; Giddens, 1984; Golinelli, 2008).

Giddens analyses the relationship between players/social organizations both at micro level, focusing on individuals and the reasons behind their decision about establishing a relationship with the organization/company/brand, and at macro level, focusing on the notion of belonging, a dynamic concept which is in turn affected by what happens at micro level (Giddens, 1984).

The essence of the relationship between company and individual that we are going to analyse in this paper is consumption. The issue could either be viewed from an economic perspective, where products are considered as a set of attributes providing special benefits to consumers, or from a symbolic perspective, where products are perceived as conveying different meaning (Bourdieu, 1984; Halle, 1992; Morley, 1986; Press, 1991; Radway, 1984; Holt, 1995).

Consumption will therefore be considered in this work as a process, a social action (Simmel, 1950) whose outcome is not assessable as the object

(product/brand), seen as conveying cultural content, allow consumers to reach different classification and/or integration targets both with relation to other individuals and within social groups. This process in turn triggers changes within communities on a broader scale (Holt, 1997).

As it is always very difficult to assess the outcome of any consumption process, due to the many ways in which different consumers view the same product, it is paramount to study the issue in question according to social system theories, which consider systems as dynamic expressions of transformative relations among different players (Giddens, 1984 p. 17).

It appears therefore necessary, in order to contribute to the study of both consumption and consumer behaviour, to analyse the relational dynamic between company and individual and the effects that these relations have on their respective contexts. Changes in the contexts taken into account will in turn affect the players involved and their mutual relations.

This focus has both theoretical and practical implications with regard to brand management issues. It goes towards a deeper understanding of personal interaction where a brand displays its meaning and function by influencing individuals, social groups/communities, families, competitors, suppliers and other stakeholders.

Another aim of this paper is also to broaden and enrich the notion of brand and its relationship with the individual/consumer, drawing from Habermas's theory of communicative action as well as from sociology and management scholars.

The product/brand will be considered not only as something going beyond its functional and commercial value, but in particular as a visual clue that mediates between distinctive identity projections, necessary to the individual to stand out against others and/or to assess his status within certain social groups (Fournier, 1998).

Classification and social integration reached through a symbol should be considered, according to an approach very close to Bourdieu's theories, as a non-problematic process that gets validated first by possession and then by social display of the object being consumed (Bourdieu, 1984).

We will first introduce the brand role with relation to the individual's social relations, and then its role in the interaction between the company's and the individual's reference contexts.

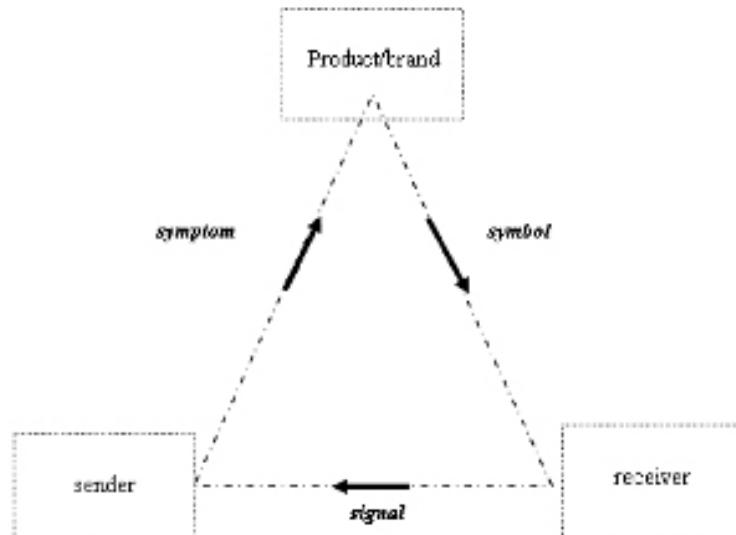
From individual to social individual via the brand

In order to achieve our goal, it is necessary to illustrate the role of the brand both among individuals, which we will discuss in this section, and between individuals and business.

It seems useful, when considering the first issue, referring to the philosopher Karl Bühler, who in his Sprachtheorie (1934) elaborates the notion of sign as a communication tool. His communication model regarding social players stems from his idea of linguistic sign (Bühler, 1990).

Bühler, focusing on the functional analysis of the sign, places it at the core of a threefold relationship involving the object (in our case the product/brand) the sender and the receiver.

According to this theory, the sign (product/brand) is to the sender/transmitter (individual/consumer) both a symptom, as it expresses his/her inner life and identity, and a symbol towards the individuals or groups the communication process is aimed at. The symbolic function, being linked to objects and behaviour, works as a representation of cultural and social cues displayed by the sender and aimed at the recipient. The latter (other individual or group member) then represents his perception (the signal) which is basically interest - or lack of - towards the sender (he is allowed into the social group, is qualified as a leader, etc) (see fig. 1).

Figure 1: The communication model of Bühler

Mead integrated the model presented, arguing that in humans functional differentiation reached via a form of language leads to a totally different organizing principle, which produces not only a different type of individual, but also a different society. Linguistic symbols (product/brand), are therefore at the core of the behavioural interaction of many individuals (Mead, 1966, p.249).

Behaviour becomes therefore symbolically significant when it implicitly triggers in the acting individual the same response that the receiving individuals explicitly experience, or are thought to experience (Mead, 1966, p. 273). The transmitting individual internalizes the relationship between his behaviour and the receiver's reaction (see the following vignette cases). This dynamic develops both between individuals and between individuals and companies. The latter is the case examined by the present work.

The Silly Bandz phenomenon

The multicolour silicone bracelets called Silly Bandz are certainly one of the best examples of the model described.

The original Silly Bandz are 100% silicone and moulded in different, very original designs. One

can stress them in any possible way and they magically return to their original shape.

They are very simple, coloured silicone bracelets available in a number of different shapes, from zoo animals to letters, from cars to musical instruments. There are hundreds of different designs, to wear on wrists or ankles, or even to add spice to one's haircut.

The different shapes form a coded language used first by teenagers and now also by adults. People wearing dinosaurs say: 'I am on the prowl'. Flowers: 'I am romantic'. Rhinos and crocodiles: 'Today I bite'. Phosphorescent ones (glow in the dark) suggest: 'I am looking for company'.

Millions of meters of silicon to be part of a group, to be equal and different, to socialize. Nowadays, one either wears a Mickey Mouse set on the wrist or is a nobody.

It is a product which, depending on the model represented, is an expression of a symptom, that is the individual's need to communicate (what is your shape?) through a symbol his classificatory behaviour towards certain contexts (the second word of the product name – Bandz – clearly evokes the idea of group). Such behaviour induces the recipients to produce a response cue

(acceptance or non-acceptance, appreciation or non-appreciation). The last phase affects not only the players involved in the communication process but also, indirectly, the reference contexts, or social groups, that will change in response to changes in their members' roles and/or distribution.

BMW Performance Accessories - The tailor-made car

We are talking here about the optionals offered to customize the settings, including aerodynamics, the cockpit and, in some cases, the performance of a BMW car.

The name says it all: BMW Performance, basically a line of products aimed at people who want more than just a standard BMW. These optionals are offered at post-assembly stage and specifically developed for the 3 Series, 1 Series, the X5 and X6.

Besides the power boost, this line of products offers many possibilities to increase and enhance performance levels in some BMW models.

For example, the BMW Performance Aerodynamic Kit optimizes driving dynamic and fits in perfectly both functionally and aesthetically. In the range of products developed to customize the settings there are the braking system with its distinctive yellow calipers, the BMW Performance Setting Package, a carbon fiber strut and a range of stylish light alloy wheels.

For the interior one can choose from sports seats, the gear shift lever and the BMW Performance sports steering wheel with LED display providing information such as oil and cooling liquid temperature, longitudinal and lateral acceleration, indication of the gear shift point and lap times.

In addition, all components are separately available so that every BMW driver has the possibility to add a sporty touch to his car creating a package tailored to his needs.

The product/brand, being a medium conveying values and identity, plays therefore a co-ordinating role with relation to the actions having social classification content and purposes.

Sender and recipient understand the meaning of a symbolic language if they know what contribution

it could provide towards the establishment of a mutually beneficial relationship.

The model presented shows that the establishment of a social relationship requires the participation of at least two players, who communicate each time one of them cannot reach his goal by himself, that is without involving other players. At this point there are two possible scenarios: if the two parties share a common goal, a relational activity takes place (for example, two people co-operate).

If however the goals of the two agents are complementary, each of them will act pursuing his own, turning to the other player only if necessary to the success of his initiative: we call this interaction. In both cases, the action patterns of the two individuals will display some overlaps.

The two players exchange communicative cues that allow them to co-ordinate their actions, showing each other the benefits obtained from their interaction, that is from acting according to the other party's wishes (Habermas, 1997).

Structuration theory and brand-individual relations

Communication between social players, as shown above, is mainly aimed at satisfying their respective needs/requirements. Habermas says that such behaviour refers to the interaction between at least two social players capable of language and action who establish a relationship through either verbal or extraverbal means. The players seek an agreement to co-ordinate their action plans and their respective behaviour (Habermas, 2000).

If one of the actors is a social organization such as a company, it establishes a communicative behaviour aimed at creating a series of relations based on a common language and/or purpose, in order to reach a sustainable agreement with the other party, whether individual/consumer or stakeholder (Golinelli, 2008; Barile, 2006).

The communicative dynamic existing between company and individual evolves following a process of mutual interpretation, to be continuously reviewed, based on the definition of situations likely to be agreed upon (Habermas, 1997, p.157).

Symbolism causes therefore the establishment of both subjective and extrasubjective orientation

systems, so analyzing the nature of the relevant relations becomes important in order to define their role in the dynamic operating within the players' reference contexts.

These, according to the structuration theory whose main theorist is Giddens (1984), are expressions of the different social levels, both at micro and macro level, in which relations are established and reviewed.

The micro level represents the relationship that different social actors (firm/individual) tend to establish through the use of symbols (product/brand) capable of conveying identity. This relationship, aimed at reaching social goals, affects social and cultural profiles of the players involved.

This, in turn, affects the social dynamic at macro level. The social player adapts his status within his reference context, which of course is permeated by social and cultural influences. These are the same ones that will affect the parties involved when establishing further relations.

This pattern of constant renewal becomes evident in a company when it adjusts its know-how and, consequently, its marketing and communication mix to the specific needs of the individual stakeholders with whom the company itself establishes relations both at micro and at macro level (competitors, markets, other stakeholders).

The contexts described are therefore the suprasystems which affect evolutionary dynamic. They could be represented by social groups one may want to classify himself against or to be part of.

Responding to the company's structural and behavioural adaptations, the individual also tends to adapt his behaviour both in relation to the company and to the relevant social contexts that will, in turn, affect his own social being.

The company has to take into account, at micro level, the consumers' psycho-social goals when defining its marketing mix with relation to both strategic (segmentation, positioning) and tactical issues. The company implements a communication activity, along the lines of Habermas's Theory of Communicative Action, in order to both announce its presence and to establish a relationship with the individual, based on mutual learning. This is aimed at conveying the message that its brand should be perceived as the right one by the individual/consumer pursuing his classification goals (Siano-Basile 2009; Siano-Basile et al, 2010).

If a consensus is reached between the parties as a result of such communication activity, we will call this social action. That, based on a constant dialogue between company and consumer, would allow them to share common ground at macro level. The individual would gain distinction and/or social participation, while the company would be able to establish intersystem relations with all the relevant contexts (competitors system, financial system, suppliers system, fiscal system, et al) it has to co-operate with (Golinelli, 2005, p.200).

This dualism has become more and more important in shaping the product/brand as a key factor in the expression of the individual/consumer's lifestyle so that the brand can now be considered as a symbolic platform, co-managed by both producers and consumers (Golinelli, 2008) (see Figure 2).

We could say that brand value in terms of positioning depends not only on the policies implemented by the company considered, but also on other factors such as the adjustments in the marketing policies operated by other competitor brands with relation to their individuals/targets. This means that the reformulation of micro relations involves a constant re-positioning activity for both the brand taken into account and its competitors (see the following vignette cases).

Figure 2: Relational framework according to the structuralist approach

H&M and Zara: fashion Midas

The two giants of the fast-fashion market are the darlings of the market, once again boasting mind-boggling figures and results, which are forcing designers to plan an in-depth reorganization of the entire system.

With Pittimagine Uomo on in Florence and men's fashion shows just about to start in Milan, the fashion world once more salutes two evergreen market giants, that is Zara and H&M. The two fast-fashion brands, in fact, have just released the first quarterly results for 2010. Inditex, the Spanish group also controlling Zara, recorded a 63% net profit increase: a figure towards which all other results pale in comparison, from those of cash-stripped fashion houses (including not only recently bankrupted Christian Lacroix, but also Mariella Burani Fashion Group and It Holding/Gianfranco Ferré, which is now in administration), to those displayed by much healthier companies. For H&M, on the other hand, the period running from December 2009 to February 2010 closed with a 42% net profit increase and plus 10% in sales over the previous year.

Not only that: the two brands have also succeeded in penetrating brand new markets. Zara, for example, has recently opened its first store in India, also making its debut in the Middle East and Asia. H&M, on the other hand, arrived in Seoul, South Korea, in February after starting a successful franchise in Tel Aviv.

The fashion system, however, is not standing still: during 2009 a process of radical structural change started underground. Leaving aside snobbery and suspicion, many designers have introduced a series of 'flash' collections, that is of fashion packages that bypass the traditional stages of fashion shows and pre-collections. The results

come very close to those of the 'ready-fashion' system, as the ultra-fast production, devised in our country and brought to global success by H&M and Zara, is now called (it is worth mentioning that the Spanish brand changes clothes inside its stores every 3/4 days, at a pace that is unthinkable for any designer).

The real challenge of tomorrow lies not much in design creativity or in copying the two fast-fashion giants, but in the ability to adjust to a market and to consumers that have radically changed.

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As to the importance of communicative action, Habermas argued that the necessity of co-ordinated action implies the need for social communication, that has to be made accessible in order to guarantee a smooth operation of the entire system (Habermas, 1997).

The theory of communicative action therefore focuses on linguistic/relational comprehension as the key to the co-ordination of social action.

According to this definition the company displays, through its product/brand and after a participative analysis of the destination market, a communicative behaviour aimed at inducing a co-ordinated response/action to be performed by the individual/consumer. He will in turn do the same, once again via the product/brand, towards other individuals or social groups (see the following vignette case).

The Smart phenomenon

It was 1998 when a new vehicle made its debut on the market. With barely two seats and at just

2.5 meters long, it started a new market segment. Today, having sold a million cars, Smart is a worldwide success. Sales started in the US in January 2008 exceeding the 16,000 mark, while China came in April 2009.

Extremely compact, agile as a scooter and safe as a limousine, this is the vehicle that made its mark in the city car market with its charm and style. It is also going to become the first electric city car, with the kind of running costs dreamt by every driver: only 2 cents/km.

In the last 13 years, Smart has increasingly established itself as a symbol sought by consumers looking for an agile, small and easy to park car. Customers have also appreciated reduced fuel consumption, environmentally friendly features and the many possibilities of customization.

The relationship between Smart and consumers has affected both the contexts involved. On the one hand there are now other carmakers producing similar vehicles, while on the other hand consumers have been adjusting their consumption patterns (about 500,000 people have so far bought a Smart in Italy).

As to the introduction of similar vehicles, both Fiat with its 500 and Toyota with its IQ have been trying to fight back, employing a different kind of 'communicative acting' to approach city car consumers.

Fiat 500, for instance, plays the vintage card following the carmaker's history and that of the model itself. As to the purely functional features, it is a four-passenger car.

Fiat marketing strategies have been very successful, so that 500 is now perceived as a product/brand that meets not only functional needs, but also social and symbolic ones. Testimony to this are the many groups of 'cinquecentisti' born in the past few years.

This phenomenon shows the influence produced at macro level by the relationship existing between the 500 brand and a typical 'cinquecentista' within his social context.

The contexts show spatial, social and cultural variables such as places, life and consumption style, toward the social actor is oriented and from which is influenced.

The spatial variables we have mentioned could refer either to physical places such as cities and shopping centres, or to virtual places like for example social networks (facebook, second life, twitter) where social players, including the company, express their cultural values receiving other signals in return (Gallucci and Poponessi, 2008).

For these reasons companies increasingly tend to present the product/brand as conveying values and culture, in a marriage between real life and an imaginary (but possible) world needed by the individual to achieve his social goals.

Mini, for instance, does exactly that with its car. The values in question are those of Urban Culture, and people browsing the website are invited to provide fresh ideas in a sort of contest aimed at improving the ethical and aesthetic quality of urban life (see http://www.minispace.com/it_it/).

Products/brands such as Dolce&Gabbana exports the Mediterranean tradition, particularly the Sicilian one, on a global scale transferring imagery, colours, scents in products such as their fragrance Sicily, aimed at a world-wide market. The will to represent Sicilian culture has also led to the publication of a 'dictionary' of the symbols employed by D&G in their campaigns (see <http://www.dolcegabbana.it/dg/profumi/sicily/>).

Such a set of values, and its reference environment/context, is only remotely similar to the traditional notion of market segment as it refers to much wider contexts, that are also about spatial, social and cultural variables, like places, lifestyles and consumption patterns. As we said, it is with such wider contexts that the social player interact.

The company in pursuit of competitive survival has therefore to monitor not only consumers but also the suprasystems they interact with.

Summary

The framework in this paper shows that the study of consumption and consumer behaviour requires focusing not only on the nature of the relations between different players, but also on the complex dynamic operating between relations and objects (products/brands).

Beside analysing the reasons behind the establishment of a relationship with a brand it

is therefore necessary, for both practitioners and researchers, not to consider the individual as unaffected by his reference contexts.

There is therefore a growing need for qualitative analysis methods that could provide insight into common structures and social interaction among individuals, and take into account social, ideological, symbolic and cultural factors. There is also the need for quantitative research methods devised to consider individual and collective effects as units of the same social system.

For a thorough analysis of both micro and macro dynamics, contextual analysis and/or multilevel analysis or hierarchical linear models (HLM) should be considered, as they take into account the mutual influences between reference social contexts (physical and/or virtual spaces) and individuals (Blalock, 1984; Snijders and Bosker, 1999).

Multilevel theories allow to study how macro level variables describing collective phenomena, can affect micro ones such as emotional and cognitive individual behaviour, and vice versa.

Such techniques could therefore describe the effect produced by the macro level on the micro one, employing a regression process in which a single variable depends on a set of other variables.

Such analysis techniques not only contribute to the evolution of consumer behaviour studies, but are also an invaluable support to practitioners, who are engaged in intercepting individual trends with relation to segmentation and/or positioning analysis, and above all the variables affecting motivations and lifestyles.

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A CRITICAL REVIEW ON SURVEYS OF VALUE-BASED MANAGEMENT

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Abstract

'Creating shareholder value' has become a corporate slogan and management anthem since the 1990s. Management paradigms such as business process re-engineering and total quality management have not, unfortunately, been able to produce the desired results. These approaches have lacked a number of ingredients essential for delivering the best value potential for a corporation. There is a need for new methods which take into account value from the perspective of different stakeholders. Many organisations are now applying value-based management (VBM) tools to increase shareholder value, and to address the concerns of a corporation's stakeholders in a holistic way.

VBM can be defined as an integrated management control system that measures, encourages, and supports the creation of net worth. The claims that VBM increases corporate performance have attracted substantial interest among researchers and organizations over recent decades. Even though many surveys have been conducted, the evidence for whether users outperform non-users is inconsistent. Most importantly, researchers need to define and standardize the measurement of VBM to make findings comparable. However, the years of research on VBM have produced very little evidence for it. A critical review could foster the understanding of the performance effects of VBM.

This paper attempts to consider these diverse findings in perspective, and suggests avenues for future research.

Keywords: Shareholder value, Value-based management, VBM, Value, Performance

Introduction

The concept of value-based management (VBM) has been defined by writers in various ways, basically depending on the purpose of their analyses. However, one common thread that runs through the entire concept is quite obvious, namely there is only one way to determine the value of a company (Evans, and Wurster, 1999), which is to calculate all future discounted cash flows of the company. In other words, different management approaches such as lean production, VRIO (the question of Value, the question of Rarity, the question of Imitability (Ease/Difficulty to Imitate), and the question of Organization) framework, Balanced Scorecard (BSC) framework, flat organization, delegation of power and TQM (Total quality management) have all had limited success or have failed quite often. VBM has come to replace them all as a better management technique (Brigham, and Houston, 2009), though there is still something that cannot be taken for granted in any such novelty, i.e. the degree of efficacy in real world business contexts.

It is imperative to consider this sudden spurt of interest in VBM as against profit-based approaches that were hitherto adopted by both small and large companies in order to measure financial performance of the company (Brigham, and Ehrhardt, 2007). According to the vociferous critics of the method this annual ritual has had very little success as a system of acceptable metrics that truly demonstrated real or discounted cash flows of the company. Such palliatives should now be abandoned and a more realistic system of metrics based on verifiable and measurable concepts ought to be adopted. It is here that VBM emerges as both a reliable tool and a systematic approach.

The capital structure of the firm as divided into equity and debt has been of little significance to an outsider except for investment consultants and professional investors because the bewildering system of metrics means nothing to the layman. This particular instance of failure associated with many other approaches to management has often been cited as a very sound base for a new management approach by critics. Thus the concept of VBM has come in handy in this context too, owing to the fact that orthodox management approaches are inadequate since they do not include performance-related dynamics (Copeland, and Dolgoff, 2005). In other words, capital must be invested in the business only when its rate of return exceeds its cost. Value parameters of VBM are quite well defined and include such variables as tax exemptions on capital investment and the corresponding value gains in alternate investments. Net returns on investment ought to be predictable, and therefore uncertainty associated with investment and its returns must be controllable to a certain extent. According to critics of other management approaches, uncertainty of cash flow returns and investment returns has bedevilled these techniques to such an extent that little else is predictable by way of metric analysis of accounting or financial performance of the firm (Dermine, 2009).

VBM's value parameters, such as net cash flow, net present worth of an asset, discounted cash flow, actual returns on investment, and reliable capital depreciation techniques, all add up to one single proposition, namely a total concept of measurable values. In the absence of transparency in management accounting and auditing practice there is very little that the average shareholder can expect of the manager, and he must rely only on what is put out in the form of annual financial information. This predicament of the shareholder is effectively solved by VBM.

Information asymmetry and the agency problem that are quite commonly considered when determining the optimum capital structure of the firm have also been addressed under VBM (Hoag, and Cooper, 2006). While the optimum capital structure of the firm might be determined with specific reference to the leveraging capabilities of the manager by substituting debt for equity at an increasing pace, there is the more dubious outcome associated with the manager's ability to manipulate information flow for self-gain at the expense of owners or principals. VBM discourages self interest and promotes

transparent management practices. However, transparency is considered an archaic concept in management literature. Under VBM, transparency is determined with reference to verifiable metrics, such as net return on investment.

The concept of net worth as against the accounting book value has acquired a new dimension under VBM and as such there little to be gained by overloading the books under the current accounting practices. VBM is all about promoting non-value based approaches to measuring the net worth of a business. While such value parameters are intrinsically assessed with a view to building up relative worth, there is also the associated problem of extrinsic value. It is the latter concept that has been considered under other management approaches. On the other hand VBM places emphasis on the intrinsic value of an asset.

Research problems or questions

- What is the scope for the construction of a theoretical and conceptual contingency model on VBM systems in compliance with centric conventional management accounting environments?
- What is the extent of prevalence of VBM practices, if any, in organizational environments right now?
- What is the scope for potential adoption and acceptance of VBM systems and practices in the future against the backdrop of an evolving conflict between proponents and detractors?
- How far are the newer VBM strategies as enunciated in the literature review surveys amenable for adoption in the existing organization's managerial accounting environment?
- Finally, why and how should business organizations adopt VBM systems to obviate the shortcomings in the existing practices, especially failure-prone managerial accounting practices that lack supervisory oversight?

Research aims/goals

This research paper has the following aims:

- To establish positive and negative correlations between and among the theoretical and conceptual parameters of a contingency model for VBM systems and practices.
- To identify and determine the current prevalence rate of VBM systems that converge on a probable reference framework of analysis.
- To establish positive and negative correlations and regressions between and among endogenous and exogenous variables of VBM practices and those of conventional managerial accounting.
- Finally, to build a theoretical and conceptual framework for future analytical reference on the convergence parameters of VBM systems in a management accounting environment, free of conventional constraints.

Hypothesis

VBM is based on a set of principles that emphasize utility maximization, rational behaviour, symmetric information structures, formation of market price, determination of the net worth of the assets of the organization, and the adoption of a realistic marketing approach to realizing the long term potential of the business. Thus the contingency theoretical and conceptual framework of VBM essentially incorporates a set of elements that are highly desirable from the viewpoint of the average stakeholder (Jönsson, 2009). The optimum capital structure of the firm is determined not by a set of values that managers have created in pursuit of their interests, but by a set of VBM-centric realizable goals. Such tailor-made VBM systems are desirable though both their incidence and prevalence would be curtailed by the inability of the organization to find suitable empirical data-based approaches (Sawhney, 2004).

Research methodology

Secondary data

Secondary data was collected through an extensive research effort conducted both online and in libraries. The researcher extensively used books written on the topic and also studied research journals, reports, graphs, articles, newspaper articles and so on. References were

taken from most of the research material available in the field (Lorsch, and Tierney, 2002). This study depends on secondary material because theoretical analysis is much better facilitated by this than primary material, which is basically limited to responses in a questionnaire or a survey (Clifton, 2009). The available literature has been analyzed with specific focus on the surveys carried out by other researchers into VBM in the practical organizational context. This researcher has tried to show the most important aspectual overview of the research in the Literature Review. Also, there is considerable reflection on the state and relevance of current research. Future research possibilities in the field are discussed in depth to show how theoretical underpinnings evolve with time and space with specific reference to VBM activities. There is little or no critical literature to support the methodology of metrically determining the feasibility and attraction of a contingency model on VBM practices, and obstacles to creating it. This particular handicap has affected the researcher to a considerable extent. However, the research methodology segment of this paper places emphasis on the qualitative aspect rather than the quantitative aspect. As such the available empirical evidence has been greatly utilized by the researcher to delineate the current line of arguments as expounded in the Literature Review of this paper.

Qualitative research

The qualitative research aspect of this dissertation paper consists of two sections.

Industry-centric qualitative research

The industry-centric qualitative research aspect of this paper focuses on the strategic decisions and choices thereof concerning the feasibility and attraction of a contingency model for the adoption of VBM systems and concepts in particular industries, and obstacles to creating it. The qualitative industry-centric research aspect focuses on the current nature and extent of VBM practices in the particular industry as against the individual organization as borne out by the literature review. The inevitable qualitative paradigm comes from the kind of obstacles and opportunities simultaneously available to the organization within a particular industry.

While obstacles particularly relate to internal organizational set-up, such as the culture, structure, and governmental regulatory frameworks, opportunities have a qualitative impact on relative feasibility for the adoption of VBM systems. This particular aspect has attracted the attention of the researcher much more than anything else. While the VBM strategies in particular industries and a certain size of organization might be more attractive than others, a qualitative paradigm shift in favour of change has come from a specific preference for achieving certain positive synergies. Indeed, there is very little strategic shift towards such a qualitative change within some industries, despite a sea change in attitude towards VBM.

Firm-centric qualitative research

The firm-centric qualitative research aspect of this paper will focus on the core VBM concepts at the organizational level to ascertain the degree of qualitative shift in internal managerial accounting dimensions of the organization as against the backdrop of an ever increasing interest in VBM systems. At the firm level, the adoption of VBM systems within SMEs (small and medium sized enterprises) can be regarded as providing empirical evidence for the building up of correlations between some of the most discussed variables, such as the BSC and EVA (economic value added). However, SME companies (Plowman, 2001), might not be able to achieve scale economies in the absence of expansion opportunities. The analysis will be extended to include such spheres as current VBM scope for individual firms, and desirable qualitative changes in the form and impact of firms through refocusing and reprioritizing.

A considerable amount of research exists (Pohlman, Gardiner, and Heffes, 2000) on VBM systems in SMEs but nonetheless, against the well known backdrop of managerial accounting paradigms, SMEs have been constrained to adopt organizational changes in keeping with the evolving VBM practice environment elsewhere. Thus particular organizational cultures, structures, and leaderships might have been more influential in the VBM adoption efforts than others. This research methodology is based on the available empirical evidence on the prevalence and incidence of VBM systems within the organizational context where there has been an equally substantial amount of emphasis on managerial accounting concepts.

The theoretical and conceptual framework for the VBM system-centric approaches has been based on a set of endogenous and exogenous variables in the organization. The qualitative paradigm of the research methodology is thus highly influenced by the researcher's effort to cull already published qualitative research material in support of the research aims stated above. This methodology gives both a theoretical and conceptual outline first. Next, it dwells on the practical aspects of the research methodology utilised to analyse the research data, and describes the various methods used in this study.

This paper is based on a structured approach that makes it variable-independent in respect of learning outcomes (Shi, 2007). Thus the deductive research methodology approach adopted here would specifically delineate correlations' variances and regressions based on premises.

Research Strategies

The exploratory research approach is characterised by three elements,

- a. Independence
- b. Deductive logic
- c. Pioneering approach.

An independent approach to research essentially presumes that the researcher has a greater degree of freedom in deciding the choice of variables and their scope of application. Thus the researcher would adopt a free style of inquiry that seeks to establish correlations and regressions between and among variables based on available premises based on facts.

Deductive logic, which is the reasoning process in this research methodology, is oriented towards functionality. However, didactic logic is avoided when learning outcomes are presented (Ulrich, Zenger, and Smallwood, 1999). In other words, the deductive reasoning process is determined only by the extent of relevance that is associated with available premises irrespective of the didactic nature of most of the research available on the subject now.

This research methodology is tantamount to a pioneering effort in respect of the development of its hypothesis for future purposes by other

researchers. In other words the research hypothesis of this paper and the associated methodology are intertwined to produce some authoritative and original conclusions.

This research methodology mainly depends on the secondary data, basically because the theoretical analysis is much better facilitated by it than primary data which is basically limited to responses in the questionnaire and the survey. The available literature has been analyzed with a specific focus on the implementation of VBM policies and how they positively impact on organizational outcomes like profits, productivity, and shareholder value creation (Standing, 2001). This researcher has tried to show the most important aspectual overview of the research in the Literature Review. However, the research methodology of this research places emphasis on both the qualitative aspect of it rather than the quantitative aspect.

Literature review

After the rise of VBM since the 80s, there has been a long list of researchers and economists who have written a number of books and research papers on different aspects of this style of management. The leading VBM thinkers who have written research papers and books are Roger A. Morin, Sherry L. Jarrell, Alfred Rappaport, John D. Martin and J. William Petty etc. Actually the field of value-based management is vast; therefore different aspects of it have been discussed by different thinkers and experts.

In 1986, Alfred Rappaport, Professor of Emeritus of J.L. Kellogg Graduate School of Management at Northwestern University, wrote a pioneering book with the title "Creating Shareholder Value - the new standard for business performance." The book has been highly recommended by experts and is worth studying even today. Rappaport updated his theory of shareholder value in 1997 by writing "Creating Shareholder Value: A Guide for Managers and Investors". In the updated edition, Rappaport introduced a new and comprehensive review of the underlying principle for shareholder value, including business planning, performance measurement, supervisory compensation, stock market signals, mergers and acquisitions etc. The writer intentionally avoided the normal discussion of performance measures such as price-to-earnings ratios, return on investment, and equity measures. Instead of such general measures,

the author concentrated on highlighting the shareholder approach through value drivers. He mainly emphasized value drivers such as operating profit margins, sales-growth rates, and cost of capital. The most attractive part of Rappaport's work for shareholders and top level managers is the section on questions and answers about performance measurement. What is the most appropriate measure of performance? What is the most appropriate target level of performance? How should rewards be linked to performance? Contrary to Morin and Jarrell, Rappaport presented a real time example of the acquisition of Duracell International by Gillette. This provides significant information about risk management with respect to merging and acquisition. It is not too much to say that the work done by Alfred Rappaport is one of the pioneer works on modern value-based management.

Despite all the incisive features of Rappaport's ideas, the author can be criticized for not introducing a specific performance management system. With the rise in use of value-based management in the mid-80s, companies were looking for specific measures to implement VBM practically. Kaplan and Norton resolved this issue in 1992 by unveiling their most famous and popular performance management system, the "The Balanced Scorecard" in the book "The Balanced Scorecard - Measures that Drive Performance" Alfred Rappaport focused on the theoretical concepts of value-based management but Kaplan and Norton emphasized that any organization could align its executive authorities, top and middle level managers, human and financial assets, corporate branches, and communication technology in a single but basic strategy. "The Strategy Focused Organization" is an updated version by the same authors on the same topic. Here, the authors have divided the book into five sections which clarify concepts for the reader. Rappaport's model was based on the theoretical approach of shareholder value and its creation, while Kaplan and Norton explained in detail how organizations have achieved excellence by following the above stated model. The writers discussed the case studies of famous companies like Mobil, Chemical Retail Bank, and CIGNA. The beauty of these case studies lies in the step-by-step description of implementation processes which can be followed by other companies as well. The writers even suggested that a single employee can build up his own balanced scorecard to achieve the desired

standards. As Rappaport did not present a specific measuring tool, similarly Kaplan and Norton's model, i.e. the Balanced Scorecard, has the deficiency that it is short on creation of value.

"Driving Shareholder Value: Value-Building Techniques for Creating Shareholder Wealth", written by Morin and Jarrell, is also a ground-breaking book on modern financial management. The work adopts an empirical approach that certifies that corporate strategy does not create the value of the organization. The empirical results are based on case studies and examples to clarify the authors' assumptions. The unique features of this book are the authors' own value creation framework, a value checklist along with the case studies, a great collection of lessons on value-based management, guiding modules of VBM, step-by-step examples and an integrative VBM framework. However, Morin and Jarrell are criticized for their work as they did not discuss the implementation of value-based management in real life.

In 2001, a joint presentation of Professor Philippe Haspeslagh, Tomo Noda, and Fares Boulos was published by the Harvard Business Review entitled "Managing for Value: It's not just about the numbers". The approach of these writers is different from their predecessors. These writers emphasized that instead of financial orientations, value-based management can be applied successfully to bring cultural changes in organizations. On the basis of a comprehensive statistical analysis of 271 companies, the authors concluded that only five value-based management approaches had a high correlation with success. These were explicit commitment to shareholder value, incentive compensation, value-creating decisions through empowering business units, and meeting simple VBM requirements. They also proposed the theory that overcoming the resistance to cultural change has been considered as the most challenging task of value-based management (Haspeslagh, Noda, & Boulos, 2001). According to these authors, VBM does not provide a solution to each and every type of problem.

Peter Doyle's book "Value-based Marketing: Marketing Strategies for Corporate Growth and Shareholder Value Numbers" illustrates an in-depth and practical application of shareholder value to the professionals. Marketing strategy is discussed as the most fundamental factor of business. Several marketing strategies are

described in the book to provide a guideline for managers to formulate clear-cut marketing strategies for their organizations to enhance value for the shareholder. In the second edition of the book, some new concepts are also included, such as technological developments in the corporate world and their impacts on management.

The literature review of this research paper is entirely focused on secondary research. It will basically examine in detail the connotations and denotations of the current debate on the concept of VBM. Thus it is focused on the space-time-dimension of the literature on management perspectives. While there has been a degree of convergence towards VBM-related outcomes in the organizational context in the recent past, there has also been a degree of divergence away from orthodox management approaches. For the purpose of this research, orthodox management approaches refer to all those that have preceded the VBM concept. However the incidence and prevalence of VBM practices at the organizational level have yet to be assessed with reference to authentic management situations where there has been considerable pressure within the organization to change.

1. According to Koller "Value-based management can best be understood as a marriage between a value creation mindset and the management processes and systems that are necessary to translate that mindset into action" (Koller, 1994). Koller identifies a set of principles that an organization can adopt in order to achieve VBM-centric goals, though such goals have not been defined by Koller well enough except to say that performance-related goals have to be defined and achieved in keeping with the strategic long-term plans of the organization. Koller also recognizes the need for the marriage between the above two variables. Thus, according to him, if one were isolated from the other there would be no meaning. In other words, a mindset alone is useless if appropriate management processes and systems are not adopted.

However, Koller draws an analogy with a retail bank adopting VBM strategies based on aggressive value creation efforts as against passive harvest strategies. According to Koller, VBM systems enable the management of the company to capture rivals' market share by increasing value. He suggests a performance-driven approach as against a staff satisfaction approach. His assertion that the

organization's processes and aspirations would be aligned with key value drivers in an authentic VBM environment goes so far as to include the significance of decision making structures and processes. According to him, such dynamic VBM systems seem to be the only solution for the average organization's inactivity. However, he fails to clearly identify those value drivers except for a vague reference to value creation through maximizing shareholder value, which in turn is based on return on invested capital (ROIC). He does not agree with the return on sales strategy but nevertheless recognizes the significance of management decisions.

2. Ameels, Bruggeman and Scheipers define value-based management "as an integrated management control system that measures, encourages and supports the creation of net worth" (Ameels, Bruggeman and Scheipers, 2002). Lueg and Schaffer argue the case for the introduction of a structural paradigm for VBM. Despite many research efforts on the subject, the authors argue that there is very little by way of a comprehensive contingency model that adequately describes VBM frameworks. Analytical literature on the subject is almost non-existent and therefore there is a huge gap between learning outcomes and research aims. Despite these shortcomings in the existing literature on VBM, there is a broader level of agreement in the area of increasing shareholder value.

The authors are focused on finding the effects of VBM performance in the organizational context where VBM is being implemented with a view to achieving set goals. Current VBM practices are basically centred on the primary and immediate concerns of practitioners such as management accountants, managers and auditors who still tend to assume rule-based accounting practices to be the ultimate aim. In other words, compliance with accounting and auditing rules is of primary and immediate concern to the practitioner. The significance of this outcome is essentially seen in the modern compliance-centric accounting environments where hierarchically organized structures exert an extraordinary amount of pressure on the average accountant/auditor to comply with norms that have very little, if anything, to do with such broader and more important concepts such as corporate governance, quality of accounting and auditing practices, audit judgment, auditor behaviour, business forensics concerning

auditing and the corporate pricing policy of accounting.

However, Lueg and Schaffer did not essentially make an effort to build a contingency framework of theory and concept for testing VBM performance. In fact, their argument that Davies and Ameels et al are focused more on building up a methodological normative paradigm for management accounting practice-based analysis of VBM is true, but nevertheless they acknowledge the existence of a causal relationship between accounting concepts and some of the VBM-centric metrics. Of these metrics, shareholder value occupies the most important place. However, there is a particular weakness associated with this approach. Despite the universal agreement among almost all writers on the subject that shareholder value is the most important VBM component, there is very little unanimity on the need to build management accounting and auditing practice frameworks in conformance with VBM-centric rigor. The authors have just pointed out this shortcoming in their seminal work.

For example, modern auditing and management accounting can be defined as an assessment of an individual, organization, system, process, enterprise, project or product, or an examination of records or financial accounts to determine accuracy and compliance. However, modern forensic accounting and auditing corporate environments demand not simple compliance with rules and accuracy of figures but also a greater degree of auditors' involvement in determining the overall outcomes and preventing negative management. In other words, they are not just number jugglers but active players in the process of detecting errors in advance.

Thus this whole process can be regarded as an internal mechanism that controls and assesses the validity and the reliability of the presented financial records. The recent international developments and also the current economic recession have forced businesses to adopt far reaching changes that need proper accounting and auditing standards at least to survive in the business environment. The World Bank's Accounting and Auditing Report on the Observance of Standards and Codes (ROSC) concerning accounting and auditing assessments is the most comprehensive international compendium of standards to date, though such other international bodies as the

International Accounting Standards Board (IASB) and the International Accounting Standards Council (IASC) have been in existence for a number of years (Gale Reference Team, 2009). ROSC compliance agreements have exerted some substantial pressure on management accountants internationally, not only to comply with standards but also to adopt corporate governance principles into accounting and auditing practices in ongoing projects.

3. On the other hand, Ittner and Larcker in their critique on Zimmerman's assertion that managerial accounting is simply descriptive and lacks in-depth analysis, argue that managerial accounting inter alia needs a directional thrust towards coherent research-based methodology rather than the current directionless and unsubstantial efforts to re-posit premises on the self same ideological lines of good and bad (Ittner and Larcker, 2002). However, according to the authors the existing literature on VBM does not adequately deal with the recent spate of managerial accounting debacles that have plagued Europe and North America. Therefore, it is essential to focus on far more revolutionary managerial accounting standards to bring about a real change in the current practices at the organizational level. Thus managerial accounting practices need to be developed by using both national and international standards that go beyond those in the International Financial Reporting Standards (IFRS) and ROSC.

Above all, management accounting remains shrouded in mystery or rather mysterious terms such as 'accounting standards' and 'responsibility.' VBM projects acquire a set of hypothetical value propositions for their perpetuation at the expense of tight budgets being expanded to accommodate what could be termed as normative professional ethics. The rationale for such accommodation is based on a symbiotic relationship between contingency and preservation of interests. Thus government intervention is effectively precluded by professional accountants, and social responsibility for failure becomes more or less a conceptual liability that carries little weight, if any. Concept failures are not strictly defined and they tend to be treated as collateral damage that has conventional remedies, such as insurance to cushion against failure, but no proper measures to account for social costs. Then the question arises of why such projects are being promoted despite the failures. The answer again is many-sided, including

such widely influential standard setting efforts of professional bodies such as those of accountants. What is so obvious but often ignored is the fact that professionalism is not an *a priori* probability-related concept but an absolute concept of success.

Ittner and Larcker do not accept Zimmerman's position that management accounting is purely descriptive, has no proper theoretical foundation, and lacks research hypotheses. The authors adopt the stance that Zimmerman has obviously faulted management accounting for its excessive dependency on description while metrics are ignored, especially economic ones. The determination of conceptual frameworks on success parameters is necessarily based on the fact that they depend on a set of previously defined variables. VBM parameters, according to the authors, are governed by a desire to abandon orthodox managerial accounting practices and to adopt instead a set of progressive principles.

The authors also reject Zimmerman's assertion that researchers ought not to focus attention on novel management accounting practices. Their subsequent line of argument is centred on the belief that the significance of current research efforts in the field is essentially seen in the modern compliance-centric accounting environments where hierarchically organized structures exert an extraordinary amount of pressure on the average accountant to comply with norms that have very little if anything to do with such broader and more important concepts as corporate governance, quality of accounting and auditing practices, judgment, business ethics concerning accounting practice and the corporate responsibility. Thus the inevitable outcome is that the authors disagree with Zimmerman on the grounds that the inevitability of the new research impact exists and is very strong. This impact reshapes the existing theoretical and conceptual frameworks of management accounting practice to such an extent that economic concepts alone might not be sufficient to successfully integrate different accounting concepts and logical perceptions to build a cohesive system of VBM-centric practice. Despite these failures they are being undertaken purely in conformance with standard-setting behavioural tendencies of boards and other governing bodies.

4. Ryan and Trahan developed a value-based approach to VBM to integrate the shareholder value maximization principle. In this, corporate strategy, managerial compensation, motivation-

related rewards and control mechanisms are each intended to produce a positive correlation between employee performance levels and shareholder value. The authors have focused their attention on the strategic link between shareholder value and value-based long-term decision making by firms. They have cited enough empirical evidence in support of their claim, though it must be noted here that what is so interesting about value-based decision making and shareholder value is the a priori causal link and not the learning outcomes.

The authors carried out a survey of some Chief Financial Officers (CFOs) from a large sample of US-based financial companies. The survey was intended to study the opinions of these CFOs towards VBM and related metrics. While almost every respondent to the survey said there was some VBM system being adopted at their organization, there was little unanimity as to how far it should go in order to achieve positive results. The survey was comprehensive enough to draw some good conclusions on the CFOs' attitudes towards and perceptions of VBM systems and metrics. However, there was one obvious shortcoming in the process, namely the heterogeneous nature of the organizational culture was ignored (Robert, 1982).

The authors have successfully established a set of determinants on the usage of VBM systems at these corporations, though the extent to which such management accounting practices were feasible in diverse and complex organizational contexts was not precisely defined. The contiguous borders between VBM systems and the highly sophisticated nature of the metrics were not well articulated, though the effort was laudable enough to warrant a systematic approach on the subject of VBM and metrics. The variables that the authors used in the survey were determined by a desire to develop a model of cogent analysis based on theory and concept. Nevertheless, there are some notable features in the survey. For example, the authors make a fair criticism of the EVA concept on the basis that technology firms might not find it useful against the backdrop of very long pay-off periods for research and development expenditures. EVA is defined as net operating profit that the company makes after taxes have been paid, minus the cost of capital. Definition itself renders the concept faulty due to the fact that any real value accruing to the employees and customers of the company is ignored.

5. Britzelmaier, in his article on VBM in European joint-stock companies (Dow-Jones listed), argues that VBM systems have been the result of a process of conversion from accounting systems of value determination to economic systems of value creation (Britzelmaier, 2009). His opinion on VBM reflects the theoretical and conceptual parameters enunciated by other authors cited above. However, there is also a greater degree of support on his part for economic value-added concepts. VBM systems, according to Britzelmaier, are the result of a flurry of changes taking place in the world - excessive globalization of share markets, ever increasing strategic mergers and acquisitions, emerging differences between market capitalization of assets and fair value, the agency problem, and the associated weaknesses of profit-centric performance measurement (Warren, 2008).

His survey of the 50 Dow Jones listed companies enabled him to reach a seminal conclusion, but this was sound enough to provide further empirical data support for the fact that a highly visible process of transformation is taking place at the organizational level from non-VBM practices to VBM practices. The author's conclusion that there is a clear correlation between VBM practices and accounting and financial practices in most of the organizations is a vivid reminder of the fact that at the organizational level the management is more focused on creating value through investment rather than pure profit margins (Brigham & Daves, 2009). While American hi-tech corporations such as Microsoft and IBM succeeded in leadership value transformations and building up better employee relations, their success was limited to market share growth and not market value creation.

6. Spencer and Francis have investigated the much claimed position taken by supporters of VBM, and in the process have adopted a metrics-based approach to measuring the VBM strategy-related outcomes. Their stance is based on the claim that economic/financial measures such as EVA can really increase the shareholder's wealth, irrespective of any other variable going against it. Their working paper provides adequate empirical evidence for the existence of value-based metrics and management practices at the divisional level of the organization. However, it must be noted here that the authors have basically adopted the approach advocated by Rapport in 1986, and Rapport's revolutionary writing on how to measure shareholder wealth by adopting the seven value

drivers – growth in sales, operating profit margin, investment in fixed assets, tax rates, the time duration in which competitive advantage persists, capital investment level and the weighted average cost of capital (Brigham & Daves, 2009).

The authors emphasize the importance of value-based metrics as the internal barometers of performance at the divisional level within the organization, thus serving the all the more significant requirement for improvement in organizational performance. The authors once again stress the pivotal role played by such measures as EVA in determining the value creation strategy at the divisional level. The authors come to the conclusion that consultancy support has bolstered the concept of EVA over the accounting concept of Residual Value (RV). According to them, they are identical concepts. Further, other measures such as the ability to stay within budgetary limits and the Balanced Scorecard (BSC) have been more popular with divisional level implementation than EVA.

7. In April 2006, Thomas Günther and Torsten Gonschorek published the results of their survey which was launched in January/February 2006. In their study, 2,000 German small- and medium-sized companies randomly selected through a stratified sample were investigated using a standardized written questionnaire to obtain information about the dispersion of value-orientated attitudes, application of VBM methods, and factors of influence supporting or hindering the diffusion of VBM in German SMEs. Based on 307 usable questionnaires, valuable insights were gained into the attitudes of managers and owners about value-based management, applied methods, and interconnections with other management systems (Günther and Gonschorek (2006), p. 1).

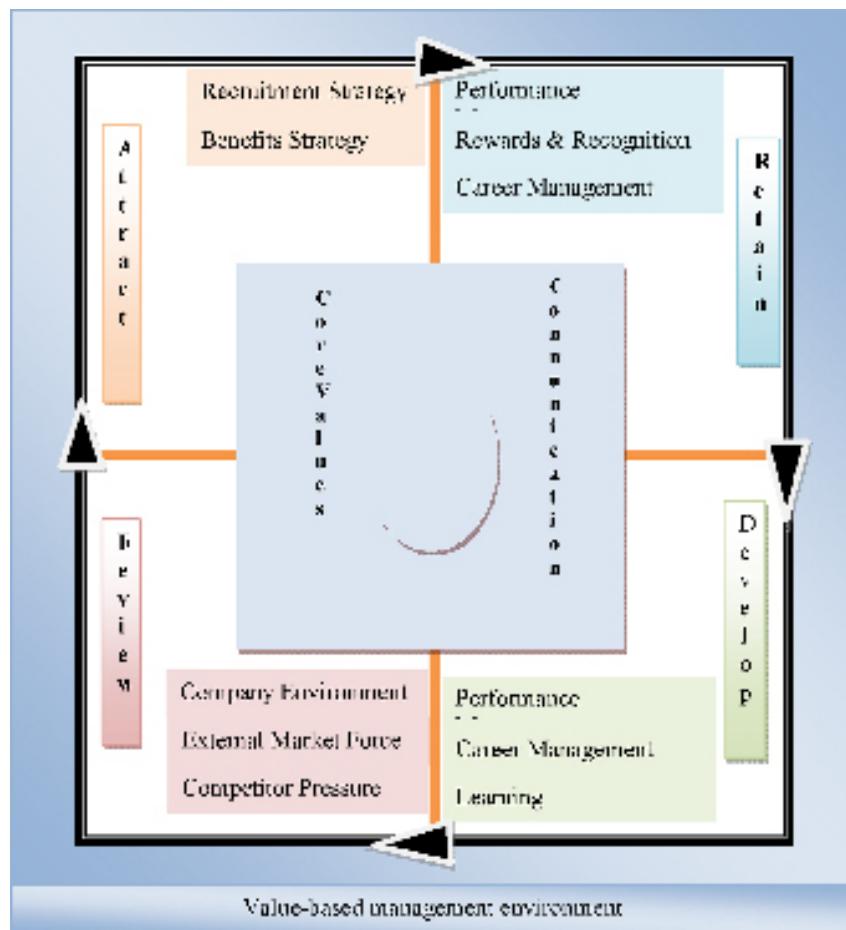
8. Britzelmaier, Thiel and Kraus, in their survey on Small and Medium-sized Enterprises (SMEs) in Germany, draw some seminal conclusions concerning the level of control and its relevance within SMEs as against the evolving backdrop of Basel II (now Basel III) commitments to keep capital costs down (Britzelmaier, Thiel and Kraus, 2009).

Although the authors do not explicitly mention VBM-related concepts, they clearly identify the need for change in SMEs. According to them, this change must come sooner rather than later in their control instruments. In other words, the organizational control over its assets is of basic importance in determining the outcomes.

9. The aim of Wolfgang Berens and Florian Krol was to explain the status quo of the management of small business, and above all, the implementing state of value-oriented principles in the enterprise management of these companies. Their evaluation outlines the central results of the survey of the "VBM in SMEs." A database was compiled from the results of 214 useable questionnaires (Krol (2009a), p. 1). It was evident that operative management instruments, in particular, were widely used in the management of the questioned enterprises.

Conjectures/Analysis

Future cash flows have to be discounted to obtain their net present value because this helps the company to value a project or an asset by considering the time-value of money. Thus all future cash flows are discounted to obtain their present values. In the first instance the discount rate, which is used to discount future cash flows, represents the cost of investment capital as approximately as possible. The most remarkable feature of this is that it involves factoring in the degree of uncertainty or risk in future cash flows. For instance, the directors' decision to invest the available money in different financial instruments over the coming months involves a fair amount of risk. Such risk has to be factored in so that future cash flows are discounted with a fair percentage of the probable risk arising from uncertainty (Collier, and Ampomah, 2008). According to a number of recent research studies on VBM systems, discounted cash flow techniques like the one explained below are more widely used by managers in order to obtain a realistic value parameter. Thus the metrics system that has been cited in the literature review above highly favours this approach.

Figure 1: VBM Value Creation Process

Source: <http://www.stixis.com/data/about/careers.php>

The formula for discounted cash flow is obtained from the formula for future value so that calculations for the time value of money and compounded returns can be made.

$$FV = DPV \cdot (1+i)^n$$

There is also a simpler formula to calculate one cash flow as follows:

$$= FV \cdot (1+i)^n = FV \cdot (1-d)^n$$

where

- DPV stands for discounted present value of the future cash flow (FV);

- FV is the nominal value of a certain amount of cash flow in a future period;
- i is the interest rate. This serves to show the cost of having capital in the current form and it also makes up for the probable risk that the repayment might not cover the full amount;
- d stands for the discount rate, (1+), i.e. the rate of interest being deducted at the start of the year instead of being added at the end of the year;
- n stands for the number of years or time period before the future cash flow occurs.

However, there can be multiple cash flows that have to be discounted in different ways.

The importance of discounting future cash flows by using these formulas also depends on other factors. Discounted cash flows give a real picture of the future possibilities. Since DCF is what an individual is willing to pay at present in order to obtain what he expects to have in the future, it is a process of expressing future revenue flows in terms of today's value. Probably the most important reason for using DCF is the fact that inflation erodes the value of money in times to come. Therefore, it is essential to make up for the loss. That is why in each subsequent DCF multiplied by the number of years, a lower value comes up. However, the question that remains unanswered is how best DCF can be utilized by the management to create real shareholder value.

Persistent inflationary pressures in the economy make it more than sensible to discount future cash flows of companies in order to obtain a realistic value. Thus, what is obtained in consequence is the net present value (NPV) of an investment or an asset. Company directors have realized the importance of investing the extra cash in a portfolio of financial instruments but have not paid much attention to the benefits of the DCF method for providing a reasonable picture of future cash inflows. Any DCF method, especially NPV, would help the company to achieve a fairer forecast for its future cash flows, which in turn are influenced by the future cost of capital, i.e. interest rates (Monden, and Kosuga, 2007).

The messages that financial statements are conceptually trying to put forward may be more important here. The literature review adequately explains this. In other words, the story that the financial statements try to put forward, or what questions should be answered by reading various financial statements and financial statements prepared using various measurement forms, carries more weight in a VBM system than is otherwise the case.

What is the relationship between aims of financial reporting (user needs), financial statements, measurement focuses, and measurement attributes at the conceptual level?

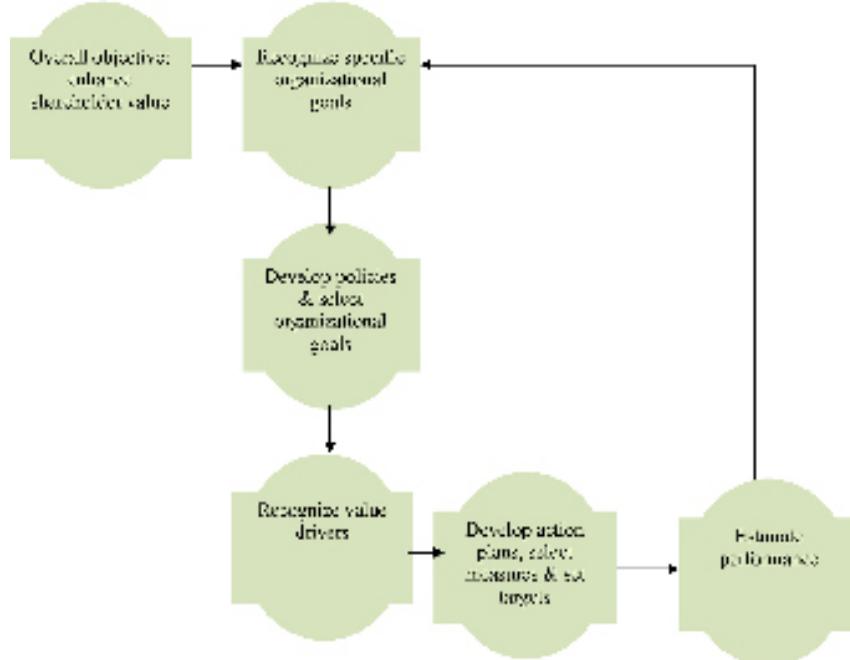
How does realization of an element impact on the meaning that is to be expressed by a particular financial statement? Norm-based management accounting practices presuppose the existence of a rather obvious relationship between concepts.

What measurement quality(s) best gets across the message(s) proposed for financial statements? What is the job of historical cost and fair value data in getting across these messages? Can the same measurement factor be applied in all measurement focuses?

Should the application of fair value be different for the statement of net assets and the statement of activities? In what way does fair value relate to the service model cost of the statement of activities?

What is the basic recognition category needed to report an element in a financial statement?

However, the scope for the construction of a theoretical and conceptual contingency model on VBM systems and practices in compliance-centric conventional accounting and auditing environments is much less. The extent of VBM practices in the compliance-centric rule-based organizational environments right now is shown by the analysis in the literature review. What is the scope of potential adoption and acceptance of auditing and accounting practices in the future against the backdrop of an evolving conflict between proponents and contradicitors? How far are the potential auditing and accounting organizational environments able to adjust to the changing circumstances of the new auditing and accounting practices? Finally, why and how should business organizations adopt new accounting and auditing methods to obviate the shortcomings in the existing practices, especially failure-prone strategic accounting and auditing initiatives that lack supervisory oversight? (Chapman, Hopwood, and Shields, 2007).

Figure 2: Value-Based Management Accounting Framework

Source: Adapted from Ittner and Larcker Figure 1, PP. 353.

The internal corporate environment of the organization is extensively determined by the BSC framework. This means that the four main elements and their respective sub-elements can be assumed to present a structural and componential framework for reference in establishing a set of paradigms or standards in the examination of VBM systems for effective adoption of value generation systems in the organization (Monden, Miyamoto, Hamada, Lee, and Asada, 2006). The consistent need for such effective and flexible information systems and their sub-structures has been emphasized time and again by researchers and analysts, thus focusing attention on the far reaching consequences of the design and implementation of such information systems. The organizational setting requires such VBM measures to be evaluated in advance for their degree of convergence with and divergence from the BSC framework, given the level of difficulty associated with both design and implementation-related costs and flexibility. A still greater need for a perceptive approach to such VBM-related systems within the organizational setting can be seen

against the backdrop of BSC-related performance metrics (Delaney, and Whittington, 2009).

The BSC framework identifies the existence of strategic advantages directly related to the proper implementation of VBM systems in keeping with the competitive environment of the organization. However, as outlined above, the relative significance and weight of the four sub-elements in the BSC framework might act as a decisive force in imposing restrictions on the management in implementing such programs and initiatives (Chew, 2007). Despite these constraints, the needs that organizations have for effective implementation of information systems and the initiation of processes to facilitate performance-related positive outcomes cannot be denied. Thus, the degree of pressure on the management to implement flexible and cost-effective information strategies and systems is always higher in the modern organizational context where the BSC framework invariably presumes that the management has the capabilities to identify and adopt such strategies and initiatives in keeping with the BSC-determined organizational goals.

Financial management-related perspectives of the BSC framework span across such variables as objectives, targets, measures, and initiatives that are identical in nature but distinct in performance-related outcomes, such as between objectives of budgetary control and targets of budgetary planning. For example, the former include such goals as limits on spending concerning a particular information system, while the latter include expenditure targets for a particular period. Customer-centric performance as determined by the BSC framework again has similar sub-elements (Ernst and Young, 2003). For example, the VBM environment-determined objectives for the need and introduction of cost-effective and flexible management accounting systems could include such variables as the measurement of customer loyalty and shareholder value (Hamel, 2002). Measures and initiatives again seem to be identical, though measures exclusively refer to metrics such as sales and repeat purchases, while initiatives refer to the adoption of customer-oriented strategies such as value creation efforts.

Conclusion

This research paper establishes positive and negative correlations between and among the theoretical and conceptual parameters of a contingency model of VBM practices. To identify and determine the current prevalence rate of VBM practices that converge on a probable reference framework of analysis it is essential to build up a congruent approach. VBM systems have also been affected by the fast changing regulatory and functional spheres. As a result, VBM strategies and practices have also undergone some rapid changes, along with conventional managerial accounting practices. Thus, the new VBM practices have emerged from the transient organizational culture of work practices.

Therefore, this whole process can be regarded as an internal mechanism that controls and assesses the validity and the reliability of the presented financial records. The recent international developments and also the current economic recession have forced businesses to adopt far reaching changes. For example, the need for proper VBM practices at least to survive in the business environment is acknowledged. The existing literature does not, however, adequately deal with the recent spate of managerial accounting anomalies that have plagued Europe and North America. Therefore

it is essential to focus on far more revolutionary accounting standards to bring about a real change in current practices at the organizational level concerning adoption of VBM systems.

Many authors cited in the literature review have helped in identifying a set of VBM paradigms that have a broader application value in the current organizational context as against the non-value-based approaches in managerial accounting systems. These new developments have been particularly focused on shareholder value creation through a shift in policy and strategy.

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CONSUMER RESPONSE TO PENALTIES IN RETAIL AND SERVICE CONTEXTS

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Abstract

Consumer monetary penalties (e.g., late fees, cancellation fees, product return fees) are common in retail and service settings and are used to encourage consumers to adhere to agreements and purchase contracts. Consumer penalties have multiple effects on consumer perceptions and behaviour: they stimulate unfairness perceptions, impact customer loyalty and provider-switching and influence consumers' word-of-mouth. The purpose of this research is to investigate how consumers' response to penalties depends on the penalty and the penalty resolution through the consumers' interaction with the service provider. Two empirical studies were conducted, each in a different penalty context (credit card fee, product return fee). The findings indicate that consumer background factors (such as the length of the relationship with the provider and previous history with the provider) as well as the characteristics of the consumer-service provider interaction (such as the outcome of the interaction and the firm's flexibility in handling the penalty) influence consumers' perceptions of the penalty fairness and their feelings of gratitude toward the provider, and subsequently their loyalty towards the provider (such as purchase intentions and positive word-of-mouth). Feelings of gratitude are identified as being more important factor in driving loyalty than fairness perceptions. The findings have important theoretical and managerial implications with respect to both the penalty management and a potential penalty resolution upon the customer request.

Key words: consumer behavior, penalties, loyalty, retailing

Extended abstract

Conceptual background

Monetary penalties are imposed on consumers in various industries, particularly services. For example, retailers charge a restocking fee when consumers return unwanted products; airlines charge a cancellation or re-ticketing fee when travelers change their plans; and banks charge a late payment fee when consumers fail to pay their credit card bills on time. While service providers claim that penalties are imposed to enhance compliance and compensate for the revenue loss, consumers may not agree. Research showed that the presence of a penalty only slightly enhances compliance (Fram and McCarthy 2000). In addition, there is a prevalent feeling among consumers that service providers abuse their power and employ penalties to enhance profit rather than cover losses or costs (Fram and Callahan 2001). As a result, many penalties are perceived as unfair, leading consumers to develop negative emotions and vengeful feelings towards the provider. These undesirable perceptions and emotions subsequently lead to behavioural consequences, such as switching service providers and negative word-of-mouth (Fram and McCarthy 2000, Kim and Smith 2005).

The present research focuses on the effects of penalty as well as the firm-customer interactions following the penalty. While penalty may have a negative effect on subsequent behaviors, we also investigate potential positive impact of resolving consumer complaints regarding penalties. We examine factors that contribute to gratitude and fairness as well as their simultaneous effects on customer loyalty and positive word-of-mouth. We empirically test the conceptual model in two

common penalty contexts, late payment credit card fee and retail restocking fee. In addition to contributing to development of theory of consumer response to penalties, the present research offers empirical and managerial implications for how service providers should manage and administer penalties to encourage positive consumer responses.

Our conceptual model proposes that consumers' background factors, penalty characteristics, as well as interactions between the firm and their customers influence consumers' perception of fairness and feeling of gratitude, which further drive their behavioural intentions. To test the model, we conducted two empirical studies.

Method

In the first study, we used the context of credit card late payment. Study 1 had a 2x2x2 between-subjects experimental design. We manipulated a consumer background factor (whether the consumer was a long-term or a recently acquired customer), a consumer fault factor (whether the penalty was imposed due to consumer controllable or non-controllable factor), and the firm-customer interaction outcome (whether the penalty was lifted after the customer contacted the bank). The experiment was administered online to 290 students and staff at a Northeastern U.S. college.

Study 2 was a 2x2x2 between-subjects experimental design applied to the context of a retail restocking fee. We manipulated the penalty outcome, a consumer background factor, and a service provider procedure factor. Similar to study 1, an online experiment was used, with 268 respondents randomly assigned to one of the experimental conditions.

All constructs were measured with multiple items using 7-point Likert scales. Measures of entitlement and fairness perceptions were adapted from Xia et al. (2010). Three adjectives—gratefulness, thankfulness, and appreciativeness—were used to measure feeling of gratitude (McCullough et al. 2002). Measures of purchase intentions and intention to advocate were adapted from Lam et al. (2004).

The conceptual model was assessed using latent variable structural equation modeling in AMOS.

The findings were consistent across the two studies.

Findings

As expected, having a long relationship with the firm as opposed to being a recently acquired customer led consumers to experience a stronger feeling of entitlement to having the penalty lifted upon contacting the firm representative. Feeling of entitlement negatively affected perceived fairness of the penalty policy and perceived gratitude. Also, when the penalty was imposed due to a controllable situation, the experienced feeling of entitlement was lower than when the penalty was imposed due to an uncontrollable situation by the consumer.

Outcome of the firm-customer interaction was proposed to drive both consumers' feeling of gratitude to the service provider and their perceptions of the penalty fairness. We found support for both of these predictions.

A flexible service provider procedure led to higher perceptions of fairness and feelings of gratitude. Perceived fairness of the penalty policy further positively influenced consumers' future purchase intentions and their advocacy of the provider. The effects of gratitude on purchase intentions and advocacy were positive as well. Lastly, the relative contribution of gratitude to loyalty was larger than the relative contribution of fairness perceptions.

Discussion

In addition to providing a theoretical model of consumer response to penalties and penalty resolution, our research provides important managerial implications. When a penalty is imposed, it leads to many negative responses, such as switching the provider and negative word-of-mouth, due to unfairness perceptions and negative emotions. However, when the penalty is lifted, fairness perceptions are higher and consumers feel grateful to the company. Loyalty is enhanced, leading to increased purchase intentions as well as positive word-of-mouth. But does this mean that companies should always lift the penalty when consumers so request? Our model suggests that outcome is important, but not the only factor influencing loyalty. The key is to be flexible and considerate in handling the situation.

Consumers expect the company to consider their background factors, such as being a long-term customer and complying with the policy in the past. In those cases, customers feel entitled to certain privileges, and when they are granted, their fairness perceptions are enhanced. The feeling of gratitude further contributes to the enhanced loyalty. These effects are especially strong when the penalty is imposed as opposed to lifted. Therefore, when the company believes that the penalty should be imposed, they should refuse the customer's request by offering a good explanation and showing that they considered the customers' background factors.

It is also important that the penalty is reasonable and it conforms to the industry norm. Meeting customers' penalty expectations enhances fairness perceptions and minimizes the negative impact of the penalty on loyalty.

Finally, service providers should pay special attention to practices that may enhance feeling of gratitude, such as lifting the penalty when consumers have a good reason for being exempted, being flexible in considering customers' reasons for non-compliance, and taking into account customers' history with the provider.

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Normative Support: National Norms. It is comprised of four items which is taken from Busenitz et al. (2000; 994-1003). It measures normative beliefs regarding entrepreneurial activity.

Social Support: Close Personal Support. It was assessed using six items which reflects the approval and support of family and friends to entrepreneurial activity. The scale is the combination of a two subscales which measure the support of the family and the support of friends.

Parent/SiblingOwnership: It was measured by asking subjects whether their parents or any brothers or sisters had ever started their own business. This item was coded "0" if the answer was no where as it was coded "1" if the answer was yes.

Family Demands: Two questions of this study, "Family responsibilities would make it difficult for me to start my own business" and "Starting my own business would take a big portion of time away from family" were considered as separate, single-item scales. These items was coded "0" if the answer was no where as it was coded "1" if the answer was yes. Baughn et al. (2006, 57-77) used a five point Likert Scale to answer this question.

Perceived Self-Efficacy: Subjects were asked to rate their abilities on 15 critical entrepreneurial tasks (see Analysis). These items were derived from an entrepreneurial self-efficacy scale (DeNoble et al., 1999; 73-87).

The 16th item of this measure is "Do you have necessary abilities (knowledge, skill and experience) to start a new business?" was presented independently of this list.

Alpha is a function of the items in a scale and the average inter-item correlation (Cortina, 1993; 98-104). As can be seen in the analysis, coefficient alphas for entrepreneurial interest, national norms, and self-efficacy are greater than 0.70. On the other hand, the coefficient alphas for close support ($\alpha = 0.66$) and its subscales family support ($\alpha = 0.56$) and friend support ($\alpha = 0.59$) are smaller than 0.70.

RESULTS

Frequency Distribution Analyses

Analyses of Statistical Means and Two-tailed T Test

A five point Likert Scale was used to determine entrepreneurial interest, national norms, close support, family support, friend support and self-efficacy of students in Albania and in other countries. Yes and no questions were used to determine parent/sibling ownership of a business, family responsibility, time away from family, and sex of respondents in Albania. Baughn et al. (2006, 57-77) used yes and no questions to determine parent/sibling ownership of a business and sex of respondents in their study. They used a five point Likert Scale to determine other scales. Table 9 presents the statistical means of scales, sex and age for Albania, China, Vietnam (Hanoi and HCMC regions) and the Philippines. The statistical means of an entrepreneurial interest, national norms and self-efficacy of Albania are similar to the statistical means of Vietnam. The statistical means for close support, family support, friend support and parent/sibling ownership are higher for Albania than the statistical means for China, Vietnam and the Philippines. There are more female respondents in this study than the study conducted by Baughn et al. (2006, 65). The statistical means of family responsibility and time away from family are lower for Albania than the statistical means of other countries. It can be summarized that, Albania students enjoy more close support including family and friend support than students in other countries in the study conducted by Baughn et al. (2006, 65). More Albania students have family members who run their own businesses than students in other countries. On the other hand, Albania students do not have family responsibilities as much as students in other countries. They believe that they can spend more time with their family if they start their own businesses when compared to students in other countries in the study conducted by Baughn et al. (2006, 65). Two tailed t-tests with Levene's test were applied to determine the statistically significant differences for questions and scales based on class, major and sex ($p < 0.05$ and when variances are homogenous). There is a significant difference between juniors and seniors on managing effectively cash, managing effectively

in entrepreneurship if they perceive admiration and respect for entrepreneurs in their country. This finding is similar to the finding of Baughn et al. (2006, 71). On the other hand, the measure of national norms is less significant in both regression and correlation analysis in this study than in the study conducted by Baughn et al. (2006, 67-68).

Family Demands

Hypothesis 4 received support in this study. Family demands has a negative significant affect on an entrepreneurial interest both in the correlation analysis and multiple regression analysis in this study. It has more significant affect on the entrepreneurial interest of Albania students than the students in the study of Baughn et al. (2006, 67-68). On the other hand, the measure of starting one's own business would take a big portion of time away from family has similar significance on entrepreneurial interest in the multiple regression in Albania and in Albania. Females did not evidence greater levels of concern about these issues than did their male counterparts in this study. These findings are similar to the findings of Baughn et al. (2006, 71).

Family Start-ups

Hypothesis 3 received support in this study. There is a positive correlation between family ownership of a business and entrepreneurial interest in Albania. On the other hand, parent/sibling ownership is also the significant predictor of entrepreneurial interest for the multiple regression analysis in this study. This measure has more significant affect on the entrepreneurial interest of Albania students than the students in the study of Baughn et al. (2006, 67-68).

Implications for the Development of Entrepreneurial Interest

This study shows that educated people have tendency to be entrepreneurs. They have the necessary skills, abilities, relations with social networks and close support. Parent/sibling ownership of business and national norms support students to start their own business. Family responsibilities can be considered as a barrier to be an entrepreneur. But, students can overcome with this problem by doing planning

and time management. All of these countries can be considered as developing countries. Further studies can be conducted in developed and underdeveloped countries to examine the differences or similarities in the entrepreneurial interests of university students. Future research should also be conducted on other groups besides university students in different types of countries to examine the differences or similarities with these studies. Normative support for entrepreneurship is low among students in Albania. There should be efforts to enhance the perceived respect and admiration for entrepreneurs in Albania. The Albania government should focus on supporting entrepreneurship in its strategic development plans. It can emphasize using media (TV, radio, press, etc.) more effectively to improve the image of the entrepreneurs. It should provide more funds, consulting, training and assistance, universities and other institutions to attract young and educated people to choose to be entrepreneurs. Thus, the number of start ups can increase; they can grow and make contributions to the development of Albania.

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USING WEB 2.0 TECHNOLOGY IN PERSONNEL MARKETING TO TRANSMIT CORPORATE CULTURE

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Abstract

Modern information and communication technologies influence almost all business processes and are playing an increasing role in personnel management practices. The integration of technology into business and social practices is changing the nature of how information is acquired. The social revolution, that is taking place due to the influence of the Internet, is creating new opportunities for personnel marketing managers to explore new avenues to engage with their audience. There are several online mediums such as social networking sites, rating portals, and micro-blogging which are becoming prime portals to promote job vacancies and recruit potential candidates. Job applicants are using these facilities to find information on employers to gauge a picture of the company's corporate culture and working practices. Consequently, the traditional career brochure and company websites are no longer sufficient sources of information to new applicants who are seeking a more personal review, from employees, about the organization. This transparency of information and working practices requires personnel marketing departments to take a proactive role in conveying the corporate culture of a company and making it tangible for job applicants in a digital environment.

This paper will put forward a conceptual framework of the usage of web 2.0 technology and social media to transmit a corporate culture that helps companies to attract, recruit and retain talented candidates. The findings will aid human resource managers to address the communication challenges and opportunities that new technologies and media present.

KEY Words: Personnel Marketing, Corporate Culture, Social Media, Web 2.0

Emerging Markets

There are numerous factors that have influenced the growth in the acquisition of information through technology namely: the internet, social media, globalization, integrated communication, global transportation and networks, global media, education, changing management practices, etc. Technology and modern communication mediums influence almost all business processes and are increasingly affecting personnel management. The current discourse of 'human capital', a company's competitiveness, depends more than ever on trained and motivated employees (Trost 2009, p.29). Human Resource managers are becoming increasingly aware that employees are the key to a company's success and the prerequisite to creating a long-term strategic advantage (Beck 2008, p.10). In some cases, demographic changes have meant that it is no longer possible for companies to satisfy their needs for skilled staff and executives in their home markets. As a result, there is growing competition for the best staff. Thus, finding and retaining highly trained staff has become a critical success factor for many companies. In order to respond to these developments, on the online labour market, social media is being developed as a new recruiting channel. The Internet has long been used as a medium to advertise vacancies but with the evolution of Web 2.0 and social media the practice is flourishing.

The increasing popularity of social media is changing the way personnel marketing managers

and Human Resource managers are exploring new recruitment strategies to take advantage of the internet (Universum 2010). Recent events, on the global political stage, have shown us just how important – but also how increasingly normal – these media are for young talented candidates. Social networking sites (Xing, Facebook, LinkedIn), rating portals (Kununu) and microblogging (Twitter) are experiencing phenomenal growth rates. Job applicants are using these tools to find information on potential new employers to gauge a more informed picture of a company's corporate culture. Consequently, traditional career brochures and a company's website are no longer the only sources of information, available to applicants, when deciding whether or not they want to work for an employer. In addition, applicants, (former) employees and customers can use blogs, forums and rating portals to tell others about their experience of the companies in question. Therefore, a key challenge facing personnel marketing departments is conveying their own corporate culture and making it tangible for job applicants. Web 2.0 technologies and social networks in particular offer transparent and authentic ways to transmit this 'corporate reality'.

This makes the actual corporate culture of the company transparent, with all of its positive and negative aspects. This is an opportunity for those organizations who have rewarding remunerations and collegiate environments but a potential incendiary for organizations operating a strict hierarchical structure with limited rewards and freedom of operation. It is thus a primary focus of personnel marketers to actively engage with targeted audiences using Web 2.0 tools to ensure that an employer's brand equity is highly valued.

Expectations of employers are also undergoing a dramatic change. Generation Y or the Net Generation are conscious of achieving a work/life balance and working for an organization that has laudable corporate social responsibility. Today's graduates are looking for companies that offer them a supportive environment with flat hierarchies as well as the opportunity to work independently. They expect their future employer to display a management style characterized by respect and trust. A corporate culture that gives an individual the chance to develop their potential is becoming more and more important. Corporate values in terms of integrity, social responsibility, and sustainable practices are gaining increasing importance of

attractiveness to candidates. Hierarchies and rigid structures are neither attractive nor appropriate for the graduates of today.

Challenges facing Human Resource Managers

The increasing popularity of electronic and web-based software solutions for Human Resources (HR) is changing existing processes, instruments and infrastructures. This is leading to a new series of questions that need to be addressed:

1. How should we define personnel marketing in relation to the online market that is being created?
2. What is the link between corporate culture and personnel marketing?
3. Can Web 2.0 technologies support personnel marketing?
4. What are the ethical challenges of operating online?

In this paper the authors define personal marketing as "proactive efforts to promote (both offline and online) the working practices and company ethos to attract and retain employees." These practices will facilitate the retention of current employees and the recruitment of future employees. The definition highlights a direct and interconnected link between a corporate culture and personnel marketing. The growing popularity of Web 2.0 is an opportunity, for personnel managers, to recruit talented individuals from a wider location base. Finally, as with any new practice guidelines of ethical conduct need to be established to ensure integrity and legal compliance.

Employer Branding

The topic of employer branding has become increasingly established over the course of the 90s. Ambler and Barrow (1996) first coined the term in 1996. They defined the employer brand as "the package of functional, economic and psychological benefits provided by employment, and identified with the employing company" (Ambler and Barrow, 1996, p.185). Thus, employer branding comprises the profiling, positioning, and communication of an organisation to present itself as an attractive employer to the relevant target

markets (Beck, 2008, p.28; Trost, 2009, p.13). The issue is to find approaches and ideas to establish a brand, long since applied by marketing and strategic management, for the purpose of winning employees and to promote the development of the organisation as an attractive employer (Trost, 2009, p.13). When taking this competitive approach, the issue is to identify an organisation's unique selling points and to package them as the employer brand. To achieve this, the motivation, attitudes and emotions of the target market need to be considered in order to ensure that the employer brand is correctly perceived by market, i.e., the impact of the employer brand on the target market is put centre-stage (Beck, 2008, p.28). In this sense, employer branding is, according to Petkovic (2008, p.78), a systematic process to creating an employer brand that in the end leads to clear preferences, in a candidate's choice, of an employer.

Personnel marketing can therefore be viewed from the perspective of the preferences of a candidate in his or her choice of employer and job. This implies that a candidate (potentials, applicants, employees) has a range of alternatives available (Beck, 2008, p.25). The definition of employer branding carefully includes all the elements that would help a potential applicant or an existing employee decide whether to commit to an organisation. Backhaus and Tikoo (2004, p.502) define employer branding as "the process of building an identifiable and unique employer identity," and the employer brand as "a concept of the firm that differentiates it from competitors." Knox and Freeman (2006, p.696) and Davies (2007, p.667) all agree with the focus on differentiation from competitors and promotion of a unique employment offering. Edwards (2010, p.6) describes employer branding as "an activity where principles of marketing, in particular the "science of branding", are applied to HR activities in relation to current and potential employees. There is an overall consensus, on the definitions that have been advocated for employer branding, in that the common themes highlight differentiation, promoting an organisation as a great place to work and the fact that this message has to be communicated to both internal and external audiences, and it is clear to see that employer branding is fundamentally associated with facilitating employment decisions.

Aaker (1997, p.347) states that brands have personalities, and defines brand personality as the set of human characteristics associated with

a brand. Her work identified five dimensions of brand personality and was carried out in the context of consumer behaviour. The resulting brand personality dimensions are associated with consumer brands. There is, however, considerable evidence that "employer brands of organisations considered to be highly recognisable and prestigious are likely to attract higher levels of organisational identification" (Edwards, 2010, p.13), signifying an inextricable link between consumer brands and employer brands.

Kimpakorn and Tocquer (2009, p.534) are careful to point out that there is a difference between the corporate and employer brand though. They state that "an employer brand is an organisation's image as seen through the eyes of its actual and potential employees and should not be confused with the consumer's brand...therefore, the objective of employer branding is to convince employees that their organisation is a good place to work, to retain them and to ensure both their understanding of the organisation's goals and commitment to them." Whilst there is a difference, it is argued that employer branding shares theoretical foundations with both consumer and corporate branding, and impacts upon many of the same stakeholder groups (Moroko and Uncles, 2008, p.161).

Backhaus and Tikoo (2004, p.502-503), in particular, explain the differences between external and internal marketing in the context of promoting an employer brand. Their view on external marketing, of an employer brand, is that its success relies on the assumption that "the distinctiveness of the brand allows the firm to acquire distinctive human capital." This distinctiveness means that potential applicants build up certain beliefs about the employment experience with the firm, which they carry with them into their actual work once they start. The purpose of internal marketing, according to Backhaus and Tikoo is to "help create a workforce that is hard for others to imitate." This is achieved through "systematically exposing workers to the value proposition of the employer brand" which enables the firm to "achieve a unique culture focused on doing business the firm's way."

The literature reveals that different theories can be applied to the question of why we choose one employer over the next (*ceteris paribus*). Lievens et al (2007, p. 45) explains the "cocktail-party test" where people's reactions to the question "Who do you work for?" reveal how much your organisation's employer brand is valued by them.

He then links this idea to the more formal “social identity theory” (Ashforth and Mael, 1989, pp.20), which suggests that an individual’s identity and sense of one’s self are partly determined by their team at work and/or the organisation they work for. This is hardly surprising considering the amount of time we spend at work.

Lievens and Highhouse (2003, p.77) posit that, “the foundation of the brand image construct seems to be that consumers associate both instrumental functions and symbolic meanings with a brand.” What Lievens & Highhouse meant by this was that an employer’s brand image, and hence its attractiveness, is made up of instrumental attributes (pay, bonuses, benefits, location etc – which could be likened to the “inducements” described above) and crucially another aspect, which are subjective attributes such as innovativeness and prestige. They conclude that if an organisation fails to promote their subjective attributes and focuses on just the job and organisational attributes of their employer brand then they will fail to make themselves as attractive as they could be. This is of course assuming that the organisation, in question, has attractive subjective attributes! Conversely, if the organisation succeeds in promoting the subjective attributes (trait inferences) of their employer brand it can enhance the company’s attractiveness for potential candidates as a place to work.

Based on the debate, in the literature, the authors’ define Employer Branding as, “a process to build a distinct employer brand, in the perception of the target audience, that reflects authenticity, differentiation, consistency and attractiveness to provoke loyalty and positive perception.”

Web 2.0

A key characteristic of Web 2.0 is its openness and ability to transmit authenticity. The whole community is a consumer and producer at the same time. It is interactive, working in real-time and beyond borders. This characteristic and benefit can work hand in hand to help reduce the expectations gap that currently exists according to Universum (2010). This is encouraging in establishing an employer brand.

Organisations should ‘listen-in’ and monitor what is being said about their brand in social spaces to learn, respond, act and where necessary, instigate change. The feedback available on the web about an organisation is highly valuable and organisations should establish programmes to manage their online reputation in order to minimise potential damage and to maximise positive exposure.

There is simply nowhere to hide in the Web 2.0 world and to be a great employer an organisation genuinely needs to be a great employer – the transparency of the web hands the power to the consumer/applicant. With the rapid development of the Web 2.0 landscape it is widely recognised that it is now impossible for an organisation to control their employer brand; however, by positively engaging in the interactive world of Web 2.0 it is possible to protect, influence and shape it. The truly great employers will have nothing to hide and capitalising on Web 2.0 they will further strengthen their sustainable competitive advantage in ‘the war for talent’.

The web 2.0 technologies help facilitate information capture that permits companies to better understand their target groups regarding their expectations, needs, values and objectives. But moreover it could help to influence and transport important messages. The model, as shown in Figure 1, explains how personnel marketing managers can leverage the social media tools on Web 2.0 to engage with targeted dialogue with potential candidates online. The model helps firstly by gaining the attention of the pertinent target groups and transports the value statement (Relevance). Secondly, it supports to attract and recruit talents (Recruiting). Thirdly, it shows and demonstrates that the values statements are really true and lived (Retention). Fourthly, it acts as channel, vehicle of the marketing messages and initiates referrals (Referral).

There are currently a number of tactics that companies have embraced to recruit potential candidates online. Examples of how social media is being utilised to engage with targeted users online is highlighted in Table 1.

Figure 1. The Four Rs of Recruiting employees online.

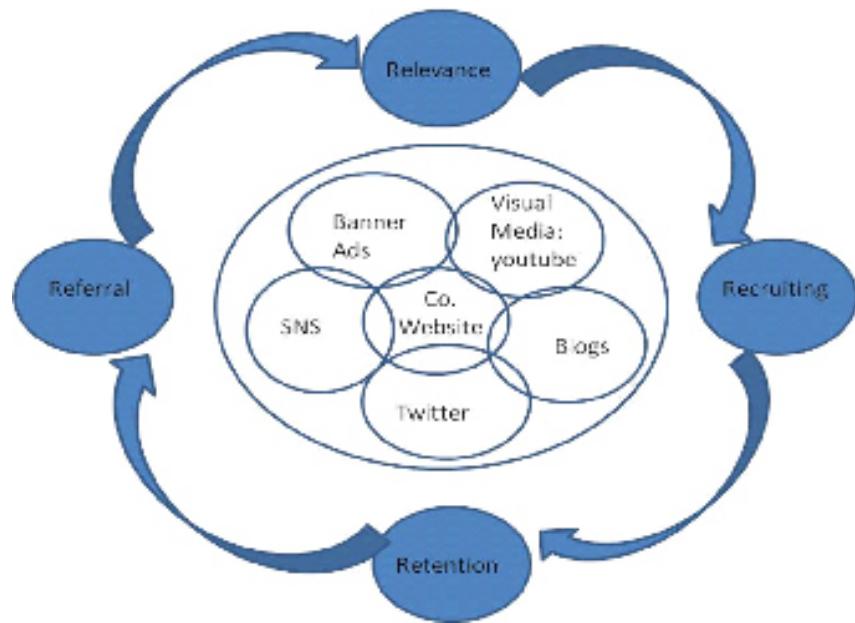


Table 1: Successfully recruiting candidates online

Online Medium	Benefits	Promotion
LinkedIn	Companies can search for talent and establish relationships with potential candidates. Companies can use the "Career Pages" section to create a career page for the company.	Companies can post a job. Emails can be sent to LinkedIn users. The company can join discussion groups to identify and recruit candidates.
Facebook	This has the largest number of members than any other social networking site.	Companies can create a business account and post pictures, videos and messages about their company. Companies can create their own discussion groups. Companies can post a job.
Twitter	Companies can search for talent. Tweepsearch.com allows you to search for Twitter profiles by job title.	Companies can post jobs on their twitter account.
Youtube	This social media has the largest number of views per day.	Companies can create a video to entice candidates as well as promote the company culture.
Banner Ads	Create awareness of job opportunities.	Banner ads can be placed on popular social media sites to generate volume of awareness or targeted to discussion groups on social media sites.
Blogs	Have a high degree of authenticity if written by an employee or independent observer.	Initiating a discussion on the positive policies of the company can enhance the employer brand.
Company Website	A portal of information on the company	Social media can be linked back to the company website to help candidates discover more about the company through its vacancy/career pages.

Conclusion

This research highlights the growing popularity of social media being used as a recruitment tool. Personal marketing managers are playing a vital role in ensuring that the employer brand online conveys content (both visual and textual) that is genuine and reflects the ethos of the organisation. This is especially important in an age where social

media tools are perceived as an additional medium, in the arsenal of communication, available to personal marketing managers to recruit and retain targeted potential candidates.

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RELATIONSHIP BETWEEN INDUSTRY AND CAPITAL STRUCTURE FROM AN ASYMMETRIC INFORMATION PERSPECTIVE

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Abstract

The study is examining whether there is a significant relationship between the capital structure and the industry where the company is active at. If there would be a significant relationship between the industry and the capital structure, and moreover there would be an optimal capital structure - where the firm's value is maximal - in every industry than it would be a guideline for the management and for those who are financing the operation of the company knowing the company's capital structure. Several theories and models have been carried out on the field of capital structure in the last decades. These theories searched the existence of an optimal capital structure and its effect on the firm's value. One of these theories is the asymmetric information theory.

This research examines the relationship between industry and capital structure from this asymmetric information perspective. The study provides clear evidence that there are industries which can be differentiated from other industries from capital structure viewpoint, moreover the study provides the role of information asymmetry of this phenomenon. The conclusion of the study is that it is important to take into account during a financing decision process that in which industry does the company operates.

Keywords: *industry, capital structure, leverage, cross table analysis, concentration.*

Introduction

Companies differ in the way how they finance their operation. The three most important financing

opportunities are the retained earnings, to issue bonds (obtain credit) or to issue shares. Capital structure is the combination of these financing sources.

A company's most important motivating factors while issuing any kind of security to finance the operation, can be split into three major groups. The first one is to finance a project (initial financing, reinvestment and expansion associated with new projects). The second one is risk sharing, and the third one is to ensure the liquidity of the company. (Tirole, 2006) When companies make decisions about issuing securities by any reason, it is always a very important aim for them during bringing the financing decision is to find that optimal capital structure that would maximize the value of the firm.

The study will be built up by three parts. In the first part it will summarize the basic concepts of the study, the most important capital structure theories, and in detailed the asymmetric information theory. In the second part it will introduce the researches on the field of the relation of industry and capital structure, and in the last part the study will introduce an empirical research.

Basic Concepts

Capital structure

This study will define capital structure as the ratio of the debt to the sum of the debt plus equity, namely,

$$L = \frac{D}{D+E} = \frac{D}{V} \quad (1)$$

Where,

L: leverage

D: value of debt

E: value of equity

V: total value of firm

The reason for defining capital structure this way, is that like this, the capital structure is a ratio, which makes it possible to use it for comparing different companies with each other, since the size effect doesn't appear.

Industry

The industries were defined according to a Hungarian standard, to the TEÁOR codes, which is compatible with the NACE codes. NACE (Nomenclature générale des activités économiques dans les Communautés Européennes) is the statistical classification of economic activities in the European Community. So it is an industry classification system, like the SIC (Standard Industrial Classification) in the United States of America. NACE is a 6 digit code, where the first four digits are the first four level of the classification system. This system is the same in all of the European countries. The fifth digit differs from country to country, and further digits are sometimes placed by suppliers of databases.

Capital Structure Theories

Several theories and models have been carried out on the field of capital structure in the last decades. These theories searched the existence of an optimal capital structure and its effect on the firm's value. They were searching for those factors which determine an optimal capital structure. All of the theories have been criticized mainly because they have preconditions which make them unable to adopt to the real world's economy.

The capital structure theories can be divided into three major groups, to the traditional practice, to

the Modigliani-Miller propositions (Modigliani-Miller, 1958), and to the modern capital structure theories, such as theories based on agency cost (Jensen-Meckling, 1976), or the pecking order theory (Myers-Majluf, 1984), or the signaling theory (Ross, 1977), etc.

Modigliani – Miller Propositions

Modigliani and Miller (1958) were the researchers who gave the basics of the capital structure theories. Though they have extended ideas of past researchers, like Williams (1938), Durand (1952) or Allen (1954), their result was very new, although hard to except. What made their result very special, that they give a proof of the propositions – which noone could give before –, and the method they have used was very new that time. The basic concept was, and also the first proposition of Modigliani – Miller, that the capital structure makes no difference, namely the value of a firm is independent of how it was financed. They proved the proposition with an arbitrage proof, namely that while the households can borrow or lend on the same interest rates as companies do, it won't make any difference to buy one or the other companies' share from a certain risk class, since they can do any kind of leverage – "homemade leverage" –themselves. So they won't pay more for a company, just because it differs from another one only from the viewpoint of its capital structure.

The second and the third propositions were the consequence of the first one. The second stated, that the expected return of a company's share increases when the leverage is increasing. While the third proposition stated, that a company will

accept an investment opportunity, if its return is greater than the expected return of the assets the company already has, and this decision is not effected by that how the company will finance this investment.

From the first day the Modigliani – Miller theorems have been published, countless critics have appeared. The most important problems were, that it was impossible to adopt these theorems to the real world's economy, though theoretically the theorems have been proved in a lot of ways.

Joseph. E. Stiglitz summarized the main critics from the theoretical point of view of Modigliani – Miller theorems in 1969, which were (Stiglitz, 1969, pp.784.):

- it depended on the existence of risk classes,
- the use of risk classes seemed to imply objective rather than subjective probability distributions over the possible outcomes,
- it was based on partial equilibrium rather than general equilibrium analysis,
- it was not clear whether the theorem held only for competitive markets,
- except under special circumstances, it was not clear how the possibility of firm bankruptcy affected the validity of the theorem.

In 2005 Stiglitz summarized, the reasons why the theorems cannot be used in the real world, which were the following: The theorems do not take into account that in the real world there are,

- taxes;
- cost of bankruptcy;
- imperfect information.

The modern capital structure theories are based mainly on these critics. The trade – off theory (Kraus – Litzenberger, 1973) is based on the first two critics, while the information asymmetric theories like the theory of agency costs, pecking order, signaling, etc. depend on the imperfect information. This paper would like to analyze the role of information asymmetry in the relation of the industry and capital structure. In case of the trade-off theory, Bradley – Jarrel – Kim (1984) have done an empirical research which have included the role of the industry. Their main findings were:

1. The leverage decreases if the cost of financial distress (bankruptcy) increases, and with the increase of those tax saving factors, which are not defined as debt;
2. Industry has an important role in determining the capital structure;
3. Leverage and the volatility of the revenues are in an inverse relation.

The reason why this paper deals with the information asymmetric theory instead of the trade – off theory, is that the trade – off theory cannot give an explanation why are there differences between the industries, and why does the most profitable company inside an industry has the smallest leverage. (Wald, 1999)

In sum, this paper would like to emphasize the information asymmetry theory, and its role in the relationship between the industry and capital structure and will try to give an explanation for the differences of capital structure between the industries. The paper highlights industry, since the Modigliani – Miller propositions were based on the risk classes, which were built up by industries in the empirical proof of Modigliani and Miller – though theoretically they have not said unambiguously that companies in the same industry would belong to the same risk class. Separating companies into industries, and say that they belong to the same risk class, is just a rough approximation. In this paper I assume, that industries can be differentiated from the aspect of capital structure, which is against the Modigliani – Miller propositions, since the capital structure inside an industry can vary notably, since capital structure shouldn't matter – according to Modigliani – Miller. I will assume, that this difference between the financing policies of different industries can be the consequence mainly of an information asymmetric problem – of course other reasons can appear as well besides the imperfect information.

Information asymmetry

The information asymmetric theories can be split into three major groups, the pecking order theory, the signaling models and the managerial risk aversion models.

The pecking order theory says, that when companies bring a financing decision, first they would like to finance the investment internally,

than if it is not possible, then they will finance it with debt, and just if the company cannot finance with debt either, than it would issue equity as a last resort.

The signaling model says that the high leverage of a company is a sign for the investors, that the company is a safe investment, since the high leverage increases the probability of bankruptcy, for which the managers are responsible. So the managers would use a lot of debt for financing the investment, if they know, that the company will operate well, and it will be able to earn the sufficient amount of cash-flow.

The managerial risk aversion model says, that managers are risk averse. While the leverage is increasing, the risk of the equity is increasing as well, which leads to the decrease of the well-being of the managers. This decrease can differ from firm to firm, which is being influenced by the quality of the operation. So the managers can show to the investors, the better quality of the company with higher leverage.

In case of a company we can talk about information asymmetry from two viewpoints. There can be asymmetric information between the managers and the owners (stockholders) and also between the managers and the debtors (bond holders).

These participants of the market have asymmetric information of the following according to Tirole (2006):

- value of the company's assets;
- opportunities in new projects;
- quality and value of collateral
- own interest, and profit of issuer;
- any other factor, that can have an effect on the profitability of the investment.

Some studies have been published that have tested the empirical evidence of the asymmetric information. They have found the following:

- prices of shares decrease when new shares are being issued, which can be the consequence that the investors think that the assets of the company are overvalued. (Asquith – Mullins, 1986) This increase should be greater in cases when the information asymmetry is higher (Dierkens, 1991; D'Mello

– Ferris, 2000; Eckbo, 1986; Shyam – Sunder, 1991) It was found as well that during booms this price decrease is not as notable as during recessions.

- pecking order theory (Myers – Majluf, 1984)
- market timing: to issue equity is more common when the economy as whole is booming.

Researches on the Relationship of the Industry and the Capital Structure

Though it is widely said that the industry has a great influence of a company's capital structure, it couldn't be empirically proved yet. Empirical researches were made for example by Remmers, Stonehill, Wright and Beekhusen (1974). They have pointed out that inside an industry the standard deviation of the capital structure is very notable. Later Chaplinsky (1983) publicized that the industry describes small of the standard deviation of the capital structures. Then Bradley, Jarrell and Kim (1984) had the result that the industries are important, but if we take out those industries which are under state regulations, the industry just explains 10,1% of the capital structure.

Based on the work of Maksimovic and Zechner (1991), MacKay and Phillips (2002) had made a study, where they have extended their research to the companies' maturity. MacKay and Phillips tried to answer the question, what is the role of the industry during developing the capital structure, and how does firm's assets and liabilities affect each other. Their result was that though it cannot be said that there is an optimal capital structure in each industry, those companies which differ in point of technology from the industry average, will operate with higher leverage. Moreover there is a positive relation between the change in the capital structure and risk as well.

Those companies which are entrants in an industry even though they are smaller and riskier than other members of the industry do not use less credit. The authors have verified that the entrants and the market players are both operating profitably, though after entering the market, the profitability falls back notably. While those companies which are leaving the market are using higher leverage, and are more capital intensive than the industry average, also during the exit and before exiting the market.

They have also pointed out that industry and group factors beyond standard industry fixed effects are also important to firm financial structure. Limited industry-mean reversion occurs as firms mostly remain in their industry groups – both in real and financial dimensions. (MacKay-Phillips, 2002, pp.3)

Empirical Research

Source of Data

The research contains data of 1.622 Hungarian corporations and medium sized firms, from 49 industries. The data were collected by Ecostat in 2003. The paper studies the year 2003 since it wanted to avoid the effect of the financial crisis of 2007-2008.

The database have been cleaned in order to be able to use it for the analysis, namely those

industries have stayed in the analysis, which had at least 25 companies in the database. So finally, the research was based on 1503 companies, and 28 industries – some of the very similar industries have been contracted in order to reach the minimum 25 number.

Results of the Crosstable Analysis

The basic question of the research was that is there a significant relationship between the industry and the capital structure. It was examined by cross table analysis, and by concentration analysis.

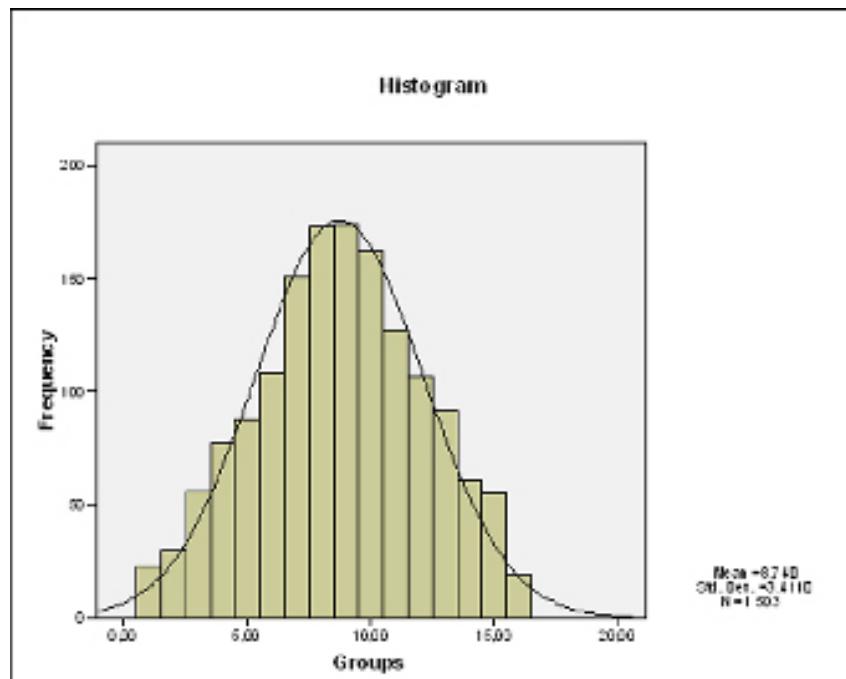
The two variables used during the analysis were the industry, and the leverage. The variables had to be changed before the analysis to be able to use the cross table, since the leverage is measured on a metrical ratio scale, which had to be converted to a non-metrical nominal scale by splitting the data into 16 groups. The following chart shows the formed groups:

Table 1: the 16 groups into the corporations were split

	Lower barrier	Upper barrier	Number of firms
1.group	0%	15,35%	24
2.group	15,36%	23,00%	40
3.group	23,01%	30,41%	65
4.group	30,42%	36,20%	81
5.group	36,21%	41,67%	98
6.group	41,68%	46,64%	113
7.group	46,65%	52,12%	171
8.group	52,13%	58,37%	186
9.group	58,38%	64,56%	187
10.group	64,57%	69,80%	170
11.group	69,81%	74,25%	130
12.group	74,26%	78,77%	113
13.group	78,78%	83,41%	98
14.group	83,49%	87,48%	64
15.group	87,51%	93,95%	57
16.group	93,96%	100,00%	25

The firms were formed into the 16 groups order to achieve that the groups of the companies' leverage will be normally distributed, as it can be seen in the following chart.

Figure 1: 16 groups of the companies, based on their capital structure



After splitting the database into 16 groups, the cross table analysis could have been done. With the Chi-Square Test (χ^2) it was examined, whether there is a significant relationship between the variables. (Kovács, 2006) The nullhypothesis of the Chi-Square Test, that there isn't a significant relationship. The following table shows the result of the test:

Table 2: Chi-Square test

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	588,431	300	.000
Likelihood Ratio	590,512	300	.000
N of Valid Cases	1503		

The table shows that on every significance level we refuse the nullhypothesis that there isn't a significant relationship between the industry and the leverage.

The power of the relationship was examined as well, with the contingency coefficient. The contingency coefficient is a symmetric measure which can be used during the Chi-Square Test as well. (Sajtos-Mitev, 2007) The result of the contingency coefficient can be found in the following table:

Table 3: Symmetric Measures

	Value	Approx. Sig.
Nominal by Nominal Phi	,626	,000
Cramer's V	,162	,000
Contingency Coefficient	,530	,000
N of Valid Cases	1503	

The result shows, that the relationship between the two variables is moderately strong. This result means, that it cannot be said about every industry that there would be a level of leverage which would be representative.

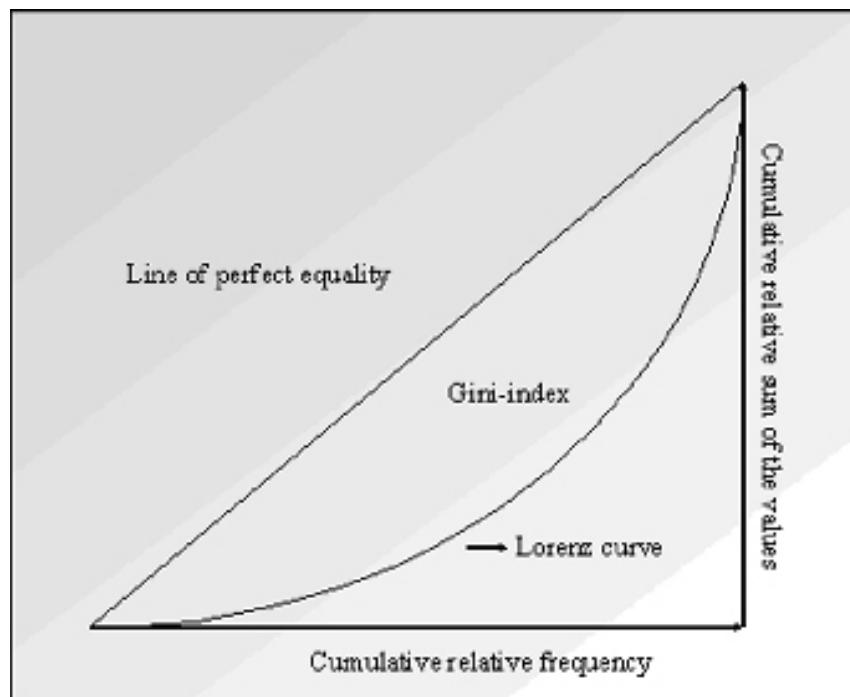
Since the relationship is moderately strong, the database need to be made further examinations, and show which industry has a leverage that is representative for the industry, and which doesn't. According to this, the cross table, which was the output of the SPSS, have been copied to a Microsoft Excel file, and a concentration analysis had been made.

The concentration of the database has been examined with the Lorenz curve, and the Gini coefficient. These indicators can be used to measure relative concentration. The Lorenz curve and the Gini coefficient are two related statistical expressions.

The following figure shows the Lorenz curve. On the figure can be seen a straight line, which shows how the Lorenz curve would look like, if there wouldn't be any concentration. Namely in the case if there would be nearly the same number of corporations in each of the 16 groups. The greater the distance between the straight line and the Lorenz curve, the concentration is the greater as well.

Results of the Concentration Analysis

Concentration refers when a notable portion of the whole population is being focused to a certain unit.
(Hunyadi-Vita, 2003)

Figure 2: Lorenz curve

Gini-coefficient can be determined as the quotient of the area underneath and above the Lorenz curve. In case the Lorenz curve would be described as following $Y=L(X)$, then the Gini coefficient (G) would have been calculated according to the next equation:

$$G = 1 - 2 \int_0^1 L(X) dX \quad (2)$$

In a few cases the equation of the Gini coefficient can be calculated without determining the Lorenz curve. In this case the equation would be the following:

$$G = \frac{1}{n} \left(n + 1 - 2 \left(\frac{\sum_{i=1}^n (n+1-i)y_i}{\sum_{i=1}^n y_i} \right) \right) \quad (3)$$

Where "G" is the Gini coefficient, "n" is the number of units and "yi" is the cumulated frequency in a certain unit.

The Gini coefficient for each of the analyzed industries has been determined based on the equation (3). The following table shows the Gini coefficients of the examined industries:

Table 4: GINI coefficient of the analyzed industries

Industry	GINI - coefficient
Stone, Clay, Glass, and Concrete Products	24,87%
Chemicals production	29,07%
Electric, Gas and Sanitary Services	29,15%
Textile production	29,22%
Road vehicle manufacture	30,39%
Agricultural products	30,42%
Industrial and Commercial Machinery and Computer Equipment	32,50%
Business Services	35,35%
Lumber and Wood Products, Except Furniture, Paper and Allied Products, Printing and Publishing	35,41%
Transportation Services	35,67%
Production of machinery	37,24%
Real Estate	37,67%
Fabricated Metal Products, Except Machinery & Transport Equipment	39,44%
Rubber and Miscellaneous Plastic Products	39,57%
Railroad Transportation, Motor Freight Transportation, Local, Suburban Transit & Intracity Hwy Passenger Transport	39,15%
Computer Services	39,17%
Production of Food and Beverages	39,19%
Retail	39,35%
Wholesale	40,41%
Building Construction	43,95%
Automotive Dealers and Gasoline Service Stations	50,79%

Main Results

The value of the Gini coefficient can be between one and zero. If it is one, it means that the capital structure of a certain company is concentrated only to one group of the leverages, while if it is zero, than it means, that there isn't any concentration in that industry. In table 4 we can see, that the Gini coefficients are between 0,25 and 0,51. Though there isn't a rule of thumb in determining that what the value of Gini coefficient should be in order to be able to tell that there is concentration, but I think, that in those industries, where it is around 0,5, there can be a capital structure which would be representative for the whole industry.

A main result of the cross table analysis, and of the concentration analysis, that there is a significant relationship between the industry and the capital structure. Moreover in those industries where the information asymmetry about the value of the assets of the company is smaller – because it has

notable amount of tangible assets, which decreases the information asymmetry between the investors and the company – there exists a representative capital structure. This is the case of the Automotive Dealers and Gasoline Service Stations industry, where the Gini coefficient was the highest, or in case of the Building industry, which is the second in the row. In my future researches I would like to analyze why are there some industries, which have notable amount of tangible assets, but not having a capital structure that would be representative for the whole industry. Maybe the capital structure doesn't really matter in the real world either, not just in the Modigliani – Miller world? This is the case in the Stone, Clay, Glass and Concrete Production or the Chemicals Production industries. Also there are many other cases, where there isn't a representative capital structure in the industry, which would prove Modigliani – Miller's viewpoint, that the capital structure doesn't matter. But it needs further researches in the future.

In sum the results shows that which are those industries which have a typical capital structure on the Hungarian market, and which do not. This result means that it is worth to make further researches on the relationship of these two factors, and their effect on a firm's value.

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AN INTEGRATED EVALUATION OF THE HERITAGE MUSEUM VISIT: A DISCONFIRMATION APPROACH

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Abstract

Following a customer-centred approach to marketing requires an understanding of customers' needs, expectations and perceptions. This paper uses a disconfirmation paradigm and investigates visitors' expectations and perceptions of the products, services and experiences offered by all the heritage museums in Port Elizabeth, South Africa.

Seven factors that reflect the integrated delivery of the museum service, product and experience, resulted from an exploratory factor analysis. These factors were service interaction, service evidence, product convenience, added product features, edutainment, escapism and aestheticism.

Visitors' evaluation of the product, service and experience delivery was mostly positive. The largest positive gaps between perceptions and expectations existed in service interaction and aestheticism, while added product features showed the smallest gap.

The findings provide museum managers and practitioners with a basis for a better understanding of their customers and improving their competitive position.

Key words: Disconfirmation paradigm, Experience quality, Heritage museum, Product quality, Service quality

Introduction

Museums play a significant role in cultural heritage tourism by facilitating societies' representations of their history and its relation to that of other cultures and people. In addition to their facilitating function, museums also boost local culture and aid the seasonal and geographic spread of tourism (Richards, 1995). However, given the increased levels of competition in the tourism industry, it is important that museum managers deliver visitor satisfaction if they are to maintain a competitive edge (Lin, 2009). This requires the identification of critical service performance factors that attract visitors (Barsky & Labagh, 1992), generate customer satisfaction (Lin, 2009) and enhance customer retention (Barsky & Labagh, 1992). In addition, satisfied customers tend to spread positive word-of-mouth comments about their experience with the organisation and its products and services (Kotler & Armstrong, 2008).

Customer satisfaction and service quality are often used interchangeably because both are evaluation variables relating to consumers' perceptions about a given product or service (Chen, 2007). Perceptions of service quality are based on perceptions of excellence (Oliver, 1997), which in turn are influenced by expectations (De Rojas & Camarero, 2008). Therefore, using quality as an antecedent to competitive advantage (Sánchez-Hernández, Martínez-Tur, Peiró & Ramos, 2009) has to start with an understanding of consumers' expectations.

Empirical research into the expectations and behaviour of museum visitors is lacking (Chan, 2009; Huo & Miller, 2007). This knowledge gap is compounded by the difference in opinion on the dimensions comprising the museum visit. Indeed, Pizam and Ellis (1999:334) are adamant that, 'to measure customer satisfaction one needs to anticipate which dimensions or attributes of the product/service customers are using in their overall quality assessment'. Furthermore, compared with other service outlets such as banks and restaurants, 'there is potential for much greater diversity in the [museum] customer experience, because the customer may seek a wide variety of different services or products from the museum' (Rowley, 1999:303).

The current research aims to help fill the above knowledge gaps. Firstly, it seeks to identify the dimensions that constitute the visit to heritage museums in Port Elizabeth, South Africa. These dimensions will suggest the variables to be used in assessing visitors' expectations and perceptions. Secondly, it compares the levels of visitors' expectations to their perceptions of the museum experience. The results will provide heritage museum managers with insights into the desires of their customers and with a performance evaluation of how well the museum is delivering on customer expectations, that is, the perceived quality of the museum experience.

Service attributes and their classifications

Tourism is a service industry (Chen, 2007) and museums are service institutions forming part of this industry (Rowley, 1999). However, marketing scholars do not seem to agree on the classification of the attributes comprising a service in general (Pizam & Ellis, 1999) or of the museum service in particular.

Pizam and Ellis (1999) report on Lovelock's categorisation of service attributes into core services and secondary services; Davis and Stone's differentiation between direct and indirect services; and Lewis's classification of essential and subsidiary services. In a restaurant setting, core services and essential services are the food and beverage, while secondary services 'are composed of everything else, including service, environment, etc.' (Pizam & Ellis, 1999:329). Subsidiary attributes include accessibility, convenience of location, availability, timing and flexibility as well as

interactions with service providers and with other customers. Direct services might be the dining service, while the provision of a children's play area is an indirect service.

Service components are also grouped into the material product, the environment, and the behaviour of employees (Pizam & Ellis, 1999). In a restaurant setting, the material product denotes the food and beverage quality, portion sizes, appearance, price and availability. The environment refers to the physical attributes of the restaurant, such as cleanliness, location and accessibility, lighting, colour scheme, employees' appearance, parking and hours of operation. Behaviour and attitude of employees relate to staff's conduct before and during the meal. Their performance is judged on their friendliness, competence, efficiency, professionalism, responsiveness and helpfulness.

The museum marketing literature yields classifications in addition to the ones described above. For example, Lin (2009) proposes a three-part categorisation comprising a core product, an expected product and an augmented product. The first part, termed the core product, includes those services that produce the core benefit of the visit. This benefit could be an aesthetic or emotional experience and is the main reason why visitors choose to go to the museum. Attributes supporting the core product are the collections and exhibitions, the reputation of the artists, display techniques, interactive exhibitions, visitor pathways, exhibit labels, guides and guidebooks. The second part of the product, termed the expected product, comprises those attributes customers expect to experience when they visit museums, such as interactive multimedia facilities, reasonable admission fees, workshops, comfortable surroundings and friendly staff. While these attributes do not directly offer aesthetic experiences, they do contribute to visitor satisfaction. The augmented product, the third product dimension, describes the additional visitor benefits and services which, by adding value to the museum offering, give it the opportunity to exceed visitors' expectations. Examples are museum gift shops, catering services, parking, toilets, longer opening hours and traffic signs (Lin, 2009).

In contrast to Lin's categorisation, Martín-Ruiz, Mastellanos-Verdugo and Oviedo-García (2010) choose to differentiate between the costs/sacrifices and benefits associated with the museum service. Sacrifices comprise access sacrifice, such as

finding and reaching the site, parking and opening hours, and effort sacrifice in terms of the duration of the visit, resting areas and accessibility for the handicapped and aged. Benefits include a service experience component, which incorporates elements such as the visit being interesting, fun and enjoyable and a service quality component, which groups together items relating to the exhibits, restroom services, brochures, maps, service rendered by employees and the use of technology.

De Rojas and Camarero (2008) propose yet another classification and hold that the museum product firstly comprises of the exhibition, and secondly of other tangible or intangible services such as bookshops, restaurants, brochures and facilities for better accessibility and interpretation. Intangible services include the attitudes and values transmitted to the visitor.

Harrison and Shaw (2004) seem to combine the classifications suggested by Pizam and Ellis and by Lewis, by differentiating between facilities, staff and the exhibition experience of the museum. Facilities, which partly resemble Pizam and Ellis's concept of the environment, relate to aspects of the venue, such as accessibility, ease of movement, functionality, cleanliness, comfort, safety and aesthetics. The terms 'accessible, informative and friendly' used by Harrison and Shaw to describe 'staff' are in line with 'behaviour, conduct and attitude' as mentioned by Pizam and Ellis. Exhibition experience, the third part of the museum experience proposed by Harrison and Shaw, is probably in line with Chan's (2009) notion that the museum experience may include feelings of fun and enjoyment, escape from routine, sharing time with family and friends and learning. Pine and Gilmore (1999) propose four realms of an experience, namely education, entertainment, escape and aestheticism. An educational experience provides consumers with an opportunity to learn something new; entertaining experiences provide fun and enjoyment; escapist experiences involve diverging to a new self; and aesthetic experiences refer to consumers' interpretation of the physical environment around them.

It follows from the preceding discussion that the museum service is best summarised by the views of Rowley (1999), namely, that customer service is only one component in the total museum experience and involves everything from the moment visitors seek to park their cars to the moment they leave

the museum with the appropriate information or leisure experience.

In conclusion, the short literature review clearly illustrates the diversity of classifications of the museum service attributes. However, three common dimensions seem to exist that potentially form the basis for an assessment of the service in general, and the museum service in particular. These are the product, the service and the experience. We hence proposed that these three dimensions also form part of the visit to the heritage museums targeted in our research.

Customer expectations, perceptions and quality

The definition of customer expectations is rooted in two principal conceptualisations. The first, consistent with the customer satisfaction literature, regards expectations as predictions made by customers about what is likely to happen during an impending transaction or exchange (Zeithaml, Berry & Parasuraman, 1993), while the second, dominant in the service quality literature, views expectations as what customers believe a service provider should offer rather than would offer (Coye, 2004). In this context, service quality is an attitude resulting from the comparison of expectations with performance (Parasuraman, Zeithaml & Berry, 1988), expressed as an expectancy-disconfirmation measure (Oliver, 1980). Expectations are confirmed and service performance is regarded as satisfactory, if perceptions equal expectations. If perceptions exceed expectations, the latter are positively disconfirmed and service performance is perceived as highly satisfactory. Dissatisfaction is associated with a negative disconfirmation resulting from perceptions falling below expectations (Hoffman & Bateson, 2006). The degree and direction of discrepancy between consumers' perceptions and expectations can thus be used to predict satisfaction (De Rojas & Camarero, 2008). Perceived service quality therefore serves as an antecedent to customer satisfaction.

Service quality

Martínez and Martínez (2010:95) assert that it is necessary to develop industry-specific service quality models, as there 'are no universal dimensions/factors/attributes of service quality'. Our earlier discussion shows that Martínez

and Martínez's argument equally applies to museums. The lack of agreement on the attributes and dimensions comprising the museum visit complicates the measurement of its quality.

Several models of service quality have been proposed, tested and adapted over the years. We briefly mention a few of these models and highlight their focus. The Grönroos model (1984) distinguishes between technical quality and functional quality. Technical quality refers to the outcome of the service performance, whereas functional quality relates to the subjective perception of how the service is delivered.

The SERVQUAL model proposed by Parasuraman, Zeithaml and Berry (1988) denotes service quality as comprising five important constructs, namely tangibles, reliability, responsiveness, assurance and empathy. Tangibles refer to aspects such as physical installations, equipment and employees' appearance, while reliability, responsiveness, assurance and empathy describe the functional aspects of the service encounter between employees and customers and the efficiency with which the service is provided (Sánchez-Hernández et al, 2009).

Brady and Cronin (2001) propose that three primary dimensions, namely interaction quality, physical environment quality and outcome quality, explain service quality. Interaction quality, the first quality dimension, describes employee attitudes, behaviours and expertise. Attitudes allude to willingness to help customers, behaviours refer to employees' actions in addressing customers' needs, and expertise describes employees' knowledge about the service (Martínez & Martínez, 2010). Physical environment quality, the second dimension, comprises ambient conditions, facility design and social conditions. Ambient conditions are the non-visual aspects of the environment, for example temperature. Facility design refers to the layout or architecture of the environment and can be either functional or aesthetic, while social conditions describe the number and type of people evident in the service setting (Martínez & Martínez, 2010). Outcome quality, the third dimension, describes what the customer is left with when the production process is finished and comprises elements such as waiting time, physical evidence and valence.

An analysis of the application of the service quality models seems to indicate three common

dimensions, namely a service element, a product element and an experiential element. These are also referred to as interaction quality, environment quality and outcome quality (Martínez & Martínez, 2010). For the purposes of our further discussion, service quality as described in the SERVQUAL model, serves as a point of departure. SERVQUAL is probably the most commonly used model for diagnosing service quality shortfalls and developing service quality strategies (Chen, 2008). This model has also been applied and examined across a variety of tourism and leisure contexts.

Product quality

Vargo, Maglio and Akaka (2008) hold that service is the application of competences by one entity for the benefit of another. When goods are involved in this exchange process, they serve as the tools for the delivery and application of resources. Product quality reflects the degree to which the product specification fits the customer's needs (Ghylin, Green, Drury, Chen, Schultz, Uggirala, Abraham & Lawson, 2008) and expectations (Yu & Fang, 2009). It therefore makes sense that any assessment of the museum service from the customers' perspective also includes research into their expectations and perceptions of the goods or durable products that enable the delivery of such service.

Customers might assess product quality according to product attributes listed by Garvin (1987), namely performance, features, conformance, reliability, durability, serviceability, aesthetics and image. Brucks, Zeithaml and Naylor (2000) add ease of use, versatility and prestige to the list.

The importance and relevance of each of the product quality dimensions are likely to vary across product category (Brucks et al, 2000). For example, Wang, Lo and Hui (2003) argue that durability and aesthetics might not be relevant to the banking industry, while serviceability, reliability, image, variety, convenience or access, and diverse product features might be very important. Ease of use, product features, convenience and access might be of particular relevance to the museum visitor. Ease of use refers the consumer's ability to start and operate the product as well as clarity of instrumentation and instruction (Brucks et al, 2000). In a museum context, this might relate to the ease of using interactive equipment.

Experience quality

Chen (2007) asserts that perceived service quality is more associated with experiences during the process of visitation and the psychological outcome resulting from the participation in the activity, than with services provided by the museum. This view is in line with that of Hosany and Witham (2010:351), namely that people are in search of 'unique, memorable and extraordinary experiences ... that "dazzle their senses, engage them personally, touch their hearts, and stimulate their minds" (Schmitt, 1999), while "indulging in fantasies, feelings and fun" (Holbrook & Hirschman, 1982).

In contrast to the service dimensions provided by the supplier, experience quality therefore refers to the psychological outcome resulting from the visitor's participation in the tourism activity (Chen, 2007). The measurement of experience quality is more subjective, holistic and with a focus on the self; its scope is more general, and the nature of the benefit is experiential, hedonic and symbolic, while the psychological representation is affective rather than cognitive (Chen, 2007).

Research methodology

Measure

The two-page questionnaire comprised of five sections, three of which measured museum visitors' expectations and perceptions of service quality, product quality and experience quality. The relevant quality-related attributes resulted from primary and secondary sources and were measured on a five-point Likert-type scale anchored by 'low' and 'high' for expectations and 'bad' and 'good' for performance.

The fourth section measured visitors' overall satisfaction and their future intentions. Given the aim of the current paper, the results of Section four are not reported here. The final section sought details on visitors' gender, age, education, income and place of residence.

Sampling

Visitors to Port Elizabeth, South Africa's three heritage museums, namely South End Museum, Castle Hill Museum and Red Location Museum,

served as the target population for the research. The desired sample size equalled 3% of the total number of visitors to each of the museums in the preceding year. Two hundred and sixty seven questionnaires were distributed at the respective museums according to the said quotas. Two hundred and twelve completed questionnaires were useable, yielding a response rate of 79.4%.

Demographic data indicated that 57% of the respondents were female; 58% were younger than 35 years and 37% were aged 35-64; 65% had higher education experience; 39% had a monthly gross income of R10,000 (US\$1,000) or more; and 53% resided within the greater Nelson Mandela Metropolitan area, 24% elsewhere in South Africa and 23% in other countries.

Statistics

Following a sequential data preparation procedure (editing, coding and capture), treated data were imported into SPSS 15.0 for statistical analysis. Firstly, Exploratory Factor Analysis (EFA) aimed at exploring the intercorrelations among variables (Pallant, 2007), was adopted as a data reduction technique through which a number of manifest quality attributes could be condensed into a smaller, more manageable number of latent quality constructs. Next, Cronbach's alpha coefficients were computed for each latent construct to establish its reliability or internal consistency (Cavana, Delahaye & Sekaran, 2001). Finally, paired-samples t-tests were performed to compare mean scores of expectations and performance at both item and construct levels (Zikmund & Babin, 2007).

Analysis and discussion

Service quality scale

The gap (performance-expectation) scores of the sixteen proposed service quality attributes were brought into the EFA programme. The Measure of Sampling Adequacy (MSA) was 0.927, exceeding the 'marvellous' level of 0.9 (Kaiser, 1974). The Bartlett's test of sphericity reached statistical significance ($p<0.001$), indicating the presence of correlations among the variables (Hair, Black, Babin & Anderson, 2010). As a result, a decision on continuance of the factor analysis was made.

Principal Components Analysis (PCA) was used at the factor extraction stage. Two eigenvalues (7.900 and 1.896) were greater than one and a clear elbow appeared between the second and third components in the screeplot, suggesting the presence of two latent factors (Cattell, 1966; Kaiser, 1960). These two factors explained 65.30% of the total variance (52.66% and 12.64% respectively). It is widely believed in the social sciences that a satisfactory factoring solution accounts for at least 60% of the total variance and that a meaningful factor accounts for at least 5% of the total variance (Hair et al, 2010). We could therefore accept the two-factor solution as representing the underlying structure of service quality.

To assist in factor interpretation, an oblique rotation method by the Direct Oblimin technique was used at the factor rotation stage, assuming that the extracted factors are correlated to one another (Pallant, 2007). This rotation method has been used in a large variety of service quality studies, including SERVQUAL (Parasuraman et al, 1988). Fifteen items were rotated onto a single factor at a practical significance level, that is, factor loadings equal to 0.5 or greater (Hair et al, 2010). One item (Q9) was discarded due to insufficient theoretical justification. Table 1 shows the rotated factor structure.

TABLE 1: FACTOR STRUCTURE OF THE SERVICE QUALITY SCALE

STRUCTURE	LOADING	PERFORM	EXPECT	GAP
FACTOR ONE: SERVICE INTERACTION				
Q02: Staff's willingness to assist me	0.933	4.79 (0.31)	4.13 (0.80)	0.66***
Q01: Staff's willingness to listen	0.884	4.09 (0.69)	4.04 (0.89)	0.04***
Q03: Professional appearance of staff	0.873	4.71 (0.58)	4.15 (0.82)	0.56***
Q05: Staff informing me about the museum	0.811	4.63 (0.67)	4.12 (0.83)	0.51***
Q04: Staff keeping their promises on time	0.806	4.59 (0.65)	4.31 (0.83)	0.58***
Q07: Staff having sufficient knowledge to answer my questions	0.767	4.75 (0.52)	4.21 (0.80)	0.54***
Q08: Staff giving me personal attention	0.738	4.58 (0.67)	3.97 (1.01)	0.71***
Q09: Staff being friendly	0.605	4.34 (0.42)	4.15 (0.88)	0.59***
FACTOR TWO: SERVICE EVIDENCE				
Q15: Comfortable level of lighting	0.911	4.35 (0.99)	4.12 (0.65)	0.23*
Q14: Comfortable temperature	0.890	4.28 (1.03)	4.13 (0.85)	0.13
Q12: Clear sign posting and directions	0.793	4.24 (1.08)	4.03 (0.89)	0.21**
Q13: Clean air	0.778	4.58 (0.71)	4.20 (0.79)	0.38***
Q11: Clean physical facilities	0.749	4.36 (0.74)	4.12 (0.63)	0.44***
Q16: Reasonable entrance fees	0.690	4.04 (0.60)	4.09 (0.80)	0.56***
Q10: Appealing museum interior	0.687	4.42 (0.77)	4.02 (0.83)	0.40***

Note: ***p<0.001; **p<0.01; *p<0.05

The two latent factors of service quality were labelled in relation to the items assigned. Factor one, service interaction, grouped together eight quality attributes derived from SERVQUAL and was considered essential for successful interactions between the staff and the visitor in service delivery. Factor two, service evidence, captured seven quality attributes concerning the servicescape (Bitner, 1992) and described the physical surroundings of a museum, such as the temperature, lighting and signage.

Paired-samples t-tests were then performed to compute descriptive statistics and to determine whether gap scores met the highest tolerable significance level of 0.05 (Hair et al, 2010). As shown in Table 1, all gap scores were positive, ranging from 0.13 (Q14) to 0.71 (Q8) and except for item Q14, all reached the required level of statistical significance. This implies that from the

visitors' perspective, service performance of the museum surpassed their expectations.

Product quality scale

The above EFA procedure was duplicated to purify the data of product quality. The factorability of the data was evident because the MSA of 0.847 was above the 'meritorious' level of 0.8 (Kaiser, 1974) and the Bartlett's test of sphericity confirmed statistical significance ($p<0.001$). PCA extracted two latent factors with eigenvalues of 5.158 and 1.019. These factors respectively explained 51.58% and 10.19% of the total variance. Ten items (Q19, Q20, Q21, Q22, Q26, Q27, Q28, Q32, Q34 and Q35) were omitted in several iterations due to insignificant loadings or significant cross-loadings. The remaining ten items formed the two-factor model of product quality as shown in Table 2.

TABLE 2: FACTOR STRUCTURE OF THE PRODUCT QUALITY SCALE

STRUCTURE	LOADING	PERFORM	EXPECT	GAP
FACTOR ONE: PRODUCT CONVENIENCE				
Q33: Easy to understand exhibitions	0.880	4.51 (0.82)	4.19 (0.94)	0.38***
Q18: Easy to find museum's physical location	0.783	4.22 (1.07)	4.12 (0.92)	0.10
Q36: Accessible museum setting	0.774	4.34 (0.88)	4.03 (0.93)	0.31***
Q30: Easy to use facilities	0.730	4.40 (0.76)	3.88 (0.89)	0.44***
Q17: Convenient opening hours	0.695	4.32 (0.72)	4.18 (0.83)	0.33***
Q31: Safe to use facilities	0.632	4.42 (0.80)	3.87 (0.91)	0.45***
Q29: Easy to locate facilities	0.609	4.35 (0.77)	3.88 (0.93)	0.46***
FACTOR TWO: ADDED PRODUCT FEATURES				
Q24: Free maps or brochures provided	0.859	4.04 (0.86)	3.77 (0.93)	0.27***
Q25: Useful promotional material	0.788	3.51 (1.16)	3.88 (0.97)	-0.15
Q23: Convenient resting areas	0.611	3.78 (1.08)	3.78 (0.98)	-0.01

Note: *** $p<0.001$; ** $p<0.01$; * $p<0.05$

Factor one, product convenience, comprised seven items with a focus on accessibility (e.g. museum business hours) and the museum's durable offerings, such as facilities and exhibitions. Factor two, added product features, was composed of three items reflecting the extra features (or

the 'bells and whistles') of the museum product (Brucks et al, 2000; Wang et al, 2003).

The results of the paired-samples t-tests showed that except for Q18, all the item gap scores in 'product convenience' were positive (ranging from

0.10 to 0.46) and were statistically significant ($p<0.001$). Within 'added product features' two items (Q23 and Q25) had negative gap scores. However, these two items had no statistical significance ($p>0.05$). Therefore, it could be argued that the Port Elizabeth heritage museums met visitors' expectations of product quality.

Experience quality scale

EFA was also conducted on the data set of experience quality. Factor analysis was appropriate

given the 'marvellous' level of the MSA (0.917) and the statistically significant Bartlett's test of sphericity ($p<0.001$). The three factors identified at the extraction stage had eigenvalues of 9.206, 1.398 and 1.039, and accounted for the corresponding total variance of 54.15%, 8.22% and 6.11%. Three items (Q42, Q50 and Q51) were removed at the rotation stage due to insignificant loadings or significant cross-loadings. The distribution of the remaining 17 items on the three-factor model of experience quality is shown in Table 3.

TABLE 3: FACTOR STRUCTURE OF THE EXPERIENCE QUALITY SCALE

STRUCTURE	LOADING	PERFORM	EXPECT	GAP
FACTOR ONE: EDUTAINMENT				
Q40: Share my experience with family and friends	0.899	4.51 (0.84)	3.58 (1.00)	0.53***
Q37: Satisfy my curiosity	0.818	4.57 (0.67)	4.81 (0.95)	0.56***
Q38: Increase my knowledge	0.725	4.66 (0.60)	4.89 (0.92)	0.57***
Q44: Have fun	0.690	4.29 (0.63)	3.54 (0.92)	0.42***
Q39: Enhance my philosophy of living	0.648	4.38 (0.66)	3.80 (0.96)	0.48***
Q43: Feel emotionally stimulated	0.630	4.28 (0.79)	3.52 (0.93)	0.46***
Q45: Have an unusual experience	0.591	4.18 (0.73)	3.87 (0.85)	0.51***
Q41: Interact with others in the museum	0.560	3.82 (1.02)	3.85 (1.02)	0.28**
FACTOR TWO: ESCAPE				
Q48: Avoid interactions with others	0.875	4.01 (0.93)	3.50 (0.97)	0.51***
Q49: Escape from the reality	0.847	4.10 (1.06)	3.31 (1.04)	0.49***
Q47: Imagine living in a different time and place	0.602	4.22 (0.80)	3.85 (0.94)	0.47***
Q46: Be someone else whilst in the museum	0.670	2.95 (0.98)	3.35 (0.90)	0.34***
FACTOR THREE: AESTHETICISM				
Q51: Pleasing exhibitions	-0.818	4.57 (0.76)	3.85 (0.94)	0.62***
Q53: Pleasing physical environment	-0.854	4.48 (0.81)	3.89 (0.95)	0.50***
Q52: Feel a sense of harmony with my surroundings	-0.735	4.42 (0.87)	3.70 (0.90)	0.64***
Q50: Pleasing interior ambience	-0.714	4.04 (0.69)	3.88 (0.82)	0.60***
Q55: Appreciate diverse cultures	-0.619	4.58 (0.74)	4.00 (0.92)	0.58***

Note: *** $p<0.001$; ** $p<0.01$; * $p<0.05$

Factor one, edutainment, contained eight items which combined the items proposed to measure the educational and the entertaining elements of museum visitors' experiences. A possible reason for this overlap might be that respondents did not differentiate between learning and pleasure as part of a heritage museum visit. This implies that learning can indeed be fun. Factor two, escapism, captured four items embodying the heritage tourism visit as a way of escaping from daily life for a short while and experiencing something extraordinary. Factor three, aestheticism, comprised five items reflecting museum visitors' appreciation of the environment presented to them (Oh, Fiore & Jeoung, 2007).

The results of the paired-samples t-tests showed that all gap scores were positive (ranging from 0.23

to 0.65) and statistically significant ($p<0.01$). This suggests that visitors generally had a pleasant visiting experience in the museum.

Comparison of latent constructs

The reliability of each latent factor was also scrutinised by calculating the Cronbach's alpha coefficients. Table 4 shows that the Cronbach's alphas ranged from 0.760 to 0.935, and hence indicated good internal consistency among the multiple indicators for each resultant factor (Nunnally, 1978). Adequate internal consistency of each quality type was confirmed as Cronbach's alpha was 0.932 on the service scale, 0.891 on the product scale and 0.946 on the experience scale.

TABLE 4: FACTOR STRUCTURE OF THE LATENT CONSTRUCTS

CONSTRUCT	ALPHA	PERFORM	EXPECT	GAP	RANK
Service interaction	0.935	4.70 (0.42)	4.08 (0.71)	0.62***	1
Service evidence	0.859	4.44 (0.51)	4.10 (0.70)	0.34**	6
Product convenience	0.878	4.40 (0.66)	4.05 (0.71)	0.35***	5
Added product features	0.760	3.78 (0.81)	3.75 (0.86)	0.03	7
Edutainment	0.916	4.41 (0.56)	3.83 (0.82)	0.47***	3
Escapism	0.823	4.10 (0.77)	3.85 (0.84)	0.45***	4
Aestheticism	0.915	4.53 (0.58)	3.82 (0.83)	0.51***	2
Service quality	0.932	4.57 (0.43)	4.05 (0.65)	0.48***	2
Product quality	0.891	4.09 (0.58)	3.86 (0.73)	0.18***	3
Experience quality	0.946	4.33 (0.63)	3.82 (0.76)	0.51***	1

Note: *** $p<0.001$; ** $p<0.01$; * $p<0.05$

Table 4 also reports the results of the paired-samples t-tests conducted at the construct level using new summated scales (Hair et al, 2010). It is worth noting that except for 'added product features', all the factor gap scores were positive and statistically significant. 'Service interaction' (0.62) and 'aestheticism' (0.61) had the most prominent gap scores, followed by 'edutainment' (0.47) and 'escapism' (0.45). 'Product convenience' (0.35) and 'service evidence' (0.34) were in the fifth and sixth position respectively, while 'added product features' (0.03) was ranked last. Following the disconfirmation theory (Ladhari,

2007), and in particular the argument that positive disconfirmation leads to satisfaction and that the size of the former determines the level of the latter, it can be suggested that respondents in the current study were most satisfied with 'service interaction' and 'aestheticism', and least satisfied with 'added product features'.

Table 4 furthermore shows that positive and significant gap scores were evident for all the quality types. This suggests that respondents were satisfied with the museum's integrated delivery of service, product and experience. The

size of the gap scores indicates that visitors were most satisfied with the quality of the experience (0.51), followed by the quality of the service (0.48) and least satisfied with the quality of the product (0.19).

Summary and conclusions

This study aims at assessing heritage museum visitors' expectations and perceptions of the delivery of product quality, service quality and experience quality. It also seeks to explore the underlying structures embedded in the different types of quality. Recent literature agrees that delivering quality services, products and experiences is essential for success and survival in a competitive tourism environment because it enhances customer satisfaction and retention, attract new customers through verbal recommendation, and improve financial performance and profitability.

Our primary research had two important empirical findings. First, seven factors that reflect the integrated delivery of the museum service, product and experience, resulted from an exploratory factor analysis. These factors comprise two service-related constructs (service interaction and service evidence), two product-related constructs (product convenience and added product features) and three experience-related constructs (edutainment, escapism and aestheticism). The particular factor structure once more supports the observation reported earlier in this paper, namely that no universal classification of the attributes comprising the museum visit seem to exist in museum marketing literature.

Second, gap scores that indicate delivery of quality levels were calculated using the paired-samples t-test. Thirty eight of the 42 manifest indicators and six of the seven latent factors showed positive and statistically significant gap scores. This suggests that, from the visitors' perspective, integrated performance of the museum exceeded their expectations. Logically, these visitors are very likely to remain satisfied with and loyal to the heritage museums visited and to make positive word-of-mouth referrals.

Since the population of this study was limited to visitors of the heritage museums at a single tourist destination, the above discussed empirical findings may not be generalised beyond this population. Therefore, replicating similar studies at other tourist

destinations would be valuable for increasing the generalisability of these findings.

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CORPORATE GOVERNANCE AND CORPORATE PERFORMANCE: A GERMAN PERSPECTIVE

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Abstract

The aim of this paper is to analyse the influence of corporate governance (CG) on corporate performance. The debate on CG goes back on Berle and Means who in 1932 discussed the separation of ownership and management of public stock corporations. Since the 90s, CG is one of the most discussed topics in business administration. The overall goal of CG is to support and ensure a sustainable value creation of a corporation for its shareholders. There can be prevalently observed the opinion that "good" CG goes along with an increased corporate performance. For this reason, the paper reviews a broad sample of literature related to the topic. After a theoretical overview, possible causal connections between CG and the company value are discussed. Furthermore, results of previous empirical studies are presented, whereby the paper focuses on empirical studies conducted in Germany. In this context, the German Corporate Governance Code is also dealt with. Finally, the validity of the presented results is critically analysed. Due to the fact that the paper focuses on studies in German it presents research results that otherwise would remain unnoticed by broad parts of the scientific community.

Keywords: Corporate Governance, Shareholder Value, Corporate Performance, Germany

Introduction

Corporate governance (CG) has become one of the most discussed topics in business administrations due to balance sheet manipulations or even crashes of public stock corporations, e.g. Enron, Worldcom. CG enlarged the up to this point prevailing debate

on shareholder value management (Arnsfeld & Growe 2006, p 715; Volkart 2008, p 978). It deals with management and the supervisory system of companies and represents in fact the legal and factual regulation framework for the interaction of management, board and stakeholders (Bassen & Zöllner 2007, p 94; Nippa 2002, p 4).

There can be observed an on-going reform process on CG after the financial crisis. To an important extent, the financial crisis arises from failures and weaknesses in the CG arrangements of financial service sector companies (Kirkpatrick 2009, p 2). The enormous consequences, namely catastrophic losses of financial firms which almost led to a collapse of the financial system and the following deep global recession emphasises the importance of CG (Lang & Jagtiani 2010, p 296).

Frequently, a better corporate performance (CP) has been highlighted as a main benefit of adopting good CG structures within organisations (Vander Bauwheide 2009, p 497). In contrast to companies with a weak CG, companies which attach great importance to good CG could show a higher shareholder value due to a higher cash flow (CF) and/or reduced cost of capital (Hofer 2008, p 59).

For this reason, the paper examines by the use of a great sample of literature, whether a relationship between good CG and a higher CP can be discovered. In a first step, theoretical fundamentals of CG are being presented. Subsequently, possible causal connections between CG and CP are being discussed and proximately, the analysis of empirical studies examines, whether a positive impact of CG on CP can be verified. Furthermore,

the validity and the limitations of the empirical studies are being dealt with.

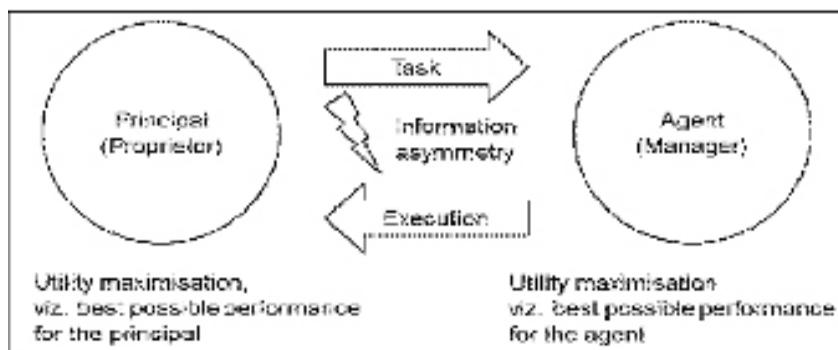
Theoretical Basics of Corporate Governance

CG mainly can be defined as a combination of issues concerning

- the management of a company,
- the supervision of a company and
- the relationship among top level institutions and towards the different stakeholders (Ruppen 2002, p 17).

The discussion about CG dates back to Berle & Means who described first the separation of property and the control of public stock corporations. The findings of Berle & Means led to the development of the Principal-Agent-Theory, a major theoretical concept of New Institutional Economics. In this theory, the proprietors take on the role as principals and the managers as agents. Due to the fact that the agents are in charge of the daily operational business activities, they possess an informational advantage compared with the principals. This information asymmetry can be used by the agents to act in their own interest (Hiller 2008, p 500; Ulrich 2009, p 531). The following figure shows the Principal-Agent-Conflict graphically:

Fig. 1: Principal-Agent-Conflict



(Source: adapted from Britzelmaier 2009, p 19)

Aspects of control and supervision are not only important for public stock corporations, but also for other types of enterprises, e.g. family owned companies. It can be assumed that aspects of CG are almost relevant for all forms of organisations (Petzold 2005, p 12).

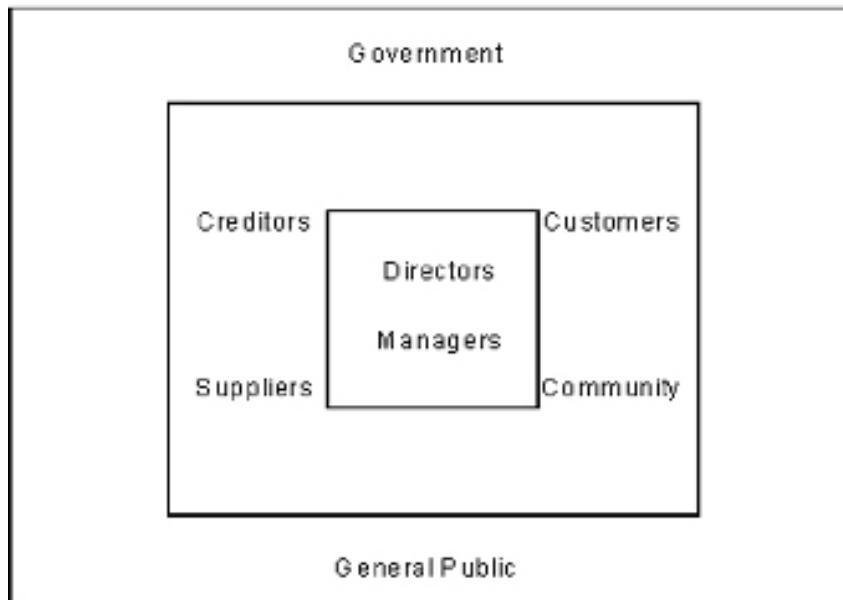
There can be distinguished an internal and an external CG-perspective. Whereas the internal perspective deals with rights, competencies and the interactions between the supervisory board and the board of directors, the external perspective focuses on the relationship between the corporation and the different stakeholders of the corporation (von Werder 2003, p 4). It has to be stated that the CG-topic underlies several theoretical approaches which shall not be discussed in the following. So far it seems to be sufficient to differ briefly between a shareholder and a stakeholder oriented approach.

The shareholder approach mainly focuses on conflicts of interests between management and investors. A shareholder oriented CG-system aligns CG to secure the interests of investors and shall be designed, in order to achieve a company value as high as possible. The consideration of the interests of other stakeholders or even the participation in the management is not intended. The shareholder oriented approach can be found mainly in the Anglo-Saxon area (Bassen 2002, p 20; Zöllner 2007, p 9, Schmidt & Weiß 2003, p 108). The stakeholder oriented approach tends to consider the interests and claims of all stakeholders in a more pluralistic way than the shareholder approach (Bassen & Zöllner 2009, p 45; Freeman 2004, p 235). This approach emphasises the economic relevance of further stakeholders besides the shareholder. Therefore, the consideration of critical and success-determining stakeholders,

e.g. employees, customers and suppliers, is seen as indispensable. This characteristic can be found in different strength and manner in Continental Europe and Japan (Nippa 2002, p 17; Wulfetange 2002, p 84; Hoffmann 2003, p 16). It

can be observed that the different approaches are increasingly converging (von Werder 2003, p 4; Freidank & Weber 2009, p 311). Main stakeholders are illustrated in the following figure:

Fig. 2: Relationships in CG



(Source: Letza, Sun & Kirkbride 2004, p 243)

Which stakeholders shall be included in the decision finding of corporations depends ultimately on the purpose of the company and for whose benefit the company is operating. To find a generally accepted consensus in this regard seems hardly to be possible (Hoffmann 2003, p 16).

The overall goals of CG are to ensure a sustainable value creation and to support the balancing of interests of relevant stakeholders (Küting & Busch 2009, p 1364). Further CG aims to reduce the agency-costs that occur due to potential or actual conflicts of interests among the stakeholders (Wagenhofer 2009, p 2). Under agency-costs can be subsumed:

- monitoring costs: costs to cover the principal's need for information and to monitor the agent (e.g. system of internal audits, reporting,

year-end audit, investor relations or value management),

- bonding costs: risk premium, the agent obtains for his fraught with risks variable income parts and
 - residual loss: opportunity costs for missed profits by reason of suboptimal decisions of the agent (Günther 1997, p 49).

As possible actions to reduce the agency-costs basically can be mentioned the distribution of the decision competences, restriction of discretionary power, monitoring, incentive systems and the provision of information (Wagenhofer 2009, p 3). According to the Organisation for Economic Co-operation and Development (OECD) good CG can be described as the following: "Good corporate governance should provide proper incentives for

the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. As a result, the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning growth" (OECD 2004, p. 11).

CG is ingrained in the legal and economic system of each country. An independent assessment of a country's CG system, without taking into account the historical developments of the legal and economic system, hardly seems to be possible (Zöllner 2007, p 50). Characterising for the German system is the institutional separation of the managing board and the supervisory board at public stock corporations (two-tier- system) and the right of corporate co-determination. Furthermore, banks play an important role, as the capital market still has to be classified as underdeveloped in comparison to the Anglo-Saxon system. Borrowed capital is a major form of corporate financing in Germany; additionally, banks often do hold shares of the debtors. As a result, they are frequently represented in the supervisory board and take over an important part of the supervision (Brühl 2009, p 12; Witt 2002, p 59). Hence, the Anglo-Saxon system has to be classified as capital market-oriented. In contrast to the German institutional separation of the managing board and the supervisory board, the Anglo-Saxon system uses a one-tier structure, the so called administrative board resp. board of directors which includes inside directors who are in charge of the management and outside directors who are responsible for the supervision (Ruppen 2002, p 34; Witt 2002, p 59; Zöllner 2007, p 18).

The importance of CG increased due to globalisation of economies and liberalisation of capital markets. This is accompanied by the growing importance of institutional investors who strive with professional know how and specific interests for a greater influence (von Werder 2009, p 24). CG gained further significance in consequence of several accounting scandals and company crashes in the USA, e.g. Enron, WorldCom and Tyco. Thereupon, the US-American Securities and Exchange Commission (SEC) enacted the Sarbanes-Oxey Act (SOA) to regain trust in the US capital market

(Gruson & Kubicek 2003, p 337). But these incidents were not restricted to the USA. Cases like Royal Dutch/Shell, Parmalat and Flowtex in Germany also in Europe led to an intensified discussion about the quality of management and their effective supervision (Hehn & Hartung 2006, p 1909). In Germany, the German Corporate Governance Code (GCGC) was developed as response to the CG-debate. The code shall function as standard for high quality management and is primarily based on soft law merely limited on legal regulation (Bürkle 2007, p 1797).

Significant financial exposures due to fines, damages to the reputation of a company or finally the exclusion from public calls for tenders can basically be mentioned as examples of results of the above discussed violations against good CG. Furthermore, there occurs a considerable expense during the clearing up of these cases. It is obvious that this has a direct influence on the sustainable CF and therewith on the company value as well (Behringer 2009, p 431). The practical relevance is additionally emphasised by a study of McKinsey, World Bank and Institutional Investor. Thus, 79% of investors are willing to pay in average a premium of 20.2% for German companies with good CG. Three quarters of investors do rank CG-aspects at least as important as financial ratios (Schruff 2001, p 150). For this reason, an active corporate communication plays an important role. CG-reporting communicates transparently, besides the more quantitative oriented value reporting, main elements of the management and monitoring system of a company (Knapp 2009, p 66).

The internal arrangements of CG are fundamentally determined by the corporate charter which is mainly affected by corporate law and the company statutes. The external CG is predominately based on market mechanisms, e.g. the participation at capital markets. A broad variety of organs, processes and relationships shape the CG-system. This results in a division of further subsystems. It involves the organs of the corporate charter (management board, supervisory board and shareholders' meeting) as well as corporate communication and the monitoring system. (Griewel 2006, p 33; Wagenhofer 2009, p 7). The following figure shows main elements of a CG system:

Fig. 3: Relationships in CG

External Governance	Internal Governance
Regulation	Articles of association and statutes
Legal regulation	Capital structure
Self-regulation	Equity
Enforcement	Voting rights
Markets	Supervisory board
Capital markets	Structure
Banks	Functions
Market for acquisitions	Incentives
Job market for managers	Management board
Insurances	Participation on equity
Intermediary	Incentives/compensation
Investment banks	Other contract terms
Financial analysts	Transparency
Rating agency	Accounting
Legal advice	Audit
Private Sources	Business organisation
Media	Internal information systems
Suits	Internal monitoring systems

(Source: adapted from Wagenhofer 2009, p 7)

German Corporate Governance Code

The CG-system of a country can be seen in most legal systems as a result of the interaction of different regulation levels. The fundamental rules are primarily legal ones, especially those of the corporate law. Additionally, there exist codes of conduct, developed by stock exchanges, employers' organisations or other commissions with a mixed composition (Wymeersch 2003, p 88). As most of the CG-codes, the GCGC also follows the comply-or-explain principle and has, therefore, no explicit legal binding force, but rather a factual because a company has to disclose non-applied recommendations of the GCGC (Bassen et al 2006, p 375). Is a company not acting in accordance with the code, it might face negative market reactions due to the disclosures (Wymeersch 2003, p 88).

Since 1998 several legal reform efforts concerning CG in Germany can be observed. With the "Bilanzrechtsmodernisierungsgesetz" (a law to modernise German commercial code), an important reform of CG in Germany has entered legal force

in spring 2009. The law improves the information providing function of financial statements and consolidated financial statements of publicly traded companies. Furthermore, it strengthens the supervisory board of a company concerning the monitoring function (Krolak, Morzfeld & Remmen 2009, 1417). The GCGC was developed by a government commission (Cromme-commission) and finally presented on 26 February 2002 (von Werder 2009, p 25). It contains the legal regulation for the management and monitoring of public stock corporations in Germany and presents, in addition nationally and internationally accepted standards for a good CG. The code shall bring transparency towards the German CG-system and aims to improve trust of international and national investors in CG of German companies (DCGK 2010, p 1). However, the main goal of the GCGC is to support a sustainable growth of shareholder value (Griewel 2006, p 67).

Furthermore, the code faces supposed points of criticism of the German CG-system brought up by international investors. There can be named a

limited shareholder value-orientation, the two-tier-structure and a lack of transparency with regard to the management. Hence, the code aims to explain the characteristics of the German CG-system, in order to increase transparency and formulates recommendations, based on the final report of the government commission (Grell 2008, p 52).

On the one side, the code repeats existing legal regulations and on the other side, it enhances them. As the regulations of the code are exceeding the legal ones, they have to be characterised as not legally binding. As result, three different categories of regulations have to be differentiated (DCGK 2010):

- Repeating of legal regulations that have to be followed anyway,
- Recommendations ("shall") and
- Suggestions ("should" or "can").

According to sec.161 German stock corporation act, a company has to disclose non-compliance with recommendations annually, whereas a justification of the non-observance is not mandatory. A non-application of suggestions has not to be disclosed. (Schewe 2009, p 235; Paetzmann 2008, p 20). In particular, the volunteer application of not-mandatory regulations can be part of a high quality CG. How far the self-regulation according to the comply or explain-principle can be classified as effective cannot be clarified ultimately (Strenger 2007, p 267; Andres & Theissen 2007, p 168). In comparison to a common legislative procedure, the code was designed to be easily adaptable to a changing environment. The government commission remains in force, in order to accompany the development of CG in legislation and practice. The content of the code shall be reviewed annually and adapted, if needed, to changing circumstances (Grell 2008, p 52; Hofer 2008, p 55; Schewe 2009, p 238). Rounding off, the structure of the code looks as follows (DCGK 2010):

1. Foreword,
2. Shareholders and the general meeting,
3. Cooperation between Management Board and Supervisory Board,
4. Management Board,
5. Supervisory Board,
6. Transparency,
7. Reporting and Audit of the Annual Financial Statements.

Corporate Governance and Corporate Performance

Causal Relationship

There exist several approaches to link CG with CP in academic literature. A macroeconomic perspective investigates the effect of different CG-systems on several parameters, e.g. advantages in competition between geographical different locations to attract businesses. However, these economic benefits have been underlined several times and shall not be dealt with further more in this paper (Bassen & Zöllner 2009, p 46; Dörner & Orth 2003, p 11). The focus of this paper lies in particular on a microeconomic perspective. In general, it can be observed in many discussions about CG that the underlying assumption is that companies with good CG are more successful than companies with insufficient CG-structures (e.g. von Werder 2003, p 20; Günther & Gonschorek 2008, p 136). Success in this sense means the shareholder value of a company due to the fact that the debate over CG mainly addresses publicly traded stock corporations (Zöllner 2007, 52).

There can be distinguished two causal directions of CG influencing the shareholder value of a company. On the one side, a potential increase of CF and on the other side a potential decrease of the costs of capital due to a reduced risk (Weichsler 2009, p 12; Günther & Gonschorek 2008, p 136; Quick, Wiemann & Wiltfang 2009, p 205).

The first effect bases on the assumption that insufficient monitoring and control systems reduce the trust of investors in the management to pursue value increasing strategies. As a consequence, a lower future CF is expected. Adequate monitoring and incentive instruments may lead to better aligned management activities. But one has to take into account that the monitoring activities are related with costs. However, in comparison to the damage, caused by an uncontrolled opportunistically acting management, the monitoring costs should be lower (Beiner et al 2004, p 29; Weichsler 2009, p 12). According to the model of La Porta et al (2002), protection of investors and improved

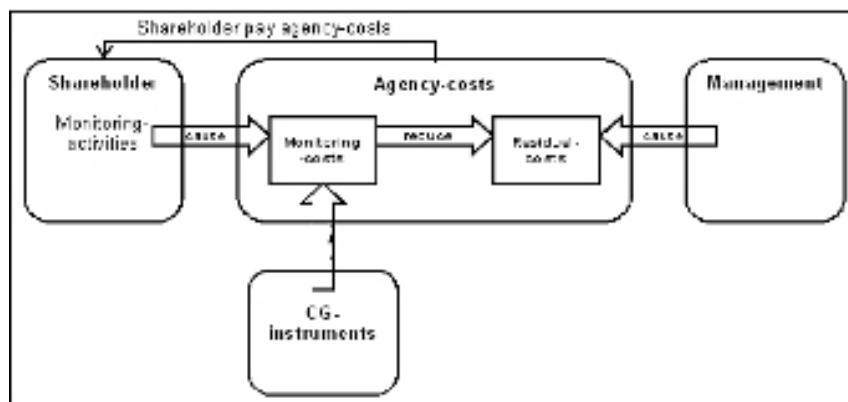
control mechanisms by the investors leads to a higher valuation. However, Kley (2008) criticises that cost aspects often seem to be ignored (Kley 2008, p 702). Furthermore, it has to be stated that incentives may be more effective than monitoring instruments. In this context, human aspects play a significant role, but these inner aspects are only partially influenceable by external regulation (Weichsler 2009, p 13).

The second effect considers CG as a factor of risk. Improved CG-mechanisms may reduce monitoring and control costs for the investors. According to the model of Lombardo & Pagano (2002), the expected agency-costs lead to an additional risk premium in the Capital Asset Pricing Model (CAPM). There can be identified a direct inverse relationship between risk premium and shareholder value. A decreasing risk premium induces, consequently, an increasing shareholder value. Hence, CG-mechanisms may

reduce agency-costs and thus reduce the risk premium as well (Drobertz & Zimmermann 2006, p 498; Hirt 2007, p 137; Lombardo & Pagano 2002). Improved CG in terms of improved disclosure of relevant information may also lead to a declining risk for investors with the corresponding effect on the risk premium (Weichsler 2009, p 14; Raskop 2004, p. 240).

Though, a clear separation of both effects within empirical studies hardly seems to be possible (Drobertz & Zimmermann 2006, p 498). But it becomes obvious that the relationship between shareholder value and CG mainly depends on the agency-costs. Based on those findings, Beiner (2005) developed a simple theoretical model. It considers the direct impact of good CG on the monitoring costs and the residual costs and hence, derives a positive relationship to shareholder value. The following figure illustrates the model:

Fig. 4: Effect of agency-costs



(Source: adapted from Zöllner 2007, p 53)

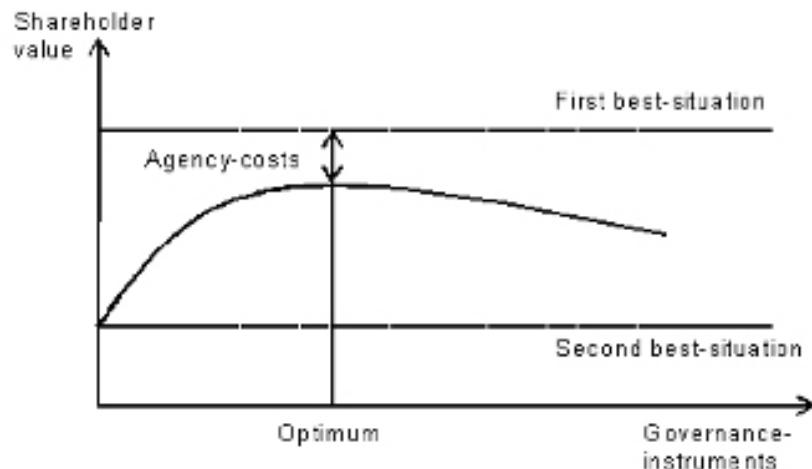
The shareholders cover the agency-costs which consist of monitoring and residual costs. The market value of the company represents the difference between the “perfect” market value in a world with perfect markets and the residual costs. Residual costs occur as consequence of an opportunistic behaviour by the management. The higher the residual costs, the lower the value of the company is expected to be. However, monitoring and control activities may reduce residual costs, but lead simultaneously to an increase of the monitoring costs. The quality of existing CG-instruments affects the amount of monitoring

costs as well. Consequently, an increase of CG-instruments at a company reduces the monitoring costs. Legal actions that improve the national framework conditions may also lead to smaller monitoring costs, assumed the degree of intensity stays equal (Zöllner 2007, p 53; Bassen & Zöllner 2009, p 49).

In case of a given quality of external and internal CG, shareholders will increase control activities and consequently monitoring costs as well, till their marginal costs equal the marginal utility of the reduction of residual costs (Bassen & Zöllner

2009, p 47; Beiner 2005, p 50). As a consequence, optimum adoption of CG depends on the net increase of value, which can be achieved with the respective instruments (Wagenhofer 2009, p 12). The following figure shows the relationship:

Fig. 5: Effect of agency-costs



(Source: adapted from Wagenhofer 2009, p 12)

The second best-situation can be described as a condition without CG and is characterised by conflicts of interest and information asymmetry. In contrast, the first best-situation represents a fictitious world without conflicts of interest and symmetrically distributed information. The adoption of CG-instruments increases the shareholder value, however, the marginal utility is declining. Having reached the optimum, marginal costs and marginal utility of an additionally adopted CG-mechanism correspond with each other. A further increase would consequently cause net costs and therewith reduce the shareholder value. It has to be mentioned that the first best-situation even by using CG-mechanisms is not attainable. Therefore, it is obvious that a certain amount of agency-costs persists as a difference between first best-situation and the currently reached shareholder value (Wagenhofer 2009, p 11).

Empirical Evidence of a Relationship

The assumption that good CG supports superior CP generally seems plausible. However, only

empirical testing may provide a proof of a positive relationship. In comparison to e.g. the Anglo-Saxon area, the amount of empirical studies is significantly lower in Germany. The existing German studies shall be discussed in the following chapter, due to significant differences of the legal systems and consequently a limited transferability of the results of foreign empirical studies, they shall not be considered in this paper (Bassen et al 2006, p. 377; Stiglbauer 2010, p. 65).

Findings

Stiglbauer (2010) conducted a recent comprehensive empirical study among 113 DAX, TecDAX, MDAX and SDAX companies of the year 2007. The author created a CG-rating which included recommendations, suggestions and further criteria, capital markets may need to evaluate the CG-quality of a company. As performance measures return on assets (ROA), return on equity (ROE), Tobin's Q, market to book ratio and stock yield were included. The author performed several multivariate regression

analyses but was not able to find a positive impact of high compliance with GCGC to any of the performance measures. However, he identified a significant negative effect of high compliance on stock yields. Taking into account the transparency of CG-reporting, the analyses show a weak positive significant relationship to market to book value and stock yields. Interpreting these results one has to consider that stock yields as performance indicator is not without problems. Some interpret higher stock yields as a sign for a better CP whereas others argue that better CG should go in line with lower cost of capital and therewith lower stock yields (Bassen et al 2006, p 381). However, it has to be stated that stock yields used in the presented studies solely represent the increase of the share price. Therefore the underlying presumption is higher stock yields have to be interpreted as lower costs of capital (Weber & Velte 2011, p 43).

Bassen, Prigge & Zöllner (2009) set up a study among 100 companies of DAX, MDAX and TecDAX for the year 2005. They evaluated the quality of CG on the base of compliance with the GCGC, whereas all provided information was taken into account, not only those disclosed in the declaration of conformity. As performance measures the authors used ROA, ROE market to book ratio, Tobin's Q and stock yield. However, the authors could not identify a positive relationship between quality of CG and the corresponding performance measures. But they found a significant negative relationship between high CG-quality and Tobin's Q.

Also Bress (2008) performed a comprehensive study in which he investigates the relationship between CG-quality and CP. The time period investigated was 2003/2004. The author designed a CG-rating based on the declaration of conformity with the GCGC for 128 companies of the DAX, TecDAX, MDAX and SDAX. Subsequently, two portfolios were formed whereas the high governance portfolio represents companies with a high conformity with the GCGC; the low governance portfolio implies an insufficient conformity. However, the author could not find a clear indication for a relationship between CG-quality and stock yields. When using Tobin's Q as an indicator for performance, there seems to be a significant positive relationship between CG and performance.

Bassen et al (2006) analyse the relationship between good CG and CP on the base of the declarations of conformity with the GCGC for

the year 2003 for 96 DAX, MDAX and TecDAX companies. They included in contrast to prior studies, the categories recommendations as well as suggestions, in order to include all available information. Corporate performance is measured on the one side by the accounting based measure ROA and on the other side by two market based measures, namely Tobin's Q and stock yield. The authors formed two portfolios, into which companies are sorted, according their level of compliance. Hence, one portfolio represents a good quality of CG, whereas the other portfolio comprises companies with a worse CG-quality. However, the performed multivariate regression analyses between the different variables do not show any statistical significant relationship between compliance with GCGC and corporate performance in general. Thus, the authors conclude that the GCGC is working as a regulation instrument due to a high level of compliance; however, a contribution to corporate performance could not be verified so far.

Nowak, Rott & Mahr (2005) investigate the impact of CG on shareholder value by means of an event study for the time period 2002/2003. An event study measures the reaction of a share price caused by a certain event. This research method depends on the assumption that an above average compliance with GCGC recommendations leads to a positive effect on the share price, whereas a refusal of the recommendations should lead to negative effects on the share price. According to this the authors investigated the effect of the disclosure of the declaration of conformity with the GCGC on daily stock yields on the day of disclosure and within a time slot of -2 to +5 days. However, they were not able to identify any clear impact of the disclosure on the stock price. Consequently Nowak, Rott & Mahr (2006) expanded the study and examined a time period of three years (2002-2005) by using the same method. But even after expanding the time frame investigated they could not find a positive effect of compliance with recommendations of GCGC on the share price. Consequently, the authors concluded that the self-regulation of CG through market forces has to be classified as rather ineffective.

Goncharov, Werner & Zimmernann (2006) address the question, whether the degree of compliance with the recommendations of the GCGC, as disclosed in the declaration of conformity is value relevant. They analysed the time period 2002/2003 and a

sample of 61 companies from DAX and MDAX. However, the level of observance of suggestions named in the GCGC was not taken into account. The authors performed several value relevance regressions and found, in contrast to other studies, that the degree of compliance with the code seems to be value-relevant information for the capital market indeed. Furthermore, they showed that the sample firms with higher compliance are priced at an average premium of 3.23 EUR. They also stated that the use of an event study design as conducted e.g. by Nowak, Rott & Mahr seems not be appropriate due to several reasons.

Drobetz, Schillhofer & Zimmermann (2004) develop in a first step a CG-rating for German publicly traded stock corporations mainly based on the GCGC and extended by criteria from "DVFA German Corporate Governance Scorecard", "CalPERS German Market Principles" and "Deminor Corporate Governance Checklist". In a second step, they formed two portfolios, one with a high (good CG) and one with a low CG-score (bad CG). They found that corporations with a high score show the tendency to have higher market capitalisations as well and it seems that companies attach more importance to transparency. Furthermore, the results suggest that there is a clear statistically significant positive relationship between the quality of CG and stock yields. This supports the assumption that good CG may lead to a higher shareholder value. However, the authors state that causality and the direction of the effect is still not solved properly and remains open for further research.

Additionally to the studies focusing on the German circumstances, there shall be discussed an exemplary study which investigates a sample of European companies as well. Bauer, Günster & Otten (2004) analysed by means of the Deminor CG rating and a portfolio-approach, whether CG has a value affecting impact. They found substantial differences between different countries and performance measures. However, a considerable difference appeared between Great Britain and Continental Europe. Whereas a value increasing effect of CG for British companies was not identifiable, they found a relationship for Continental Europe companies. The authors explain the different results with the assumption that companies from Continental Europe tend to have lower CG-standards in comparison to their British counterparts. Also Bress (2008) assumes that against the background of a very

high compliance rate with the GCGC the overall requirements of GCGC seem to be rather low than the high compliance rate may lead to the clue of a very high CG-standard in Germany. Due to the prevailing character of self-regulation by the code it may be an underlying aim of the code to create a consensus between the different parties seems to (Bress 2008, p 191).

Limitations

Summing up, the results have to be characterised predominantly as inconsistent. So, Bress (2008) constitutes that a possible relationship between CG and CP is affected by a number of aspects such as the time frame investigated, methodological approach, underlying sample and the definition of CG and CP (Bress 2008, p 194).

Goncharov, Werner & Zimmermann (2006) indicate that event studies might suffer from the possible existence of other relevant information during the event period. Furthermore, it is not clear, how fast German markets react to new information, consequently the choice of a too narrow time window may lead to false conclusions. Event studies seem to be rather inappropriate for this research task (Goncharov, Werner & Zimmermann, p 436). But also the results may be biased due to a reverse causality and endogeneity. That means that the direction of causality may not be entirely clear. Another problem may be the existence of unobserved variables that are not considered in the model (Beiner et al 2005, p 33; Börsch-Supan & Köke 2002, p 297). The recent studies conducted by Bress (2008), Bassen, Prigge & Zöllner (2009) and Stiglbauer (2010), however, claim for themselves to address these econometric problems properly (Stiglbauer 2010, p 62).

Another main problem is the definition of good CG. Due to the availability of data most of the studies use the level of compliance with the GCGC as an indicator for good CG. However, the declaration of conformity and ratings based on it, may not cover all relevant CG-aspects. Some studies encounter that limitation by considering all available information, e.g. suggestions of the GCGC (Bassen et al 2006, p 379). Furthermore, it has to be stated that an improved CG may develop its positive affect on CP after a certain period of three, five or more years. As a consequence short term observations may, therefore, lead to false results (Hirt 2007, p 137).

The above mentioned limitations deliver an overview why the conducted studies tend to show inconsistent results and why comparisons between different studies are not readily possible.

Conclusion

CG has become an intense discussed topic in business administration theory. CG aims to support a sustainable value creation and represents in fact the legal and factual regulation framework for the interaction of management, board and stakeholders. An important aspect of CG in Germany is the GCGC. The code was developed to make the German CG-system more transparent, especially for international investors. Furthermore, the code forms the base for most of the empirical studies which examine a potential relationship between CG and CP. However, the discussion of several empirical studies for Germany provided inconsistent results. But in principle, a positive relationship of CG seems plausible. CG may influence the shareholder value on the one side by increasing the CF and on the other side by reducing the costs of capital.

Due to the complexity to proof a relationship between CG and CP, studies that did not show a positive relationship should not be used as an argument for non-compliance with CG-standards. In fact, CG-standards used (without harm) by a great sample of companies may claim for themselves a certain assumption to improve CP. However, the importance of CG for CP should not be overestimated, in particular in developed CG-systems (von Werder 2003, p 21; Drobetz 2006, p 188; Wald 2009, p 82).

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WAITROSE: AN EMPORIUM FOR THE MIDDLE CLASSES BROADENS ITS APPEAL

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Abstract

This paper provides a case study of Waitrose, a UK based grocery retailer. Traditionally purveyor to the middle class of Southern England today Waitrose is expanding its retail empire northwards and is seeking to expand its customer base and appeal via the introduction of a Waitrose Essentials product line. This paper looks at and considers the implications of these developments. It argues that within the UK grocery retail sector there is a hierarchy based not on profitability or market share but on social class. Waitrose is argued to have posh appeal and to sit at the top of a class based retail hierarchy. The retail strategy of expanding into the North of England coupled with the introduction of the Essentials product line is argued to have potential to cause tension and difficulty with Waitrose traditional heritage and brand image. Whilst such tensions do not necessarily present insurmountable problems they do nevertheless call into question the overall retail strategy for growth which seems to be very much based on following the Tesco format. What works for Tesco does not necessarily work for Waitrose and there can be no one-size fits all strategy for retail growth.

Key words: case study, U.K. grocery market

Introduction

Waitrose part of the John Lewis Partnership since 1937 is the grocery arm of the partnership and consistently wins consumer awards from the UK grocery industry bodies but until now has been something of a London and Southern England chain compared to its major competitors such as Marks and Spencer. This profile is however subject to change and current plans now involve nearly doubling the size of the operation from 243

outlets over the next five years. Joint ventures with motorway service stations, petrol stations and chemists are planned. In addition there are international openings in the Gulf, a joint venture with the Prince of Wales Duchy originals brand and a new contract to supply products to the internet grocery retailer Ocado, also part of the John Lewis Partnership. The store group is expanding in the North of England. One of its most recent moves was to take on market leader Tesco with a price comparison match campaign on 1000 branded products backed up with a major promotional campaign. Wood (2010, p. 33) writes,

"To counter criticism that it is more expensive than rivals, in September Waitrose announced a long-term commitment to match Tesco's prices on 1,000 everyday products. The pledge covers basics such as Heinz baked beans and Persil washing powder. The aim was to build on the success of its own label "essential" range launched two years ago to stop customers trading down to discounters during the recession."

Within the retail studies body of literature there is little academic work on Waitrose. Waitrose is one of the main UK retail supermarkets with a 4.2% share of the market (Cave, 2010, p. 6). Traditionally based in the South of England recent years have seen Waitrose expand their business into new geographic areas. Most recently it has developed and is in the process of implementing a growth strategy for the North of England, partly through acquisition of, for example some of the now Waitrose re-branded Somerfield and Safeway stores; the acquisition of spare retail outlets once occupied, for example by the likes of MFI and Woolworths; and partly via the development of new-dedicated and newly built outlets. This paper offers a case study of Waitrose and seeks to address a gap in the academic body of literature. Whilst

much research has been undertaken and much has been written about the likes of Sainsbury's (for example, Wrigley, 2000; Wood and Pierson, 2006), Tesco (for example, Vignali, 2001), and Asda (for example, Sharples, 1986) this is not so with Waitrose which remains an under researched area of academic retail studies. Studies of Waitrose have to date focused on issues such as its supply chain and corporate social responsibility (Spence and Bourlakis, 2009) and on its category leadership programme (O'Keeffe and Fearne, 2002). This paper builds on and extends the Waitrose literature and in so doing offers a distinctive approach and provides insight into how its partnership structure influences and shapes its business model, growth strategy and appeal to customers.

Context – John Lewis Partnership

Any understanding of Waitrose's modus operandi, business model and strategy must be informed by knowledge and appreciation of the workings of the John Lewis Partnership of which Waitrose is a part. John Lewis comment:

"All 70,000 permanent staff are Partners who own 32 John Lewis shops across the UK (28 department stores and four John Lewis at home), 243 Waitrose supermarkets (www.waitrose.com), an online and catalogue business, johnlewis.com (www.johnlewis.com), a production unit and a farm with a turnover of nearly £7.4 billion last year. Partners share in the benefits and profits of a business that puts them first."

When our founder, John Spedan Lewis, set up the Partnership, he was careful to create a governance system, set out in our Constitution, that would be both commercial allowing us to move quickly to stay ahead in a competitive industry, and democratic giving every Partner a voice in the business they co-own. His combination of commercial acumen and corporate conscience, so ahead of its time, is what makes us what we are today."

(<http://www.johnlewispartnership.co.uk/Display.aspx?MasterId=768e29e8-41aa-4716-bce2-df302fa1c3d8&NavigationId=543> - accessed 8th February 2011)

Looked at in the context of the other big UK grocers, Waitrose's partnership business structure

is unique. The history of the John Lewis Partnership and its governance structure have undoubtedly shaped and influenced today's Waitrose. Its appeal is to the middle classes and above and its middle class ethos and values permeate the very fabric of the business. The Partnership concept lies at the heart of the John Lewis Partnership.

"Unlike other major supermarkets, Waitrose isn't owned by shareholders and the City. Instead, as part of the John Lewis Partnership, it's owned by everyone who works for the Partnership. (That's why Waitrose staff are called 'partners'.) And every year they share the profits that would normally go to shareholders. As you would expect this produces an extraordinary high level of commitment amongst those who work in our stores. A good proportion of our Partners have worked for Waitrose for many years - over 20 is not unusual. They're interested in what they do and they're knowledgeable about what they sell. And the friendliness and helpfulness that our customers so often remark upon isn't really surprising when you realise that the Partners you meet in your local Waitrose do, in effect, own the store."

(<http://www.waitrose.com/ourcompany/thewaitrosedifference.aspx#faq02> - accessed 8th February 2011)

The partnership structure has influenced the way the business operates and manages customers. The partnership structure allows Waitrose to differentiate itself in the market place from its main UK retail grocery rivals.

Cohen (2011, p. 4) has described John Lewis as an "emporium for the middle classes". It is this middle class to upper middle class market appeal of Waitrose to which this paper now turns.

The UK Grocery Market

The key players in the UK retail grocery market are Tesco, Sainsbury's, Asda, Morrisons, and Waitrose. Table 1 below shows the percentage share each of the above retailers have of the UK market in 2010.

Table 1: Percentage share of the UK retail grocery market

Grocery Retailer:	Market Share:
Tesco	30.8%
Asda	16.7%
Sainsbury's	16.2%
Morrisons	11.9%
Waitrose	4.2%

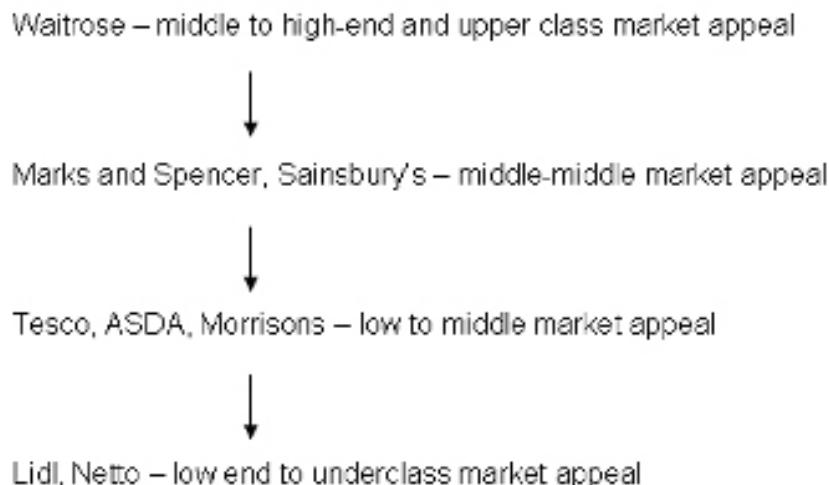
Source: Cave (2010, p. 6)

The core argument developed within this paper is that amongst the dominant players within the UK retail grocery business there is a hierarchy based not on market share or profitability but on social class. By and large and with obvious exception it is suggested here that the grocery retail sector reflects the class-based nature of British society. Waitrose sits at the head of this social class based retail hierarchy and below them are other big retailers such as Asda, Morrisons and Aldi. Waitrose has adopted a diametrically opposed strategy to that of the likes of retailers such as Tesco and Asda. Whereas Tesco and Asda positioning rests largely on value and affordability of goods offered Waitrose appeal rests on quality goods, premium prices, brand image and reputation as a medium- to high-end retailer serving the aspirational-working, middle and upper classes. In this sense Waitrose's main competitors are Marks and Spencer and Sainsbury's. Tesco and Asda have mass-market appeal whilst that of Waitrose can be perceived as being more niche based and offering posh appeal. John Lewis and Waitrose can be described as being the Harrods of the high street. The different approaches adopted for growth through class based market segmentation strategies by the likes of UK grocers such as Waitrose and Tesco is encapsulated below in Figure 1:

Figure 1 develops a conceptual hierarchy showing the appeal of different UK based supermarkets to different market segments based on social class and economic status. Strategies for growth used by these different supermarkets will in part be determined by their different customer bases. What works for Tesco will not necessarily work for Waitrose as their customer bases and appeal rest on different market segments. Working this

into the retail expansion plan equation is not an easy thing to do and requires careful monitoring, evaluation and continual vigilance and re-visiting. It is argued here that the main players in the UK retail sector reflect the socially stratified nature of British society. Furthermore it is argued that the main UK retailers use social class as the primary base for their approach to market segmentation. It is therefore suggested that the grocery retailer at which people do most of their weekly shop is a good indicator of their social class. Whilst something of an oversimplification and generalisation there is undoubtedly an element of truth in this observation and claim. Class today is more than just about occupation. It is also about where one shops, and as important where one is seen to shop and this line of argument works to Waitrose advantage. Nevertheless, with regards to groceries, there remains much truth in the claim that shoppers shop on the basis of convenience and local store location. In general and with obvious exception middle class areas attract middle class shops (for example, Sainsbury's) and similarly working class areas are usually populated with shops that reflect that neighbourhood profile (for example Netto and Lidl).

Whilst much academic work has addressed the issue of shopping and social class (for example, Ellaway and Macintyre, 2000; Guy, Clarke and Eyre, 2004) this paper has set out a retail hierarchy which though a theoretical construct does nevertheless have some basis in consumer perceptions and the "real world" of retail.

Figure 1 – Class based market appeal of UK supermarkets

Waitrose occupies a unique position within the UK grocery-supermarket sector. Its traditional appeal has been to the middle class of middle and Southern England. Today this appeal is being broadened out and reconfigured to include a wider geographical reach by a retail expansion programme in the North of England. Cave (2010, p. 6) writes, "Waitrose has also long been moving northwards, though it is still heavily weighted to the South, with a 10% market share in London and 11% in the South East, compared with 1% in the North of England and less than 1% in Scotland." Its appeal to wider socio-economic demographic segments is also being broadened out and reconfigured via the introduction of a new sub-brand called Waitrose Essentials. Waitrose is not standing still but is adapting to new challenges, new opportunities and has something unique to offer the UK retail grocery sector.

Waitrose Strategy and Future Development

Any understanding of Waitrose's future direction ought to take account of its past. Waitrose's retail business strategy is in part undoubtedly shaped and informed by its history and partnership structure. Its strategy and plan for growth is also shaped and influenced by the anticipated needs of tomorrow in terms of, for example, better meeting customer expectations. In copying the path for

expansion taken by Tesco, Sainsbury's and others there is a danger Waitrose may lose sight of their history and heritage and in so doing alienate their traditional customer base.

The financial commitment for investment in new store sites is one that Waitrose management will need to weigh carefully. This is particularly so given the current fragile state of the UK economy with over indebted consumers, fear of job loss in the public sector, and a general feeling of uncertainty leading to, amongst other things, consumers reluctance to spend. If Waitrose plans to develop aggressively and quickly then raising funds to invest in new sites is a pre-requisite and a priority. However, Waitrose's expansion plans are not confined solely to the bricks of the high street but also to the clicks of online sales via its website. Barrett (2011, p.18) writes, "Waitrose is set on doubling its market share, and is aggressively expanding its online capacity via Waitrose.com".

Key Findings

From the above discussion a number of key findings can drawn. It is suggested here that the partnership structure:

- Enables and allows for long term as opposed to short term thinking and planning.

- Allows Waitrose to commit to social responsibility issues and in particular to adopt and implement a positive and rewarding approach to community engagement.

Other key findings are that:

- Social class is a key determinant of UK grocers' retail market segmentation strategies.
- Within the UK grocery business there is a hierarchy based on social class market appeal.

In its commitment to community engagement Waitrose demonstrates by example its corporate social responsibility. Ethical principles are translated into "real-world" practice and run throughout the programme of community engagement. On the issue of Corporate Social Responsibility the John Lewis Partnership (2011) write:

"Our founder's ideals, set out in our Constitution, are the inspiration behind our approach to corporate social responsibility and shape the principles we apply. We are determined to embrace diversity and earn a reputation as an 'employer of distinction' by treating all our employees (Partners) as individuals, with respect, honesty and fairness.

Sharing the rewards and responsibilities of ownership and conducting our business with integrity and courtesy are the principles we live by; this approach underpins our environmental policies, our involvement with local communities and our approach to responsible sourcing and trading."

(<http://www.johnlewispartnership.co.uk/Display.aspx?&MasterId=c489c8d5-be4b-483a-a3f8-65d3ab5688b1&NavigationId=1254> - accessed 12th February 2011)

Waitrose have embarked on a change in positioning strategy based on geography (expanding northwards from their traditional South England base) and on offering new products (a sub-brand called Waitrose Essentials). It is suggested that aspirational working class shoppers, along with middle class shoppers on a tight budget that are looking for both quality and value are those most likely to purchase the Waitrose Essentials range. It is a price driven competitive weapon. Waitrose seek to copy the Tesco approach to retail growth and dominance but to do so with their principles intact, their heritage guiding future direction and

their customers' loyalty an integral part of what they do.

Conclusions

Waitrose is at a crossroads in its development. A number of routes can be taken but the one adopted is a near exact replica of its main UK rivals in the grocery sector. The strategy for growth is based on new markets in new areas of the UK. This move into new regions, towns and cities present new challenges as well as a number of opportunities.

Waitrose is a well-regarded supermarket that places a premium on quality products and quality service (see for example <http://www.brilliantcustomerservice.com/resources/john-lewis-a-customer-service-case-study/> - accessed 12th February 2011). It is playing catch up with many of its established competitors and in doing so is emulating and trying to replicate their tried and tested strategies for growth. Whether or not the adopted strategies will work for Waitrose, given the different socio-economic and demographic customer bases only time will tell. Lessons learned from the other supermarket growth strategies have been adopted, are being implemented and adapted to suit the needs of Waitrose and their customers. The challenge for Waitrose is to carry their traditional customer base with them whilst at the same time growing new ones. How to remain loyal and true to one market segment whilst appealing to others is a potentially difficult thing to do and is not without risk. In reaching out to new market segments in new geographic areas there is a potential danger that Waitrose might reach too far and lose sight of its traditional roots and customer bases. In moving from being a regional to a national player in the UK retail grocery market Waitrose follows in the footsteps of other well-established players and whilst copying may be the best form of flattery it by no means guarantees success. Success in the market depends on careful, calculated risk taking as well as working with and persuading potential customers of the benefits of shopping at Waitrose. Waitrose have a loyal customer base in the South of England whilst customers in the North of England have yet to be fully persuaded to buy into the Waitrose offering. Nevertheless, history, heritage, loyal customers, a premium brand and a partnership structure bode well for future long-term success.

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IMPORTANT ELEMENTS IN CUSTOMER RELATIONSHIP MANAGEMENT

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Introduction

Customer relationship management (CRM) is one of the basic and most crucial elements of the marketing philosophy. CRM puts in focus the customer and their satisfaction in such a way that all the company's activities are pointed towards the customer. The main aim of CRM is to get to know the customer as well as possible, which can help a company deliver better, more appropriate and higher added value to the customer. CRM is all about collaborating with each customer – being able to create the classic win-win situation: you add value to each customer's daily life, and they give you loyalty in return (Temporal, Trott, 2001). The primary goals of CRM are to: build long-term and profitable relationships with chosen customers; get closer to those customers at every point of contact; and maximize the company's share of the customer's wallet. Simply stated, CRM is about finding, getting, and retaining customers. So, it is possible to conclude that CRM is business strategy and therefore more than a functional strategy alone. It affects the organisations as a whole: marketing, IT, service, logistics, finance, production and development, HR, management, etc (Peelen, 2005). Also, Kumar and Werner (2005) look at CRM from a business strategy perspective. The aim is to gain long-term competitive advantage by optimally delivering value and satisfaction to the customer and extracting business value from the exchange. From this standpoint, CRM is the strategic process of selecting the customers a firm can most profitably serve and of shaping the interactions between a company and these customers. The goal is to optimize the current and future value of the customers for the company. The interest in customer relationship management (CRM) began to grow in the 1990s. Regardless of the size of an organization, businesses are still motivated to adopt CRM to create and manage the relationships with their customers more effectively. An enhanced relationship with one's

customers can ultimately lead to greater customer loyalty and retention and, also, profitability. In addition, the rapid growth of the Internet and its associated technologies has greatly increased the opportunities for marketing and has transformed the way relationships between companies and their customers are managed (Ngai, 2005). CRM appeared as a new concept at the peak of the Internet boom. In 1998 JPMorgan's analysts forecasted that the demand for CRM technology would grow with double-digit annual rate because the Internet was causing a quiet revolution in the way customers would demand to interact with companies. All the mentioned points to the same conclusion - companies need CRM because they have to improve their performance. In today's globally competitive world, customers expect more, have more choices, and are less brand loyal. The only thing that is constant is change. Customers will continue to change with regard to needs, demographics, lifestyle, and consumption behaviour. The companies that survive and grow will be the ones which understand change and are in the lead, often creating change. Many businesses work hard to acquire new customers, but this is where the customer relationship often stops. However, in implementing the CRM strategy, managers must recognize the cultural orientation required to energize inter-firm communication and knowledge sharing routines and build innovation and joint action. Infrastructure alone will not build relationship bridges with strategic partners nor leverage the resources that lie within those partners. Thus, managers will need to ensure that processes are in place to stimulate new ideas about relationship management and to capture current knowledge about relationship practice and productivity (Jarratt, 2008).

The development and implementation of the customer relationship management strategy is influenced by a large number of factors. The three

most commonly present are as follows (Chen and Popovich, 2003, Liew, 2008):

- The technology,
- Business processes.
- People.

The importance and influence of technology has already been mentioned several times since it has offered support which has resulted in the current level of possibilities and application of customer relationship management. Furthermore, an emphasis has been put on efforts and aims of all companies which want to implement the customer relationship management strategy in order to make all business processes directed towards the customers, meaning satisfying the wishes and needs of their customers. This includes activities inside all the companies' departments. Satisfying the previously mentioned factors without the support of the employee as the most important factor is futile and does not make any sense. The given elements are basic according to the latest theoretical findings but the question is whether they are sufficient for achieving success. Research has shown that 55-77% of CRM implementations are not successful. Nevertheless, investments in CRM have been on the rise in recent years (Wang and Swanson, 2007). The key aim of this paper is to suggest new, additional factors (elements) which would upgrade the mentioned existing elements in order for the CRM implementation to yield the best possible results. A successful customer relationship management strategy implementation should in one company cover all steps which are in contact with the customer. For the given approach to be successful, companies should above all apply a systematic strategic approach. Crosby (2002) says one of the biggest misapprehensions (or myths) concerning CRM is that it all evolves around information technology. He claims the complete opposite (Crosby, 2002) by saying that it is about the business strategy and that the loss or lack of strategy leads to undesired results and a waste of big financial means, pouring money down the drain, if invested in CRM software or hardware. Kotorov (2003) thinks the same and in his opinion the success of customer relationship management most importantly depends on understanding and approach according to which customer relationship management is a strategy and not a software solution or a software package. The commonly accepted belief is that the implementation of

customer relationship management strategy (CRM) strives to improve relationships with customers and their loyalty but also it tends to reduce costs through business enhancements, boosting sales per customer and attracting new customers. Moreover, the aim of customer relationship management can be the total customer experience. Improving customer relationships is definitely based on good communication skills, which are ensured by a quality approach to customer relationship management strategy. No matter how deeply rooted the customer and his satisfaction in the essence of marketing philosophy are, it is still questionable how many companies truly know their customers. It is to understand that the process is long-term and prone to changes which require continuous monitoring. Today's business environment is such that companies need customer relationship management (CRM) in order to improve their businesses. Unfortunately, a high percentage of customer relationship management strategy implementations fail because of the existence of elementary non-understanding of the strategic approach here in question.

Hoots (2004) stresses the importance of a more active role of "top management" and defines customer relationship management as a development of a universal image of customers' needs, of their expectations, behaviour and of managing the mentioned elements (factors) which influence a company's business. A more active role is especially expected with regard to research into customers' expectations and determining whether the expected value has been delivered. Kotorov (2003) supports the same approach and emphasises the importance of involvement of top management. Otherwise, it is obvious that just implementation or acceptance of customer relationship management will not be successful. Furthermore, Hoots (2004) introduced a model, the so called "3R", which represents resources, response and respect. The given model shows there is a gap between customers' expectations and value delivery. On account of all this, customer relationship management is currently one of the most interesting ("burning") issues in the business world. The crisis has done its part and proved the importance of customer loyalty, so customer relationship management is experiencing growth in practically all sectors and companies, regardless of the fact whether those companies are focused on the market of final or business consumption expenditure.

Methodology

In-depth interviews with the managers of 13 Croatian top companies with implemented CRM, which took place in February 2011, served to show their view of the possible expansion of the elements which are taken into consideration when customer relationship management strategy is being implemented. The preparation for in-depth interviews included knowledge taken from previous research into this area. The choice of in-depth interview as a method seemed the most appropriate with regard to the set goals of the research and with regard to the selected sample (managers of leading Croatian companies). According to Finnegan and Willcocks (2007), the in-depth interview is a good research method because it functions as a personal interview in which each interviewee answers questions of the interviewer so as to reveal motives, beliefs, attitudes, feelings connected with the topic, in this case feelings related to customer relationship management strategy. An in-depth interview per se does not possess a high level of structure so in this case, likewise, it was based on open questions which enable an "informal" conversation about the interviewee's knowledge concerning customer relationship management. Also, since the interviewees come from different businesses (production, services, etc.), each company has its "specific story" with regard to customer relationship management, so the in-depth interview method seemed the ideal research method because of its free course and no structure. The non-probability sample used was a snowball sample, while the instrument of research was a guide. The interview guide covered topics such as introduction to the field, the roles of the interviewee and the interviewer, including the key elements from literary sources and previous research on CRM. The interviews had been previously arranged over the telephone and email and conversations took place when and where it was most convenient for the interviewees, provided that the conversations would not be interrupted. All interviews began with an informal conversation about some general experience with CRM with the aim of creating a pleasant and relaxed atmosphere which might benefit the entire course of the interview. The openness of the interview was taken into account in so much that the interviewee was allowed complete freedom of expression so the attained data would be as useful as possible. Moreover, qualitative methods are most suitable for this type of research because

it is to be expected that such approach would contribute to a better understanding of customer relationship management (Plakoyiannaki and Saren, 2006). An in-depth approach can be achieved via detailed description of happenings, situations and communications which occurred between the participants in customer relationship management. The data received from this part of the research (qualitative) are linked with things and events which really took place inside the company, whereas the employees who were interviewed possess experience concerning these events.

Results

The results of the carried out in-depth interviews have shown that the successful implementation of customer relationship management should include the following elements:

1. The company's board of directors (top management)
2. Approach to CRM as a strategy attuned to brand management strategy
3. Marketing research
4. People (employees) and customers (as central and key elements)
5. Processes
6. Time and cost
7. The technology (which is on the last place)

In order for it to be successful, the main role in the implementation of customer relationship management strategy has to be attributed to customers and people (employees). From a hierarchical point of view, it is of utmost importance that the management participates in the implementation of customer relationship management. This refers to their active participation which would serve as motivation to other employees as well because the success of the implementation inevitably depends upon all employees' acceptance and active participation in the implementation of customer relationship management strategy. Understanding and approach to customer relationship management as a strategy is also closely linked with the management's activity. If customer relationship management is not approached strategically,

the implementation is by default sentenced to failure. The suggested elements are to show that customer relationship management strategy should be taking into account the existing brand management strategy. Furthermore, many papers have shown the connection between the strategy of customer relationship management and the strategy of brand management (Mandić, 2006). A 2006 research has confirmed (Mandić, 2006) that companies in the Republic of Croatia recognise the fact that customer relationship management strategy can produce a considerable impact on the market value of a brand through increase of satisfaction and loyalty among customers. Also, the mentioned research proved that over 90% managers of leading Croatian market brands consider customer relationship management useful in development and monitoring of brand equity on the market and believe that it can considerably influence the development and monitoring of the market value of a brand. For example, Crosby (2002) stresses the importance of understanding the connection between customer relationship management (CRM) and brand management strategy as well. In this case, what is emphasised is the importance of understanding strategic approaches the aims of which are the same, so that they share the same activities as well. In their core, both customer relationship management (CRM) and brand management strategy seek and include emotions and relationships. Moreover, the carried out in-depth interviews confirmed the fact that most managers doing jobs closely connected with customer relationship management think marketing research is often the missing link. Customers are definitely in the centre of all activities of the customer relationship management strategy, however a need has been revealed for employees (people) to be regarded as customers (internal customers). Actually, employees (people) have in the carried out in-depth interviews been detected as the key limiting factor and as the biggest source of resistance to the implementation of customer relationship management strategy. Besides employees, the usual accompanying elements are processes and the technology. According to the carried out research, employees have by far more important role than they are given credit for. Therefore, the suggested elements equalise employees and customers and employees are directed towards internal marketing activities, whereas customers are directed towards "external" marketing. According to the research findings, the processes should be observed as a collection of

activities which demand continual promotion with the basic aim of creating values for the customers. Process thinking requires a complete change in business culture and system of thought, as well as the organisation of the company itself in a way that all processes are directed towards the customers. The following element which relates to processes is time. This implies long-term approach and perseverance required to successfully apply customer relationship management strategy. Naturally, the management will be interested in the cost of all this, which is the reason why the model includes expenditure as well. The cost comes together with time with a reason and is a step ahead of technology. The technology represents an important element here as well but the approach is entirely different. Unlike research carried out so far, the suggestion in this one is not to place the technology at the top of the list but at the bottom. At the very beginning the emphasis is on the company's management that needs to understand the importance of the strategic approach to customer relationship management. In accordance with that, the management is expected to know exactly what they want to achieve with the implementation of customer relationship management strategy, as well as define clear and realistic goals they wish to achieve in advance. Customer relationship management strategy is based on trust, emotional bond with the customer and value, which is in close connection with the concept of brand management. Moreover, market research is directed towards both employees and customers while bearing in mind that a need for research should be recognised before the implementation of customer relationship management strategy, as well as during its implementation. Needless to say, customers and employees represent the key and the most critical element of implementation of customer relationship management strategy. Processes are developed with the exchange of business culture of a company in a way that all processes are directed towards the customers with a strong support of employees. Time always seems to be a limiting factor but it should be presented next to the element of expenditure, as well as next to the need to express the long-term quality in the strategy application. The role of technology is important but it is important to stress that technology comes last, once all other elements are known and defined.

Conclusion

Customer relationship management (CRM) is one of the basic and most crucial elements of the marketing philosophy. CRM is the strategic process of selecting the customers a firm can most profitably serve and of shaping the interactions between a company and these customers. The development and implementation of the customer relationship management strategy is influenced by a large number of factors. The three most commonly present are technology, business processes and people. The key aim of this paper was to suggest new, additional factors (elements) which would upgrade the mentioned existing elements in order for the CRM implementation to yield the best possible results. The results of the carried out in-depth interviews have shown that the successful implementation of customer relationship management should include the following elements: The company's board of directors (top management), Approach to CRM as a strategy attuned to brand management strategy, marketing research, people (employees) and customers (as central and key elements), processes, time and cost, the technology (which is on the last place). Finally, it is important to stress that customers and people (employees) represent the key and the most critical element of implementation of customer relationship management strategy.

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CONSUMER PERCEPTION OF WINE PACKAGING IN CROATIA: A WINE PRODUCER'S VIEW

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Abstract

In terms of contemporary wine marketing, Croatia is still an emerging market – underdeveloped in certain aspects of market-driven activities related to all key stakeholders. Besides the well-developed, competitive and sustainable local wine industry, significant quantities of cheaper wines are imported. Consequently, price seems to be very important criteria for the market segmentation and positioning of local wines. In this paper, the authors provide some preliminary evidence regarding consumer preferences of different types of wine packaging. In addition, preliminary analysis detected potential/possible relations between local brands and price based market positioning issues. The theoretical framework used in this study is based on the model of communicative dimensions of packaging. In order to achieve a broader view of the research topic, this qualitative study focuses on the generic wine producer's perspective. Consequently, a limited number of in-depth interviews with industry professionals involved in wine marketing were conducted. Through the content analysis, several important links between packaging perception and price based market segmentation were detected and presented. The results from this preliminary study could be useful for the further research of this topic within the South-eastern Europe.

Key words: wine marketing, packaging perception, market segmentation, Croatia

Introduction and background

Croatian wine production is relatively small compared with other countries with long traditions of wine producing. In 2009, 206,437 tonnes of grapes were produced in Croatia (Croatian Central Bureau of Statistics, 2010), which is far less than France, Italy or Spain (Winebiz, 2010). Although the volume is far less, Croatian wine production is interesting because of several other reasons. Wine production is dominated by small and individual producers oriented towards cultivating grapes on small, fragmented vineyards and account for approximately half of the national wine production (Ja Trgovac, 2010). Unfortunately, this type of production is not competitive in both cost and price terms (Kovacic and Radman, 2003). The other half is produced by big wineries, among which the biggest are Kutjevo, Istravino, Badel 1862, Agrolaguna, Vinoplod, Iločki podrumi, Dalmacija vino and Belje.

In all European countries with the tradition of wine production and consumption, wine consumption is a decreasing trend (World Vitivinicultural Statistics, 2007). This decrease was/is even more dramatic in Croatia, where wine consumption per capita in the last 20 years decreased more than three times and reached about 18-20 litres per capita/per year due to changes in consumer preferences (Radman, Kovacic and Gasparec-Skocic, 2004). With stable wine production and decreasing consumption, there is a raising concern among Croatian wineries about their future due to growing imports that captured almost a quarter of the whole market (Maric, 2009). Since imports are dominated

by cheaper wine, competition among producers and importers escalates in price-war struggles.

Besides residential consumption, wine is also important from the perspective of tourism. Across Europe, wine production provided a catalyst for enhancing Croatia's destination image, making wine and tourism natural partners (Getz, 2000). Tourism contributes up to 20% to the national gross domestic product (SEEBIZ, 2010), and is considered a crucial cornerstone of the Croatian economy. However, the majority of touristic activities are limited to the narrow Adriatic coastal strip, which includes a large number of populated islands. The continental part of Croatia struggles to meet the success of the coastal area based on the strategy of positioning itself as unique wine tourism destinations (Tomljenovic, 2006).

Croatian wine producers are facing many challenges due to market dynamics and changing consumer preferences. In terms of wine marketing, Croatia is still an emerging market. Therefore, in order to change negative trends in consumption and to tackle imports more successfully, wine producers need to implement marketing principles and wine market segmentation (Kalazic, Leko Simic and Horvat, 2010). The aim of this preliminary qualitative study is to provide limited insight into the role of packaging within the wine marketing in Croatia.

Theoretical framework: packaging perception

As Meroni (2000, p. 243) suggests, in the context of food and beverage industry, packaging is "a medium between producer and consumer whose aim is to guarantee a product with fixed qualitative standard from the producer and at the same time offers to the consumer a product which corresponds to the illustrated standards, in terms of hygiene, organoleptic and nutritional characteristics and quality of use". Furthermore, packaging is also important due to its communicative role in the context of marketing. Packaging communicates and is capable of attracting attention; therefore it could be also considered as a promotional tool, especially within the retail environment (Vranešević, Vignali and Vrontis, 2004).

Consumers buy what they perceive, and what they perceive is heavily influenced by the cues – brand name, packaging, colour – that marketers send to

them (Tom et al., 1987). In other words, marketers communicate certain messages to consumers and therefore affect their attitudes and behaviour. Shimp (2003) noticed how sales often increase when upgraded packaging materials are used to design more attractive and effective packages, which is the result of packaging material attributes arousing consumer emotions, usually subconsciously. This is probably the main reason why most marketers tend to constantly change and upgrade packaging and packaging materials.

Despite the obvious importance of packaging in marketing context, this is still an underestimated research topic among academics (Underwood, 2003; Rundh, 2005). Furthermore, the body of literature dealing with packaging perception is also limited (Garber, 1995). Consequently, the choice of existing theoretical frameworks/ approaches for this specific subfield is limited.

Communicative dimensions of packaging

An important part of understanding how packaging communicates is to understand how consumers perceive various elements of packaging. As Fill (2009) suggested, packaging communicates with consumers via its colour, shape, package size and the carried information. Besides these elements, other authors (e.g. Shimp, 2003; Underwood, 2003; Draskovic, Temperley and Pavicic, 2009) additionally suggest packaging material as a communicative element. The wide range of communicative elements of packaging is also recognized by Underwood (2003, p.62), who suggested that "packaging communicates brand personality via structural and visual elements, including a combination of brand logo, colours, fonts, package materials, pictorials, product descriptions, shapes and other elements that provide rich brand associations". The communicational aspects of packaging could be also analyzed from the aspect of design variables. As Sonsino (1990) proposed, packaging design variables are mainly: colour, typography, pictures, shape, size, and material. In addition to this approach, some authors discuss two groups of packaging design variables: graphic and structural elements (Hine, 1995; Underwood, 2003; Calver, 2004). Accordingly, graphic elements are colour, typography and pictures, while the structural elements are shape, size and material.

To summarize the aforementioned, it could be concluded that packaging communicates various

marketing messages via its communicative dimensions which consist of the following elements (Figure 1) (Draskovic, Temperley and Vignali, 2011):

1. Packaging shape,
2. Packaging size,
3. Packaging colour,
4. Packaging material,
5. Carried information,
6. Graphic applications (e.g. brand logo, fonts, pictorials, etc.).

Together, these elements communicate marketing messages to the consumer. The message that the consumer receives and perceives is a combination of particular messages carried by the communicative dimensions of packaging. As Arango (2008, p. 32) suggested, "consumers look for and expect to find certain characteristics on the packages, regarding their colour and shape, which allow them to more easily recognize the product, its qualities and usefulness".

Wine packaging perception research

Due to the wide presence of various competitive brands on the market, wine consumers are more likely to take time to evaluate product alternatives in terms of brand, colour, price and country-of-origin (Seghieri, Casini and Torrisi, 2007). Furthermore, an increasing share of consumers evaluates both the material and immaterial attributes of wine (Nomisma, 2003). Therefore, marketers should pay special attention to the appearance of their wine on the shelves. The appearance of wine is strongly related to the packaging, which has to, like a "silent salesman", communicate appropriate messages about the quality of wine (Tootelian and Ross, 2000).

As Rocchi and Stefani (2005) suggested, the attributes of the bottle – shape, colour and size, represent the crucial factors underlying wine packaging perceptions. However, label designs should also be considered in this context. According to the empirical study conducted by Boudreax and Palmer (2007), labels, especially illustrations on labels, greatly impact both the purchase intent and perceptions of the brand personality of wine.

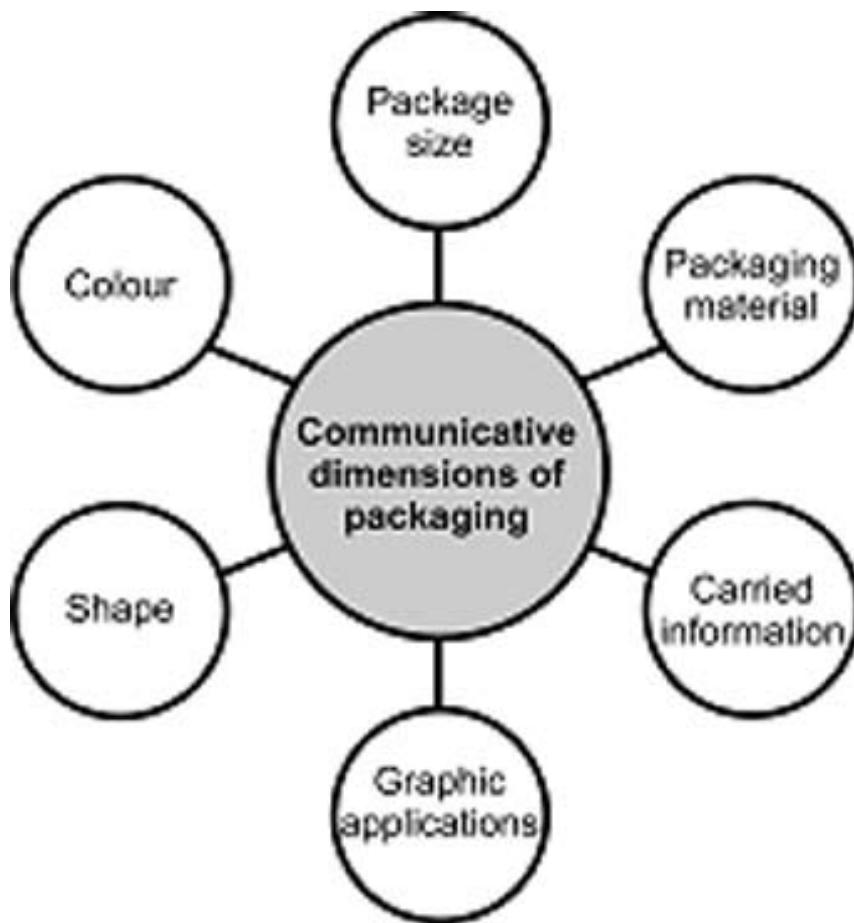
Wine packaging material also matters. According to Schoiswohl (2003), sparkling wine packed in a typical glass bottle communicates prestige, while plastic packaging evokes associations of convenience.

The research studies mentioned are mostly focused on glass wine bottles, since this is still the most popular type of packaging material used for this purpose. Unfortunately, the research of packaging material perception in the context of wine is still very limited, despite its practical implications. According to Santini, Cavicchi and Rocchi (2007), innovations in terms of packaging material could provide benefits for wineries and change consumer perception and preference. Due to certain disadvantages of glass bottles (e.g. fragility, difficulties with the wine conservation when bottle is opened), other packaging types such as bag-in-box packages have emerged as a substitution for many standard quality wines (Jackson, 2000).

Research methodology

Due to a limited number of research studies focused on wine packaging perception, this empirical research is qualitative in nature and has an explorative role. Within the range of qualitative research methods, an in-depth or intensive interview with wine industry professionals has been selected. As Hesse-Biber and Leavy (2006, p. 119) outlined, "in-depth interview uses individuals as the point of departure for the research process and assumes that individuals have unique and important knowledge about the social world that is ascertainable through verbal communication". The goal of the conducted in-depth interview is to yield information and to explore the respondent's point of view and perspectives (Guion, 2001).

Firstly, four leading Croatian wine industry professionals were contacted and asked to cooperate. All four experts are familiar with all aspects of contemporary wine marketing in Croatia and the whole region. Due to the fact that this study is preliminary and conceptual, in-depth interviews were relatively unstructured - in order to achieve a wider understanding of the industry professionals' experience with consumers (their preferences and wine packaging perception), without imposing any *a priori* categorization, which might limit the field of inquiry (Punch, 2005).

Figure 1: Communicative dimensions of packaging

In-depth interviews were conducted in-person at respondents' offices. As a reminder, an in-depth interview agenda was used. It consisted of a set of open-ended questions. The questions were based on the following groups of topics:

1. General information about the respondent;
2. An overview of types of wine packaging;
3. Elements of packaging (i.e. communicative dimensions of packaging);
4. Packaging and wine market segmentation;
5. Future expectations related to development of the field of wine packaging.

The data collected by in-depth interviews was interpreted by limited content analysis. As Shapiro and Markoff (1997, p. 14) suggested, content analysis refers to "any systematic reduction of a flow of text (or other symbols representing the presence, the intensity, or the frequency of some characteristics relevant to social science)". Since the in-depth interview is based on open-ended questions and its overall approach could be characterized as explorative, the qualitative conventional content analysis is selected for data interpretation. Hsieh and Shannon (2005, p. 1278) define qualitative content analysis as "a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes".

After finishing the in-depth interview procedure, each record was examined and the most relevant data was transcribed. In the following phase, the four transcripts were compared and several codes were derived and analysed.

Primary research findings

Following the interview agenda, participants were asked to provide general information about themselves and their company. After these more general questions, the interview focused on various aspects of wine packaging.

Respondents are well informed about the types of packaging available on the Croatian market (i.e. glass, carton, PET, bag-in-box). The very first packaging material all the respondents mentioned was glass, followed by the bag-in-box package. The respondents are also aware of the existence of various container volumes (e.g. packaging sizes) and types of closures (e.g. cork, screw cap).

In terms of packaging material, respondents consider glass bottles to be the most desirable by consumers. Consumer preferences towards bag-in-box packaging are lower, but growing significantly over the last few years. PET and carton packaging for wine is mostly perceived as a "necessary evil" which is related to cheaper and lower quality wine. While, in terms of packaging materials, respondents expressed a unique point of view, their views on consumer perception and preferences towards closure types could be divided in two groups (i.e. pro cork versus pro screw cap). Cork is considered a traditional type of closure for 75 cl glass bottles, which also calls for the "ritual of bottle opening". Screw cap, especially the newly introduced Stelvin, provides consumers with certain convenience and eliminates the appearance of the so-called corked wine, which is caused by faults in cork. However, half of the respondents think that consumers would prefer cork to screw cap due to the tradition, while the other half consider screw cap as the closure that will dominate the market in the near future.

In terms of design and colour of packaging, consumers may choose among a few shapes of glass bottles and standardized shapes of PET, carton or the bag-in-box packaging. Respondents are aware of limitations related to the packaging production technology, but, according to their stated opinion, consumers look for traditional

shapes and certain "wine colours" of packaging, especially in the context of glass packaging (e.g. green or olive colours are considered as standard colours for wine bottles, while transparent or flint bottles are used for special types of wine like rosé wine). Respondents consider labels to be the most important brand communicators to distinguish among various brands and types of wine. Furthermore, consumers also expect certain information about the wine (e.g. type of grape, alcohol content, recommended serving temperature, etc.) on the labels, according to which they could make conclusions regarding the wine's quality.

Among consumers, glass bottles are considered as both standard and premium types of packaging. Glass is considered as a standard packaging material in the context of 100 cl bottles, which are very popular in Croatia for the bottling of cheaper wines. On the other hand, in case of 75 cl bottles with a cork closure, glass is considered a premium type of packaging. Wine consumers seem to be open for innovations in packaging, especially if it results in lower prices on shelves. Consequently, the share of alternative types of packaging has been growing during the last few years.

Wine producers use types and sizes of packaging as means of wine segmentation. Therefore, consumers are aware of differences related to various types and sizes of packaging used for wine. According to the respondents, consumer perception of wine quality is based on features such as the size of the package, the packaging material and price. For example, if a consumer wants to purchase a cheaper wine of acceptable quality, he or she will probably look for a wine packed in a 100 cl glass bottle or in a 300 cl bag-in-box. If price is the only motivator and the quality of wine is not an issue, the consumer will look for a wine packed in PET or carton packaging. On the other hand, if wine is purchased as a gift, consumer will always choose wine bottled in a 75 cl glass bottle. Furthermore, cork closure is also perceived as an attribute of a higher quality and more expensive wine. Similarly, wine packed in dark, almost black bottles, is perceived as an expensive, higher quality wine.

According to the opinions expressed by the respondents, consumers will continue to accept innovations in the context of wine packaging due to their impact on price and other benefits, such as usage convenience. However, glass is considered

to remain premium packaging, while its role in the context of standard packaging will slowly erode due to the growth of the substitutive types of packaging. Respondents also consider modern versions of screw caps to dominate in the future, due to convenience.

Conclusion

Due to the limited research efforts in the field of wine packaging perception, the aim of this study is to provide an overview of consumer preferences of different types of wine packaging and to detect a possible relationship to the price based market positioning of wine brands in Croatia. As the primary research revealed, consumers have certain expectations in terms of wine quality and price based on the type of packaging and its attributes. In other words, consumers use packaging material and closure type, package size, text and graphic applications on labels, and partially colour and shape as clues for the perception of the wine quality and price. Consequently, wine producers should continue to use these variables as means of differentiation on the market.

Primary research also revealed a strong relationship between certain elements of packaging (e.g. packaging material, packaging size) and the price of the wine on the shelves. Consumers expect higher priced wines to be packed exclusively in glass, while the substitutive types of packaging are related to cheaper wines. However, further introduction of innovations in terms of packaging could alter this perception and extend the comprehension of premium packaging types in the context of wine (Santini, Cavicchi and Rocchi, 2007). Therefore, it could be that consumer preferences could change, but this also calls for more intensive marketing activities among Croatian wine producers.

This preliminary research study confirmed the importance of the communicative dimensions of packaging in the context of wine packaging perception. Furthermore, the study also indicates practical roles of various communicative dimensions of packaging such as cues used by consumers in perception of wine quality and price. Due to the obvious research limitations related to the selected research method and the sample size, there is a need for a research on a larger scale. Also, in order to improve the generalisability of the findings, further research should not be limited

only to the Croatian market, but it should include the whole region (i.e. South-eastern Europe).

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MACROECONOMIC DETERMINANTS OF PRIVATE LABEL PENETRATION

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Abstract

Private label market share is growing. It is growing everywhere. Europe, long held to be near saturation in private label share is showing surprising strength. Eastern Europe's private label share has gone from minuscule to almost 1 in every 5 dollars spent in food stores being spent for private label. Even South America and Asia are showing unexpected strength. What does this mean for retailers and what factors will lead to continued private label sales growth?

The issue is to what extent branded manufacturers can expect private label to grow within a country. Some of the growth may be related to the tactical actions of retailers within the country but some growth may be explained by macroeconomic/environmental factors beyond the direct control of retailers or manufacturers.

This paper will investigate the relationship between private label penetration within a country and various macroeconomic/environmental variables. The most significant variable was the level of retail concentration followed by the level of social and economic development.

Keywords: Private Label, macroeconomic

Introduction

Private label market share is growing. It is growing everywhere. Europe, long held to be near saturation in private label share is showing surprising strength. Eastern Europe's private label share has gone from minuscule to almost 1 in every 5 dollars spent in food stores being spent for private label. Even South America and Asia are showing unexpected strength. What does this mean for retailers and

what factors will lead to continued private label sales growth? In a study report (Deloitte, 2010) they warn manufacturers that ignoring the inroads that private label is making is perilous. In fact, 90% of retail executives surveyed said that private label share will continue to increase and increase significantly. Retailers realized higher profits on lower average prices as the positive impact of private label on the profit mix continued. These facts make it important for retailers to maintain their strong position and for retailers in markets which are developing private label to understand how it is likely to develop and what market and consumer characteristics will drive success.

The issue is to what extent branded manufacturers can expect private label to grow within a country. Some of the growth may be related to the tactical actions of retailers within the country but some growth may be explained by macroeconomic/environmental factors beyond the direct control of retailers or manufacturers.

This paper will investigate the relationship between private label penetration within a country and various macroeconomic/environmental variables.

Literature review

It is generally accepted that there is a relationship between private label penetration and the economic/environmental factors. (Sharoff, 2010) Sharoff has suggested that variables such as concentration and development influences private label penetration. However most of the academic literature has focused more on explaining either specific category development or individual retail chains.

Richardson found that retail concentration was positively related to private label penetration. (Richardson, 1997)

While Richardson was measuring penetration at the micro (individual consumer) level, we believe that this would hold true at the macro (country level). Timmor found that retailer reputation significantly impacted private label penetration with the retailer and since retailer reputation would be impacted by how present the retailer is this also seems to support the idea of retail concentration relating to private label penetration. (Timmor, 2007) To further support this position Dhar and Hoch found that the number of stores a retail chain had in a market positively influenced the chain's private label penetration. (Dhar, 1997)

Sethuraman and Cole (1999) found that lower income households tended to depend on private label products to stretch their household budgets however as consumers become more educated they are better able to discern the lack of quality differences between private label products and national brands. (Sethuraman, 1999) (Ailawadi Kusum L, 2001) As the market develops, consumers become better educated and therefore better able to discern value. (Deleersnyder, Dekimpe, Steenkamp, & Koll, 2007)

Higher overall volumes also lead to higher private label penetration, and private label representation across an increasing number of categories tends to increase private label share. (Sethuraman, 1999) (Putsis & Cotterill, 1999) Both volume and diverse product assortments relate to market development and increasing per capita sales in a market. In addition, neither of these is likely except in a modern retail setting.

Another indicator of a modern retail environment is multiple competing retailers with multiple stores since the economies necessary to private label are not present to a single store retailer or for sellers in central markets or bazaars. Groznik and Heese found that in a multi-retailer channel system store brand introductions are more likely when the retailers' store brands are seen as similar to the national brands in terms of customer value and production cost. (Groznik & Heese, 2010)

Hypotheses

Given the previous discussion and research we hypothesize that the concentration of grocery

retail in a country is significantly related to the percentage of private label sold in that country. The issue is what level of concentration is relevant. Concentration can be measured by how strong the largest grocery retail chain is or some subset of that. Two levels of concentration: 1) percentage of private label sold by the leading chain, and 2) the percentage of private label sold by the top five chains was used. The authors were aware of the multi-colinearity of these variables and therefore we will only use one of these in any model developed.

H01a: The percentage of private label sales in a country is positively and significantly related to the retail concentration in the country as measured by the percentage of sales in the largest grocery chain.

H01b: The percentage of private label sales in a country is positively and significantly related to retail concentration in the country as measured by the percentage of sales in the top 5 grocery chains measured.

The literature also indicates that the level of economic development within a country is related to private label use in that country. As a country becomes more developed, more educated, has more choices available, more advertising, and more sophisticated retailers and consumers, private label will be a more viable option and as a result private label use will increase.

H02: The percentage of private label sales in a country is positively and significantly related to the level of economic and social development in the country.

The authors believe and the literature supports the fact that the greater amount of money spent on food in a country the larger will be the private label sales. There are multiple ways of estimating this variable. The three ways we chose are: retail sales per capita, total consumer spending in the country, and consumer grocery spending per capita.

H03a: The percentage of private label sales in a country is positively and significantly related to the retail sales per capita.

H03b: The percentage of private label sales in a country is positively and significantly related to the total consumer spending in the country.

H03c: The percentage of private label sales in a country is positively and significantly related to consumer per capita grocery spending.

Finally the amount spent in modern grocery retail is likely related to the percentage of private label sales. Modern grocery retail is a measure of grocery retail store sales as opposed to sales in open markets, kiosks or other non-formal formats found in developing countries.

H04: The percentage of private label sales in a country is positively and significantly related to the amount spent in modern grocery retail.

Methodology

Given these hypotheses our analysis quantifies the relationship between the hypothesized variables and the percentage of private label sold in a particular country. We include data from 29 countries in this analysis. We include countries from various parts of the world but, because of the nature of the data available, Europe is somewhat overrepresented. The information for the percentage of private label sold in each country was taken from the Private Label Manufacturers Association Yearbook 2010. The sources of the other variables used are shown below.

Retail concentration was measured two ways. One measure was the percentage of sales in the country from the top five retailers in the country; the other measure was the percentage of sales in the country from the largest retailer (PlanetRetail.net, 2010).

Level of development in a country was measured with the Human Development Index (HDI) (2010) which is a composite statistic used as an index to rank countries by level of "human development" and separate them into: developed (high development), developing (middle development), and underdeveloped (low development) countries. The measure is constructed from statistics on Life Expectancy, Education, and GDP for the various countries. This information is collected at the national level using the formula given below:

The formula defining the HDI is promulgated by the United Nations Development Programme (UNDP)[4] In general, to transform a raw variable, say x , into a unit-free index between 0 and 1 (which allows different indices to be added together), the following formula is used:

$$x\text{-index} = \frac{x - \min(x)}{\max(x) - \min(x)} \text{ where } \min(x) \text{ and } \max(x) \text{ are the lowest and highest values the variable } x \text{ can attain, respectively.}$$

The Human Development Index (HDI) then represents the uniformly weighted sum with $\frac{1}{3}$ contributed by each of the following factor indices:

$$\text{Life Expectancy Index} = \frac{LE - 25}{85 - 25}$$

$$\text{Education Index} = \frac{2}{3} \times ALI + \frac{1}{3} \times GEI$$

Consumer spending is measured in three ways. First, retail sales per capita (RS/C); second, grocery retail sales per capita and total consumer spending in the country (TCS/C); and third, consumer grocery spending per capita GS/C. All three measures were collected from PlanetRetail.net.

RS/C is the total per capita annual sales of retail enterprises, excluding cash & carry and other forms of wholesale (excluding VAT or sales tax). TCS/C is the total annual sales of retail enterprises, excluding cash & carry and other forms of wholesale (excluding VAT or sales tax) divided by the total population. GS/C includes consumer spending on food, drink (both alcoholic and non-alcoholic) and tobacco; independent of the channel the sales are generated through (including VAT and sales tax) and excludes spending on health & beauty items. Note: "Grocery Spending" as a part of "Consumer Spending" differs from Planet Retail's Modern Grocery Distribution legacy universe, where "grocery" is defined as including both food and health & beauty items, as well as everyday household goods.

The percentage spent in modern grocery in a country is the inverse of the ratio of amount of grocery sales per capita to the total retail sales per capita. An indication measure of the validity of this concept is highest level of percent of sales in modern grocery is the USA followed by Japan and the Netherlands and the lowest percentage is India followed by China and South Africa. In India, according to AC Nielsen (2006 a) 90% of food sales go through traditional (not modern) stores. In another article AC Nielsen (2006 b) estimates that less than half of China's food sales are through modern grocery.

All data is reported in US dollars using the Planet Retail's own exchange rate database, based on official bank rates for more than 170 international currencies, and for all years going back to 1997. All rates are calculated full-year averages, except for the current/running year for which the exchange rates are updated on a quarterly basis, based on the average values for the last month in the previous quarter. Data is reported for 2009.

Results

As the correlation matrix shows in Table 1, the percentage of private label has the highest correlation to the percentage of the grocery sales sold in the top five largest chains, and also to the percentage sold by the largest chain. However, as we discussed earlier, these two measures are extremely and significantly collinear and thus either measure, but not both, should be used. These do show that the more concentrated the sales are in a country the higher the expected percentage of private label products sold in that country. This supports Ho1a,b and reinforces the concept that the bigger the retailer is the more likely they are to have market reputation and therefore make their own brands more attractive. Trust in the store translates to trust in the store's brand.

The second strongest relation is with the HDI. This index is a quantification of the countries developmental status and supports Ho2. In this case the correlation of .463 is significant at the $\alpha < .01$. The positive correlation suggests that as a country becomes more developed and more educated the appeal of the advantages of private label may be better understood by the consumers.

The variables that do not appear to be related in a pairwise relationship to the percentage of private label sales are the three spending variables. The consumer grocery spending per capita, which is significant at the $\alpha < .05$ however is highly correlated to the variables measuring concentration and the variables measuring development.

In order to examine the combined impact of the four significant variables from the bivariate analysis and to quantify the amount of explained variation by the model, regression was run using the four variables.

Table 2 shows the result of the regression. As one can see the total explained variation was 43% and statistically significant. The three statistically significant variables are (in order of significance) the share of the top 5 chains in the country, the share of modern grocery and the level of economic and social development. The amount spent on grocery in the country does not appear to be significant which is consistent with the earlier correlation findings.

Figure 1 shows the plot of the actual percentage of private label to the predicted value of the private label based in the regression model. It appears that the model in general overestimates the private label shares in the most developed countries and underestimates the private label shares in the less developed countries. This would be expected since there is an upper limit on private label penetration (although theoretically there is not such a limit in a free marketplace the limit seems to be slightly more than 50%). It is also explained by the overrepresentation in the model of countries with fairly high penetrations ($>20\%$) versus those with lower penetrations.

It also suggests that retailers in less developed/less concentrated countries could expect greater response to efforts to increase private label sales. Private label manufacturers could also get a greater return on their marketing efforts in these countries. On the contrary retailers in more developed/more concentrated markets may not obtain the same kinds of responses to efforts to promote private label as they may be at a point of diminishing returns.

Limitations

While it appears that it is reasonable to conclude that the level of concentration and economic development are the largest predictors of the share of private label in a country, there are also some limitations to the study. Although the authors included countries in all the continents (except Antarctica and Australia) there was not an equal distribution of countries. Clearly, there was more emphasis on Western Europe and North America; while Asia, South America and Africa were included, one could improve the research by having a more complete representation of countries. Related to this limitation there were only 29 countries included in the analysis.

Table 1 - Correlation matrix of Macro variable with private label penetration

		Species	L	Standard	Chl-a	OD	OD _{450nm}	C	P	Chlorophyll
Episocial	P	Parameci-								
		um	Condition:							
episocial	O	Parameci-								
		um	Condition:							
solitary	R	Parameci-								
		um	Condition:							
solitary	T	Parameci-								
		um	Condition:							
solitary	B	Parameci-								
		um	Condition:							
solitary	C	Parameci-								
		um	Condition:							
solitary	D	Parameci-								
		um	Condition:							
solitary	E	Parameci-								
		um	Condition:							

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Table 2 - Regression Results

Model	Unstandardized Coefficients			Standardized Coefficients	
	B	t Statistic	S.E. Beta	t	Sig.
(Constant)	.775	4.74		1.63	.11
moderngro	.478	2.93	.431	.755	.2
Development	.835	4.66	.637	7.28	.09
Top5	.002	.001	.558	.409	.62
Grospend	-2.851	-0.00	-.348	1.23	.22
	2.851	0.00		1.23	.22

a Dependent Variable: PL percent

Model	R Square	R	Std. Error of the Estimate
	.661181	.426	.307

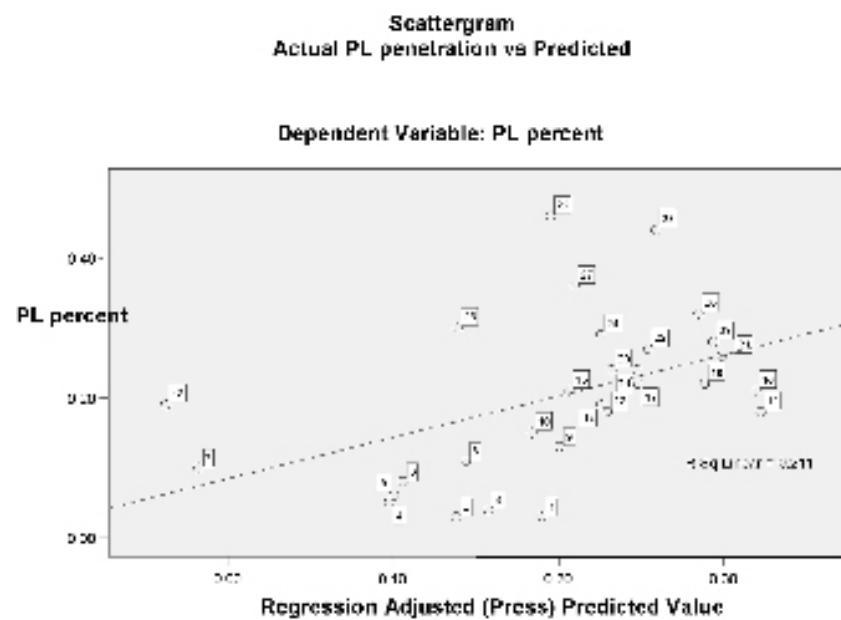
a Predictors: (Constant), Grospend, moderngro, Top5, Development

ANOVA(b)(AC Nielsen).006(a)

Model	Reg. eation	Sum of Squares	Mean Square	F	Sig.	
					(AC Nielsen) 00 6(2)	
	Residual	.151	.640	6.42		
	Total	.216	.4	.009		
1		.369	.8			

a Predictors: (Constant), Grospend, moderngro, Top5, Development

b Dependent Variable: PLpercent

Figure 1

Mexico	1	Hungary	14	Slovakia	27
China	2	Canada	15	UK	28
Japan	3	Sweden	16	Switzerland	29
Russia	4	Denmark	17		
Brazil	5	Finland	18		
South Africa	6	Netherlands	19		
India	7	Portugal	20		
Greece	8	France	21		
Poland	9	Austria	22		
Italy	10	Belgium	23		
Norway	11	Spain	24		
Czech	12	Ukraine	25		
USA	13	Germany	26		

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IMPORTANCE AND APPLICATION OF TEST METHOD IN THE PROCESS OF DETERMINING STUDENT'S SATISFACTION WITH THE QUALITY OF EDUCATIONAL SERVICES

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Abstract

This work analyses importance and application of test method in order to determine student's satisfaction with the quality of educational services on Polytechnic School of Požega. For this purpose, primary data were collected on a sample of 180 students using the questionnaire in a physical form, analyzing the basic elements of educational process – the program and the process of the study, teaching staff, non – teaching staff and infrastructure. Using this test, using its strengths, structuring the questions in a way that provides the achievement of testing objectives, we collected the datas which contributed to the creation of facts on which the determination and the measurement of attitudes were done in relation to the basic elements of the educational process. In this way, the student's satisfaction with the quality of educational services was determined. Also, by reviewing relevant national and international professional and scientific literature the test method was described, and all of its models. To approach the concept of satisfaction, the customer's satisfaction concept was arranged, as one of the key concepts of market research. Finally, in the conclusion, the basic thoughts about the paper are revealed, and tactics and strategies are proposed to improve the level of student's satisfaction.

Key words: test method, personal test, questionnaire, attitudes, satisfaction.

Test method and its procedures

Test method implies asking questions to people from which we collect datas in written or oral form. It is the most spreaded method for collecting primary datas and its advantage is reflected in huge possibilities and versatility of implementation.

Test method can be clasified according to several criterias. The most important are the following:

- form of communication with the respondent,
- structuring degree of questions,
- clandestinity of research goals.

Form of communication with the respondent - it implies the method in which respondent gives the answers. There are three basic forms of communication with the respondent: in person, by telephone and mail.

- personal test – questionnaire is widespread and useful instrument for collecting datas in surveys because it provides structured, often numeric datas, because it can be implemented without the presence of the researcher, and because, in comparison with other instruments, it is relatively easy to analyze (Cohen, et all, 2007). It conducts in a direct communication between examiner and respondent. One of the major advantages of personal test is a direct possibility of feedback about the asked question, if respondent didn't understand question enough, so question can be repeated, or set up additional question. Also, the amount

of collected data is usually higher than other forms of communication with respondent can manage. Simultaneously, with this form of test the observing can be organized. This form of test increases the number of potential respondents because it can be done on a larger group of respondents, and thus it reduces costs. Such test is appropriate for testing less educated people because the other forms of communication with that segment are more difficult. Using this form of testing the accuracy of data is very high, but also the costs are very high. It requires examiner's organization, his training and motivation.

- telephone test – it conducts by phone, and in developed countries it becomes increasingly popular way of communication with respondents. Telephone test sometimes uses to form panels of consumers which can be tested continuously to measure changes in their attitudes and behavior, so as a postal test and personal test (Dibb, et all, 1995). One of the major advantages of this form of testing is relatively easy accessibility of respondents. Also, the speed of data collection is large and the examiner can immediately enter them into the computer. There are no travel costs from examiner to the respondent, and the time for conducting the test is reduced. One of the disadvantages of telephone communication is reflected in a less personal contact with the respondent. Other disadvantage refers to a possibility of limitation of telephone conversation by the respondent, who, if it seems to him that the conversation is taking too long, can hang-up. One of the most important things which is not in accordance with telephone test is the lack of usage the visual aids.
- mail testing – mail testing is a type of a research in which questionnaires are delivered to the respondents by mail, and after fulfilling them respondents return it by mail. Individual authors called this testing correspondence testing (Meler, 2002). However, besides mail, questionnaire can be delivered by print (newspapers, magazines), together with the product, in fairs or other appropriate places. Advantages of postal survey are reflected in rather large efficiency of the procedure, covering possibilities of widely dispersed respondents and in promotional activities of the elements attached to the examination. Major limitation of postal survey is impossibility

of determination the number of returned questionnaires in advance. Satisfactory rate of a return is 15-30 % of all sent questionnaires. In order to increase the response to a postal survey organizers seek to stimulate respondents on answers, usually by sending gifts along with the questionnaire, before or after the testing.

Structuring degree of questions - structured question is a question which gives the respondent possibility to give response by limited number of answers. There are three main types of question relating to structuring degree:

- dichotomous questions – it gives possibility of two answers, such as 'yes' and 'no'. This question is very simple and clear and it is used in order to classify the respondents into the two main groups. Dichotomous questions with only two answers – these are usually answered by yes or no, but there are variations of them such as 'agree' or 'disagree' (West, 2004).
- multiple – choice questions – are formulated to give several possible answers on nominated question. In this case it is necessary to have a good knowledge about the research area in order to specify the possible answers in advance. Answers are pre-coded, and therefore data processing is easier and faster.
- open questions – they require more detailed answers from the respondents without suggesting possible answers by the examiner. Also, there is a wide possibility and freedom of expression by the respondents, which is not limited by anything. Such questions are very useful for the research project and they provide better insight into the core of the problem. However, regarding to that, the problem of data processing appears. Each respondent has a different way of presenting problems, attitudes and beliefs. The task of the researcher is to notice their similarities and sort them into the groups to ease the data processing. Open questions are very useful in the early stages of the research and for understanding and determining the essence of the problem. In open questions there are no answers offered to the respondent, so the respondent have to give answers by his own words (Pavićić, 2003). There are also possible open questions in which respondents have less freedom in answering, such as complement of sentences, associations, describing the target imager, etc

(Pavičić, et all, 2006). Main application areas are in in-depth and group interviews.

Clandestinity of research goals – we distinguish questions with concealed targets from those with undisguised targets. Question with undisguised target is a direct question in which we assume that the respondent is willing to give an answer. The vast majority of questions in questionnaires is that kind. Question with concealed (hidden) target is indirect question which assumes the necessity of covering objectives of the study from the respondents. So there are:

- structured questions with undisguised targets – these are questions that are used more often.
- unstructured questions with undisguised targets – questions are opened, mainly they are used in in-depth and group interviews where the subject of research is known.
- structured questions with concealed targets – very rare combination in market research. The intention of this kind of testing is to use the advantages which structured questions have in data processing, and the advantage which clandestinity of targets have at detecting motives and attitudes.
- unstructured questions with concealed targets – mainly they are used in in-depth and group interviews and in projective techniques.

Managing customer satisfaction

Organization's survival in the long run is in a direct relationship with its ability to retain and attract new customers, and it considers in proportional relation. It is much easier to retain the customer if his experience is positive. Using product or service client must feel satisfied and remember it with satisfaction. Customer satisfaction is actually seen as a consequence of received product or service value in relation to the expected value. Actually, it is a positive or negative feeling about the value which client received as a result of using a good. Today, in order to achieve optimum customer satisfaction, companies must provide total product that includes service and support. Also, customer satisfaction presents indicators of firm's success in the past, present and future. If clients are satisfied, it will probably be more loyal, and will be ready to consume the service in the future. The real value must be demonstrated in the product's or

service's usage, and in some way it is connected with the expected value which overbalanced in order to choose particular product or service (Vranesovic, 2000). Also, as one of the key factors of repurchasing, the communication from manufacturers and sellers is imposed. Mentioned elements are those which affect on the process of repurchasing.

In order to successfully adjust to market changes company need to establish and accept the ways of client's products or services valuing. Certain products or services have different values, and all of those values in combination make cognitive value and set client's expectations. According to that, there are certain universal dimensions of value; dimensions related with the product (interrelation of price to quality, product quality, product benefits, product features, product dimensions, durability and reliability of the product, range of product or services), dimensions related to the service (warranties or insurances, delivery, complaints management, problem solving), dimensions related to the purchasing (courtesy, communicativity, simplicity and availability, firm's reputation, firm's competence). Also, many authors mention other various dimensions that products or services should have. Some authors mention generic, expected, extended or potential product, while others mention basic, competitive and exciting features of product. Combination and coordination within each factor individually, and the combination and the coordination of their independence creates preconditions of quality achievement. Today, quality is not assumed only as a technical quality of the product, but must have some other features. Quality is not assigned in advance, it is a dynamic category, and it is not based, in any case, only on its or service's quality or their tangible characteristics. The quality of today confirms at the market and the optimum measurement instruments are clients. Quality which is appropriate is only the one which is in accordance with the client's expectations. Market-perceived quality implies client's attitudes about product's or service's quality in relation to the competition. Higher quality leads to higher market share because we have more satisfied and more loyal consumers who repeat their purchasing and in that way sales and profit increases (Renko, 2005). According to that there are some basic assumptions of the quality process improving:

- quality must be experienced by clients – work on quality is based on client's needs and

perceptions. To ensure customers seeing of high quality products manufacturers must incorporate the opinion of clients in design, projecting, production and distribution (Hauser&Clausing, 1988).

- quality must be included in all activities of the company – it is not necessary to consider only the quality of the product, but also the quality of advertising, services, literature about the product, delivery, after sales support, etc (Leonard, 1984).
- quality requires commitment of all employees – in order to achieve quality all employees must be motivated, dedicated and trained for its provision. It is very important assumption, and the team work also.
- quality requires high-quality partners – quality can be achieved only by those companies whose partners are dedicated to quality in the value chain.
- quality can always be improved.
- quality improving sometimes requires great leaps – big improvements require new solutions through more innovative work.
- quality does not cost more – quality is free (Crosby, 1979). Actually, quality is a continuous improvement using the learning in order to do things correctly first time. When the product is made correctly for the first time, adjustments, replacements and repairs costs are reduced.
- quality is essential, but not necessarily enough – improving the quality is essential for the company, but it isn't enough for the winning advantage on the market.
- stimulation of quality can't save weak product.

Service quality

Main difference between service and product is in intangibility of the service. Therefore, quality isn't influenced by a technical features, like in product case, but the customers are the ones who determine quality. For the quality of the service it is essential the concept of Total Quality Management (TQM). TQM isn't based only on error elimination in creating products/services, but also in ambition of improving delivered value to the

customers. The thing is that every employee in his workplace tends to improve quality of his business process, as well as those which precede him, and which goes after it (Grbac, et all, 2008). The main goal of the system based on the philosophy of TQM is to achieve maximum possible value for consumers, as well as high efficiency and effectiveness for the company. This is achieved by maximizing consumer satisfaction and high levels of productivity and efficiency in operations (Lazibat, 2009). Unlike TQM, which has found its origins primarily in companies that have marketed products, a concept called SERVQUAL (Service Quality) is developed, because of the specificity of services (Parasuraman, et all, 1985). This model provides a conceptual framework for examining the quality of services. It is based on definition of quality, as a comparison of expected and resulting, and on consideration of gaps in the process of services provision. Based on many years of using the SERVQUAL model, many researchers drew many lessons from the service's quality study, and the most important are:

- need to constantly listen to the customers,
- reliability has the greatest impact on satisfaction,
- it is necessary to impress a client and in that way create an impact on satisfaction and loyalty,
- need to be extremely honest in services provision, because the service is largely invisible,
- design of the service must be impeccable.

In order to understand this more closely we can look at specific dimensions of services. The most important dimension of service is its reliability. Promises regarding to service must be fulfilled in order of consistency of service's success. There can't be no space for maneuver because future of business can't be guaranteed. If service isn't reliable, other dimensions will have small, almost negligible impact on quality. Reliability is a assumption of success of other dimensions, and it is valued and based on the final result of the received service. Also, very important is an individual approach to each client. This primarily refers to adapting to his individual needs and desires. The third dimension is competence and courtesy, and also it is the third in relative importance. The fourth dimension

is facility, and it is related on willingness to provide prompt service and help to the customer. The fifth dimension of service is its tangibility, and it has the lowest relative importance. It includes physical, visible things in the process of providing services.

Methodology and results

This testing was focused on researching student's satisfaction with the quality of educational services on Polytechnic School of Pozega, Croatia (at 2 study department, 4 study directions, and all 3 enrolled years of study). The research was conducted in order to accept, or reject three assumed hypothesis, and one of them will be seen further on. To test the satisfaction we set up a group of specific questions related to the 4 main elements of educational process (program and process of study, teaching staff, non-teaching staff, infrastructure), as well as other general questions. For this purpose, structured questionnaire was conducted. According to the form of communication with respondents, personal test was conducted on a sample of 180 respondents, in a direct contact between respondents and examiner, and all of its advantages are used. According to the structuring degree of questions, dichotomous questions and questions with multiple choices were used. Dichotomous questions were used in order to classify subjects into the two main groups (the first and the second question in the group of general questions) and to facilitate the testing due to various settings of the assumed hypothesis. Questions with multiple choice were formulated to give a several possible answers to the question (the third and the fourth question in the group of general questions, and all questions in the group of specific questions). Questions in the group of specific questions were asked in a way of easily getting to the desired target of the research. All answers were coded in advance, and therefore statistical data processing was facilitated. According to the clandestinity of researches goals, structured questions with undisguised goals were used because it was assumed that respondents are willing to give an answers. Also, advantages which structured questions provide in data processing were used. All questions were like that. It is necessary to mention that the pilot test (pretest)

was conducted on a smaller part of respondents in order to see whether the questionnaire is appropriate and understandable (in order to increase the transparency of the questionnaire before each group of questions was a legend which facilitated its fulfillment) and whether there is any problems related to its fulfillment. Afterwards, the questionnaire was ready for data collection. Methods of induction, deduction, analysis, synthesis, generalization and specialization were used also. Comparative methods also were used. Hypotheses were proven using the statistical methods with the use of relative numbers, percentages and mean values; arithmetic mean and mode.

In the following figure we can see the part of the questionnaire which is related to this research.

On figure 1. we can see how we set up dichotomous question (in group of general questions) in order to classify respondents into the two basic groups according to the assumed hypothesis: The level of student's satisfaction with the quality of educational service on Polytechnic School of Pozega depends on enrolled study department. Also we can see how we set up questions in order to determine satisfaction with one of the four basic elements of educational process, which is the case of infrastructure. Based on asked questions we could use mentioned methodology to determine student's satisfaction with the element of educational process.

Results of the testing can be seen in the Table 1.

In this table we can see that the overall level of student's satisfaction on both study department is equal, and it is 3.59. However, looking at each individual element of the educational process we come to the conclusion that marks are not equal for each element individually, on both department, so it is in the case of infrastructure. The level of satisfaction with the infrastructure is higher at Agriculture Department, and it is 3.70 (located in the category between 3 and 4, between satisfied and neither satisfied, nor dissatisfied), while it is smaller at Social Department, and it is 3.55. The reasons may be found in the conclusion of this paper.

Figure 1. Part of the questionnaire for determining the level of student satisfaction with the quality of educational services

<u>Guidelines for fulfillment the questionnaire:</u> (CIRCLE THE CORRECT ANSWER) – ONE QUESTION – MAXIMUM ONE ANSWER!					
<u>General:</u>					
1. Are you study with the support of Ministry of Education and Sport, or for personal needs?					
?MES		?Personal needs			
2. Which study department do you attend?					
?Social department		?Agricultural department			
3. Which study direction do you attend?					
?Accountancy	?Market	?Administrative study	?Viticulture, fruit growing and wine		
4. Year student enrolled?					
?first	?second	?third	?fourth		
PLEASE RATE VARIABLES ACCORDING TO THE PROPOSED ASSESSMENTS!					
Legend: Satisfaction measurement of these variables: (5-extremely satisfied; 4-satisfied; 3- neither satisfied nor dissatisfied; 2-dissatisfied; 1-extremely dissatisfied).					
<u>Infrastructure:</u>					
1.Location of the building?		?1	?2	?3	?4
2.Technical equipment of classrooms?		?1	?2	?3	?4
3.Capacity of the classrooms?		?1	?2	?3	?4
4.The quality of content on websites?		?1	?2	?3	?4
					?5

Table 1. Student's satisfaction with the quality of educational services on Polytechnic School of Pozega according to the enrolled study department.

Elements of educational process		
Program and process of the study		
Social	Agricultural	Total
3,56	3,14	3,35
Teaching staff		
Social	Agricultural	Total
3,73	4,11	3,92
Non-teaching staff		
Social	Agricultural	Total
3,50	3,42	3,46
Infrastructure		
Social	Agricultural	Total
3,55	3,70	3,63
<u>Average mark</u>		
3,59	3,59	3,59

Conclusion

Test method has a great possibilities of application. It is used to discover facts, events, behavior, habits, prejudices, opinions, judgments, attitudes, motives, desires, and other numerous quantitative and qualitative characteristics. Its main advantages are in the versatility of application possibilities, in the speed of data collection, and in the lower costs than the method of observation has. Also, it is not limited only to the present, but it reveals quantitative and qualitative features in the future and in the past. Possible disadvantages of the method can be seen in the incompetence of the people who conduct the research process, as well

as their bias and subjectivity, and negligence during the process of implementation. All advantages of test method are shown in this research, and thus it contributed to the acheiving of the research objectives. Regarding to the student's satisfaction with the individual elements of educational process it can simply be said that it is very good, but it could be some improvement. Related to the infrastructure, the capacity of the bulding is expanded, informational-technical equipment of the classrooms is increased, and physical environment arround the building of Polytechnic School in Pozega is arranged. Those are the elements which in combination and coordination

with other elements can improve the services of higher education system.

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DESIGNING MARKETING STRATEGY USING THE FIVE COMPETITIVE FORCES MODEL BY MICHAEL E. PORTER – CASE OF SMALL BAKERY IN CROATIA

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Abstract

Development of marketing strategy of the company has to be based primarily on the results of the analysis of industrial structure. The best known framework for analysis and the analysis of structural features of industries – Five competitive forces model by Michael E. Porter, was used in this paper aiming at designing marketing strategies and the development of sustainable competitive advantage for one Croatian small bakery concerning the influence of five forces on the whole industry. The interpretation of the findings enabled owner of analyzed subject: to determine the attraction of bakery industry, to measure perceptions of the strength of competitive forces, to identify the existing competitive advantages and key success factors in the further development, to formulate appropriate marketing strategies and to predict future movements in the bakery industry. Although Porter's model is a simplified picture of the forces that affect the profitability of certain industries, results of this paper have undoubtedly shown that Porter's model is valuable even in the small business sector. Taking into account the contemporary dynamics and unpredictability of the turbulent market conditions, the model will surely continue to be one of the main tools in strategic analysis of different industries, but also the specific business entities, regardless of their size.

Key words: Small Business. Bakery Industry. Competitive advantage. Marketing strategy. The five competitive forces by M. E. Porter.

Introduction

Nearly all critical parameters of a certain business venture, which is, in this case, a small enterprise, are in direct correlation to specific marketing concept. Or, in other words, the secret of successful achievement of organizational goals lies in a target reaching efficiency which is supposed to be greater than the one that competitors show in their marketing-related activities. These so-called integrated marketing activities are always targeted at both defining and satisfying the demands of the specific market. A small enterprise should create its competitive advantage through its specific strategic business operations that are significantly different from the related operations on competitors' part. Every single entrepreneur should have one goal in mind in order to become successful and that is to raise competitiveness. This can be achieved through a well-devised marketing strategy. Therefore the competitiveness of a small business entity makes the main research topic of this paper. Competitiveness or else defined as a combination of various factors that results in the so-called competitive advantage becomes crucial when it comes to defining excellence, which is the main differentiating factor between business entities. This, in turn, is the key to the creation

of successful marketing strategy. The research of specific marketing strategies which will help to define sustainable comparative advantage of a small bakery is based on the renowned Porter model of the five competitive forces.

Marketing strategy and competitive advantage of SMEs

Sudden changes in the business environment are the main cause of a large number of management-related problems that occur in all enterprises regardless of their size. The competitiveness of a certain enterprise is not only crucial to its success within the related sector, but is of the uttermost importance for its survival. Enterprises should do business in flexible and innovative manner. They should also strive for constant improvement of their business. Above all they should have strategy to capture larger share of the market in relation to their competitors. (Tipurić, 1999). Every single strategy is based on creating and maintaining competitive advantage. In other words, competitive advantage of a certain enterprise is the cornerstone of its success in the related business sphere. Competitive advantage is specific for each enterprise and this specificity is particularly valued by consumers. (Renko, 2005).

Competitive advantage of a small enterprise is defined as the combination of factors that distinguish a small enterprise from its competitors, thus ensuring its unique position on the market. This particular position is usually superior to the related position of its competitors. (Zimmerer & Scarborough, 2005). The key to business success, from a strategic point of view, is creating and maintaining competitive advantage, which is consequently valued by buyers and inimitable by competitors. It has been indicated by many recent research results that entrepreneurs should create at least one competitive advantage in comparison to their competitors in order to gain competitive edge and make high profit. (Kolaković, 2006; Burke & Jarratt, 2004; Bennett & Smith, 2002; Krolo Crvelin & Šustić, 2007).

Competitive analysis of a single enterprise business success is based on the analysis of the related business industry. In other words, a marketing strategy development is based on the industrial strategy analysis results, which provides insight into the possibilities of business venture success within the specific business sphere. The insight into the

aforementioned possibilities helps define the ways of creating competitive advantage (Porter, 1980). In the early 1980s, Michael E. Porter developed the most influential industrial structural analysis model, thus having significantly contributed to the general theory of competitiveness and competitive advantage. Porter's model emphasizes the dependence of long-term profitability on the five competitive forces. These are, as follows: threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitute products and rivalry among existing firms.

The mutual influence of the five competitive forces determines both potential for profit and differences between industries in relation to the amounts of profit. Therefore, the purpose of industrial analysis is to determine the best marketing strategy for the specific enterprise. Or, in Porter's view (1980), the competitive strategy of enterprises should define the most lucrative market position for them.

Still, there are no unambiguous answers to a large number of questions related to the understanding of the small business marketing strategy. The existing theoretical frameworks should definitely be adapted to the specificities of small business industry. These frameworks should also be redefined by the so-called qualitative research methods, such as in-depth personal interviews and the case study method. The results obtained by these research methods will provide an exclusive insight into the specificities of business operations in the small business industry. (Siu & Kirby, 1998.) The small business industry-related research has resulted in an interesting finding: the classic form of mass marketing is inapplicable in the sphere of small business. This particular finding served as the source for the development of new, alternative marketing philosophy, known as the entrepreneurial marketing (Chaston & Mangles, 2002; Bjerk & Hultman, 2002). Still, the alternative marketing concept should not be interpreted as advice to entrepreneurs to reject all the aspects of classic marketing theory. In other words, entrepreneurs should consider the so-called flexible approach philosophy, in which case the characteristics of buyers define the most appropriate marketing strategy. (Chaston & Mangles, 2002).

Research methodology

The Five competitive forces model by Porter was used in the analysis of the case of small bakery. The

analysis was aimed at defining marketing strategies which would help define and create particular competitive advantages. The case study method is used in cases that require profound understanding of the research subject, since its results provide the answers to the following questions: why? and how? (Yin, 2003). In contrast, the questions what?, who? and when? are usually referred to the so-called sample method. The case study method is extremely useful in terms of challenging and redefining existing theoretical frameworks and offering scope for new hypotheses. (Saunders, Lewis & Thornhill, 2003). The method is aimed at expanding the existing theoretical frameworks. In other words, the ultimate result of the method is analytic, not statistic, generalization.

Qualitative research was carried out using the in-depth interview method (interview with the owner of the analyzed business entity). In order to carry out a thorough analysis of the business entity, a structured questionnaire was also used in the research. Preparations for the analysis of the business entity also included the internal documentation analysis. Audio scripts that contained a large number of questions significant for the research also proved invaluable for the analysis. The interviews in the approximate duration of two hours were carried out during several visits to the bakery. The aforementioned structured questionnaire was used in the course of the interviews as the research instrument. The questionnaire contained the sequence of statements that were grouped into five categories; each category represented one competitive force. (Pecotich, Hattie & Low, 1999; Pecotich, Renko & Pavičić, 2004). Having expressed either agreement or disagreement with the statements using a five-point Likert scale, the entrepreneur assessed seventy structural determinants of competitive forces. In this way, the owner's perception of the impact that a single force had on his enterprise was evaluated.

The research was carried out in April and May 2010 and had the following aims:

- To analyze attractiveness of small bakeries sector, using the Five Competitive Forces Model by Michael E. Porter.
- To evaluate the perceptions of Porter's five competitive forces in the case of the small bakery and define the differences in impact of individual forces.

- To identify the existing competitive advantages as well as the key factors of business success in terms of further development of the small bakery.
- To provide an understanding of actual strengths and weaknesses of the small bakery and suggest appropriate marketing strategies accordingly.
- To create strategic framework for positioning of the small bakery in the related industry and define areas in which the strategic changes will prove the most lucrative.

Case of small bakery "Hrštić"

Introductory information about the industry

Looking geographically, Croatian bakery industry consists of all producers of bakery products operating on the market of the Republic of Croatia. Considering the fact that import and export of bakery products is still negligible, it is possible to conclude that Croatian bakery industry is made up of domestic producers of bakery products. According to the data of the Croatian Register of business entities, there are 2 large, 8 medium-sized and 374 small companies that have been actively operating in this sector. It is important to note that Croatian bakery industry is characterized by a large number of small bakery crafts. According to different estimates the number of bakery crafts that produce different types of bakery products varies between 1,500 and even 3,000 and they are not registered in official records of the Financial Agency or of the Croatian Chamber of Commerce. In such circumstances it is difficult to talk about leaders of the Croatian bakery industry, but, according to the official data of the Croatian Chamber of Commerce, ten leading companies with the largest production of bakery products, highest income and largest number of employed workers are Zagrebačke pekarne Klara, Pik, Pan-Pek, Jedinstvo, Tvorница kruha Zadar, Rione, Žitoproizvod, Radnik, Prerada and Bobis. Thanks to the fact that the number of market chains that prefer to do business with larger bakeries is growing and that state institutions make certain efforts to establish stricter control over the market

of bakery products, unfair competition is gradually being prevented. It is estimated that the trend of decreased market share of small bakery crafts and increased market share of industrial bakeries in shopping centers will continue. However, when Croatia enters the European Union, the bakery industry will become part of the global European market and this will undoubtedly affect the offer and demand of these products.

According to the data of the State Institute for Statistics, production of bakery products has shown a slight but steady growth. The production increased from 129,674 tons in 2004 to 1,472,012 tons in 2008. Wheat bread accounts for over 50% of produced bakery products, production of maize bread is also growing while production of special types of bread is falling. All this can suggest that consumers are not acquainted with advantages of this type of bread, or, more likely, it reflects a reduced purchasing power of consumers since special type of bread is more expensive than ordinary bread. Production of bread rolls is increasing as well as of special type of bakery products. On one hand this is good for the industry because consumers do not worry about the price and these products create bigger income, but on the other hand production of these products is a lot more demanding and expensive because of their shorter weight. An increase in sales of short weight products is the result of increased availability of bakery products on the market i.e. there is a large number of selling points as well as of the wide range of these products.

General data about the craft

Hrštić craft production and trade was founded in Split in 1992 by Mr Ivan Hrštić. It started its business as a small family bakery and today the craft comprises, in addition to the main production plant, two mini bakeries and nine own shops in the area of Split and Solin and it employs 55 workers. The wide range of bakery products produced by Hrštić craft includes basic and special types of bread, roll bread, cream cakes, birthday cakes, sweets, puff pastry cakes, biscuits and other products with an average daily production of 1,450 kg. Particular features of their product range are the so-called photo cakes, cakes featuring different edible photographs requested by buyers. 20 workers are employed in the direct production, 25 workers work in the sales while others are employed in administration, distribution and maintenance

services. Hrštić craft continually invests in modern technological infrastructure and improved staff structure in order to survive in the competitive environment. They are currently in the process of introducing a HACCP system (Hazard Analysis and Critical Control Point). Further expansion of Hrštić craft is expected with the opening of two new shops and a production plant inside one of the shops in Solin. In the long-term period the craft is aiming for further expansion of their product range to meet the needs of their buyers and for continuous improvement and modernization of their production plants.

Threat of new entrants

Threat of new entrants to the industry of Hrštić craft has been estimated as moderately high. Although large capacity is not a precondition for entering the bakery industry as pointed out by Hrštić craft, adversities related to volume economy represent a significant obstacle to new competitors, mainly because of high fixed costs of baking companies. Bakery products are mostly undifferentiated and companies of this industry do not have systematically developed brands, so it is possible to compete in the industry without investing a lot in advertising. However, without major investments in brand development bakery products will hardly be differentiated by consumers. The bakery industry of today, regardless of its production capacity, needs modern technical and technological solutions and continuous investments in very expensive equipment to ensure high productivity which remains to be an important obstacle to all potential entrants. Besides, the capital is also needed for financing long payment terms as well as for organizing distribution of relatively small quantities of products to the large number of consumers.

Access to distribution channels has not been identified as an obstacle to entering the industry mainly because of undifferentiated products as it is assumed that traders will sell products of any producer that offers them an acceptable price and ensures on time delivery. However it is important to note that more and more bakers organize their own distribution as it is the case with Hrštić craft. Among the advantages of companies that already operate in the industry are undoubtedly experience, good selling locations, easier access to raw material and specific technology, things that new entrants have to take into consideration. Yet, access to the best sources of raw materials does not represent a

major entering obstacle for new competitors since strategic baking materials are agricultural products that are not differentiated and are therefore easily accessible. Today, as a result of turbulent environment and constant market competition, influence of different administrative restrictions is reduced, although market liberalization led to expansion of bakery crafts as centers of grey economy, particularly characteristic of bakery industry. Numerous measures are being taken and they have to be followed by every new entrant to the industry. The conclusion based on the results of the conducted interview suggests that there are no significant obstacles for entering the industry in which Hrštić craft operates. In other words threat of new entrants is moderately high. The average rate of perceived rates for this competitive force from the model is 3,25.

Bargaining power of buyers

Bakery producers usually distribute their products through retailers i.e. shopping chains. Moreover, bakery products are distributed to public institutions and tourist companies. In the structure of income earned by retail outlets the largest quantity of products are distributed through hypermarkets and supermarkets which is not a desirable situation from the bakery industry's perspective because of a very high bargaining power of that segment of buyers. According to Hrštić's opinion it is important to point out that the bakery industry is fragmented with regional companies while the market has specific local features that every participant has to take into consideration. Furthermore, producers pay to shopping chains various additional taxes which results in high selling costs. This confirms the high bargaining power of traders who retain entire added value while the whole risk related to production and sales is still taken by the producer.

The trends that all members of the bakery industry must follow as pointed out by Mr Hrštić refer to the fact that smaller shopping chains are becoming more successful than the large ones suggesting stronger competition among the participants on the retail market. Besides, concentration trends on the retail market are on one hand characterized by takeovers while, on the other hand local traders expand their operations to other counties becoming in that way increasingly important on the national level. In addition to the ownership concentration, their bargaining power is increased because of interest groups created for the purpose of joint

purchasing and stronger competitiveness in relation to the market leader. An increasing number of shopping chains are opening their own baking production within their selling locations. However, even from the position of buyers they gain considerable added value which, with easy access to information and many other benefits offered by other participants of the bakery industry, makes their bargaining power stronger and they are well aware of that. In support to the strong position of buyers there is the fact that bakery products are similar and replaceable without differentiating factors which allows the buyers to change suppliers very easily with minimum costs.

A particular feature of bakery products is that they are consumed on a daily basis. For that reason traders want to make sure that the quality of their offer attracts consumers and that they come to their shops every day. Besides, the intensity of rivalry among buyers is very strong diminishing their profitability and resulting in the pressure on suppliers in order to reduce costs. The mentioned reasons explain why Hrštić bakery craft distributes the majority of their products directly to final consumers through their own shops and only a part is distributed through local retailers. Although the bargaining power of final consumers is not very evident as the one of traders, it is best reflected through the fact that they are very well informed and can easily change the supplier. However, with created close long-term relationships and differentiated product range Hrštić craft is continually increasing its market share in the area of Split-Dalmatia County. The conclusion based on the results of the conducted interview is that the power of Hrštić craft buyers is moderate. The average rate of structural guidelines of this competitive force is 3,24.

Bargaining power of suppliers

Basic raw materials in the baking industry are flour, baking mixtures, yeast, salt, oil, sugar and improvers, all actually defined as consumer goods. Thus, they significantly contribute to an increase in price transparency and customer awareness. Milling and baking industries are strongly connected due to flour being the most important input in the latter, and the latter being the most important customer of the former. Packaging and packing material are increasingly growing in importance in the baking industry as much due to the bread packaging requirements made by chains of stores

as to the regulations on product entry. The main suppliers of the baking company „Hrštić“ are: Žito, Moby Dick, Šimić Company, Nikopek, Zvijezda, Dabalo and I-pak. The owners of Hrštić say that although the basic raw materials for the baking industry are not differentiated according to their characteristics, certain differences in price and quality of the suppliers' products still exist, with regard to the fact that suppliers' goods might affect the final quality of the baking products.

Apart from the basic raw materials adequate and skilled personnel also comprises an essential input in the baking industry. Competences of workers in bakeries are constantly changing in the course of an intensive technology development and the transition from a labor intensive industry into a capital intensive one. Labor intensive plants call for the employment of master bakers, while the most recent technical-technological advances enable the automation of most production processes. However, Hrštić management thinks that the baking industry should articulate its demand for the trained and qualified personnel more clearly and agree on some concrete measures with the education system.

Lack of baking companies' investments and expensive technology along with long collection periods and overall market illiquidity create demand for additional financial means, whose suppliers are financial institutions. Actual global politics leads to growing prices of capital and restrictive credit policies of banks, which has a negative impact on the profitability of the baking industry. Nevertheless, Hrštić managers claim that the company manages to finance itself mostly by its own financial means and does not encounter any major difficulty in case of funding itself from external financial sources. The data obtained through a conducted interview led to a conclusion that the bargaining power of suppliers within the industry of the craft Hrštić is of middle intensity. The average mark of structural determinants belonging to this competitive force shown in the model is 3,00.

Threat of substitute products

Baking products fall into the category of staple foods. Therefore, according to Hrštić managers, appropriate substitutes for bread as the most essential baking product are difficult to find. Perhaps products such as breakfast cereals, oatmeal porridge, crackers, rice, pasta and similar

products that are not generally eaten with bread could be regarded as potential bread substitutes. However, it has been concluded on the basis of the conducted interview that the danger of introducing substitute products is rather small. The average mark of structural determinants belonging to this force is 1,20.

Rivalry among existing firms

The Croatian baking industry is a largely fragmented industry, which is reflected through a great number of firms existing in this sector and through the market sharing among its market leaders. Under those circumstances, in the absence of a prominent industry leader, its participants accept the price dictated by market forces. This, consequently, leads to the minimization of profits, while the prevailing market competition among companies with similar market shares results in a high degree of industry rivalry. According to Hrštić managers, the leading producer of bakery products has a less than 5% market share, while top ten bakeries cover more than 20% of the market. Although the consumption of bakery products in Croatia is relatively high, its growth is limited. This naturally, intensifies the industry rivalry as participants in this industry can realize their development only at the expense of their competitors. Companies are usually not aware of their interdependence so that they may initiate a price war with unfortunate economic consequences for the whole industry. It is precisely the price competition among bakery products producers that has been more strongly manifested than other forms of non-price competition, so the management of Hrštić. The baking industry is characterized by a large share of fixed production costs and an impossibility of long-term product storage so that baking companies often find themselves in enviable positions of balancing only the variable costs in the course of an intensive struggle for an increase in production. This is due to capacity surplus being generated by the production specificity and seasonal oscillations, although the striking problem of overcapacity has not been noticed in the bakery Hrštić.

Products of the baking industry are very similar and without any distinguishing factors, which additionally increases the competition intensity as a customer decides on buying certain products on the basis of their vicinity and price. Bakeries rarely carry out systematic researches on customer and final consumer preferences and do not

invest either a lot of energy or money into brand making. Nevertheless, through the continuous development of its bread and sweets range and the professional training of its personnel Hrštić is striving to become recognized at the local market, where its main competitors are Svaguša, Bimita, Babić, Keko and Biškić. Possible merging with their competitors, according to Hrštić management, would be desirable, but in their point of view those associations could not survive at the local market. Moreover, there is a bakers' association in Split, whose main task is balancing the price of bakery products. However, its members do not often follow the defined guidelines.

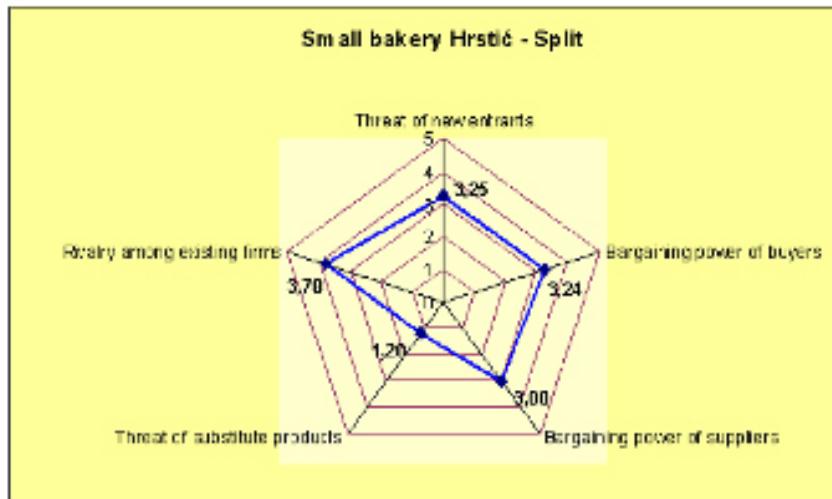
Output obstacles of the bakery industry, which boost the intensity of rivalry, are greater at industrial bakers than bakery crafts. Big bakeries employ a large number of workers and therefore need substantial financial means for redundancy payments of those who have become superfluous. In addition, large bakeries are oriented towards key account customers and when negotiating a contract on cooperation they agree to produce a certain amount of products. If they fail to observe the provisions of the contract, they will pay penalties. Technical-technological advancement allows bakers to switch over to capital intensive production, and on the other hand highly specialized equipment can rarely be used for any other purposes, which makes leaving the industry even more difficult. When discussing technological possibilities, special emphasis should be placed on the production of frozen and half-baked bread that is much longer lasting and that is baked on the spot. This technology is increasingly being used by chains of stores, thus presenting a major danger of the infiltration of foreign bakery products

into the Croatian market. A high degree of rivalry intensity in the industry of the craft Hrštić has also been confirmed through the recapitulation of perceived marks given to the competitive force shown in the model. The average mark of structural determinants of the measured force is 3,78.

Identification of key success factors referring to the craft Hrštić

After a thorough analysis of all the forces affecting the industry in which the bakery craft Hrštić does business, it may be concluded that there is a high degree of rivalry within the sector, but that there also exists a noticeable threat of new companies entering the market. The bargaining power of customers, owing to the minimal costs of change, is more strongly manifested than the bargaining power of suppliers, who, although assessed as being moderately strong, can by all means affect the quality of the final industry product. The threat of substitutes is not striking in this case, as shown in the figure 1.

A greater difference between the strong and the weak forces can be noticed at the industry of the craft Hrštić, which is regarded as good potential as it directs the owners' strategic initiatives towards defense against negative forces. A wide range of bakery products along with the development of a recognizable brand, the opening of its own specialist stores at key locations and cost efficiency are key success factors of the bakery Hrštić, according to its owners. This will bring about a decline in the intensity of price competition and an increase in the profitability of the bakery craft in the long run.

Figure 1. Comparison of the perceived strength of competitive forces

Source: Research Findings (treatment: June, 2010.)

On the basis of conducted strategic analysis, specific initiatives for the defense of the negative competitive forces affecting the business trades Hrštić can be identified. Further efforts to open their own stores in key locations will provide additional cash flow by direct contact with a consumer, which enables more effective communication and implementation of various marketing activities. Partnerships established in this way increase consumer loyalty and reduce their aspiration for a change of supplier. Although the creation of brand is a difficult and long process, craft Hrštić undoubtedly can provide greater profitability and reduced bargaining power of customers, but also reinforce the barrier to potential newcomers. In a situation where buyers and consumers can change suppliers easily, it is necessary to be constantly present in the market, follow trends and look for ways to hinder the transfer of the customer, and look for ways to differentiate their products by consumers. As communication channels Crafts Hrštić should use their own retail facilities that are in daily direct contact with consumers.

Hrštić can make their own retail network expansion by acquisition of uncompetitive subjects within the industry, particularly those in key locations. In another variant, it is possible to offer a business through franchising to small bakeries. Production of small quantities of certain products from its portfolio

may be inefficient and Crafts Hrštić may moderate this using partnership with micro-bakeries. This way, by such delegation of certain product lines that are not of strategic importance, the craft will use its capacity more efficiently. Finally, continued investment in modern technology is necessary and strengthening of productivity with a fast turnover of assets and boosted profitability would make crafts Hrštić more profitable. Of course, for investing in technology, special attention should be paid to the proper capacity dosage in order to avoid overcapacity, and take a more favorable position within the bakery industry in Split-Dalmatia County.

Conclusions

Though, the company's business is affected by a number of factors that may or may not be under its influence, above-average profitability, as an economic measure of success is the result of superior design and implementation of marketing strategies. Strategy, as a basis of search for competitive advantage, must have an entrepreneurial dimension, which arises from its understanding as a means by which an enterprise, not only adapts but also initiates and directs changes in the environment. Connecting companies with the most important segment of

its environment - the industry is the essence of its strategic behavior and the key to success of the company is the sustainable competitive advantage. To have a competitive advantage means to achieve a more favorable position than its industry rivals, but also other market participants by better positioning. Thus, an enterprise should not be isolated from their surroundings, especially from the industry to which it belongs. Therefore, development of appropriate marketing strategies of enterprises must be based on the results of the analysis of industrial structure.

In this sense, for the analysis of specific business cases the best known framework for analysis of the structural characteristics of the industry is used - Porter's five competitive forces model with the basic aim of designing marketing strategies and the development of sustainable competitive advantage for a small bakery. Each of the forces from the model is determined by a number of structural characteristics, and their combined strength determines profit potential of industries. The analysis aims to identify the primary sources of competitive advantage and key success factors of the market who, acting in a market environment of the analyzed economic entity determine its ability to survive and develop. The aim of the bakery owners is clear: find a position within the industry where his company can defend against the competitive forces the best way, or where it can influence them in its favor.

Finally, the interpretation of the findings of the study allowed the owner of a bakery Hrštić to determine the attractiveness of the baking industry, measure the perception of the intensity of competitive forces as well as determine the difference between the perceived strength of individual forces, identify existing competitive advantages and key success factors in the further development, understand the real strengths and weaknesses and design appropriate marketing strategies, build a framework for positioning within the respective industries, discover areas where strategic changes have the greatest effectiveness and predict future movements in the corresponding industry and accordingly shape strategic initiatives to ward off negative forces.

During the study certain limitations of Porter model are taken into account. Specifically, the model describes the current state of the market, but as market situation changes, influence of certain forces changes as well. Finally, competitive

forces do not monitor only the changes in the environment, but causes of these changes are included in the review. Therefore it is important to understand the relationship between competing forces and causes of structural changes in a particular industry. However, although the model is a simplified picture of the forces that affect the profitability of some industries, the analysis carried out in a small bakery Hrštić proved as an applicative tool. To this day, the model has not experienced any changes and its value grows even more because of that. Taking into account the contemporary dynamics and unpredictability, the turbulent market conditions and the growing importance of information technology model will undoubtedly continue to be one of the main tools in strategic analysis of different industries.

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SIMILARITIES BETWEEN EXPECTED SHORTFALL AND VALUE AT RISK: APPLICATION TO ENERGY MARKETS

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Abstract

We look at the compatibility and interaction between the well established Value at risk (VaR) measure and its "coherent" sibling Expected shortfall (ES). Although theoretically a superior risk measure ES is not accepted by the regulators for the purpose of calculating economic capital. Furthermore, the concept of ES is lagging behind VaR when it comes to empirical research, model comparison and backtesting methodology. VaR and ES are connected in the sense that from the VaR surface we can easily calculate ES. We test the performance of a range of VaR and ES models on energy commodities, WTI oil, natural gas and coal, at high confidence levels (95, 99 and 99.5%) during the ongoing economic crisis. Out of the analysed commodities natural gas is the most volatile and most prone to extreme movements. For the major part due to its domestic consumption coal proved to be the least volatile commodity with the lowest probability of extreme events. The obtained results show consistency in that the best performing VaR models are almost identical to the best performing ES models.

Key words: Energy markets, Expected shortfall, Value at Risk, Extreme value theory

JEL classification: G24, C14, C22, C52, C53

Introduction

Hedging against movements in the prices of fossil fuels is not only important for the financial industry, where commodities and commodity derivatives serve as an investment opportunity, but also to energy buyers and sellers which guard

themselves from raises/falls in energy prices. In order to be able to hedge against such risks the first step is to correctly evaluate the market risk of a particular energy commodity. Value at Risk (VaR) and Expected shortfall (ES) have become essential tools for this purpose. Within energy markets, VaR and ES can be used to quantify the price risk of energy commodities associated with the desired likelihood level. The use of the VaR and ES risk measurement framework to assess price risk is widely employed in financial industry, where profits and losses are calculated daily, a process known as marking-to-market. VaR and ES are not so widely used in non-financial companies, one of the reasons being the infrequent marking-to-market of their assets. Even when taking this stylised fact into consideration VaR methodology seems appropriate for non-financial companies whose revenues and costs usually fluctuate due to volatility in prices of their inputs and/or outputs, especially in the short term. The objective of corporate hedging is to offset exposures and reduce earnings volatility. A company can hedge its market risk by using derivatives like commodity forward and future contracts, options and commodity swaps. A company will always have natural hedges, but in most cases, it is necessary to manage risk proactively by taking a position in a derivatives contract, because not entering into such contracts will increase the overall risk of the company. However, a company may be increasing its overall risk by getting into a derivative contract, even though that contract is offsetting a particular risk exposure of the company. Simply put there is no clear cut and simple answer to managing or hedging company's risk. It is important to point out that VaR and ES are just tools to measure and manage risk, and not the goal. It is the process that

leads to the calculation of the VaR and ES figures which really adds value to the risk management function, not just the numbers. Once the exposures to several risk factors have been identified and quantified, it is possible to analyze how those risk exposures interact with each other, which ones are acting as a natural hedge to the portfolio, and which ones represent the largest sources of risk for the company. With VaR and ES it is possible to minimize the variability of the company's earnings, decide which risks are worth taking, and hedge those which may cause "too much" variability to those earnings.

Fossil fuels represent a strategic commodity in every sense of the word since they are the primary source of energy for electricity production, transportation and industrial production. Their importance and multiplicative effect on almost all branches of the economy dictates the necessity for deeper insight into the ways of measuring and protecting against risks stemming from changes in their prices. For the past four decades the shocks to the energy market, such as the conflict in the Middle East, Iranian revolution, Iran–Iraq war, Gulf war, 9/11 and subsequent occupation of Iraq, resulted in shortages of fossil fuels and price hikes. The deregulation of energy markets and the increase in competition in the last two decades, especially in electrical power and gas, has also had a significant effect on prices which are now relatively unregulated and characterized by significant price volatility. An unpredictable, volatile and risky environment has arisen and protection against market risk has become an essential issue. In resource-based economies, such as those dependent on oil, exports and government revenues are uncertain and highly volatile. Uncertainty means that a variable, say, the oil price for the coming years, is simply unpredictable. In these economies oil price fluctuations not only affect the government budget considerably but also have strong effects on macroeconomic variables and even the stock market (Sadorsky, 1999). Regardless of the price increases the consumption and price of energy almost continually grew. For the first time since 1982 global economic recession drove energy consumption lower in 2009. This caused a major turmoil in energy markets around the globe. As with the economic contraction, the decline in energy consumption was concentrated in OECD countries. Looking at the fossil fuels, consumption of oil and natural gas declined, while coal consumption remained constant. For the whole of

2009, prices for all forms of traded energy fell, with the sharpest declines seen for traded natural gas and coal in North America and Western Europe. During 2009 prices for oil and coal in competitive markets hit their low points early in the year, with oil prices recovering first, while natural gas prices in North America and Western Europe continued to decline well into 2009. Natural gas was the fuel that experienced the most rapid decline in consumption, falling by 2.1% which is the largest historical decline on record (BP, 2010).

The value of energy commodities can change over time as market conditions and underlying price variables change. A firm's portfolio risk is measured by evaluating the risk exposure from changes in any of the variables that affect existing contracts or the firm's projections from demand, supply and prices (Kaushik and Pirrong, 1999). In this paper we do not focus on long term forecasting of energy price risk but on the short term, day-to-day, purely econometric VaR and ES modelling that accounts for the characteristics of WTI oil, natural gas (NG1) and coal (NXA) one-month futures contracts traded on Nymex in the period from July 2008 until July 2010. For the purpose of risk management over longer time periods an economic model, which takes account of supply and demand dynamics, would be more appropriate than a purely econometric time-series model. For the analysed commodities we calculate the VaR and ES figures for long trading positions. Long position risk is important for investors that bought into a commodity since the risk comes from a decrease in prices, a classical example of such investors are oil and gas producing companies, coal mining companies, energy companies undertaking long term hedging etc. Beyond these companies which are directly connected to the fossil fuels renewable energy producing companies also experience negative effects from falling energy commodity prices. Falling energy prices actually discourage investments and research into renewable energy sources since it makes them unprofitable.

Energy price risk management has not been extensively studied but energy commodity volatility and dynamics have been studied to some extent, among others, Kang et al. (2009) evaluated the out-of-sample forecasting accuracy of four GARCH-class (GARCH, IGARCH, CGARCH, FIGARCH) models using the DM test of Diebold and Mariano (1995) under two loss functions. They found that the CGARCH and FIGARCH models could capture the long-memory volatility of crude oil markets and

obtain superior performance compared to that of the GARCH and IGARCH ones (Kang et al., 2009). In a study complementing that of Kang et al. (2009), Cheong (2009) investigated the out-of-sample forecasting performance of four GARCH-class models (GARCH, APARCH, FIGARCH, and FIAPARCH) under three loss functions, finding that the simplest and most parsimonious GARCH model fitted Brent crude oil data better than the other models examined. On the other hand, the FIAPARCH out-of-sample WTI forecasts provided superior performance. Wei, Wang and Huang (2010) find that no model can outperform all of the other models for either the Brent or the WTI market across different loss functions. However, in general, the nonlinear GARCH-class models, which are capable of capturing long-memory and/or asymmetric volatility, exhibit greater forecasting accuracy than the linear ones, especially in volatility forecasting over longer time horizons. When using weekly crude oil spot prices in eleven international markets, Mohammadi and Su (2010) compared the forecasting accuracy of four GARCH-class models (GARCH, EGARCH, APARCH, and FIGARCH) under two loss functions. The DM test showed that the APARCH model provided the best performance. The foregoing summary of the literature clearly indicates that empirical results in this field are mixed.

For risk management analysis, Giot and Laurent (2003) investigate commodity futures including WTI returns and test the performance of skewed T ARCH, APARCH and RiskMetrics parametric models. In their study RiskMetrics performed rather poorly at confidence levels above 99%. Skewed T APARCH model performed well compared to other studied models, but still failed for WTI long positions. Žiković, Fatur (2007) find that GARCH normally distributed VaR provides correct unconditional coverage for WTI oil at 90, 95 and 99% confidence levels both for long and short positions, but their findings can be attributed to the characteristics of the time period used in their analysis.

The goal of this paper is not only to find the model that accurately calculates VaR figures but also gives the best approximation to tail losses i.e. minimizes the deviation of ES forecasts from actual extreme losses. This information is equally important for risk management purposes as well as for pricing of structured commodity derivatives. Tested VaR models are: Normal variance-covariance (VCV)

approach, RiskMetrics model, GARCH model, Historical simulation (HS), Mirrored historical simulation (MHS), BRW (time weighted) simulation, Filtered historical simulation (FHS), Extreme value approach using Generalized Pareto distribution (GPD) and conditional extreme value approach. Tested ES models are: VCV, RiskMetrics and GARCH with approach Gumbel distribution, bootstrapped historical simulation, bootstrapped mirrored historical simulation, bootstrapped BRW and FHS approach, unconditional GPD and conditional extreme value (EVT-GARCH) approach. The models are tested using two years of daily return data, including the period of the latest surge and fall of energy commodities.

The rest of the paper is organized as follows: Section 2 presents the basic characteristics of selected energy commodities. In section 3 definitions of VaR and ES are presented along with their advantages and disadvantages. Section 4 outlines the methodology and basic assumptions of VaR and ES models used in this paper. VaR and ES backtesting results are presented in Section 5. Section 6 concludes.

Energy commodities

Crude oil produces petroleum products and accounts for nearly 40% of the world's primary energy consumption. When processed, it yields natural gas and chemical residue which are also used as a source of energy. WTI (Western Texas Intermediate) oil analysed in the paper is the benchmark for light sweet crude in the United States and is the highest priced crude. Owing to its low viscosity and negligible sulphur content, WTI crude is rated as high quality and primarily used in the production of gasoline. A great number of economic variables depend on the price of the oil and even a casual observer can notice that the increase in oil prices increases the price of various products. The oil industry also through oil production accounts for a large amount of the consumption of energy. In this issue the Middle East is in the first position and the lowest consumption is done by the countries in Europe. Apart from concerns surrounding peak oil and the depletion of fossil fuels, natural calamities, such as hurricanes, political unrest, like in Nigeria in 2007, and many other factors play a role in the sustained supply of oil and gas. Next to the price changes which originate from fundamental supply

and demand imbalances, such as the OPEC decision on production quantities of oil price, volatility of oil can stem from the behaviour of some market participants who engage in (short-term) speculation. Another destabilizing factor is hidden in the fact that most of the oil deals are carried out in US dollars. The devaluation of the US dollar exerts upward pressure on oil prices. In that regard the ongoing competition between the global powers on decreasing the value of their currency to spur exports or at least to curb imports cannot be neglected. The largest oil field in the world is Ghawar in Saudi Arabia, Burgan field in Kuwait, and Tengiz field in Kazakhstan.

As per the findings of the World Coal Institute, coal reserves are expected to last for a period of 133 years at the current production rate. Coal reserves are available almost across the globe. It is especially important in the production of electrical energy and steel industry. The power plants that use coal contribute 50% of the total demand of energy across the world. Furthermore, coal is the most affordable source of power fuel per million Btu, historically averaging less than one-quarter the price of petroleum and natural gas. From the 1980s to the early 21st century, the global coal industry succeeded in increasing hard coal production over 100%. However, most of the coal produced is used for domestic consumption and only 15% of the production reaches the global coal market. Half of US electricity is generated from coal and it accounts for approximately 94% of the country's fossil energy reserves. However, following developed government's efforts at energy conservation and energy efficiency, along with the development of alternative energy sources, the emerging economies, especially China, are today responsible of the highest demand. The world's largest coal reserves are in the US, Russia, Australia, China, India and South Africa.

Out of the fossil fuels natural gas is the cleanest fuel, emitting lower amounts of carbon dioxide than coal or oil. It has a higher calorific value than both diesel and gasoline, but has the lowest energy density of the three. Raw gas from gas wells is directed to a processing unit for the removal of waste water, acid and nitrogen rich gases and other impurities. Subsequently, it undergoes a sweetening process. Natural gas burns more cleanly than other fossil fuels, such as oil and coal, and produces less carbon dioxide per unit energy released. For an equivalent amount of heat, burning natural gas produces about 30% less

carbon dioxide than burning petroleum and about 45% less than burning coal. The world's largest gas fields are situated in the West Siberian Basin.

Value at Risk and Expected Shortfall

The term VaR did not enter the financial lexicon until the early 1990s, but the origins of VaR measures go further back. These can be traced to capital requirement for US security firms of the early 20th century. Because of the limited availability of processing power, VaR measures from this period were largely theoretical, and were published primarily in the context of the emerging portfolio theory. This encompassed the work of Tobin (1958), Sharpe (1964), Lintner (1965) and Mossin (1966). The VaR measures they employed were best suited for equity portfolios. There were few alternative asset categories, and applying VaR to these would have raised a number of modelling issues.

VaR is usually defined as the possible maximum loss over a given holding period within a fixed confidence level (cl). That is, mathematically, VaR at the $100(1-cl)\%$ confidence level is defined as the upper $100cl$ percentile of the loss distribution. Suppose X is a random variable denoting the loss of a given portfolio. Following Artzner et al. (1999), VaR can be defined at the $100(1-cl)\%$ confidence level ($VaR_{cl}(X)$) as:

$$VaR_{cl}(X) = \sup\{x \mid P[X \geq x] > cl\} \quad (1)$$

where $\sup\{x \mid A\}$ is the upper limit of x given event A , and $\sup\{x \mid P[X \geq x] > cl\}$ indicates the upper $100cl$ percentile of loss distribution. This definition can be applied to both discrete and continuous loss distributions. This definition also reveals that VaR can be thought of as „best of worst cases scenario“ and it therefore systematically underestimates the potential losses associated with the specified level of probability. It can be said that among the statistics of the tail of the distribution, VaR is maybe the least appropriate to characterize its risks. An indication of ill-logic behind VaR can be seen when looking at the risk behind holding a portfolio that earn small amounts with a high level of probability and suffer very large amounts with very small probability. Such a portfolio will have negative VaR whenever the probability of loss is smaller than a specified confidence level at which VaR is measured. VaR for such portfolios is completely unable to reveal

any risk. It seems logical to resort to the central estimate of the tail rather than its minimum in order to better measure such risks. VaR risk measures are open to criticism from many other directions. Hoppe (1999) argues that the underlying statistical assumptions are violated because they can not capture many features of the financial markets such as intelligent agents. Artzner et al. (1997, 1999) have used an axiomatic approach to the problem of defining a satisfactory risk measure. They defined attributes that a good risk measure should satisfy, and call risk measures that satisfy these axioms "coherent". A coherent risk measure ρ assigns to each loss X a risk measure $\rho(X)$ such that the following conditions are satisfied (Artzner et al. 1999):

$$\rho(tX) = t\rho(X) \quad (\text{homogeneity}) \quad (2)$$

$$\rho(X) \geq \rho(Y), \text{ if } X \leq Y \quad (\text{monotonicity}) \quad (3)$$

$$\rho(X + n) = \rho(X) - n \quad (\text{risk-free condition}) \quad (4)$$

$$\rho(X) + \rho(Y) \leq \rho(X + Y) \quad (\text{sub-additivity}) \quad (5)$$

for any number n and positive number t . These conditions guarantee that the risk function is convex, which in turn corresponds to risk aversion. That is:

$$\rho(tX + (1 - t)Y) \leq t\rho(X) + (1 - t)\rho(Y) \quad (6)$$

The first and second conditions are reasonable conditions to impose a priori, and together imply that the function $\rho(\cdot)$ is convex. The risk-free condition means that the addition of a riskless asset to a portfolio will decrease its risk because it will increase the value of end-of-period portfolio. According to the last condition a risk measure is sub-additive if the measured risk of the sum of positions X and Y is less than or equal to the sum of the measured risks of the individual positions considered on their own. VaR is not a coherent risk measure because it does not necessarily satisfy the sub-additivity condition. VaR can only be made sub-additive if a usually implausible assumption is imposed of returns being normally (or slightly more generally, elliptically) distributed (Artzner et al.

1999, p. 217). Sub-additivity matters for a number of reasons (Dowd, 2002, p. 30):

- If risks are sub-additive, then adding risks together would give an overestimate of combined risk, and this means that a sum of risks can be used as a conservative estimate of combined risk. This facilitates decentralized decision-making within a company, because a supervisor can always use the sum of the risks of the units reporting to him as a conservative risk measure. But if risks are not sub-additive, adding them together gives an underestimate of combined risks, and this makes the sum of risks effectively useless as a risk measure. In risk management, it is desirable for risk estimates to be unbiased or biased conservatively.
- If regulators use non-sub-additive risk measures to set capital requirements, a financial company might be tempted to break itself up to reduce its regulatory capital requirements, because the sum of the capital requirements of the smaller units would be less than the capital requirement of the company as a whole.
- Non-sub-additive risk measures can also tempt agents trading on an organized exchange to break up their accounts, with separate accounts for separate risks, in order to reduce their margin requirements. This could be a matter of serious concern for the exchange because the margin requirements on the separate accounts would no longer cover the combined risks.

A very serious shortcoming of VaR is that it provides no handle on the extent of the losses that might be suffered beyond the threshold amount indicated by it. VaR is incapable of distinguishing between situations where losses in the tail are only a bit worse, and those where they are overwhelming. Indeed, VaR merely provides a lowest bound for losses in the tail of the loss distribution and has a bias toward optimism instead of the conservatism that ought to prevail in risk management. An alternative measure that does quantify the losses that might be encountered in the tail is the expected shortfall (ES). Both VaR and ES require the user to a priori specify confidence level and holding period. While VaR represents a maximum loss one expects at a determined confidence level for a given holding period, ES is the loss one expects to

suffer, provided that the loss is equal to or greater than VaR:

$$ES(X) = E[X | X \geq VaR(X)] \quad (7)$$

ES can be found under many names such as: Expected tail loss (ETL), Conditional VaR (CVaR), tail VaR, tail conditional expectation, mean excess loss, beyond VaR etc. ES measure has been used by insurance practitioners, especially casualty insurers for a long time as conditional average claim size. Reinsures are also familiar with conditional coverage of losses in excess of a threshold. For continuous loss distributions, ES at a given confidence level is the expected loss given that the loss is greater than the VaR at that level, or for that matter, the expected loss given that the loss is greater than or equal to the VaR. However, ES is not in any sense a panacea since it also has its' own flaws; Yamai and Yoshida (2002) find that both VaR and ES are not reliable during market turmoil and can give misleading results, although ES is a better choice than VaR.

Methodology

There are a great number of different methods that can be used to calculate VaR and ES figures. In the following analysis we focus on the models that are most widely used and on those that have a sound theoretical basis.

VaR and ES figures based on historical simulation are calculated as quantiles of empirical distribution with an equally weighted moving observations window.

$$\begin{aligned} VaR_{t,k} &= F^{-1}(k) = X_{(i)} \\ F_n(t) &= \frac{1}{n} \sum_{i=1}^n I(X_i \leq t) \end{aligned} \quad (8)$$

$$E_d = \left(\sum_{i=[ncl]}^n X_{n(i)} \right) / (n - [ncl]) \quad (9)$$

Mirrored historical simulation (MHS) is a simple extension of historical simulation using "mirror" scenarios suggested by Holton (1998). This

technique is rarely found in the academic literature although it enables the user to double the number of scenarios while reducing convergence error by a factor of $1/\sqrt{2}$. The implementation of the technique is straightforward and involves multiplying the historical return series by -1 and adding these mirror scenarios to the existing set of observations.

$$VaR_{t,k} = F^{-1}(k) = Y_{(i)} \quad Y_i = |X_i| \quad (10)$$

$$E_d = \left(\sum_{i=[ncl]}^n Y_{n(i)} \right) / (n - [ncl]) \quad (11)$$

BRW VaR is calculated as described by Boudoukh, Richardson, Whitelaw (1998), with the same suggested decay factors of 0.97 and 0.99.

$$VaR_{t,k} = \sum_{j=t-N+1}^t r_j I \left(\sum_{i=1}^N f_i(l; N) I(r_{t-i} \leq r_j) = k \right) \quad (12)$$

where $f_i(l; N)$ are the weights associated with return r_i and $I(\cdot)$ the indicator function. If

$f_i(l; N) = 1/N$, the BRW quantile estimator equals the HS estimator. Similarly to the historical simulation BRW ES can be expressed as:

$$E_d = \left(\sum_{i=[ncl]}^n X_{n(i)} \right) / (n - [ncl]) \quad (13)$$

Normal variance-covariance VaR and ES are calculated as equally weighted moving average.

$$VaR_{t,k} = a_t s_t - m_t s_t = \sqrt{\frac{1}{T} \sum_{t=1}^T (r_t - \bar{r})^2} \quad (14)$$

$$E_{t,k} = m_t + s_t E[Z | Z < z_t] \quad (15)$$

where μ_r and σ_r are the mean and standard deviation of the observed returns and acl is the surface under the normal distribution associated with cl confidence level.

RiskMetrics VaR model is calculated as described in the RiskMetrics Technical document (1996), with lambda set at 0.94.

$$VaR_{t,\epsilon} = \mathbf{a}_\epsilon s_t - m$$

$$s_t = \sqrt{(1-\lambda) \sum_{t=1}^T \lambda^{t-1} (r_t - \bar{r})^2} \quad (16)$$

RiskMetrics ES can be expressed as:

$$ES_{t,\epsilon} = m + s_t E[Z | Z < z_\epsilon] \quad (17)$$

where, in the univariate case, Z is a vector of EWMA innovations.

GARCH is a parametric approach to VaR similar to RiskMetrics model but uses GARCH volatility forecasting instead of EWMA volatility forecasting and usually a fat tailed distribution, such as T or GED instead of normal, for calculating the surface under the selected distribution corresponding to the desired confidence level:

$$VaR_{t,\epsilon} = \mathbf{a}_\epsilon s_t - m$$

$$s_t^2 = w + \sum_{i=1}^q a_i e_{t-i}^2 + \sum_{i=1}^p b_i s_{t-i}^2 \quad (18)$$

$$ES_{t,\epsilon} = m + s_t E[Z | Z < z_\epsilon] \quad (19)$$

where, in the univariate case, Z is a vector of GARCH innovations.

FHS model is based on Hull and White (1998) volatility updating procedure and latter presented in Barone-Adesi et. al. (1999). It uses the same GARCH volatility forecasting as GARCH model, uses unbounded observation window length and calculates quantiles via order statistics.

$$VaR_{t,\epsilon} = (r \in \{r_t, \dots, r_{t-N}\} | G(r; t, N) \geq \epsilon) \quad (20)$$

$$s_t^2 = w + \sum_{i=1}^q a_i e_{t-i}^2 + \sum_{i=1}^p b_i s_{t-i}^2$$

$$z_t = e_t / s_t$$

$$z = \{z_1, z_2, \dots, z_t\} \quad z_i \in \Theta$$

$$\hat{z}_{t+1} = z_t \times \hat{s}_{t+1}$$

$$\hat{r}_{t+1} = a_0 + \sum_{i=1}^p a_i r_{t-i+1} + \sum_{i=1}^q q_i \hat{z}_{t-i+1} + \hat{z}_{t+1}$$

$$ES_{t,\epsilon} = E(X | X > VaR_t) = \left(\sum_{i=[ncl]}^n \hat{Z}_{n(i)} \right) / (n - [ncl]) \quad (21)$$

Majority of the parametric VaR models employed in practice falsely rely on central limit theorem. The key to estimating the distribution of extreme events is the extreme value theorem (EVT), which governs the distribution of extreme values, and shows how this distribution looks like in the limit, as the sample size increases. Balkema, de Haan (1974) show that under MDA conditions the generalized Pareto distribution (GPD) is the limiting distribution for the distribution of the excesses, as the threshold tends to the right endpoint. A positive measurable function $r(u)$ can be found such that:

$$\lim_{u \uparrow \infty} \sup_{0 \leq x \leq u} |F_u(x) - G_{x,s}(u)| = 0 \quad \text{iff}$$

$$F \in MDA(H_x) \quad (22)$$

the following estimate for $F(x)$ is obtained:

$$\hat{F}(x) = 1 - \frac{k}{n} \left(1 + \hat{x} \frac{x-u}{\hat{s}} \right)^{-\frac{1}{x}} \quad \text{provided that}$$

$$G_{x,s,u}(x) = 1 - \left(1 + x \frac{x-u}{s} \right)^{-\frac{1}{x}} \quad (23)$$

Where and are the maximum likelihood estimators of ξ and σ . This equation can be inverted to obtain an unconditional quantile of the underlying distribution, which is actually VaR. For $c \geq F(u)$ GPD VaR is calculated as:

$$VaR_t = q_t(F) = u + \frac{s}{x} \left(\left(\frac{1-t}{\bar{F}(u)} \right)^{-x} - 1 \right) = u + \frac{s}{x} \left(\left(\frac{1-t}{k/n} \right)^{-x} - 1 \right) \quad (24)$$

$$\delta_t = \frac{1}{1-t} \int_t^1 q_x(F) dx = \frac{VaR_t}{1-x} + \frac{s - xu}{1-x} \quad (25)$$

To remedy the problems of unconditional estimation that is traditional in EVT McNeil and Frey (2000) developed a conditional quantile EVT approach under the assumption that the tail of the conditional distribution of the underlying GARCH process is approximated by a heavy-tailed distribution. They apply EVT to the conditional return distribution by using a two-stage method, which combines GARCH model with EVT in applying the residuals from the GARCH process. McNeil, Frey (2000) conditional extreme value (EVT-GARCH) VaR can be written as:

$$VaR_{t,k} = m_t + s_t VaR(Z)_t \quad (26)$$

$$r_t = m_t + s_t Z_t$$

$$s_t^2 = a_0 + \sum_{i=1}^q a_i e_{t-i}^2 + \sum_{i=1}^p b_i s_{t-i}^2$$

$$Z = \left(\frac{x_{t-n+1} - m_{t-n+1}}{s_{t-n+1}}, \dots, \frac{x_t - m_t}{s_t} \right)$$

$$VaR(Z)_t = u_Z + \frac{s_Z}{x_Z} \left(\left(\frac{1-t}{\bar{F}(u_Z)} \right)^{-x_Z} - 1 \right)$$

$$\delta_{t,k} = m_t + s_t \delta_t(Z)_t$$

$$\delta_t(Z)_t = \frac{VaR_t}{1-x} + \frac{s - xu}{1-x} \quad (27)$$

All of the analysed VaR models are tested in several ways to determine their statistical

characteristics and ability to adequately measure market risk in the countries analysed in this paper. First test is the Kupiec test, a simple expansion of the failure rate, which is also prescribed by Basel Committee on Banking Supervision. The set-up for this test is the classic framework for a sequence of successes and failures, also known as Bernoulli trials. Since a good risk measurement should secure that VaR exceedences are independent through time, as any clustering of VaR failures could easily force a bank into bankruptcy as the second test, the Christoffersen independence test is calculated. It tests whether VaR exceedences are IID. Two forecast evaluation approaches, Lopez and Blanco-Ihle tests, are also used to evaluate the relative performance of tested VaR models. These approaches allow for ranking of different competing models, but do not give any formal statistical indication of model adequacy. In ranking them, they also allow to take account of any particular concerns one might have. For example, higher losses can be given greater weight because of concern about higher losses.

Data

The data analysed consists of daily one-month futures returns of WTI oil, natural gas (NG1) and coal (NXA) in the period from January 2006 to July 2010, collected from the Bloomberg website. The analysed period is divided two parts: from January 2006 to July 2008, a period which was used to estimate the model and volatility parameters, and from 8th July 2008 until 1st July 2010, a period consisting of 500 trading days which was used for out-of-the-sample backtesting purposes.

Table 1 provides the descriptive statistics of the three return series. The sample returns from all of the analysed commodities display similar statistical characteristics. The sample means of all three return series are quite small in comparison to their standard deviations, indicating high volatility. All of the analysed commodities have a pronounced skew. Out of the analysed commodities, judging from the value of kurtosis, natural gas is the most volatile and most prone to extreme movements. Due to its predominately domestic consumption coal proved to be the least volatile commodity with the lowest probability of extremes. Out of the tested commodities coal is the only one with the negative skew, indicating higher frequency of days with negative returns, unfortunately due to its low kurtosis these negative events were of a small magnitude. The Jarque-Bera and Lilliefors tests show that the null hypothesis of normality is rejected at the 1% level of significance.

Table 1 - Summary descriptive statistics for WTI oil, coal and natural gas returns in the period 08.07.2008 - 01.07.2010

	WTI	COAL	GAS
Mean	-0,0013	-0,0015	-0,0021
Median	-0,0010	0,0000	-0,0060
Minimum	-0,1307	-0,0840	-0,0970
Maximum	0,1641	0,0808	0,2677
St.dev.	0,0365	0,0196	0,0403
Skewness	0,2357	-0,2946	1,1568
Kurtosis	5,6775	5,3300	7,7537
Lilliefors test	154,29	122,26	583,47
(p value)	0,00	0,00	0,00
Jarque-Bera test	0,96	0,96	0,94
(p value)	0,00	0,00	0,00

The Ljung-Box statistic for serial correlation, in Table 2, shows that the null hypothesis of no autocorrelation up to the 20th order is rejected, thus confirming serial autocorrelation in WTI oil and natural gas, but not the coal.

Table 2 - Ljung-Box Q test for mean adjusted returns in the period 08.07.2008 - 01.07.2010

WTI oil Period (days)	H	p-value	Statistic	Critical value
5	1	0,002	18,626	11,070
10	1	0,037	19,299	15,307
15	1	0,009	30,636	24,996
20	1	0,010	36,323	31,410

Natural gas Period (days)	H	p-value	Statistic	Critical value
5	1	0,001	19,927	11,070
10	1	0,001	33,841	15,307
15	1	0,002	32,182	24,996
20	1	0,012	36,846	31,410

Corn Period (days)	H	p-value	Statistic	Critical value
5	0	0,039	33,931	11,070
10	0	0,002	11,661	15,307
15	0	0,110	21,297	24,996
20	0	0,105	25,001	31,410

The Ljung-Box statistic for heteroskedasticity in Table 3, shows that the null hypothesis of no heteroskedasticity up to the 20th order is rejected for all of the analysed commodities.

Table 3 - Ljung-Box Q test for mean adjusted squared returns in the period 08.07.2008 - 01.07.2010

WTI oil Period (days)	H	p-value	Statistic	Critical value
5	1	0,000	129,117	11,070
10	1	0,000	224,241	15,307
15	1	0,000	333,066	24,996
20	1	0,000	429,513	31,410

Natural gas Period (days)	H	p-value	Statistic	Critical value
5	1	0,026	12,655	11,070
10	1	0,000	35,108	15,307
15	1	0,000	40,677	24,996
20	1	0,000	53,355	31,410

Corn Period (days)	H	p-value	Statistic	Critical value
5	1	0,000	48,325	11,070
10	1	0,000	113,853	15,307
15	1	0,000	167,312	24,996
20	1	0,010	194,103	31,410

The presented results are troubling for VaR and ES models based on normality assumption and the assumption of homoskedasticity, as well as for the nonparametric and semi-parametric approaches that are based on IID assumption, such as historical simulation, mirrored historical simulation and the BRW approach. Since elementary assumptions of such VaR and ES models are not satisfied, figures obtained for such models cannot be trusted.

The characteristics of the analysed commodities under consideration show that in order to correctly describe the underlying dynamics of the processes the ARMA-GARCH volatility models would be preferable.

To implement the extreme value approach and to correctly assess the impact and the frequency of extreme events in the analysed commodities we need to investigate their tails. Maximum likelihood

method is used for fitting the generalized Pareto distribution to excesses data over the specified threshold. In the maximum likelihood estimation of the GPD parameters the sample is truncated at the third order statistic, thus omitting the two most extreme observations since they significantly differ from the rest of the sample and can be treated as erratic. The obtained parameters are presented in Table 4.

Table 4 - Maximum likelihood estimates of GPD tail index and scale parameter, threshold based on Anderson-Darling statistic, period 08.07.2008 - 01.07.2010

WTI oil	Returns			Innovations		
	estimate	se	threshold	estimate	se	threshold
Tail index	0,0509	0,1051	5,4692	-0,0179	0,1389	2,5261
Sigma	2,3131	0,3353		0,5414	0,1413	

Natural gas	Returns			Innovations		
	estimate	se	threshold	estimate	se	threshold
Tail index	0,1419	0,0957	6,9329	-0,0093	0,1087	1,8862
Sigma	1,3302	0,2806		0,4791	0,0740	

Coal	Returns			Innovations		
	estimate	se	threshold	estimate	se	threshold
Tail index	-0,0651	0,1220	2,3906	0,0007	0,1389	1,4273
Sigma	1,5111	0,2862		0,5618	0,1102	

Out of the analysed truncated series of extreme losses with Anderson-Darling selection of threshold, natural gas has the fattest tail i.e. highest tail index putting it in Fréchet domain of attraction. Coal has the lowest value of the tail index, but its value although being negative is statistically not significantly different from zero i.e. Gumbel domain of attraction. These findings show that modelling of high quantiles of natural gas daily returns distribution with light or middle tail distributions such as: normal, exponential, gamma or lognormal, would result in serious underprediction of risk. High value of the estimated tail index makes natural gas a good candidate for application of extreme value approach.

Empirical results

All of the analyzed VaR models are tested in several ways to determine their characteristics and ability to adequately measure market risk in the analyzed commodities. We first employ the Kupiec test, a simple expansion of the failure rate, which is prescribed under Basel 2 and 3 guidelines. The second test is the Christoffersen (IND) independence test which tests whether VaR exceedances are IID. Christoffersen unconditional (UC) test and conditional (CC) test are also calculated but in authors' opinion they provide

a somewhat distorted image of the relative performance of VaR models. Since Christoffersen UC test is distributed as chi-square with one degree of freedom, deviations from the expected value of the test that occur on the conservative side (i.e. number of exceedances is lower than the expected value) are treated more severely, a characteristic that is not compatible with regulators desire to increase the safety of the banking system. It often happens that more than one VaR model is deemed adequate under Basel 2 rules and the problem of ranking the models arises. To overcome this shortcoming of the backtesting measures forecast evaluation can be used, such as Lopez size-adjusted or Blanco-Ihle loss function. A loss function can allow for the sizes of tail losses to influence the final rating of VaR model. VaR model that generates higher tail losses would generate higher values under this size adjusted loss function than a VaR model that generates lower tail losses, ceteris paribus. The results of the overall VaR model performance for WTI oil, natural gas and coal, according to employed tests at 95, 99 and 99.5% confidence levels are presented in tables 1 to 3.

The VaR backtesting procedure from tables 1 to 3 gives consistent results for all of the tested confidence levels. At the 95% confidence level a wide range of models satisfied the basic Kupiec

test and Christoffersen independence criteria i.e. errors produced by selected VaR models do not bunch together, making their exceptions IID (BRW, RiskMetrics, GARCH, MHS 250 and GPD POT model). There is an apparent problem with the sophisticated models such as the EVT GARCH and FHS model. Looking at the performance at higher levels this finding could be attributed to these models being more applicable to higher confidence levels. Although independence of VaR errors is not required under Basel 2 or Basel 3 rules, in practice this characteristic is of vital importance. Dependence of VaR errors i.e. their bunching is crucial for the stability of a bank since bunched VaR errors can deplete capital reserves much faster than the independently and identically distributed underestimations of risk.

At higher confidence levels, 99 and 99.5% confidence level, the results for the simpler VaR models are troubling. This conclusion is especially true for the most widely used VaR models, such as: historical simulation, VCV and RiskMetrics. The same models that are successful at the 99% confidence level are also successful at the 99.5% confidence level. The most problematic commodity for the VaR models, out of the analysed ones, is the WTI oil. In case of oil, at higher confidence levels, only the parametric model based on conditional volatility and more advanced nonparametric models are able to satisfy both the unconditional coverage and independence criteria. At these confidence levels the performance of extreme value based models, especially conditional EVT-GARCH model, is superior to other tested VaR models when looking at both the Lopez and Blanco-Ihle test.

The results of the ES model comparison are far more conclusive and easier to interpret. For WTI oil the best model across all of the tested confidence levels is the EVT-GARCH model, providing the closest fit to the expected value of extreme events. The worst performance is recorded for parametric models such as VCV, RiskMetrics and GARCH model. For Natural gas the best models across all of the tested confidence levels are the mirrored historical simulations and EVT-GARCH model. The worst performance is recorded for parametric models such as VCV, RiskMetrics and GARCH model. For coal the best models across all of the tested confidence levels are the extreme value based models; GPD POT and EVT-GARCH model. The worst performance is recorded for parametric

models such as VCV, RiskMetrics and GARCH model.

The obtained results clearly point to the conclusion that at high quantiles, more advanced ES models, with sophisticated modeling of conditional volatility and extreme tails, are required to capture the true level of risk in the energy markets. We can conclude that when including into the backtesting period the global financial crisis, only conditional extreme value model performs satisfactory, while other tested models tend to seriously underpredict the true level of risk in the energy markets.

As the empirical results show VaR as a risk measure is problematic when it comes to measuring risk in the tail regions. ES models in general, but especially those based on extreme value approach are theoretically superior to VaR and should adequately capture the risks since they a priori focus on the tail regions of the return distribution.

Conclusion

Fossil fuels represent a strategic commodity in every sense of the word since they are the primary source of energy for electricity production, transportation and industrial production. Their importance and multiplicative effect on almost all branches of the economy dictates the necessity for deeper insight into the ways of measuring and protecting against risks stemming from changes in their prices. In our paper we did not focus on long term forecasting of energy price risk but on the short term, day-to-day, purely econometric VaR and ES modelling that accounts for the characteristics of WTI oil, natural gas (NG1) and coal (NXA) one-month futures contracts. The statistical characteristics of analysed fossil fuels are troubling for VaR and ES models based on normality assumption and the assumption of homoskedasticity, as well as for the nonparametric and semi-parametric approaches that are based on IID assumption, such as historical simulation, mirrored historical simulation and the BRW approach. Since elementary assumptions of such VaR and ES models are not satisfied, figures obtained for such models cannot be trusted. The statistical characteristics show that in order to correctly describe the underlying dynamics of the processes the ARMA-GARCH volatility models would be preferable. Out of the analysed series of extreme losses natural gas has the fattest tail i.e. highest tail index putting it in Fréchet domain

of attraction. Coal has the lowest value of the tail index, but its value although being negative is statistically not significantly different from zero i.e. Gumbel domain of attraction. These findings show that modelling of high quantiles of natural gas daily returns distribution with light or middle tail distributions such as: normal, exponential, gamma or lognormal, would result in serious underprediction of risk. High value of the estimated tail index makes natural gas a good candidate for application of extreme value approach.

The presented results suggest that energy economists, energy policy makers and financial practitioners should not arbitrarily choose a volatility forecasting model by referring to the existing research. Which model can be trusted depends on not only the given data sample but also the correspondence of the particular forecasting purpose with the loss function considered. Our findings clearly point to the conclusion that at high quantiles, more advanced ES models, with sophisticated modeling of conditional volatility and extreme tails, are required to capture the true level of risk in the energy markets. We can conclude that when including into the backtesting period the global financial crisis, only conditional extreme value model performs satisfactory, while other tested models tend to seriously underpredict the true level of risk in the energy markets. As the empirical results show VaR as a risk measure is problematic when it comes to measuring risk in the tail regions. ES models in general, but especially those based on extreme value approach are theoretically superior to VaR and should adequately capture the risks since they a priori focus on the tail regions of the return distribution.

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SERVICES AS THE CRUCIAL FACTOR FOR THE SUCCESS OF RETAILING IN CROATIA

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Abstract

The era of intense competition in all spheres of the global economy has forced companies to spare no effort to retain their market share and to compete successfully in the marketplace. This is particularly evident in the retail sector which is one of the fastest growing and most competitive sectors of the Croatian economy. Over the last decade, retailers have faced many challenges. On the one hand, there are ever more sophisticated and more demanding customers. On the other hand, there is intense competition in retailing: non-store retail formats, vertical integration, large store formats, to name a few. It requires retailers worldwide to define the manner in which they may differentiate themselves in the market and attract consumers in a way that is superior to their competitors. Although most retailers today use an overall cost leadership strategy to obtain a competitive advantage, thus reducing the personal element in service delivery, services remain critical for the competitiveness of a retail firm. The main objective of this paper is to investigate the influence of service level on store patronage. The paper reports the findings of a study conducted on a sample of 350 Croatian customers and points out the positive relation between customer service and retail firm success.

Key words: services, retailing, Croatia

Introduction

Today's challenges of a changing retail environment include intensifying competition, more sophisticated and more demanding customers, the implementation of new technologies, increasing strategic alliances, e-commerce, etc. In most markets (especially in the markets of the transitional countries), a veritable explosion occurred in new

types of store formats, competing with each other on the same market, for the same segment of consumers. In such a context, retailers have to define the manner in which they could differentiate themselves from their competitors.

There is a wide range of marketing elements that retailers may consider in obtaining the competitive advantage on the market, such as: selection of adequate merchandise, pricing policy, layout, customer service policy, etc. Newmann and Cullen (2002, pp 269) point out that retailing is a service industry because retailers' essential economic function is to provide their customers with several basic and important services, including accessibility of location, convenience of timing, choice of products, information about the products, and convenience of size. In retailing, customer service may be one of the most critical areas when it comes to creating a more successful retail store (Mitchell, 2010). Every retailer provides services as part of its retail offering and customers use them every time they go shopping (Newmann & Cullen, 2002, pp 270). Gilbert (2003, pp 89) notes that retailing can be pure services (for example, insurance or banking) or an amalgam between services and goods based upon their relationship to different types of shops and merchandise offer. Retailers differ on the level of service they offer due to their store format, merchandise stocked, pricing policy, etc. Therefore, every retailer has to consider the types of services when constructing its retail mix. They have to deliver services that meet or exceed customers' expectations. Superior customer service is a situation where the shopping experience exceeds the customer's expectations of what was going to happen (Williams, 2006).

According to the main body of literature regarding the terms "service" and "retailing", it can be concluded that services present a reliable vehicle

for gaining competitive advantage for retail companies. Gilbert (2003, pp 432) points out the ultimate winners in the marketplace will be those companies that can harness their workforce's energy and motivation to deliver a world class service.

On the other hand, Fitzsimmons (2003) raised the question of self-service as the future of services and suggested that service migrated from human interaction to substitution of machines for service employees or electronic services. Additionally, many of the developments in retail outlets have included increased levels of self-service and reduced levels of staffing (McGoldrick, 2002, pp 500). The author explained this trend with the desire to minimize labour costs, which are still the largest category of retail cost. Moreover, the intense competition from discounters caused many retailers to lower customer service levels as a means of staying price competitive (Dunne et al., 2002, pp. 449). However, in today's world of mass distribution, most retailers offer the same merchandise, in the same store design, and with the similar pricing policy. Thus, they can seldom differentiate themselves from other retailers on the basis of these elements of the retail mix. For example, a study by Progressive Grocer found (Dunne et al., 2002, pp 113) that the most important criterion for selecting a supermarket was cleanliness.

As competition in the retail industry continues to increase, understanding the customers' needs and building long-term relations with customers will be advantages. Savvy retailers realize that they must serve their customer before, during and after the transaction. In other words, they should design their customer service programs around pretransaction, transaction, and posttransaction elements of the sale in order to obtain a differential competitive advantage (Dunne et al., 2002, pp 449). Therefore, this research will lead to an understanding of how services could be used as a strategic tool.

The main purpose of this paper is to investigate whether customer services have great significance for Croatian retailers' competitiveness. The paper is structured as follows. The paper begins with a theoretical presentation of the definition, key terms and characteristics of services. In the same section, a short review of Croatian retailing is provided to offer a background for the study. Then, the objectives of the study as well

as proposed methodology are explained. The discussion of the results and the conclusions are followed by the research limitations and directions for further research. Emphasis is placed on the managerial implications. Retail managers must differentiate clearly between those activities that represent avoidable costs and those that truly provide a service and an attraction to customers (McGoldrick, 2002, pp 500).

Theoretical background

Services have become increasingly important worldwide. As the economic significance of the service industry grows, so does the interest in services research, as demonstrated by the fast-growing body of services marketing literature in the past decade (Nickson et al., 2005; Zhang et al, 2005). A review of the current literature reveals that much of it is concerned with the quality of services and the impact of service quality dimensions in producing overall customer satisfaction (Pantouvakis, 2010). Moreover, many marketing researchers have explored the practical impact of service quality and its effect on consumer behavior (Etgar & Fuchs, 2009) and used established service quality measurement models (Furrer et al., 2000; Parasuraman et al., 1991; Parasuraman et al., 1994; Wong and Sohal, 2002). Among them, a number of studies have found that culture influences consumers' service expectations (Espinosa, 1999; Pantouvakis, 2010; Raajpoot, 2004; Witkowski & Wolfenbarger, 2002; etc.) and evaluations of services as well (Keillor et al., 2004; Stauss & Mang, 1999; Voss et al., 2004; etc.). Rigopoulou et al. (2008) investigated the effect of the after-sale services on customers' satisfaction and on their behavioural intentions.

It is generally accepted that service is a multidimensional concept which consists of tangible and intangible elements (Lovelock & Wirtz, 2007, pp 37; Turley & Milliman, 2000). In their work, Barber and Scarcelli (2010) suggest that tangible elements of the service include the appearance of the physical facilities, personnel, communication materials, and other physical features used to provide service in the service facility. The personality and the knowledge of service providers often lead to variable levels of services. Johnston (1995, 1997), Lockyer (2003) and Ryu and Jang (2008) point out cleanliness of the tangible components as the specifically important factor in the customer's store choice.

Parasuraman et al. (1988) explained that services are performances or experiences and therefore intangible.

Williams (2006) observed customer service in a retail store as the combination of five basic elements:

- organizational culture – it should reflect strong commitment of employees to offer superior customer service,
- employee temperament – this is commonly called personality and stores have set high standards and communicate their expectations to all employees regardless of their personality,
- leadership example - the example of customer service demonstrated by the leader because the leader determines the upper control limit of service in a store,
- communicated expectations – it refers to the extent to which the leaders have effectively communicated their expectations to the employees,
- customer service and management leadership training – in order to create a culture of high service, employees must receive adequate customer service training in specific methods and techniques of how to handle special purchasing situations.

Chowdhary and Prakash (2007) note that service classifications have been offered since the early 1980s and that there are different classifications based on different criteria. In their study of generalization in importance of service quality dimensions, they used Lovelock's (1983) service classification: people processing, possession processing, mental-stimuli processing, and information processing. Lovelock's (1985) description of customer service is given in the work of Qin et al. (2009): „...a task, other than proactive selling, that involves interactions with customers in person. It is designed, performed, and communicated with two goals: operational efficiency and customer satisfaction.“ In their study, Qin et al. (2009) discussed two dimensions of customer service: customer interaction with service personnel, and customer interaction with factors in the environment (the physical facility, ambience, surroundings in which the customer service takes place, the rules, practices, and

policies that determine how customer-service tasks are proceed).

There is another classification of common customer services (Dunne et al., 2002, pp 454; Kotler & Keller, 2006, pp 513):

- pretransaction services, which are provided to the customer prior to entering the store (convenient hours and information aids),
- transaction services, which are provided to customers when they are in the store shopping and transacting business (credit, layaway, gift wrapping, packaging, check cashing, personal shopping, merchandise availability, personal selling, and the sales transaction itself),
- posttransaction services, which are provided after the sale has been made (complaint handling, merchandise returns, merchandise repair, servicing, and delivery).

It is interesting (Mitchell, 2010) that friendly and knowledgeable people are the most important elements in delivering a positive shopping experience from the point of view of the store managers, while customers point out things like ease of finding their way around the store and ease of entry into and out of the establishment.

It is recognised that the demeanour and appearance of front-line workers is crucial and customers see well-presented, courteous, helpful and empathetic staff as playing a key role in quality service (Nickson et al., 2005). Those people who are employed on the basis of „looking good“ and/or „sound right“ are potentially providing a competitive advantage in the intense competitive retail industry.

The importance of store personnel is well explained by McGoldrick (2002, pp 500) „even in settings dominated by self-service, the services provided by the store staff can exert a major influence upon retail images and patronage decisions“, and by Bettencourt and Brown (1997) „contact employees deliver the promises of the firm, create an image for the firm and sell the firm's services“.

Due to its broad nature, customer service is very difficult to define. Mitchell (2010) tried to cover all elements of customer service with such a definition: „Customer service is the sum of the acts and elements that allow consumers to receive what they need or desire from retail establishment.“ This means a clean and safe store, where desired

products are in stock and easily located, where employees are friendly and helpful, and where the checkout is accurate and fast (Williams, 2006). Zeithaml et al. (2009, pp 4) identify the services as deeds, processes, and performances provided or produced by one entity or person for another entity or person.

Customer service consists of all those activities performed by the retailer that influence (Dunne et al., 2002, pp 449) the ease with which a potential customer can shop or learn about the retailer's offering, the ease with which a transaction can be completed once the customer attempts to make a purchase, and the customer's satisfaction with the transaction.

Lovelock and Wirtz (2007, pp 37) discuss the definition of services. They argue that services are economic activities between two parties, implying an exchange of value between seller and buyer in the marketplace. Moreover, services are observed as timely-based performances which serve to meet customers' needs.

It is difficult to decide what specific customer services to offer and it is essential that a retailer develop an integrated services policy, based upon a clear understanding of the needs and preferences of the target segments (McGoldrick, 2002, pp 499).

Newmann and Cullen (2002, pp 271) identified two kind of services that should be offered by a retailer in order to meet customer requirements:

- outcome-related services that are related to the products bought (home delivery services, refunds and exchanges for unwanted gifts or change of mind purchases, helplines, etc.),
- process-related services that are related to the shopping process (providing product information, demonstrations and video displays, gift-wrapping, etc.)

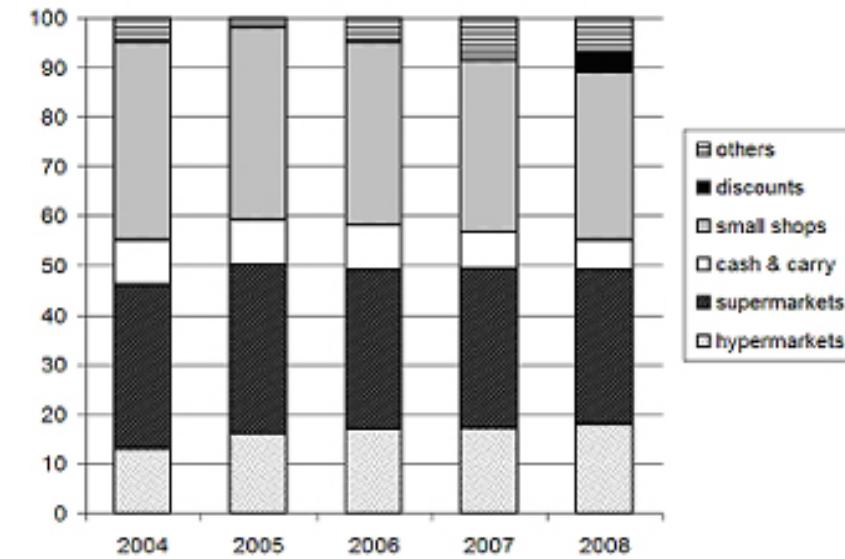
An outline of retailing in Croatia

In order to get the clear picture of the importance of the retail industry in Croatia, it is necessary to explain the significance of the overall sector for the national economy and to provide current data on retail industry

The retail industry is a significant part of the Croatian national economy. It generates EUR 15,329 mil. In revenue (own calculation based on data in RCCBS First release, 23rd September, 2009). In this industry, 145,472 persons are currently employed which accounts for almost 10% of the total active workforce (own calculation based on data in RCCBS First release, 23rd September, 2009. and 29th December, 2009).

The Croatian retail industry counts 37,353 outlets of various formats (RCCBS First release, 23rd September, 2009). Even though there is an obvious trend of concentration and significant growth of large players, retailing in Croatia is still fragmented. For instance, 99.1% of legal business entities are considered either small and medium-size companies or tradesmen (craftsmen). These two groups employ 69.1% of total employees in the domestic retail industry (Segetlja, 2008). Moreover, small shops (under 100 sqm) are still an extremely significant part of the retail industry with a market share of 34% (see Figure 1).

However, changes in the global retail sector and customers' way of life has caused a decrease in the number of small stores. Hypermarkets and supermarkets are steadily increasing their market share. Nowadays, among the main characteristics of Croatian retailing are concentration, internationalization and consolidation, with 71.4% of the market held by 15 retailers (compared to 16.6% of the market held by 10 retailers in 2002).



Due to the changing market situation and enhanced competition several structural changes have taken place in Croatian retailing over last 20 years. Increased productivity and profitability among the biggest retail companies can be observed (Knezevic, 2003, Segetlja, 2007), together with faster growth in the number of employees compared to other industries. Also, the mix of employees is changing towards more qualified and highly educated personnel (Knezevic, 2003). Further, Renko (2008) and Knezevic (2003) note that international chain stores (such as: Schwartz Group (Germany) with Kaufland stores and Lidl stores; Rewe Group (Germany) with Billa stores; Spar (Austria); Ipercoop (Italy) and Mercator (Slovenia)) have introduced new standards and know-how to the domestic market, including new technology, a more customer-focused orientation, and an environment-friendly approach.

Research objectives and methodology

The main objective of this study is to understand the rating of the service among other salient store attributes and whether services have an important role in the Croatian customers' making purchasing decisions. This has been explored in the Croatian retail context. More specific, fast moving consumer goods are categories under examination, but they

are examined in the context of two shopping situations: small and large shopping.

Recent results of research studies conducted among Croatian retailing companies (Anić, 2001; Renko, 2004) showed that services were at the bottom of investment priorities. Namely, only 5 percent of respondents mentioned services as investment priorities in the future. Compared to foreign retailers which operate on the Croatian market, there is the lack of services offered by Croatian retailers. Therefore, the purpose of this study was to investigate what types of services Croatian consumers consider important for purchasing fast moving consumer goods and to provide a set of directions for Croatian retailers in order to increase their competitiveness on the market.

Questionnaire design

The research was based on face-to-face interviews with a structured questionnaire. The questionnaire consisted of two parts. Part I required respondents to indicate the importance of store attributes when shopping for small quantities of fast moving consumer goods («everyday shopping»). Part II of the research instrument asked questions about the importance of store attributes when shopping for larger quantities of fast moving consumer goods («monthly or weekly shopping»).

The types of questions used in the instrument included all aspects of the purchase of fast moving consumer goods, such as the frequency of shopping, the average amount of money spent on the purchase, travel to the store, etc. In order to find out the rating of the service among other salient store attributes in the grocery sector, we asked respondents to indicate the importance of seven stores' attributes (i.e. which store attribute attracts customer to a given store and maintains his loyalty). The following is a list of store attributes which were selected on the basis of the relevant literature analysis (McGoldrick, 2002, pp 93):

- store personnel,
- services offered in the store,
- price levels,
- store location,
- atmosphere,
- product range and quality, and
- appearance and attractiveness of the store building.

Respondents were asked to rank those store attributes from 1 to 7 (1 = the most important store attribute, to 7 = the least important store attribute).

However, those store's attributes involve a high degree of aggregation. Moreover, such direct evaluation asks respondents to rank categories they may not have previously considered (Kunkel & Berry, 1968). Therefore, based on a review of the pertinent literature (Mason and Mayer, 1990, pp 271; McGoldrick, 2002, pp 93) several statements relating to each of the seven proposed store-attributes were used for the study.

The questionnaire also had 45 statements which characterized the store in an effort to gain a better understanding of the respondents' attitudes towards the observed store. A five-point Likert-type scale in Croatian (from «5=strongly agree» to «1=strongly disagree») was used to investigate attitudes of respondents related to each statement.

Out of these 45 statements, 19 were directed toward measuring the strength of consumer attitude toward different dimensions of the services offered in the store (we point out that respondents were instructed to think about the store that they

could name "the most favored one" in answering questions of the research instrument). Table 1 lists statements used within this study.

There was also the question of the store type where customers usually made their purchase. The respondents were asked to specify what types of stores they used for the purchase of fast moving consumer goods (considering both shopping categories: small and large shopping). The following seven types were presented to the respondents who were then required to specify which pattern best fitted their shopping habits:

- only in neighbourhood small convenience stores
- only in supermarkets
- only in hypermarkets
- only in discount stores

At the end of the research instrument there were some questions about demographic characteristics of surveyed sample.

Sampling procedure

Respondents were chosen randomly. 400 respondents were approached while they were leaving the store and were asked to answer the questions in the questionnaire. In order to reduce the non-response rate to a minimum, we explained the educational purpose of the research and stressed the ensuring anonymity and confidentiality of the responses in the introduction of the questionnaire.

Overall, 350 responses were valid and considered proper to be used for research. The investigation was conducted by 10 undergraduate students of the Faculty of Economics and Business in Zagreb. They conducted the investigation in front of various types of grocery stores in the city of Zagreb during October 2010. They neither had special criteria in selecting the retailer nor in selecting the respondents.

Table 2 summarizes the profile of the 350 interviewees, who participated in the research. As can be seen from Table 2, all the "basic" dimensions that portray the respondents' profile, namely gender, age, education, and employment status have percentages that indicate a satisfactory level of representativeness.

Items	Source
The store is clean and tidy.	Nielsen (2000).
The store has big parking space.	Newly created items based on the store selection criteria of Competition Commission (2000); Wassen & Mayer, (1990); McGoldrick (2002) and Nielsen (2000).
The store has free parking.	
Working hours of the store are acceptable.	
Employers are always polite and ready to help.	
The parking place is easy to find in front of the store.	
It is possible to pay with coupons.	
This store is opened 24 hours a day.	
Complaints and returns of goods are complicated.	
There are special events in the store.	
It is possible to pay by instalments in the store.	
Goods are easy to reach in the store.	
Export service is offered in the store.	
Store personnel are easy to obtain and organized.	
It is easy to circulate through this store.	
It is important that the store is opened on Sundays and holidays.	
Washing goods is offered.	
There are no queues in the store.	
Store personnel provide services quickly.	

	Percentag e
<i>Gender</i>	
Female	54.8
Male	45.2
<i>Age (Years)</i>	
18-24	14.0
25-34	18.6
35-44	18.2
45-54	18.4
55-64	14.2
65+	16.8
<i>Education</i>	
Unfinished Elementary	10.0
Elementary	17.1
3 years-High school	19.8
Secondary/High	37.5
College/University	16.0
<i>Occupation/Employment status</i>	
Not employed	10.5
Pensioners	27.5
Housewives	9.8
Students	8.8
Managers	6.5
Clerk	9.2
Industrial workers	19.2
Farmers	2.3
Businessmen	3.3
Others	2.9

Analysis

The collected data were analyzed using SPSS. Except from descriptive statistics calculations, significance of the findings was explored using Pearson correlation coefficient and chi-square tests, depending on the various types of combination of variables that occurred. Before using items for further analysis, testing the reliability with Cronbach's Alpha coefficient was conducted. The p values were calculated to examine the level of statistical relationship between pairs of

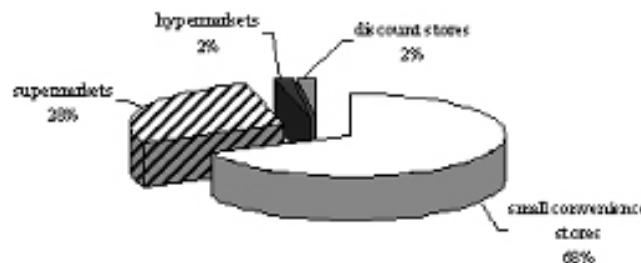
variables. The objectives were obtained using the conventional significance level of 0,05.

The analyses, as well as the findings, refer to Part I relating to "small everyday shopping" and Part II relating to "big monthly/weekly shopping": the results include both categories. Thus, the study investigates the importance of services in the context of small and large shopping.

Results

Small shopping

The analysis of the purchase of small quantities of fast moving consumer goods shows that the largest percentage of respondents usually makes purchases daily (71 percent of respondents) in small stores which are located near their residence (68 percent of respondents) (Graph 1).



The direct evaluation (we isolated seven attributes and asked respondents to evaluate them) of store attributes suggests that price has the highest average score (mean=2.03). Services offered in the store are on the third place (Table 3). An examination of the differences (in the rating of store attributes) across all store types (Table 3) confirmed this rank in the case of all store types except in the case of supermarkets where location is of more importance than services.

Rank	Attribute	Mean (all store types)	Small convenience stores	Supermarkets	Hypermarkets	Discount stores
1	Price	2,03	2,12	1,86	1,32	1,30
2	Product range & quality	3,23	3,32	3,15	3,38	3,39
3	Services	3,48	3,38	3,81	3,85	3,56
4	Location	3,00	3,45	3,44	3,03	3,70
5	Personnel	4,15	4,31	4,84	4,77	5,06
6	Appearance/attractiveness of the stores	3,34	3,53	3,21	3,85	3,33
7	Ambiance	2,08	3,37	3,42	4,82	6,06

Before using statements which characterize the store and services offered for further analysis, reliability tests were conducted. Cronbach's Alpha coefficient was chosen as an adequate test of internal reliability. It assumes that each statement (item) contributes equally to the overall variance observed. The value of 0.89 for all statements in the questionnaire and the value of 0.82 for statements related to services suggested very good internal consistency reliability for the scale used in this research (the recommended standard of 0.7 has been suggested by Nunnally (1978)).

Table 4 summarizes what respondents indicate as the least important attributes for choosing a store for purchasing small quantities of fast moving consumer goods. Analyzing Table 4 we see that services which are related to price are not so important for consumers, while services which referred to store hours are the most important ones (Table 5). Namely, acceptable store hours have the highest average score. The convenience and cleanness of the store and the ease of purchasing are very important services for Croatian consumers. Also, polite and helpful store personnel are among the most important services that all store types should provide. Nickson et al. (2005) came to the similar conclusion in the review of works related to the nature of services and employers' skill demands.

Service	Average score
It is possible to pay with coupons.	1.92
This store is opened 24 hours a day.	2.21
Complaints and returns of goods are complicated.	2.52
There are special events in the store.	2.73
It is possible to pay by instalments in the store.	3.03

Service	Average score
Working hours of the store are acceptable.	4.37
Goods are easy to reach in the store.	4.33
Employers are always polite and ready to help	4.30
The store is clean and tidy.	4.28

The results of measuring the strength of customers' attitude toward different dimensions of the store attributes show that service expressed through statement "working hours of the store are acceptable" is on the second place of importance among 45 offered statements.

To determine the direction of relationship and the strength of the relationship between services offered and the consumers' store patronage, correlation analysis was conducted. However, only moderate to weak positive associations (Table 6) were found (with the correlation significant at the 0.05 level) (in identifying the strength of the relationship Dancey and Reidy (2002, pp 166) were followed). Namely, stores that offer expert services and characterize cleanness are highly evaluated among customers. Moreover, store personnel that are organized and polite caused customers to make purchase in particular stores.

Services	Pearson correlation coefficients
Expert service is offered in the store.	0.350**
Store personnel are easy to obtain and organized.	0.332**
The store is clean and tidy.	0.313**
Employers are always polite and ready to help.	0.310**

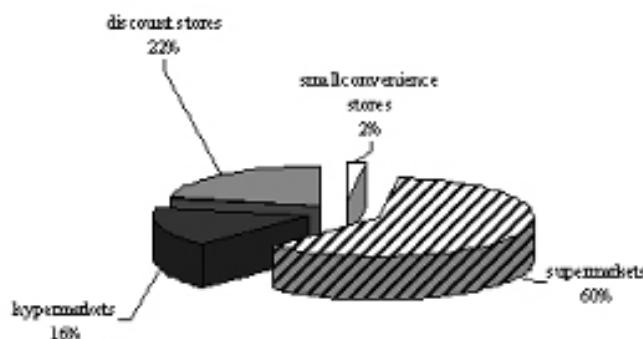
Chi-square test was conducted in order to find out whether there was significant relationship between gender, age, education level, and employment status and the fact that respondents chose services

as the most important store attribute. Statistically significant relationship was found between the respondents' education level and the service ($\chi^2 = 49,153$, df=30, p= 0,015). Chi-square test suggests that the largest percentage of respondents (43.9 percent) who finished high school consider services as the most important attribute while making decision where to purchase small quantities of fast moving consumer goods.

This finding is expected due to the fact that the largest percentage of respondents makes small purchases in small stores located near their residence. Namely, according to their characteristics, many of those traditional small stores in Croatia are independent, family firms for serving local needs and offering a friendly and nearby source for regular daily purchases. In struggling to remain competitive they have turned to some personal services offering a warm smile, general greeting, and opening the conversation.

Large shopping

The analysis of the purchase of large quantities of fast moving consumer goods suggests that Croatian population mostly once a month (37,4 percent of respondents) used to purchase large quantities of fast moving consumer goods in supermarkets (60 percent of respondents) (Graph 2)



The direct evaluation of store attributes suggests that price has the highest mean value (mean=1.60). Again, services are on the third place, after "product range and quality" (Table 7).

An examination of the differences (in the rating of store attributes) across all store types (Table 7) confirmed this rank in the case of all store types. We should only point out that the rank differs in the case of small convenience stores where location is of more importance than product range and quality.

Rank	Attribute	Mean (all store types)	Small convenience stores	Supermarkets	Hypermarkets	Discount stores
1	Price	1.60	2.35	1.58	1.31	1.65
2	Product range & quality	2.71	3.81	2.88	2.55	2.75
3	Services	3.58	3.19	3.58	3.81	3.59
4	Location	4.00	3.13	3.88	4.26	3.85
5	Personnel	4.89	4.99	4.80	5.20	4.95
6	Appearance/attractiveness of the stores	5.42	5.50	5.54	5.12	5.32
7	Ambiance	5.53	5.75	5.51	5.46	5.65

Before using statements which characterize the store and services offered for further analysis in the context of large shopping, the reliability testing was conducted. The value of 0.88 for all statements in the questionnaire and the value of 0.78 for statements related to services suggested very good internal consistency reliability for the scale used for big monthly/weekly shopping.

Table 8 summarizes what respondents indicate as the least important attributes for choosing a store for purchasing of large quantities fast moving consumer goods. It is obvious that store's

24-working hours and its opening on Sunday and holidays are not the most important for consumers when they make decision about large shopping. However, it is interesting that respondents place possibility to pay large purchases with coupons among the least important ones.

Service	Average score
It is possible to pay with coupons.	2.41
This store is opened 24 hours a day.	2.42
Complaints and returns of goods are complicated	2.80
It is important that the store is opened on Sundays and holidays.	2.82

On the other hand, as expected big free parking of the store is the most important service for large shopping. Table 9 summarizes what respondents indicate as the most important attributes for choosing a store for purchasing large quantities of fast moving consumer goods. After available parking for customers, it is important that the store offers consumers acceptable working hours and possibility for them to circulate easy through the selling area. Moreover, polite and helpful employees are among the most important services for Croatian consumers.

Service	Average score
The store has big parking place.	4.71
The store has free parking.	4.53
Working hours of the store are acceptable.	4.48
It is easy to circulate through this store.	4.45
The store is clean and tidy.	4.42
Goods are easy to reach in the store.	4.42
Employers are always polite and ready to help.	4.36

The results of indirect evaluation of store attributes suggest that statement concerning service of parking is the most important for the store patronage. Namely, the statement "the store has big parking place" is on the first place of importance among 45 offered statements.

The correlation of the services offered in the store with consumer satisfaction (for few strongest relationships) related to large shopping is given in Table 10. As we can see, the highest correlation coefficient with consumer satisfaction is shown by expert services offered in the store and the store personnel. Accordingly, we conclude that as in the case of small shopping, mentioned services have the greatest influence on consumer satisfaction in the case of large shopping, as well.

However, only weak positive associations with the highest coefficient value of 0,237 were found (with the correlation significant at the 0.05 level).

It is interesting to note that in this purchasing category (the purchase of large quantities of fast moving consumer goods) working hours and free parking are not significantly correlated with consumer satisfaction.

Services	Pearson correlation coefficients
Expert service is offered in the store.	0,237**
Store personnel are easy to obtain and organized.	0,229**
The store is clean and tidy.	0,201**
Employers are always polite and ready to help.	0,211**
It is easy to circulate through this store.	0,210**

Chi-square test shows no significant relationship between gender, age, education level, and employment status and the fact that respondents chose services as the most important store attribute.

Discussion and conclusion

The purpose of this research was to examine the role of services on the store patronage in the case of Croatia, a country where lower standard of living could imply the importance of price as a decision criterion. The fact is that nowadays most retailers offer the same merchandise, in the same store design, and with the similar pricing policy, while customer requirements and their expectations are continuously increasing. A review of relevant literature suggests that service offered in retail stores can present reliable vehicle for gaining competitive advantage. Namely, the potential scope of retailer's service mix is very wide and most aspects of the retailing mix represent a form of service (McGoldrick, 2002, pp 498). Moreover, services are the key basis for retailers to establish relationship with their consumers. In investigating the rating of services among other store attributes in purchasing fast moving consumer goods, this study confirmed the importance of price. As

Croatian market is very complex, with wide range of store formats, the research included major store types in Croatia and confirmed price superiority among all of them. Also, the results of the frequency analysis pointed out that:

- a) Croatian population mostly daily make purchases of small quantities of fast moving consumer goods in small stores which are located near their residence,
- b) Croatian population mostly once a month make purchases of large quantities of fast moving consumer goods in supermarkets.

Further analysis of the importance of services offered in Croatian stores discovered that in purchasing small quantities of fast moving consumer goods respondents preferred stores with acceptable trading hours, polite and helpful store personnel and clean selling area. On the other hand, in purchasing large quantities of fast moving consumer goods, services related to parking are the most important ones. It is interesting to note that significant relationship was found only between respondents' education level and their satisfaction with services offered in stores in the case of small shopping. However, there was no statistically significant relationship in the case of

other demographic characteristics of the sample. Also, no significant relationship was found for large shopping.

Limitations of the study

The main limitation of the paper is related to the area of investigation as this study covers only a limited number of services in retailing and customers' perception of the importance of services as the key factor affecting store choice. However, the quality of those services was not under investigation. As delivering quality service is considered an essential strategy for success and survival in today's competitive environment (Chowdhary & Prakash, 2007), future studies should be directed to incorporate a wider range of services in retailing and an evaluation of the quality of services provided by various store types in Croatia. Moreover, the findings of this research cannot be generalized across the entire Croatian retailing sector because the study was conducted in Zagreb, the capital city of Croatia where a high level of concentration in retailing and large number of foreign retailers is present.

Managerial implications

The findings of this research have several managerial implications for retailers. Merely selling quality products at a low price is insufficient to maintain long-time loyal customers. The findings of the study suggest that a stronger foundation for customer relationships requires enhanced performance by salespersons and a comfortable physical environment. Managers who seek to increase customer satisfaction cannot rely on competitive pricing policy. They should be aware that they can seldom differentiate themselves from other retailers on the basis of the 4Ps and that the understanding of customers' needs and building long-term relations with customers will be to their advantage.

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APPLYING SOCIAL MARKETING IN FUNDRAISING ACTIVITIES TO CIVIL SOCIETY ORGANIZATIONS

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Abstract

This paper analyses the possibility of applying social marketing to civil society organizations to raise funds for their programs and projects. Social and economic transition as well as economic recession gradually reduce, or even completely exhaust, the number of financial sources for these organizations and endanger their survival. Finding new sources of funding becomes therefore the main prerequisite for their sustainable development. As a result, the organizational and program adjustment to the new conditions in their environment as well as the implementation of the appropriate marketing strategy towards potential donors from the business sector become major determinants of their business strategy. The choice of appropriate and efficient marketing strategy becomes the key factor in the survival of a civil society organization whose financial course is leading to certain demise. Through successful application of the chosen marketing methods as well as through connections with the business sector, civil society organizations will, besides secure sources of funding, have a number of collateral social benefits and experience a general increase of social capital.

Key words: social marketing, civil society organizations, fundraising, business sector.

Introduction

Countries with developed democracies have a long tradition of philanthropy. It has its roots in the Christian worldview of those countries, which through years of continuous theological teaching throughout Christian history encouraged individuals and groups to various acts of goodwill. The emergence of Protestantism in 16th-century Germany as well as its consequent expansion to

Europe and America gave incentive to new forms and ways of philanthropy and goodwill. Economic agents significantly helped directly through their resources the development and improvement of certain economy sectors, particularly during and after the late Middle Ages. This was enabled by the significant accumulation of capital at that time. The emergence of capitalism and its development, especially during the 19th and the beginning of 20th centuries, increased the accumulation of capital, creating industrial societies whose gross national products grew faster than at any time before. On the other hand, social activities of the industrialized countries did not develop at the same pace as the main industrial branches. They lagged behind and did not succeed in solving key social problems, especially in the areas of social and health care and education. In the conditions of rapid industrialization and relatively fast changes of social structures of whole countries, i.e. the increase of the urban and simultaneous decrease of the rural population, state governments turned out to be too slow, dull and inefficient in dealing with the problem of the social standards of the constantly growing working class. In this social and economic context, the tradition of individual and collective philanthropy that arose from Judeo-Christian culture turned out to be one of the possible mechanisms for dealing with at least some of the social problems and needs that, as a rule, did not belong to the industrial, i. e. production, sector.

After the French Revolution in the 18th century, the role of church in society diminished significantly. The civil government gradually took over some of the church's authority and care of certain social areas. The industrial revolution, following the American and later French social revolutions, resulted in the creation of a new civil society that gave rise to the administrative and political, as well as social and economic, conditions for

democracy and the democratic management of society. This means that the Protestant diversity of Christian churches, the Protestant work ethic and capitalist industrialization were necessary social and economic conditions for the emergence of political plurality and multi-party political systems, i.e. the consequent emergence of various forms and versions of civil societies.

The civil society, or the so-called third sector, is the most common phrase in American academic circles used to describe all those individuals and non-government organizations that freely and without any coercion occupy some social areas, individual interests, aims or values. The general opinion is that those organizations satisfy certain individual and social needs far better than government or the business sector and that the modern society is therefore unthinkable and unsustainable without them. In other words, contemporary sustainability and improvement of the so-called third sector, which was the result of the economic and social development, became the precondition of survival of that very society. The sporadic benefactions of some richer members of society at the beginning of the industrial revolution gradually became the rule, especially after the first foundations had been established; and in this way, entrepreneurs became more significant starters and participants of the development of various social activities.

The stability and longevity of donations from the business sector became the prerequisite for survival for some non-profit organizations, especially those in the area of education, health and culture. American pragmatism created therefore at least two very efficient mechanisms, which ensure the longevity of donations as well as the sustainability of non-profit organizations financed or co-financed by them: namely the foundation and the tax deduction for philanthropic donations. Numerous foundations from the 19th century, as non-profit organizations, managed received donations for a long time and spent them in ways defined by their founder(s), but they also managed, indirectly, social consumption and development. Direct investment of funds to non-profit organizations by some companies transferred also the entrepreneurial skills of their owners and managers. Traditionally less efficient and effective than profit organizations, non-profit organizations improved through this, since the investors monitored the use of their funds and directly influenced positively the organizational and managerial performance of the recipients of their donations. The government gave support to these

efficient mechanisms through fiscal regulations that prescribed tax relief for donation projects and programs for the third sector organizations. However, even though it is called "tax relief" and its name indicates some sort of a benefit, it really is not. Even though it seems that the government gives up a part of its fiscal income, it actually enables the business sector that generates that income to be more efficient in its allocation, and then the government monitors its usage. On the other hand, the business sector organizations, through their donations to non-profit organizations, effectively reduce some social tensions in their social environment. Those organizations also, behaving in a socially responsible way, can better cope with all the antagonism that generally marks the capitalist society. These three sectors, government, economic and civil, are intertwined and exchange the resources which can ensure not only the long stability and sustainability of the social system, but also better satisfaction of the needs of all the participants, whether individuals or groups.

Social and economic context

This research was founded on the hypothesis that every entrepreneurial organization (company, corporation, trade, collective), regardless how big it is, can be socially enlightened and, to a certain degree, oriented to the social environment it operates in. Yet, it must not be forgotten that the present economic recession and long-term social and economic transition definitely have an impact on the level and forms of socially responsible behavior of economic subjects; however, the impact is not crucial. Even though the priority of social subjects is the development and sustainability of their own business, philanthropy in any form of donations, as an occasional side-activity, need not necessarily be excluded from their business policy and operational decisions. With that in mind, this research anticipated the present social and economic context characterized by two main features: (1) the financial and economic recession that started in USA in 2007 and that became globally destructive in the second half of 2009; (2) the social and economic transition from the beginning of 1990s, which is approaching its end but has not yet finished.

Special contextual features of the civil society organizations might be: (1) a few years ago, the funds that the civil society organizations receive

from donors abroad, especially from the European funds, decreased. When Croatia joins the European Union some of those sources of funding will disappear. Even though a number of new sources will be available upon Croatia joining the EU, the civil society organizations, especially smaller ones and those focused on local communities, will be forced to find additional sources, i.e. domestic economic subjects. (2) Some civil society organizations, after years of good performance, go through a sort of organizational and program fatigue manifested in various ways, from the increased turnover of personnel and volunteers to the redefinition of their mission statements. The causes for such situations are numerous and should be investigated in depth in some other paper, but for the purposes of this work, we shall point out only the most significant cause - the constant search for new sources of funding and maintenance of current ones. Talks with leaders of several bigger civil society organizations in Croatia revealed that, in comparison to five or ten years ago, organizations spend more energy on finding new sources of funding for their projects than they invest in implementing those very projects and programs. The synergy of several negative factors have resulted in the closing down of several organizations, and to the aforementioned organizational fatigue.

The described social and economic context shows that fundraising for many non-profit and non-government organizations has become crucial to their survival. The reliance on government, local authority or donations from European funds that are channeled to Croatia in different ways has become increasingly insecure. However, in spite of their unpreparedness for numerous challenges in the area of management and non-profit entrepreneurship, many civil society organizations have managed to preserve their activities through diversification of their sources of funding, i.e. expanding their type and number. The appropriate application of marketing concept is therefore of crucial importance for their survival.

Marketing-mix in fundraising

If we wanted to give a useful definition of civil society organizations marketing we might paraphrase the American Marketing Association's (AMA) definition and describe it as the organizational function and set of processes for creating, communicating,

delivering, and exchanging offerings that have value for customers, clients, partners, and society at large, as well as the means for the management of relations with customers in ways that benefit the organization and its stakeholders. In that sense, civil society organizations marketing encompasses all those activities used for planning and implementation of marketing function as in generic marketing, but with a certain degree of adjustment.

Fundraising is the civil society organizations' activity through which they ask their potential donors for financial and other means which they intend to use for planning and implementing their programs and projects with the aim of fulfilling their organizational mission statement and purpose. The donations need not necessarily take the form of money; other forms are acceptable (merchandise, material, usage, usage of business resources, sharing copyrights, volunteer work, expert assistance or any combination). In turn, the donors receive their gratitude and the awareness that their gift has contributed to the realization of some of the program or project goals. Since whenever there exists the exchange of goods, marketing can be used and the possibility of its application to fundraising is obvious .

The marketing process or marketing program of an organization's activities on the market is usually called marketing-mix. It is the means by which the civil society organizations try to fulfill their mission statements and goals and attract potential additional resources for their programs and projects. The application of marketing to fundraising is the non-profit organization's activity by which, using the marketing conception, marketing-mix and marketing techniques, it occasionally or continuously tries to interest, attract and keep potential donors for its mission statement, i.e. certain projects or programs. Organizations of civil society satisfy their developmental needs, and indirectly also the needs of their users and society, through the concept of non-profit marketing. That is why the non-profit marketing of civil society organizations, after the successful realization of fundraising projects, becomes social marketing that has general social benefit, i.e. contributes to the positive change of the social agents' behavior. This change of behavior, in this case, is directed toward donors who wish to give a part of their resources (in the form of money, resources, and professional service, personal free time) to the non-

profit organization. Geoff Lancaster ascribes a sort of social role to social marketing – it refers not only to the increase of standards, but also, it serves as the force that maintains and influences general cultural values and social norms. According to him, the area of marketing influence is significantly wider than the mere economic area – in other words, marketing becomes socially directed . Business subjects that accept the offered fundraising project and become donors contribute to a “sort of socialization, i. e. socialization of marketing as a business concept, but also a life philosophy and behavior. Social marketing represents therefore operationalization and instrumentalization of unavoidable interaction on the relation marketing-society. We must distinguish between social marketing and social direction of marketing, i.e. the social conception of marketing. Kotler thinks that the concept of social marketing has the task of determining needs, wishes and interests of target markets as well as the fulfillment of desired satisfaction in more efficient and effective ways than the competition. This should be done in ways that protect, i.e. improve, the general wellbeing of customers and society at large” .

Marketing-mix of the civil society organizations consists of four traditional elements: product, price, promotion and place (of sale) . Next to these four traditional elements, Kotler and Roberto add three additional elements to the area of non-profit marketing: personnel, presentation and process . All these elements exist in conventional marketing as well, but in non- profit marketing they are far more pronounced and should as such be taken into account when it comes to marketing planning: personnel, employees and volunteers that offer services of the organization they are with; presentation, which encompasses all audio and visual methods used for presentation of certain products and services to target groups, and process, which refers to the stages target customers go through before they accept the offered service or product. All these marketing-mix elements can be very efficient in marketing fundraising projects.

Product. The service that the civil society organization offers to its customers, either in material or non-material form, represents the product of this organization. For example, the information on the possibilities of army services with instruction in how to write a letter to the government agency in charge. At the same time, a

project or program offered to the potential donors can also be considered as a product - for instance, the acquisition of fixed assets, of new materials for library collection, funding of literary evenings, purchase of online database subscriptions and so on. The design of the good product is as important, complex and crucial for the end results of the campaign for non- profit organizations as it is for profit ones. The product of the fundraising campaign should be adjusted to the preferences of the potential donors. For example, the acquisition of the new communication system for the civil society organization might be interesting to the producers and distributors of such systems, whereas the organization of a children's corner or playroom in the children's department of the local library might be for the producers and merchants of children's shoes and clothes, toys and children's equipment. Entrepreneurs with common origin might be willing to co-finance students from their own place of birth or growing up. Differentiation of products that can become the object of fundraising projects results in reaching a wider audience of possible donors and their preferences, and consequently in better success of projects. Marketing tools offer possibilities of creating a product-mix of the organization that will give more choice to potential donors.

Price is the amount paid for a product or service by the consumer, in either a direct (annual fee, voluntary benefaction) or indirect way (through government budget that contains funds from taxes and contributions, or from other sources, such as European funds, from different foundations, etc.). Price represents either the project value that the civil society organization presents to the potential donor or part of the value if more than one donor is expected to participate in covering the total costs of the project. During the phase of project presentation to donors, individual amounts of donations can be adjusted to the donors' interests and/or economic power. Fundraising project presentation documents generally contain several options of amounts that are expected from donors. In that way donors can decide between small, medium, high and very high amounts, or they can even choose to cover all the costs of a project. Experience tells us that the choice of amounts, i.e. money marketing-mix, makes it easier for donors to make a decision, and they usually opt for the one of the middle values.

Distribution takes place at the civil society organization's place of work or where they offer their services, such as offices, places where customers or potential customers gather together, radio, TV stations, Internet and other means of public communication. This marketing element refers to the method of distribution of the civil society organization's product or service to its target groups, or in our case potential donors. Fundraising projects can be distributed through most of the conventional channels including the Internet, especially if marketing activities are directed to donors who have previously donated something to the civil society organization. In the case of new donors, the method of individual visits to their place of operation is highly recommended, and only exceptionally can group presentation of a fundraising project be applied. In any case, the best results in planning and implementation of this marketing element are achieved through an optimal combination of various distribution channels.

Promotion as an element of marketing mix contains all those activities through which a civil society organization presents its projects or programs (present and future) to its target groups. It includes publicity and public relations, and to a lesser degree methods of sales promotion (e.g. presentation of new products). These organizations use advertising far less than profit organizations. In promotional marketing-mix in the case of fundraising projects, all the activities mentioned in professional literature are included, regardless of whether they, according to Sudar, belong to primary or secondary activities. However, past practice shows that the best results are achieved through personal sales, either individual or in a group, because the civil society organization representative meets one or more potential donors and presents in person all the project elements. Public relations and publicity might be heavily used to generate a general positive image of the civil society organization, the importance of its educational, scientific and social role in general. The final positive decision on donation is most frequently made after the so called personal sale, i.e. the presentation of fundraising project, in a one-to-one setting. In cases where potential donors are familiar with each other, or if they belong to the same or similar economy branch, the presentation of the fundraising project might be conducted in small group(s).

Personnel. The success of fundraising project presentations depends largely on people who perform the presentation, their motivation, know-how; all in all, the process of decision making through which they guide their potential donors should be well planned. Organizational leaders with their collaborators must prepare a good and articulate fundraising project and adjust it to the presentation methods they plan to use. Simultaneously, they will have to undergo programs of continued professional education in order to master necessary presentational methods as well as to develop their emotional intelligence, as described by Daniel Goleman. The ability to persuade about the project's value and importance is crucial for the project's success. This means that the person who does the presentation must him/herself be convinced of the importance, value, and purpose of the project, and him/herself be its donor, as well. These two things, personal delight with the project and personal investment in its realization might be the key that turns a potential donor into an actual one. "The best results in fundraising are achieved by those organizations that make their donors their partners, creating emotional ties between them and the non-profit organization and its projects."

Presentation. This marketing-mix element encompasses the training and exercise of the non-government organization personnel that deal with fundraising activities for their project. The choice of presentation topics and methods of presentation are as important as the immaculate performance of the presentation itself. Presentation can be done either individually or in groups. Individually means that it is performed in front of one potential donor, regardless of how many people are actually in the room during the presentation. A special case of presentation is the so-called one-to-one presentation. This type of presentation represents the most effective method of fundraising, but it requires perfect organization, patience, flexibility and skillfulness in choosing and negotiating the time of appointment. The length of presentation should be appropriate, not longer than ten minutes; the written materials are either sent beforehand or distributed at the end of the presentation. After the presentation, it is necessary to simply and clearly articulate what and how much is expected from the potential donor, making sure that this part of the meeting does not wander into digression. Group presentation is common when there is more than one donor in the audience and is usually

conducted at so-called donor dinners (banquets) or donor conferences. In those cases, a short cultural and entertaining program is followed by the project presentation. After the presentation, the organization's leader or representative gives a motivational speech trying to motivate the present potential donors to donate. A proactive approach in fundraising should never become dominating but create a balance between speaking and listening.

Process. Last but not least, extended element of marketing-mix represents a number of successive stages the donors go through until they finally accept the offered product. The marketing process guides the potential donor through the process of decision making up to the point when (s)he makes the decision about the donation and implements it. Decision-making on donations has several stages. After the donor's attention has been drawn, the presenter will give him/her a little, only the most important, information about the fundraising project, taking care not to overload the potential donor with too many facts and numbers. The presentation of facts and all the relevant information about the project gives the presenter the power to manage the rational aspect of decision-making. He addresses also the emotional side of the potential donor, trying to win the donor's inclination for the project. However, the presenter must be very careful about the pitfalls of emotional manipulation of the listener, and in particular not cause negative emotions, such as fear or guilt. Those two components, rational and emotional, create the positive setting for the formation of the donor's preferences in donating. This setting triggers the donor's conviction about the actual need and the desire to donate. The last stage in decision-making is taking action, i.e. donating. Experience tells us that it is practically impossible to go through all the above described stages during only one meeting. Most presenters will agree that usually every stage requires a meeting. Besides, the presenter must acquire skills that will help him/her recognize and choose the appropriate audience as well as recognize the stage the majority of the listeners find themselves in. Those two pieces of information are crucial for the fundraiser and (s)he will prepare appropriate content and choose effective fundraising methods according to them.

Research results of civil society organizations' fundraising possibilities from the business sector in Croatia

The main purpose of this research was to give information to numerous civil society organizations in Croatia about the growing possibility of fundraising activities from the Croatian business sector through social marketing methods. Through those methods, i.e. getting in a direct relationship with entrepreneurs, the civil society organizations can help raise the entrepreneurs' consciousness about their social responsibility in promoting the common good and creating a just society.

Previous experience has shown that the domestic economy has significant resources that might be used relatively easily for the program needs of civil society organizations. Those are potentially available resources, regardless the size of the economic subject (measured in number of employees or annual income). The second hypothesis that this research was supposed to test was the statement that a number of economic organizations, upon application of social marketing, can be sufficiently enlightened to respond positively to the civil society organizations' requests and offer required help, either partially or wholly, in money or goods.

The research lasted from January to February 2011. Questionnaires were sent by post to a target group of 150 small and middle-sized companies, that varied in type of registration (trade associations, crafts and collectives) and type of activities (agriculture, industry, energy industry, civil engineering, trade, tourism, catering, traffic, banking, financial services). All economic subjects in the sample were privately owned.

All together, 102 correctly filled-out questionnaires were returned, which gives a response rate of 68%. The data were processed by SPSS statistical software package. We insisted that the surveys be filled out by either the company director, i.e. company owner, so that the collected data would have relevance for this research. We used the structured questionnaire, mostly with Likert scales, ranking or choice questions. The questionnaire also contained questions in which we asked for the entrepreneurs' opinions on certain segments of civil society organization financing and their preferences about donations. Besides a questionnaire, we also collected qualitative data

from phone conversations with a few company directors/owners. We asked about their views on civil society organizations and their objective possibilities of giving donations. Furthermore, we interviewed several persons who have been involved in fundraising in Croatia for the last ten years and we asked them about their experience. Finally, we consulted professional literature on the possibilities of applying marketing to fundraising activities.

In our research, 85 subjects (83.33%) expressed their wish to be notified about the research findings. We consider this to be the sign of interest for

contents that fall outside of their everyday work. We used the opportunity, and besides the standard elements, we inserted additional texts on the role and significance of civil society organizations so that the questionnaire had an educational role as well.

The analysis shows that the majority of our respondents have finished at least the academy (75,49%), and that 62,7% have either the bachelors, masters or doctoral degree. Table 1 shows the data for the whole sample.

Table 1. Company directors /owners level of education

No.	Description	Number	%
1	High school	25	24,51
2	Academy	12	11,78
3	Faculty	51	49,02
4	Masters	13	12,74
5	Doctoral degree	1	0,93
	Total	110	100,00

Table 2. Type of company by registration in the sample

No.	Legal status	No.	%
1	Trade associations	75	73,55
2	Credit	22	21,67
3	Collectives	5	4,91
	Total	102	100,00

Table 3. Type of activity of the companies in the sample

No.	Type of activity	No.	%
1	Services	25	24,51
2	Trade	18	17,65
3	Industry and energetics	14	13,72
4	Agriculture	13	12,74
5	Civil engineering	12	11,68
6	Catering and tourism	8	7,84
7	Traffic	5	4,90
8	Banking and financial services	3	2,94
9	Other	2	3,90
	Total	102	100,00

This research included not only trade associations but also crafts that employ a significant number of workers, as well as collectives (catering and tourism, business advisory companies and agriculture). Our purpose was to find out about the real possibilities and preferences of part of the entrepreneurial sector that is at the moment not counted among financial partners by civil society organizations.

In the sample service companies predominate, trade and industry and the energy industry (55,88%). There are slightly fewer companies from the area of agriculture, civil engineering and catering and tourism (32,34%) (Table 3).

The companies from our sample direct the main part of their business activities to the domestic

market (92,08%), and only a small number of respondents stated that they also do business abroad (3,92%). Furthermore, almost 58,83% of our respondents do business only in their vicinity, county or macro-region.

This research attempted to look into the company directors/owners' personal perception of their familiarization with the work of civil society organizations (Table 5). Their responses can be considered an objective self-evaluation, which was additionally confirmed in consequent phone interviews. We can say that the familiarization with the activities of civil society organizations in our sample is satisfactory, although not to the degree it should be. This calls for more active promotion of civil society organizations, of their activities and purposes.

Table 4. Business territory of companies in the sample

No.	Business territory	No.	%
1	Headquarters and vicinity	21	20,59
2	County	20	19,61
3	Macro-region (several counties)	19	18,63
4	Croatia	38	37,25
5	Abroad	4	3,92
	Total	102	100,00

Table 5. Familiarization with the work of civil society organizations (self-evaluation)

No.	Description	No.	%
1	Not familiar at all	5	4,50
2	Mostly not familiar	24	23,53
3	Familiar in some parts	52	50,00
4	Yes, fairly	12	11,76
5	Extremely familiar	9	8,82
	Total	110	100,00

The next question in our questionnaire dealt with the contribution of civil society organizations to the general good and the development of society. 24,51% of our respondents considered that they contribute, but not to a satisfactory degree; 32,35% thought that they contribute sometimes; 39,22% thought that they contribute significantly, and only 3,9% had the opinion that they contribute fully. Interestingly enough none thought that civil society organizations do not contribute to the

general good and the development of society. It can be said that 71,57% of our respondents have a positive attitude towards the contribution of civil society organizations to the benefit of the society at large. When asked whether they would be willing to donate to a project of a civil society organization, our respondents gave answers that can be found in Table 6.

Table 6. Willingness to consider a request from a civil society organization to fund some of their projects/programs

No	Description	Nc	%
1	No, I am not willing to consider it	0	0,00
2	I probably would not consider it	8	5,88
3	I might consider it	60	58,23
4	I would probably consider it	31	33,33
5	Yes, I would be happy to consider it	4	1,86
Total		110	100,00

Our data indicate that a civil society organization's request for funding has a higher possibility of being accepted than rejected. On the other hand, the level of indifference of our respondents toward a potential request from a civil society organization is significant and causes serious concern. However, the experience of fundraisers tells us that the indifference can be relatively successfully overcome by rousing their curiosity. For example, when talking to the potential donor one does not state the main content of the donation request but asks whether the potential donor would be willing to meet with the fundraiser and consider his/her request. In this way, one of the marketing-mix elements makes the social marketing of civil society organizations possible.

We were also interested in what form our potential donors would be willing to support civil society organizations and their programs. We asked our respondents to rank six forms of donations, where number one meant the most suitable and number six the least suitable form of donation for our respondent. The results are shown in Table 7.

Entrepreneurs are usually willing to give goods donations, whereas money donations hold the third place. Sponsorship and combinations of donations (goods and money) are not attractive for our sample. Capital donations also have not yet become interesting for our respondents.

Furthermore, we wanted to know to which non-profit activities our respondents prefer to give donations. The respondents answered by ranking the offered social areas from one to nine, where number one marked the activity they would most gladly support and number nine marked the least attractive activity. Table 8 contains the results for the whole sample.

The research showed that the majority of our respondents are interested in donating in the area of

social and humanitarian activities (56 respondents or 54,9%). Peacemaking, the development of democracy, protection of human rights, improvements to legislation and elections control are less popular, as is the area of education, science and research (11 respondents per each variable or 10,78%). Church and church related activities take a modest fifth place (10 respondents, 9,8%). Sport (amateur), art and culture, heritage and folk associations and protection of environment and animals fall out of scope of interest of our sample. Such high interest for social and humanitarian work is explained by our respondents' (small and middle-sized entrepreneurs) sensitivity to the current social situation in Croatian society. In comparison to the directors of big corporations, banks, insurance companies and international corporations, our respondents are more familiar with everyday problems connected with the deterioration of the standard of life. On the other hand, social and humanitarian conditions during the 1991-1995 War and its aftermath created a continued sense of solidarity toward the needy in all layers of society. The results of table 12 indicate that.

The information about the area to which our respondents would be willing to donate is very useful and enables the efficient definition of a product as a marketing-mix element. If the entrepreneur's preferences lie somewhere else, and do not fall into the area of the project in question, it is possible to emphasize only those project features that we know the potential donor is interested in. For instance, if an amateur sport's club needs coverage for travel expenses, but the potential donor prefers supporting persons with special needs, the club may decide to include several persons with special needs interested in sport.

Table 7. Rank of the form of donations our respondents would be willing to donate to civil society organizations

No	Description	Rank	%
1	Goods donation (e.g. their products or services, giving away their resources, etc.)	60	58,82
2	Donation of personal time and expertise, i.e. a form of voluntary work	19	18,63
3	Money donations	13	12,74
4	Sponsorship (money donations with a sort of reciprocal activity, e.g. advertising of donor's activity during project/program)	5	4,90
5	Combination – money and goods donations	3	2,94
6	Capital donations (highly valuable investments that are of particular benefit to the society at large)	2	1,96
	Total	102	100,00

Table 8. Donor preferences for social areas

No.	Description	Rank	%
1	Social activities (help for orphans, people with special needs, support for marginal social groups, asylum seekers, former drug addicts, former inmates, etc.)	40	39,22
2	Humanitarian activities (soup kitchen, homeless shelters, gathering aid for the needy, Red Cross activities, etc.)	16	15,67
3	Peacemaking, the development of democracy, human rights, improvement of legislation, elections control, etc.	11	10,78
4	Educational activities, including science and research	11	10,78
5	Church and church related activities	10	9,80
6	Sport (amateur) activities	6	5,88
7	Culture and art	4	3,92
8	Heritage and folk associations	2	1,96
9	Protection of environment and animals	2	1,96
	Total	102	100,00

Table 9 gives the data for the current business practice of our respondents regarding the actual donations to civil society and other non-profit organizations. The findings show that the majority of our respondents donate to these organizations, 76 respondents or 74,51%. This indicates that our

respondents consider themselves to be habitual donors of civil society organizations, although sometimes not in the desired degree.

Table 9. Points of view in the sample regarding actual donations to civil society and other non-profit organizations

No.	Description	No	%
1	We do not give donations because we think that is the government's or local authority's responsibility. We pay taxes and other contributions to the state.	7	6,86
2	We do not give donations because we do not have enough resources for them.	14	13,72
3	We do not give donations because we have not yet come across interesting projects.	5	4,90
4	Yes, we give donations, although not always in the desired degree, and in that way contribute to the general welfare of our community.	43	42,15
5	Yes, we give donations whenever the opportunity arises, contributing in that way to the general welfare of our community.	33	32,35
Total		102	100,00

Our respondents are willing to donate between 500,00 kn (24,51%) to over 10.000,00 kn (0,989%) (See Table 10). However, the majority (90 respondents or 88,23%) opted for amounts up to 5.000,00 kn. This is a very important piece of information, for price is one of the marketing-mix elements. In other words, it is wise to ask for an amount the entrepreneur is willing to donate. In cases in which the total value of the project is higher, or significantly higher, than the individual donation, which is often the case, the individual donation request directed to the potential donor must be appropriately determined.

We were also interested to know whether our respondents gave donations to any civil society or non-profit organizations in the last two years, and 92 responded positively (90,20%). Those who did were further asked to state the nature of given donations (Table 11). They could choose more than one option, and many of them did.

The type of donation that the civil society organization will request from an entrepreneur might be crucial. Smaller companies prefer goods donations because for them that is more acceptable

than money donations. The fundraiser must have the ability to adjust the donation request according to the individual donor and their preferences. Experience teaches us never to reject any form or type of donation and to continually report to the donor on the project's progress. By doing so, we can emotionally tie the donor to the project, the organization and its mission statement. The next donation of that donor might be bigger and more attractive to the civil society organization than the previous one. However, this type of tactic must never cause the donor to feel emotionally manipulated. On the contrary, it must be seen as transparent announcement of organization's intentions for future cooperation. Otherwise, the donor can completely withdraw from future projects and never again take part in any of the civil society organization's projects.

We asked our respondents for the most important reason for a company to decide to give away its resources for the purposes of a civil society organization's project. They were offered sample answers and were supposed to choose one. Table 8 shows the results for this question.

Table 10. The amount of the possible donation

No.	Description	No.	%
1	Up to 500,00 kn	25	24,5%
2	Up to 1.000,00 kn	42	41,1%
3	Up to 5.000,00 kn	23	22,04
4	Up to 10.000,00 kn	11	10,7%
5	Over 10.000,00 kn*	1	0,98
Total		102	100,00

Table 11. Nature of given donations in the last two years

No.	Description	No.	%
1	Goods donation (material or service)	64	62,74
2	Money donation	53	51,96
3	Donation of personal time	28	27,45
4	Sponsorship (advertising donation)	16	15,68

Table 12. Reasons for donations

No.	Description	No.	%
1	Solidarity with the needy	28	27,45
2	Moral obligation	18	17,65
3	Social responsibility	12	11,78
4	Building up of image in the public	11	10,78
5	Togetherness and solidarity	10	9,80
6	Other companies do that as well	8	7,84
7	Generosity	7	6,86
8	Social justice	5	4,76
9	Increase of the culture of philanthropy	2	1,96
10	None of the above	1	0,98
Total		102	100,00

58 respondents or 56,86% opted for solidarity with the needy, moral obligation and social responsibility. Generosity and building up of image in the public are ranked relatively low in our results. Experience in fundraising tells us that those two motifs are actually very important, but the donors are rarely aware of them although their donations are often subconsciously motivated by those two reasons. Also, the conformity ('other companies do that as well') as the reason is not very pronounced (7,84%) in our sample, but experience tells us

that it is frequently present in real-time decision making. The research of motivation that lies behind donations requires additional psychological tests that would rule out the mechanism of so-called self-censorship.

Also, we wanted to know what were, in our respondents' opinions, reasons (objective, external) for some companies to refuse to donate to civil society organizations' projects or programs. In other words, what are the biggest, and what are

the smallest limitations, in giving donations. Our respondents answered by ranking the offered answers where number one represented the biggest obstacle, and number seven the smallest (Table 13).

Table 13. Objective limitations to giving donations

No.	Description	Rank	%
1	Lack of tax relief for donations and sponsorships	25	24,51
2	Economic subjects do not possess sufficient accumulation in order to give donations to civil society organizations	19	18,82
3	Business sector contribution might be bigger if the general conditions of economic activities were better.	17	16,67
4	Absence of donation requests, i.e. civil society organizations rarely or never at all ask for help from business sector.	14	13,72
5	General insolvency and unsettled claims in economy.	13	12,74
6	Absence of the general culture of philanthropy and donorship in society	12	12,76
7	Disbelief that the donation will be used for the purpose it was given	2	1,98
Total		102	100,00

For our sample, the primary limitation in giving donations is the absence of tax relief for donations and sponsorships. However, having in mind that our tax legislation provides tax relief for donations, this reason cannot be taken as valid. This can be explained twofold: either our respondents are unaware of the possibility of tax relief for donations, or this is their personal rationalization for the absence of donor policy in their organizations. The business without enough accumulation is the second most frequently chosen option in the sample. The estimation of insufficient accumulation in one's firm is connected with the perception of unfavorable economic conditions in the country. Our respondents strongly emphasize external, i.e. economic, elements as objective obstacles to giving donations (variables one, three and five) or 55 respondents (53,92%). The absence of civil society organizations' requests for donations was chosen by 14 respondents (13,72%), and the absence of a general culture of philanthropy and donorship in society was chosen by 12 respondents (12,76%).

Conclusion

Civil society organizations, which are becoming a more significant partner in the creation of modern Croatian society and a co-creator of social capital, will have to turn to the business sector as a generic

source of resources necessary for their survival. The economic recession will be over one day, the social and economic transition as well, but after Croatia joins the European Union all pre-accession funds will become inaccessible. Having in mind the experience of some other former socialistic countries that have already joined the European Union, we can expect a number of civil society organizations and entrepreneurs to be unprepared for the relatively new economic environment. That is why it is necessary to start preparations for new sources of income (number and type) before that happens.

During the research, we conducted additional interviews with directors/owners of the majority of the companies in the sample and found out that they are insufficiently familiar with the meaning and significance of terms such as 'general good', 'social responsibility' and 'social capital'. Therefore, it would be wise for civil society organizations to modify their mission statements to include the element of educating the general public about the significance of so-called social capital in the society and about the mechanisms of its growth. This common direction of civil society organizations will create a more favorable atmosphere for their mission statements, which in return will generate more social 'grapes'. In this way, the civil society organizations will generate social capital more

quickly and easily than business organizations that are mainly focused on generating profits. Social responsibility has better conditions for growth and development in civil society than in business organizations. Only the partnership of these two sectors will advance social responsibility, and the social capital of the society will grow accordingly.

An operational form of such a partnership might be a situation where two or three permanently or ad-hoc connected civil society organizations with common programs/projects address one or more business companies. Such cooperation between entrepreneurs and the civil sector can be additionally extended by local authorities; this in turn can precondition donations for a project that has a partnership agreement between the civil and business sectors. A social project created by the civil society organizations, whose efficiency is ensured by business subjects, and whose political integrity is guaranteed by the local authority, has excellent chances to become self-sustainable and to generate social capital. Unfortunately, for such complex social entrepreneurship the pre-existence of certain social capital is necessary, i.e. a society with a developed entrepreneurship, social ethics, and an atmosphere of mutual and general social responsibility.

The previous form of funding indicates that there is a certain eagerness in state government bodies to influence, through available fiscal and other mechanisms, the stream of a number of bigger donations. This can definitely be viewed as a relic of the previous socialist system. Such a mentality and the acquired need that is present in government agencies will linger for a long time; however, its influence will decrease, particularly if the business sector becomes directly involved in the funding of civil society organizations. Political pressure on bigger business subjects regarding the direction of donations might be reduced if the business organizations, instead of making arbitrary decisions, defined a systematic policy on donations based on generally accepted procedures of receiving requests, approval and monitoring funded projects.

The results of this research indicate that there are objective possibilities for that, and they should not be missed. Any type and scope of donations must be readily accepted, even if the costs of their collection are tantamount to their value. When they accept small and even minuscule donations, civil society organizations contribute to the cultivation

of business sector philanthropy and the creation of a socially responsible economy, which is extremely important for general social achievement. The inclusion of entrepreneurs in solving community social problems can contribute to creating better social balance between the civil sector and state government administration in the choice of the development of social goals. At the same time, the business sector will, according to its nature and constant market competition, look for more efficient and effective ways to use resources for the civil sector. The civil society and other non-profit organizations will for a long time be lacking the entrepreneur sensibility and care in the spending of money, material and time resources.

Civil society organizations can apply the concept of social marketing and achieve better results than using individual marketing tools. The adjusted marketing-mix in a specific civil society organization, with previous research of the donor market and the creation of an information database, and together with acquired experience through time, will secure for non-government organizations at least similar effects that entrepreneurs achieve through marketing in their organizations. However, these effects must not be expected to come too soon. We must bear in mind that the profit organizations have been developing marketing activities for more than a century, whereas social marketing has just been born. And it must be given more time.

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COGNITIVE DIMENSIONS OF SUBJECTIVE QUALITY OF LIFE IN HAJDÚ-BIHAR COUNTY

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Abstract

The objective of the present study is an investigation of the objective and subjective factors of life quality. Researchers and political leaders show increasing interest in the question: on what grounds do people judge their quality of life, what satisfies or makes them happy?

Do we subconsciously make some kinds of mathematical calculations weighing our results achieved in certain areas of life to assess how we are getting on? Or rather we use one "indicator" (e.g. money, number of friends, professional recognition) and we assess our situation accordingly? These issues necessarily emerge when it comes to the consideration of the quality of life.

Among factors determining life satisfaction, earnings, employment, health and relationships play significant roles. Therefore, on the leading edge of this research are primarily the cognitive factors of life quality, i.e. external factors influencing satisfaction.

The present study also seeks to identify the role of health tourism in the assessment of the quality of life. Questionnaires were completed in one of the most popular tourist destinations of Hajdú-Bihar County. The 805 local respondents expressed their views primarily about factors determining their well-being and about the impacts of the dominant presence of health tourism on their lives.

Keywords: *quality of life, health tourism, cognitive satisfaction, life satisfaction*

Introduction

One remarkable characteristic of present day consumer society is that we seek to satisfy our needs through purchasing a higher amount of goods and services than indispensable for our subsistence.

Consumption has become part of our identity, it is a source of everyday happiness and in certain cases, that of self-realization. While the characteristics of consumption evidently exert influences on individuals' quality of life, craving for the standardisation of the latter has been equal in age with thoughts about the meaning of human life. If prerequisites of quality lifestyle were precisely identified, this definition would provide the potentials of optimal everyday life for individuals and communities. However, there is a common understanding that human life is much more complex. One thing is sure: the quality of life is the alpha and omega of survival for humans. The knowledge of the symbiosis of specific elements constructing the quality of life provides us with potentials to ensure its required level more successfully.

Material and method

The study presents the partial results of a great research activity. Analysis on some factors influencing the quality of life was performed by evaluating questionnaires completed in Hajdúszoboszló. The study was premised on primary and secondary research. Primary research

included the analysis of technical literature closely related to the topic and earlier studies prepared about Hajdúszoboszló.

Primary research was conducted in the form of a questionnaire survey, 805 pieces of questionnaires were filled in by local inhabitants in September–December 2010. The questionnaires were analyzed by the Statistical Package for Social Science (SPSS) program.

General satisfaction, future prospects

With respect to actual economic and labour market conditions in the country, the majority of respondents were unable to voice positive feelings about their own lives. 58% of Hungarians claimed in the autumn of 2009 that they were not satisfied with their lives. The rate of pessimistic people increased by 2% as compared to a previous survey 6 month earlier; at the same time the rate of Hungarians pronouncedly satisfied with their lives dropped to 42%.

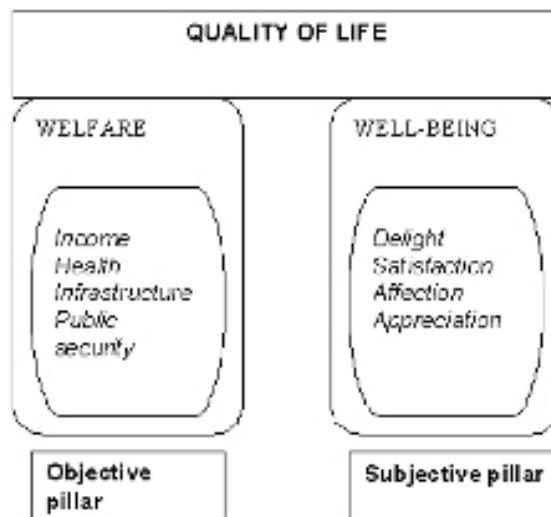
In international comparative terms, merely Bulgaria precedes Hungary on the list of dissatisfaction, where the rate of those who are satisfied with their lives is only 38%. The highest rate of those who feel well is represented by people of 15-24 (67%). The least satisfied category is the age group of 40-54 with 70% of those who find their present conditions far from being ideal.

The rate of satisfied people in Hungary lags well behind the values measured by Eurobarometer (78%) in all the EU member states. Inhabitants mostly exhibit a positive attitude in Denmark (98%), Luxemburg (96%), Sweden (96%), The Netherlands (95%), Finland (95%) and the United Kingdom (91%). Interestingly in Greece, where 56% of respondents were pessimistic in the spring of 2009, this number dropped to 42% in 6 months whereas the rate of satisfied people increased from 44% to 58% (Eurobarometer 72, 2009).

The cognitive dimension of subjective quality of life

In the last fifty years, there has been a concerted effort to empirically investigate SWB, from its correlations (Seidlitz and Diener 1993; Oishi et al. 2007), to forecasting affect (Gilbert, 2006) to cross-cultural differences (Scollon et al., 2005). Yet, only a few have attempted to search for a unifying theory of subjective well-being (Brief et al., 1993; Feist et al. 1995; Kim-Prieto et al. 2005). As an alternative to utility, subjective well-being (SWB) has been proposed as a measure of individuals' benefits in a number of domains (Kahneman, 1999). SWB expresses individuals' cognitive and emotional well-being, directly measured by means of reliable psychometric scales (Diener and Suh, 1997). Since SWB refers to satisfaction with life in general, it is assumed to be relatively stable across time and to go beyond, but implicitly include, domains such as family life, work life, and leisure. Yet, there is an increasing interest in understanding how SWB depends on context-specific factors such as, for instance, various forms of consumption, improved schools, or reduced commuting stress (Diener and Seligman, 2004; Diener et al., 2009).

The quality of life is a joint dimension of objective factors determining human life and their subjective reflections (Michalkó, 2010). Whereas welfare refers to the objective factors (earnings, health, infrastructure, public security) of the quality of life (Figure 2.), well-being relates to subjective ones (delight, appreciation, affection). The relation of earnings and health has been widely investigated. Research findings reveal that higher incomes lead to better health, but better health may also result in higher incomes due to increased labour productivity and more active participation in the labour market. Similarly positive, two-directional relations can be detected in the relation of education and incomes. Education enhances social participation which is a significant component of the quality of life (QOL). Those people whose level of education is higher feel less helpless and they are less likely to be taken advantages of or manipulated negatively through their decisions (Putnam, 1993).

Figure 1: Pillars of the quality of life

Source: Authors' own work based on Michalkó (2010)

Evaluation of results

Significant features in the sample

The following table (Table 1.) shows the summary of some basic features in the sample. In terms of representativity, it is significant for the sample to reflect the distribution of the major characteristics in the population. Therefore, the sample included approximately 50-50% of women and men. The majority of respondents represented the age group of 20-60 (60%). Most of the people in the survey (51.2%) received average monthly earnings of 50000-10000HUF per capita.

Focus on health

Health is the condition of full physical-mental and social welfare, not merely the lack of illnesses or disabilities. The highest possible level of physical and mental health is one of basic human rights.

It determines individuals' lives and their quality of life as much as the income generating capacity of

a society, so the improvement of the preservation and efficiency of health requires existing and available information which has been regarded highly significant recently.(Statisztikai tükör, 2010)

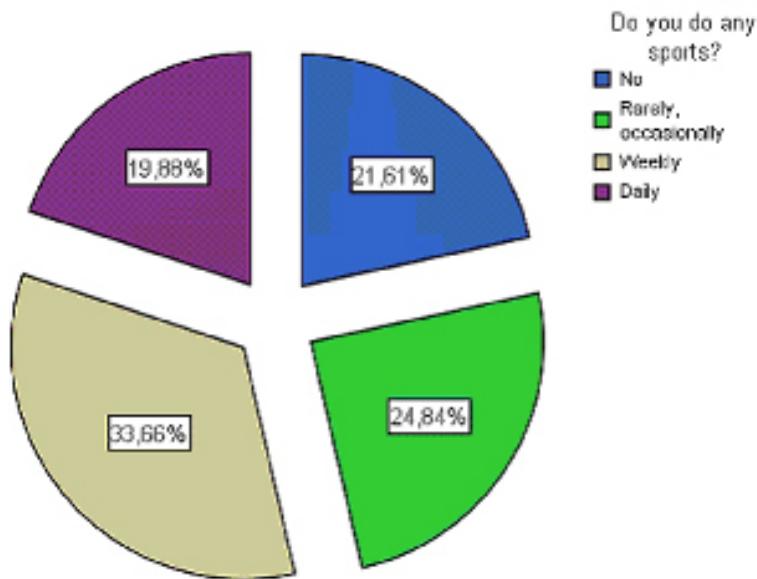
Part of health-related information is exclusively acquired through a questionnaire survey on population health, because data recorded by health institutions fail to reflect a picture of – among others – lifestyle and social factors influencing health, health expenditures and satisfaction with the health care system.

People's increasingly deteriorating health seems to be the outcome of lifestyle affecting features, technical wonders and achievements in today's civilised world. Our modern "sitting" lifestyle poses severe health problems which are to be addressed. The idea emerges more and more frequently that sports should play a vital role in life, should become a basic element of life. These days scores of people come to the realization that prices are not only to be paid for available worldly goods. The highest price is paid for health and its preservation is even more costly.

Table 1. Distribution of the sample in terms of age group, gender, school qualification, marital status and average monthly earnings

	Person	%
<i>In terms of gender</i>		
Man	419	52.4
Woman	381	47.6
<i>In terms of age</i>		
20 years or below	134	16.8
21-40 years	250	31.3
41-60 years	233	29.1
above 61 years	183	22.9
<i>In terms of marital status</i>		
Single	199	24.9
Married	402	50.3
Registered partners	94	11.8
Widow/widower	65	8.1
Divorced	40	5.0

Source: Authors' own work

Figure 2. Examination on the frequency of physical exercises

Source: Authors' own work

As Figure 2. shows, pursuit of a healthier lifestyle has already begun in Hajdúszoboszló, but the rate of people who do not go in for sports or only very rarely is still high (46.4%). However, this result can be regarded good as compared to previous surveys, i.e. the fact the 19.8% of respondents do sports on a daily basis is a positive development and it massively contributes to improving the quality of life.

We can only realize ourselves and live our lives to the fullest if we are healthy.

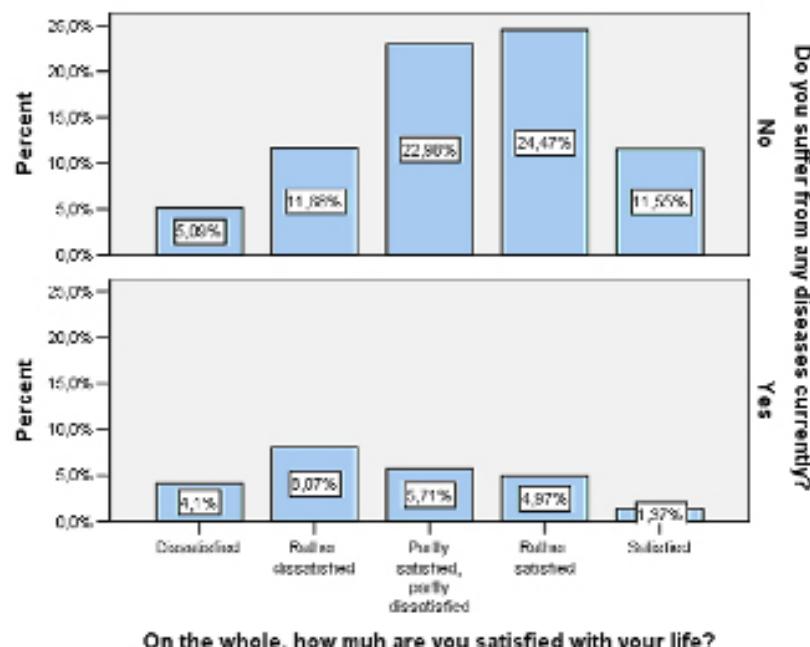
This statement is primarily underpinned by the examination of health conditions and satisfaction.

Figure 3. demonstrates that 11.5% of people were satisfied and 24.4% were rather satisfied with their lives of those respondents who did not suffer from illnesses at the interview date.

Reverse tendencies emerge in the structure of local society regarding traditional agricultural workers and those working in tourism. Agricultural workers feel that they are provided with fewer opportunities

and they are not involved in developments. However, the value of their lands and estates might multiply with the development of tourism and this is definitely their advantage. Tourism indirectly provides them with opportunities: they can sell their products locally, as this has been proved by several examples in towns and neighbouring villages. The development of infrastructure, the relative abundance of services and their children's access to employment is their benefit as well. The contrast can be apparently traced back to the lifestyle and mentality of workers in the two different economic sectors.

The creation of welfare and financial stability is a vital issue in our days. Naturally the slogan is well-known: money cannot buy happiness. Unfortunately, it is not quite true. It may not buy happiness after reaching a certain level, earnings of millions will not increase individual satisfaction, but proper income is needed to live our lives to the fullest. Money is not only essential to satisfy our everyday needs but it is also instrumental to obtain other elements included in the quality of life.

Figure 3. Correlation of health condition and satisfaction

Source: Authors' own work

We wish to keep relationships with our friends and relatives in vain if we do not possess the necessary amount of money to go out somewhere for a glass of drink or to invite them to our homes or if our mind is continuously obsessed with our financial safety instead of enthusiastic conversation.

Figure 4. represents this statement as those who live above subsistence level and live from more than 100 000HUF average earnings per capita are more satisfied with their lives.(10, 68%).

Conclusions and recommendations

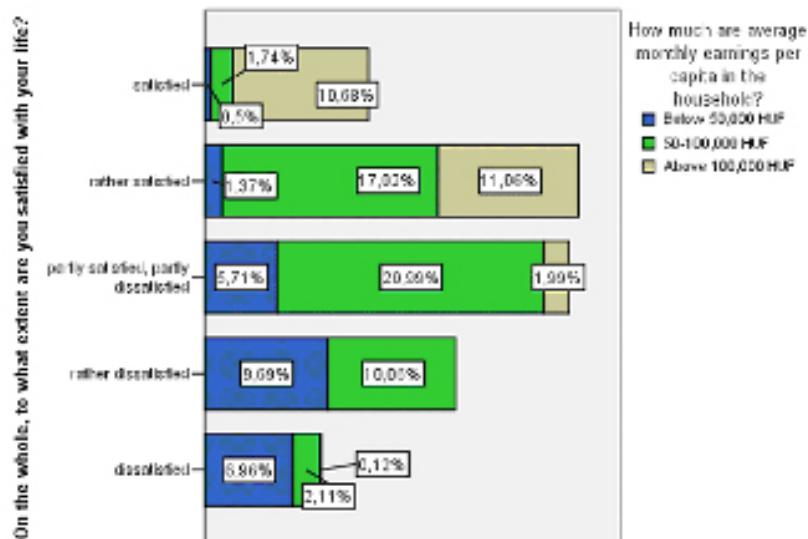
The survey conclusions have confirmed the findings of previous research activities and unveiled several new correlations as well.

More noteworthy is that for Hajdúszoboszló it is a strategic advantage to highlight health in its

product range and also the town's endowments are favourable for developing family-friendly offers. The above mentioned do not only improve the life quality of tourists in the region but also the health condition of the local population.

As decades pass in human life, we face an increasing number of health problems in both sexes. Elderly people need to lay a special emphasis on their health, daily movement and the selection of suitable, occasionally special type of movement is extremely significant for them.

Through physically active, sporty lifestyle, positive view of life several problems and diseases can be prevented and the risk of developing certain illnesses can be cut back. With respect to the examination of lifestyle it is very important that 19.8% of respondents do exercises on a daily basis and 33.6% on a weekly basis.

Figure 4. Correlation of life satisfaction and earnings

Source: Authors' own work

The other impact of tourism on the quality of life is that it inspires inflation. The touristic reputation of the town increases prices by about 15-20% than in Debrecen or in other neighbouring cities or settlements. This definitely poses problems for local inhabitants, as 52% of respondent live on an average of 50-100 000 monthly earnings but who live above subsistence level and live from more than 100 000HUF average earnings per capita are more satisfied with their lives.

Several research findings on bathing areas in various Hungarian regions have proved that visiting baths is an integral part of everyday programs: their extended product range has the potentials for regular physical training, the combination of personal care and relaxation and the preservation of health. Therefore, thermal baths are locations for the preservation of physical-mental, social well-being and health. Regular bath visitors also require customary free time and wellness services in good quality and this demand is to be met in the product development of baths as touristic destinations (Müller-Kórik 2009, Müller et. al 2009, Kerényi et. al 2009, Mosonyi et. al 2010). It offers a complementary theoretical framework of how travel choice outcomes are experienced, and what factors influence global affective and cognitive

SWB. For instance, the notion that affect plays an important role for SWB suggests that soft factors should receive more attention. Likewise, the fact that SWB is associated with achievement of life goals suggests that the opportunity to engage in activities is an important factor determining SWB.

Health tourism is a part of the tourist trade with a higher-than-average revenue generating potential.

It is especially significant in rural settlements and regions where agriculture cannot provide inhabitants with satisfactory sources of income. Especially imperative is that tourism has the potential to surge enterprise activities, regional development and to enhance innovation, which makes it a visible actor in economy (Puczkó-Rátz, 1998).

Tourism is instrumental in reviving and preserving traditions and customs, enriches the range of cultural offers and may develop positive pride in people. Evidently, these factors are suitable to judge our quality of life more positively and feel more satisfaction.

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HOSPITALITY AND THE FASHION INDUSTRY: THE MISSONI WAY

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Abstract

The aim of this paper is to investigate brand extension within the Italian luxury fashion industry, specifically the launch of new ventures which seek to expand the visibility of the labels by creating new spaces like hotels, bars and restaurants. These spaces offer the opportunity to experience a particular lifestyle, often in strict alignment with the philosophy of the brand and its country of origin.

I will focus on the case of the Missoni Hotel in Edinburgh and investigate the narratives implied by the various elements that characterise it, including architecture, interior design and gastronomy, in order to explore how they work together in creating a sense of Italianicity strictly related to the concept of hospitality. Moreover the paper aims to explore how these different narratives relate to the identity of the brand, in order to underline situations of dialogue or contradiction.

The research is based on the analysis of qualitative data through a multidisciplinary methodology, where semiotic theories are assigned a privileged position. This paper aims to show how both the Italian lifestyle and the prestige of Italian fashion industry constitute important elements of cultural heritage that can be productively employed in the fields of leisure and hospitality marketing.

KEYWORDS: Branding, Italianicity, Hospitality, Lifestyle, Fashion.

Introduction

In the last few years, many Italian luxury fashion labels have launched, or plan to launch, new ventures in order to expand their recognizability outside the usual area of accessories and cosmetics, by creating new spaces such as bars, restaurants and hotels, where people can experience a particular lifestyle, often in strict

relationship with the philosophy of the brand. This paper aims to investigate the case of the brand Missoni Hotel, referring in particular to its first development in Edinburgh, that constitutes the entrance of the luxury fashion brand Missoni S.p.A. in the hospitality business. The result is the creation of a lifestyle brand that focus on 'all the objects and services people use every day' (Chevalier and Mazzalovo, 2008: 133) and that proposes the home lines related to Missoni S.p.A., like home furnishing accessories, interior decoration items and tableware, as well as other services such as restaurants and bars. This study aims to contribute to the understanding of the expanding phenomenon of Italian luxury fashion labels entering into the hospitality and leisure business, by analysing it from a semiotic point of view and by exploring how Italianicity and Italian lifestyle can constitute important elements of cultural heritage that can be productively employed in these fields.

In the next few pages I aim to investigate the interlocking narratives that hold between the different elements that characterise the space of the Missoni Hotel Edinburgh (i.e. architecture, interior design and gastronomy). Firstly, it will be explored the relationship between these elements and the identity of the 'mother' brand they refer to (Missoni S.p.A.) in order to emphasise situations of dialogue and contradiction. Secondly, the narratives will be considered in relation to Italy and its cultural heritage, as signifiers that contribute to create a sense of Italianicity. This is a key term in my research, a neologism created by semiologist Roland Barthes adding the suffix -icity to the adjective Italian in order to produce a noun that should be primarily connoted as abstract. Barthes defined Italianicity as not being equal to Italy, as it is in fact the 'condensed essence of everything that could be Italian, from spaghetti to painting' (Barthes, 1977: 48). In this sense, Italianicity, is much more appropriate than the word 'Italianness'

in order to describe the phenomena I am analysing, precisely because of this peculiar characteristic of the term, that does not aim to sclerose into a definitive list of elements that are Italian tout court but remains open to new additions that, case by case, are linked to Italy and its lifestyle.

The case of the Missoni Hotel in Edinburgh is particularly interesting because the fashion label Missoni has been described by Chevalier and Mazzalovo (2008) as a brand that might face difficulties in diversifying its portfolio of products. Firstly because Missoni was not originally founded on a lifestyle, unlike Ralph Lauren and its New England WASP allure for example. Secondly, because Missoni 'established its identity on a specific type of fabric and a specific chromatic palette' that are considered as problematic in terms of extensions besides the realms of clothing and accessories (Chevalier and Mazzalovo, 2008: 133). However, I shall argue that the elements mentioned above can productively be employed in a lifestyle brand and actually have been incorporated and constitute the core of the identity of the Missoni Hotel brand. Moreover it will be observed that such elements, which feature in the space of the Edinburgh hotel and that are strongly linked to Missoni's identity, work as signs of the fashion label and create effects of presence strictly related to the figure of the designer, a mythical figure that constitutes the core of many Italian luxury fashion houses. In particular, it will be argued that the strong host figures evoked by the space and services of the Missoni Hotel Edinburgh, that concur in establishing almost a personal relationship between them and the hotel's customer, appear to blur the distinction between hospitality and hospitableness, that is so central for the definition of the hospitality business.

Discussing the lack of a universally shared definition of the term hospitality Brotherton proposes a distinction between that and the term 'hospitableness', a distinction that proves to be rather relevant for the present work. Brotherton defines hospitality as a 'contemporaneous human exchange, which is voluntarily entered into, and designed to enhance the mutual wellbeing of the parties concerned through the provision of accommodation and food or drink' (Brotherton, 1999:168) and aims to show how that transcends hospitableness. In fact hospitable behaviour is not central for the definition of hospitality, as it can be displayed in different situations and, more

importantly, 'hospitality is invariably designed to make guests feel as though they were not at home, and is desired for this very aspect' (Brotherton, 1999:167). In this respect, he claims, hospitality goes beyond the need to make guests feel at home, an element that he considers instead to belong to the realm of hospitableness, and finds in that very characteristic its reason of being. In the space of the Hotel Missoni Edinburgh, however, this distinction appears to be somehow blurred. In fact, as it will be argued later, elements that remind of hospitableness are also present. In the semiotic analysis of the spaces it will be observed how they feature connotations of cosiness and homeliness and strong references to ideal host figures in the form of the Missonis, displayed in different ways, therefore creating a space that actually features homely connotations. However the sense of home that the space of the Hotel Missoni Edinburgh creates is something different from any domesticity that guests might have experienced, remaining an 'other' place that refers to a concept of homeliness and hospitableness that is intrinsically linked to the Missoni's identity and that relies heavily on Italy and its cultural heritage.

Missoni S.p.A

Missoni S.p.A is a privately owned Italian luxury fashion label whose history began in 1958, making the company one of the oldest firms among its direct competitors (Okonkwo, 2007: 47). The core of the label is constituted by Ottavio Missoni and his wife Rosita Jelmini, and their personalities have played a very important role in the characterisation of the company, that is still evident today. However, the younger members of the family have been gradually involved in the family business and now hold very important roles in the business. Family has always been a big part of Missoni's identity, and members have not only always contributed to the various aspects of the business, but also featured in advertisements on several occasions, as discussed later. Knitwear is another very important part of the Missoni's identity, in fact the label is renowned for its extremely lightweight pieces and the brightly coloured patterns, that constitute iconic and distinctive features of the label (Casadio 1997, 119-120). The fashion label is well established abroad: the first Missoni boutique opened in 1970 in the prestigious U.S. department store Bloomingdales, and played a very important

role in the creation of the fame of Italian design (Casadio, 1997: 120).

Anticipating the trend of brand expansion in the fields of home collections and lifestyle products, in the Seventies Missoni launched its first collection of household linens and shortly after that a line of furnishing fabrics. From this core, in 1983, the MissoniHome collection developed, significantly produced by T&J Vestor, the company of Rosita Missoni's family. In 2005 Missoni S.p.A. signed a worldwide license agreement with Rezidor Hotel Group, an hotel management company, for the development of a new lifestyle hotel brand, called Hotel Missoni. The first installment opened in Edinburgh in 2009 and future hotels are set to open in Kuwait, Oman and Brazil in the next two years.

Semiotics and brands

Through the years, semiotics have dedicated more and more attention to issues related to brands and their identity, focusing on the different aspects of their manifestation. From the seminal work of Roland Barthes (1977), the incursions of semiotics into this area have become more frequent and consistent, creating theories and tools that aim to make sense of the phenomenon of branding in its complexity, considering the brand's communication, its manifestations and issues related to its identity (see Mick et al 2004). A vast corpus of research exists on advertising (see for example Semprini 1997, Bianchi 2005, Donatone 2007, Arning 2009, Imperi 2010 to name just a few) but works have also been produced on the phenomena of brand and branding, leading to the development of a series of models and tools that can be productively employed in other disciplines, such as marketing for example (see Chevalier and Mazzalovo 2008).

In particular, semiotics can support 'a manager in defining, prolonging and defending the identity of a luxury brand' (Chevalier and Mazzalovo, 2008: 190) through the introduction of some powerful semiotic instruments, including a special version of the semiotic square and semiotic mapping. The former was developed by Jean-Marie Floch, who was the first to ever apply semiotics to marketing and published a series of studies that prove to be still very useful nowadays (see Floch 1988, 1990 and 1995). Floch's semiotic square, in particular, is an instrument developed for the analysis of

advertisements that articulates on the semiotic square two opposite categories of values (for a more detailed discussion of the original semiotic square see Greimas and Courtés 1979 but also Marsciani and Zinna 1991 and Magli 2004). These different categories originate in the fact that a subject can valorise an object according to the logic of utopian or practical values. The former are perceived as being important for the very existence of the subject that longs for being united to them, while the latter imply that the object is relevant just for its practical use. Floch articulates these two categories of values and identifies four types of valorisation (practical, ludic, critical and utopian) that can be present in advertising campaigns (see Floch 1990 but also Marrone 2001 and Marrone 2007). Another very important figure in this respect is Andrea Semprini, whose approach is sociosemiotic and focuses more in depth on issues related to contemporary brands (see Semprini 1993, 1996, 2003 and 2006). He reprised Floch's semiotic square and developed it further, creating a four quadrant model, called semiotic mapping, that makes sense of the subtle differences between the values mentioned above and on which brands can be positioned and compared (see Semprini 1993 and Marrone 2007).

However, there are other semioticians that have investigated issues related to brands and marketing, such as Gianfranco Marrone and Giulia Ceriani (see Marrone 2001 and 2007 and Ceriani 2001, but also Lombardi 2000 and Semprini 2003 for example), constituting an additional theoretical heritage that can complement different approaches and that can be productively applied in other disciplines.

The Case Study

The object of my analysis is Hotel Missoni Edinburgh, the first development of a series of hotels that are set to open in Kuwait, Oman and Brazil respectively in 2011 and 2012. The Hotel Missoni brand belongs to the Rezidor Hotel Group, a hospitality management company based in Brussels that has a portfolio of more than 400 hotels worldwide. In 2005 Rezidor signed a worldwide license agreement with Italian fashion label Missoni S.p.A. in order to develop and manage a new brand of luxury lifestyle hotels and in June 2009 the first of these opened under the name Hotel Missoni Edinburgh (see Rezidor Fact Sheet 2010).

Missoni Hotel Edinburgh occupies most of a building designed by Allan Murray Architects practice, based in Edinburgh, and that features also a bank and a retail space. The interior design was provided by Italian Matteo Thun, in close relationship with Rosita Missoni. The hotel has been recently awarded a five star rating and features 136 rooms (of which seven are suites) a gym and hosts events facilities which include the Nero Bianco events room, a lounge, a boardroom and a private dining room. A spa is currently under development. The hotel is in a central location in Edinburgh's Old Town, very close to the famous Royal Mile. In this respect, the hotel seems to respond to the criteria that rule flagship store's development, which is aimed to reinforce 'the prestige of the brand through its up-market location' (Moore, 2000: 273) and that 'serve as a promotional device to showcase the brand in a coherent and closely managed setting, and encourage brand awareness and interest' (Moore, 2000: 272). The similarities between flagship stores and the hotel do not end here, as if 'the store is a metaphor for the brand' (Moore, 2000: 272) so is the hotel. In this sense, the Missoni Hotel Edinburgh is a metaphor for the fashion label Missoni S.p.A., that constitutes the origins of the Missoni Hotel brand.

The present work will focus on the characteristics of Hotel Missoni Edinburgh considering them firstly in relation with the identity of the 'mother' brand Missoni S.p.A., in order to identify situations of dialogue or contradiction, and secondly in relation to Italy and its cultural heritage. The next paragraphs will be dedicated to the first topic mentioned above, the analysis of the relationship that Missoni Hotel Edinburgh holds with the 'mother' brand Missoni S.p.A. and its identity.

The Hotel Missoni brand originates from and depends on the identity of the Missoni fashion label, but at the same time translates the latter into spaces and services that transcend the mother company's identity. In this case Missoni S.p.A. provides not only the distinctive features, the look, of the hotel but also a certain authority behind it, that acts as a sort of sender-judge in the Greimasian sense, as it both creates and sanctions the identity of the hotel (for a more detailed discussion of the actantial model see Greimas 1966 but also Marsciani and Zinna 1991 and Magli 2004). This phenomenon is evident in the brochure of the Edinburgh hotel, where its value is presented as being related to the fashion label and to being a true representation of

it, so that Missoni S.p.A. does not only provide a means for the Missoni Hotel to differentiate itself but constitutes the source of its identity and also sanctions it.

In this sense, Missoni S.p.A. constitutes a form of authority that creates and enhances the prestige and the status of the hotel itself, and for this reason is strongly present in every aspect of the hotel, creating a strong presence effect through a variety of ways. In fact we can identify three forms of presence of the fashion label Missoni in the Hotel Missoni Edinburgh. Firstly, it is evident in the very logo of the hotel, written in stone on its façade, which is clearly derived from the one of the fashion brand. The Missoni Hotel logo in fact replicates identically the logo of Missoni S.p.A. and maximises it in order to create a super-logo, constituted by several logos of the fashion company. However the use of the logo and name Missoni is not the only way the fashion company is present in the space of the hotel, in fact this verbal message is reinforced through a series of objects such as sofas and carpets. Secondly there is in fact a significant presence of typically Missoni patterns, especially the colourful zig-zag and the stripes that feature on carpets, sofas, towels and bathrobes, but also in less expected places. In fact the very first member of staff that clients encounter at the hotel is a man wearing a kilt, the traditional Scottish garment, that presents a typically Missoni zig-zag pattern and not a traditional tartan one. These patterns are so closely related to the Missoni S.p.A. brand and its identity that can substitute it by metonymy, because the process of identification between them is so established that the fashion label can be represented by one of its smallest parts, in this case the patterns (see Barthes, 1977: 50). These patterns work as signs of the brand Missoni S.p.A. and concur in creating an effect of presence so that the place speaks both of the Missoni brand and the Missoni family without even having to name or show them. In fact the Missonis are very much present in other forms, and primarily through their activity, as visible in the lobby area which features columns and small coffee tables that resemble reels of thread. These elements refer to the traditional strong association between the Missoni label and knitwear, that still characterise the identity of the label nowadays. Indeed it was the work of fashion house Missoni that constituted the base for the worldwide reputation of Italian fashion for knitwear (Steele, 2003: 51). Moreover, the reels of thread

feature typically Missoni stripy patterns, therefore reinforcing once again a sort of Missonification, i.e. the process of becoming Missoni, of the space. Finally, there is a much more personal form of presence of the fashion label Missoni in the space of the Hotel Missoni Edinburgh, consisting in photographs of its founder Ottavio Missoni. This presence is a very limited one as it consists in just a few pictures, placed in the gym, that show Ottavio's sport career as a runner in the Forties. However, it is mostly the redundancy of signs that refer to typical Missoni patterns and their production that create the Missonification of the space of the hotel and constitute a fil rouge throughout. This is possible to see from the fact that the only place where they are absent, in the gym, more explicit elements are featured, in the form of Ottavio's pictures. They feature, however, quite organically and not constitute a totally arbitrary addition in the gym, as they are sport related.

This is coherent with a strategy of rationing the physical presence of the Missonis and limiting it to few elements in order to create a space that refers primarily to Missoni fashion but that also evokes its creators, although mostly through references to their production and just marginally through photographs. However, this does not lessen the personalisation of the space of the hotel, that aims to make the guests to feel part of the Missoni family and somehow 'at home'. This is a strategy that focuses on ideas of authenticity and a sense of place, and that has been employed by several fashion brands that have strong family roots and close relations with their area of provenance (see Chevalier and Mazzalovo, 2008: 133). De facto, the Missoni family is not significantly featured in the space of the Missoni Hotel Edinburgh, a choice that might appear in contrast with the advertising strategy that Missoni S.p.A. has employed over the years. In fact the family has always been a big part of Missoni's identity, with members contributing to various aspects of the business, and has featured in advertising campaigns in several occasions, like the 1992 photographic campaign by Oliviero Toscani and, more recently, the fall/winter 2010 campaign by Kenneth Anger.

In this respect, however, it is possible to see that Missoni Hotel brand does not focus primarily on the widely recognised identification between Missoni S.p.A. and the Missoni family but on the material characteristics of the brands, like its strong association with certain patterns and the important role of knitwear, as reminded also by several piece

of art scattered over the hotel. However the choice to avoid images of the Missonis does not result in their annihilation in the spaces of the hotel, not only because it ultimately represents their style but also because it features services that are inspired by their public persona and by the elements that characterise their philosophy, that is strongly intertwined with Italy and its lifestyle. In fact Hotel Missoni Edinburgh talks of the Missonis, alludes to them through their work and the references to its production, evokes them as simulacra of hosts and aims to translate the characteristics that are commonly associated with them, like dedication to family and *joie de vivre* (see Casadio, 1997) into spaces and services that are totally new and unexplored for the fashion label. In this respect, the cases of the lobby and the restaurant of Missoni Hotel Edinburgh are the epitomes of this phenomenon.

A semiotic analysis of the spatial articulation

The following semiotic analysis of the spatial articulation of the lobby is going to show in detail how it can carry values and concur to the creation of the peculiar identity of Missoni Hotel Edinburgh through elements that refer to and are coherent with the characteristics mentioned above, i.e. a Missonification of the space created with the display of the company logo, its typical patterns and references to the Missoni family.

The lobby consists of an open space that comprises reception, bar and restaurant spread over two levels, visible from outside through large glass walls. It has been observed that this area is not vast enough to be described as luxurious (Murray, 2009: 27), but my analysis argues that it is precisely the dimension and the articulation of the space that are functional to the identity of the hotel. In fact, as it will be discussed, the identity of the hotel is based on elements and characteristics, like cosiness, unpretentiousness, *joie de vivre* and a certain family feel that are coherent with Missoni S.p.A. identity, which is intrinsically intertwined to the public persona of the Missonis, as noticed before. Moreover, it will be observed how, as a consequence of the above phenomenon, the distinction between hospitality and hospitableness is blurred.

The entrance to the lobby presents a marked verticality and is characterised by two gigantic

mosaic vases, results of a collaboration between Missoni S.p.A. and Italian mosaic firm Trend, that almost reach the level of the flooring of the mezzanine where Cucina Restaurant is located. Their proportions are grand and, in comparison, people and furniture seem to be rather small. However, the lobby itself is not characterised by a strong verticality, as that is counterbalanced by the presence of horizontal elements, like the mezzanine and the lower ceilings, that make the lobby appear smaller but also more cosy and intimate than expected. It is the horizontality in fact that characterises the interior of the lobby in contrast with the marked verticality of the outer building, and that concurs in the creation of a coherent identity between different elements and services that complement and enhance each other.

Earlier it was mentioned that the lobby consists of an open space where the reception, the bar and the restaurant are located and therefore if we consider the dichotomy continuous/discontinuous we observe that this area belongs to the former term of this opposition. There are in fact no limits to separate the different areas, but simply thresholds, soft boundaries that enhance the conjunction of elements and not their disjunction (see Zilberberg, 2001). The presence of such soft boundaries between the different zones of the lobby enhance its continuity, which in turn emphasises the internal coherence of the space, constituted by the constant references to the world of Missoni, therefore reinforcing the brand's essence. However the space comprises different areas that remain distinct at least in function, therefore showing a partitive totality (Giannitrapani, 2004: 3) where the emphasis is not on the wholeness but on the singular parts of the unit. The internal topology of the space, reception on the left, bar in the centre and restaurant upstairs, in fact shows that the lobby area is one open space that represents the sum of different elements, rather than representing an integral totality where the parts lose their individuality.

All these different spaces, despite being connected to each other through thresholds and lacking any elements that completely divide the different zones, are dedicated to different functions and retain a certain degree of privacy and intimacy, as shown by a semiotic analysis of visibility. In fact, considering the issues of visibility and of the points of view (Marrone 2001: 291), the lobby presents

areas that remain hidden to the eyes of a localised subject, de facto precluding the complete view of the space. This is particularly evident in the case of the restaurant, located in a mezzanine floor above the bar, that is not even completely visible from the entrance to the lobby downstairs nor from the outside through the glass walls, because a parapet protects it from the bystanders' glances. However, the access to it remains perfectly visible through the glass wall that encloses the suspended stairs, therefore signalling the presence of a public space upstairs.

The effect is one of turning private spaces into public ones, so that they can represent characteristics that are commonly associated with the former, like privacy, homeliness and cosiness, despite theoretically belonging to the realm of the latter. The mentioned characteristics work well in relation to the Missoni S.p.A. brand, as the fashion label is renowned not only for its peculiar patterns and the abundant use of knitwear, but also for the comfort, wearability, and informality of their garments, that imply a relaxed lifestyle that also reflects the public persona that the Missonis have created through the years, so intrinsically linked to *joie de vivre*, unpretentiousness and familiarity (see Casadio, 1997).

But the name Missoni is also intrinsically linked to the wider phenomenon of 'made in Italy' so that the name is also a synonym for Italian fashion and the quality of its manufacturing. Earlier it was observed how the fashion house Missoni strongly concurred in creating Italian fashion's reputation for knitwear, but at the same time the label also relies on the reputation of Italian fashion in general and, in a broader sense, on Italy and its lifestyle. Italian fashion is renowned for its design, the quality of its materials and its excellent craftsmanship (see White, 2000) but also for a certain casual elegance, greatly influenced by sportswear (Steele, 2003: 23). These elements concur in creating the prestige and appeal of Italian fashion, that at the same time enhance the reputation of all its exponents, in this case Missoni, that in turn is reflected in the Missoni Hotel brand. Similarly, Italy's association with a relaxed lifestyle, characterised by a slow temporality and strictly intertwined with food, conviviality and a pleasurable existence (on the phenomenon of slow living see Parkins 2004 and Parkins and Craig 2004), but also with luxury and style contributes to enhance the appeal of Italian companies and often constitutes strong features

of their identity (De Vita: 2005). In the same way, Missoni Hotel Edinburgh's identity also relies on and refers to the quality of Italian design as well as its lifestyle, emphasising for example the culture of coffee, good food, conviviality and a certain family feel. This is particularly evident for example in the Cucina restaurant, a collaboration with renowned chef Giorgio Locatelli.

Particularly significant is, firstly, the choice of the restaurant's name. Cucina is in fact Italian for kitchen, therefore evoking the simplicity and the domestic preparation of meals, a central element of Italianicity widely recognised and mentioned in the seminal work of Roland Barthes (1977). Secondly, these characteristics of Italianicity are also featured and enhanced in the specific type of cuisine that the Cucina restaurant, under the aegis of head chef Mattia Camorani, proposes. In fact the restaurant proposes dishes inspired by classic Italian cuisine that, despite remaining undoubtedly fine dining, are closely intertwined to domestic tradition, for example in the use of homemade fresh pasta. Another very significant element that concurs in creating the peculiar version of Italianicity featured in the Cucina restaurant, and that reflects itself in the identity of the Edinburgh's hotel, is the references to the relaxed Italian lifestyle and its conviviality. In fact customers have the opportunity to sample a sharing menu, where there are no individual orders and everyone gets a taste of everything. This way of eating represents the epitome of the conviviality, *joie de vivre* and family feel that is strictly associated firstly with the specific Italian lifestyle and secondly with the Missonis' public persona, concurring in turn in the creation of Hotel Missoni's identity.

In this sense, the Cucina restaurant enhances and valorises the family feel so intrinsically related to the Missonis identity with references to the cultural heritage of their country of origin, Italy, both in relation with gastronomy and with lifestyle. Moreover, the family feel is reinforced and echoed in the spatiality of the restaurant, that despite belonging to the bigger unit constituted by the lobby area, is a relatively enclosed and private space that connotes cosiness and warmth.

Conclusions

The semiotic analysis of the spaces and services of the Missoni Hotel Edinburgh identified a series of elements that refer both to the Italian lifestyle and

the Italian fashion industry, particularly in relation with the 'mother' company Missoni S.p.A. The identity of the hotel relies on the brand's particular identity and on the characteristics of its founders' public persona, but also transcends them featuring services and references that exceed them, creating a space that is inherently coherent.

In particular, it was noticed how both the décor, the spatial dimension and the services enhanced an atmosphere of cosiness, informality and familiarity that strongly evokes not only the fashion label Missoni S.p.A but also the Missonis as ideal host figures. In fact it was observed that despite the limited presence of direct referrals to the Missonis through photographic material, their presence is significantly evoked through their activity as fashion makers specialised in knitwear and through services that are coherent with their philosophy and lifestyle. All these elements contribute to the creation of a very strong host figure in the form of the Missonis, concurring in establishing almost a personal relationship between them and the hotel's customer.

In this respect, as anticipated above, Missoni Hotel Edinburgh appears to blur the distinction between hospitality and hospitableness as theorised by Brotherton (1999) because both elements are present. In the semiotic analysis of the spaces it was in fact observed how the hotel features connotations of cosiness, homeliness and refers to ideal host figures in the form of the Missonis, displayed in different ways as discussed earlier. However, despite the homely connotations the hotel remains an 'other' place intrinsically different from any domesticity that customers might have experienced, as it refers to a concept of homeliness and hospitableness that is intrinsically linked to the Missoni's identity and that relies heavily on Italy and its cultural heritage.

This study of the Hotel Missoni Edinburgh demonstrates how both the Italian lifestyle and the prestige of Italian fashion industry constitute important elements of cultural heritage that can be productively employed in the fields of leisure and hospitality marketing. More broadly, however, the present study also contributes to the understanding of a specific niche in those fields, constituted by the expanding phenomenon of international luxury fashion labels entering into the hospitality and leisure business, by adopting a semiotic approach that can complement and support other theoretical conceptualisations in this domain.

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DYNAMICS OF APPAREL RETAILING IN SOUTH KOREA ACCOMPANIED BY INCREASED MARKET OPENNESS

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Abstract

The retail industry in South Korea has gone through tremendous changes in the last ten years since all barriers to access the Korean wholesale and retail sector were lifted in 1996. Many international retailers and global brands have opened their stores in Korea, resulting in greater competition in the industry. The main purpose of this study is to examine the changes in apparel retail sector in South Korea over the last decade of open market. In particular, the main focus of this was placed on the structural changes of the market, and the theory of dialectic process and natural selection was adopted as a research framework. The main channels of apparel distribution in Korea are department stores and road shops that are often franchise stores of apparel companies. Articles in one newspaper and one trade magazine dealing with the apparel industry were examined, and a total of 378 articles which contain reports directly related to the apparel retail sector were identified and analyzed. It was found that there has been a strong trend toward retail channel diversification, mainly among the major channels (department stores and road shops) and new players, namely mega discounters. Increases in the number of mega retail shops and emergence of multi-shops seemed new strategies adaptive to the changes in the retail environment.

Key words: apparel retailing, market openness in retail the sector, retail structure, South Korea

Introduction

The Korean fashion retail market, despite its short history of mere 30 years, has rapidly grown both in quantity and quality. In particular, the market underwent a fundamental change as global brands entered in 1996 when the Korean distribution industry fully opened its door. This study intends to understand the changes in competition structure that occurred in the Korean fashion retail market, and analyze its response strategies based on the articles published in newspapers and magazines. In searching the articles, keywords were "franchise" and "road shop," considering that franchise stores have accounted for the majority of the domestic fashion retailers. This study will be examining competition dynamics that road shops or franchise stores face against department stores, discount stores, outlets and online shopping malls. Specifically dealt with will be how the retail sector has changed in terms of the competition structure, response strategies and store operations over the last few years after Korea opened its retail market and introduced global SPAs. The trend will be understood by year. In the course of analysis, the changes in market environment and strategic choices of the industry will be interpreted based on the theory of adaptive behavior and natural selection.

Background

Korean fashion retailing and the franchise system

The Korean fashion retail market has a very short history, compared to those of developed countries. Although western style clothes were introduced after the Korean War in 1950, the ready-to-wear fashion market began to develop in earnest in the 1980s when the national economy reached to the level where people could afford to purchase clothes to a certain degree. Despite the 30 years of short history, the market has grown to \$22 billion in 2009 with outstanding qualitative development (Kang, 2009).

The Korean fashion retail market can be characterized by three features: 1) manufacturers and retailers are not separated, 2) market share of franchise system has been very high, and 3) the paradigm of Korean fashion retail structure has abruptly shifted since retail market openness in 1996. The first two features will be discussed in this section, and the third in the next section.

The first feature that manufacturers and retailers are not separated is originated from the development process of the Korean fashion industry. The industry has developed in the late 1970s as big exporting manufacturers entered the domestic fashion market. They had accumulated sufficient dollars and experiences in making clothes by exports and recognized the domestic fashion market were ready to boom. In this period, the small number of big manufacturers wielded dominant powers in the domestic market. They began to distribute fashion products through department stores and firm-owned specialty stores. However, distribution in this context means that manufacturers took out a lease in department stores and/or paid commissions. Manufacturers were responsible for their management policies, pricing, product assortment, sales staff and even unsold stocks. This practice is still prevalent in most fashion retail channels operated by Korean fashion brands.

Strong reliance on franchise system, which is the second most common feature in the Korean fashion retail market, resulted from the first character mentioned right above. This is because in the 1980s when medium and small sized manufacturers began to enter, the franchise system is the most efficient and feasible strategy that enabled market

expansion without a large investment. In addition, proximity (accessibility) was considered as a key factor for success because casual fashion styles were in trend in this period. However, the Korean franchise system is somewhat unique in that franchisors are solely responsible for the disposition of unsold goods. In effect, this system is no different from consignment sales (Ann et al., 2010). According to an empirical study conducted in 1992 on the fashion retail structure, the share of franchise system was 48% and that of department was 21%. However, it differed by the product type: the franchise accounted for 60~80% in infant/ kid clothing and sportswears, but only 30% in Men's suits (Hwang and Jung, 1993).

However, the franchise system is still evolving as all costs involved in the system, such as franchise fee, deposit and costs of unsold products turned out to be too high. As a result, a modified system, called "semi-buying franchised system," emerged. This is a combination of a genuine franchise system and Korean franchise system (consignment store). Under the new system, franchisees have full ownership and responsibility for products to a certain extent, and franchisors guarantee higher margins to that extent. For the rest of stocks, franchisees act as a consignment seller. According to research (Adime, 2009), the full-buying base franchised system accounted for a mere 2.2% in 2009, while semi-buying system was 3.7% and the rest 94.1% was Korean style franchised system. Only global fashion brands, such as Levi's, afford 50% marginal rate and 5% returned merchandise.

Regardless of the types of franchised system, fashion manufacturers can enjoy about 10~15% profits from department store sales because 35% commission charges out of their total sales and other costs paid to department stores are larger than that to franchisees. However, the franchise system has been challenged by the changes in market environment. First of all, life cycle of fashion products has been extremely shortened and consumers' needs has been much diversified (Cho & Koh, 2008). Therefore, exclusive brand retail stores such as franchises have low competitive advantages over multi-brand stores that allow wider product mixes and one-stop shopping. Second, extreme weather events, such as high temperatures, heavy rain, or intense cold, kept consumers from franchise stores since they are mostly located on the street or close to downtown arena for the sake of accessibility (Ji & Kim, 2010). Instead, consumers tend to shop in shopping

malls, department stores, shopping complexes or on-line. Therefore, apparel franchise stores have been converted to beauty and cosmetic stores or accessories stores, which require relatively small retail spaces.

At present, the Korean fashion retail market is composed of traditional types such as department stores and franchise store, and new retail channels including SPA, discount stores, on-line stores, factory outlets, multi-brand stores, shopping mall and category killer, and they are in fierce competition. Especially, global SPAs with a wide product mix of trendy styles and fast replenishment system, such as H&M, ZARA, MANGO and Uniqlo, have successfully launched in Korea like in many other countries (Aktan & Burnaz, 2010; Alva, 2011; Berton, 2009; Hong, 2006). Uniqlo was the first fast fashion brand which entered the Korean market. In 2005, the first Uniqlo store opened in the Lotte Department Store, located in Myeongdong, which the most fashionable district in Seoul, the capital city of Korea. The company, FR Korea, handling Uniqlo in Korea is jointly owned by Japan's Fast Retailing and the Lotte Department Store. Sales of Uniqlo increased by 60% every year on average (Global SPA, 2010) and now the brand is the top fast fashion brand with 52 stores in Korea ('Uniqlo' with unhampered growth, 2010). In 2007, Zara was introduced by another joint venture with Lotte Department Store. As soon as the joint venture contract was expired, however, Inditex has opened its own stores in many cities in Korea, totaling at 27 stores by the end of 2010 (Global SPA, 2010). Since 2007, other fast fashion brands, including GAP, Mango, and FOREVER21, have entered the Korean market. These fast fashion companies adopted vertical integration which provided greater efficiency and shorter product life cycle. In contrast to the traditional supply chain which has taken about 18 months from fabrics to final merchandise on retail, they are able to produce apparel from design to distribution in three to eight weeks (Jacobs, 2006). Most recently, the first H&M store opened in 2010 in Myeongdong where large Zara, Uniqlo and FOREVER21 stores were

already fiercely competing. Concentration of large fashion stores in Myeongdong brought in larger traffic benefiting, not hurting, Korean domestic brands. However, the influx of foreign fast fashion brands and their success posed serious challenges to Korean domestic brands. Many brands were forced to accelerate their supply cycles, up to as many as 20 seasons a year.

Korean fashion retailers are expanding even to local market where franchise stores have advantages. According to "Korean Fashion Report," published in 2008, demonstrated that department store and franchise store comprised 30% respectively, and new-type retailers gained significant market shares. In particular, on-line retailers have grown extremely fast (Park et al., 2010). Sales volume of internet shopping was \$18 billion in 2010, and 17% of the total sales came from fashion products (KOSIS). TV-home shopping channels, as another on-line retailers, has also grown rapidly because big retail firms, such as Lotte shopping, CJ, GS (prior LG) and Hyundai, operate the channels as well as off-line department stores and discount stores (Hong et al., 2010). They secure big buying powers and consumers' trust, so that consumers feel relatively confident about credit card payments or product quality.

Korean retailing market openness

The Korean retail market fully opened in 1996 with 3-stage preparation plans established after the 1989 Uruguay Round. During this period, the world economy promoted the free trade and Korea was under the pressure of opening the market by the US and the EC as they considered Korean a potentially booming market. In particular, opening the retail market was inevitable because the UR imposed more weights to service markets than former rounds did. Therefore, the Korean government prepared the three stages retail market open policy in order to alleviate the shock (Table 1).

Table 1. The 3-stage retail market open policy and its effect on the retail market

Stage	Year	Details	Results
Stage 1	1989	<ul style="list-style-type: none"> -Ease the entrance restrictions to foreign firms -Further liberalize investments in the wholesale industry and introduce overseas know-how to domestic market 	<ul style="list-style-type: none"> Foreign retailers established Korean branch offices Expanded imports from Korea Launched licensing programs in Korea The number of licensing agreements reached 1200 in 1992 Foreign fashion brands introduced licensing and joint ventures to Korea
Stage 2	1991	<ul style="list-style-type: none"> -Ease the quota of foreign retail stores and the specific restrictions (Store quota from 1 to max 10, retail space from 700 m² to 1,000 m²) -Relax limitations on foreign retailers' investment overall Selectively approve foreign retailers 	
Stage 3	1993-1996	<ul style="list-style-type: none"> -Further relax of limitations on foreign retailers' investment Fully open the retail market in 1996 	<ul style="list-style-type: none"> Foreign retailers shifted their focus from licensing to foreign direct investments.

*Reference: Jang, S. (1997. 5). Background of Retail industry development law and major contents. Logistics and Management. pp.96-98.

Retail market openness has affected the Korean retail market overall and manufacturers. The fashion retail market is not free from the effect, either. According to analytical research on 10-year market changes after retail market openness (Seo, 2006), the most prominent change is the diversity of retail types, especially retail types, which were new to Koreans, penetrated into domestic market for the first time (Lee & Yeo, 2007). For instance, a warehouse discount store was first introduced by Costco, hyper-discount stores by Walmart and Carrefour, a Premium Factory outlet by Chelsey group, and SPAs by ZARA, MANGO and Uniqlo. These new-type foreign retailers served as a business model to Korean fashion retailers (Kang, 2010). Second, off-line stores have become bigger in order to attract consumers by providing a wider product mix (Shin & Hong, 2009). Global fashion retailers generally provide larger spaces than domestic players, but Korean retailers are also growing bigger. For instance, the Shinsegae department store, located in Pusan and opened in March of 2009, has the Guinness World Record as

the biggest department store. Its area is 293,905 m², whereas Macy's in Manhattan, New York; the second biggest, is 198,500 m². Third, off-line stores also have become multi-branch or chain stores because retailing requires huge investment of fixed costs. Fourth, retailers have become multi-brand stores or shopping malls that allow one-stop shopping and provide various kinds of entertainment. Lastly, advanced retail information technology has been introduced by foreign retailers and adopted by Korean retailers.

Retail market openness also has affected apparel manufacturers. They are now competing against not only foreign manufacturers but also global and domestic retailers, as retailers are aggressively developing private-label fashion items. Accordingly, boundaries between manufacturers and retailers became meaningless. Therefore, Korean manufacturers tend to have bigger franchise stores and enter other Asian markets where the image Korean brands or made-in-Koreas are highly recognized.

Research methods

In order to explore the structural changes in the apparel retail sector of Korea, this study adopted a qualitative approach based on newspaper and magazine articles. The major reasons behind this approach were two-fold. First, this study was exploratory in the sense that there was no empirical study dealing with the changes in Korean apparel retail sector. Thus, it was necessary to have data which allow a multifaceted analysis on the changes in the sector rather than focusing on pre-determined aspects of the sector. Second, time-series or longitudinal data are needed to explore how Korean apparel retail sector has evolved. Due to unavailability of consistent time-series data, mass media articles published over the period were deemed as the best information sources for this study.

One newspaper, Apparel News and one magazine, Fashion Channel, were selected for the study. Apparel News is a weekly trade newspaper which has been published since 1992. It has over 50,000 circulations and the largest number of visitors on its homepage among clothing and textile journals, followed by Fashion Channel. Fashion Channel is a monthly trade magazine started in October, 2004 and subscribed by over 43,000 readers. All reports pertaining to the retailing sector published in Apparel News and Fashion Channel from January 2006 to December 2010 were reviewed for the study. These articles were located through a systematic search using keywords, such as "franchise" and "road shop". On completion of the search, all articles were pooled, and duplicate articles and articles dealing with specific brands or companies were removed. A total of 378 articles were used in the final analysis.

Shoemaker and Reese (1996) identified two approaches - humanistic and behavioral approaches - in analyzing mass media contents. The humanistic approach emphasizes the inherent cultural meanings in contents and tends to use qualitative methods. In behavioral analysis, contents are part of a chain of cause and effect and the approach usually goes with quantitative techniques.

The articles collected for the study were analyzed in two stages, based on the two approaches. In the first stage based on humanistic approach, the contents of articles were reviewed and major themes addressed in each article were identified.

Those themes of structural changes were grouped into three categories - retail competition, strategic initiatives and institutional operations. Structural changes were identified as they were frequently dealt with in-depth in those articles. In order to analyze and focus on the structural changes reflected in the articles, the theory of adaptive behavior and natural selection was used as a framework (Mason et al., 1993).

In the second stage of analysis, a coding system was developed to quantify the contents of each topical category. The contents of each article were coded separately by three researchers. Inter-coder agreement on 30 articles was 0.929, which deemed sufficient for ensuring reliability.

Interpretation

Retail Competition

Articles about retail competition largely deal with competition between different retail formats and between brands. With the emergence of new retail formats, the competition dynamic has shifted from between franchise road shops and department stores to a wide range of store formats. Furthermore, the penetration of global SPAs into Korean market has also affected the structure of the Korean fashion retail market and intensified competition between national brands. Therefore, this study will be looking into the articles from three different perspectives: competition between retail formats, competition between national brands and competition against global brands.

Competition between different retail formats

Articles about competition between retail formats addressed competition that franchise stores face against large distribution channels, department stores and online shopping malls, focusing on franchise road shops. Above all, articles describing competition between franchise stores and large distribution channels demonstrate that franchises have been losing ground as more distribution channels, like discount stores, outlets and shopping malls, expand their markets. As large distribution channels have already advanced into small and medium-sized cities and residential areas, and expanded their fashion businesses in the form of

discount stores or outlets, franchise store have experienced a significant drop in their sales, and moved to areas where large discount stores have yet to open (AN, April 23, 2007). Discount stores usually affect franchises more than department stores do since they target mid-to-low price distribution channels (FC April, 2009). As they earn more revenues from clothing goods, they are more aggressively promoting their PB fashion brands, departing from their past practices which focused on food and other everyday products. As a result, an increasing number of franchise stores are giving up on their clothing shops and transforming themselves into different businesses (AN, January 18, 2010). As franchise road shops have lost their competitiveness, their share in the retail sector also shrank from 70-80% to 40-50%. Instead, they now opt for opening a store in a mall, which can attract more customers with less initial investments (AN, January 8, 2010).

Similarly, department stores have also penetrated into small and medium-sized cities all across the country to expand their local markets, which, in turn, decreased franchise stores' sales. As department stores opened in the area where franchise shops run their business, they took customers away from franchises (AN March 12, 2007). Furthermore, they began to target customers in their 20s and 30s, whom high-end department stores failed to address in the past, and prepared one or two floors dedicated to young fashion. Accordingly, mid/low price casual brands are hit hard. Those young-fashion floors sell not only clothes but also culture, including various promotions and events, and entertainments, so it is only natural that franchise stores lose ground (AN June 29, 2009).

Lastly, franchise stores' competition against online shopping malls is more about price competitiveness. Consequently, many shops selling mid/low price casuals or kid clothes went or are on the verge of bankrupt (AN April 17, 2006). This is largely attributable to the fact that online shopping malls are convenient and free from weather changes, not to mention their focus on low price items (FC June 1, 2010).

Competition between brands

Articles about competition between brands mainly deal with how intense competition among domestic and overseas brands has affected operation of franchise stores. In particular, they addressed

competition between domestic national brands and franchise stores, and between global SPAs and domestic brand shops.

First, with respect to the competition between domestic national brands, significant is that main brand categories that dominate the franchise market have changed over time. Up until the mid-2000s, mid price casual clothes were main players in the road shop market. However, volume casual brands, which are based on mid price casual and basic items, were hit hard by the active market penetration of mid price female apparel brands (AN October 1, 2007). Although mid price female apparel brands expanded their size through overheated competition in the road shop market, their revenues recorded minus growth. Accordingly, they are on the path of downsizing non-profitable stores, seeking for efficient operation (AN July 14, 2008). These days, national brands are more fiercely competing in expanding or increasing their road shops, and their main items are casual, sport and outdoor clothing.

Second, when it comes to the competition between global SPAs and franchise road shops of domestic national brands, global SPAs are rapidly advancing into all over the country, leading to sales decreases of national franchise shops. Those domestic brands are experiencing a dramatic plunge in their sales, particularly in, so called "A-level commercial areas," where global SPAs are concentrating; and many of them have changed to different businesses. Meanwhile, in small and medium-sized cities where global SPAs have yet to advance into, national franchise road shops are witnessing increases in sales from commercial areas (FC July, 2010).

Strategic Initiatives

Retail diversification

In the past, fashion product distribution was mostly handled by department stores and franchise road shops. However, with the emergence of new-type retail formats, competition between brands and/or between different formats has become ever intensified and the market became almost saturated. As a result, market players prepared and implemented diversification strategies on their distribution channels. Distribution channel diversification appeared in diverse forms. For

example, brands that used to operate their business centered on department stores and large discount stores turned their eyes to franchise stores and/or outlets (AN May 14, 2007; AN January 19, 2009), or franchise brands opened their shops in department stores, large discount stores and/or online (AN December 7, 2009).

First, department stores' diversification into franchise road shops began in earnest when they faced slow growth in profits and sales volumes (FC February, 2006). Recently, it has been notable that many mid-price value brands (O/P brands) which previously operated their businesses in department stores are expanding into road shop markets. Their main items range from young casual, men's character casual, underwear, men's character suits to mid-price men's suits. In addition, traditional casual and men's casual brands that have been stuck to high-end strategies are now considering to launch road shop-only line-ups at 30-40% lower prices, and expensive golf wear and directly-imported inner wear brands are also pursuing diversification into road shops (FC February 20, 2006; FC April, 2007; AN June 11, 2006). Furthermore, high-end women's character and career brands announced out-of-department store strategies in order to diversify their distribution channels, and renewed their line-ups at mid prices so that they could advance into road shop markets (AN February 2, 2009). As stated above, apparel companies that used to operate their businesses centering on their brands are now diversifying their product line-ups and price ranges in accordance with distribution channels. In the meantime, large distribution channels are also moving into road shop markets. For instance, mid-price female or male apparel brands that mostly established their shops in large discount stores or outlets in the past are now diversifying their distribution channels by opening road shops (AN May 14, 2007; September 7, 2009).

In contrast, franchise stores that mainly operated road shops in the past are now diversifying their distribution channels by opening new shops in department stores, large discount stores and/or online. Companies diversify their distribution channels into department stores, not only to boost sales volume but also raise their brand awareness. This was also attributable to the fact that department store made changes in their strategy from focusing only on high-end products to attracting young customers by establishing

mid-price character zones. Looking into by item, inner wear brands are seeking distribution channel diversification from road shops to department stores and large discount stores (AN July 13, 2009); and mid-price jeans casual brands, such as Signature and Shane, opened their stores in department stores to raise their brand awareness (AN December 7, 2009). In addition, mid-price female apparel brands that used to target road shops and outlets are now opening their stores in the character zones of department stores (AN December 7, 2009). Similarly, road shop brands are increasingly advancing into discount stores, outlets and shopping malls. For example, sport and outdoor brands are expanding their businesses in large discount stores (AN October 22, 2007), and volume casual brands are aggressively moving into large discount stores on the ground that franchise road shops are no longer a viable option (AN August 21, 2006). Furthermore, directly-imported golf wear brands are opening outlet shops in outlet malls and shopping malls (AN August 12, 2009), and more and more female apparel brands are launching mid-price brands in large discount stores or outlet malls, and aggressively targeting the market (AN November 26, 2007). Meanwhile, online has emerged as an attractive alternative to conventional distributional channels, since it enables companies to save distribution margins, salary expenses and other operating costs (AN May 7, 2007).

Multi-shop

In response to the changes in business environment, fashion retailers have increasingly opened complex road shops in large scales so that they can overcome economic slowdown and encourage customer purchase (AN January 19, 2009). There are several types complex shops: 1) a multi-shop with a wide range of products, a shop-in-shop or double-shop selling two different categories - items of full prices and of discounted prices-, a road shop with numerous items and clothing products, and a family brand shop comprehensively selling products of family brands. Examples of each case are as follows.

Men's suit brands are actively launching a total brand that sells tie, shirts and accessories for men and women. Recently, even distribution companies are jumping into the men's apparel multi-shop market (AN September 17, 2007). Golf

wear brands are also transforming themselves into total brands and aggressively opening road multi-shops where they sell not only golf wears, but also women's clothing, leather bags and sunglasses (AN April 2, 2006). As more multi-shops opened in the road shop areas, also emerging are mid-to-large complex stores that is based on a double-shop system: a corner for full-price items and the other for discount (or outlet) items (AN January 19, 2009). The growth of complex stores or multi-shops is largely attributable to the penetration of global SPA brands. In order to effectively compete against global SPAs, road shops tend to expand their store size and diversify their product categories and items (AN June 8, 2009). A case in point is Codes Combine, which establishes large multi-shops and integrated its six product categories: women's clothes, men's clothes, basic+ line, jeans, C-code and inner wears (AN March 15, 2010). Besides, some outdoor brands are opening flagship stores tailored to customers' needs and lifestyle. They serve as not only a shopping place, but also a lounge, information center, fitness center or even climbing exercise place (AN September 28, 2009). As stated, complex road shops, along with mega stores, are deemed as a viable strategy in the era of ever-changing business environment.

Mega retail shop

In the distribution industry, mega stores are becoming the norm. Road apparel shops are particularly enthusiastic about transforming into mega stores. This is largely affected by global SPA brands that have actively opened their road shops after Uniqlo launched its first Korean store in 2005. To compete against the megastore-based global SPAs, national brands are expanding their stores or opening new large stores with the average size of 330m² or bigger (FC August, 2009). Considering that megastores have advantages in attracting customers and dominating markets in advance despite huge initial investments, retailers are also opening their shops in department stores, large shopping malls and large discount stores. (AN December 7, 2009).

Mega road stores provide wider choices to their customers by introducing a new product line or displaying items of multiple brands; and try to further open flagship stores to invigorate road shop distribution (AN April 7, 2008). Furthermore, they establish lifestyle complex stores where customers can enjoy cultural services and entertainments

(May 21, 2007). Some outdoors brands gave different themes to each road shop so that they can make the shops into experience places and lounges for customers (AN March 30, 2009).

As more road shops turned into megastores, adjacent small stores were crowded out. In addition, the gap between rich and poor (or small and large) stores is only widening. For example, after the super-size Uniqlo store (992m²) opened near Gangnam Station, other casual brand, Giordano, Polham and WHO.A.U, located near the megastore saw their sales drop by 10-20% (AN November 12, 2007). Such megastore boom is expected to facilitate restructuring of road shop distribution channels.

Institutional Operations

Changes in business and Exit

Franchisees sign new contracts with a new franchisor within the same industry or shift to another industry to seek for bigger profits. When fashion companies were aggressively attracting franchisees, franchisors usually had an ultimate say on contract terms and brand changes. However, as global SPAs advanced into local markets and road shop sales stagnated, many franchisees gave up on apparel shops and moved into different industries, such as cosmetic, accessory, coffee, food and even telecommunications (FC July, 2010).

As road shop sales further plummeted, many franchisees located in commercial areas are seriously considering brand changes. Many have migrated to different brands as seen in the decreases in the number of volume casual brands that once occupied a large share of commercial districts and increases in the number of adult female casual and men's Q/P casual brands, while others shifted to another industry, citing that they did not have other options within the industry.

With market saturation, road shops experienced a down slope of their business and the overall retail sector went through restructure, like exit or migration. As a result, surviving shops put their operating priority on profitability and efficiency to secure differentiated competitive advantages, rather than volume expansion (FC June, 2009). Changes in the fashion market environment encourage market players to pursue efficient

distribution channels and quality growth, departing from size competition or price competition (FC July, 2009; FC November, 2009).

Operating systems and Contract terms

Changes in business environment call for changes in the manner of operating franchises, and thus emerging is a new type of distribution channel that is a combination of franchise and chain store, in accordance with the mutual interests of franchisors and franchisees. Prime examples are the chain franchise system and the small president system (or Intrapreneuring). Furthermore, contract terms between franchisees and franchisors on fees, collaterals and deposits are becoming more flexible.

First, many chain franchise stores are opening in the road shop market recently. A chain franchise store is a combination of franchise and chain store in that the franchisor company bears the burden of operating costs, including store rent, sales staff salaries and interior costs, and franchisees receive a certain portion of sales revenue as commissions. As the road shop market has slowed down, most road shop owners in commercial districts prefer this system that can guarantee more stable incomes. This system is also favorable to franchisors since they can save managerial costs and deposits that they have to invest in opening chain stores and collect cash from everyday sales. Furthermore, they can operate the stores at lower costs with less effort since franchisees take care of details. In the meantime, franchisees can save operating costs and secure stable revenues. (AN March 1, 2010).

Second, the small president system or Intrapreneuring system is a type of franchise in that franchisors make initial investments and franchisees operate the stores. This is similar to the practice adopted by department stores when they penetrated into road shop markets. Under this system, the franchise company purchases land and buildings, and establishes and operates chain stores while the intrapreneurs manage the stores and receive 12-15% of the revenue as

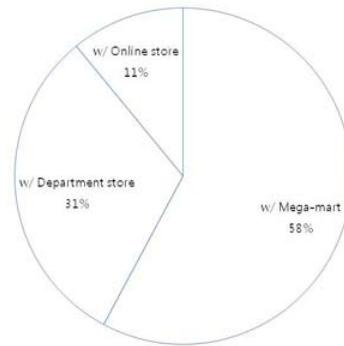
commissions. For example, Basic House mostly operated large chain stores in its initial stage, but opted for the small president system to more efficiently operate their stores. The company is now operating its stores in this semi-franchise system. In the case of Parkland, the company is solely responsible for building rent and interior to attract small presidents (FC February, 2006).

Third, in order to prevent franchisees from agitating in times of economic recession, franchisors raise the commission rates or offer flexible commission conditions. When stores outperform target monthly sales, companies provide higher commissions, and vice versa. Therefore, the commission rates reach 37% for stores with 100 million won of monthly sales, and over 40% for those with 110 million won (AN September 11, 2006). As fashion companies had a hard time in attracting franchisees, they have eased franchises' responsibilities, such as eliminating real estate collateral or cash deposit clauses from contract terms. (AR June 23, 2008).

Discussion & Conclusion

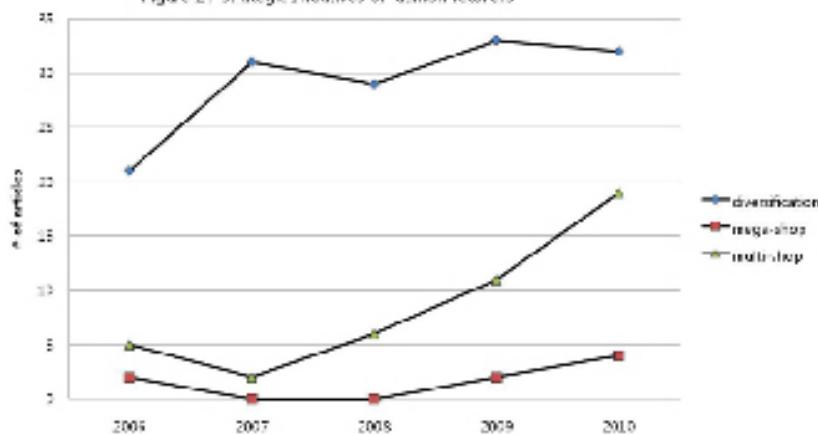
This study aims at understanding the structural changes in the Korean fashion retail market over the last decade after the market opened its door to overseas players. Based on articles published in the trade newspapers and magazines for the last four years analyzed and coded were retail structure changes that occurred in the market, with the focus on franchise road shops. As a result, competition between distribution channels was found to be even intensified with the emergence of various distribution channels and globalization. Looking into the competition centering on road shops, the majority of articles (58%) dealt with competition between road shops and mega marts as seen in the <figure 1>, followed by those about road shops and department stores (31%). In addition, 11% of them addressed competition between road shops and online malls. Therefore, it can be concluded that the Korean fashion market, once dominated by department stores and road shops, has diversified in its distribution channels, including discount store, outlets and mega malls.

Figure 1 : Channel competition of road shops



In the fashion distribution market, retailers opted for distribution diversification, multi-shops and mega stores in order to survive fierce competition between retail formats and/or between brands. As presented in the <figure 2>, articles about distribution diversification have been most frequently reported. Such diversification took place in two opposite directions: from road shops to discount stores, online malls and department stores, and from discount stores or department stores to road shops. In particular, fashion distribution channels that used to operate mainly in department stores realized that they faced the limits to growth in profitability and volume and advanced into road shop markets. The <figure 2> also demonstrates that the number of articles about diversification has been steadily growing. Mega stores have been another important issue. As global SPA brands aggressively expanded their presence to local markets recently, more megastores have been established.

Figure 2: Strategic initiatives of fashion retailers



As shown in the <figure 3>, articles handling franchisor-franchisee relationship most frequently reported about fee and contract terms and conditions (26%), followed by merchandising assortment (20%). Besides, brand power, support for sales, store interior, staff education and promotion were also addressed in those articles.

The changes in retail structure that took place as Korea opened its distribution market and global brands and distribution channels penetrated into the market can be explained by the theory of dialectic process and the theory of natural selection. The theory of natural selection says that the fittest and the most adaptive organs can only survive (Mason et al., 1993). Since opening its door, the Korean fashion market has experienced fierce competition and the gap between large and small shops in both size and revenue have been widening. As global SPA brands, discount stores and department stores expand their presence in the road shop market, market competition has become more intensified and road shops become to put their priority on profitability, rather than store size or scale. In the course of such change, inefficient or unprofitable road shops moved out of the market or moved into another industry. Furthermore, mega stores and multi-shops have emerged in order to better compete against global SPA brands and large distribution channels. This can be explained by the natural selection theory. Meanwhile, the once manufacturing-oriented Korean fashion industry has shifted its focus to distribution, which can be also explained by the natural selection theory. Retailers were identified to have launched their road shop brands to develop products tailored to different distribution channels. This clearly shows that the Korean fashion industry has become a distribution-oriented market.

Moreover, the emergence of chain franchise system and small president system is a process where franchise and chain stores dialectically combine, which can be explained by the dialectic theory. Mega stores and multi-shop brands are another example of dialectic combination that adopted advantages of previous channels in order to better adapt themselves to the market environment where global SPAs are aggressively expanding.

Thus far, this study examined structural changes in the Korean fashion market based on trading journal articles; and found that the Korean apparel market once dominated by road shops have adopted diversification, megastore and multi-shop strategies in the course of adaptation to market opening, and changed operating systems and contract terms to survive the intensified competition.

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CONSUMER ANIMOSITY AND THE INFLUENCE OF DEMOGRAFIC VARIABLE ON GENERAL AND ECONOMIC DIMENSION OF CONSUMER ANIMOSITY

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Abstract

Expansive development of the globalisation of markets has caused a variety of feelings of hostility and/or friendship among consumers toward products of certain countries. By identifying these different feelings, the concept of consumer animosity emerges as a significant variable which impacts on the individual consumer purchase choices. The original concept of animosity is based on the remnants of antipathy toward certain countries which are related to certain military, political or economic events. The consequences of these events are different forms of consumer behaviour that are manifested through the dimensions of animosity as a determining factor in selecting a particular product from specific foreign country. Specifically, development of the concept of consumer animosity has contributed to the better understanding of the complexity of consumer behaviour towards individual products of a certain foreign country, in order to better understand the final consumer purchase decisions. Research instrument was a questionnaire which included statements that measure general and economic dimension of animosity as well as questions of demographic characteristics of respondents. The aim of this paper is to explore the existence of general and economic dimension of animosity among students of the University of Dubrovnik, Department of Economics toward neighbouring countries of former Yugoslavia (Slovenia, Bosnia and Herzegovina, Montenegro and Serbia) as well as the connection of these dimensions to the gender variable.

Key words: animosity, consumer, consumer animosity, demographic variables

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INTRODUCTION

In recent years, numerous studies in marketing and consumer behaviour have studied the psychology of consumer purchasing behaviour in the choice of one product instead of another. Significant number of economic research has focused on the impact of country of origin and consumer ethnocentrism in order to determine consumer purchase decisions, at the same time neglecting other important factors which play a key role in defining the consumer buying behaviour. Still, recent studies related to consumer behaviour have revealed a new concept of consumer animosity that significantly affects the final consumer purchase decisions.

The concept of animosity is an aversion to certain specific country, company, social group, organisation that is shaped by cultural, political and demographic factors. In fact, in some studies, such as research of Jaffe and Nebenzahls (1997),

ethnocentric consumers showed the conflicting choices of the purchasing decisions resulting from the general aversion to foreign products, showing also positive attitudes to the products of certain foreign countries. Such specific consumer behaviour resulting from indeterminate emotions of the consumer towards only one particular country as a result of certain events between the consumer country and the producer country. Many research results included various feelings of animosity because of the military, political and social events while less effort was spent in conceptualisation of animosity, i.e. in understanding the basic form of its appearance and effects.

Finally, this study tries to discover existence of general and economic consumer animosity and the impact of demographic factors on its dimensions among students from the University of Dubrovnik, Croatia. The paper is structured as follows: in Section 2, the literature review includes the conceptualisation of consumer animosity and an overview of impact demographic factors on the tendency of general and economic consumer animosity. This paper will offer explanation of the demographic variables of gender as control variables which influence the concept of consumer animosity.

The methods applied in the study are described (Section 3) and research findings are presented in Section 4. Section 5 contains concluding comments.

LITERATURE REVIEW

The foundation of the concept of animosity is the emotional background of each individual consumer which also represents the foundation of the behaviour in purchase decision. The degree of expression of animosity is shaped through the personal development of each individual which is determined by the influence of external and internal environment of country in which it is located.

The concept of animosity is defined "as the remains of antipathy toward a particular country associated with previous or current military, political or economic actions that the consumer finds hard to forget and forgive" (Klein, Ettenson and Morris 1998). Such different consumer feelings are manifested through different dimensions of animosity depending on the cause of formation. Specifically, Klein, Ettenson and Morris (1998) have

found an independent effect of product country of origin on consumer purchasing decisions, proving that consumers will likely avoid the products of the enemy country, not because of consumer perceptions about the poor quality of these products, but the real reason is previous military, political and economic effects of the specific country. Many studies of Witkowski (Bahnee, Pisani, 2009), Shin (2001), Nijssen, Douglas (2004) and Kalliny, LaMaster (2005) and Amine (2008) showed significant impact of consumer animosity on consumer purchasing intention or negative relationship between animosity and consumer buying intentions. In Eastern countries including Croatia several small studies were conducted by Kesić, Piri Rajh, Vlašić (2005) and Crnjak-Karanović, Pecotić, Renko (2005) in which they confirmed the relationship between animosity and consumer buying intentions.

The concept of animosity, except the general animosity, includes a number of different dimensions which will depend on the characteristics of specific countries and the perception of some individual consumers. In their study Klein, Ettenson and Morris (1998) proposed the concept of animosity that leads to explanation of consumer rejection to buy these specific products from enemy countries, not because of consumer perception on poor quality of those products but because of warlike and economic and political dimensions of animosity. They also found that such consumers are willing to buy products from friendly countries and yet refuse to purchase products from the countries to whom they feel hostility. Such consumer behaviour points to a conceptual distinction of consumer animosity of other impact on consumer behaviour such as consumer ethnocentrism or country of origin.

All war, military, political or economic events can significantly shape animosity in individual consumer towards a particular country. War animosity is result of actions of aggression and war behaviour of one country to another country or nation, while the economic animosity results from trade and political relations between the two countries. Klein, Ettenson and Morris (1998) explored the impact of animosity on the purchase intention of consumers towards foreign products. Their model has developed a scale of war and economic animosity that showed a negative impact on consumers buying intentions associated with those product categories that are a source of reporting of consumer animosity. Furthermore, researchers Mincheol (2001) and Ang, Jung, Kau, Leong

(2004) and Nijssen and Douglas (2004) are also investigating the causes of consumer behaviour on the basis of war and economic animosity by the model of Klein, Ettenson and Morris (1998) and they also proved a stronger impact of war animosity than economic and political animosity on the consumers purchasing decisions.

The intensity of consumer animosity can significantly affect a number of different variables that ultimately can assume different consumer purchasing behaviour. Geographical regions, demographic variables, factors of market integration and economic conditions (Amine, Chao, Arnold, 2005) are unusual series of variables that can affect the effects of consumer animosity, thereby significantly affecting consumer preferences and ethnocentric attitudes. Previous studies that have shaped consumer attitudes toward buying foreign products are also investigating the effect of gender variables on the intensity of consumer animosity. The results of these studies were contradictory. The study Klein, Ettenson (1999) and Nakos, Hajidimitriou (2007) examined the effect of gender variable on consumer animosity. The study results did not prove statistically significant correlation between gender although they showed a stronger presence of consumer animosity in men than women. Presumably, such research results related to the fact that women are more educated and more conscious in the perception of foreign products. Furthermore, scientists Bahaei, Pisani (2009) in their study proved varying degree of consumer animosity among gender.

Consumer animosity is a concept that can operate independently and occurs in each society and country. Feelings of animosity are not a universal phenomenon because they include certain personal characteristics that are different among individual consumers. Incorporation of the concept of consumer animosity to understand consumer purchasing choices can lead to crucial importance in determining the different profiles of consumers in different countries.

METHODOLOGY: RESEARCH DESIGN AND RESEARCH OBJECTIVES

The aim of the research is to examine the existence of general and economic animosity dimensions in student population of the Department of Economics in Dubrovnik. Questionnaire was used for the

research instrument which was conducted at the University of Dubrovnik, Department of Economics on a sample of 244 students from all five years of study. It is important to emphasize the dominant presence of the female population of 68% in the collected sample. However, the sample will not affect the validity of research results, as women are evidently more frequent consumers than men. Taking into account that the sample research is student population, age and education were not important variables in creation of high-quality research findings, and for this reason they are not included in further research analysis.

The questionnaire contained 24 questions: 20 questions designed to measure dimensions of general and economic animosity, expressed on a Likert scale and 4 questions concerning determination of demographic factors. Sources of occurrence in consumer animosity are numerous and can be found in different domains and situations in consumers purchasing decisions. Four categories of sources of animosities are:

1. geographical proximity
2. war events
3. economic competitiveness, diplomatic developments
4. religion or an individual attitude of the individual-consumer

Based on these sources of animosities countries of research were selected assuming that consumers would express strong feelings of animosity toward these countries because they satisfied all the stated criteria. The scale of measurement was ordinal with degrees from 1 to 5, where respondents express their degree of agreement or disagreement with the statement date (1 = completely disagree, 5 = strongly agree).

Data were collected and analysed by methods of induction, deduction, description, analysis, synthesis, comparison and statistical methods. To obtain the results of the research the statistical package SPSS will be used.

RESEARCH FINDINGS

The research aims at exploring the existence of a general and economic dimension of animosity towards neighbouring countries from former

Yugoslavia (Slovenia, BH, Montenegro and Serbia), as well as the existence of a correlation of these dimensions with gender variable. Having taken into consideration the research goal 22.6% of students coming from Bosnia and Herzegovina were eliminated from further data analysis, consequently the total sample resulted in 187 students.

General animosity dimension

General animosity dimension has been measured by one statement – I do not like (name of the country) on Likert scale of 5 points (1 – strongly disagree, 5 – strongly agree). Herebelow are shown general animosity dimensions percentages per gender for each country stated.

In Table 1, total 45.7% of respondents agree with the statement I do not like Slovenia as opposed to 36.6% of respondents that disagree with the mentioned statement. When analysing the gender distinction it is noticeable that as many as 70% of male respondents agree with the statement while as 34.1% of female respondents disagree. At the same time there are significant differences in percentages per gender in other responses as well. The existence of significant statistical difference in the general animosity dimension per gender was confirmed also by Mann Whitney test shown in the table below, the significance being below $\alpha=0,05$.

Table 3 and 4 show the research results for Bosnia and Herzegovina. Table 3 shows that only 14% of respondents agree with the statement that they do not like BH whileas 68.7% of respondents disagree with the statement. Consequently it is to be concluded that general animosity towards BH is rather low. Although there are larger differences in percentages per gender in two possible answers (the answer I agree and the answer I strongly agree) Mann Whitney test did not confirm the existence of differences in general animosity dimension per gender with significance above $\alpha=0,05$ (Table 4).

Results for Montenegro are shown in two tables. In Table 5, 49.9% of respondents agree with the statement I do not like Montenegro, whileas 34.3% of respondents disagree with the statement. Further analysis which includes gender variable shows that male respondents, some 60%, are more prone to agree with the statement in comparison with 44.3% of female respondents. Additional confirmation of

the results has been obtained by Mann Whitney test with significance below $\alpha=0,05$ (Table 6).

Table 7 shows that 67.2% of respondents agree with the statement I do not like Serbia whileas 23.7% of respondents disagree with this statement. The percentage of agreement with the statement according to gender indicates that there are no significant differences between male and female respondents. Lack of difference in general animosity dimension per gender is obtained from Mann Whitney test results too with significance above $\alpha=0,05$ (Table 8).

Economic animosity dimension

Economic animosity dimension for each state has been measured on the basis of four statements on Likert skale of 5 points (1 – strongly disagree, 5 – strongly agree). To simplify the statistical data analysis, the arithmetic mean value of total responses per each respondents for each state has been separately calculated and new variable has been formed on 5 point scale (1 – strongly disagree, 5 – strongly agree). Research results and correlation of the animosity dimension with gender variable have been given in the following tables:

Table 9 indicates that total 50.8% of respondents show economic animosity towards Slovenia. Introduction of gender variable into further analysis indicates that male respondents are more inclined to show economic animosity towards Slovenia, which has been confirmed by Mann Whitney test too, the significance being below $\alpha=0,05$. (Table 10).

Table 11 shows the results for economic animosity dimension for Bosnia and Herzegovina. Only 14.3% of respondents show low degree of economic animosity towards the mentioned country. From further analysis which includes gender variable it is obvious that 18.7% of male respondents and 12.3% of female respondents show economic animosity towards BH. The Mann Whitney test (Table 12) has not proven existence of a significant statistical difference in economic animosity dimension according to gender.

Table 13 shows economic animosity dimension according to gender towards Montenegro. From the mentioned table it can be noted that there is no statistical difference in economic animosity

dimension, which has further been proven in Table 14.

The results of the analysis of economic animosity dimension made for Serbia indicate that there is no statistical difference in economic animosity dimensions according to gender (Table 15), which has also been confirmed by Mann Whitney test resulting $\alpha=0,05$ (Table 16).

CONCLUDING COMMENTS

For quite some time market globalisation has been a major challenge to marketing experts struggling to ascertain the specific consumer profile regarding purchase choice of a product. Knowledge of the global market and understanding of consumer preferences, desires and purchase habits is of crucial importance in recognition and categorisation of various consumer profiles. Tensions between individual countries may vary depending on different relations between countries. Sources causing such tensions are to be found in territorial conflicts, economic relations, restrictions on imports, diplomatic disagreements or religious conflicts. Of course, such relations may also result in various feelings of animosity/hostility within consumer behaviour patterns towards certain countries.

Consequently, consumer animosity is an emotional reaction of an individual consumer onto international tensions between individual countries. The concept of consumer animosity through its dimensions assists in explaining the complex consumer behaviour when making a purchase choice of national or foreign products.

The research results indicate the existence of general and economic animosity dimension, as well as the difference in feelings of animosity according to gender towards certain countries. Nevertheless, it is to be taken into account that for the purpose of this research a purposeful sample has been used disabling generalisation of results obtained, therefore they can be used as mere indication only.

Certain international tensions can lead to serious conflicts which will result in creation of strong consumer animosity. Consumer animosity is a dynamic concept the intensity of which varies with time depending on the sources causing the animosity. However, even associations to a certain

country may play a vital role in purchase choice of consumers. Consequently, consumer animosity or hostility towards certain countries may over the long term play a vital role in determining the consumers' purchase choice.

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CREATIVE CLASS AND ITS INPUT IN REGIONAL ECONOMIC DEVELOPMENT

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Abstract

The purpose of his work is to discuss the relevance of creative class segment for the regional economic growth. The paper is based on the new paradigm introduced by Richard Florida, who views creative class as a significant stimulus of regional development. The paper starts with the discussion of the significance of intellectual capital in the knowledge based economy. Next, authors present the macroeconomic characteristics of intellectual segment. It is stressed out that creative people act as active consumers in the regional markets of goods and services. Finally, authors present creative class index and its measurement methods. The paper ends up with the conclusion that intangible assets, like people's ideas and talents do contribute to economic activities, generating commercial value with a primary input of creativity, technology and human capital. This makes a platform for influencing the economic development of the region.

Keywords: knowledge-based economy, economic growth, creative class, creative class index

Significance of intellectual capital in the knowledge based economy

Science, technology and innovation have become key factors contributing to economic growth in both advanced and developing economies. However, human capital and education are at the centre of a knowledge based economy. More than ever, the level of education and talent, which embody human capital, will determine future social cohesion, prosperity and sustainability. The creation of new ideas, know-how, and interactions of various skills are ascribed to human capital, which according to R.E. Lucas (1998) is a "social activity". In his

opinion when highly skilled and educated people interact, they increase each other's knowledge, which is later added to the pool of human knowledge. Becker (1993) in his works defined a human capital as intangible value of members of the society such as knowledge and skills which can be separated from their financial assets but not from themselves. To complement the above theory, according to OECD (2007), a human capital is outlined as the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being. Although to acquire these intangible assets is a very high cost of time and is connected with many financial expanses, but these expenses are repaid with a profit in the future. Of course, there are many economic benefits of human capital. But among many, to two major ones belong individual perspective and national economy. Human capital determines in a way economic growth as better educated people tend to have higher incomes. However the role and importance of human capital have far more reaching implications, which go beyond economics and are also reflected in improved health level, employability, and active citizenship in a community life. Becker et al. (1990) provided empirical evidence on that countries with high levels of education tend to become wealthier, because their citizens are more capable of relying on own knowledge-based sources in obtaining a job than on national employment policy. In the worst case well educated person may work as a physical worker if does not find intellectual work, but it hardly ever happens that in an opposite way. More diversified abilities and skills of highly educated people tend to reduce their risk of unemployment.

Besides education, health is also essential ingredient in creating human capital. The economic

impact of human capital can be understood in prosperity terms individually and also of national economy. At the individual level, people with higher level of education are more health oriented and tend to have healthier habits and lifestyles. As a result these people are more productive in the workplace and take less time off due to sick leave. Economies also benefit because of the increased productivity and greater earnings, as well as an important way to attract foreign direct investment. In some African countries, for example, a survey showed that AIDS/HIV problems are a reason for no foreign investment (Bloom & Rosenfield 2000). The broader pillar of the knowledge economy stressed by Drucker (2006) and Steward (2002) considers intellectual capital, which includes not only knowledge, but is also based on information, depends on intellectual property and experience. All of these elements when recognized, captured and assigned can be put to create wealth. With the input of correct knowledge and timely information into the production process the output is intellectual capital. In other words intellectual capital is continuous knowledge creation. As result knowledge must be continually enhanced, renewed and enriched in order to be applied into new processes, products and services. Drucker (2006) underlines that the most important contribution in the 21st century is the transformation of the knowledge into real value. This process is known as knowledge productivity because it determines innovation level, which is vital in the knowledge economy. The concept of intellectual capital has value only under one main circumstance if it creates value. Therefore the real challenge is to transform the intellectual capital into wealth. In fact the intangible nature of intellectual capital determines future performance and forecasts worth on organizational and national levels. In the response to improve key competences of citizens in the shape of knowledge economy, lifelong learning has become a necessity at present. As a reason for that many countries create and implement reference tools to fully integrate their national strategies and infrastructures into the context of lifelong learning. Never before skills, and competences have been increasingly vital as they are currently in the knowledge-based society. These aptitudes reinforce innovation, productivity and competitiveness. In his work Schultz (1961) noted that individuals invest in themselves to enhance their capabilities in productive work which will be reflected in a positive rate of return – high future income in the long term. In a constantly

changing world there is a continuous need for acquiring up-to-date competences, not only in everyday life, but also specific job-related skills in order to stay flexible enough and be able to adapt to change. They provide major added value for labour market and a deeper understanding for ways of accessing new information and services. In this sense, these major value drivers influence motivation and job satisfaction in the workplace, along with the influence on work quality.

According to Mellander and Florida (2006) the geographic distribution of human capital is mainly affected by social factors such as openness and tolerance. However, there are more determinants defining the reasons for human capital distribution. Among many, one stressed by Berry and Glaeser (2005) presents the evidence of various hard facilities such as universities and colleges. In his research Shapiro (2006) came up with the conclusion that there is a strong connection between human capital and local area growth. It is because highly skilled residents are attracted by growing areas or soon to be growing and initiate further skilled composition of a city. Therefore, it is not surprising that cities play the major role in transmitting (Lucas 1988) the accumulation of knowledge. These findings are also emphasized by McHenry (2008), where skills are transmitted from cities to rural areas, not opposite, and that well educated people are likely to translocate than those less-skilled ones. Another aspect of human capital distribution is also presented in the research (Mountford 1997, Lowell 2001, Beine et al. 2006), suggesting that large exodus of highly educated may lead to more severe threats such as 'brain drain' of some cities, regions, and countries. Actually, such transfer of human capital is posing a great impact on the local development and growth. In many cases human capital is growing in the places where a large number of skilled residents are already present. Higher migration rates among the skilled residents due to higher return to education abroad than at home will influence the average level of education of the remaining population in order to increase their migration opportunities and promotion (Beine et al. 2001). Nevertheless, the belief outlined by Peter Drucker (1993) that economic resources should not be any longer perceived in terms of capital or labour but in terms of knowledge, is still true. However, the recent task for knowledge-driven economies is to transform this knowledge into the creation of new meaningful and useful forms (Florida 2002). This

requires recognition of creativity and innovation as new approaches in the current economy – the creative economy. Today's perception of the world has changed so intensively during the last couple of decades, that no one is surprised anymore that it has became a global "village". This new perception of our globe, through the continuous shrinking of distance not only in geographical but also in human relations terms, has been achieved due to a technological development. This process has mainly increased the flow of information, which has no borders nowadays. New inventions and improved solutions in the fields of computing, telecommunications and the internet have become a milestone in the technological and also in intellectual evolution of humankind, helping to reduce the distance in the communication process. Further improvement on these time saving innovations has facilitated a more sophisticated chain of services such as on-line banking, virtual conferences, and wireless communication via phone and television. This never-ending progress has been influencing development of services and their continuous growth in demand and sales, what initiated new forms of work and establishment of virtual organizations.

Macroeconomic characteristics of intellectual segments

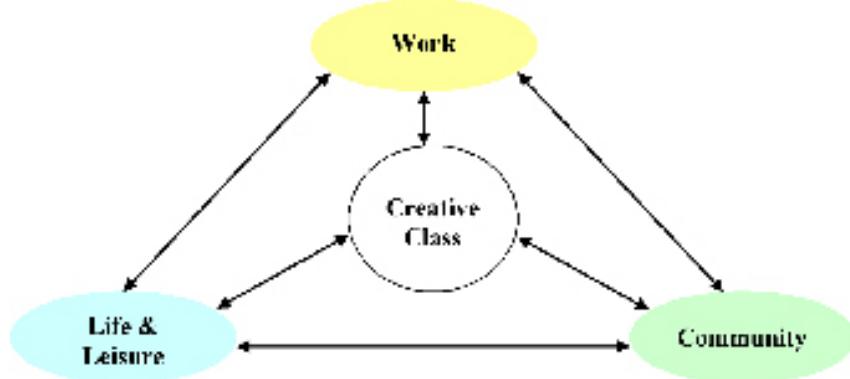
Richard Florida, the author of the book "The Rise of the Creative Class" (2002) has popularized a new paradigm which has a significant impact on regional economic growth and is based on a creative class. He theorizes that creative class consists of people who add economic value through their creativity (Figure 1). The possibilities of perceiving the creative class are through the social group and the way people identify themselves through economic functions, like work.

This is strictly bounded with social and cultural preferences, consumption and purchase behaviour of everyday goods and leisure time. Additionally, they seek for flourishing communities in terms of lifestyle options, cultural diversity, and regional vitality – increase in employment and population. The characteristic feature of creative class is that it is involved in creating useful and new forms. It is important to underline, that creative class should be perceived in terms of its intellectual potential and not by their material situation.

Florida (2002) describes creative class through two components: a super creative core and creative professionals (see Figure 2). To the first group belong: scientists, engineers, university teachers, writers, designers, artists, and researchers, EST. Their role is not only ascribed to independent and continuous tasks accomplishment but mainly to seek for permanent innovation, for instance: not creation of shower gel but noticing the fact that having a shower gel would be very useful. The second group consists of creative professionals - people employed in knowledge based occupations: technicians, financial advisors, healthcare practitioners, managers, business occupations. Their work is mainly characterized by the usage of diversified and interdisciplinary knowledge, linking standard solutions in an unconventional way.

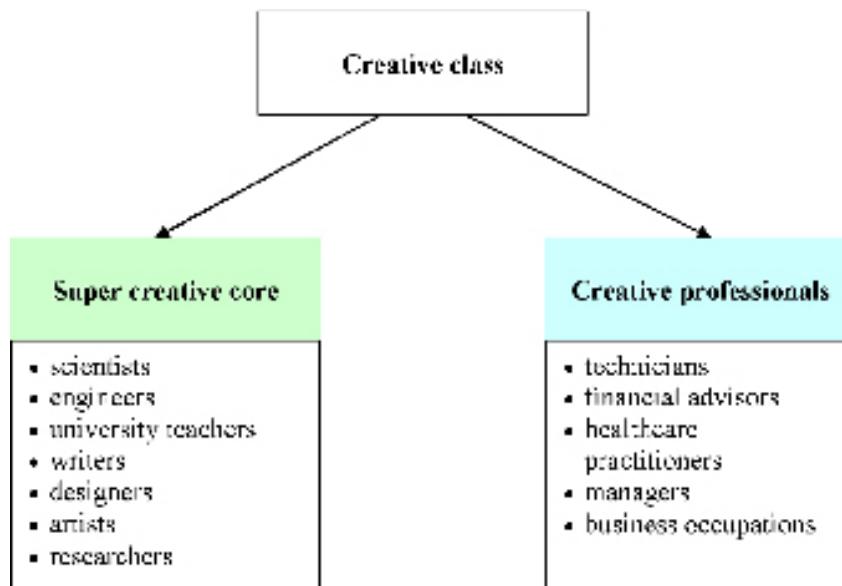
Whereas, the ones who generate concepts and stimulate creativity are not only creators, but also actively participate in everyday life, as they seek the various sources of inspiration that drive them towards new ideas. The "infrastructure" of the creative class is people working in service sector. This is a response to the rising demand of creative class for services. Because of their intensive working time and high income, they outsource many activities, like: eat out of home, have babysitters, gardeners, housekeepers, guards. Due to the differentiated level of work contribution given by creative class employees and physical workers, their participation in wage share also differs from one another. Additionally, people employed in the creative class play a significant role in the national economy through their contribution to GDP and income taxes. For example, a share of creative class in GDP in Great Britain was 8.2% high in 2001 (UK Department of Culture 2003). Export of goods and services produced by British creative class has increased for 15% in this country between the years 1997 – 2001, where the increase of this creative class segment is estimated by 8% annually in researched period 1997 – 2001. As displayed on Figure 3, in the U.S., the creative class is roughly 40 million people, or 30% of the workforce. Kevin Stolarick of Carnegie Mellon University estimated the economic impact of various class groups on U.S. wages and his findings proved that the creative class accounts for just about half of U.S. wages and salaries, or \$1.7 trillion (Zolli & Florida 2004). That contribution will only continue to grow.

Figure 1. Factors defining creative class

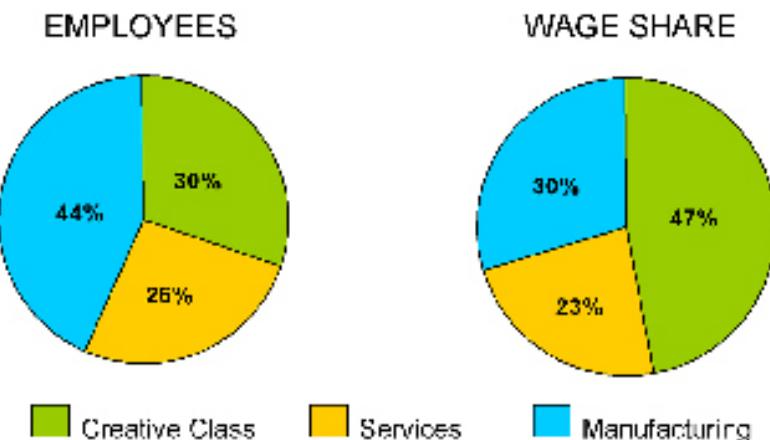


Source: own compilation based on Florida, R., 2002, *The Rise of the Creative Class*, Basic Books.

Figure 2. The creative class components



Source: own compilation based on Florida, R., 2002, *The Rise of the Creative Class*, Basic Books.

Figure 3. The Creative Economy in the U.S.A

Source: own compilation based on A. Zolli and R. Florida, *The Visionary and the Futurist*, American Demographics, October 2004

According to Stolarick's predictions, which are based on extremely reliable Bureau of Labour statistics, the creative class—which added 20 million jobs over past couple decades—is projected to continue at an equally rapid pace. On the contrary, the sector with the highest employment rate is service—43.5%—but its wage share is roughly the mean average of 30%. The lowest contribution in the wages is generated by manufacturing sector, only of 22.8% with 26% of employees. Meanwhile, people working in a creative sector have the highest average salary of \$51,000 per year, where according to Solarick, average salaries from the service sector and manufacturing are respectively \$28,000 and \$22,000 a year (Zolli & Florida, 2004).

The research overview on creative class (Andersson 1995; Venturelli & Shalini 2000; Landry 2000) enables to state, that relatively high income of the creative class reflects also in their purchasing power of every day and luxurious goods because of higher living standards together with their larger spending share, as well as a better ability to save money. The general idea of higher living standards of the creative class should also be understood in term of ways spending the leisure time. The diversity of cultural events, entertainment, and sports will increase the attractiveness of a place to creative people. But as Florida underlines himself, the point is not just to attract people from other regions. It is to make the place itself more

creative, which will do two things: one, organically grow a city's or a region's own creativity and, two, serve as fertile ground for those who do wish to translocate there (Zolli & Florida 2004). Such people seek esthetical value in their entertainment which is a source of stimulation with an opportunity not only to be a participant but also a creator. At some point, people from the creative class stimulate employment growth in local services because of their various activities and diversified interests, which in turn tend to generate more needs and wants. Therefore, the creation of an adequate environment rich in differentiated stimuli should not be underestimated. Florida correlates job growth in technology centres with specific demographic characteristics. He is of the opinion that communities with a high degree of diversity attract young, educated and creative people who contribute directly to economic growth. Conversely, the lack of diversity, tolerance, and a knowledge-based business base leads to a "brain drain" of this population to more attractive creative class communities (Holzheimer et al. 2005).

Essentially, Florida's theory and his findings based on more-in-depth analysis of the example of U.S. are mostly true. Also convincing evidence for the nexus between the creative class and economic growth in the Netherlands was demonstrated by two scientists (Marlet & Woerkens 2004) at Tjalling C. Koopmans Research Institute from Utrecht School of Economics. Their study considered

cities, rather than regions, as a unit of analysis, as the accumulation of ideas is chiefly regarded as an urban process. The study found that 35% of the Dutch population belongs to the creative class. In the 50 largest cities, 22.2% of the total labour force belongs to the creative class. In the rest of the country, the creative class accounts for 17% of total labour force. They found a positive correlation between share of creative class and employment growth, corrected for population growth. As with the creative class, the share of highly educated people correlates positively with employment growth. Therefore cities and regions with more educated residents grow faster than cities with smaller stocks of highly educated labour. They concluded that creative class is a better predictor of employment growth than education is. This means that attracting one member of the creative class will foster growth more effectively than attracting one highly educated person. Additional findings based on the Dutch study demonstrate; firstly, that human capital stimulates the process of innovation and the use of cost-cutting technologies in the service sector. Secondly, highly educated, creative people adapt more easily to changes, new ideas, and technologies. Also that creative and highly educated people have a stronger tendency to establish more new companies. Furthermore, due to their higher income, these people participate more in city life, spending a larger share of their income on entertainment. Finally, in the cities with a higher accumulation of a human capital an increase of employment for unskilled labour is observed, especially in local services not only connected with entertainment, but also with time saving services. In the conclusion they stated that the creative class is responsible for urban employment growth in The Netherlands (Marlet & van Woerkens 2004).

The importance of the creative class in a local economic development has gained on significant importance among researchers and scientists from highly developed countries for many years. On one hand, there is a wide literature on economic development, where first ideas of this sub discipline can be found in the works of Schumpeter (1994) and other authors (Lucas 1988; Hoogveld 2001; Holzheimer 2005) also on creative and innovation economy, so-called creative economy, and on the other hand few studies dedicated to the importance of the "creative segment" in the strategies of metropolis and cities (Urban Cultures 1992, 1994). This issue in terms of marketing relations

between the representatives of creative class and city council representatives has not been explored much so far, especially in Polish literature. The only empirical research related to marketing orientation of Polish cities has been conducted by Szromnik (2008).

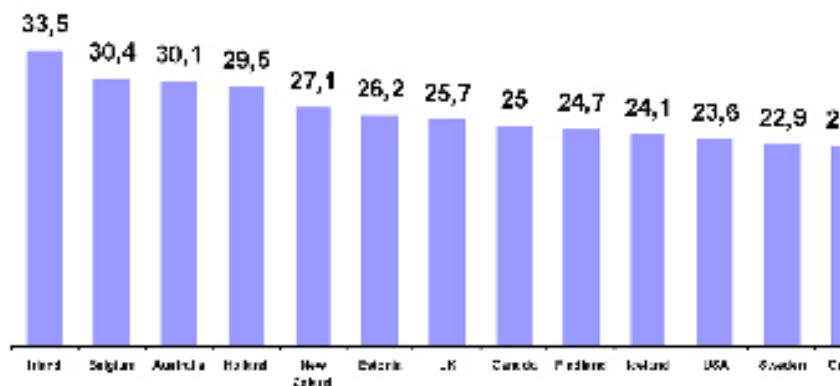
Creative class index and its measurement method

In order to receive a better view of how creative class percentage varies from country to country around the world, a Global Creative-Class Index (GCCI) was established by Florida and Tinagli (Florida 2004). It is measured by the number of people employed in creative job categories, which are defined by the International Labour Organization (ILO) in each country and then divided by the country's total number of workers.

In his study Florida included the general comparison of the Global Creative Class Index (GCCI) among 25 nations, excluding Asian and South American countries. However the diagram below presents only the first 13 countries. By contrast, in the overall compilation, Russia and Germany were placed 16th and 19th, respectively. It is surprising that the United States of America, which used to be first in attracting talented immigrants from all corners of the globe, is now in 11th place, with a GCCI of just under 24%. Even such countries as Iceland and Estonia are in front of the USA. The United States is still competitive, but due to the overall size of its workforce rather than its progress in increasing the proportion of people belonging to the creative class. Analyzing the above chart, only four countries among the first 13 ones are not from Europe - Australia in 3rd place, New Zealand – 5th , Canada – 7th one, and finally the USA is 11th. Unfortunately, in this study, Poland does not appear at all. It is not unexpected that Ireland is in the first place, with 33.5%. From what we have observed during the last few years, Ireland has managed to transform itself from a typically agrarian country to a country oriented towards financial consulting, IT, and specialists from other economic fields. The ranking shows that among highly developed and wealthy countries, Germany is in the worst position, having only 20.1% of its population belonging to the creative class. The probable reason is the country's long tradition in

the steel, automotive and white goods industries in which Germany has been in a worldwide leader for many years.

Chart 1. Global Creative-Class Index (GCCI)



Source: own compilation based on R. Florida, America's looming creativity crisis, Harvard Business Review October 2004.

Thus the country's wealth depends enormously on the world's economy, as one-third of GDP is achieved through export. As a result, thanks to foreign trade, German economic growth was on a level of 1.7 percent in 2004, which was greater than the 0.4 percent of the previous year (Jung 2005). At the same time, there is a worldwide trend of outsourcing production and services to lower labour cost areas like China and India. Consequently, German industry was strongly affected by these changes as it has the highest production and social insurance costs in Europe. Furthermore, Germany strongly limited immigration in recent years, which is perceived there as a threat rather than an advantage. This view may have its origins when incoming "guest workers", who were employed as labourers in order to rebuild the country after The Second World War, remained in the country after their work was completed. Uneducated people from poor countries with basic needs to be satisfied were never determined enough to obtain higher education. While, many of them would take the advantage of country's still wealthy situation and work for much less than the German citizens, increasing the already high unemployment rate. That notwithstanding, while Germany "successfully" defends itself from the intellectual competitive advantage of immigrants, it

suffers as a result from overproduction of tangible goods and a diminished creative class.

Of the first 10 countries presented in the above chart, 7 of them are from Europe and almost all of these countries are members of the European Union, except Iceland. This fact should underline the fact that Europe is going in a more intellectually diversified direction – more creative class oriented, which should decrease the side effects of reduced birth rates and the aging population in the long term. The U.S. has built its creative infrastructure by acquiring already highly educated people from lesser developed countries. These incoming intellectual migrants were mostly attracted by higher living standards, better salaries, and further development possibilities, and of course stay and work permits. It should not be surprising, then, that the trend of cultivating creative people will continue to grow within Europe as its population ages rapidly. Attracting foreign talent has become more popular and less problematic after another 10 countries joined European Union in 2004. Although, some "old" EU member countries have not opened completely their labour market to newly accepted EU nations due to more competitive labour force of new comers.

These new members still have low labour costs. On one hand this low cost economy is advantageous to foreign investments, but on the other wages is not sufficient enough for creative class to satisfy their living standards as their expectations are higher. It becomes a drain on an economy when many people, whose education was paid for from the national budget, decide to emigrate after graduation. Such massive emigration may have many side effects to still developing national economies. Firstly, their creativity, and knowledge is a contribution to the development of other economies and increases their GDP, and of taxes. Secondly, their national economy is less stimulated and has a lower competitive advantage when it comes to the creativity and sources of ideas, and greater wage share. In other words, it should be a priority to the country not only to generate the creative class but create resources to prevent it from emigrating.

What we have been witnessing during the last decade is a strong tendency in price reduction of mass-produced goods in the developed countries. Due to the technological developments, many basic tasks are being completed by machines, computers, and robots, replacing human labour. Thanks to this progress, goods are produced faster, of higher quality, and more effectively but with less human effort. During the same period, the prices of services have increased. Of course, it is more difficult to substitute services than products. Generally, service performance does not require as much financial investment as production. However, obtaining a qualified intellectual is much more time consuming and costly than training a manual worker. Therefore, as we compare the productivity and input given by an intellectual and a worker, they are not of the same quality. The former is obliged to give new solutions, concepts and deal with creativity while the latter only repeats learned activities that require an input of less advanced knowledge. In other words due to the differentiated level of work contribution given by creative class employees and physical workers, their participation in wage share also differs from one another.

Actually, what we have been experiencing in Europe lately is a quite complicated issue comprised of various factors. It is quite obvious that the tendency of moving manufacturing to lower labour cost countries like India and China will continue to grow. However, the outsourcing process should not be seen as a threat to the shrinking labour

population in Europe but, rather, as a signal to focus on generating jobs that are of more added values to the country's budget. According to Edwards (2005), by sourcing lower-value jobs from abroad, rich economies can redeploy their shrinking workforces into more productive work and so generate the wealth required to help support larger numbers of retirees. Europe is ageing drastically, especially the richer nations and, worse still; population growth is slowing from year to year. In other words, there is a smaller work force to support those who have already retired, live longer and are in a worse condition of health than their forbearers. While the elderly do not typically have a high demand of needs and wants, they do raise costs in the health-care system. This will place a greater financial burden on a working population that is also shrinking, especially when the baby-boomer generation will retire soon. According to the UN's projections, Europe's population loss between 2005 and 2050 will be by far the steepest for Italy – 22%, among big EU countries, compared to 9% for Spain, 4% for Germany where only France and Britain will grow in the same period by 6% and 11% respectively (Severgnini, 2005). Such pessimistic predictions regarding the continuing decrease in a population growth raise the question of who will replace baby-boomer retired working force as developments in technology generate new services and create new occupations. The most severe lack of new successors will be in science and engineering especially since the beginning of the 1980s, employment in these two segments has quadrupled in comparison to the total indicator of employment.

Another tension in Europe is the matter of immigrants that are quite often described as a cheap labour force. These people coming from poorer countries are willing to work for much less than the citizens of one's country. There are already some occupations in which ordinary residents are unwilling to be employed due to low salaries and, therefore some of them live on social security. However, present demographical trends in many European countries may result in a situation where immigrants will be required. A United Nation's report issued in March 2000 predicted that EU countries could need as many as 159 million foreigners by 2025 to make up the shortfall in the work force caused by an aging population and declining birth rates (Johnson & Contreras 2004).

Conclusions

Generally, European countries should be aware of their creative class value due to their high contribution in wage share and income taxes, they are critical to the long-term economic health of their communities. Thanks to the high spending power of the creative class, other services sustain their presence and even growth of the new ones. Therefore the labour market should be oriented towards creating new jobs in developing areas that are knowledge-based and not production-based. It should be critical to national economies not only to generate the creative, class but also to maintain it within the country in order to avoid "brain drain". For that reason more government spending should be dedicated to development and research in order to increase a national competitive advantage internationally or even globally. All above assignments should be integrated in the Three Ts – Talent, Technology, and Tolerance – followed by openness, which is the essence of creative class. This is an openness to new ideas, and therefore to new cultural, social, political and economic opportunities. Creative class defines the national competitive advantage, because highly developed countries are going to suffer from one major deficit namely young people. Therefore a young population is not only valuable to the national economy due to its creativity, which as we observe has a continuous price increase tendency, but because of their contribution in supporting the retired generation.

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FAIR TRADE TOURISM: THE CASE OF SOUTH AFRICA

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Abstract

This study applies the conceptual of Fair Trade Tourism, focusing on South Africa. The continued growth in South Africa in the range of 10% per year which is projected for the next decade, promises to launch the industry to new heights through infrastructure development and the showcasing of South Africa as an attractive leisure and business destination. Fair Trade Tourism is about ensuring that people, whose land, natural resources, labour, knowledge and culture are used for tourism activities, actually benefit from tourism. The goal in this effort is to define the benefits of including more people to local communities via Fair Trade Tourism, and empower them with justice in the developing country of South Africa. Moreover, there will be researched the possible economic benefits that Fair Trade Tourism might bring to local communities. In tourism, hotels and tour operators, Fair Trade Tourism can be certified against specific standards developed around business operations, such as labour standards, employment equity, skills development, community involvement, environmental management. The tourism industry is making a significant difference in South Africa, and environment gains from Fair Trade Tourism with particular interest in the option of establishing fairly operated tourism enterprises.

Key Words: South Africa, Fair Trade Tourism, capacity building.

Introduction

The Fair Trade movement started in Europe in the 1960s to help producers in developing countries receives a better deal for international trade in commodities and other goods. Since then Fair Trade has grown in influence and power. The movement has created trading partnerships and ethical trading initiatives. It has improved working conditions, remuneration and market access for producers in the global South. In 1988 the first Fair Trade label was introduced in the Netherlands, and since then consumer demand for labelled products has grown dramatically in Europe, North America and the Pacific Rim (<http://fairtourismsa.org.za>, source: <http://fairtrade.org.uk>, 2010).

In the tourism industry, the concept of fair trade has emerged as a powerful critique of mass tourism and other forms of global travel that have a negative impact on destinations and their inhabitants. This work was led initially by European advocacy organisations, including Tourism Concern in the UK and Arbeitskreis Tourismus & Entwicklung (ATKE) in Switzerland (Seif and Spenceley, cited in Mahoney, 2007). In response to the international fair trade movement, Tourism Concern together with the University of North London set up the international network for Fair Trade in Tourism in March 1999. The aim of the network was to promote a fair and ethical tourism industry, and to ensure that the local people whose land, natural resources, labour, knowledge and cultures are

used for tourism benefit from the tourism (Kalisch, 2001, cited in Mahoney, 2007).

According to the group Fair Trade in Tourism South Africa (FTTSA), "Fair trade in tourism is about ensuring that the people whose land, natural resources, labour, knowledge, and culture are used for tourism activities actually benefit from tourism." In short, it means that tourism has an ethical framework and focuses on fair wages and long-term benefits for locals (McLaren, 2001, cited in Seif 2001). It can be concluded that tourism should be based on an ethical framework and focus on fair wages and offer long-term benefits for local inhabitants. Fair Trade is not strictly bounded in the commodity chain, but it also focuses on creating fair behaviour towards excluded local people and promoting capacity building, in order to guarantee further development.

The aim of this paper is to explore the implementation of Fair Trade Tourism in the case of South Africa, as a new perspective that focuses on the benefits of including more people to local communities and empower them with justice. The impact of Fair Trade Tourism on local people's life and the potential benefits for local communities engaging in this activity will be investigated in this paper. Furthermore, the environmental effects of Fair Trade Tourism in the case of South Africa will be inspected.

Fair trade Tourism

Tourism is the world's largest industry, employing some 240 million people worldwide and contributing nearly 10% to the global domestic product (GDP). Africa's share of the global tourism market currently stands at less than 5% (UN-WTO, 2008), leading many in the continent to call for a more aggressive approach to tourism development as a means of spurring revenue, employment and investment. South Africa is no exception: international arrivals to the country reached 9.07 million in 2007, up by 8.3% on the previous year. This compares to less than three million international arrivals in 1992 (<http://www.fairtourismsa.org.za>, cited in <http://tourism-review.com>, 2010). Since household consumption is expected to be curtailed by rising interest rates, rising prices, and growing indebtedness, growth will still be very largely driven by fixed investment as the economy comes out recession. The fixed investment to GDP ratio will accordingly continue to rise. One estimate is

that the ratio will be 23% by 2010 (Bruggemanns, 2008). The continued growth in South Africa in the range of 10% per year which is projected for the next decade, promises to launch the industry to new heights through infrastructure development and the showcasing of South Africa as an attractive leisure and business destination.

Fair Trade Tourism is a key aspect of sustainable tourism. It aims to maximize the benefits from tourism for local destination stakeholders through mutually beneficial and equitable partnerships between national and international tourism stakeholders in the destination. It also supports the right of indigenous host communities, whether involved in tourism or not, to participate as equal stakeholders and beneficiaries in the tourism development process (Seif, 2001, cited in Kalisch, 2001). The London-based tourism NGO Tourism Concern has – as one component of a several-year programme co-financed by the European Commission – facilitated global networking of tourism initiatives in order to encourage the exchange of experiences and the work on criteria for Fair Trade in Tourism (Tourism Concern 1999-2002, cited in Plüss, 2003).

International trends in Fair Trade Tourism

Fair trade is a method of trading which seeks to establish an equal basis of exchange between the First and Third Worlds. Barratt Brown (1993) describes the practice as one which, in addition to seeking a fairer relationship, aims to establish a more interactive relationship between groups of producers and consumers in the two worlds, forming a greater understanding among consumers of the need of producers for trade support to gain independent financial development (Strong, 1997).

Fair trade has been increasingly promoted by activists, farmers, business people, and even rockers like Coldplay's Chris Martin, who became a leading front man for fair trade after participating in an Oxfam trip to meet Haitian farmers (Seif, 2001).

In the mid-1990s, a number of UK-based organizations began to explore "whether tourism could be fairly traded" (Kalisch, 2001). In 1999, an International Network on Fair Trade in Tourism was established, and today the Network counts about 200 members, including NGOs, industry

and community tourism initiatives and academic research institutions from the UK, Europe, Asia, Africa and Latin America (Kalisch, 2001, cited in Seif, 2001).

Tourism Concern, a UK-based NGO, defines Fair Trade in Tourism (FTT) as "a key aspect of sustainable tourism" (Kalisch, 2001). FTT holds that without fair and ethical trade practice, it is not possible to achieve sustainable tourism. FTT aims to maximize the benefits from tourism for local destination stakeholders, through mutually beneficial and equitable partnerships. FTT also supports the right of indigenous host communities, whether involved in tourism or not, to participate as equal stakeholders and beneficiaries in the tourism development process (Kalisch, 2001, cited in Seif, 2001).

In late 1998, IUCN-South African launched a pilot project (the Fair Trade in Tourism Initiative) to test the concept's feasibility in the South African context. Over two years, a wide range of stakeholders in South African tourism and development indicated their support of the project, and by the end of 2000, FTI had cemented working relationships with tourism products, tourism associations, NGOs and project implementing agencies in four regions of the country: (1) Elim, Northern Province; (2) Pondoland, Wild Coast; (3) Matatiele in the Southern Drakensberg; and (4) Cape Town and West Coast in the Western Cape (Seif, 2001).

In 1999 Tourism Concern, a London based advocacy organization, initiated an International Network on Fair Trade in Tourism which focused mainly on research, advocacy, and information sharing. At the same time, a Swiss NGO, Arbeitskreis Tourismus & Entwicklung (AKTE), a tourism and development working group began to investigate the principles and modalities that would underpin Fair Trade in tourism (<http://fairotourismsa.org.za>, 2010).

As part of tourism sector, Fair Trade Tourism can apply on a variety of projects in global, where the necessity for poverty alleviation takes place, and local communities suffer under the pressure of scarcity and health lack, additionally with particular attention to the possibility of establishing fairly operated tourism enterprises.

Case analysis

The first democratic elections took place in South Africa in 1994. In the post-apartheid period, policy and programs have been primarily geared towards eliminating the legacies of inequitable governance, which discriminated between the benefits and rights available to people on the basis of race. The Constitution of the Republic of South Africa of 1996 provides the basis for the empowerment of historically disadvantaged individuals (HDIs) and transformation, by: prohibiting discrimination on such grounds as race, gender, sex, ethnic or social origin; culture, belief and language unless the discrimination is fair; and providing for affirmative action, to advance people who have been disadvantaged. Policies developed subsequently are based within this legal and political context, which recognizes the need to alleviate poverty and create the conditions for sustainable economic development (Spenceley and Seif, 2003).

In the mid-1990s research was undertaken to investigate the feasibility of South African producers entering the Fair Trade system. This research paved the way for the certification of South African cooperative farms as well as commercial farms (under the Fairtrade Labelling Organizations -FLO-hired labour standards). Today South Africa is the world's largest exporter of Fair Trade products including fresh fruit, dried fruit, tea and wine (<http://fairotourismsa.org.za>, 2010).

Prior to the democratic elections of 1994, South African exporters were facing a highly effective sanctions campaign lead by civil society organizations throughout Europe. Post-Apartheid South Africa saw a normalization of trade; however in agriculture this benefited primarily white farmers who controlled the commercial farming sector.

In South Africa, efforts towards responsible tourism started to appear in government policy with the advent of the 1996 White Paper on the "Development and Promotion of Tourism in South Africa". This White Paper explicitly recognized and promoted the concept of responsible tourism. Then, there was a multi-stakeholder process in 2001-2002 aimed at producing national policy Guidelines for Responsible Tourism. The South African Department of Environmental Affairs and Tourism (DEAT) coordinated this effort, and the UK Department for International Development (DFID) provided the funding. Most recently, in 2003, a Responsible Tourism Handbook was released,

published by IUCN-South Africa on behalf of DEAT, which is a manifestation of the rising interest in responsible tourism in South Africa.

The White Paper described how the government perceived the roles and responsibilities of different stakeholders in relation to tourism development. It noted that private sector was in a position to promote the involvement of local communities in tourism ventures by establishing partnership tourism ventures with them, and described the functions the state expected the private sector to fulfil (DEAT, 1996) to involve local communities and previously neglected groups in the tourism industry through establishing partnership ventures with communities, out-sourcing, and purchase of goods and services from communities (for example, poultry, herbs, vegetables and other agricultural supplies, entertainment, laundry services, etc.); to enable communities to benefit from tourism development—for example, communities benefiting directly from new reticulation systems and village electrification programs developed through tourism investment in rural areas; to continuously upgrade the skills of the workforce by continuously providing training and retraining.

The White Paper also reported that many communities and previously neglected groups, particularly those in rural areas, had not actively participated in the tourism industry, although they possessed significant tourism resources. Some of the functions of communities, as perceived by government included (*ibid.*): to organize themselves at all levels (national, provincial and local) to play a more effective role in the tourism industry and interact with government and role players at all levels; to identify potential tourism resources and attractions within their communities; to exploit opportunities for tourism training and awareness, finance and incentives for tourism development; to seek partnership opportunities with the established tourism private sector; to participate in all aspects of tourism, including being tourists; to support and promote responsible tourism and sustainable development; to oppose developments that are harmful to the local environment and culture of the community; to participate in decision-making with respect to major tourism developments planned or proposed for the area; to encourage the press, particularly the radio and the print media to proactively provide tourism information and awareness to communities; to work closely with NGOs to educate communities concerning tourism and engender tourism awareness; to sensitize the

private sector, tourism parastatals, environmental agencies and NGOs to the importance of communities involvement in tourism development (Spenceley, 2003).

In 2000, DEAT began disbursing national poverty relief funds for labour intensive projects ("bricks and mortar") to create new tourism products and infrastructure in previously neglected areas. About R100 million per annum is earmarked for this programme, which has been slow to get off the ground. Other prominent supply-side interventions include the Department of Trade & Industry's Spatial Development Initiatives (SDIs), wherein tourism features prominently, and the Community Public Private Partnership Programme (CPPP) which promotes sustainable rural livelihoods through agricultural and tourism development (Seif, 2002).

On 13 June 2002, the Fair Trade in Tourism South Africa (FTTSA) certification program was officially launched in South Africa, marking the first time in the history of the fair trade movement that a trademark or label for the tourism sector had been created.

On 22 October 2003, the first four certified establishments were announced, with the portfolio of FTTSA-certified products increasing annually (<http://fairtourismsa.org.za>, cited in <http://tourism-review.com>, 2010).

Fair Trade South Africa is the national umbrella organization for Fair Trade. The fair trade movement aims to enhance trading conditions for small scale businesses, improve labour conditions for employees and empower communities through ethical and sustainable trade (<http://fairtrade.org.za>, 2010).

Sustainability

FairTrade in Tourism South Africa occupies a specific niche within the broader umbrella of responsible tourism, by promoting a fair, participatory and sustainable tourism industry in South Africa (Seif & Spenceley cited in Mahoney, 2007). Without fair and ethical business practices, it is not possible to achieve sustainable tourism development. Most definitions of such development include elements of social equity, long-term economic benefit for all, and environmental protection. FTTSA helps promote sustainable development to the extent that its evaluation criteria include

elements of social equity and long-term economic benefits for all. To enhance FTTSA's contribution to sustainable tourism development it would be useful to integrate the individual performance of tourism establishments into a regional and national framework for sustainable development. This framework could help local authorities plan, monitor and verify sustainable tourism. Tepelus and Cordoba (2005) argue that, from a demand perspective, there is not much value in having an individual property recognised as a sustainable choice if the entire region itself does not display the same characteristics. FTTSA could thus enhance its advocacy role by ensuring that fair trade principles are included in sustainable tourism planning at the local, provincial and national level (Mahoney, 2007).

Benefits and future opportunities

There is growing awareness that a new subset of tourism studies has emerged that redefines and extends concerns about tourist behaviour and the operation of the international tourism industry. Notions of morality, ethics, and codes of conduct have been debated in the sociology of development literature in the past (Goulet, 1975, cited in Lea, 1993), but the emphasis then was primarily on behaviour as it affected other humans. Today, this is coupled with a new ethic that places the environment at centre stage. Of particular significance is the fact that much of the push to explore questions pertaining to tourism and to effect changes in some government policies and commercial practices is coming from sources in the developing world (Lea, 1993).

Benefits to the poor from tourism depend on whether and how they can participate economically in the industry – though the non-economic impacts discussed below must also be considered. A wide range of factors ranging from the local (assets, gender, livelihood strategies) to the policy environment (tenure, regulations) and commercial context (market segments) influence their participation, and all embody constraints which can be reduced (Ashley, Boyd and Goodwin, 2000).

Fair Trade in Tourism South Africa is working in a niche area of the South African tourism industry. Concerns have been raised about whether it can make a meaningful contribution to poverty reduction by pursuing niche markets, rather

than being integrated into mainstream tourism activities. Work undertaken on pro-poor tourism concludes that poverty alleviation strategies need to place poor people and poverty at the heart of the sustainability debate by defining strategies that enhance the net benefits of tourism to the poor (Ashley et al., 2001, cited in Mahoney, 2007). Cleverdon and Kalisch (2000) conclude that if fair trade in tourism is to help alleviate poverty it will need to permeate all operations, not as an option but as a matter of principle. The certification process as adopted by FTTSA, being a highly niched product, has a negligible impact on poverty alleviation. Nonetheless, FTTSA does fulfil a strong advocacy role, making the industry aware of the principles of fair trade, and by thus having an impact on the overall sustainability and responsibility of the South African tourism industry indirectly contributes to poverty alleviation (Mahoney, 2007).

It is argued that if rural communities have sufficient authority and control over wildlife and if the benefits from wildlife management (including income from tourism) outweigh the costs, then communities will manage wildlife sustainably. In South Africa joint ventures have developed where National Park authorities have sought ways to increase the legitimacy of conservation areas through providing benefits to rural neighbours. Another major impetus is now being given to joint ventures by the Strategic Development Initiative which seeks new ways to develop sustainable local economies and has a strong focus on tourism. Tourism joint ventures in South Africa are also developing in East Africa, supported by both conservation and development-oriented institutions. The joint ventures that have developed in the region reflect the specific political, social, cultural and economic contexts of each country, but also demonstrate similarities (Ashley and Jones, 2001).

According to Levi and Litwin (1986) regard community participation as the creation of the democratic system and procedure to enable community members to become actively involved and to take responsibility for their own development, to share equality in the fruits of community development and to improve their decision-making power. Community participation provides a sense of belonging of identity, a commitment to common norms, a willingness to take responsibility for oneself and others, and a readiness to share and interact.

Empowerment means enabling poor communities to build their capacity and the confidence to succeed at development in an effective and sustainable manner. The approach is learning by doing and building one's capacity through experience (Thwala, 2004).

Limitations

Taking the argument that tourism and recreation jobs could be considered "substandard" coupled with the notion that people are willing to accept lower paying jobs and accept periods of unemployment to live in high amenity areas leads one to the reasonable conclusion that building on amenities through tourism and recreation could result in higher levels of poverty via the working poor and widening income gaps (Deller, 2010).

It has been argued by some commentators that large multi-national tour operators' ability to deliver benefits to communities and their awareness of the impacts that tourism initiatives have at the local level is limited by their geographical location (decision makers located far from the tourism destination), their lack of time and lack of interest in local communities, and in the communities' needs and requirements (Swarbrooke, 1999; Timothy, 2002; Timothy & Ioannides, 2002, cited in Simpson, 2007). Smaller enterprises may, notionally, have the ability, interest and spatial positioning to be more sensitive to community needs and objectives; however, they also have constraints in terms of their focus on short-term survival and a lack of resources (time, labour and finance) (Simpson, 2007).

There are a number of organizations which attempt to influence tourism development. These include the Spatial Development Initiative -SDI- Technical Team, the national tourism authority, SATOUR, the provincial KwaZulu Natal Tourism Authority, and regional services councils. National and provincial government departments also have some input into planning tourism development, including the departments of Finance; Public Works; Transport, Trade and Industry; Arts, Culture, Science and Technology; Labour; Education; Home Affairs, and Foreign Affairs. These parties are sometimes in conflict with each other, particularly since some are regional, some are provincial and others are national organizations. Although there is continual reference to the government function of creating an enabling environment for private sector

investment, this is seldom occurs (Poultney and Spenceley, 2001).

It is argued in the literature that tourism has an effect on the environment as well as on people, since it is a profit targeted activity, due to the exploitation of the natural resources and environmental pollution and as in many occasions' poor people receive barely the essential for surviving while most of the revenues ends up in the hands of the big touristic companies. On the other hand, Fair Trade Tourism claims to demolish these inequitable processes, but there is a danger of an unsuitable financial management, and as a result local communities might not receive the potential benefits. In this perception Fair Trade Tourism will lose its status and not reach its original purpose, creating better conditions for local people and contributing in the development of healthy society surroundings.

Conclusion

A concern with business ethics has gained momentum in recent years, providing impetus, for example, to corporate social responsibility programs and ethical supply chain management initiatives. The latter has led to a proliferation of voluntary codes of practice and independent social and environmental certification systems. The private sector is more explicitly engaging with the development agenda and using an increasingly developmental language, of which ethical practices form part. It exercises influence through multi-lateral linkages with, for example, national development and finance ministries, the World Bank, and corporate funded foundations (Jones et al., 2007, cited in McEwan and Bek, 2009). While some of this concern with business ethics has been driven by anti-corporate campaigning (Sadler, 2004, cited in McEwan and Bek, 2009) and various alternative trade movements, the business case has been established more rigorously than the development case (McEwan and Bek, 2009).

Although the term 'fair' used in the free trade context is semantically similar to that used by the Fair Trade Movement it is essential to highlight the features that make it distinct from a free trade approach. The main aim of fair trade is to fight against poverty in the Third World. The intention is to redress historical trade imbalances created by colonial practices and by the politics of dependency, which have produced a comparative disadvantage to developing countries in relation

to the industrialized metro poles, rather than a 'comparative advantage' (Cleverdon and Kalisch, 2000). Fair Trade Tourism creates better conditions for local people and contributes to the development of healthy society surroundings. Moreover, Fair Trade Tourism gives the chance to local communities demonstrate a better image to the global community with the view to attract investors; this will bring consumers (tourists) closer to producers (local communities in collaboration with Fair Trade organizations).

In South Africa, Fair Trade Tourism movement guarantees social inclusion, justice, equity in livelihoods for local people, supporting the fair trade movement in total in South Africa. South Africa is also the first country that has an organisation - Fair Trade in Tourism South Africa (FTTSA) organization- which educates and trains workers, increasing their knowledge and skills, thus the capacity building in local communities for further inclusion of local people. Moreover, this effort gives a further opportunity to local communities and governments for attracting new enterprises, hence a further development. FTTSA has made considerable progress in raising awareness on social and labour issues in the local tourism industry. Moreover, via its certification and function, FTTSA has made a positive contribution by increasing the number of tourists who visit South Africa, promoting sustainability, transforming the labour market reform and reducing poverty alleviation. Fair Trade Tourism in South Africa fights against poverty, unemployment and inequality, promoting the qualitative dimensions of tourism development in the post-apartheid context.

Fair Trade in Tourism South Africa occupies a specific niche within the broader umbrella of responsible tourism, by promoting a fair, participatory and sustainable tourism industry in South Africa (Seif & Spenceley cited in Mahoney, 2007). In a future research the sustainability of Fair Trade Tourism should be further investigated, as nowadays the main focus lies on its fairness and participatory practices. Protecting the local flora and fauna is of equal importance for assuring the survival and development of local populations in South Africa.

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A LONGITUDINAL LOOK AT THE INTERNATIONAL ENTREPRENEURSHIP DIMENSIONS: CASES AND PREDICTIONS

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Abstract

International new ventures or born globals have been studied and discussed broadly as regards their start-up, mainly trying to define and examine some key dimensions of their internationalisation process (i.e. intensity or degree, speed, and scope of internationalisation). The drivers of the phenomenon have been investigated but rarely have they been related to the above key dimensions and tracked throughout time. In general, the dynamics of long-term internationalisation remain underresearched. Further work therefore is required to give insight into the strategic options and consolidation of the born global initial trajectory. This would help SME's decision makers to choose between different strategies and contribute to theory building.

The objective of the current paper is to investigate which factors are important regarding the dimensions of speed, scope and intensity along the born global life cycle. A conceptual framework is developed and matched against the findings of two case studies. The companies under investigation are internet-based, as they rely on the Internet as their only selling platform. In the e-business, firms are expected to be "naturally" born global (Kobrin, 2001). Our findings do not fully support this view and highlight the role of resources and capabilities in differentiated growth patterns, irrespectively of the industry (Rumelt, 1991). In line with these results, the role of the Internet as an internationalisation enabler over time depends on its strategic use and its embeddedness in business processes.

Key words: Born globals, e-commerce, internet-enabled internationalisation, continued internationalisation

INTRODUCTION

The number of small firms operating on international markets has been growing rapidly in recent years, and more importantly, the process of internationalisation has been accelerating. In this context, the emergence of born globals or international new ventures (Rennie, 1993, Knight & Cavusgil 1996, Oviatt & Mc Dougall 1994) – firms that internationalise from the outset - has received much research interest. Researchers have looked at both antecedents and outcomes of internationalisation of these businesses. Existence of this type of firms has been verified mainly in high-but also, to a minor extent, in low tech industries. Research has also been conducted in different geographical locations, thus demonstrating that the phenomenon is not context-specific (Rialp et al. 2005) and of huge interest also for policy makers and managers. Less research attention has been paid to the drivers and the dynamics of internationalisation after the initial stage (Liesch et al., 2007).

In order to contribute to fill this gap, the paper aims at identifying basic dimensions important to born globals' long run international expansion and internationalisation behaviour and to track them through time. In identifying these factors, the paper draws on the literature in international entrepreneurship and international business. More precisely, this contribution builds on recent efforts and approaches to conceptualize

the internationalisation processes over time, namely the Jones and Covello (2005) model of entrepreneurial processes of behaviour in time, and the Life Cycle Model developed by Gabrielsson et al. (2008).

The findings from literature provide the framework for the analysis of two Internet-based firms' internationalisation trajectory. Advances in information and communication technology in general and the Internet in particular have been described as one of the driving forces of early and accelerated internationalisation. The Internet, due to its truly global reach and its enhanced speed and ease of information convey, was predicted to re-define the ways of business conduct. Kobrin (2001), among others, claimed that with their worldwide reach Internet firms are automatically born global. A company with a web site could be considered immediately a multinational, since customers, suppliers and other partners around the world are just "a click away" from being able to do business. Therefore, examination of these cases is to be considered useful, as it could be assumed that their internationalisation behaviour is "ideally" born global.

The research aims to contribute to two different literature streams. The main potential contribution is to the emerging literature on BGs continued internationalisation when examining a holistic framework of BG international development over time. Also, we aim to contribute to the e-commerce literature. Even though many arguments explaining why the Internet should positively contribute to firm internationalisation have been advanced, there is little empirical research on its effect on internationalisation available (Chen, 2007; Loane, 2006; Loane et al., 2004; Morgan-Thomas & Bridgewater, 2004; Mostafa et al. 2006).

The paper is structured as follows: first, we will briefly present the most recent approaches to model accelerated internationalisation through time, followed by the discussion and the development of a conceptual framework. Case analysis will then be matched against the framework and findings will be discussed.

MODELS OF INTERNATIONALISATION IN INTERNATIONAL ENTREPRENEURSHIP

Even though labelled very differently, definitions have a common denominator: born globals (BG) or international new ventures (INV) are "small, (usually) technology oriented companies that operate in international markets from the earliest days of their establishment" (Knight & Cavusgil 1996, p 1). They have been identified first by McKinsey (1993), and subsequently have been described across different countries and industries (for a state-of-the-Art see Rialp et. al., 2005; Keupp & Gassmann, 2009). These firms challenge conventional internationalization theories and the long-held belief that the strategic options of small firms are constrained by resource poverty by directly entering international markets at or near their founding (Oviatt & McDougall, 1994). This businesses' fast and broad internationalisation without any apparent path-dependency breaks the slow and incremental pattern described in traditional process models of internationalisation and consequently has led to much critique on their validity.

Most recently, International Entrepreneurship – at the intersection of IB and entrepreneurship – has tried to explain and model early or accelerated internationalisation and the born global phenomenon. The emphasis has been on internationalisation as a firm-level behaviour and a process of development, but the models also accommodate the idea that certain conditions, that is, firm and environmental factors, must be necessary and sufficient to explain internationalisation (Jones & Covello, 2005, p 286). Common to traditional internationalisation theories is that the behavioural process has received much attention. The composite of behaviour used most commonly is innovation, proactivity, risk-seeking(-taking) and value creation (Covin & Slevin, 1991; McDougall & Oviatt, 2000). Recent work underlines that the field is concerned with processes that extend across national boundaries, and with the existence of a set of unique opportunities and constraints that influences the nature and unfolding of the entrepreneurial process (McDougall & Oviatt, 2000; Acs et al., 2003; Wright & Dana, 2003).

One of the IE approaches to portraying accelerated internationalisation are Jones and Covello's (2005, p 284) "models of internationalisation as a

time-based process of entrepreneurial behaviour". They identify time and behaviour as primary dimensions for explaining and understanding internationalisation. Even though implicit in behavioural research, time is seldom positioned as a primary dimension in understanding behaviour. However, time is fundamental not only to experiential learning but it is also crucial in explaining each firm's internationalisation in terms of internationalisation events, order, timing and speed of the process (Kutschker et al., 1997). In the born global context, time is one of the key elements distinguishing the internationalisation of born global from traditional SME, since one key feature of born globals is time to start international activities (precocity) and the speed at which internationalisation develops. Time might also be expressed as the gap in time between the establishment of different forms of international activity, thereby providing a measure of the rate of innovativeness of internationalisation (Jones & Coviello, 2005). A second approach to model the phenomenon of accelerated internationalisation is the international entrepreneurial dynamics (IED) framework offered by Mathews and Zander (2007) for the early stage of accelerated internationalisation. Their focus is on the entrepreneurial processes that embrace the discovery of new business opportunities in an international context, aspects of exploitation including the redeployment of resources, and the engagement with international competitors. Longitudinal international new venture research however might also draw on organization theory when trying to explain born global firm growth. They provide a framework to look into options SMEs face in their development at given times. In this vein, Gabrielsson et al. (2008) suggest a phase-model of born global development and the study of different stages these firms go through. Based on their multiple case study findings they propose predictability in the pattern of sustainable born global development that allows lifecycles to be segmented in different stages. According to the researchers these patterns develop in three phases, namely the introduction and initial launch phase, a subsequent growth and resource accumulation stage, and the final break out phase. A fourth model is the dynamic capabilities perspective developed by Weerwardema et al. (2007). They emphasize the role of the entrepreneur, the learning from multiple sources and the resulting knowledge in order to conceptualize a process model of BG internationalisation.

Putting these multiple efforts in explaining early and accelerated internationalisation together, recent development seems to converge to a common framework positioned at the intersection of international business and the entrepreneurship discipline, drawing on entrepreneurial orientation on the one hand and the internationalisation process/pattern on the other hand. It must be noted however, that these recent approaches have not yet been empirically validated or are based on small samples only.

METHODOLOGICAL APPROACH

Towards a conceptual framework

In the search for an explanation of how born globals develop their internationalisation over time, the understanding of influencing factors and their importance in different time horizons is key. Extant empirical research and before-mentioned theoretical approaches have identified a number of antecedents and drivers of born global internationalisation that are essentially grouped into entrepreneur and firm-specific (endogenous) and environmental-industry specific (exogenous) factors (Zucchella, 2005; Oviatt & McDougall, 2005). Building on these research efforts we propose a framework useful for empirical examination. It is defined as a set of variables regarding 1) the entrepreneur's capabilities; 2) the firm's internal environment; 3) the firm's external environment; 4) the firm's internationalisation behaviour along the three key dimensions of accelerated internationalisation in relation to time. Whereas internationalisation behaviour is measured through objective parameters and thus concentrates on observable behaviour, the first three sets of variables are to a large extent subject to interpretation and estimation because they pertain to the endogeneous components of the organizational black box. For the purposes of analysis, the framework will be matched with empirical findings and discussed with regard to the three approaches mentioned above.

The new venture and the central role of the entrepreneur

Special attention in research has been paid to entrepreneur specific factors and entrepreneurial capabilities. This is based on the fact that decision

making in born globals is often exclusively in the hands of just one person or only a few people, the entrepreneur having a unique and crucial role in the organization (Bloodgood et al. 1996; Westhead et al. 2001). Research interest in founding teams is increasing given the fact that different types of knowledge and the integration of different perspectives among team members are expected to enhance new venture potential by developing synergistic gains (Colombo & Grilli, 2005). New venture success – and continued venture success – therefore depends on how the entrepreneur/ founding team collectively seek and select information (Liesch & Knight, 1999), estimate environmental opportunities and consequently decide upon business position, processes and actions that result in or contribute to internationalisation.

By definition, international entrepreneurial orientation places much emphasis on characteristics such as propensity to take risks, innovativeness and proactiveness (McDougall & Oviatt 2000). Also, the owner/managers global vision at the firm's inception, as well as commitment to internationalisation and the high value placed on it (Oviatt & McDougall 1995) are seen to drive a BG internationalisation process. Madsen & Servais (1997) argue that the entrepreneur is a key antecedent of a born-global, adding other differentiating features such as former international experience and education with a background that facilitates accessing networks of contacts and resources. All these characteristics and attitudes enhance the founder's ability to see and exploit opportunities and contribute to successful internationalisation (Zahra & George 2002a). The objective view of the firm (as measured in results) and its subjective view (traits, attitudes, education, skills and experience) are closely intertwined, since the entrepreneur's capabilities and skills determine his/her new, small venture.

One of the issues where we identify a research gap in IE studies refers to the role of the entrepreneurial resources in building and consolidating the knowledge base of the firm and the organisational learning processes.

The firm's internal organization

Organizational factors significantly influence a firm's drive to internationalize. The firm's asset base - in the broadest sense - includes labour, capital,

technology, knowledge, and property rights, and also the structures, routines and processes that are needed to support its activities. Compared to large, multinational companies SMEs frequently run short of these resources (e.g. Lu & Beamish 2001). Their availability, however, is particularly important for SMEs when extending their market scope internationally (Madsen 1987). Considering the relationship between tangible and intangible resources and entrepreneurial dimensions, one may argue that firms with an adequate basis of resources may have more opportunities to pursue promising though risky projects, such as rapidly targeting many markets. Resources therefore directly influence performance but also act indirectly by positively or negatively affecting inclination to take on uncertainty. Capabilities, that refer to the firm's ability to utilize its resources effectively, are embedded in a firm's processes and routines and, together with the firm's resources, form distinctive competencies. Rangone (1999) notes that SMEs put their strategic focus on three basic capabilities, namely innovation, production and market management capabilities, which enable innovation, quality, and customer responsiveness. In order to capitalize on opportunities, firms often have to reconfigure their asset base and need to implement new processes, business models etc. This link is evident in our cases reported below where entrepreneurial behaviour (emphasis on opportunity identification – business idea) and e-commerce (new ways to quickly exploit them) combine to a innovative way of creating value and gaining competitive advantage. The case companies match "economic opportunities with enabling technologies" (Zahra & George, 2002 b; Oviatt & McDougall, 2005). Net-enablement might convey to the firm a resource (such as customer proprietary data, shared information) that cannot be substituted for or imitated and could lead to a business innovation cycle as proposed by Wheeler (2002). Strategy under this view becomes a dynamic process of recreating and executing innovation and internationalization options. This reinforces the idea that entrepreneurial and strategic perspectives have to be integrated in order to understand SMEs internationalisation behaviour (Hagen et al., 2009). Examination of a business idea and strategy by which a company identifies and exploits a market opportunity, organizes its value chain, selects areas to be internationalized, and defines unique ways to reach potential customers therefore is crucial. Strategy in the born global context has not been widely investigated, but it

is important to understand "how" a firm succeeds in internationalisation, employing innovativeness, creativity, entrepreneurship and risk-taking (Zahra & George, 2002 a). Spender (1989) for example found innovative companies to be independent of industrial wisdom, rather they tried to create niches in which to operate innovatively. This is confirming research findings on born globals that quote a niche focus as predominant strategy (Aspelund et al., 2007, Chetty & Campbell-Hunt, 2004, Gabrielsson et al., 2008). Additionally to specialized products for niche markets, Knight (2000) emphasizes innovative marketing strategies, enhanced product and service quality. A strong customer focus is mentioned by Bell et al (2004), and Chetty and Campbell-Hunt (2004) find firm strategy central to the motivation to internationalise. They further note that realisation of competitive advantage requires rapid and full internationalisation.

In the context of intangible resources much emphasis is also placed on networks and their positive relationship with internationalisation. Johanson and Vahlne (2009) argue that the business environment as such has to be viewed as a web of relationships. Insidership in networks, developed before entry in a new market, even before foundation of the firm, is seen as instrumental to the specific internationalisation process (Coviello, 2006). Such networks involve relationships with customers, suppliers, and competitors across industries, geographic, political, and cultural boundaries and provide firms with access to information, resources, markets and even, at times, technologies (Gulati et al. 2000). They can also play an important role in providing participants with credibility or legitimacy (Cooper, 2001). Reputation is crucial for access to resources such as financial capital for example, but also clients, looking for information, might take reputation as a basis for decision-making. Reputation is an important strategic intangible asset, especially for young entrepreneurial companies (Bell & McNamara 1991), because it can strongly influence the way companies are able to position themselves in foreign markets.

The external environment

Superior performance in all firms is related to the ability of management to align strategy variables within its control with environmental factors outside its control in ways that cannot readily be imitated. Thus, also environmental factors, such

as industry or market trends and conditions, acting as moderator on internationalisation behaviour have to be considered (Kast & Rosenzweig, 1974). According to several works in the field of research on born globals (eg. Rialp et al., 2005; Knight & Cavusgil, 1996; Madsen & Servais, 1997), the most evident environmental trends triggering their emergence seem to be the following: new market conditions in many sectors of economic activity (including the increasing importance of niche markets for small and medium sized enterprises worldwide), the "ICT revolution" bringing technological developments in the areas of production, transportation and communication, and the increased importance of global networks and alliances.

Taking a closer look at the Internet – which will be of particular relevance for the cases analysis – as part of ICT development, a frequently advanced hypothesis was that it might have a revolutionary impact on the speed and scope of internationalisation. Many authors contend that the Internet offers especially small firms an invaluable resource for internationalisation activities, creating an immediately global reach via a website. Oviatt and McDougall (1998, p. 8) state that "while the small firm may not have an explicit international expansion strategy, the Web site automatically positions the firm in the international marketplace. Just as unsolicited international orders have often served as triggers for internationalization in the past, the receipt of foreign orders over the Internet may propel firms to explore the international marketplace. With the predicted explosion in electronic commerce, the Internet may greatly increase the level of internationalization of even the smallest businesses of the 21st century". Also Kobrin (2001, p 688) comments that "cyberspace and e-commerce are intrinsically international". Furthermore, ICT developments are said to bring states (and consumers) closer – physically and culturally, thus eliminating not only geographic but also psychic and cultural distance (Yamin & Sinkovics, 2006), which has been seen as a major barrier in traditional internationalisation theories. The Internet then is said to offer a new means of maintaining and developing relationships with clients, channel partners, suppliers and network partners, as posited by Coltman et al. (2001). Internet therefore might eliminate or lessen the need for intermediaries (Gabrielsson & Gabrielsson, 2010; Quelch & Klein, 1996) and, in general, reduce the costs incurred by SMEs and

enable the small business to conduct international business from home (Knight & Cavusgil, 1997). Kotha et al. (2001) and Arenius et al. (2006) noted that Internet, when properly applied, can reduce the liability of foreignness and newness. Petersen et al. (2002) advance the prediction that the Internet holds the potential for reducing uncertainty about foreign markets (as perceived by a firm's decision makers) providing fast and extensive access to relevant information. Jean (2007) in the same vein finds SME to use ICT to compensate for experiential learning opportunities. ICT thus is seen to enhance learning processes leading to knowledge which adds speed to market expansion. In sum, small companies are suggested to be able to compensate for their shortage in resources by trading off direct physical market embeddedness against the strategic use of Internet (Molini & Tesar, 2005). Internet under this view becomes a strategic tool and holds the promise of a fast-track option of international expansion (Sinkovics & Penz, 2005).

Internationalisation behaviour along speed, scope and intensity

In order to capture the continued internationalisation of Born Globals we use the dimensions which have been used to characterize their initial phase of internationalisation behaviour and track speed, scope and intensity and respective growth rates along time. The modelling along time also allows for the inclusion of growth rates and thus dynamic measures that refer to changes in scope and intensity over a certain period of time. Further, growth is inherently a measure of change over time: Sexton and Smilor (1997) suggest that growth is the essence of entrepreneurship.

Following the approach proposed by Jones and Covello (2005), fingerprint patterns are used to illustrate the drivers and accelerated internationalisation in terms of events in a reference and chronological time frame. They allow accurate rendition of facts and facilitate cross-case search for patterns and identifying subtle similarities and differences between cases. The internationalisation pattern here is composed of the firm's spatial expansion, the pace by which the firms internationalise and the operation modes in foreign markets. They are shown by internationalisation events as the composite of the number and range of business modes and the number and distance of countries with which those modes have been established, at specific points

in time, describing the company dynamically over time (only outward internationalisation events are reported; see figures 2 and 3). This allows for the possibility of non-linear internationalisation development, that is possible stop-and-go-decisions, de-internationalisation etc. It also fits well with the aim of tracking a firm's internationalisation behaviour along scope, intensity and speed and to link them with the identified influencing and moderating factors.

Therefore, in order to better capture their influence on internationalisation, also entrepreneurial events, and changes in the internal and external environment are integrated.

EMPIRICAL ANALYSIS

Methodology

An exploratory case study approach is an appropriate research strategy when attempting to examine a "how" or "why" question in a contemporary set of events and in its real-life-context (Yin, 1981, p 59, 1994, p 9). Further, longitudinal research is recommended as it permits the identification and observation of processes (Kimberly, 1976). Longitudinal studies require to put research into the temporal and contextual frames of reference. This involves conducting a retrospective case history to understand the context and events leading up to the present strategy with a subsequent focus on real-time observations of the events and activities while they occur in time. The empirical investigation of this paper therefore was carried out as an explorative, longitudinal case study of blacksocks.com and YOOX.com which were purposefully selected (Yin, 2003) based on their BG nature and internet-based business model. All secondary information available has been reviewed, from press releases, financial reports, press articles to the websites. During the survey period, the founder and key people in blacksocks have been interviewed many times and numerous e-mails have been exchanged. Interviews have been loosely structured, lasting between 60 and 100 minutes. The case informants also include customers. The internationalisation process of the case companies is described over a 10 year period from their establishment up to the current state. The time frame nicely coincides for the companies. Both companies are in e-commerce active in a "luxury" environment (clothing), characterized by

innovative business ideas for mature markets and in traditional industry. They were set up when e-commerce was in its initial stage and both use exclusively the web as their business platform towards a predominant B2C target.

Table 1: Key facts and figures - blacksocks.com and YOOX.com

Company name	Foundation	Industry	Markets	Employees	Turnover total Em. M€ foreign %
blacksocks.com	1999, CH	Apparel; initially sells black socks on subscription over the Internet	72, main markets CH; D, F, US	9 (3 in CH, 1 in US)	2,35 27 %
YOOX.com	2000, I	Apparel initially sells designer substantially discounted over the Internet	65, I, Europe (ex-Italy), US	280 (260 in I, 20 abroad)	211,5 76 %

Entrepreneurial capabilities, and their reflection within the organization

Blacksocks, an internet-based firm selling black socks on subscription, was co-founded by Samy Liechti and Marcel Roth (who left the company in 2005), friends since childhood. Liechti, who has been managing director at blacksocks from inception, was 31 years old at foundation, Swiss and a graduate in Economics and Business Administration from St. Gallen University in Switzerland, with additional study carried out in Paris and Toronto. He has a marketing and communication background as a consultant with several advertising agencies in Switzerland and abroad but no prior experience in e-commerce and clothing. He is fluent in 3 languages, as is everybody at blacksocks. The team now is made up of 8 people, focusing on core activities such as marketing, quality assurance, purchasing, as well as finance. Liechti has developed his "structure" organically with an analyst programmer/IT expert joining blacksocks in 2003, a marketing manager for Europe in late 2005 up to 7 people in Switzerland. Finance and purchasing having been in the hands of co-founder Roth (who went back to teaching), were taken over by Liechti when Roth left the company. Lori Rosen, founder of a New York-based public relations firm, serves as managing partner for US operations. Her group also oversees the company's public relations efforts. Rosen was selected for the position after she approached Liechti about marketing the concept in North America after she learned of the service during a European business trip.

Day-to-day organisation itself and the organisation of the fulfilment process are extremely quick and customer oriented. Standards are defined for Oeschger, for example, the distribution partner for inward- and outward- activities. The first shipment is requested to be delivered within 2 working days, all other shipments are guaranteed within a maximum of 8 days. This challenging objective is achieved in 99% of shipments, which provides proof of best practice in e-commerce, which normally faces major problems in fulfilment. Internally, customer requests are answered within one working day, except at weekends. This goal too is reached in more than 90 % of cases.

As far as global vision and importance placed on internationalisation is concerned, Liechti viewed the marketplace as international from the beginning. However, in the beginning, the extremely thin resource base limited his ambitions. During the difficult Internet-years he was more concerned with "surviving" than with further market expansion.

Business idea and strategy

The business idea was "socks on subscription", unique when founded, operating in the business-to-consumer market. Liechti claims he got the idea while attending a Japanese tea ceremony with clients. He removed his shoes and, to his embarrassment, realized his socks did not match and worse, one of his big toes was poking out. Over the years blacksocks also became active in the business-to-business market (eg. sockssubscription in company incentive schemes) but emphasis was

always put on the B2C segment, which requires a much higher level of resources. The company only appears on the Internet. The net is display window, information- and subscription-platform at the same time.

Blacksocks is working a global niche, targeting a customer segment of Internet buyers of a similar age, sex, occupation and salary and who are suggested to be consistent internationally. This core target is male, office worker in a high position, more at home in a cultivated environment and aged between 30 – 50. This definition nicely fits with the characteristics of a prevalent global Internet consumer segment described as relatively young, well educated, of mid to upper economic status, male, and in professions associated with technology.

There is no adaptation of product, service, and marketing to foreign markets, and the competitive advantage is seen to be built on higher quality and service. The only adaptation is in terms of language, running the site in German, English, and in French and providing “after-sales-service” in the corresponding customer language.

Blacksocks started with a marketing budget of 500 Swiss Francs and the marketing budget is still limited (no precise information is available, but: “all profit is going to be reinvested in actions for further growth”, Liechti). One of the key instruments used was communication, leveraging mainly (free) publicity: Given the novelty of the company’s products, many magazines have been very cooperative in featuring press releases or carrying out interviews. This publicity provided and still provides exposure that would otherwise be impossible for such a small company. Also success in winning awards related to business idea, innovative design and customer approach has been exploited widely as well as the use of positive testimonials like that of the Swiss president and half of the federal governing council of Switzerland wearing blacksocks. For example, the Kassensturz award (best product) that was won recently lead to about 20 % of new subscriptions in the German speaking area. Visibility and – implicitly – reputation was obtained, therefore creating one of the most valuable intangible assets that a small infant firm requires.

The success in building reputation – at least among customers - is also proved to be excellent by a retention rate of over 70 % and positive word-

of-mouth bringing in a substantial 20 % of all new clients. Given that his financial resource base is still modest, Liechti’s strategy until 2009 has been “leveraging” customers more than proactive market expansion. Strategy has concentrated on launching new products for existing customers more than existing products to new customers.

Internationalisation behaviour (patterns)

Figure 2 shows the fingerprint pattern of the case company blacksocks in the broader context with environment and main entrepreneurial events.

In 2000 – at the Internet’s all-time-high - the venture became a “listed” company and launched its new website including an English version. The two years after the “big bubble” of internet hype burst proved very hard. “After the great enthusiasm regarding Internet and e-commerce these two years were characterized by panicking suppliers and suspicious clients” (Liechti).

The internationalisation process started right from the beginning (gap time zero). As regards scope, blacksocks started by approaching nearby, German speaking markets, Germany and Austria, with marketing activities (and still concentrates marketing effort in these markets and its home country and, as from 2009, in the US) and focusing on creating sales revenues. The first market and still the most important foreign market is Germany, followed by Austria and the US. An initial US franchise went online in September 2001: it was the result of a prior CNN report (February) on the blacksocks’ ‘sockscription-model’ which generated much enthusiasm and two days of rocketing sales in the US. Office, client data, and infrastructure were located in the World Trade Center and were completely destroyed by the September 11 terrorism attack. “We never got out of this ‘collective depression’, our licensee was somewhat active until 2002 but without any remarkable success...so we tried to buy back the license, what proved to be too expensive and finally we de-internationalized in 2005”, Liechti. Blacksocks re-entered the US with a franchisee in late 2009, having started to actively screen markets in 2006.

In total, blacksocks ships currently to 75 countries, a number of countries that was almost reached in the very first years of blacksocks. Foreign sales and subscriptions as indicators for intensity have never really taken off, as is reported for born globals. This

percentage stagnated at about 20 % until 2005, when blacksocks reported considerable growth for major export markets for the first time. From 2009 onwards international sales show a continuing growth trend, especially in North America where sales have more than doubled. Also Euro sales are recording a 20 % growth at the end of 2010. Country diversity in terms of cultural diversity and mode diversity as proxy for innovativeness is low, since main export markets were culturally close and direct export was the only entry mode (except the US).

Time intensity in blacksocks' internationalisation process was initially high. However, from 2001 no new market was actively selected and entered. Expansion was left to word-of-mouth of existing clients and the spill-over effect of activities in the main countries. Rather than increasing the country diversity or the entry mode diversity blacksocks concentrated on launching new products in existing markets, leveraging therefore its high consumer satisfaction rate and loyalty. Blacksocks launched underwear and white T-shirts "anything a man does not like to shop for can become part of our offering" and thus keeps on extending a maybe to narrow product niche of black socks. Also the range of socks is becoming more differentiated, offering now also grey, red and navy socks as well as sport socks (eg. ski socks).

As from 2006, the product development strategy started to be accompanied by putting emphasis also on market development. Liechti and his team started, once again, to actively screen new markets to enter. Liechti, when interviewed on internationalisation approaches says "we preferred to invest our marketing budget in already existing markets in order to strengthen our position and just took on opportunities when presenting. We furthermore were not sure whether it would have been possible to grow in international sales and to become/remain profitable." Blacksocks is currently negotiating with a potential franchisee in Sweden and recently re-entered the American market (late 2009). One reason for the temporary halt in looking for new markets in blacksocks.com could be the initial "traumatic" experience of trying to enter a more distant and risky market. Cluster analysis shows Germany, Austria, (Italy) and Switzerland in the same group, showing high similarities on the 4 Hofstede-dimensions and consequently expressing low cultural distance from each other. It is without doubt also close geographical location that favoured this group

of markets, profiting from spill-over marketing activities. Italy, following cluster analysis, would have been one of the closest and therefore most "logical" markets to enter. In this case however, language and consumer behaviour proved to be limiting factors. "We cannot ensure a high-quality after-sales service in too many languages", says Liechti, "but it is not only the issue of language that constitutes a barrier to market entry, it is also consumer behaviour. Italians in general – as opposed to Germans, Austrians, Americans etc. – rarely wear black socks." Another explanation is the difficult market situation following the fall of the so called new economy mentioned above. Whereas many e-businesses are no longer in existence after the Internet boom, blacksocks still is. In line with Porter who in 2001 commented that the Internet was only a substitute for strategy and that this was one of the reasons for the fall of the "brave" new economy, the environment clearly was hindering a quick development of business activity and internationalisation. Another reason might be the thin financial capital basis and the difficulty of getting access to more capital, all the more given the difficult environmental context at that time and representing itself hostile in terms of the worldwide financial crisis in recent years. No exact figures are available, but Liechti comments that only in 2005 the business started to be profitable, and furthermore he says "in our situation, Internationalisation could have been seen as a driver for growth, but I am not that sure whether this is true for profitability", thus identifying internationalisation as an impossible risk for him to take and manage at that time.

However, after this "stop-period" in pro-active market entry of almost six years, blacksocks is now signalling "go", negotiating with a Swedish partner and having re-entered the US in March 2009. It began to actively screen new markets to invest in like Sweden, the US and Great Britain, "markets with high potential, high computer density and internet use, and a relatively low price sensitivity", Liechti. Both of the markets are culturally more distant markets. Interviewing Liechti it does not seem that psychic distance was of big importance, it was much more an issue of potential, habits and infrastructure. It is then the increase in overall Internet use from about 10 % in 1999 to 80 % in 2006 that now favours expansion.

Networks

The co-operations with the Swiss Business Press Publisher "Handelszeitungsverlag", Axel Springer as well as Miles& More, SAS and UBS (a financial services company) are running as countertrade businesses: blacksocks-subscriptions are "paid" with advertising space. Partners are carefully selected, being associated with high quality and having an extremely positive corporate reputation. SAS, Miles & More, UBS and Springer have international clients and operate in an international context. Many of the partnerships were established either through personal contacts (e.g. friendship with managing director of advertising agency) or through personal recommendations. Much importance is placed on strong ties with business partners as Liechti's statements make clear: "we do see ourselves as being part of a network, trying to reach economies of scope in the long run", and "Performance depends on joint partner performance", "we try to establish win-win-situations in the long run with our partners and collaborators". As is clear from Figure 2 almost

all relationships established are long-term. So far only one has been discontinued, Yellowworld the initial logistic partner. When breaking up with Yellowworld all inward-outward logistics were reconfigured and streamlined.

When asked how satisfied he has been with international activities during the first 5 years he ranked sales volume and profitability on average, but he was generally satisfied with image (reputation) and development of know-how. At present, satisfaction includes also sales and profitability and the positive international sales trend. So, overall satisfaction with international performance initially was more on building and consolidating intangible assets than on numbers and figures whereas Liechti as of today is highly satisfied with his overall venture performance and growth.

In the following table 2 a summary of key measures and/or findings related to the three dimensions under investigation is given.

Table 2: blacksocks: Key measures and findings as regards speed, scope and intensity

	1999	2002	2003	2004	2005	2006	2009	2010 rd quarter
Sales (mio \$)	na	na	na	1	1.5	1.8	3	3.9
% of international sales	10	12	13	13	20	20	25	27
Growth of international sales (%)					+130	+18	na	+40
Subs per user	na	na	12.000	18.000	25.000	32.000	40.000	50.000

- Innovativeness of entry mode/countries
 - * Entry mode outward: direct exports only, except the US license branch diversed and re-entered in 2008
 - * Innovativeness countries outward: overall high, however, countries with committed marketing resources in the same culture cluster, except the US as from 2009 onwards

Extent or degree of internationalisation measured as a percentage of foreign sales over total sales as well as the number of countries blacksocks is active in, are shown above. No sales data is available for the first five years, in 2004 one million dollars had been reached, with international sales accounting for 13 percent. Strong growth is reported for 2005 with doubling international sales. However, 2006 estimates dampen the take-off in international sales, just growing in line with total sales increase. The same holds for subscriptions. In 2010 sales of 3,9 million dollars are estimated with a substantial international sales growth rate of 40 %. The positive trend is due to the American market and a recorded growth of more than 20 % in the Eurozone.

Empirical analysis YOOX.com

Entrepreneurial capabilities, and their reflection within the organization

Federico Marchetti, founded YOOX (branded end-of-season clothing with discounts up to 50% off retail sold on-line) in 2000 after having worked at Lehman Brothers (5 years) as an expert in the luxury goods sector, and at Bain & Co. as a strategic consultant, responsible for fashion and luxury goods. Marchetti, who studied Economics at the Bocconi University in Milan, also received a MBA from the Columbia Business School in New York. Over the years, he has served as advisor to several CEOs in the fashion industry, both in Europe and the U.S.

Willing to be an entrepreneur and "in a job where I could wear Diesel jeans..." at the age of 31 years he sets up YOOX. "Ever since I was a child, once a month I invented something new, and I keep on doing this in my work. The idea of Yoox arrived in autumn 1999. It was the first project I was completely dedicated to: the objective was to bridge the fashion world and the world of Internet, two realities at that time rather distant. I imagined the bright future of fashion on the Internet, the two realities just needed a carrier to bring them closer."

With Alessandro Guerriero and Alberto Biagetti, directors of Radiosity, a Milan based architecture and design group, he sites a "place of interaction" where both men and women could buy end-of-season clothing and accessories from leading

designers with discounts up to 50% off retail prices. The site's name is a play on the company's slogan – "Fashion is timeless." The Y and X stand for the male and female chromosomes, while the OO represents infinity.

The company is based in Bologna where all the operational activities are located. Communication and marketing offices are based in Milan. Two years after foundation the company employed about 40 people and has now a team of around 280 persons (260 in Italy and 20 abroad). Asked to describe his very young team (25 years on average), Marchetti mentions the importance of Italian roots, an international mindset, and a multicultural vision. Mindset and multicultural vision are also expressed in a high share of foreigners employed and in 9 languages that are spoken in YOOX. He also underlines that the secret of Yoox's success is its people: "from the very beginning we have privileged young people... being innovative means being able to think out-of-the box".

Business idea and strategy

YOOX as of today manages online fashion retail under three formats. The first business line is the multi-brand store YOOX.com which offers savvy collections of end-of season clothing at accessible prices. The revolutionary idea when founded went hand in hand with a trend called mass customization. At the same time it allowed luxury brands to offload their last year's merchandise without undermining their brands or cannibalising sales at their existing stores and loosing control over distribution or reducing the value of their brand. YOOX was launched contemporaneously with net-a-porter.com that still is representing its main competitor. In the course of the years, exclusive lines from Italian and international designers, vintage collectibles, and limited edition creations were made available at YOOX. Innovative brands are previewed on YOOX and a careful selection of hard-to-find-books, magazines, art and design is on sale, reinforcing the close relation of fashion and art. Yoox in this way has become a "never-ending shop" as Marchetti suggests. More than 10 shopping malls would be necessary to show all products and brands available at YOOX. This vast collection and range of products gives liberty to combine, choose, and tailor-made personal fashion, producing a new form of emotion, curiosity and entertainment. Distinct websites are built for the various countries and regions

where YOOX distributes: each can be adapted in its communication, product assortment, pricing strategy, currency and payment system.

The second business line is thecorner.com, a department store of in-season collections, where every brand has its shop in shop. Over the years, YOOX positioned itself as a full-service provider on a global scale in order to benefit from the shift in online luxury retailing: it launched, based on the skills acquired and the relations established (and the success achieved) the monobrand stores for some of the most important fashion brands in the world, such as Armani and Diesel.

With these three business lines YOOX covers all customer segments (brand lovers, fashion savvy, bargain hunters), the entire product life-cycle (in-season, off-season, clearance) and all corresponding price segments. Common to all the business lines is an extreme attention to the customer fulfilment. YOOX provides 24/7 customer assistance in the respective customer language, manages shipment within 2-3 days in 95 % of all orders and practices and extremely generous return-policy. "Internet is the communication channel that allows you to be as close as possible to your customers, but logistics and distribution to final customers, that were aspects nearly neglected during the dot.com boom, are extremely important to us. In fact, the most challenging problem was to settle a logistic structure to stock the goods, repack and send to the customers".

Internationalisation behaviour (patterns)

YOOX was established in 2000 as a privately held company with less than 15 million Euro starting capital (venture backed by Kiwi and Net Partners) by Federico Marchetti, managing director from the beginning. Marchetti says "I was lucky with timing. We started in 2000 just before the internet bubble burst – if I'd been looking for money six months after that, I wouldn't have found it".

In 2003, Benchmark Capital (US) invested 7.5 million dollars in YOOX. After the investment, the shareholder structure was composed of financial

investors, among which Kiwi and Net Partners (66%), Marchetti (10%), management (15%) and private investors (9%). Such a group puts emphasis on the economic-financial balance as well as its profit situation: Break even was reached in 2002, and since 2003 YOOX has always realized profits even though reinvesting heavily in technology. In 2007, YOOX started consultation for accessing the stock market exchange either in Milan or the US. In 2009 YOOX became listed on the Milan Stock Exchange.

The internationalisation process started right from the beginning (gap time zero). As regards scope, YOOX started approaching the international market gradually with a few European markets and, over the survey period, developed the venture into a truly global company. The first areas and still the most important foreign market areas are Europe (ex Italy) and the US, followed by Japan and other countries. In total, YOOX is active in 67 countries. Foreign sales account for 76 % of total sales in 2010 but already in the second year a rate of 65 % is reported, thus tripling the most common numeric definition of born global export intensity in two years (please see table 2). Both, overall sales and foreign sales show an impressive growth trend. Country diversity in terms of cultural diversity and mode diversity as proxy for innovativeness is extremely high, including main international markets such as Japan and China that are culturally distant. The same holds for mode diversity: YOOX entered close and distant markets with independent subsidiaries, logistic platforms, and monobrand stores thus allocating considerable financial resources to these markets. In 2009, almost all of the 15 monobrand stores are run in Europe, the US and Japan and the first – Armani – is ready to be an early entrant in China.

Interestingly, YOOX's time intensity in internationalisation – although high - initially was lower than it has been in recent years and it still seems to be accelerating. With the launch of the monobrand line, YOOX intensified market presence in almost all major market areas simultaneously.

Table 3: YOOX.com: Key measures and findings as regards speed, scope and intensity

	2000	2002	2004	2006	2007	2008	2009	2010c
Revenue (EUR m)	1	12	34	45.4	68.6	101.4	152.2	211.8
% of turnover	10	15	17	19	22	24	24	26
EU sales (total)	na	na	na	34.7	48.3	72.4	102.4	162.8
EU (excluding)	na	na	na	21.6	31.4	49.3	77.4	102.8
North America	na	na	na	8.3	11.1	15.1	25.7	41.3
Japan	na	na	na	2.0	3.1	4.6	9.8	17
Other countries	na	na	na	3.6	2.9	3.5	3.8	2.1
Other	na	na	na	1.0	2.0	1.4	2.0	4.3
Rest	na	na	na	14.7	20.7	26	39.8	42.8

* Exclusively e-commerce between UK, US, Germany, Italy

- Speed of internationalisation: proximity (time to first foreign market) = immediately, overall speed very high along survey period
- Scope of internationalisation over 10 year period: gradual start with a few European countries, in ten years development to global scale: 67 countries; sub-brands and logistic platforms in major areas such as Europe, US, Japan, China
- Intensity/extent of internationalisation

Networks

Established social networks facilitated contacts and relationships with luxury companies which, at the beginning, were strongly sceptical about e-commerce, believing this channel would be unable to deliver the level of purchasing experience they considered necessary to protect brand equity. Also YOOX's Italian origins – similarly to many of the world's leading fashion houses – helped in establishing partnerships. As of today, YOOX relies upon about 1000 commercial partners such as 1) fashion companies and their licencees, the most important, from which YOOX buys unsold previous-season items and/or products that they produce exclusively for YOOX; 2) shops, from which YOOX buys a selection of unsold previous season-items; 3) qualified high-quality producers, from which YOOX orders products to complete the selection in certain product categories; and 4) design companies. In a number of cases, relationships with commercial partners have strengthened and developed into strategic partnerships. An example is the Armani Group, present on YOOX since 2001 and for which YOOX launched an online flagship store in 2007 in the US. This store was then expanded to Europe in 2008, to Japan in 2009 and in 2010 to China. In a second step, YOOX will exploit the positive image and reputation gained through the Armani

flagship store, which is additionally one of the most respected brands in the region, in order to enter the market with YOOX.com.

Cross-case analysis

The two cases have clear similarities and differences: firstly, both of them share the entrepreneurial characteristics and competencies that have been reported crucial for born globals' accelerated internationalisation trajectory. The founders and their teams are internationally experienced and educated and show a global mindset. Both teams of founders are characterized by a strong entrepreneurial posture, commonly defined as a composite of proactive, innovative, and risk-taking behaviour. This is expressed in their unique business ideas and the innovative way of creating/enacting and exploiting global niches. Regarding their overall business strategy blacksocks.com proactively concentrates on product development, whereas YOOX.com contemporaneously accompanies product development and development of new business lines with constant international market expansion. Marketing strategies focus on customer-centred emotional and high quality approaches altogether with an extreme attention towards fulfilment. YOOX sets up local websites with country specific content in terms of collections, prices and payment

methods etc. and ensures customer assistance in the customer's languages in order to meet local customer needs. In blacksocks only the websites and "after sales service" is adapted to different languages. Due to their prior professional experience both firms have readily exploitable networks available and they constantly build new relations over the survey period. Relations are long-term and international and in the case of YOOX have developed into their so-called strategic partnerships, indicating an intensive co-operation across all business lines. Both firms leverage knowledge gained from partners and customers into new product development and innovations in general.

Blacksocks.com was listed immediately after foundation and YOOX managed to get venture capital but creation and implementation of the business (model) required almost all financial resources and left the companies with a thin financial resource base. Consequently, marketing budgets – important to create website traffic – were limited in the case of YOOX and almost nonexistent for blacksocks.

What can we say about internationalisation patterns and dimension? Both companies started internationalisation immediately at foundation and broad in scope. Although they concentrated initially on the domestic and on a few European markets, they realized a quasi-automatic expansion in terms of number and type of foreign markets. Scope and speed is comparable over the survey period, both being active in about 70 markets but degree or intensity of internationalisation is not. Whereas blacksocks realized a long period of stasis and de-internationalised from one major market, YOOX expanded with constant pace and regular rhythm and seems to be still accelerating. YOOX varied entry modes and increased commitment in major markets such as the US, Japan and China where independent subsidiaries and/or logistic platforms were built. Blacksocks on the other hand entered the US with a licence and re-entered with a franchisee, thus preferring low commitment entry modes that guarantee control to some extent. Over the years, YOOX developed into a true global player with international sales accounting for about 70 % of total sales, whereas blacksocks foreign sales never really took off.

DISCUSSION AND CONCLUSIONS

Little empirical research is available on how BG firms continue their internationalisation process (Gabrielsson et al., 2007, Jones & Covello, 2005, Weerwardema et al., 2005). Our research set out to profile two born global companies and their internationalisation trajectory over a 10-year period trying to relate drivers to the dimensions of speed, scope and intensity. Along these parameters we have a clear picture of the observable behaviour of the organisation in its internationalisation process. Two very different outcomes emerge from these data: in one case we observe a born global orientation which later falls into a stagnation phase, while in the second one we can identify both a born global and a born to run (Hagen et. al., 2009) orientation and consequent performance. These findings have supported the search for the factors influencing alternative behaviours over time. In comparing our findings with the frame outlined in figure 1, we see that the influence of external/environmental factors is enabling and limiting international expansion at the same time. On one side, globalisation in terms of ICT development in general and Internet-uptake and -use in particular constitute a munificent frame for the firms' internationalisation trajectories. On the other side, with regard to the consequences of the Internet economy's fall, the WTC attack and the financial crisis, global interconnectedness had a limiting effect on the firms' international growth. Blacksocks would have needed consistent financial resources to create awareness for its products, generate website traffic on international markets and eventually to buy back the license in the US. In the YOOX case the limited access to financial capital exercised a potential limitation on growth, delaying its listing for more than 2 years. Availability of more financial resources clearly would have allowed blacksocks (and YOOX initially) to circumvent the pressure for low and/or gradual resource commitment in their first years. We therefore confirm importance of the external environment as a moderating factor.

The RBV is supported, in the sense that resources and capabilities (including entrepreneurial, social and organisational networks) are the key drivers of the case firms continued internationalisation. Regarding the entrepreneurial team, its composition is vital for the start up and the initial phase. In line with extant research, both cases show the importance of the entrepreneur, his/her experience, skills and knowledge for the

understanding of fast internationalizers. Proof of their capacity of exploring and capitalizing on opportunities is given in unique business ideas, and their innovative ways of implementing it. They have identified and concentrated on a segment, where their Internet-only model offers a real advantage. Both correspond to Miller's (1983) definition of the entrepreneurial firm as "one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with "proactive" innovations, beating competitors to the punch. Sharing these features therefore leads to enhanced speed and scope by perceiving, interpreting and exploiting opportunities in a different way, such as, for example, identifying/creating and innovatively exploiting a global niche.

Team(re-)composition and its development is crucial also on the long run as different competencies and multiple networks are pooled and developed. One of the key factors for YOOX strong growth is the presence of venture capital and the experience and advice from an established fashion brand in the team. Also its strategic international partnerships with major designers strongly facilitate its international expansion: YOOX and its partner "Only the Brave group" jointly took on uncertainty with the launch of the first flagship store. Similarly, YOOX profits from Armani's reputation to enter the Chinese market. These inter-firm collaborations continued to exercise a crucial role permitting to overcome resource constraints and providing access to foreign markets and to market knowledge. The international network YOOX is embedded in clearly contributes to its fast and intensive internationalisation. These relationships also evidence the importance of investigating into interconnected inward and outward relationships which have been evidenced by Covello and Munro (1997) as a major facilitator in internationalisation. Blacksocks.com essentially remained founder-centred. It grew by exploiting its founder's marketing capabilities and its excellent customer relations, but remained limited with regard to learning from different sources and integration in an international network. Following customer suggestions and exploiting customer reactions permitted blacksocks to launch constantly and successfully new products (from underwear to coloured socks) and to enhance customer value and loyalty. YOOX expanded its initial offering and idea and established two new business lines building on its contacts and recombining

its market and technological expertise. In this context also the connections with the companies' specific value chain activities and/or their intensity comes into play: blacksocks kept on concentrating mainly on marketing and sales whereas YOOX contemporaneously widened and reinforced its inbound- and outbound logistics and service area. The cases therefore clearly put the importance of resources and capabilities and the learning from different sources in evidence. Given its attention towards maintaining a young team, YOOX might also profit from the learning advantages of newness (Sapienza et al., 2005).

In both cases alternative means, such as networks and Internet as a sales channel, were used to overcome financial resource scarcity. Internet was not only useful to compensate the lack of resources but also a way to control international risk by using a low resource entry mode and by entering quickly and simultaneously many markets and by minimising the need for establishing multiple international operation modes (Gabrielsson & Gabrielsson, 2011; Melen & Nordman, 2009). Choosing such an entry mode therefore was a wise move not only dictated by resource scarcity. The immediate exposure globally led to facilitated contacts and sales and has been used for "skimming", but, as the case blacksocks shows, it does not necessarily lead to an increase in intensity or market penetration over time. One conclusion therefore is that the Internet has helped in widening the scope and the speed of internationalisation, in line with prior research. Additionally, in the YOOX case, the use of Internet over the years has built market power through search engines that drive traffic automatically to the website. However, in our cases, for the Internet to enable internationalisation, the combination of an Internet-based business model and the attention towards its opportunities and challenges in terms of customer relations was crucial. Both cases show that customer orientation and market management capability enabled by the Internet are key. Whereas Internet helped to speed up and broaden the process in the initial phase, its impact on market penetration has been weak. Learning and spill-over effects might also be gained when treating foreign customers through the Internet but market penetration, as seems to be evident from our cases, needs some kind of physical presence in order to interpret and exploit the opportunities offered by the market. This is also underlined by the fact that cultural barriers such as language

and consumer behaviour are still significant and can constitute barriers to market entry and, consequently, limit the scope and intensity of internationalisation. Another conclusion regarding Internet therefore is that Internet compensates for the liability of smallness but only to a limited extent for the liability of foreignness. Culture and geography still matter as is shown in the blacksocks case and the culturally different but geographically close Italian market. Additionally, complex markets such as the US and the Chinese/Japanese market required dedicated resources from both firms (Zucchella, 2010). However, Internet for the two case firms has been instrumental and much more than an internationalisation-enabler: without this strategic tool the two firms would not be in existence.

How do the internationalisation trajectories develop over time? The cases give evidence of the fact that SME internationalisation processes that originate from a non-sequential pattern are neither necessarily consolidated nor do they necessarily continue to grow rapidly. Initially, blacksocks is fast and broad in its market approach following the born global pattern but in the long run and with respect to intensity of market development it follows in some way the traditional company path that moves into nearby markets, and uses the revenues generated to finance further international activities and expansion. Blacksocks also shows that internationalisation or de-internationalisation may be the result of (external and internal) "triggering events" (Bell et al. 2010, Covello & Jones, 2005). As is evident, an unsatisfactory outcome at any stage delays the process, or, as is the case in the US, results in subsequent de-internationalisation. Blacksocks.com also evidences that being early and being fast does not automatically lead also to being intensive. This finding, in contrast to extant born global research, might be explained by the prevalent high tech orientation of extant studies where time-to-market and diffusion of innovation is to be viewed differently than in a low-tech industry. YOOX continues its accelerated and intensive international expansion, with high growth rates and increased commitment on international markets. It fully exploits the opportunities offered by a fast growing niche in that it proactively widens customer segments and expands the number and type of international markets. It develops business lines that cover all customer segments and profits from economies of scale and scope.

The two cases therefore could be posited as two possible BG internationalisation trajectories: the first one, the YOOX case, starts and continues non-sequential and intensive internationalisation and develops into a true global company. The second one, blacksocks.com, evidences an internationalisation process that is a combination of non-sequential and multidirectional and, in the US case, serendipitous elements. This trajectory is further characterized also by a long period of stasis and an overall slow and incremental growth. This might confirm Sharma and Blostermo's (2003) argument that there is no predetermined blueprint for BG to continue their internationalisation and that patterns of long-term international expansion in general are more diverse than internationalisation literature traditionally has suggested (Jones, 1999; Bell et al., 2005).

According to case analysis it would appear that the overall framework and the measures proposed are a satisfying tool for analysing BGs continued internationalisation. Mapping influencing factors together with entrepreneurial and internationalisation events permits potential explanations of BGs international expansion and differentials in international growth and performance over time. Even though the cases are characterized by a common starting point regarding drivers and internationalisation behaviour, their international expansion progresses very differently, varying substantially in type and speed of internationalisation. Although the patterns and speed of internationalisation may be influenced by external issues, such as evolution of the industry or economic climate in general, importance lies on resource based factors which seem to be associated with the firms' functional and competitive capabilities. Beyond these capabilities and resources international growth seems mainly to be influenced by the nature of their business and related development opportunities. The cases also show that internationalisation patterns may originate and consist of interrelated activities in form of inward/ outward and cooperation links (Covello & Munro, 1997; Jones, 1999).

The holistic view adopted in our framework therefore seems adequate to profile and potentially explain BG international expansion throughout time. Given the fact that we are investigating firms in a low-tech industry exploiting high-tech processes we might tentatively conclude that the model also enables tracking of international expansion across industries. Our findings also show that the

internationalisation-enabling role of Internet can be captured by an IE perspective. On the long run, the impact of Internet lies in its innovative and strategic use in business processes: "worldwide reach" does not automatically equate to "worldwide access".

However, the model has to be refined regarding the direction and interconnections of influencing forces and their direct, moderating or mediating role remains to be further explored. Also, the definition of organizational learning indicators merits more research attention as it would facilitate replication and comparison among cases. In general, replication is necessary to finetune the model and derive testable hypotheses but also to better inform small firm managers and policy makers.

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APPENDIX

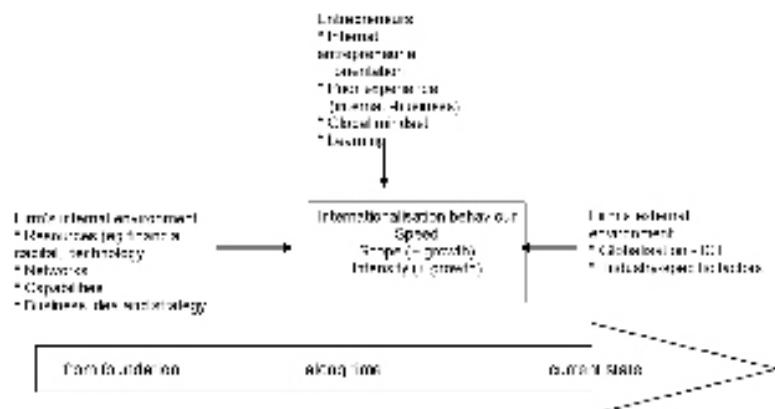


Figure 1: Factors and BG internationalization behaviour along time

Figure 2: Fingerprint patterns blacksocks.com

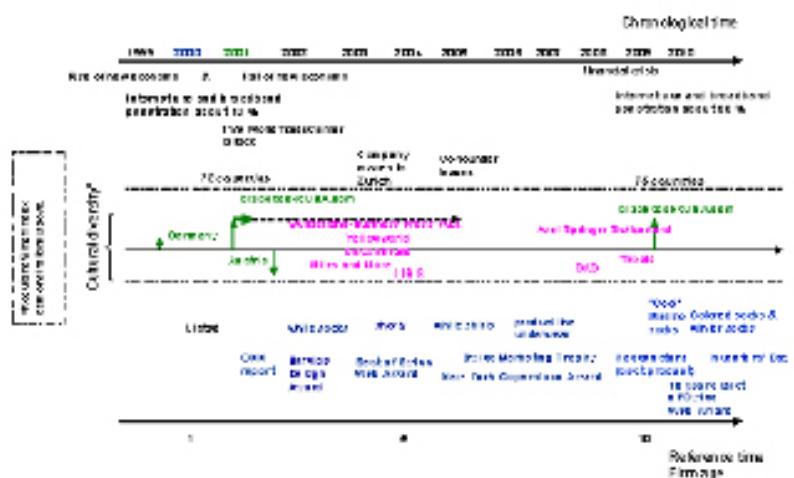
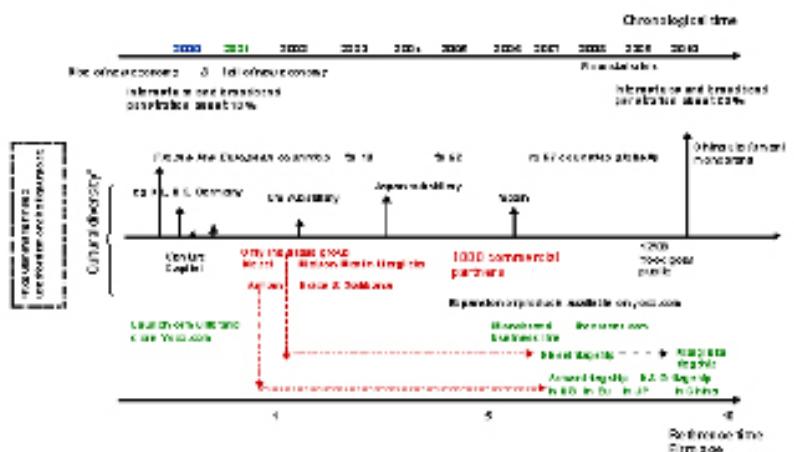


Figure 3: Fingerprint patterns YOOX.com



THE DIFFERENCES IN TAX TREATMENT OF SMALL AND MEDIUM ENTERPRISES IN EUROPEAN UNION MEMBER STATES AND CROATIA

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Abstract

The importance of SMEs in the overall economic development as well as the tendency of Croatian accession to the European Union provide motivation for research of differences in tax treatment of SMEs in Croatia and EU countries. When Croatia joins the EU, a significant part of the tax system must be reformed according to the joint directives that regulate the process of tax harmonization in the European Union. One of the effects of these reforms should be in increased competitiveness of Croatian SMEs in the common market. Therefore, it is important to identify in which areas of the tax system changes can improve competitive position of Croatian SMEs. The paper analyses different features of corporate income tax together with all sorts of incentives and relief from other taxes that present burden for the SMEs in European Union Member States and Croatia. Special attention is devoted to preferential tax treatments that can boost competitiveness in the country. The main thesis of the paper argues that conclusions based on comparative research of the position of SMEs in the tax system can enable creation of optimal national tax system both with the accordance with the EU regulation and goals of increased competitiveness.

Keywords: SMEs, tax treatment, Croatia, European Union, competitiveness

INTRODUCTION

Small and medium-sized enterprises (SMEs) account for 99% of companies in the EU and Croatia, they employ 2/3 of a work force and are the backbone of economy, which puts competitiveness of small and medium sized enterprises in EU focus. Due to the fact that Croatia wants to become a full member of European Union, creating conditions that Croatian SMEs can compete in common market is very important. Analysis of the competitiveness of SMEs and their position in the domestic economy depends on the ways in which government policy affects entrepreneurial activity. The first channel is the government impact on the quantity and quality of inputs into the entrepreneurial process (education, tax credits, etc.). The second channel is the impact on the institutional structure that determines the so-called rules governing the entrepreneurial process (Sobel et. al, 2007).

From the literature it is known that the development and growth of small, innovative companies have a special significance because it leads to faster transfer of knowledge, economic development and better living standards. Small and medium sized enterprises are more productive, more innovative, more flexible and more adaptable to changes. Also, it is important to emphasize that large companies are needed for success of SMEs because they serve as sources of inputs or markets for output.

Small and medium enterprises in the Republic of Croatia are the most dynamic part of the Croatian economy. Subjects of small businesses make up 99.5% of active business entities, employing 66.3%

of the total workforce, generate 44% of total GDP and account with 56.4% of total company profits (Croatian Chamber of Economy, 2009).

The importance of SMEs is more recognized in developed economies which is the reason that SMEs create 51% of GDP in developed countries, 39% in middle income countries, 16% in less developed countries.

Given the relationship between entrepreneurial activity and economic growth, a number of policies, programs and incentives for entrepreneurship development are created in order to form an entrepreneurial economy. Incentives directed to growth of small and medium enterprises among other things allows a country to create a solid middle class. These incentives are often reflected in the creation of an adequate institutional framework for policy towards small and medium enterprises, ensuring the rule of law, the tax incentive policy, the development of financial instruments, advisory services and implementation of business incubators. In this paper tax policy and various forms of tax incentives in Republic of Croatia and new EU countries will be analyzed, as well as their impact on the competitiveness of small and medium enterprises.

The paper is concerned with different features of corporate income tax, all sorts of incentives and relief of SMEs as one of the measures to boost competitiveness in the Croatia and new Member States of European Union. Unlike most papers, that write about small business concentrating on business entities that pay personal income tax (unincorporated businesses), the analysis of this paper is concentrated on the corporate income tax treatment of SMEs (incorporated small and medium-sized businesses) and all sort of incentives in the area of corporate income taxes. After introduction, in the second part of this paper there is a brief review of literature on the types of tax incentives. The third part gives an overview and analysis of the tax incentives for small and medium enterprises in Croatia in the new EU Member States. Tax treatment comparison is done using statutory corporate income tax rates, reduced corporate income tax rates for SMEs, and other incentives for SMEs that exist in the tax systems of new Member States of EU and Croatia. The fourth part concerns the effect of Croatian accession to the European Union on the competitiveness of small and medium enterprises. The ultimate part is conclusion.

THEORETICAL DETERMINANTS OF TAX INCENTIVES AND RELIEFS IN THE AREA OF CORPORATE INCOME TAXES

In the global tax literature there is a large number of different tax incentives under the various tax forms. In this paper, the main accent will be placed on the tax incentives that are granted under the corporate income tax and their main goal is to encourage growth and development of small and medium enterprises.

Such incentives are usually divided into three main groups: 1) reduced corporate income tax rate, 2) tax holidays and 3) investment incentives. In investment incentives are included accelerated depreciation, investment allowances and tax credits.

An important issue when introducing tax incentives, especially in the context of this paper, is how much tax incentives contribute to increasing the competitiveness of small and medium enterprises in domestic and international markets. When looking for the answer on this question in the literature there are various opinions.

Shah (1995), Feldstein et al. (1995.) argues that tax incentives don't have a crucial role in making investment decisions, in fact their impact is more significant in choosing investment locations, while they almost don't affect on the initial investment decision. However, globalization and regional economic integration processes have become more important and they led to a change in the role of the tax system and its growing importance (Mintz (2006.) and Alm et al. (2006.)). The processes of harmonization and coordination of economic policies are becoming more intense, especially in the EU Member States countries and candidate countries. States are increasingly similar to each other and are potential substitutes for the location of investments and in such conditions tax incentives have a greater role in promoting competitiveness (Morisset, 2003)..

Furthermore, in the literature that deals with a problem of the special tax treatment of small and medium enterprises can be found a number of different arguments that explain the necessity of such special tax treatment, and all with a goal that SMEs can reach market competitiveness. The mostly mentioned arguments are:

- Positive externalities such as innovations, new ideas, products and technological advance, training of skilled labor force.
- Relatively high tax compliance costs measured as a percentage of turnover/number of employees/assets.
- Capital market imperfections resulting from asymmetric information (difficulties in getting credits or additional (portfolio) equity).
- Higher risk of failure.
- Difficulties to get highly-skilled staff, because of a lack of visibility.
- Employment generator (small businesses create new jobs in excess of their share in labor force).

However, most of these arguments are strongly criticized in the taxation literature. Gravelle (1993, p.284) points out that positive externalities ("spillover effects") for high-tech equipment are not consistent with the small business, since 60% of investment tax credits for small business would go to the trade and services industries and only 5% to manufacturing.

Relatively high tax compliance costs for SMEs could be even higher due to some complicated incentives or multiple rates schemes for SMEs. So, this problem rather calls for simplification measures, especially in the countries with less developed financial and accounting systems. Tax favoring of small business is especially important for countries that are less developed, for instance transition countries and especially SEE countries. The lack of capital or high costs of capital could be offset by more direct non-tax measures relating to banking and capital markets.

It is evident that small business faces higher risk to failure. However, neither public finance theory nor empirical research completely supports the assumption that increased taxation reduces the willingness of individuals to undertake risky investments (Holtz-Eakin, 1995.).

Concerning positive employment effects, there is a little evidence that small firms disproportionately create jobs, especially the permanent ones (Brown, Hamilton and Medoff, 1990), but they are still „net job creators“ in EU area (EC, 2009.).

Reduced tax rate for SMEs is a measure that is often mentioned in literature and which seems to be the easiest. But regardless there are some critics of such measures. Moreover, lower tax rates for SMEs can discourage their growth when small business owners try to keep reported income below certain thresholds to take advantage of the preferential tax treatment of small businesses. Lower taxes may encourage entrepreneurs to divide businesses into separate components for tax purposes. Small firms may not even benefit from many of these incentives since they need to be profitable before they can make use of tax credits and other measures (Chen, Lee and Mintz, 2002.).

As already mentioned the vast majority of firms that operate in advanced as well as in developing countries are small and medium-sized enterprises (SMEs). Therefore, SMEs' competitiveness significantly affects the competitive position of the country's economy as a whole. The concentration of SMEs' activities on domestic market leads to the bounded business vision. Combined with the asymmetric information about the profit opportunities abroad, this fact tends to limit the diversification of SMEs' investments in an international context. Consequently they appear to be more directly affected by the national corporate tax reform than is the case with large multinational firms. On the other hand, SMEs have quite often been the primary target group of such an investment promotion policy (Hendricks, Amit and Whistler, 1997; Chen, Lee and Mintz, 2002; Devereux, Griffith and Klemm, 2004). SMEs are generally more responsive to domestic tax incentives than large ones. Taxes may play a more important role in the cost structure of SMEs because they do not have the financial and human capacity to develop sophisticated tax avoidance strategies. The two aspects of these reforms have offsetting effects on this disincentive: the lower tax rate typically increases the incentive to invest, while the lower allowance decreases it. The combined effect depends on the details of each reform (Devereux, Griffith and Klemm, 2002).

Furthermore, it is a general belief that SMEs have limited access to capital markets, both nationally and internationally, in part because of the perception of higher risk, informational barriers and the involvement in smaller projects, etc. As a result, SMEs have quite often been unable to obtain long-term finance in the form of term debt

and equity, and a larger part of their investments have traditionally been self-financed.

Despite the relative criticism in taxation literature, the tax systems of most countries include preferential tax regimes for SMEs. The EU fiscal state aid provisions allow the preferential tax treatment of SMEs. Lower tax rates (as well as incentives) could have little immediate impact, given the weak current profitability of most SMEs. However, they might be expected to enhance growth over the longer term (OECD, 2010, p. 29).

COMPARATIVE ANALYSIS OF TAX INCENTIVES FOR SMALL AND MEDIUM ENTERPRISES IN CROATIA AND NEW MEMBER STATES OF THE EUROPEAN UNION

Before the comparative analysis of tax incentives for SMEs it is necessary to define the concept of SMEs and explain the basic tax incentives. There is actually no single agreed definition of SMEs in literature. The most frequent upper limit designating a SME is 250 employees, as recommended by the European Commission (Recommendation 2003/361/EC of 6 May 2003). The Commission defines a medium-sized enterprise as a firm having less than 250 employees, a turnover inferior to EUR 50 million and a balance sheet below EUR 43 million. A small enterprise as having less than 50 employees and turnover and balance sheet of less than EUR 10 million and micro enterprise as a firm with less than 10 employees and a balance sheet and turnover below EUR 2 million.

Furthermore, as already mentioned in the introduction, there are different opinions on the application of tax incentives for small and medium enterprises as there are various forms of tax incentives that are applied in developed countries and developing countries.

Where the relative merits of tax concessions to SMEs are seen to outweigh their costs, income tax relief may be provided to SMEs in a number of ways.

Main tax incentives for SME investment can be usefully categorized according to the

mechanism or channel through which they influence the benefits and costs of additional investment at the margin: (OECD, 2009.)

- Incentives that reduce the statutory (or nominal or 'headline') corporate income tax.
- Rate on profits derived from investment.
- Incentives that reduce the after-tax cost to business of purchasing new capital (through accelerated or enhanced tax deductions, and tax credits).
- Incentives that reduce the after-tax cost of raising funds to finance the purchase of new capital.

Also, there are alternative income tax incentive measures including:

- Reductions in the statutory corporate income tax rate. The rate reduction may be targeted at small business income in a number of ways (in some systems only to firms satisfying a small business test, in other systems available to SMEs and large firms but only up to some taxable profit limit), together possibly with other targeting criteria (e.g. profits from targeted business activities).
- Accelerated depreciation allowances for capital expenditures. Another channel through which investment incentives may be altered is via special tax provisions that lower the effective price of acquiring capital. Two main sorts of incentives can be distinguished in this category: 1) investment allowances (accelerated and enhanced depreciation allowances), which are deductions against taxable income; and 2) investment tax credits, which are special offsets against income tax otherwise payable. Both are earned as a fixed percentage of qualifying investment expenditures.
- Enhanced depreciation allowances for capital expenditures. Firms are allowed to claim total deductions for the cost of qualifying capital that exceed the (market) price at which it is acquired. An enhanced depreciation allowance may be combined with an accelerated depreciation system.
- General or targeted investment tax credits. Another main tax incentive instrument is an

investment tax credit, earned as a percentage of qualifying expenditures. Tax credits provide an offset against taxes otherwise payable, rather than a deduction against the tax base (thereby removing the dependency of the value of the incentive on the income tax rate). Investment tax credits may be flat or incremental.

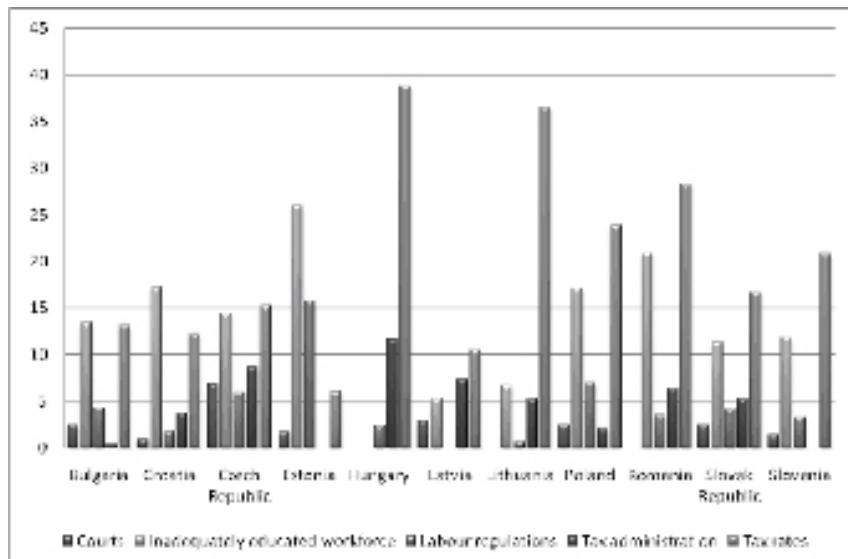
- Financing incentives. Generally, financing incentives, which lower effective tax rates on returns to investors (shareholders, or bondholders), may operate to increase investment by lowering the after-corporate tax (hurdle) rate of return that a firm is required to earn, in order to pay investors their expected rate of return.

Regardless of the fact that there are various opinions about whether the tax incentives and tax relief are acceptable form for encourage SMEs and whether they actually lead to the strengthening of

SMEs, the fact is that the tax treatment and various costs associated with the tax regulations of each country play an important role in business decision making.

As is well known the European Union attaches great importance to development of SMEs. SMEs in the European Union have the role of primary sources of innovation and new employment, growth drivers, holders of structural change and progress. However, SMEs are constantly faced with some problems that should be removed so they can meet their expectations. These problems are: access to finance and land, business licensing and permits, corruption, courts, crime, theft and disorder, customs and trade regulations, electricity, inadequately educated workforce, labor regulations, political instability, practices of competitors in the informal sector, transport, tax administration and tax rates. Some of these obstacles are shown in the following graphs separately for small and medium enterprises.

Graph 1: Selected obstacles facing small firms (% of firms) in 2008.



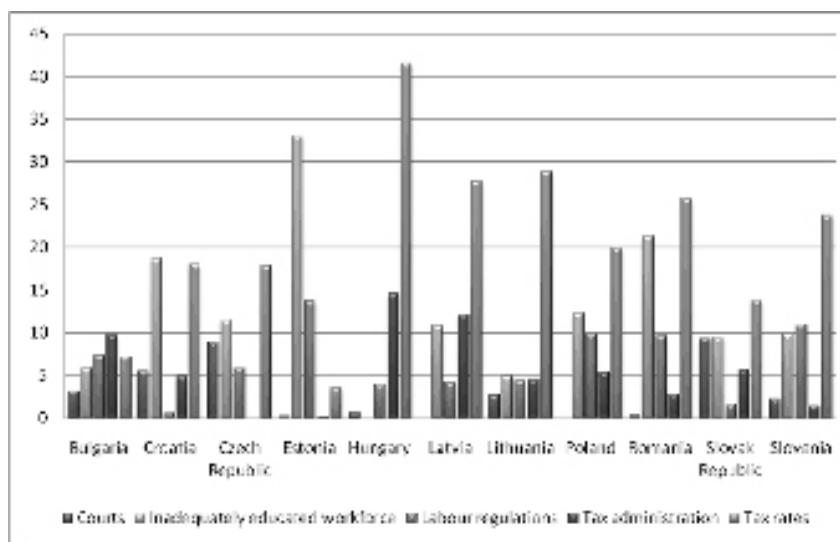
Source: Business Environment and Enterprise Performance Survey (2008.)

On the chart are displayed the selected parameters that describe the assessment of small business owners about the importance of problems in the Croatian business environment and new EU Member States (excluding Cyprus and Malta). The

graph shows that the major problems are tax rates and inadequately educated workforce. In Croatia, even 12.24% of small businesses highlight a problem of high tax rates, and 17.21% the lack of adequately educated workforce.

The following chart shows the same selected indicators, but for medium-sized enterprises where tax rates and the lack of adequately educated workforce are also recognized as the most important issues. In Hungary even 41.51% of entrepreneurs points out tax rates as a biggest problem, while in Estonia 33.8% stand out inadequately educated workforce. Croatia has the same problem.

Graph 2: Selected obstacles facing medium firms (% of firms) in 2008.



Source: Business Environment and Enterprise Performance Survey (2008.)

Given such a simplified picture of the problems that small and medium-sized businesses face in the business environment, it is evident that tax incentives and tax relief are important instruments to encourage SMEs in new Member States of the European Union and Croatia. Because of this, in this paper different types of tax incentives and tax exemptions that are approved to SMEs in new Member States of the European Union and Croatia will be analyzed. Only the incentives and relief under the corporate income tax will be included in the analysis. In the tax systems lower corporate income tax rate for small and medium-sized enterprises is particularly outstanding. The actual (effective) tax rate can be reduced not only by reducing the nominal (statutory) corporate tax rate but also by granting various tax breaks and incentives for small and medium-sized enterprises.

Although the lower corporate income tax rate could be, in the broader sense, seen as a tax incentive also, this chapter is concentrated on the tax incentives for SMEs in the narrower sense. The following comparative analysis (Table 1) presents other tax incentives offered for SMEs. These are tax incentives in the narrower sense: tax allowances and tax credits for investment, accelerated depreciation, tax holidays and other exemptions, research and development, employment, education...). Table is divided into three columns. First column shows statutory corporate income tax rate applicable for all enterprises. Second column refers to reduced corporate income tax rate for SMEs, and third column provides an overview of all other incentives and relief.

Table 1: Corporate income tax incentives for SMEs for EU-12 and Croatia (2010)

Country	CIT rate	Reduced CIT rate for SME	Other incentives for SME
Cyprus	19%		
Czech Republic	19%		
Estonia	26,5% (21%)		
Lithuania	15%		<ul style="list-style-type: none"> • some benefits in respect of CIT apply currently to special economic zones (SEZ) and free ports (FP) companies • the amount of CIT payable is reduced by 80% (i.e. 30% TC) • that relief is applicable in tax year only to the extent that it, together with accumulated relief in respect of real estate tax together with the accumulated direct tax relief, does not exceed 70% of the value of accumulated investment by the SEZ or FP company – if it is a medium sized enterprise the relevant threshold is 50%
Lithuania	15%	<ul style="list-style-type: none"> • 55% of the average number of employees does not exceed 10 persons and the taxable income during the taxable period • in case of sole proprietorships and partnerships where the average number of employees does not exceed 10 persons and the income during the taxable period is less than LTL 1 million, the profit up to LTL 25,000 is taxed at a 0% 	
Poland	19%		Small taxpayers (annual turnover lower than EUR 1.2 million) and start-ups opt for an immediate deduction for certain fixed assets
Slovak Republic	19%		
Slovenia	20%		
Bulgaria	19%		
Hungary	19%	10% to the part of taxable base which does not exceed HUF 50 million	<ul style="list-style-type: none"> • investment credit for taxpayers who take out a loan from financial institution for the acquisition or production of tangible assets ; they may deduct from their tax 40% of the interest paid on such loan up to maximum deduction of HUF 6 million • solely owned SMEs may

¹ Distribution tax 26,5% of the net amount of the profit distribution corresponding to 21% on the gross amount of the distribution

Source: European Tax Handbook, IBFD, 2010; Tax Administration of Republic of Croatia, 2010.

Only three of 12 new EU Member States in their tax systems have reduced corporate income tax rate for SMEs (Lithuania, Hungary and Romania). One third of the new EU members apply other different tax incentives for SMEs (Latvia, Hungary, Poland and Malta). Only Hungary has both: reduced corporate income tax rates and other tax incentives for SMEs. The mostly used forms of incentives are different simplification measures, mostly in the form of less frequent or no tax prepayments at all. Some countries even apply simplified calculation of CIT for SMEs that is not based on corporate profit (Romania). Most countries here do not use investment incentives for SMEs - similar with the fact that they do not use lower tax rate for SMEs (with the exception of Hungary). Hungary and Poland use such incentives mostly, with immediate write-off (and tax credits) being predominant. As it is shown, new Member States doesn't comprise all classical form of other relief: accelerated depreciation as well as tax allowances and tax credits. The lack of all classical form of other relief in tax systems of new EU Member States and Croatia is in contrast with proposals that can be found in the taxation literature. As it is well known from the taxation literature (for instance Shah, 1995; Broadway, Shah, 1995; Mintz and Tsipopoulos, 1995; McLure, 1999) such forms of investments incentives have some additional advantages in comparison with lower tax rates (and some other investment incentives): concentration on new investments only instead of the old ones and new ones at the same time, direct relation to the investment value, lower tax expenditure, possible concentration on the "desired" investment forms/regions/ sorts of enterprises.

Small and medium enterprises in Croatia don't have tax relief that are applicable specifically for them or reduced corporate income tax. Croatia has tax allowances for research and development and education for SMEs and also for large enterprises, but for SMEs greater amounts are allowed.

Otherwise, two thirds of the old EU members apply different tax incentives for SMEs. Almost all of them allow investment incentives. They comprise all classical form of these reliefs: accelerated depreciation as well as tax allowances as tax credits. Almost all of the old EU members offer some additional incentives for SMEs. Among other activities favored for SMEs are R&D activities and different innovations.

THE EFFECT OF CROATIAN ACCESSION TO MEMBERSHIP OF THE EUROPEAN UNION ON THE COMPETITIVENESS OF SMEs

EU Member States must comply with the principles of the Code of Conduct for Business Taxation, in order to eliminate harmful tax competition. Code of Conduct for Business Taxation is a political obligation for Member States. EU Member States should avoid the introduction of new and remove existing harmful tax measures. In the process of negotiations with the European Union, Croatia has committed that she will not introduce any harmful tax measures after becoming the Member State of the European Union. Tax incentives and tax benefits in a broader sense can be considered as part of state aid to individual sectors or branches of activity. Aid which have been classified by instrument (grant, soft loans, tax credits, guarantees, etc.) are important for this paper. In general, the European Union accept the view that state aid should be focused mainly on areas of market failure (Commission of the EC, 2003). Redirection of aid to this 'good' aid which doesn't distort competition is a major strategic goal of the reform of aid in EU Member States.

In this way is the reform of state aid in Croatia where the applicable state aid is in the form of tax measures: reduced tax liabilities on corporate income tax and personal income tax. They are mainly related to free zones, industrial zones, zones of technological development, the economically disadvantaged areas and to a lesser extent on SMEs.

In the past five years Croatia has changed the legal regulation of tax exemptions and grants for the purpose of harmonization with European Union rules on state aid. Such tax measures were regulated under the Law of corporate income tax and now are regulated by special laws.

The European Union is constantly demands to direct state aid at horizontal objectives which are the least harm to competition. These are environmental protection, education and training, research and development and incentives for SMEs. Croatia, as a candidate country for membership in the European Union, in the tax system already has integrated tax incentives for SMEs in the form of tax incentives for research and development and education. There is a reduced tax liability

for businesses in economically underdeveloped areas and free zones in Croatian tax system. This reduced tax liability should be harmonized with the legal requirements of the EU.

In the interest of a single common market and competition, the European Union seeks, as much as possible, to harmonize the national tax regulations and ensure that there are no barriers to free movement of capital. Harmonization of direct taxes (especially corporate income taxes) at the EU level is more difficult to achieve than the harmonization of indirect taxes.

The reason for this lies in the fact that direct taxes are in the jurisdiction of Member States. The existence of different tax sovereignty of individual Member States, the limited power of the EU in process of harmonization of taxes led to the existence of substantial structural differences in the tax systems of Member States, especially in the area of direct taxes. It was found that an adjustment in the field of taxation in general is difficult to achieve.

National tax systems are generally under the responsibility of the each of 27 Member States separately and it is very difficult to achieve complete harmonization of the system. Thus, despite the introduction of a common market and economic and monetary union in EU, there still is no real common tax policy.

It can be concluded that Croatia has complied its own tax regulations, for the most part, with the requirements of the European Union. When Croatia becomes a member of the European Union, major changes in the tax treatment of SMEs can not be expected. The growth of competitiveness of SMEs will depend on their ability to use the advantages of EU membership. These benefits include: access to single market, the possibility of cooperation, networking and connecting with stronger industries, access to additional funding from non-bank sources and state aid and the availability of new technological, organizational and managerial skills.

CONCLUSION

Small and medium enterprises in Croatia during the Croatian accession to the European Union will face a number of challenges on a common market. Adjustment to the existing standards in

the European Union and the adjustment of the tax treatment are important segment for the successful operation of SMEs in the common market.

In the Croatian tax system there are numerous tax incentives, but only some are applicable to SMEs, while in more developed states of the European Union they are used more. Also, it is evident that tax incentives and tax relief are important instruments to encourage SMEs in the new Member States of the European Union and Croatia. Only few of new EU Member States in their tax systems have reduced corporate income tax rate for SMEs. One third of the new EU members apply other different tax incentives for SMEs. Only Hungary has both: reduced corporate income tax rates and other tax incentives for SMEs. The mostly used forms of incentives are different simplification measures, mostly in the form of less frequent or no tax prepayments at all. Some countries even apply simplified calculation of CIT for SMEs that is not based on corporate profit (Romania). Analysis showed that new Member States doesn't comprise all classical form of other relief such are accelerated depreciation and tax allowances and tax credits.

Croatia has tax allowances for research and development and education for SMEs. In the past five years Croatia has changed the legal regulation of tax exemptions and grants for the purpose of harmonization with European Union rules on state aid. It can be concluded that Croatia has complied its own tax regulations, for the most part, with the requirements of the European Union. When Croatia becomes a member of the European Union, it can't be expect major changes in the tax treatment of SMEs. The growth of competitiveness of SMEs will depend on their ability to use the advantages of EU membership. With a greater use of tax incentives small and medium enterprises would become more competitive on both domestic and international markets. One of these instruments which would contribute to increasing competitiveness of SMEs is the introduction of reduced tax rates on profits. This type of incentives exist in the Member States of the European Union.

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A STUDY OF RISK PERCEPTION AND PREVENTION OF INTERNATIONAL BACKPACKERS IN THAILAND

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Abstract

This paper investigates risk perception and prevention of international tourists in Thailand, especially backpackers who often find themselves in vulnerable situations. This study was conducted with the following aims; to discover the opinion of international backpackers towards Thailand, to explore the level of risk perception and risk prevention of these tourists when travelling in Thailand, to examine the relationship between risk perception and risk prevention of these tourists, and to investigate factors affecting risk perception and risk prevention.

The quantitative data collecting methods were employed with the use of self-administered surveys. The results of the study indicate that international backpackers view Thailand as a country full of beautiful scenery, welcoming Thai hospitality and good value for money. Their overall level of risk perception regarding travelling in Thailand is low. As with risk perception, it would appear that these tourists have a low level of risk prevention. Considering the relationship of risk perception and prevention, it is found that they are correlated to each other. If tourists have a high level of perceived risks, they conversely have a high level of prevention, and vice versa.

Within the investigation of factors affecting risk perception and risk prevention, overall, none of the demographic and background factors affect the risk perception and prevention. However, when focusing in detail of each risk perception and prevention category, it appears that age, educational attainment, type of travel companion, number of travel companions, and travel experience affect the risk perception while profession and type of travel companion affects risk prevention.

KEYWORD

Backpackers, Travel risk perception, Travel risk prevention, Travelling in Thailand

INTRODUCTION

Thailand is one of many countries which gain economic benefit from the tourism industry. For the past ten years, the tourism industry in Thailand has been growing rapidly with the exception of the years 2003, 2004, 2008 and 2009, due to SARS virus, Tsunami, political unrest with the airport closure, and H1N1 flu. It is apparent that anything related to health and safety is a sensitive issue for tourists. When risky incidents take place, the tourists always feel unsafe and unconfident to travel to destinations. Thus, the study of tourist behaviour in relation to risk is essential.

According to the tourist behaviour theory (Kotler, et.al,2003), when people decide to travel, their decision making is proceeded by needs recognition, information searches, an evaluation of alternatives, purchase decisions and post purchase behaviour. There are many factors affecting tourist purchasing behaviour which are cultural factors that refer to culture, subculture and social class, or social factors. For example, reference groups, family, role and status; personal factors such as age and life-cycle stage, occupation, economic circumstance, lifestyle, personality and self concept; and psychological factors, such as motivation, perception, learning, beliefs and attitudes.

In this study, the tourists' perceptions are the focal points. In relation to risk, the risk perception and risk prevention of tourists are explored with the focus on international backpackers. They were chosen as the sample group for this research

due to their characteristics, they are the type of tourists who tend to face risky situations more than others (Hampton, 1998; Horner and Swarbrooke, 2003; Nash, et.al. 2006; Reichel, et.al. 2007)

Because research about risk perception and prevention of international tourists in Thailand, especially those of backpackers, is rare, this study was conducted with the following aims;

1. To discover the opinion of international backpackers towards Thailand.
2. To explore the level of risk perception and risk prevention of international backpackers in Thailand.
3. To examine the relationship between risk perception and risk prevention of these tourists.
4. To investigate factors affecting risk perception and risk prevention of these tourists.

LITERATURE REVIEW

Theory about backpackers

Hampton (1998) states that backpackers are independent travellers who tend to spend less than 15 Dollars per day, use local transportation, purchase bargain products and budget service, avoid the mass destinations and search for the new and challenging destinations. They are prone to have their own community to share travel information and lifestyle. Sometimes, the backpacking community in a destination can be the attraction itself (Hampton, 1998; Horner and Swarbrooke, 2003). Nash,et.al. (2006) explains characteristics of the backpackers as: they always choose to stay at bargain hotels, enjoy interacting with local people and among other tourists, have no definite plan but tend to stay for a longer period of time than other types of tourists, aged between 15-60 years old, and lastly have the potential to perform adventurous activities.

Reichel, et.al. (2007) argues that backpackers face higher risk situations compared to other types of tourists because they tend to indulge in more adventurous and risky activities. Apart from that, their risk perceptions are quite different from other types of tourists depending on their past experience, and gender. Backpackers can be divided into three groups; the pioneer, the lonely-planeteer, and the

prepared backpacker. The pioneer backpackers are those who do not use the travel guide book. They hardly search for travel information before travelling. They have no limitation in budget and time because they will work alongside their travels. The lonely planeteer backpackers plan their travel based on the travel guide book, especially the Lonely Planet. They more often than not choose to go to carefully selected 'well known' destinations due to the limitation of their budget and time. Their trip usually lasts less than a year. The prepared backpackers are those who search for all the travel information by themselves, without any guidelines from the travel agent or tour operator. They have very limited travel time, only about 2-3 weeks.

The relationship of travel risk and tourist behaviour

The concept of 'risk' was first used in consumer behaviour in the 1960s by Bauer. It is stated that each person responds to risk in relation to their perception. Haddock (1993) divides risk into two types; actual risk and perceived risk. The actual risk can be prevented from the policy and all stakeholders in the destination while the perceived risk occurs within the tourists themselves.

Five kinds of risk are characterised by Jacoby and Kaplan (1972) as psychological risk, financial risk, performance risk, physical risk and social risk while Nyskiel (2005) divides risk into only two types, external and internal risk. External risks can be referred to natural disaster, political unrest, terrorism, etc. while the internal risks can be referred to illness, drug taking, abduction, etc.

Roehl and Fesenmaier (1992) point out that there are seven travel risks; which are equipment risk, financial risk, physical risk, psychological risk, satisfaction risk, social risk and time risk. With the adaptation of literature of Sonmez and Graefe (1998); Basala and Klenosky (2001) Dimanche and Leptic (1999); Reisinger and Mavondo (2006) divide risk into thirteen types, which are crime, cultural risk, equipment risk, financial risk, health risk, physical risk, result risk, political risk, psychological risk, satisfaction risk, social risk, time risk and terrorism risk.

The framework about risk perception of this research is applied from Raichel et.al (2007), which divides tourist risk into eight types; site related physical risk, sociopsychological risk, physical

harm, expectation risk, socio-political difficulties, financial risk, mass risk and self-behaviour risk. However, the sociopsychological risk is omitted.

When people decide to travel, there will be a process of informational search; evaluation of the alternatives for destination, distribution channel, price, companion etc. and then decision making; preparation for travelling; then travelling and gaining experience (Law, 1991). Kotler, et.al (2003) also explains about the travel decision making as a process of needs recognition, information searches, an evaluation of alternatives, purchase decisions and post purchase behaviour.

Various factors affect the travel decision making such as cultural, social, personal and psychological aspects. Perception is one of the psychological aspects in determining the travel destination. In this study, the risk perception and risk prevention are focused. The risk perception towards the destination originates from the information about that place. This information can be obtained from media, government, national tourist organisation, word of mouth, the embassy etc. The tourists seek information before travelling in order to reduce the travel risk. Thus, the quality of information and information source play an important part in the destination image.

The risk perception and risk reduction of the tourists are various and changeable in accordance to the travel process. Mansfeld (2006) mentions four stages of travel process; which are choosing the destination, travel arrangement, tourist behaviour at the destination, and the post travel behaviour. The tourists have their own 'Acceptable Risk Threshold (ART)'. If they obtain information about risk in the lower level of their ART, they will process all of those four stages. In contrast, if the information is higher than their ART, they will have their own risk reduction strategy depending on when the risk takes place. For example, if the risk takes place in the first stage, they can change their travel destination. If the risk happens in the second stage, they can cancel their journey. If the risk occurs during the trip, they have to remove themselves from the risky area. Lastly, if the risk takes place in the last stage, tourists will avoid this destination in future.

There are various internal factors which can affect the risk perception. From the review of the empirical researches, it is found that those factors can be demographic factors, travel companions,

destination image, travel experience and past risky behaviour (Sonmez and Garefe, 1998; Elsrud, 2001; Seddighi et al., 2001; Lepp and Gibson, 2001)

METHODOLOGY

To achieve the aims of this research, the quantitative approach was applied. It is an approach which views the world as though there is only one truth. The aim of the research is to search for the causal explanations by testing the hypothesis. Burns (2000) describes the four characteristics of the quantitative approach as control, operational definition, replication and hypothesis testing. The strengths of this approach are precision and control. The precision comes from the quantitative and reliable measurement while the control comes from the sampling and design.

The first data to be investigated when doing research is the secondary data, which has been defined as 'information collected for a purpose other than that of the researcher in this sense the researcher becomes the secondary user of the data' (Finn, 2000, p.40). The secondary research process establishes a good understanding of the subject area. Secondary data can be found in a number of different sources such as written materials including books, journals, newspapers, theses, magazines, brochures, reports, Internet and non-written material such as television and videotapes. Secondary data forms the foundation of the literature review. With regard to this research, the literature about tourist behaviour theory, backpackers, risk perception and prevention were reviewed.

The samplings of this research are four hundred international backpackers who travelled in Thailand. The self-administered questionnaire survey was divided into five parts: demographic characteristics (origin country zone, sex, age, marital status, and educational attainment); personal (background of the respondents, the number of travel companions, type of travel companion, and travel experience in Thailand); tourists' opinions about Thailand; level of risk perception; level of risk prevention. The Likert scale of seven ranks was employed in the latter two parts. The questionnaire was given to thirty respondents for validity and reliability testing, and then modified before four hundred questionnaires were given to international backpackers at Khao San road, Bangkok, Thailand.

In terms of the data analysis, the programme Statistic Package for Social Science (SPSS) was applied in this research. The meaning of the 7 Likert scale is as shown below;

7	refers to	The highest level
6	refers to	Quite high level
5	refers to	High level
4	refers to	Normal level
3	refers to	Low level
2	refers to	Quite low level
1	refers to	The lowest level

FINDINGS

The findings of this research are divided into five parts: demographic characteristic of the respondents; background of the respondents; tourists' opinion about Thailand; risk perception and prevention with their relationship to each other; and lastly factors affecting risk perception and prevention.

1. Demographic characteristics of the respondents

Out of 400 respondents, 274 (68.5%) came from the Eastern part of the world, while 126 (31.5%) came from Western countries. The majority of the respondents were male (65%). Nearly two thirds (258= 64.5%) of the respondents were below 30 years old (67.40%) and more than one third of the sample (68.25%) were single. Their educational attainments share nearly the same percentage among diploma, bachelor and above bachelor degree. Around one third of them work

for private companies, other occupations range from government officers to students.

2. Background of the respondents

With regard to the number of companions of these backpackers, it was found that more than half (61%) of them travelled with 2-3 people while one third (31.5%) of them travelled alone. Those companions could be partners or friends. Out of these 400 respondents, 223 (55.75%) have visited Thailand before. When asking them what kind of risk takers they are, it was found that they were quite neutral, not high risk takers, nor low ones.

3. Tourists' opinion about Thailand

The results indicate that tourists use the internet as a tool for informational search before deciding to visit Thailand. More than half of them stated that they did not look for other alternative tourist destinations. They decided straight away to come to Thailand. Regarding their opinion about Thailand, in relation to their decision making, they give importance to scenery, Thai hospitality, and value for money, respectively. Their least important consideration is the distance of Thailand from the country of origin.

4. Level of risk perception and prevention and their relationship to each other

Result of the research shows that the overall level of risk perception of international backpackers about travelling in Thailand is low. With a closer look at the risk perception ranking, it is found that the three highest levels of risk perceptions are mass risks, site-related physical risks and physical harm risk respectively while the three lowest levels are financial risk, political risk and self-behaviour risk respectively. (Table 1)

Table 1 Level of risk perception of international backpacker in Thailand

Risk Perception	\bar{x}	S.D.	Level	Rank
1 Site related physical risk	3.62	1.18	Normal	2
2 Physical harm risk	3.12	1.20	Low	3
3 Expectation risk	2.49	1.15	Quite low	7
4 Political risk	2.82	1.55	Low	5
5 Financial risk	2.99	1.26	Low	4
6 Mass risk	4.17	1.49	Normal	1
7 Self behaviour risk	2.90	1.07	Low	6
Total	3.14	0.80	Low	

With a closer look at each risk category, starting from the site-related physical risk, the overall level of risk perception is normal. Considering the details, it was found that the tourists gave importance to illness risk, and crime and cheating, respectively, and the least importance to food risk. In the section of physical harm, the overall risk perception is low. The top three considerations for the tourists are accident, injury, and natural disaster, respectively, while the least attention is paid to terrorism. Under the expectation risk, the tourists main concern was about trip expectations, dissatisfaction and wrong destination, while the least concern was about time wasting. However, the overall level of risk perception of the expectation risk is quite low.

On the whole, the political risk perception level is low and most anxiety of tourists was focused on the political unrest and strikes. With the low level of perception, financial risk can be focused in detail. Tourists are aware of unexpected extra expenses, and the effect on their financial situation and, correspondingly, may choose a destination less expensive than others. Concerning mass risk, for which the level of risk perception is normal, the tourists were attentive to commercialisation and overcrowding. Lastly, the self-behaviour risk aspects which are under the tourists' attention are drug taking and a negative impression on locals.

As with risk perception, the level of risk prevention of the international backpackers was at a low level. However, the top three highest level of

risk prevention are site-related risk prevention, self-behaviour risk prevention and mass risk prevention. (Table 2)

Considering each category of risk prevention, it is found that the level of site-related physical risk prevention is normal. When taking a closer look, it is found that the tourists paid attention in preventing themselves from food risk, cheating and crime respectively while the least prevention was illness. In terms of physical harm risk, the tourists have a low level of prevention with concentration on natural disaster, accident and injury correspondingly. Regarding the expectation risk, the overall prevention is low with the awareness of the possibility of the trip being not as expected, dissatisfaction or wrong destination choice.

The tourists perceive political risk at a low level, with the focus on political unrest and strikes respectively. In terms of the level of financial risk prevention of the tourists, it is low, with the anticipation of unexpected extra expenses effecting the financial situation and more expenses in Thailand compared with other tourist destinations. As for the mass risk, the tourists have a low level of prevention with the focus on commercialisation and overcrowding. Lastly, the self-behaviour risk prevention of the tourists is at a normal level with the avoidance in drug taking and making a negative impression on the locals.

Regarding the correlation of risk perception and risk prevention, it is identified that these two aspects are associated to each other in the sense that the higher the level of risk perception, the higher the level of risk prevention is.

Table 2 Level of risk prevention of international backpacker in Thailand

Risk prevention	\bar{x}	S.D.	Level	Rank
1 Site related physical risk	3.75	1.12	Normal	1
2 Physical harm risk	3.19	1.21	Low	5
3 Expectation risk	3.05	1.46	Low	6
4 Political risk	2.87	1.58	Low	7
5 Financial risk	3.22	1.37	Low	4
6 Mass risk	3.35	1.35	Low	3
7 Self behaviour risk	3.69	1.96	Normal	2
Total	3.90	1.01	Low	

5. Factors affecting risk perception and prevention

With the hypothesis that the demographic characteristics influence risk perception and prevention, the hypothesis testing indicates that age and educational attainment affect risk perception while only profession affects risk prevention.

Age is clearly important with regard to risk perception in terms of financial risk and self-behaviour risk. In the three age ranges, below 30 years old, 31-40, and above 40 years old, tourists who are less than 30 years old have the highest financial risk perception. Next are those who are in the age range of 31-40, and those above 40 years old. With regard to the relationship of age and self-behaviour risk, same patterns come up. Tourists aged below 30 years old consider themselves as having the highest potential to face self-behaviour risk when compared with the other two groups.

Overall, educational attainment does not affect the risk perception of tourists. However, when considering the sub section, it is found that educational attainment has an effect on the political risk. Those who graduated high school/equal level perceive the political risk differently from those who graduated with diploma/ equal and bachelor/equal degree.

Considering factors which affect risk prevention, taken as a whole, the results indicate that none of the demographic factors show the effect of risk prevention of backpackers. Nevertheless, regarding each category of risk prevention, it is found that profession has an effect on self-behaviour prevention, in the sense that those who are students prevent their self- behaviour risk more than those who work in the government sections. When comparing those who work in the government section with those who work for a private company, the results indicate that those who work for a private company show higher levels of self-behaviour risk prevention.

The second hypothesis is that the background of the tourists affects the tourists' risk perception and prevention. The results of the study indicate that the background of the tourists does not influence the risk perception and prevention in general. However, when considering the sub category, it is found that the number of travel companions, and the type of travel companion, affect the site-related risk perception while the travel experience affect the political risk perception and self-behaviour risk perception. The results signify that only certain travel companions influence risk prevention in terms of site-related risk.

DISCUSSION

1. The backpackers

From this study, it is found that the majority of international backpackers in Thailand are less than 30 years old. This is similar to the observation of Nash et al (2006) which indicates that the age range of the backpacker can vary from 16-50 but the majority of them are between 20-30 years old. Similarly, Vesser (2004), who undertook research about backpackers in South Africa, found that more than half of their respondents were under 30 years old, and 88% of them were under 35 years old.

With regard to factors affecting tourists deciding to visit Thailand; scenery, Thai hospitality and worth for money; these support the theory of pull factors from Dann (1977) and Crompton (1979) in the sense that the tourist destinations have some aspects influencing the tourists to visit them. The geographic and socio-cultural are among those aspects. Thailand has different scenery from their country of origin and Thai hospitality is one of the socio-cultural characteristics that can attract tourists.

2. Risk perception and prevention

The findings indicate that the level of risk perception and prevention of international backpackers in Thailand is low. This implies a positive perception towards Thailand, especially the view of Thailand as a safe tourist destination. This positive image comes from proper tourism management and marketing as Mansfeld (2006) stated that the risk perception of the tourists came from the truth which is broadcasted from various sources of media; tourism stakeholders such as travel agents and tour operators; word of mouth, and lastly the Acceptable Risk Threshold (ART). If the tourists received information which is estimated as lower than ART, they can carry on their travel and vice versa.

3. Factors affecting the risk perception and prevention

Overall, there is no demographic factor affecting risk perception and prevention of international backpackers in Thailand. Nevertheless when considering the sub category of the risk perception and prevention, it is found that gender, profession and marital status influence the site-related physical risk while age influences the financial risk.

Profession has an effect on the self-behaviour risk prevention. Compared to the empirical research, it is indicated that the level of risk perception in each human being is different depending on their nationality (Barker, et.al., 2003; Seddighi et al., 2001) social status (Sonmez and Garefe, 1998) sex(Reichel,et.al ,2007;Lepp & Gibson, 2003; Uriely et.al, 2002; Loker-Murphy & Uysal 1996) and age (Barker, et.al. ,2003; Gibson and Yiannakis, 2002)

Regarding the hypothesis of the background of the tourists, it is found that overall, background does not have any influence on the risk perception and prevention of tourists. Nonetheless, when taking a closer look at the sub category of risk perception and prevention, it is found that the number of companions, and the type of travel companion affect the site-related risk perception whilst travel experience affects the political risk perception and self-behaviour risk perception. These results are in accordance with the study of Barker, et.al (2003) that the number of travel companions influences risk perception. Elsrud (2001) also points out that backpacker who travels alone will perceive intangible risks, such as physical ones, more than those who travel in a group.

Travel experience also has an effect on risk perception. Sonmez and Garefe (1998) declare that past travel experience can have an effect in the sense that it can emphasise the risk, or eliminate the risk from their perception. In general, the more travel experiences, the less the tourists feel at risk. From the study of Pearce (1996), based on Maslow's Hierarchy of Needs, it is found that those who have less travel experience will focus on the risk in relation to the physical aspects such as food and physical safety. On the contrary, those who have more travel experience will be aware and careful of risks which are related to the higher level of Hierarchy of Needs.

CONCLUSION

The results show that the overall level of risk perception and prevention of international backpackers travelling in Thailand is low. This indicates a positive image about Thailand, which can be viewed as a safe tourist destination. However, all stakeholders should do their best in terms of risk reduction strategy, especially the necessity of giving precise and up to date information concerning tourist safety.

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CHALLENGES OF MANAGEMENT IN PRIVATE HEALTH CARE INSTITUTIONS

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Abstract

Public health care institutions same as private health care institutions are present in almost every city in Croatia. Public health care institutions provide stability, security, and most of all they are traditionally among the people in Croatia. Private health care institutions are basically young and modern institutions with new and different management system. They focus their service on the highest quality while public institutions are more based on the higher number of the patient's examinations in one day. Those differences in management and organization and in quality of provided services bring the morale question of humanity and it brings both patients and doctors in difficult position. Patients that have more financial ability are able to afford better health care service in private health care institutions and financially less supported have no choice than to be cured in public institution. In most cases same doctors work in both public and private institutions. In this paper we are presenting management abilities and disabilities of both sides; patient that can or can not chose where to get their health treatment, and doctors to have an ability to choose in which institution to work.

Key words: Public health care, private health care, management, service, patients.

Health care institutions in Croatia

Most known and while spread health care institutions in Croatia are public institutions. For country as a Croatia which was function in socialistic organization for long time, this fact is

not surprising. Public health care institutions are present in almost every bigger city in Croatia. Public health care institutions provide stability, security, and most of all they are traditionally among the people in Croatia. Through the public health care insurance and its organization, citizens or in this case patients in Croatia have almost every health service in public hospitals for minimum fee or even it is free of charge. This kind of health care organization in Croatia, present most common difficulty in organization, service quality, satisfaction or dissatisfaction among patients but also among doctors and medical stuff. A huge number of patients do not create only dissatisfaction, but also a pressure on doctors to examine a lot of patients in short period of time. Croatian institution of health care insurance in this case provides health care for every citizen in Croatia, however, the quality and addiction to a patient is a good question to observe. This kind of opportunity of bringing health care situation on the higher level, noticed private health care institutions, providing better organization, improved quality of service and focused more on patient as a unique customer(Babic & Roksandic, 2006). Higher quality of service that is accompanied with professional knowledge is the main key and the strongest position that private health care institutions can offer to their patients (Croatian Health Insurance and Health Protection at Work Institute, 2011). According to other European countries, private health care organizations are also quite new. A decade ago it was hard to conceive that private and public health care organizations would be competing each other. Governments everywhere, including the social market economies of Western Europe, have a new-found interest in privatizing

services and redrawing the boundary between the public and the private. According to this status of private and public health care system, it challenges many opportunities to explore anxieties between publicly funded health care systems and private ones (Drache & Sullivan, 2005).

Organization and service quality in the public health care institutions, County hospital Pozega

Public health care institutions in Croatia are traditional and most likely attended among the Croatian people. Since lately people in Croatia did not have any other choice and any different opportunity to experience other service than in the private health care institution. Number of population trough the past has been changed, while the most of those public hospitals did not change a lot. Today, situation in most of public hospitals is in deficiency of doctors in almost every type of specialization. This fact brings public institutions with smaller amount of doctors and increasing number of patients. Result of this situation certainly is no good for the hospitals for the doctors or most of all for the patients. In this kind of situation patients are waiting too long for some examination, a waiting list of different medical technology examination are too long, sometimes patients have to wait more then six months to be examine. Among all of those patients, doctors do not have enough time to dedicate on a patient. Furthermore, patients most of the time do not have time for questions or explanations of their certain problem or diseases. Dedication and service to a patient in this kind of health service can not be in high quality as patients deserve to have. In most cases patients do not have other choices then be cured in those public health care institutions. In some areas in Croatia there are both public and private health care institutions. Different kind of private institutions are more likely in bigger towns in Croatia. However, in Pozega-Slavonia County, there is one private polyclinic (Cesarik, 2011).

Medical technology and stuff

Most of public health care institutions or hospitals in Croatia same as in county hospital Pozega, contain with satisfied medical technology. According to health care situation today and in the past, Croatian institution of health insurance

provide as best as possible medical technology, however, the number of those medical technology is never enough. Medical technology costs a lot and it is hard to follow new and improved technology. Same situation is in county hospital Pozega. Result of this condition in public hospitals is long waiting list of examinations on different medical technology. Rarely appear situation when some medical technology damage and then appears a huge handicap in whole hospital. Waiting lists, that are already long, they are making huge loss for patients and medical stuff.

Medical stuff in public health care institutions are high qualified and well educated. In Croatia most of doctors are employed in public health care institutions. In some cases they can chose which specialization they would like to specialized, but in same cases is not likely. Ambitions especially among young doctors can bee seen, however, in this situation in public hospitals creates inappropriate conditions at work places, frustrations and inability to improve their skills. If this situation nurses in hospitals are mostly preoccupied among huge number of patients that need medical care (Markovic Puac, 2011).

According to this situation doctors and nurses do not have time, ability and motivation to improve their service toward the patients. It is not reasonable to blame directly those employees and their lack of motivation, adequately solution for this situation would be in improving quality of human resource management and its organization (Cesarik, 2011).

Private health care institution in Pozega-Slavonia County

In Pozega-Slavonia there is only one private health care institution. It is Polyclinic Intermed, which is established as a private health care institution in late 2005. This polyclinic is located in city of Pozega surrounded with health centre, laboratory, retire pension centre and all that very nearly to the down town centre. This private health care institution covers several medical specializations. This medical specializations are based on intern medical diagnostic and they are; gynaecology, radiology, paediatric specialization, urology and occupational medicine (Intermed, 2011).

Organization in private health care institution, Polyclinic Intermed

From the very beginning this private polyclinic has well known management organization. On the head of this polyclinic is a manager whose idea was to start this business. Yes, a difference according to the public health care hospitals can already bee perceive. Meaning that this health care institution in not institution for social caring problems as public hospitals sometimes appear to be. However, private institutions are profitably organizations, while hospitals as public health care organizations are basically non profit organizations. Operational parts of this polyclinic after the head master are financial department, marketing department, maintaining and safety insurance department. Present employees, without polyclinic Intermed could not even work are professional doctors with different specializations and nurses who are focused on patients comfort. In this polyclinic, same as in many others in Croatia, doctors work both in public hospitals and also in private polyclinics or clinics. Frequently, doctors in polyclinic Intermed come to polyclinic in late afternoon or in the evening of even in the morning if the certain appointments for examinations are made. In the morning doctors work in the county hospital Pozega, and in the evening of afternoon they arrive in polyclinic Intermed. In cases when examinations are planed for the mornings, doctors arrive in polyclinic after their night shift in county hospital Pozega. Those double shifts are their choice of work.

Service quality in the private health care institution,

Polyclinic Intermed

Polyclinic Intermed as a private health care institution in not financial supported with Croatian institution of health insurance. This private institution income gets from its own patients. Patients that are willing and patients that have enough financial support can cover themselves examinations that this private polyclinic can offer them. According to those facts every patient in this institution is valuable. Patients in this situation do not depend on the service that this polyclinic offers to them. In other word it is only patients' free choice to be treated in this kind of health service

and pay for this service or rather is examined in public health care institution. Where does lay a difference? A difference is exactly in the service quality and how the human resource management is conducted. As already mentioned, every patient in polyclinic Intermed is valuable, that means that all business and attention is focused on the customer or patient. Every employed person in Intermed has its roll how and in which way to please a patient.

Nurses are the first employed persons who are patients' first contact to the polyclinic. First impression that patients get are nurses who are open and welcome for any information that they might need. This one on one contact is personal and individual based on patient's problem or issue. In very comfortable ambient patient should feel confidence and satisfied. Nurses have obligation to make proper schedule of waiting list. This waiting list is important part of the organization system of this polyclinic. Situation on so called market is that patients are waiting to long for certain examinations of certain medical technology examinations, and it is a real issue to be efficacy and precisely on making an appointment for patient who will after all pay for his or hers examination. If the waiting lists are too long in the polyclinic patients will rather go in public hospitals or even wait few days longer and go in public hospitals then attend private polyclinic and pay for their examinations or examinations on certain medical technology such as ultrasounds or mammography. Nurses are basically a soul of this polyclinic. They are not the main object here, however without them this polyclinic could not function. Moreover, they care about patient's accommodation, privacy; information that they need, also that patient's results of examinations comes on time and is on right place in right time. The whole idea is to satisfy every patient on its comfortable way with one on one service, and patient should feel satisfied for that service that he or she is paying for. After experiencing wonderful and caring nurse's service, patients are having their moment of time with a certain doctor they need. Comparing to the public hospitals, here patients have enough time for all questions and dilemmas on which they would like to have answers. Doctors are focused on that patient and its unique problem as much as it is possible. Every patient has minimum 15 minutes with a specialist alone. In most of the cases this period of time showed that 15 minutes are enough for every patient's need. In any time the whole team is prepared to organize other patients in a case when this 15 minutes progress in 20 minutes

or more. Thanks to well practiced organizations of waiting list, there are no many patients in the waiting room sitting and anxiously waiting for their turn. Having this kind of organization gives patient maximum privacy, in other words, less people in waiting room – more privacy. Moreover, at the moment when patient comes in the waiting room and do no see many people in a waiting room for the examination, his thoughts do not immediately goes to an idea that he is going to wait so long. With enough time, professional skills, proper information and high knowledge every patient in polyclinic Intermed have the best treatment that this private institution can offers. Both, nurses and doctors have previous experience in public health care institution and they are aware of differences how and why they should approach to a patient with proper quality of service.

Human resource management in Polyclinic Intermed

Human resource in polyclinic Intermed corresponds between this particular and unique social type of business and professional medical stuff. In addition to make any progress in this type of business it is unavoidably to respond on management requests supported with professional medical employees. Polyclinic Intermed had its important duty to insure employees' adequate and professional education same as motivation, and all that supported with right ways of developing its career. Additionally, by increasing job satisfaction of each employee and mange his personal development brings the company on the higher level.

One of departments that can not be forgotten in the whole organization of the polyclinic Intermed is marketing department. During the process of bringing some marketing progress, each medical stuff is involved in it. Involving doctors in radio interview and informing potential patients on importance of prevent diagnostic brings those employees on caring and moral level of satisfaction. Furthermore, doctors have ability to express their knowledge and unique experience in polyclinic Intermed in specialized news papers intended for medical stuff. Both doctors and nurses are attending specialized convections to improve their knowledge and to be aware of new information in medical profession. Improving and refreshing polyclinic internet site with new interesting, actual and useful information is a duty that nurses maintain. According to profession,

economist or any other occupation can not replace this duty. Making this organization decision, nurses have their freedom of expressing their creativity. Sometimes it is challenge, sometimes it is motivation but it is obligation and responsibility for all of them. By organizing different actions such as free measuring of sugar in blood, free measuring of human pressure, information lecture for pregnancy, lecture for people with high pressure and others, nurses and doctors have opportunity for their creativity and expression. Moreover, the most important information that future patient should be aware is the importance of prevention and examination for their real health status. Indirect education of all medical stuff of polyclinic Intermed should motivate both patient and medical stuff. Making a circle between patients, nurses, doctors, marketing department and manager's ideas and obligations should bring high quality of service same as high quality of human resource management.

Croatian labour problem in private and public health care institutions

Croatian health care institution carries up a problem that appears in private and public health care institutions among the labour-doctors. They were not satisfied with an idea of ability that doctors are able to work both in private and public health care institutions. Reasons that they were stated was based on low quality of service for the patients that was examined in second doctor's working shift, either in late afternoon or in the morning after their night shifts. Even in some public hospital such as KBC Split, doctors dear to leave their working place and continue to work in their own private ambulance. In these cases not even one director of such huge hospital was not able to stop doctors of doing such inappropriate and irresponsibility actions. Croatian health care institution and mister Milinovic was strictly against these working abilities of doctors because situation of patient's rights were disturbed. However, in these situation doctors would be placed in non human position to work and do what they want in their free time. Solving the problem requires a systematic scanning of the system and control of working hours in public institutions to be able to assess which approach is best (T-portal, 2011). Most European countries allow the right to extra work, but it is controlled and / or limit, either by physicians in private practice may earn only limited fees (Spain, France, etc),

so that any doctors who work additionally have different contracts from those decide only to work in a public hospital (United Kingdom). For the latter, last year decided to Serbian Minister of Health (Dalje, 2011).

Reasons why doctors work both in private and public health care institutions

Most of doctors, for the work they are performing in public health care institutions are underpaid; in those cases most of them work an additional. According to data, a specialist doctor receives 9100-11500 Kuna basic salary, depending on the position. Moreover, from an average of five off-hours a month pays specialists reached between 12:30 a.m. to 16 thousand. With readiness monthly salary is 14-17500 Kuna, however, considering that average salary of the Minister of the Government is 18 thousand. According to same thoughts, if the prohibition of private supplementary work, the state will lose the best health care professionals that will leave from public health care institutions to a private one even a broad the country. National Health doctors provide financial and legal security. In addition, the success of physicians in the private market is directly correlated, everywhere in the world, with his status in the public hospital. Unfortunately there are no statistics that measure the success of a doctor in relation to another or the success of an intervention in different hospitals.

There are only two potions; to allow or prohibit doctors to work in both private and public health care institutions. In different countries different solutions are settled. For example in France, the doctors must have double work, but the benefits in private practice are limited to 30 percent of their salaries in the civil hospital. In the UK can choose from a full work at the hospital with a private practice or part time with a private practice, with various bonuses in the contracts with the national system. In Spain, physicians who do not work privately receive a monthly bonus. The problem in Croatia is systematic and suppressed. The current minister presented the fact that only 1 235 doctors from government hospitals and private works, or more than 20%. Since the practice was never controlled, and the experiences of inspections in 2002 and similarities in the arrangement of the system, before that they will be around 50 % as in Serbia (T-portal, 2011).

To unravel the public and private health care

According to long waiting lists, sometimes for couple of months, for certain examinations in public hospitals, patients could pay that same examination with same doctor from public hospital and get his or her examination appointment just in couple of days in private polyclinic. There is no any reason or explanation or even approve that this situation is moral and human. However, why and how this situation appeared from the beginning in Croatian health care ministry it is possible to explain (T-portal, 2011).

Several times Croatian health care ministry had a good willpower to make a right order in health care abilities and abilities in both private and public health care institutions. Moreover, to provide human and moral rights for both doctors and patients (Ordinacija, 2011).

The idea was to bring up the reform based trough whole Croatia that would relocate diagnostic examinations for the public health care institutions in private clinics and polyclinics. In that case private clinics and polyclinics would have agreement with certain insurances which would cover patient diagnostic examinations, same one that public hospitals have today. This reform would be solution of solving the huge problem in public health care institution and that is long list of diagnostic examinations on certain equipment such as mammography, magnetic resonance, ultrasounds etc. but also another problem that affects on patients personally and that is privacy, politeness, discretion, comfort, information quality of there health and approach to the patient of the whole (Ezadar, 2011). Since today this reform did not approach in whole institutions in Croatia and that also includes district of Pozega-Slavonia County and it also includes polyclinic Intermed. In this situation Polyclinic Intermed same as many other private institutions, were left without this insurance agreement and huge number of patient that are still waiting their free examinations in public health care institution (Plivamed, 2011).

Help by OECD (Organisation for Economic Co-operation and Development)

OECD is organization that was established in late 1961, its main head office is in Paris. Today this organization counts 34 countries as its membership that dispose with more than 328 million euros budget. What and how this organization has influence in health care system? This organization and its progression through the publications (special magazines) analyses the organisation and performance of health systems and its variations. Studies are conducted on requested topics as co-ordination of care, pharmaceutical pricing, long-term care and disability, health workforce and international migration of health workers, information and communications technologies in health care. Furthermore, it focuses on policies and institutional features which most affect the supply and demand of care, but also the fairness in access and the ability of governments to control public spending (Oecd, 2011).

In order to improve public health care system in many countries, not just in Croatia, it is a mission of correlation of both political influences and citizens who are has ability to design institutions and health care policy which will have high efficiency of health care systems.

The OECD collects detailed information on health policies and institutions governing health insurance and coverage, health care delivery, and the allocation and management of public health care spending. Through its missions and policy this organization helps countries that desire for better health care organization, or even any other kind of organization. According to long term experience, this kind of organization might be a good choice for Croatian complex and ravel situation in health care system (Joumard et al., 2010).

Private health care institutions encourage government to fulfil a number of objectives, to reduce administrative and financial burdens, in order to providing public services increase efficiency and effectiveness of services to achieve value for money, encourage innovation, and develop more user sensitive services. All that because privatization brings interests of both government and manager in orders to improve its performances. However, another explanation for privatization in health care system is to give

consumers or patients a stronger voice through increased choice and competition (Saltman et al., 2007).

Conclusion

Today in Croatia exist both, public and private health care institutions. In general, offer and quality of available health services is improved. There are many similarities between public and private health institutions, but there are many differences between them. Very important, and expensive difference is that in public institutions are existing waiting lists and in private institutions there is lot of unused capacities. Especially are unused capacities of private health institutions in small towns such as Pozega. There are several possible ways of solving this problem. Ministry of Healthcare needs to improve their coordination and create network of equal opportunities for each person. In one hand, they need to improve technologies in public health care institutions, motivate their employees and reduce the waiting lists. They also need to give possibility to the people to decide where to go on their examinations by encouraging private health institutions to sign the agreement with the Croatian Health Insurance Institute. That way the waiting lists will be shorter, services will be better and patients more satisfied.

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BOOTSTRAP FINANCING: FOUR CASE STUDIES OF TECHNOLOGY COMPANIES

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Abstract

Innovative businesses, especially in the early stages of their life cycles, often encounter difficulty in obtaining long-term external financing. Their founders tend to seek financing through non-traditional bootstrapping methods to launch their ventures. Bootstrap financing refers to a range of creative ways to acquire resources without relying on borrowing money or raising equity from traditional sources (Freear et al., 1995a).

The paper examines how successful technology entrepreneurs used bootstrap financing: the founders of Microsoft Corporation, Apple Inc., Dell Inc. and Research in Motion Ltd. The research investigates the elements of bootstrapping as described in Freear et al. (1995a) and in Winborg and Landström (2001), finding that entrepreneurs use bootstrapping extensively during the early stages of growth for both product and business developments. Bootstrapping methods change as the business develops with certain methods used more at the beginning of the life cycle, and different variations used as the business starts to grow. The study also points out that even the most successful technology-based consumer goods businesses relied on bootstrap financing at the early stages of their development. This technique deserves more attention from the scholarly community since it is certain to become more prevalent in the new credit and lending environment.

Key words: *Bootstrap financing, innovation, technology entrepreneurs*

Introduction

Entrepreneurs have been around for as long as mankind has been involved in business. Identifying new business possibilities and exploiting them in new ventures for economic gain has always been an important activity in human life. Bootstrap financing,

or the creative acquisition of financial resources by a business, is as old as entrepreneurship. It is not only an ancient method of financing a venture, but an effective one, as demonstrated by four of the most successful technology start-ups in the twentieth century. Bill Gates and Paul Allen, the founders of Microsoft Corporation, saved money on a development system by writing their BASIC language for MITS's Altair computer on Harvard University computers (Wallace and Erickson, 1993 p.18). Steve Wozniak and Steve Jobs, the founders of Apple Inc., used Jobs' bedroom as their office at the beginning of the company's life and moved the operation to the family garage when the bedroom became too crowded (Butcher, 1988). Order takers at Michael Dell's Dell Inc. started out by writing orders by hand and pinning them up on a clothesline (Dell and Fredman, 2006, p.18). Mike Lazaridis borrowed \$15,000 from his parents to start Research In Motion Ltd. (McQueen, 2010, p.43).

Freear et al. (1995a) and Harrison et al. (2004) found that 95 percent of ventures in their samples were financed using some kind of bootstrapping method. Similarly, Bhide (1992) found that 80 percent of the entrepreneurs he interviewed resorted to bootstrapping. In spite of the fact that bootstrap financing is a widespread business practice, the academic community has not fully recognized the significance of it. A search on the terms bootstrap finance, bootstrap financing, bootstrapping techniques and entrepreneurship in all major article databases for business and management at the University of Toronto Library, ranked as one of the top five research libraries in North America, returns fewer than three dozen peer-reviewed articles (University of Toronto Libraries, 2010).

Howard Van Auken (2005, p.94), who authored or co-authored seven articles on the subject and is one of the pioneers in bootstrap financing research, remarks: 'Although bootstrap financing commonly

is used and is an important source of capital, few studies have investigated its use by small firms'. Similarly, Winborg and Landström (2001, p.235) suggest that 'bootstrapping is a phenomenon which deserves more attention in future research on small business finance'. The studies that have been conducted use a narrow methodology, relying on short telephone interviews or questionnaires, with the exception of Bhide (1992) and Smith (2009). Bhide (1992) interviewed 100 company founders from the 1989 Inc. 500 list. Each interview lasted from one to three hours. Smith (2009), on the other hand, used a case study method analysing the bootstrapping practices of three technology-based start-ups: Lotus, Oxford Instruments and Dyson. Smith (2009) used biographies for Lotus and Oxford Instruments and an autobiography for Dyson as the source of data. Although biographies are seldom used in management studies, Roberts (2002) observed that biographical research is used in other disciplines, and Jones and Conway (2004, p.89) posit that autobiographies are not less valid than in-depth interviews. Bryman and Bell (2007) suggest that biographies can serve as a potential data sources.

The aim of this paper is to contribute to our understanding of bootstrapping by extending Smith's study. It is a case study of the bootstrapping techniques used by the founders of four high-technology, highly successful, mature, entrepreneurial ventures using biographies and an autobiography as sources. While Smith used bootstrapping categories identified by John R. Thorne and companies based in the United Kingdom, the present research uses the categories identified by Freear et al. (1995a) and Winborg and Landström (1997, 2001) and companies based in North America. The four companies are Microsoft Corporation, Apple Inc., Dell Inc., and Research In Motion Ltd. Of these, three are based in the US, with one, Research In Motion, based in Canada.

The Definition of Bootstrap Financing

A substantial portion of small-business finance research is devoted to the difficulties that start-ups face in obtaining long-term external financing (Freear et al., 1995b). Given these difficulties, the question arises: 'How can a small business obtain financing outside of traditional institutional sources'? The answer lies in bootstrap financing.

In their studies of the capital acquisitions of 96 small businesses in Iowa, Van Auken and Carter (1989) identified personal savings, the cash value of life insurance, home equity loans, and the sale of personal assets as sources of equity, and friends and relatives as sources of debt. Thorne (1989) describes seven techniques used by entrepreneurs to acquire resources, including borrowing from suppliers and service providers, deals with customers, free or low-cost labour, special deals for space, non-equity funds, and special relationships.

The first reference to bootstrap financing can be attributed to Amar Bhide (1992), who coined the term 'bootstrap financing' to refer to the informal ways entrepreneurs tap into resources. Freear et al. (1995a, p.395), in the first empirical study on the subject, investigated the importance of bootstrap financing in the computer software industry, defining it as 'highly creative ways of acquiring the use of resources without borrowing money or raising equity financing from traditional sources'. Their survey divided bootstrapping into two categories: financing for product development and financing for business development. They identified 12 product development bootstrapping techniques and 20 business development bootstrapping techniques that respondents evaluated along a five-point scale.

Van Auken and Neeley (1996) further refined the definition of bootstrap financing to include those sources of capital used after exhausting personal savings, but excluding capital or loans from banks. Harrison and Mason (2004, p.304), however, once again expanded the definition of bootstrap financing as 'imaginative and parsimonious strategies for marshalling and gaining control of resources'.

Winborg and Landström (2001, p.238) examined bootstrap financing from a resource-based view of the firm, defining it as the 'use of methods to meet the need for resources without relying on long-term external finance'. Winborg and Landström (1997, 2001) identified 32 bootstrapping methods in their questionnaire, which was based on the Freear et al. (1995a) study. The results were separated into two categories: those used for capital minimization and those intended to meet the need for capital. They identified six clusters of bootstrappers using cluster analysis: delaying bootstrappers, relationship-oriented bootstrappers, subsidy bootstrappers, minimizing bootstrappers,

non-bootstrappers, and private owner-financed bootstrappers.

Microsoft Corporation

When Bill Gates and his friend, Paul Allen saw a picture of an Altair microcomputer on the cover of the December 1974 issue of Popular Electronics magazine, they knew this was their opportunity to somehow capitalize on their previous expertise with BASIC. At the time, Gates was a second-year student at Harvard University, and Allen was working for Honeywell, having dropped out of Washington State University. They approached Ed Roberts of Micro Instrumentation and Telemetry Systems (MITS), the manufacturer of the Altair, and offered to develop a BASIC programming language for the machine. Since Gates and Allen did not have an Altair, they bought a manual from an electronic shop for the Intel 8080 chip used in the Altair and wrote a program for Harvard's PDP 10 computer, causing it to mimic the Altair's 8080 chip. Working 20-hour days for eight weeks, they were ready to try out their new product by late February of 1975. Allen flew out to MITS's office in Albuquerque, New Mexico, and his successful demonstration of the program was the beginning of the personal computer revolution. Allen came back with a development model and, rather than using Harvard's computer to continue with the development, they bought computer time from a timesharing service in Boston. Gates left Harvard to join Allen in Albuquerque to work on the project on a full-time basis.

Micro-Soft (the hyphen in the name was soon dropped), a partnership between Gates and Allen, was born in the summer of 1975. The young partners were determined to build Microsoft without outside financing; there would be no unnecessary overhead or extravagant spending. They moved into an inexpensive downtown apartment, and MITS provided them with computer time and office space for the first year. Unresolved issues about the licensing agreement surfaced, and the case went to arbitration. Until the licensing dispute was resolved, Microsoft could not license its 8080 BASIC. The arbiter handling the case was late in his ruling, resulting in the only time in the history of Microsoft where the company was unable to meet its financial obligations. Their attorney waited for his payment until they won the case.

Deciding that New Mexico was not a good location for a fast-growing software company, Gates and Allen moved Microsoft and its 11 employees to Seattle in January 1979, where they finally got their own computer system, a \$250,000 high-end DECSYSTEM 20. In early November of 1980 Microsoft and IBM signed the agreement that eventually catapulted Bill Gates and Paul Allen into the ranks of the richest entrepreneurs in the world. Microsoft would develop the software for IBM's first personal computer and supply the crucial disk operating system, known as DOS. In 1981, Microsoft changed from a partnership to a privately held corporation. During the next few years Microsoft transitioned from a language and operating systems company into one that sells applications to the retail market. Word, Excel and numerous versions of Windows were born. Bill Gates could not avoid the inevitable, and on March 13, 1986, Microsoft's stocks were traded publicly for the first time. Microsoft would also come to dominate the office suite market with Microsoft Office. In the recent years, the company has diversified and moved into the video game industry with the Xbox and its successor, the Xbox 360, as well as into the consumer electronics market.

As Bill Gates explains, bootstrapping was the choice of financing of the founders of Microsoft: 'From the start Paul and I funded everything ourselves. Each of us had saved some money. Paul had been paid well at Honeywell, and some of the money I invested in our startup came from late night poker games in the dorm. Fortunately, our company did not require much funding' (Gates et al., 1996, p.19).

In the beginning, Gates and Allen hired students on a part-time basis. As the company grew, the Microsoft workforce consisted of 'Micrkids', young programmers who were expected to work as hard as Bill Gates, sometimes 60-80 hours per week at an unrelenting pace for industry average wages (Manes and Andrews, 1993). Gates relied on his network of friends from high school and university as employees, and in 1980 he hired Steve Ballmer, a friend from Harvard, as assistant to the president (Wallace and Erickson, 1993, p.163). To save financial resources, the company was grossly understaffed and its workforce was overworked. Even the owners were paid below industry averages. In 1985, when Microsoft went public, Bill Gates received only \$133,000 in salary, far below what most CEO's of American corporations were making. Ballmer received \$88,000 in compensation

that same year (Wallace and Erickson, 1993, p.326). In the beginning, Gates was equally frugal in investing in office equipment. Miriam Lubow, the secretary in Albuquerque, did not have access to a word processor and did the bookkeeping in a ledger book. In 1980 Microsoft hired a professional bookkeeper, who was surprised that a company that had close to \$8 million in revenue was keeping track of its money in handwritten ledgers. Soon after, Microsoft computerized its bookkeeping by using a small Radio Shack TRS-80 computer (Wallace and Erickson, 1993, p.163). Microsoft did not even have a slide projector, as a caller who had to deliver his presentation to Bill Gates by holding slides up to the light found out (Manes and Andrews, 1993, p.178). The frugal approach to finances used by Microsoft's founders paid off, and from 1975 to 2010 Microsoft grew from a two-man shoestring operation to a company with close to 90,000 employees and more than \$62 billion in revenues (Microsoft Corporation, 2010).

Apple Inc.

When Steve Wozniak took his home-designed computer board to the Homebrew Computer Club, a local group of electronics hobbyists in Palo Alto, California, it received little recognition: after all, its microprocessor was based on the MOS 6502 chip rather than the more popular Intel 8080. He tried to sell his design to various sophisticated high-tech companies in Silicon Valley, but they weren't interested either. The only option, as he saw it, was to sell the design to Call Computer, a small time-sharing business. Steve Jobs, a friend and fellow member of the Homebrew Computer Club, intervened. Jobs convinced Wozniak that they could have printed circuit boards made and sell them to computer hobbyists. They agreed that they would each contribute half of the \$1,300 they needed to get started. Wozniak sold his scientific Hewlett-Packard calculator, and Jobs his Volkswagen van, to raise the funds (Butcher, 1988, p.64). Ron Wayne, an Atari field engineer with considerable practical business experience, joined them, and the three of them signed their agreement on April 1, 1976 in Mountain View, California. Jobs suggested that they call their business Apple; their first product was the Apple I personal computer kit.

The uncertainty of Apple's income and the fear that he would have to pay 10% of Apple's debt if the company went under caused Wayne to leave

the business. Wayne realized that the two young entrepreneurs faced the risk of failure. The personal computer market did not exist yet. Not only were they operating out of a garage, but Wozniak was a college dropout and Jobs was barely out of high school. The high-technology establishment did not take them seriously, but Mike Markkula, a venture capitalist, nonetheless underwrote a \$250,000 bank loan, and Apple Computer, Inc. was formed on January 3, 1977 (Butcher, 1988, p.86). With some operating capital and professional guidance at its disposal, Apple moved out of Jobs' garage. On April 17, 1977, the Apple II was introduced. It differed from its major rivals in that it came with color graphics and an open architecture, a 5 1/4 inch floppy disk drive and the Disk II interface. Apple II became the platform of the first business application, the VisiCalc spreadsheet program, which transformed Apple from a hobbyist's toy into a business machine. In late 1977 the inflow of more than half a million dollars of venture capital solved the company's current financial difficulties (Butcher, 1988, p.110). In December 1980, less than four years after its incorporation, Apple launched its Initial Public Offering of stock to the investing public.

Steve Jobs and Steve Wozniak relied on bootstrap financing to start Apple. When Jobs suggested to Wozniak that they sell their own computer boards, he calculated that the parts would cost \$25 and the circuit boards could be sold for twice the price. They decided to build one hundred units. Jobs presented their product to Paul Terrell, a fellow Homebrew Club member and the owner of Byte Shop, a store that sold electronic components and computer kits. Jobs' hard selling paid off. Instead of an order for circuit boards, he landed an order for fifty computers at \$489 to \$589 each, with payment upon delivery (Butcher, 1988, p.68). A new business plan had to be created. Now instead of the \$2,500 needed to build one hundred circuit boards, their expenditure would be \$25,000 for one hundred assembled computers. To finance their inventory, they turned to Mel Schwartz and Bob Newton. Schwartz, a Stanford professor who owned a small company with a line of credit at an electronic distributor, agreed to buy some parts for Apple (Butcher, 1988, p.69). Newton, of Kierulff Electronics, agreed to sell Jobs the rest of the parts for \$20,000 on credit without interest if the order was paid in thirty days (Butcher, 1988, p.69). Jobs and Wozniak moved the operation from Wozniak's apartment to Jobs' parents'

house and eventually into their garage. The family assembly line went into action. Pat, Jobs' sister, received a dollar for each board she assembled. Rod Holt, who designed the power supply, worked in the Jobs' garage on weekends (Butcher, 1988). Friends pitched in, including Bill Fernandez, who was a general help, and Elizabeth Homes, who kept the books. Clara Jobs, Steve's mother, took telephone messages from the answering services and served coffee to prospective customers and salesmen. Wosniak pursued his friend's, Elmer Braun's father to lend the company \$5,000. Steve Wosniak, who was already married at the time, kept his job at Hewlett-Packard to pay the bills while he designed the Apple II, the BASIC and some other designs (Butcher, 1988). From humble beginnings, Apple Inc. grew to a multinational corporation that creates consumer electronics, computer software and commercial servers. Apple's core product lines are the iPhone, the iPod music player and the Macintosh line of computers. In September 2010 the company had worldwide annual sales of \$56.23 billion dollars and employed 49,400 people (Apple Inc., 2010)

Dell Inc.

When Michael Dell's parents came to visit their son, a first year student at the University of Texas at Austin, he had barely enough time to hide the computer parts and the inventory behind the shower curtain. He knew his parents disapproved of his informal business. At the time, he was upgrading IBM PC-compatible computers from room 2713 of the Dobie Center residential building. In 1983, when he was barely eighteen years old, Dell applied for a vendor's license so he could bid on contracts with the State of Texas, winning bids by not having the overhead expenses associated with a bricks-and-mortar computer store (Dell and Fredman, 2006, p.10). In May 1984 Dell used \$1000 of his savings to incorporate the business as "Dell Computer Corporation" and decided to drop out of university. At first Dell bought excess inventory computers, added disk drives and memory, upgraded them and sold them for a profit. Soon he realized that buying chip sets and designing his own computers around them would be more profitable. His company became the first in the industry to sell custom-built computers directly to end-users, bypassing the middleman, and to offer a 30-day money-back guarantee. In 1986 Dell introduced the industry's fastest performing

computer, a 12 MHz, 286-based system (Dell and Fredman, 2006). Four years after its birth, in June 1988, the company went public.

Bootstrap financing was an integral part of the early life of Dell Computer Corporation. The company started with Michael Dell's \$1000 investment. Dell hired an engineer on contract to design his first computer. He moved his business from his two-bedroom condominium to a 1000-square-foot office, hired a few people to take orders over the telephone and a few more to fill them. Manufacturing consisted of three employees working at a 6-foot table (Dell and Fredman, 2006, p.13). Handwritten orders were pinned to a clothesline (Dell and Fredman, 2006, p.18). Dell's business generated income from the start, with monthly sales between \$50,000 and \$80,000 in upgraded PC's, kits, and add-on components. As Dell reinvested most of his substantial profit, the need for bootstrapping diminished. Michael Dell's novel idea of bypassing the middleman and selling custom-built PC's directly to customers made Dell Computers into one of the world's largest computer corporations, employing more than 100,000 people worldwide (Dell Inc., 2010).

Research in Motion Ltd.

In 1984 Mike Lazaridis and Doug Fregin established Canadian-based Research In Motion (RIM), best known for the BlackBerry. The two young university dropouts initially experimented with various contract and consulting work, such as computer controlled LED display panels, and film-editing and paper-processing equipment. In early 1994 Lazaridis decided to move into the wireless business. His aim was high; he wanted to be in the company of Motorola, Ericsson, Nokia and Siemens. This was a bold ambition for a small, unknown company; cellular technology was still in its infancy stage and required large amounts of funding for research and development. RIM worked with two companies, RAM Mobile Data and Ericsson, to turn the Ericsson-developed Mobitex wireless data network into a two-way paging and wireless e-mail network. Pivotal in this development was the release of RIM's Inter@active Pager 950, called the Leapfrog, which started shipping in August 1998. About the size of a deck of cards, this device competed against the Sky-Tel two-way paging network developed by Motorola (McQueen, 2010). In 1999 the BlackBerry was introduced as a two-way pager. In 2002, the better-known

BlackBerry smart phone was released, which supports e-mail, mobile telephone, text messaging, Internet faxing, Web browsing and other wireless information services. By 2010 RIM had sold more than 75 million of its smart phones (RIM, 2010).

RIM's early developments in wireless technology were financed by various government programs, along with Canadian institutional and venture capital investors through a private placement in the privately-held company (McQueen, 2010). RIM went public on October 28, 1997 (McQueen, 2010, p.144).

The long road to success was paved with bootstrapping. The \$15,000 loan to start the company came from Lazaridis' parents and was matched by an Ontario government Student Venture Loan (McQueen, 2010, p.43). Lazaridis paid \$650 for a non-functioning computer from the University of Waterloo to use for the display panel, which he repaired himself (McQueen, 2010, p.45). Lazaridis and Fregin were very frugal with the money, and for fifteen months after startup didn't pay themselves any salary (McQueen, 2010, p.47). Gary Mousseau, one of the design engineers, had to build his own desk and worked in the fax and reception room (McQueen, 2010, p.63). Jim Balsillie, who joined the company in 1992 and eventually became co-CEO, received a one-third interest in the company for \$125,000, which he assembled by using his severance pay from his previous employer and by increasing the mortgage on his house (McQueen, 2010, p.71). In 1993, when the day arrived to ship RIM's 2500 modem to Ericsson, everyone, including the co-CEOs, formed an assembly line to bag units (McQueen, 2010, p.84). Lazaridis' and Balsillie's perseverance paid off, with Research In Motion becoming a major player in the industry. RIM ranked No. 1 on Fortune's 2009 list of fastest-growing companies, with a three-year average earnings-per-share growth of 84% and revenue growth of 77%. (Hempel et al., 2009)

Case analysis

All four cases are examples of technology-based, mature, highly successful companies that were founded between 1974 and 1986. Three of the companies, Microsoft, Apple and Dell, started in the United States, with RIM in Canada. It is worthwhile to note that none of the founders finished their university education and all were under 25 years old

when they started their ventures. Their successes lay in the persistence with which they pursued their goals. Each founder saw an opportunity and was willing to invest a large amount of effort to turn his idea into reality. Microsoft, Apple and RIM were able to successfully commercialize new technologies. They recognized the new markets made possible by the emergence of small, low-cost microprocessors. Dell implemented a distribution method that had not been previously applied to the sales of PC computers. Financial bootstrapping was an essential tool to get their ventures started. The bootstrapping techniques were similar to those found in earlier studies. Using the categories of bootstrapping identified by Freear et al. (1995a) and Winborg and Landström (2001, 1997) Table 1 gives an overview of the salient bootstrapping techniques found in the four case studies.

Using personal savings to start their ventures was evident in the cases of Microsoft, Apple and Dell. In addition to personal savings, the founders of Apple received a loan from a friend. Mike Lazaridis, the founder of RIM, borrowed from his family and used the funds provided by an Ontario Student Venture Loan to start his venture; his partner Jim Balsillie used his severance payment and increased the mortgage on his house to buy his share. All four companies were started out of someone's home. The company founders in each case resorted to reducing, forgoing, or delaying their compensation to provide funds for their companies. All four cases minimized capital invested in stock. Each company hired temporary help at the early stages of their ventures. While Apple and Dell went public after a few years of operation, Microsoft and RIM waited much longer, 11 and 13 years respectively. Microsoft and RIM employed bootstrapping techniques for a longer period and resorted to more diverse techniques, such as special deals for access to hardware, customer funded R&D, consulting projects turned into commercial products, free or subsidized access to hardware, delayed payments, and used equipment purchases.

Conclusion

This study provides further evidence that financial bootstrapping techniques are important tools of business start-ups, especially high-technology-based ventures. The study shows that many of the earlier identified practices are widely used, and some of the most successful companies relied

heavily on them at the early stages of their life cycle.

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Table 1. Salient Bootstrapping Techniques in Use

Bootstrapping categories	Microsoft	Apple	Dell	RIM
Product Development				
Social deals for access to hardware	X			
Development of products at nights and weekends	X	X		
Research grants				X
Customer funded R&D				X
Putting fees to transfer software from one platform to another	X		X	
Free or subsidized access to hardware	X			
Turning a consulting project into a commercial product				X
Business Development				
Minimize capital invested in stock	X	X	X	X
Delay payments	X			X
Home equity/mortgage loans				X
Down market or very low rent: space, share premises with others	X		X	
Deals with professional service providers at below competitive rates	X			
Purchasing used vs. new equipment				X
Working out of home	X	X	X	X
Gifts or interest-free loans from relatives, friend		X		X
Family member or friend working for lower or no salary	X	X		
Loan guarantee			X	
Savvy bank and insurance payments				X
Personal savings	X	X	X	
Reduce compensation	X	X	X	X
Frigid or delayed compensation	X	X	X	X
Outsource key parts of the business				X
Hire temporary help, share employees with other business	X	X	X	X
Seek out best conditions possible with suppliers			X	
Obtain capital via manager's assignments in other business		X		
Source: Case studies				

A CREATIVE LEADER?

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Abstract

Nowadays international research studies have claimed that intellectual capital makes up 80% of a company's value on the average. Our traditional financial attitude does not pay enough attention to the intangible resources such as knowledge and the level of leadership. With a three-phase research program author aimed to analyze decisive leader's personality characteristics. Her direct ambition is to reveal a new synergic link in a special area between strategic management and organizational behavior.

Analyzing secondary resources first, she was looking for leadership personality models which have been proved by a great number of researches abroad. In this research phase author was looking for an answer to the question how creative personality characteristics coincide with charismatic or transformatic leadership models. In the second research phase author analyzed the image of students on leadership models. In the second research phase author analyzed the image of students on leadership styles by using situation test.

She got a surprising result regarding the starting hypothesis, she could find the lack of flexibility. In the third phase she analyzed the leadership characteristics according to a 238 unit questionnaire sample. The novelty of this three-phase research is in the fact that author is looking for and finding a link between creative personality characteristics and leadership styles.

Key words: Intellectual Capital, Big Five model, Openness in Leadership

This paper consists of three parts. The first part is a theoretical summary, in the second one the results of the research carried out among students and the related situation leadership theory by Hersey-Blanchard are represented and in the final part author presents the results of her research concerning manager's personality characteristics and the five factors personality model.

Intellectual Capital and Creativity

Intellectual capital (IC) represents special qualities unlike traditional capital elements. Iren Gyoker summarizes them as follows (Gyoker 2004: 50):

- it grows when sharing and using;
- it is expensive and the output is not guaranteed;
- it is mainly possessed by the staff;
- it has no market, it cannot be sold.

The elements of the intellectual capital are: client capital, organizational capital and human capital which make up the central core of an organic company model. The term of this model is: POEMS model, which represents the coherence of six elements: People – Organization – Environment – Management – Strategy – Project. These elements are involved into the ring of the intellectual capital and are bound netlike to the other companies of the micro-environment.

The intellectual capital occupies a central position like a starting point, which determines the generic strategy. Every element of the model which influences the strategy is determined by the intellectual capital. Countless examples show that in the same environmental situation one company is successful the other one is not, which shows that everything is decided "inside" the firm. The arrows show the radical influence of IC on the strategy, which can be defined as path-dependency. (Papp & Szabo 2008: 137 – 138.)

The basic dilemma of the strategic way of thinking represents the duality of the logical approach and the creative approach. In the case of the logical approach it is expected that every conclusion comes out of a previously proven argumentation. This is the so-called vertical scheme. The creative approach is just the opposite. Creative reasoning is the so-called lateral shame where there are mental

leaps, there is neither a detailed argumentation nor sequences of reasoning steps.

But these two schemes exclude each other only in theory because brilliant strategists use both indispensably.

Strategic and operative approaches are built up of resolving elements. Creative elements are more dominant in the starting phase when outlining a strategy but in the phase of realization the operative management is dominant. (Papp & Szabo 2008: 19 – 20)

The question is: what type of brain is needed for all that? The creative human brain is made up by three elements: Renzulli-model

- rational abilities (perhaps IQ);
- emotional intelligence, emotional quotient (EQ);
- in highly complex, dynamic environment the endurance against the trials can play a

significant role inside EQ (Adversity Quotient, AQ);

- the ability to think creatively.

A talented person is characterized by a healthy proportion of these four factors of the model. The fourth element, the ability to think creatively is perhaps the most valuable individual characteristic. It involves cognitive, abstractive, associative and combinative abilities as well as the susceptibility to recognize analogies and to be intuitive.

Mihaly Csikszentmihalyi says about creative people: "If I had to say one word how they differ from other people, complexity would be the word I would remember first." (Csikszentmihalyi 2008: 66) Complexity means for him that they combine contradictory characteristics, duality in themselves. In his book "Creativity" he collected ten contradictory characteristics (table 1). Of course they cannot be found in one person wholly. But in general we regard those people creative who can easily shift between contradictory attributes depending on the situation.

Table 1 - REACTIVE PERSONALITY

Number	Quality-pairs	
1	active	passive
2	clever	naïve
3	orderly	playful
4	imaginative	unimaginative
5	extrovert	introvert
6	meek	prideful
7	masculine	feminine
8	rebellious	conservative
9	subjective	objective
10	opened	sensitive

Source: Csikszentmihalyi, 2008 pp 67 – 83.

Creative people are active, have much energy but also relax a lot according to their inner rhythm. They are able to work disciplined and persistently but are also characterized by playfully free and easy attitude. They often submit their own comfort unselfishly and modestly to the project they are working on but are proud of their results at the same time. They match their traditional sexual

role, but own contradictory qualities as well. They are personally bound to their job but are able to look at it in an objective way. (Csikszentmihalyi 2008: 66 – 83)

The fifth contrast quality-pair, the duality of the extrovert and introvert personality should be examined more thoroughly. Jung distinguished

these different personalities and modern psychology regards it as the most stable attribute. (Csikszentmihalyi 2008: 74 – 75) An extrovert person turns to the outside world and believes that the expectations of the surroundings are competent. An introvert person has no doubt about the outside expectations but focuses on his/her own inner judgment. Jung called both of them general attitude types inside which he differentiated four function types: inside rational types are thinking and emotional ones, inside the irrational there are perceptive and intuitive ones (table 2). Both general types are easy to be recognized by anybody in contrast with the function types. In his opinion they never occur clearly in reality. (Jung 1988: 5)

Based on Jung's works the so-called Myers-Briggs Type Indicator (MBTI) has been elaborated, which ranges people into sixteen personality types using four scales based upon a personality test of 100 questions.

According to MBTI a person can be:

- extrovert or introvert;

- an extrovert person likes society, is friendly and self-confident;
- an introvert person is shy, quiet and reserved;
- perceiving and intuitive;
- the perceiving type likes routine tasks and order, concentrates on details;
- the intuitive type relies on his/her presentiments and looks at things as a whole;
- thinking or feeling;
- the thinking type uses arguments and logic to solve the problems;
- the feeling type brings personal values and feelings into prominence;
- judging or perceiving;
- the judging type likes arranged categories, he/she is a leading type;
- the perceiving type is flexible and spontaneous.

Table 2 - JUNG'S TYPOLOGY

	Extrovert	Introvert
Rational	Extraver. thinking type	Introver. thinking type
	Extraver. feeling type	Introver. feeling type
Nonrational	Extraver. sensing type	Introver. sensing type
	Extraver. intuition type	Introver. intuition type

Source: Jung 1988.

This is a widely applied classification used by Apple Computer, General Electric and even by the US Army.

Its disadvantage is that everybody is forced into one category. According to this classification a person can be either introvert or extrovert. (Robbins & Judge 2009: 141 – 142) In reality the majority of people have either of these dominant qualities and, what is more, a person can be introvert and extrovert at the same time.

Situations and Leadership Styles

In the second part of this paper author outlines the Hersey-Blanchard situation leadership theory and connection with it the results of her survey carried out among students studying management and leadership for their Master degree at Szechenyi Istvan University.

By using questionnaires she analyzed the management style of the students in 12 hypothetical situations. Her initial presumption was that students after reading the description of the different situations would adopt a suitably different management style.

The model used in the questionnaires was developed by Paul Hersey and Ken Blanchard in 1960 as the model of the situation leadership theory. It says that a successful leader chooses the proper management style according to the qualification of the staff. (Robbins & Judge 2009: 429)

Figure 2 shows that in the dimensions of link and task orientation we can differentiate four areas and accordingly 4 management styles.

The manager's style is determined by the degree the subordinates are ready to take responsibility for their actions. (Bakacsi 1996: 200)

Robbins and Judge find that the manager-subordinate relationship corresponds the parent-child relationship. As a child grows and becomes more mature and responsible, there is less parental control necessary. The manager's role is similar. Depending on how well people are prepared and able to fulfill a special task, we can differentiate the following styles described in table 3.

Table 3 - LEADERSHIP STYLES IN HERSEY-BLANCHARD MODEL

Leadership Style	Definition
Telling	If followers are unable and unwilling to do the task, the leader needs to give clear and specific directions.
Selling	If followers are unable and willing, the leader needs to display high relationship and task orientation.
Participating	If followers are able and unwilling, the leader needs to a supportive and participative style.
Delegating	If followers are able and willing, the leader's role is coordination.

Source: Robbins & Judge 2009, pp 430.

This model was used in the primary research with our students studying leadership and management. Students were asked to read the 12 situation of the questionnaire with care and then mark one of the given four possibilities. In an imagined situation they were asked to mark their most probable alternative.

Naturally, it is possible that students marked the alternative they believed to be the best solution not that one which they would have done in a similar situation.

24 students have been asked in 12 situation and the results have been evaluated. Consequently in 288 cases we could identify the four styles. In table 4 you can see the disproportion of the results, which shows the rigidity of management styles.

If the proportion is nearly equal, it would refer to the flexibility of the group. But our students would have used the selling style in more than half on the cases. Looking at the results one should reject the initial hypothesis which meant that students

after reading the description of the situations would choose a flexible, the situation suitable management style.

Personality Traits of Leaders and Creativity

In this part the results of the research work in connection with manager personality signs and the five factors personality model are shown.

Personality traits analysis was carried out on the basis of the five factors personality model or the Big Five. This model converges human personality characteristics into five basic dimensions. It states that a human personality can be located at the final points of these dimensions. It contrasts with the previously outlined Myers-Briggs Type Indicator, it explains the whole scale not just the two final points. Table 5 briefly outlines the characteristics of the given dimensions.

Table 4 - DISTRIBUTION OF LEADERSHIP STYLES

Leadership style	Number of cases	%
Telling	53	18.4
Selling	158	53.33
Participating	50	20.63
Delegating	7	2.43
Total	288	100

Source: results of the research.

Table 5 - THE BIG FIVE MODEL

Dimension	Main characteristics	
	High	Low
Extraversion	sociable, gregarious, assertive	reserved, timid, quiet (introverted)
Agreeableness	cooperative, trusting, warm	cold, disagreeable, antagonistic
Conscientiousness	responsible, organized, dependable, persistent	disorganized, unreliable
Emotional stability	calm, self-confident	nervous, anxious, depressed, insecure
Openness to experience	creative, curious	conventional, comfortable, familiar

Source: Robbins & Judge 2009, pp 142 – 143.

Researches with the five factors model found correlation between personality dimensions and achievement at work. Conscience can be linked mostly to achievement but indirectly the other dimensions can also be connected with work. (Robbins & Judge 2009: 143)

Table 6 - THE BIG FIVE AND THE ORGANIZATIONAL BEHAVIOR

Dimension	Why is it relevant?	What does it affect?
Extraversion	Better interpersonal skills	Higher performance*
	Greater social dominance	Enhanced leadership
	More emotional expressiveness	Higher job and life satisfaction
Agreeableness	Bahad like	Higher performance*
	More compliant and conforming	Lower levels of deviant behavior
	Greater effort and persistence	Higher performance
Conscientiousness	More drive and discipline	Enhanced leadership
	Better organized and planning	Greater longevity
	Less negative thinking and fewer negative emotions	Higher job and life satisfaction
Emotional stability	Less hyper-vigilant	Lower stress levels
	Increased learning	Training performance
	More creative	Enhanced leadership
Openness	More flexible and autonomous	More adaptable to change

*Task where team work or interpersonal communication are important. Source: Robbins & Judge 2009, pp 144.

Table 6 summaries why these dimensions are important for company behavior and what results can be achieved if someone is ranked high or the given characteristic is typical for him/her.

A conscientious person is very well organized but can hardly accept change. It is difficult for him/her to learn complex skills because he/she concentrates rather on his/her achievement not on his/her studies. He/she is less creative and avoids risks.

Whereas introvert people are creative and flexible can manage change ell. That is the reason they can become effective leaders more easily, they can adopt themselves successfully to the changing circumstances, to the organizational changes. (Robbins & Judge 2009: 140)

Author's primary research on managers was based on the Big Five Model. In this survey strategic and operative managers of companies with a staff of over 10 were involved. Analysis of the questionnaires is being done with SPSS software, which is going on at the moment too.

In the following part some evaluated analyses will be shown. On the basis of the paper by John and Srivastava (1998) some personality questions were compiled. Participants had to decide about 44 statements referring to them, how typical they find them for themselves. In a five-grade interval scale measurable data were gathered and indices were calculated giving an average.

Statements made up five groups according to the dimensions and the average was calculated from their values individually. For example "openness to experience" had 10 statements and points were given to every statement and an average was calculated from them creating thus a new index. Table 7 shows the characteristics of the five indices.

238 participants were asked and all of them answered all personality questions. The conscientiousness index is the highest, which means that they regard themselves conscientious. Emotional stability is in the middle of the interval and the spread is the highest here. It means that the opinions of those questioned differ mostly in this respect.

Values of the strategic and operative leaders were examined separately. Author's hypothesis was that the average index of the strategic and operative managers would differ. You can see on figure 2 that the average values of the two groups do not differ significantly. The biggest difference can be seen in the cooperation index, the operative managers are more cooperative.

The date show that, strategic managers are more opened than the operative ones but the difference is minimal.

As the average difference is so small between the two groups, the variancy analysis does not give a significant result (table 8) and the hypothesis cannot be accepted.

Table 7 - DESCRIPTIVES

DESCRIPTIVES			
	Number of cases	Mean	Std.
Extraversion index	238	5.685	0.53061
Agreeableness index	238	5.686	0.54386
Emotional stability index	238	2.446	0.72375
Openness index	238	5.686	0.41074
Conscientiousness index	238	4.141	0.50226
Cooperation index	238		

Source: SPSS output.

Table 8 - ANOVA

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
Extraversion index	Between Groups	0.023	1	0.023	0.081	0.777
	Within Groups	67.638	234	0.290		
	Total	67.661	235			
Agreeableness index	Between Groups	1.674	1	1.674	5.874	0.015
	Within Groups	68.695	234	0.285		
	Total	68.695	235			
Conscientiousness index	Between Groups	0.034	1	0.034	0.135	0.714
	Within Groups	59.138	234	0.253		
	Total	59.172	235			
Emotional stability index	Between Groups	0.581	1	0.581	1.010	0.315
	Within Groups	122.864	234	0.525		
	Total	123.445	235			
Openness index	Between Groups	0.095	1	0.095	0.062	0.464
	Within Groups	39.683	234	0.170		
	Total	39.778	235			

Source: SPSS output.

Author's would like to carry out further analysis with personality signs connected with other factors. In the questionnaire managers were asked about their career, future plans, management styles and business perspectives. The answers will be compared with their personalities. Asking about management styles we used the Path-Goal Theory by House (figure 3).

Summary

After secondary analysis research was based on primary data. A special feature of the analysis was that not just managers in leading positions but also students studying for their Master degree and preparing to be managers were involved. They had already studied management but the majority of them did not have any leadership experience. Author's hypothesis was that they would use their previous studies and would move flexibly among management styles. She could not accept the hypothesis that they would use just one style in the majority of cases.

In the third part the results of her current research outlining leadership personality has been presented. Her hypothesis that strategic and operative managers have different personalities

and the average index derived from their personality dimensions is different was unacceptable for us.

The trend of further research will be determined by a deeper analysis of creativity. In this hyper-changing economic environment she would like to quote Darwin saying: "Not the strongest will remain alive, nor the cleverest but the one who is the most sensitive to changes".

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ATTRIBUTES OF TOURIST DESTINATION AS DETERMINANTS OF TOURIST PERCEIVED VALUE

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Abstract

The perception of value is governed by perceived quality and perceived costs, but also by product and service attributes. From the whole set of different attributes customer evaluates only a few of them, so it is important to define which attributes are the significant for customer's perception. The problem of defining the most important attributes lies in the extreme subjectivity of the concept of perceived value and the fact that every consumer has in mind a different set of attributes by which evaluates the product or service. Conducting the research on how customers perceive the value of firm's offer and which attributes are the relevant for most customers, could be the most significant research in the process of creating competitive advantages of companies. Tourist destination is a specific product composed of complexes of different attributes offered to tourists. The main research question is which attributes of tourist destination are the most important for the tourists' perception and how they will evaluate the destination in comparison with other visited destinations. Customers' perception is intangible construct and difficult to define, so it is important to conduct qualitative research to determine which attributes of tourist destination are the most important for tourists' perception

Introduction

According to various authors (eg, Zeithaml, 1988; Oliver, 1999; McDougal and Levesque, 2000; Snoj et al., 2004; Roig et al., 2006; Sanchez-Fernandez et al., 2009; etc.) perceived value of product or service is a trade-off between benefits and sacrifices. This traditional definition of value as a cognitive trade-off explain the perceived value as a construct configured by two parts,

one of benefits received by buying or using the product or service (functional, emotional, social) and another of sacrifices (price, time, effort, risk, convenience) made by consumer (Cronin et al., 2000). According to Bolton and Drew (1991) perceived benefits are mostly based on perceived quality of product or service. The benefits component, or what a consumer receives from the purchase, would include the perceived quality and other psychological benefits (Zeithaml, 1988). The quality is a fundamental element in perception of perceived value and it is the most difficult thing for competitors to imitate. Also, the affective benefits (Best, 1997., pp. 101; Sanchez et al., 2006; Zeithaml, 1988) can be extremely important when assessing value. Affective dimension of value (Roig et al., 2006) includes emotional and social benefits that consumers perceive in the process of purchase and during the use of products or services.

The sacrifices component is formed by monetary and non-monetary prices, i.e. money, time, energy, effort etc. Concerning the price it is important to stress that monetary price can be seen as part of benefits, when the price is high consumers could assume that the quality is also high. Zeithaml (1988) emphasizes that some consumers perceive the value when the price is low, while other perceive value when the balance between quality and price exists.

It is important to emphasize that not all benefits and costs can affect the perception of value because they are not equally important for all consumers. Some benefits and costs are very important and discussed in detail, while others are perceived as peripheral and less important and have less impact on evaluation process. Zeithaml (1988) concluded that customers evaluate only a few attributes of the total set of different product

attributes which they perceive to be a reliable sign of quality. The perception of customer is influenced by many factors, including the different experience of different nations, regions and different people.

Perceived value of tourist destination

The growing competition among international destinations emphasizes the concepts of quality and value as important factors that can make destination more attractive for tourists. Quality and value are the concepts that provide insights on how to rejuvenate products and the way they are viewed by customers. Some of destination marketing organizations have highlighted the quality and value 'as critical objectives for revitalizing their flagging tourism industries' (Murphy et al., 2000). Quality is seen as foundation for the marketing of services and the value is viewed as combination of the destination's perceived quality and associated prices which tourist will summarize as the value received (Murphy et al., 2000).

Creating the perception of the destination's value is not an easy mission, since this concept is complex and intangible (Zeithaml, 1988). It is necessary to understand the correlation between destination attributes and tourist perception of quality and value, in order to determine which of these attributes have the greatest significance for perception.

Some researchers (Murphy et al., 2000) point out that the perception of destination quality stems directly from the services that tourists receive during their stay. However, more acceptable is thinking that the services and the dimensions of the environment shape the destination quality and value perceived by tourists. Murphy and Pritchard (1997, according Murphy et al., 2000) claim that perceived value of the destination is affected by both services infrastructure and destination environments.

After the tourists experience the other tourist destinations, their perception of quality and overall perception of specific destination will have the most influence to revisit the destination again and recommend it to others (Kozak and Remmington, 1999). Indirectly or directly, tourists make the comparisons between the attributes, attractions and service quality among different destinations (Laws, 1995), and based on that create the value of individual destination.

The relative importance of destination components in the development of tourist perception of different tourists segments is a prerequisite to the development and implementation of successful marketing and marketing strategy. Some studies indicate that controllable and uncontrollable destination attributes such as the natural environment, the culture, the climate and other general features (e.g. the cleanliness of the beach, access to attractions, availability of activities, facilities and entertainment) might be a prime determinants of tourist value and satisfaction (Yuksel, 2001). Others point out that perception does not come only from the beautiful scenery and destinations, but also from the behavior of encounters, their efficiency and kindness. Quality of services provided to tourists, the responsibility of staff providing these services and the efficiency of solving queries and problems also contributes to the tourist perception of destination value and their satisfaction. Studies have also shown that the prices for services and the relationship between prices and the resulting benefits may become important factors in tourist perception (Pizem et al., 1978; Tribe and Snaith, 1998).

Attributes of tourist destination

Hu and Ritchie (1993) conceptualized the tourism destination as „a package of tourism facilities and services, which like any other consumer product, is composed of a number of multi-dimensional attributes“. A tourist's destination experience, however, is not solely derived from the consumption of various travel services (Cohen, 1979) because tourists expect the particular experience from the environmental setting itself, as well as from the service infrastructure that supports their visit. Research conducted by Mo, Howard & Havitz (1993) showed that the destination's environment was the primary factor (e.g. social and culture features) while the destination's service infrastructure the secondary factor (e.g. transportation, food and accommodation) in creating the expectations and perception of the destination product.

Dimensions of destination can be classified into two main groups, primary and secondary (Kozak and Remmington, 1999). The primary group is consisted of nature, culture, technology and other elements of destination environment, while the secondary includes specific features

developed for tourism such as hotels, transport, entertainment, etc. These two groups together contribute to the overall attractiveness of tourist destinations. Each of these dimensions consists of a number of attributes that shape which more or less influence on tourist perception tourists about the destination.

Natural elements destinations include features like a site or facility, natural resources such as landforms, flora and fauna, or physical conditions as the weather. Social elements such as the friendliness of local people, the language spoken, family structures, occupations, urban layout are the attributes of destination which form the part of environment. The level of use or lack of infrastructure and technology in a destination are developmental factors that can affect the visitors' trip experience. The economic conditions as a currency, market development and prices are attributes of the destination product that can influence traveler experiences and thoughts about a destination. Culture is another important factor that shapes the tourists' perception. Authentic local culture, history and traditions can provide a framework for enriching the experience of a tourist destination. Political dimension, which includes political stability, foreign policy, human rights can also affect the perception of tourists and their behavior. Government control, responsiveness to tourism, the attitude towards tourists (e.g. visa application, the specific entry conditions) can also affect the destination environment that visitors experience (Murphy et al, 2000).

On the other side of tourism services, their quality and diversity, represent an important aspect of destinations product and may have a crucial role in assess experience destinations by tourists. Besides the destination environment, the quality of tourist infrastructure - accommodation, cuisine, transportation infrastructure, shopping, tourist attractions, recreational and entertainment facilities, are important for tourists. In accordance with that the perception of tourist destination

is defined through experience of destination environment and service infrastructure.

In the last 30 years a significant number of studies analyzed the dimensions of a tourist destination and its attributes in order to identify which attributes have the greatest importance to tourist perception. Based on their results (Hong-bumm, 1998; Murphy et al., 2000; Pike, 2009) it can be made the classification the most important dimensions and attributes of destinations (Table 1).

Based on the above investigations, from a large number of attributes it can be extracted the most important: the attraction of the natural environment, climate, safety, cultural heritage, quality of accommodation, costs, shopping, friendliness of people, facilities for recreation, nightlife and entertainment. Thus, the most important are natural environment, political stability and economic environment and all aspects of tourism services.

Also, it is important to emphasize that the significance of destination dimensions and attributes could be changed during the time and depends on the reasons for travel. So, evaluation of destination and their attributes depends on tourists' motives. Motives could vary, but the most important could be reduced to 10 main:

- to relax
- to enjoy the good weather
- to entertain
- to forget everyday problems
- to introduce new locations
- to visit historic sites
- to experience the adventure
- to be in accordance with the nature of
- to be active
- to play sports

Table 1. The most important attributes of tourist destination

Researcher	Attributes of Tourist Destination	Researcher	Attributes of Tourist Destination
Ferraro (1978)	Scenery and landscape Zoos and wild life Natural vegetation Sun and beaches Historical monuments Sport amenities Town visits and shopping Participation in local life Night life entertainment	Hochtl (1986)	Good value for money Accessibility Night life and entertainment Facilities for sports A peaceful and quiet environment Friendly and hospitable people Beautiful scenery A cultural experience
Urry Crampton (1990)	A lot of fun Travel cost Others recommendation Climate Outdoor recreation Wide variety Meet people with different life style Safety Good to relax Attractiveness of natural environment Feeling of well-being Time spent	Pakey i Crompton (1981)	Social opportunities and attractions Natural and culture amenities Accommodations and transportation Infrastructure, funds, and friendly people Physical amenities and recreation activities Bars and evening entertainment
H. J. Ritchie (1993)	Availability/quality of accommodation Sports/recreational opportunities Scenery Climate Food Entertainment Historical attractions Uniqueness Accessibility Festivals/specia events Shopping Local transportation Price level	Milman I. Pizani (1995)	Good value for money Price Suitable for families with children Scenery Shopping bargains Weather Hotels Hospitality residents Safety
Murphy Pritchard i Smith (2000)	Pleasant climate Attractive scenery Clean city Heritage ambience Friendly people Good food Recreational attractions Good hotels	Pike (2009)	Good cafes/ restaurants High level of service Shopping Good beaches Historical places Recreational facilities Unspoiled Friendly locals Affordable

Source: Hong-bumm (1998), Murphy et al.(2000), Pike (2009)

Qualitative research of destination attributes

Prior to conducting a quantitative research, it is necessary to conduct qualitative research to identify factors that influence on tourist perception of destination. Qualitative research involves examining of tourists to found out how they perceive the value of tourist destinations. In order to reach understanding on how tourists create value of destination, it is necessary to use in-depth interviews, group interviews or projective techniques. In this case, in-depth interview was chosen as the best technique since it is necessary to examine in detail the personal behaviors, attitudes and needs of examinee. Also, the subject of research is to understand the complex behavior and conditions for making decisions that are best explored through in-depth interviews.

The main objectives of this research are:

1. Analyzing the process of creating the value of tourist destination in the minds of tourists and how they compare different destination
2. Identifying dimensions and attributes which are the most important to tourists in their perceptions of tourist destinations

In-depth interviews were conducted with 20 respondents of different demographic characteristics - age, sex, education, income - in order to obtain the more complete and detailed understanding of attributes that influence their perception of value. Interviews were conducted in the period from 1st-15th July 2010. Respondents were between 22-65 years old.

According to most examinees "travel destination is a unique combination of different attributes which can be divided into standard offer and a unique destination offers. Respondents believe that the standard offer can be compared between different destinations, such as accommodation, standard and quality accommodation, good cuisine, courtesy of employees, entertainment facilities - bars, clubs, buildings and facilities for recreation. On the other side, the unique offer is difficult or impossible to copy and provide a basis for attracting visitors. Specificity of destination is consisted of: cultural-historical content, layout and architecture of the destination, scenery, specific local customs and traditions, and specific events that take place only at the destination.

Expectations that the respondents had prior to arrival at the destination affect their perception of destination and experience. Examinees choose the destination by personal criteria and so the expectations are created by these criteria and according to information gathered prior to arrival (for the first visit) - pictures and images of accommodation destination on the web site, agreed price, activities that are thought to be found on the destination, the destination image to the public, word of mouth, etc. If experience does not meet the expectations that result in a low level of perceived value and dissatisfaction.

The analysis of interviews resulted with the list of attributes that have strong influence on perception of destination value. Since there are a large number of attributes that may affect the evaluation of tourists the most important are classified in: quality of service infrastructure, natural and cultural environment, emotional, monetary and non-monetary dimensions.

Table 2. Attributes which have strong impact on tourist perception

Dimensions and attributes
Quality of the accommodation
Comfort of the room
Cleanliness of the room and accommodation in general
Bally of the room
Quality of the food in accommodation
Physical condition of accommodation
Efficiency and courtesy of staff
Quality of food and drink
Tastiness of the food served in the area
Variety of menu
Availability of dishes liked
Availability of traditional food
Quality of restaurants in the area
Quality of entertainment
Availability of entertainment
Eligibility and variety of nightlife and entertainment
Number of cafes and night clubs
Availability of cultural and entertainment events - festivals, plays, concerts
Variety and availability of restaurants
Availability and variety of sports facilities
Quality of tourist services and tourist infrastructure
Availability of tourist information centers
The efficiency of service providing in tourism facilities
Staff kindness in providing services in tourism facilities
Convenience of working time in tourist facilities
Quality of transportation
Convenience of access to the destination
The frequency of local transport services
The network (accessibility) of local transport services
Hospitality and concerns about tourists
The friendly behavior of local residents
The friendly behavior of employees
Willingness of residents to help
Willingness of employees to help
The emotional experience of destinations
The feeling of enjoyment at destination
The feeling of relaxation
Having a lot of fun on destination
The feeling of excitement
The feeling of security being at destination
Tourist attraction
The number and variety of attractions in the city

Table 3. Attributes which don't have strong impact on tourist perception

Social value od destination
Visiting the destination leaves a good impression on friends and relatives
To improve the way the others perceive you
That many of your acquaintances visited this destination
Involvement in community life, building relationships with residents
Reputation
That international celebrities visit this destination
That your community support your visit the destination
Quality of shopping
The abundance and availability of shopping facilities
The choice of goods in stores
The quality of goods in stores
Destination appearance
Size of destination
The price level at the destination
The prices of souvenirs and gifts
The prices of local transportation

Analysis of the respondents indicated that social value and some attributes of reputation are not relevant for the perception of tourists, followed by shopping quality. Also, as less important attributes can be identified: the size of destination, the prices of souvenirs and gifts, local transportation cost.

In the next phase of research it should be developed the questionnaire based on destination attributes important for examinees' perception.

Conclusion

In marketing field, customer value was seen as base for each marketing activity in organization (Sanchez-Fernandez & Iniesta-Bonillo, 2006) and recognized as crucial "weapon" for attracting and keeping customers. Creating the tourist perception of destination value is no easy task, as these experiences tend to be complex and intangible (Zeithaml, 1988). In order to investigate the perceived value of destination is needed to understand the links between a destination's attributes and perceptions of quality and value generated amongst different groups of visitors. The relative importance of destination attributes in the development of tourist perception of different tourists segments is a prerequisite to the

development and implementation of successful marketing program of tourist destination.

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THE IMPACT OF FINANCIAL INTERDEPENDENCE ON THE CZECH, HUNGARIAN AND POLISH INTERBANK, STOCK AND CURRENCY MARKET

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Abstract

Contagions could be defined as a significant increase in market comovement after a shock to one country, and mostly explained by two theorems: strong cross border relationships between the economies or sudden shifts in market actor's expectations and confidence. The first hypothesis of contagion was accepted on stock market but mostly rejected on interbank and currency market. The second hypothesis, that stock market contagions have the same orientation as trade was rejected. The analysis in this paper employed Dynamic Conditional Correlation GARCH analysis on logarithmic returns to evaluate deviation of market prices from fundamental values under extreme conditions on the selected interbank, stock and currency markets.

Keywords: DCC GARCH, interdependence, Visegrad Group

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To analyse this phenomena it is necessary to prove that the efficiency of capital markets is weak and to assume a hierarchical linkage inside the market network. If the inter-market correlation is significantly different under shocks, diversification will be ineffective.

This study empirically examines the transmission mechanism of interbank, stock and currency market crashes in the Visegrád Countries, using daily data for the US, Euro area as well as the Czech Republic, Hungary and Poland for the period from January 2002 to October 2010. Particularly, the average level and volatility of inter-market dynamic conditional correlation (DCC) was compared under "normal" and "extreme" conditions of one dedicated ("leader") market – as US and Euro area indicators.

The outline of this paper is the following. First we discuss the theoretical underpinnings between correlations, extreme events under different market models. The Data and Methodology section specifies market effectiveness at first by normality and power-law distribution tests of logarithmic returns as well as stationarity test of market values, than Fischer-transformed GARCH-based DCCs will be compared by two-tailed t-tests and Ansari-Bradley test under leader market's normal and extreme conditions, which are defined by the tails of probability distribution. The results section describes the data and reports the empirical results ending with the conclusion of this article.

Introduction

How can a market influence others? It is a current question for market actors and monetary regulators.

Theoretical background

Capital markets have crucial role in risk management, where diversification is a basic tool to reduce market risk—not only in the case of portfolio building, but in the case of maturity transformation too (Marsili-Raffaelli 2006, Eisenschmidt-Holthausen 2010, Ondo-Ndong 2010, Barrel és mtsai. 2010). The international diversification depends on inter-market correlation, but the benefits of this strategy are eroded by increasing correlation under bear markets as Campbell et al. (2002) suggest. Globalisation and convertibility caused higher level common movement between countries capital markets where economic ties are strong (Chen-Zhang 1997, Goezman et al. 2005). Contagion was defined by Bekaert et al. (2005) and Caporale et al. (2005) as excess correlation over and above what one would expect from economic fundamentals. Forbes-Rigobon (2002) defines contagion more restrictive: it occurs only as a significant increase in cross-market linkages after a shock to one country. If the co-movement does not increase significantly, then any continued high level of market correlation suggests strong linkages between the two economies that exist in all states of the world - which could be defined as interdependence. Therefore the level of significance could be a difference between contagion and interdependence. This significant difference could be caused by enormous capital movements, appearing a gap between the demand and supply side on the market (Wong et al. 2010). Van Royen (2002) and Markwat et al. (2009) pointed out the independence between macro-fundamentals and financial contagions – as it happened under Asian financial crisis in 1997, Russian crisis in 1998 and dot-com crisis in 2001.

Allowance of convertibility caused higher complexity, as Bonano et al. (2001) summarized:

- Stochastic processes are simultaneously characterized by both short range and long range memories and stationary could be only asymptotically.
- For a time horizon of one trading day, 0.7 internal correlations can be observed inside an economic sector.
- Shape of the ensemble return distribution is symmetrical on the typical trading day whereas on extreme days (crashes or rallies) the

distribution is skewed (negatively or positively, respectively).

The existence of skewness indicates that extreme market events appear more often as they should be on an efficient market with normal distributed returns. Extreme events and heavy tails are identical as Jetsch et al. (2006) suggest. With the occurrence of heavy tails, there is a lower difference between the probabilities of a medium and a big shift on the market as we expected on Gaussian ground. Alderson (2008) and Albeveiro-Piterbarg (2006) suggest dealing extreme events or heavy tailness as an endogenous property, which came from the market structure.

The Erdős-Rényi random networks are capable to model competitive and efficient markets with dynamic recombination and fast information propagation, but they are unable to describe preferential connectivity. Scale-free complex networks were described by Barabási-Albert (1999). This model is able to explain internal heterogeneity through preferential connections which could be responsible for spontaneous synchronisations (“large cooperative phenomena”) or phase transitions. These systems are far from equilibrium as self-organized criticality (SOC) describes – therefore extreme events are inherent properties of the system and indicated by power law distribution (Wang-Chen 2003, Csermely 2008, Grubestic et al. 2008, Yuan-Wang-Li 2007).

This study aims to validate the model of scale-free complex networks on interbank, stock and currency markets – therefore it is necessary to present: are market comovements significant different under extreme events? The acceptance of this hypothesis suggests the validity of the upper market model and the existence of contagion on the selected market type.

Data and Methodology

The markets in the sample were selected in order to reconstruct scale-free model hierarchical centre-periphery structure. Farkas (2010), Viturka et al. (2009) and Lengyel (2007) verified such spatial relations in the real economy with a western-European centre and Czech-Hungarian-Polish periphery. Liu et al. (1998), Chen-Zhang (1997) and Heathcote-Perri (2004) supported the idea, that the shape of connections is parallel with the capital markets as on the real economy. This

hypothesis could be tested on the stock market sample: Germany is the main trade partner of both sample countries (with 25-30% share from export and import in 2009), contrary to a marginal US role. Parallelism hypothesis could be accepted, if extreme events on the German DAX index are able much more to separate the significant difference of common movements on the sample (Czech PX, Hungarian BUX and Polish WIG20 indexes) than the US Dow Jones Industrial (DJI) index.

Emerging-Europe sample countries have to adopt the common currency in the future; therefore interbank-market relations were analyzed on overnight (O/N) relations, between Eurozone's EONIA, Czech Pribor and Hungarian BUBOR. Unfortunately there was lack of data in the case of Poland.

Currency market common movements were tested against EUR/USD is, as CZK/USD, HUF/USD and PLN/USD. Babetskaia-Kukharchuk et al. (2008) and Stavárek (2009) suggested the usage of USD denomination in this case.

The analyzed time horizon covers the post dot-com crisis and the current sub-prime crisis between January 2 2002 and September 29 2010.

Time series are logarithmic returns (1) calculated from daily closure values of the selected market indicators with a synchronisation to avoid biases caused by different holydays (N=1769).

Descriptive statistics

To test the effectiveness of the analyzed market Jarque-Berra normality test and Augmented-Dickey-Fuller (ADF) stationarity test were applied as descriptive tools.

Stationarity analysis (ADF test)

A stochastic process $\{r_t\}_{t=1}^T$ is stationary, if its expected value $E(r_t)$ and variance $V(r_t)$ is a finite constant, and the joint distribution of (r_t, r_s) depends only on $t-s$. New information is very rapidly infiltrated into the current market price of an instrument on an efficient market – therefore today's price is the best source to predict tomorrow's price. A price process with this property is called a random walk (2).

$$r_t = r_{t-1} + \varepsilon_t \quad (2)$$

where ε_t denote the shock that represents the impact of new information and let r_t denote the logarithmic return of an instrument at time t .

Discrete time model for a random walk with a drift (3) is

$$r_t = \alpha + r_{t-1} + \varepsilon_t \quad (3)$$

where α is a constant representing the drift in the process and which is 0 under pure random walk.

A pth order autoregressive model, denoted AR(p) (4) a special case as well, by adding further lags of r_t , for p an integer greater than 1.

$$r_t = \alpha + \varrho_1 r_{t-1} + \varrho_2 r_{t-2} + \dots + \varrho_p r_{t-p} + \varepsilon_t \quad (4)$$

Time series process is said to be integrated of order i and denoted $I(i)$ if it is not stationary but its i th difference is stationary. The first difference of an integrated process (5) can have autocorrelated and moving average components:

$$R_t \sim I(1) \Leftrightarrow r_t = \alpha + r_{t-1} + \varepsilon_t \quad (5) \text{ , with } \varepsilon_t \sim I(0) \text{ denote that a series is stationary.}$$

The random walk model is just one special type of integrated process, one in which the first difference is independent and identically distributed (IID). When a process is integrated of order 1 it is called as a stochastic trend. For example, the random walk model has a stochastic trend as well as a drift determined by the sign and magnitude of the constant α . But the trend in a random walk or in any integrated process is not a deterministic trend (or trend stationary process) (6).

$$r_t = \alpha + \beta_t + \varepsilon_t \quad (6) \text{ , where } \varepsilon_t \sim IID(0, \sigma^2)$$

It is important to make a difference between $I(1)$ behavior and $I(0) +$ trend behavior due to their transformation requirements to make each process stationary: for a random walk, or indeed any $I(1)$ process, into a stationary series we must take the first difference of the data, while at $I(0) +$ trend process it is enough to take deviations from a fitted trend line.

Empirical evidence (Alexander 2008) suggests that liquid financial markets are quite efficient. In an efficient market, prices are $I(1)$ processes so they follow a stochastic trend and the best prediction of a future price is the price today, plus the drift. When a trend is fitted to the price all this does is

to remove the drift in the random walk, because it not makes an I(1) process stationary. But trend stationary processes almost never arise in financial markets (Darvas 2004, Alexander 2008).

A market is efficient, if the prices are random walks or follow at least integrated processes. Unit root processes are another type of non stationary processes besides trend stationary process. We say ‘inside the unit circle’ because one or more of the roots of (4) could be complex numbers. It is only when all the roots are real that the so-called unit root condition reduces to the condition that all roots are less than one in absolute value. This is achieved by adding further lags of r_t AR(1) process is $x-p=0$ and the unit root condition is therefore simply $|p|<1$.

The null hypothesis of ADF(q) test is non-stationary against the alternative that is stationary (7).

$$(7) \quad H_0: R_t \sim I(1) \quad \text{vs.} \quad H_1: R_t \sim I(0)$$

This test based on the AR (1) in (4), with the assumption that $\rho_1=1+\beta$. There is a unit root, if $\beta=0$ and ρ_1 is not inside the unit circle. We include as many (q) dependent variables as necessary to remove any autocorrelation in the residuals (8).

$$(8) \quad \Delta r_t = \alpha + \beta r_{t-1} + \gamma_1 \Delta r_{t-1} + \dots + \gamma_q \Delta r_{t-q} + \varepsilon_t$$

Thus if the value of test statistic is higher than the prescribed critical region at 1%, 5% and 10% confidence levels, we cannot reject the null hypothesis, so our time series is non-stationary. An I(1) or I(2) result indicates weaker effectiveness on the market. Type 1 error occurs when the data have jumps or structural breaks – it signs stationarity on non-stationary case too. To avoid such bias, Alexander (2008) and Lütkepohl-Krätzig (2004) suggests testing market values instead of logarithmic returns.

Testing for normal distribution

The normal distribution of the logarithmic returns (9) is the precondition of efficient market hypothesis – the exponential shape means fast falloff of the returns and the central tendencies are close together (Jentsch és mtsai. 2006). Therefore extreme amplitudes are very improbable (Kóbor 2003).

$$(9) \quad f(r) = \frac{1}{\sigma\sqrt{2\pi}} e^{-\frac{(r-\mu)^2}{2\sigma^2}}$$

This study applies Jarque-Berra test according Wong-Li (2010), where $P<5\%$ value means the rejection of normality.

When stationarity test indicates non-stationary processes and the logarithmic returns have non-normal distributed, the selected markets are not efficient.

Testing for power-law distribution

Power law distribution (10) is the most common form of logarithmic returns as Molnár (2006), Gabaix et al. (2003) and Clauset et al. (2009) suggest.

$$(10) \quad p_\alpha(r) = r^{-\alpha}, \quad 1 < \alpha < 3 \quad (\text{tail exponent})$$

Power-law distributions are indicators of an extraordinarily diverse range of phenomena (Newman 2005). “Perfect storms” of capital markets are characterized by big falls in one equity price, which is accompanied by simultaneous big falls in other equity prices – multivariate normal distributions are unfeasible tools to describe heavy tails (leptokurtosis) or “garden of improbable events”. estimated power-law properties were studied deeper by Clauset, Shalizi and Newman’s (2009) improved quantile-based maximum likelihood estimation (MLE) method, to estimate the scale parameter α . Size of the tails is determined by the scale parameter α – as smaller the α , as fatter is the tail. P-values are given by Monte Carlo procedures: the power-law model is fitted for generated synthetic data sets, and the number of times is counted when the Kolmogorov-Smirnov value is larger than observed goodness-of-fit (maximum distance between the tail probability or cumulative distribution function of the empirical data and the fitted power-law model) and in $p \geq 0.05$ case power law distribution hypothesis on the examined side is accepted. (Clauset et al. 2009, Quismorio 2009)

“Extreme events” are defined as outliers on the tails, diverging from fitted normal distribution (11).

$$(11) \quad \text{Normal: } r_{\text{empirical},i} < r_{\text{theoretical,normal},i} \wedge \\ r_{\text{empirical},i} > r_{\text{theoretical,normal},i}$$

$$\text{Extreme: } r_{\text{theoretical,normal},i} < r_{\text{empirical},k} < r_{\text{theoretical,normal},l}$$

where r_i is the i th element of empirical distribution,

$$\text{while } r_{\text{theoretical,normal},i}$$

is the values of the fitted normal distribution, and $i < k < l$.

This shape is an evidence about the existence of scale-free network structured capital markets – therefore we cannot think about efficient capital markets (Jentsch et al. 2006). The dominant (hub) market could induce deviation between market prices and fundamentals due to the stable hierachic structure of the system.

While the rejection of stationarity could be the sign of volatility clustering, and the theory of extreme intervals existence is reinforced by power-law distribution too. But how inter-market correlations are affected by the normal or extreme state of hub market (12)?

(12)

$$H_0: r_{m1,\text{extreme}} \rightarrow p_{mi,mk,\text{extreme}} \wedge r_{m1,\text{normal}} \rightarrow p_{mi,mk,\text{normal}}$$

$$H_1: r_{m1,\text{extreme}} \rightarrow p_{mi,mk} \wedge r_{m1,\text{normal}} \rightarrow p_{mi,mk}$$

where r_{m1} is the hub markets return, $p_{mi,mk}$ is the correlation between the i th and j th market under the normal and extreme states defined by (11).

Analytic statistics

To analyze the hub's impact on the inter-market correlation, GARCH based dynamic conditional correlation (DCC) was applied on market returns. Then the calculated DCCs were separated according to the normality and extremity of the hub's return, and the significant difference between the two states of DCCs were tested with 2 sided t-test and Ansari-Bradley test.

Ljung-Box and ARCH LM (Lagrange multiplier) test

When there is a linear dependence between r_t and its past values r_{t-i} is of interest, the concept of correlation could be generalized to autocorrelation.

The correlation coefficient between r_t and r_{t-l} is called the lag- l autocorrelation of r_t and it commonly denoted by ρ_l , which under the weak stationarity assumption is a function of l only.

This study uses Ljung-Box test as Tsay (2005) and Kuper-Lestano (2007) suggest proving that autocorrelations of r_t are zero with an enhanced Portmanteau statistic. The null hypothesis $H_0: \rho_1 = \dots = \rho_m = 0$ against the alternative hypothesis $H_1: \rho_i \neq 0$ for some $i \in \{1, \dots, m\}$ – so is it indepentedly distributed or not.

$$(13) \quad Q(m) = T(T+2) \sum_{\ell=1}^m \frac{\rho_\ell^2}{T-\ell}$$

Under the assumption that $\{r_t\}$ is an IID sequence with certain moment conditions, $Q^*(m)$ is asymptotically a chi-squared random variable with m degrees of freedom. The decision rule is to reject H_0 if $Q(m) > \chi_{2\alpha}^2$, where $\chi_{2\alpha}^2$ denotes the $100(1-\alpha)$ th percentile of a chi-squared distribution with m degrees of freedom.

It tests for ARCH effects with the null hypothesis of no conditional heteroscedasticity. The rejection of H_0 supports the idea of GARCH modeling (Lütkepohl 2004).

GARCH modeling

Series with large outliers (extreme events) and volatility clustering, the conditional second moments may have an important structure as well – bringing on the modeling of autoregression and heteroscedasticity. Based on an univariate AR(q) model (4), the residuals u_t are follow an autoregressive conditionally heteroskedastic process of order q (ARCH(q)) if the conditional distribution of u_t , given its past

$\Omega_{t-1} = \{u_{t-1}, u_{t-2}, \dots\}$, has zero mean and the conditional variance (13) is

$$(14) \quad \sigma_t^2 = \text{Var}(u_t | \Omega_{t-1}) = E(u_t^2 | \Omega_{t-1}) = \alpha_0 + \sum_{i=1}^q \alpha_i u_{t-i}^2$$

, where $u_t | \Omega_{t-1} \sim (0, \sigma_t^2)$.

In this basic form, the ARCH model assumed the conditional distribution to be normal

$u_t | \Omega_{t-1} \sim N(0, \sigma_t^2)$. Therefore it is capable of generating series with volatility clustering, and conditional distribution will be normal opposite to

the generally nonnormal unconditional distribution, while the u_t 's will be serially uncorrelated (as white noise) (Lütkepohl 2004, Petrimán-Tulassay 2005).

Volatility persistence and low correlation between successive values of u_t 's causes fairly large order (q) for many series, because ARCH process requires them to capture the dynamics in the conditional variances. This means that all the should be positive may not be satisfied if it is not explicitly imposed (Davidson-MacKinnon 2003).

This problem could be solved through the introduction of the lag operator, a generalized ARCH(p,q) process will be resulted (14):

$$(15) \quad u_t = \sigma_t \varepsilon_t; \quad \sigma_t^2 \equiv E(u_t^2 | \Omega_{t-1}) = \alpha_0 + \sum_{i=1}^p \alpha_i u_{t-i}^2 + \sum_{j=1}^q \beta_j \sigma_{t-j}^2,$$

where p denotes the length of the lag, σ_0^2 and q is the ARCH process, u_t^2 and α_i signs the impact of news on the conditional variance, while β_i means the volatility persistence (Davidson-MacKinnon 2003).

Hence the GARCH (p,q) model is basically symmetric, Kasch-Haroutounian and Price (2001) summarizes its nonlinear (NGARCH), exponential (EGARCH) and their asymmetric versions too.

This purified variance is capable to be a source for dynamic conditional correlation (DCC GARCH).

DCC GARCH

Ordinary cross-correlation is not the suitable tool to specify the common movement of markets due to the heteroscedasticity as Forbes and Rigobon (2002) suggest. Cointegration is ruled out too, because it is better to analyze long-term processes, so BEKK-GARCH or DCC-GARCH could be an adequate solution.

This study applies DCC-GARCH following Kuper-Lestano (2007) and Wong-Li (2010), to analyze the daily common movements of the selected markets. The DCC model assumes that the returns from k assets, r_t (15), are conditionally multivariate normally distributed with zero expected value and covariance matrix H_t (16).

$$(16) \quad r_t \parallel \Phi_{t-1} \sim N(0, H_t),$$

$$(17) \quad H_t \equiv D_t R_t D_t,$$

where r_t is a $k \times 1$ vector, H_t the positive definite conditional covariance matrix, R_t the $k \times k$ time-varying correlation matrix, and all available information up to $t-1$ is contained in Φ_{t-1} . These returns can be residuals from filtered time series. D_t is the $k \times k$ diagonal matrix of time-varying standard deviations from univariate GARCH

models with $\sqrt{h_{it}}$ as the ith element of a diagonal. D_t is obtained from the following univariate GARCH specification (17):

$$(18) \quad h_{it} = \omega_i + \sum_{q=1}^{p_i} \alpha_{iq} r_{i,t-q}^2 + \sum_{q=1}^{q_i} \beta_{iq} h_{i,t-q}^2.$$

Dividing each return by its conditional standard deviation $\sqrt{h_{it}}$, one obtains the vector of standardized returns, $\varepsilon_t = D_t^{-1} r_t$ where $\varepsilon_t \sim N(0, R_t)$. This vector may be used to write Engle's (2002) specification of a dynamic correlation structure for set of returns (18, 19):

$$(19) \quad Q_t = (1 - \sum_{m=1}^M \alpha_m - \sum_{n=1}^N \beta_n) \bar{Q} + \sum_{m=1}^M \alpha_m (\varepsilon_{t-m} \varepsilon_{t-m}^\top) + \sum_{n=1}^N \beta_n Q_{t-n},$$

$$(20) \quad R_t = Q_t^{-1} Q_t Q_t^{-1},$$

where \bar{Q} is the unconditional covariance of the standardized residuals resulting from the first stage estimation and a diagonal matrix composed of the square root of the diagonal elements of Q_t . The elements of R_t will be of the form q_{ijt} , where q_{ijt} , q_{ijt} and q_{jjt} are the elements of Q_t corresponding to indices. For R_t to be positive definite the only condition that needs to be satisfied is that Q_t is a positive definite.

It is necessary to run a Fischer-transformation (20) on the computed correlations for later two sided t-tests as Lukács (1999) suggest:

$$(21) \quad z_i = 0.5 * \ln \frac{1+r_{ho_i}}{1-r_{ho_i}}$$

After the identification of market common movements, it is necessary to separate them on the ground of the hub return's extremity or normality.

Impact of extreme and normal state of the hub market on inter-market correlations

How can we separate the “extreme” and “normal”? Jentsch et al. (2006) defined extreme events by their impact and probability – so we have to find a suitable threshold or milestone to form both groups. There are multiple solutions, see Campbell et al. (2002), but this study focus on the fatness of tails, therefore it is obvious to cut the empirical distribution with a fitted theoretical normal distribution on it (11).

To compare the differences between the Fischer transformed DCCs under normal and extreme hub conditions, two sided t-test and Ansari-Bradley test were done. The t-test assesses whether the means of two groups are statistically different from each other. Ansari-Bradley test of the hypothesis that two independent samples, in the vectors x and y , come from the same distribution, against the alternative that they come from distributions that have the same median and shape but different dispersions (e.g. variances). It is reasonable, if the means or variances of market comovements are affected by one dedicated (“hub”) market’s mood – the acceptance of interdependence hypothesis (12), it will be hard to talk about market efficiency or diversified portfolios.

Results

Descriptive statistics (see table 1) supported the idea of weak effectiveness – logarithmic returns were non normal distributed as $p=0\%$ results of Jarque-Bera test suggested, but power-law distributed. Tails were longer on the positive side of the currency distribution, indicating higher variety of extreme events under depreciation. Interbank markets had too heavy tails; these markets had some kind of “Z” shape instead of usual “S” on QQ plots. This result shows a paradox picture: even stock markets are closer to normality than central-bank managed interest rates.

The lack of stationarity was shown by Augmented-Dickey-Fuller (ADF) test, all market followed at least I(1) process.

The Ljung-Box Q statistics at 36 lags are computed for both the series and squared series. The Q-statistics indicate the presence of significant linear and non-linear dependencies. The first type of dependencies may be due to some form of market inefficiency or market structure while

autoregressive conditional heteroscedasticity may cause a latter type of dependency. Only EUR/USD and CZK/USD pairs presented the lack of significant autocorrelations. The ARCH tests also support the presence of autoregressive conditional heteroscedasticity. The null hypothesis of no ARCH is clearly rejected at 5% significance level, which means that the residuals had conditional heteroscedasticity (Kuper-Lestano 2007).

Figure 1 illustrates the density of extreme events on each market – there is no clear border between “normal” and “crisis” intervals, but local density of extremes indicate the occurrence of sub-prime crisis.

Hence descriptive statistics underlined the rejection of efficient market hypothesis, proving contagions demands to analyze particular extreme events on network level. Table 2 summarizes the results of t-test and Ansari-Bradley tests on Fischer transformed dynamic conditional correlations (DCC). Significantly different common movements under “normal” and “extreme” circumstances indicate the existence of contagion.

There were two hypotheses in this study: the first one deal with the existence of contagion on the different market types, while the second seeks for trade-oriented background of stock market contagions.

According to the results of table 2, the first hypothesis was accepted on the stock markets – but only with the rejection of the second hypothesis. Emerging European stock market common movements could be split on the significantly different parts only by the US Dow Jones Industrial index’s normal and extreme states. The German DAX index had weaker explanatory power both in the case of t-test and Ansari-Bradley test. These results are similar to suggestions by Eun-Shim (1989) about the leader role of US capital markets.

There was weaker evidence on contagions in the case of interbank and currency markets. Significant differences were in the variance of correlations only in the half of the combinations. These results indicate a time- and mood-variant correlation, but without an exact “leader-market”. Extreme fat tails on the interbank markets could be an explanation on contagion difficulties – not to mention the unique monopoly role of central banks. Gabaix (2003) underlines that fat-tails occurring in connection with the operation of hub actors – creating a specific paradox of regulations,

lack of contagion and higher preference of extreme phenomena.

Conclusion

US determined contagions were identified on the stock markets – with significantly higher level and variety of correlation. This synchronizing phenomenon makes impossible any diversification.

Interbank-makers are more disintegrated, but characterized by more extremity. Currency markets are between these two border-line cases.

Networks of capital markets and real economies are not parallel, previous is Germany oriented, while latter is US dominant.

Capital market actors are responsible to manage risks in a post Breton Woods era as Ulrich Beck's "insurgency society" theory suggests (Jentsch et al. 2006). Therefore circle of crises could not be solved with a network disintegration through decreasing convertibility. Stronger liquidity and capital adequacy standards for strategic hub actors are more capable tools to avoid extreme synchronizations as well as forming state managed buffers like traditional reserves or sovereign wealth funds.

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EU TOURIST CONSUMER POLICY: CONTRACTS, STANDARDIZATION AND FRANCHISING

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Policy and Law on Tourism in EU : Introductory notes

The consumers of tourism at actual time make part of mass consumption in very many different social and economic branches (transport, food, hotel industry, shopping , culture, sport and others).

Due to that it is almost impossible to make a coherent legislation of consumer protection or European tourist policy. The usual EU approach to establishing and promoting common policies is through law. The basic feature of European legislation is that different forms of legal and non legal acts are applied in carefully planned phasing out process. Behind that is the European pragmatic attitude that the law (directive i.e.) which is not accepted and applied by all member states and stakeholders does not serve the purpose.

Nevertheless , both, policy and law on tourism in EU have a steady growth . The position of tourism policy can not be compared in with high policies as competition policy, internal market policy, common commercial policy i. e. In tourism agenda there is not a systematic or coherently related links between policy and law but this is part of the research which has to be done in the future.

Compared to position of WTO to tourism there is a clear cut attitude toward tourism as a liberalization agenda Legal regime governing tourism is under services area. Since coming into force of GATS a comprehensive system of liberalization of services has been established. One of the listed board service sector is also tourism and travel related services among 11 selected.

With or without GATS tourism as social and economic activity is a service activity predominantly although goods are channeled within the technological process of delivering tourist services and using tourist services. This positioning of tourist can be a landmark in selecting or giving preferences to respective areas of law. So far it is the law related to services and respective policies that prevail in tourism.

That again does not bring us to the safe and reliable ground neither in law nor in policy. Services as economic theory developed relatively late (Colin Clark 1930) and were long considered as depending on goods and not important and independent area of economic activities (attitude dominated since Adam Smith and Stuart Mill).

Services were developing in a large number of sectors which were not related with each other (food – building construction, medical care - distribution as examples). As a consequence the legislation mainly was focused on the trade and production of goods and services were just put in the footnotes or added as “ and services”.

Tourism which is making part of service industry bears all the features of services . Law of tourism is an assembly of different areas of the law in an approach that is more sectarian than thematic. It is a general view that numerous legal topics have not yet been tackled. If we mention just some of them the listing is quite impressive as: activity centers, incentives, subventions, eco tourism, environmental law, travel insurance, transport of persons, sales and reservations via Internet etc.

Accordingly all different tourism sectors are not equally developed in law or policies. Scattered in bits and pieces they often make part of self regulated acts, court cases, local communities

acts and others . The outcomes are often note deprived of different lobbying activities.

More than sectarian nature of tourism industry legislation remarks are made that lawyers themselves are not related but the opposite the hotel lawyers of hotels consider them to have nothing to do with lawyers and the cruise, consumer protection or time share and contract matters (David Grant Professor of Law, Northumbria University).

Tourism policy

The first policy acts on tourism origin from 1984 , April 10. When the Council Resolution acknowledged importance of tourism and invited Council for action. An advisory committee on tourism has been established by the decision of 22 December 1986.

The first practical measure arrived only by Maastricht Agreement in 1984 which document established special lines and only police check up for European citizens. Schengen Agreement introduced uniform passports for EU citizens and abolished border checks for EU citizens.

In spite of that the frontiers on land and maritime borders remain open for drug dealers and clandestine immigrants.

In the field of practical measures which are at the same time also legal acts which are : Directive on package tours in 1990 and protection against the over reservation practice in airlines.

Parliament policy acts

It is considered that the main policy contributions of European Parliament were following:

- Inclusion in treaty, as a result of the 1996 revision, of a special chapter on tourism, giving the Community sufficient power to pursue a common policy, while respecting the principle of subsidiarity (Resolution of 15. Dec 1994:)
- Commission Green paper on the role of Union in the field of tourism, 13 Feb. 1996;
- Creation of European Tourism Agency resolution of 15. Dec 1994 and 25. October 1996;
- Increased protection for tourist , greater civil liability of travel agencies, stricter criteria for granting operating licenses;
- Protecting the environment from damage caused by mass tourism(resolution 13 Jul/ 1990 and 18 Jan. 1994
- Charter of rights and obligations of tourists (resolution of 11 June 1991 on a Community tourism policy);

Action against travel agencies , airlines and hotel chains that encourage child sex tourism(resolution of 6 Nov. 1997 on the Commission communication on combating child sex tourism).

Concepts and instruments of Tourism policy

- The starting address to tourism economic area were rather wage and not structure to particular targets and means about how to accomplish it.
- That has changed with Communication from the Commission – Agenda for a sustainable and competitive European tourism / com/2007/0621.
- The basic tourism policy concepts introduced by the Agenda (2007) are sustainability and competitiveness. Both concepts are not in contradiction and in the long term competitiveness depends on sustainability. Tourism growth is the source of new jobs, particularly for young people, it is also the ground to innovate products and services, are some of accents of the Agenda (2007). It has been pointed out that Agenda adopts a holistic approach , requires a policy where all the stakeholders share the same objectives. New tourist development is supposed to be of scale and type in keeping with needs of local community and environment. Sustainable management should reinforce the economic performance and competitive positioning. Tourists need to be addressed in order to develop critical capacity and to make

-
- choices in favour of sustainable development (Agenda 2.2.)
- Small and micro business play an indispensable role in European tourism.
 - The Commission recognizes its responsibility for the action providing tourism stakeholders with adds value at European level (Agenda 3.2).
 - The promotion of specific knowledge, "European Destination of Excellence (EDEN) . Financial instruments are also announced and priority criteria are defined as sustainable and innovative tourism practices. (Agenda 3.2.3.)
- a) Stimulatin competitiveness
- This is attained by following measures:
 - Improving professional skills
 - Encouraging and extension of tourist season;
 - Developing innovation in tourism industry:
 - Consolidating the socio economic knowledge base for tourism
- b) Promote development of sustainable, responsible and high quality tourism;
- c) Consolidate the image and profile of Europe as collection of high quality tourism ("Europe brand")
- d) Maximize the potential of EU policies and existing financial instruments for developing tourism.

New EU Tourism policy update February 2011

- The document which Commission launched in December 2010 is a draft plan for implementing the new European tourist policy
- The suggestions and comments are expected from the tourist community, particularly IAAPA.
- The new impetus arrived from Lisbon Treaty which first time so far mentioned laid down basic concepts of European Tourism policy. (Art. 195).
- It is a comprehensive document which is in continuation of previous Parliament acts and Communication from the Commission (see 2.2.3) but much more elaborated.
- On its 14 pages it is focused on 4 basic objectives and 21 possible actions for bringing them into practice.
- The member states will obviously make their own implementation plans.
- The administrative body responsible for the tourism has been upgraded and is a new directorate –general DG for Industry and entrepreneurship. The responsible commissioner for tourism is

Antonio Tajani.

The four main targets in development of tourism are:

For each of main objectives there are more than 20 measures suitable to attaining them. So far it the most comprehensive document of tourism policy in EU but in some parts it is following the usual European rhetoric, it has rather theoretical parts which need more study and practical explanations even when accepted on national level. Even more it is not a easy readable text when translated on the level of communes, towns , hotel and food industry which are important stakeholders in tourism industry. For the national tourism institutions and subjects , local communities etc. education and legislation program will be required. It is not matter of discretion and usual future prescriptions because already conferences and education in the field of management of sustainability are offered in our close neighbourhood (Portotož, Slovenia, November 2011, University of Primorska).

Tourism law

Travel by definition involves cross border, international commercial transactions which involves many other social activities (education, culture, health care) and industries (transport, hotels, food, drinks, retail lease etc.)

Services prevail although in most of them the sale of goods are included more or less disclosed.

That makes some research concluding that travel transactions raise more "regulatory challenges" than any other.

From strict legal criteria point of view it is not possible to deal with a clearly shaped "tourist transaction". The more appropriate notion to delimit the field of legislation applied would be "tourist industry in which many social activities are closely related". The size and scope of tourist industry requires also a proper regulation because is create relationships between tourist consumers and different subjects (transport, hotel, rent leaser, , agency , hotels etc) that are otherwise depending of the leverage of the subject. As it is widely acknowledged consumers are always in weaker position if not protected by regulation and legislation.

Legal sources

In formal sense the sources of European law are Directives, Regulations, Decisions, national laws implementing European law and Decisions of the Court as well as preliminary opinions. As in every international transactions no legal order, European included can properly regulate all economic and social events that arise in a constantly changing and evolving international business environment. Due to that case low and soft law supplement the grey zones of legislation applied.

Tourism makes part of this setting. For the scope and limits of this paper we shall focus on basic and as possible

- transparent systematization of tourist legislation
- most specific harmonization outcomes and
- relevant soft law and cases.
- The derivation which tourism activities in larger sense and application will be just mentioned

Lisbon Treaty

The first addressing to tourism in EU constitutional treaties (Treaty of Rome, Maastricht 1993, Amsterdam treaty) appeared in Lisbon Treaty

The Article 195 :

" 1. The Union shall complement the action of the Member States in the tourism sector, in particular by promoting the competitiveness of the Union undertaking in the sector.

To that end Union action shall be aimed at:

- (a) Encouraging the creation of the favorable environment for the development of undertakings in this sector;
- (b) Promoting cooperation between the Member States, particularly by exchange of good practice.

2. The European Parliament and the Council ,acting in accordance with ordinary legislative procedure, shall establish specific measures to complement actions within the Member States to achieve the objectives referred to in this Article , excluding any harmonization of the laws and regulations of the Member States"

(Title XXII TOURISM).

There are different commentaries on that Article on Tourism. Lisbon treaty . It is controversial in particular because it excluded harmonization of law in tourism. If once a common policy or European target of any sector is established it is most likely that appropriate legislation is invited. In the sectors where the consensus is not reached or common lines of policy clear then it is regarded open to cooperation, , consultations , actions are envisaged.

Nevertheless, that such wording of the Article gives solid legal pillar for building up actions and other measures such as are financial funds, branding of EU tourism and other impetus to the sector. Already now if we compare in size and content the recent Communication on Europe, the world's NO 1 tourist destination (see Chapter 2.2.4) this policy document has by and large went further than is the scope of Article 195. Namely, such wide and highly structured policy document requires ultimately some directives which lead to harmonization. The future will show how that evolves.

Another important point has to be made regarding other sectors that make constitutive part of tourism. By this is meant the transport, protection of passengers, protection of consumers, contract in the area of transport , food and drinks

distribution, hotel contract, renting in tourism, agency responsibility in the first place.

This to tourism closely related sectors require harmonization of which some are already accomplished, the others are in the area of soft law and European court cases and opinions archive.

Harmonized tourist contracts

In the course of harmonization of contracts tourism share are two contracts which are: contract on package travel, package holidays and package tours and time share contracts. That might appear as very modest share but we must take in consideration that relatively few contracts are object of successful harmonization in EU. There are some new aspects of consumer contracting, employment contract, public contracts and exemptions on the ground of restrictive contracts for competition.

Civil law remains very persistently domain of national law.

Contract of travel package is regulated by Council directive 90/314/EEC. The "package" consists of transport, accommodation or other tourist services not ancillary to transport or accommodation. National laws of member states implemented the Directive by special laws on the contract but outside the Civil law codes. Directive regulates different rights and obligations between consumer and organizer or retailer. Before Directive there were often shifting of liabilities between retailer and organizer or other contracting party (agency) for not fulfilled expectations of the tourist. Directive defines who is retailer and who the organizer. There also defined the information – prospect, price made by the (Art.3). The national legislator are free to adopt more stringent rules.

Contract on timesharing is a *sui generis* contract, product of practice and innovation in tourism. Some abuses in this practice induced European parliament to adopt Directive 94/47/EC adopted in 1994. Time share within the Directive is the right to spend a certain time (one or two weeks or more weeks) in a holiday property. The time of the year of the week or weeks are defined. In flexible contracts the weeks can be changed within the same year. If joining a separate resort club with additional membership fee the one or all time share weeks can be spent in all properties (hotels) that make part of the club.

The directive makes part of consumer protection legislation. The protection consist in following:

- Purchasers have right to full information in prospectus before signing the contract;
- When the contract is signed and valid consumer has a cooling off period in which he can withdraw from contract in next 10 days without giving reason;
- Through the cooling off period he is not in obligation to payments.
- New time share Directive 2008/122/EC was adopted in 2009 in order to enlarge the consumer protection, including into legislation Holiday clubs, resale and exchange are also covered, a level playing field in the market of time share is secured. Directive brings new rules on
- Detailed content of precontractual informations
- Cooling off period extended to 14 days
- Any advance payments are prohibited;
- Compulsory penalties of Member states for traders who do not comply with national legislation.
- The more stricter rules on timeshare Member States were supposed to be introduced in national law by 23 February 2011.

Soft law

There are some areas of social or business relations which have not adequate or any legislative framework. The reason is the very nature and evolution of the sector (service i.e.) or the fact that states or other stakeholders could not agree to consent common legal rules or European (international as well) rules at all (Civil law, franchising) others. The procedure of harmonization (European or international) are a long process and have often political or agency (self interest pursue) problem aspects.

The answer to the needs of practice comes from experts and organizations. They produce legal models, carefully modeled on international level. As such they are not mandatory, they may never come into force but while they are published and

translated they can be used in practice and by legislators.

Examples are the recently published service contract as general service instrument produced within European Commission project on "Principles of European Law", on Service contracts. It is a comprehensive proposal of service contract which is in constant evolution in practice and is practically not regulated in any European state.

Even the much prized and applied franchising contract has a poor harmonization and legislative results. The UNCITRAL legislative proposal was limited to the prospect. National laws offer very different legislative approach.

European law has not yet adopted a procedure of harmonization of franchise contract. Nevertheless it has included franchising (together with distribution contract and agency contract on the agenda of the Study Group of European Civil Code. It is published and given to the practice and legislators to select and legislate this complex contracts.

Concluding remarks

As we can reassume EU is becoming definitely tourism and service conscious. Policy documents and legislative stage of development are evolving but are not always in coordination. The sources of tourism perspective are both policy and legislation, mandatory or not. Although coming from different sides and methodology both law and policy contributes to standardization of services. Tourism is basically a service industry and this recent tendencies can contribute to the tourists and the industry as whole.

Due to its novelty most of the documents and different sources of law applied to services and tourist industry need thorough research, explanation and dissemination in a didactic not necessarily academic manner. The EU is in the course of preparing and ready to finance such education and set up proper institutions.

ENVIRONMENTAL MANAGEMENT: A BRICK IN THE WALL OF SUSTAINABLE MANAGEMENT - TRANSPORT FOR HIRE OR REWARD AND OWN-ACCOUNT TRANSPORT ON TRIAL

ELMAR FÜRST

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Abstract

Environmental management has become an important business topic especially throughout the last decade. Key words like corporate social responsibility and sustainable development are frequently discussed. Nevertheless, the issue still remains very complex with disparities in different business branches. Road transport is thereby believed to be one of the main causes of greenhouse gas emission. An objective of every renowned company should be the implementation of a state-of-the-art environmental management scheme that is adjusted respectively to their business focus and continuously enhanced. The intrinsic involvement of the management level is therefore indispensable. Object of research is the status quo implementation of environmental management in Austrian transport for hire or reward companies or businesses in other fields regularly performing own account transport. The paper presents results of the survey conducted by the Institute for Transport and Logistics Management of WU Vienna that focused on the costs, methods and operating experience of environmental management in the respective companies. Representatives responded to critical questions concerning environmental management of their company.

Key words: environmental management, sustainable transport, environmental performance, transport for hire or reward, own-account transport

Introduction

The latest UN Climate Conference in Cancun 2010 once more underlined the worldwide ambition towards environmental protection (United Nations 2011). Although consensus could not be reached in every topic and some questions still remain unacknowledged the trend is clearly visible. Many industries recognize this development as a chance for new markets and growth. As a consequence product innovations and research in this field are generously supported. Furthermore companies in many sectors stop considering sustainable management as a burden but as a helpful tool in the long-term perspective - a chance to improve customer relation and a way to be distinguished from their competitors.

Although overshadowed by industrial production transport is still considered as a serious pollution factor. On the one hand CO₂-emissions of the different transport modes intensify the greenhouse effect (OECD 2010). On the other hand negative external costs are boosted (Verhof 1994, pp. 3-5). Therefore politics and research are searching for solutions and innovations in the transport sector that help improving the situation of all stakeholders including the companies. Two basic prerequisites are essential for progresses. First, the degree of the implementation of environmental management of companies that conduct transport has to be studied in detail. In a next step the attitude and the awareness for change of the companies' decision-makers has to be explored as they play an important role in the process of environmental protection.

The term "environment" has its origin in natural science and comes under the matters of ecology ("fauna & flora"). It takes on different functions for human beings and organizations as it absorbs waste material and emissions, offers resources and provides a basis for living (Marquardt-Mau, Mayer & Mikelskis, 1993, p. 423). According to the approach of systems theory – where a system is an entity of elements with specific characteristics linked by relations – open and closed systems can be distinguished. Closed systems only exchange energy with its environment whereas open systems exchange both energy and material (Fuchs 1975, pp. 3824-3825). Hence, enterprises in open systems exchange energy, material and information with other systems, namely other enterprises or the environment (Kubicek & Thom 1975, p. 3978). Environment is therefore defined as everything outside a system. The transport economist Diederich (1977, p. 204) describes two different ways a company can approach its ecological environment. Either it adapts to its economic environment or it adjusts the environment to the company. The latter was certainly the predominant attitude throughout the last centuries since the industrial revolution. But the trend moves towards environmental protection. However, it turns out to be complicated to concurrently convince and satisfy all stakeholders worldwide.

The term "environmental management" (EM) refers to an environment-orientated management of a company (Müller-Christ 2001, p. 4). It involves all activities and decisions that are necessary to minimize the environmental pollution that was caused by the company (Baumann, Kössler & Promberger 2005, p. 17). The triple bottom line approach subdivides sustainability into social, ecological and economical development (Elkington 1999, pp.72-73). In this, EM of companies is situated in the intersection of the ecological and economical area. Of course one main goal of EM is the positive impact on the ecological development but this is significantly dependent on the economical background as the implementation of environmental-friendly measures are often affiliated with costs.

Before discussing about how EM can be implemented and which strategies can be followed the top management of the company must be willing to commit itself to sustainable performance. There is no doubt that in market economies companies have to be orientated at profit maximization. Therefore it is necessary that

the management regards EM as a chance for new opportunities in this respect. Following issues might be considered:

- How can EM increase sales by means of sustainable products or services (premium prices, new segments, niche businesses, etc.)?
- How can EM reduce costs (recycling, energy or material recirculation, efficiency enhancement, etc.)?
- How can EM affect the company's reputation positively (customer relations, employee adhesion, etc.)?

To confront future business and environmental challenges well prepared a management system that deals continuously with environmental issues in order to perform successfully in the long run might be very advantageous (Klassen & McLaughlin 1996, pp. 6-7).

The project

The meaning and interpretation of EM differs between business branches. Object of research was the status quo of EM of Austrian companies that regularly conduct transport. On the one hand transport for hire or reward companies including hauliers, transport companies and forwarding agencies were investigated. On the other hand the project concentrated on businesses in other fields regularly performing own account transport which were again subdivided into the sectors industry, trade and craft.

The objective was to depict specific characteristics of Austrian transport companies that describe themselves as environmental friendly. It was examined how they differentiate from other companies in terms of budget, costs, certificates, eco-friendly vehicles, impacts on business performance and customer relationship, employee education and internal organization of EM. Furthermore attitudes of the companies' decision makers towards the importance of EM was conducted in order analyse the relation to their company's performance. Thus, the following research questions are addressed in this paper:

- How do companies that describe themselves as environmental friendly differ from others in their operational and functional acting or business performance?

- How can environmental friendly companies be characterised?
- How do decision makers of the respective companies evaluate the importance of EM in their company?

Empirical approach

In the course of the project four main stages were conducted. To develop a broad knowledge basis and to examine the state-of-the-art different theoretical approaches towards EM and their connection to corporate transport were taken. First, websites of different companies of the respective sectors were reviewed. In a next step specific research topics were compiled and discussed with practitioners of the field. Therefore, several experts of the carrying trade sector as well as from companies with regular own account transports were consulted in structured face to face interviews. With this knowledge a questionnaire was developed, pretested and eventually launched. In a final step the data was edited and analysed. The following map illustrates the research process:

The project started in early 2010. The quantitative survey was conducted by means of an online questionnaire (Lime Survey) between July and November 2010 and addressed environmental

officers or CEOs of Austrian transport for hire or reward companies and businesses in other fields regularly performing own account transport. It contained mostly closed questions and appraisals of different statements concerning the attitude towards EM and the implementation in the respective company. In a first step, companies were randomly selected from a publicly accessible database run by the Austrian Chamber of Commerce. Then, companies within the sample were contacted via telephone and the target persons were thus approached and encouraged to participate. If they agreed to do so a weblink to the online questionnaire was sent to them by email. Computer Assisted Web Interview (CAWI) was chosen for several reasons: First of all, it is convenient to complete for most respondents. Furthermore it allows complex issues to be illustrated clearly and is budget friendly (Diekmann 2007, pp. 522-523). The most severe problem of many online questionnaires, namely the lack of a specific population (Bosnjak 2002, p.2), is solved by the fact that the target group could be specifically defined as environmental officers of larger companies or CEOs of smaller companies. In addition it could be presumed that today they are all connected to the Internet. Divergence loss was minimized by contacting the target persons personally in advance via telephone.

Fig. 1. research process



Results

A total number of 259 respondents from different companies were interviewed of which 70% fully completed the online survey. 43% were appending to the group of transport for hire or

reward companies (including hauliers, transport companies and forwarding agencies) while 47% belonged to the group of businesses in other fields regularly performing own account transport. 10% did not respond to that question.

Fig. 2. sector affiliation

Company size

The size of the companies was classified according to the number of employees. A total of 175 companies stated their number of employees. Following the European Commission's definition of small, middle and medium-sized enterprises (European Commission 2003) they were subdivided into the following five groups and illustrated in figure 3.

- Group 1: 0 to 1 person
- Group 2: 2 to 9 persons
- Group 3: 10 to 49 persons
- Group 4: 50 to 249 persons
- Group 5: 250 and more persons.

Group 3 (10-49 persons) and group 5 (250 + more persons) were most frequently represented with each 52 companies. While in middle-sized companies (group 3) transport companies prevailed, other businesses with regular own account transport held the vast majority in very large companies (group 5). They were closely followed by group 4 (50-249) with 50 companies in total. Here, the ratio between transport companies and businesses with own account transport was balanced. 20 participating companies engaged 2-9 persons (group 2) and only one company fell into group 1 (0-1 person) as the graphic demonstrates. Latest were excluded from statistical tests because of its non-representativeness.

Vehicle fleet

A total of 174 companies stated the number of their officially registered vehicles. Again five groups were built as follows:

- Group 1: 1 to 9 vehicles
- Group 2: 10 to 19 vehicles
- Group 3: 20 to 49 vehicles
- Group 4: 50 to 99 vehicles
- Group 5: 100 and more vehicles

The largest group (46) contained companies that possessed between 20 and 49 vehicles, closely followed by the group with companies holding only few vehicles (42). The smallest group (24) included companies with 50 to 99 vehicles, companies with medium and large fleets were ranked in between.

Correlation of company size and fleet size

One will expect that - regarding the sectors on trial - companies that employ more personnel hold more vehicles. A scatter plot and a correlation test should prove an existing positive relation between those variables. For a clearer visual illustration extreme values both in numbers of vehicles and employees were filtered (filter for values over 900 employees or vehicles).

Fig. 3. distribution of company size groups

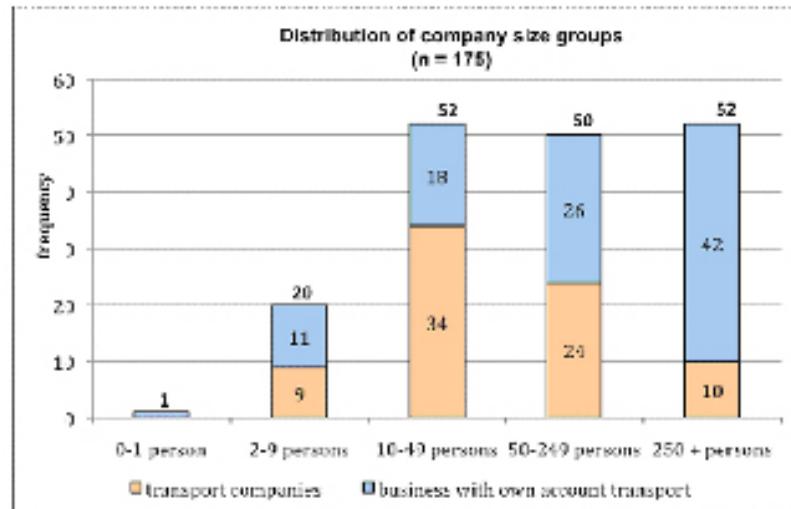


Fig. 4. distribution of vehicle fleet groups

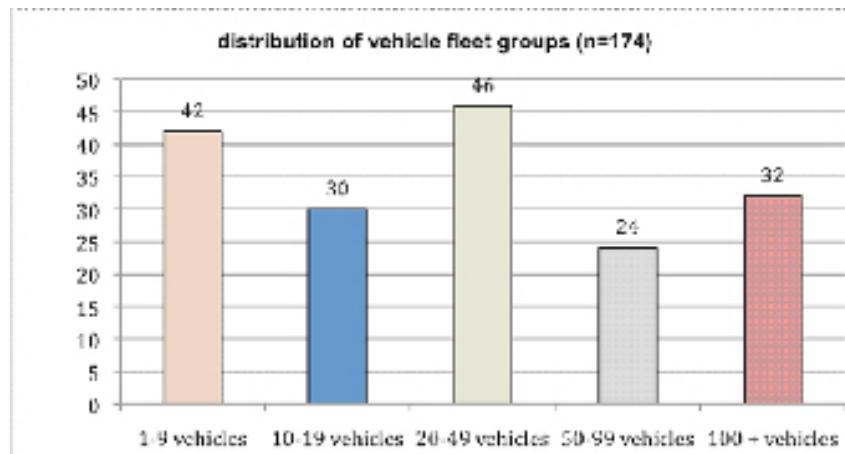
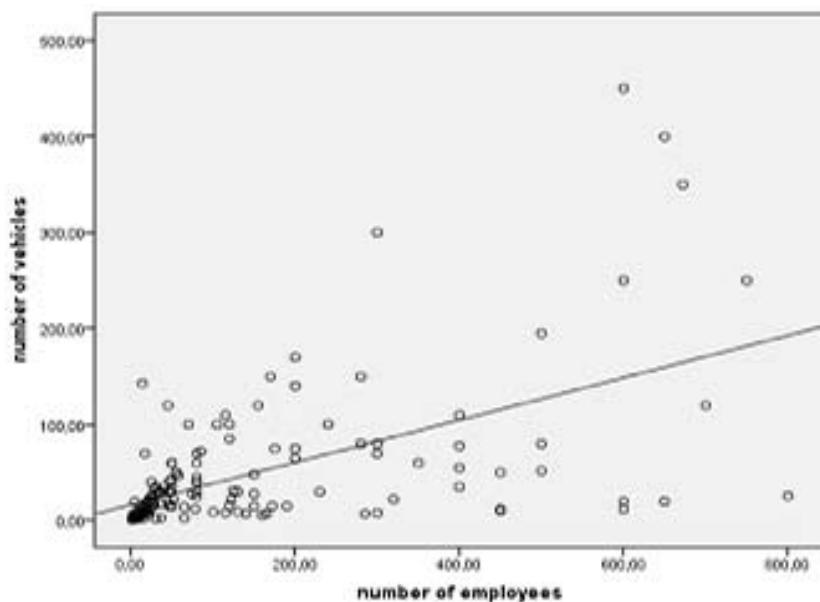


Fig. 5. correlation between company size and fleet size

The result of the scatter plot demonstrated a clear positive correlation which was supported by the embedded positive sloped straight line. Furthermore a Pearson's correlation test showed a rather strong significant correlation (0,573). Therefore it could generally be said that the more vehicles a company holds the higher was the number of employees and vice versa. This matter of fact also reduced the expenses for further statistical tests as it could be assumed that results of both variables were alike.

Practise of active EM

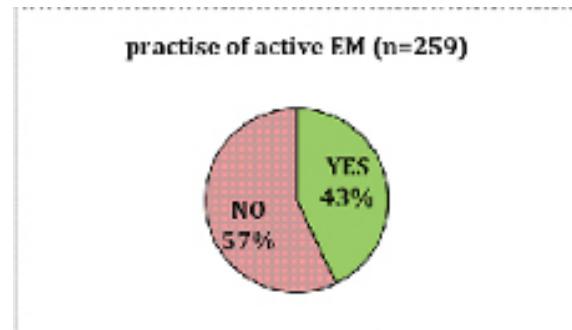
To examine the companies' implementation of EM the respondents who were either decision makers or environmental officers were asked: "Does your company practise active EM?" 43% of them approved while 57% negated as figure 6 illustrates.

In a next step the self declared "environmentally-active" companies ($n = 111$) were asked to agree or disagree to given reasons for the implementation. Multiple answer selection was accepted. The most

frequently stated reason for the implementation was the awareness of the increasing importance of EM in the future (74 approvals). 65 companies named law for a reason to perform environmental friendly, closely followed by "image improvement" (64). Furthermore the distinction from competition (61), the reduction of costs by environmental protection methods (52), customer requisitions (42) and a competitive advantage (39) made companies introduce "eco-measures". In contrast, "social force" (7) was barely a reason for the implementation of EM. On the other hand companies which admitted they do not practise active EM ($n = 148$) primarily reasoned that they do not see any necessity yet.

Comparison of different groups concerning practise of active EM

Comparing transport for hire and reward companies and others businesses regularly performing own account transport concerning the practise of active EM showed the following distribution:

Fig. 6. practice of active environmental management**Fig. 7. practise of active EM within specific sectors**

The figures demonstrated that a slight majority of businesses regularly performing own account transport actively practised EM while 60% of the transport for hire and reward companies negated this question.

Putting the different company size groups into contrast concerning the practise of EM a distinctive trend could be observed. Namely, the bigger the company the stronger was the approval to the practise of EM as the increase of approval along the different company size in the figure below illustrates.

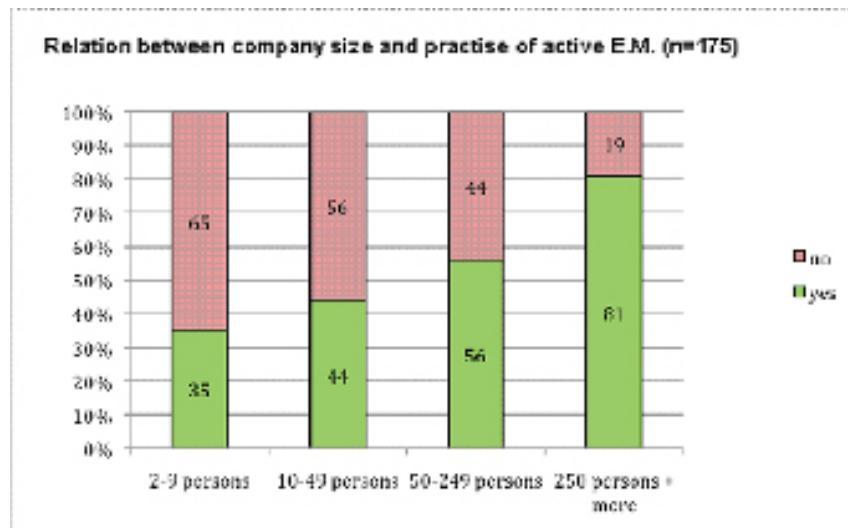
Coherences between the affiliation to selected groups and the practise of EM

In a first step, coherences between the affiliation to one of the two main business sector groups and the practise of EM should be examined. Therefore, transport for hire or reward companies and businesses in other fields regularly performing own

account transports were contrasted concerning this matter. A Chi-Square-Test yielded the following results.

The results showed the existence of a significant coherence – even though it was a rather weak one (p-value of Pearson Chi-Square = 0,023). Nevertheless, it could be proved that – taking the numbers of expected and actual counts into account – transport companies were more likely not to practise EM actively. On the hand other businesses with regular own account transport rather performed environmentally-active.

Next, coherences between the belonging to one group of company sizes and the practise of EM were studied. Again a Chi-Square-Test should give evidence about this matter. The test results clearly showed a significant coherence ($p = 0,000$). Companies with fewer employees admit rather not yet having implemented EM while especially very big companies (250 + more persons) declare to act eco-friendly.

Fig. 8. relation between company size and practise of active EM**Tab. 1. Crosstabulation: practise active EM & sector affiliation**

		Does your company practise active EM?		Total
affiliation in sector	Total per company	no	yes	
	Count	92	47	110
	Expected Count	62,0	57,4	110,0
own account financier	Count	67	55	122
	Expected Count	59,4	63,6	123,0
tot	Count	111	121	232
	Expected Count	111,0	121,0	232,0

Chi-Square Test

	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	5,159	0,25
N of Valid Cases	232	

Internal alignment and legal compliance of EM

EM is most frequently aligned as a separate staff unit or attended by an employee besides his main working task. Some companies implemented a separate line unit and only few employ a separate environmental manager. The way in which legal compliance is implemented often differs between enterprises. Therefore, the respondents were asked how this matter is cared for within their company as regards EM. The most frequent form was that one employee is in charge of legal compliance concerning environmental actions. It could be noticed that businesses with own account transport clearly prevailed over transport companies. Still, the majority stated that they had no need for those actions.

Environmental aspects in the companies' decision making process

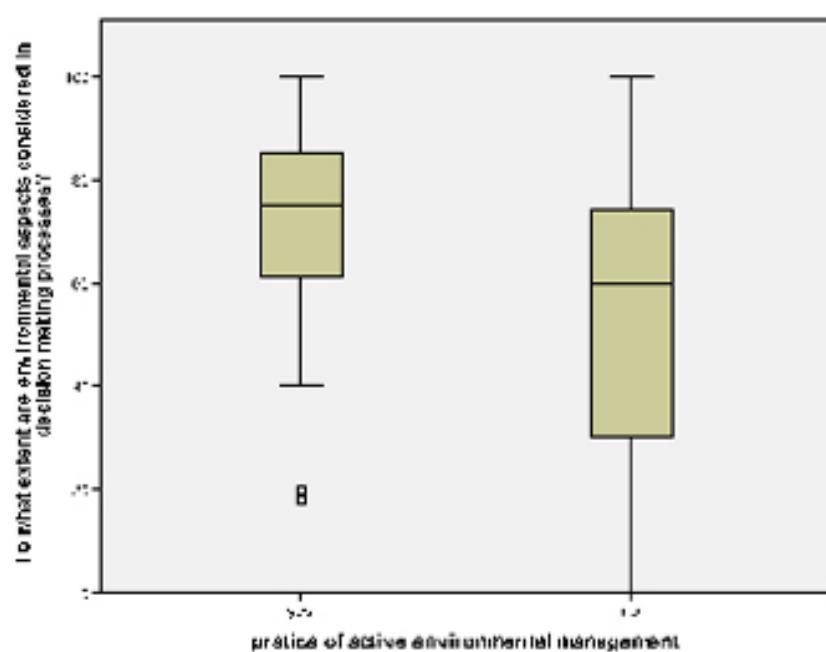
In a next step, the decision making process of the participating companies was examined. Therefore, the respondents were asked to indicate on a scroll bar to what extent environmental aspects are

considered in the companies' decision making processes (0 = not at all considered; 100 = totally considered).

A mean value of 65 indicated that the companies do consider environmental aspects in their decision making processes. In addition, it was proved if the companies that declared themselves environmentally-active differed from the group of non-active companies.

The comparison of the groups' box plots showed that "eco-active" companies regarded environmental aspects to a higher extent. They gained a mean value of 74 while non-active companies reached a value of 51 on average. A t-test for equality of the means proved that the difference between the groups was highly significant. Still, it could be noticed that a mean of 51 for the group of companies that admitted not to practise EM showed that environmental aspects were considered at least to some extent in the decision making processes. A rather high standard deviation (29,7) implicated, however, that within this group there were companies that even considered them thoroughly while others disregarded them completely.

Fig. 9. environmental aspects in decision making process



Tab. 2. Group statistics: active vs. non-active: aspects in decision making process

active and environmental aspects in decision making	N	Mean	Std. Deviation	Std. Error Mean
environmentally-active companies	92	61,95	17,398	1,718
non-active companies	62	51,37	20,678	3,750

Tab. 3. t-Test: active vs. non-active: aspects in decision making process

	Two-tailed Exact Sig. (2-tailed)				
	F	t	Sig.	95% Confidence Interval of Means	Mean Difference
environmentally-active companies vs. non-active companies	25,564	10,00	5,814	-13	23,00

Employee handling

Many researchers in the field of EM and sustainability regard the company's handling of employees as a basic step towards environmental friendly performance (Bunge et al 1995, May & Flannery 1995, Florida 1996). By fundamental and non-expensive behaviour modifications of the personnel important progress can be realised (Rothenberg 2003). Therefore, companies were asked how the handling of their staff is managed. The figure below shows the degree of approval to the different actions concerning EM, again subdivided into companies that saw themselves as "environmental-active" and those that did not.

Encouraging employees to bring in own ideas into the company was most frequently approved, followed by the offer of further education possibilities and the request for sustainable working. Health improving actions were rated last. To analyse the difference between "eco-active" and "non-eco-active" companies Qui-Square-Tests were calculated. The results showed that eco-active companies significantly more often offered health improving actions and further education than non-active companies. For the other two actions no significant coherence could be detected. It could be noticed that companies that described themselves as environmentally non-active request their employees to work sustainably to a same degree as self-declared "eco-active" companies do.

Certificates

There are only few methods to identify sustainable or environmentally-active companies on an overall basis. An indicator in this respect might be if a company possesses an EM certificate which is a standardized mean to show commitment to the protection of the environment. The two best known institutions in Europe that issue specific certificates to companies which observe given standards and comply with regulations concerning environmental performance, are the ISO and the EMAS. By showing an environmental-friendly attitude companies expect to improve both their business performance and their image. Thus, in the next section the representatives of the companies were asked about their attitude towards certification and the possession of certain certificates. In a first, step they could evaluate the importance of certificates in general on a scroll bar (0 = not at all important, 100 = very important). A total of 162 companies see certification neither as very important nor as important but are rather neutral (mean: 57). Though, the comparison of environmentally-active and non-active companies (by means of a t-test) showed differences in their attitudes. The respondents of environmentally-active companies (mean: 67) evaluated certificates significantly more important than those of non-active companies (mean: 43). Nevertheless, the bottom line is that in general certification is not yet respected as much as some institutions would probably like them to be.

Fig. 10. Employee handling

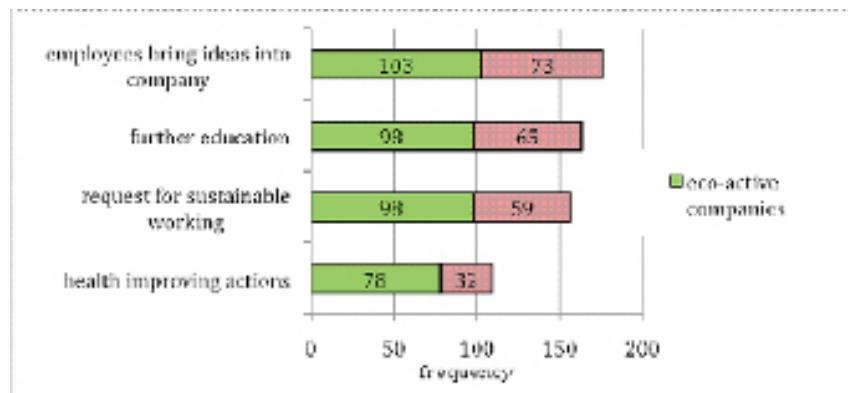
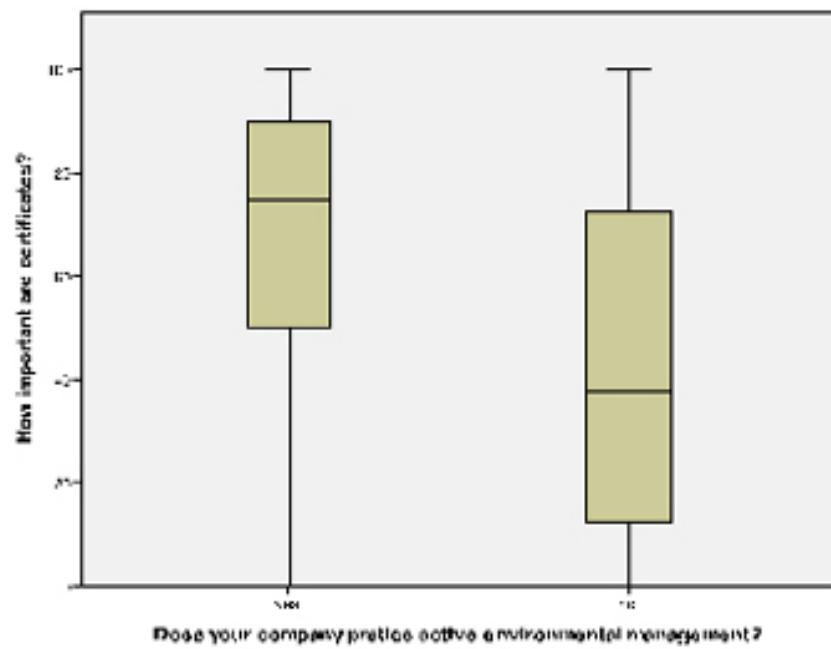


Fig. 11. Importance of certificates



A total of 92 companies stated to be certified. A Qui-Square-test gave evidence about a highly significant coherence between the practise of active EM and the possession of certificates. Environmentally-active companies rather held certificates in comparison to the "non-active". The two most common certificates were the ISO 9001-certificate (frequency: 60) concerning quality management and the ISO 14001 (33) focusing on environmental management. The strongest reason for certification was customer request. A total of 63 companies explicitly stated that they were not certified. The majority of them did not see any necessity yet. Furthermore, high expenses were affiliated with the possession and an unfavourable cost-benefit-relation prevented them from applying. A lack of qualified staff apparently was no reason.

Vehicles with alternative propulsion technology

Road freight vehicles and busses with hybrid or electronic propulsion shaped the picture of the 63rd International Motor Show in September 2010 in Frankfurt (Main), Germany. Almost all major automobile manufacturers like Mercedes Benz, Ford, VW or MAN presented their new models. Besides first hybrid lorries were presented (IAA, 2010). More and more companies consider purchasing vehicles with alternative propulsion technology as the trend away from fossil energy resources grows steadily.

28 of the participating companies possessed vehicles with alternative propulsion technology. On average they held 13 vehicles but one company stated a value of 200 vehicles what increased the average value strongly. Without that participant the average stood at 5 vehicles. Out of those 28 companies 23 belonged to the group that consider themselves as environmentally-active. The most frequently named reason for the purchase was the positive effect on the environment and the economical energy consumption. The vast majority of the interviewed companies did not hold such vehicles because they considered the technology as not yet sufficiently developed and the acquisition costs as too high. A lack of interest in new technologies or failed field tests was no reason at all.

Conclusion

Only 43% of a total of 259 participating companies described themselves as environmentally-active. Especially larger companies carried out environmental management due to the awareness of its growing importance in the future, image improvement and the distinction from the competitors. The most frequent form of alignment was by the means of a separate staff unit or an employee who attended EM additionally to main working tasks and who was also in charge of legal compliance.

Certification was not yet considered as very helpful and only some companies regarded it as necessary. At this point it would be the task of the certifiers to communicate goals and advantages of certification and to increase its attractiveness. Although the automotive industry puts more and more emphasis on vehicles with alternative propulsion technology, the vast majority of the interviewed companies did not hold such vehicles. They considered the technology as not yet sufficiently developed and acquisition and maintenance costs as too high. Therefore, it is necessary to support further development and provide financial aid in order to encourage transport providers to invest in environmental-friendly vehicles.

The majority of 57% of the participating companies clearly stated that they do not actively practise environmental management. This might be interpreted as surprising and to some extent unexpected as politics launched many programs, campaigns and aids in this respect. According to the relation between company size and the practice of active EM those "non-active" companies mainly belonged to the group of smaller companies with small numbers of employees and a smaller vehicle fleet. Furthermore, they rather operated in the domain of transport for hire or reward. This could be seen as an indication for further, more specific political campaigns, particularly targeting smaller transport companies. Nevertheless, the self-declared "non-active" group did consider environmental aspects to some extent in their decision making processes and expected their staff to work sustainably. This slightly eases the assumption of a lack of campaigns and might lead to the conclusion of an existing communication and information problem. Are smaller companies aware of the meanings and characteristics of environmental management? And, do they know about opportunities to improve their environmental

performance? These challenges might lead to new programs in order to raise awareness and to encourage companies to improve their environmental performance. Additionally, these issues should also be addressed in further research projects.

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NETWORK ANALYSIS OF NUTRITION MARKETING COMMUNICATION ON FOOD PACKAGING

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Abstract

Food market is saturated, the competition for customers is stronger, so the importance of product marketing to influence buyer decisions has risen. Wide-spreading health conscious trends have strengthened product innovation processes and there is a wider range of different goods claiming nutrition and health benefits.

The most important goal of the research was to find what kind of nutrition marketing messages consumers can see in Hungarian food retail shops currently. We carried out our analysis in four significant product categories (dairy products, cereals, meat products, soft drinks). The research covered hundreds of products and we examined what information the customers can find on the packaging.

Results were analysed from two aspects:

1. We measured the frequency of different information in every product category with simple descriptive statistics.

2. We used network analysis to explore connections between the product marketing messages. Network analysis makes it possible to measure different quality features and the strength between nutrition marketing messages. The results were systematised by UCINET network analysis software.

Graphs were used to present the results visually and they proved the increase of health-conscious trends.

Keywords: *marketing messages, nutrition messages, health claims, packaging, network analysis, food market*

Introduction

Food market can be classified as one of the most important industries not only in Hungary but globally as well, due to its size and also because it satisfies basic human needs. In the more developed EU member countries the share of market industry within industries is 15% on average. By international comparison within the 27 member states of the EU, the Hungarian food market was the 16th from the aspects of production value and the number of employed people in 2007 (Baksa-Vida, 2008).

The change of consumer needs, the development of technology and last but not least the competition in the market compel companies to issue new or improved products again and again. Innovation might involve risk though because it requires vast resources. Martin-Quinn (1995) proved that seven or eight new consumer goods out of every ten turn into a failure. According to Kotler (1999) 80% of the packaged commodities will become unsuccessful. The current world trends – like globalisation and international specialization – place a major challenge on the producers, consumers and food trade.

During the past years, the health conscious trend became dominant in innovation. The large number of obesity, cancer and cardio-vascular diseases has drawn attention to the importance of nutrition and healthy lifestyle. These diseases are

responsible for almost three quarters of all death causes so we can conclude that the majority of deaths are due to illnesses related to nutrition and lifestyle. Food manufacturers and retailers have realised this tendency and as a consequence of it, the market share of functional or health conscious food products is rising year by year. It means a professional challenge for product development engineers and gives new possibilities for marketing to grab customers' attention. Packaging, as a 'silent seller', has a major role in customers' decision making process. Information which is important for customers might raise attention and motivate purchase. Numerous researches have proved the relation between health-illness related marketing messages and willingness to buy.

Kleef et al (2005) Dutch researchers compared two different studies. In the first one they examined ten health related statements and ten different food packaging. According to their results customers prefer such functional food combinations which refer to the avoidance of diseases for instance, there is a picture depicting health on the product packaging. The second study examined the format of the health related statements and the effects of alterations. Cardio diseases, osteoporosis, stress and energy deficiency related health statements were studied with respect to state of health and disease prevention. The authors examined the form of communication of the above mentioned statements.

It is scientifically proven that certain food ingredients have favourable physical and psychological effects beyond the basic ingredients (e.g. Diplock 1999, Mermelstein 2002), although experience shows that it is very difficult to create functioning and efficiently persuasive health statements and a marketing concept. As a result of legislation and legal restrictions the content and communicative tools are regulated. Despite this fact, the manufacturers have a little freedom to choose from the allowed set of health statements and may decide on which food product to put it on and which way to communicate it towards the buyers (Bradbury 1996, Caswell 2003, Parker 2003).

Unfortunately, very few studies have been made to find out which health statement and product combination is the most attractive for the consumers. According to Euromonitor (2000) 'life marketing' strategy is more widely used than 'death marketing' strategy meaning that emphasizing

positive health benefits is more preferred to stating risks of diseases. In the opinion of Jonas (1998) and Poulsen (1999) it is very complicated to associate certain food products with health statements as even research results are contradictory occasionally. The comparison of studies by Bech-Larsen (2003) and Balasubramanian (2002) is a good example of this. Based on Bech's findings, the consumers considered enriching not too healthy food products with a certain component more credible. On the contrary, Balasubramanian proved that buyers find those food products to be more authentic 'carriers' which have already been thought to be healthy traditionally for decades, opposed to health statements (e.g. antioxidant effect) shown on chocolate for instance.

Kleef (2005) has examined such buyers (23 male, 23 female, Dutch, average age of 35) who claim that purchasing healthy food is important to them. The participants of the study were shown 100 'mini' concepts. All these concepts included a health claim, a graphic of a food product and the fact whether the food contained an active added component or not e.g. yoghurt plus an active added component to lower the risk of osteoporosis. The participants had to evaluate attractiveness, credibility, uniqueness and had to decide whether they would try the given product or not. On the basis of the results it could be concluded that the willingness to try depended on the health claims while the uniqueness depended on the characteristics of the product mostly.

Lee (2004) studied factors which influence the choice of yoghurts. Two physiological (heart disease, osteoporosis) and two psychological (stress and lack of energy) claims were connected to the product. During the experiment three questions were examined:

1. Are those claims more attractive for consumers which refer to health improvement?
2. Does this preference change in case of personal involvement (like a disease)?
3. Does the person's motivational guidance affect the interpretation of health claims?

The findings show that there are two approaches towards health one refers to healing while the other one refers to disease avoidance and prevention.

Materials and methods

The aim of our study was to assess marketing and nutrition science related information on products by the help of a market position analysis. We wished to know what kind of product messages the Hungarian customers met during shopping. The first stage of the study involved a large sample, customer interrogation. With this survey we wanted to find out how well the buyers know these product messages and what sort of attitude they have towards them. The brand is the 'heart and soul' of the product by Kapferer (1992) because during shopping the buyer considers the price, the priority of value components, the functional features and the pleasure value. According to Tasnádi (1995, p 75) the ideas associated to a product convey more value to the brand than the product itself.

The study shows only a snapshot of the product range of the examined store chains from October 2010. The data originated from products which were available, buyable and came in household quantities. Audio records and reports were made on spot. The products – both manufacturer and

private label – were studied and the marketing or nutrition messages from the packaging or labels were entered into Excel tables to be processed and analysed. The analysis was extended over textual and graphic communication, pictograms and trademarks. The pictograms, logos and region features were very rarely emphasized which might be the result of the difficult nature of setting standards as the balance of power between institutes and regions is unequal.

We restricted our analysis on four product categories: fruit juices, cereals, pre-packed meat products, and food in display fridges. We examined each and every product within a category but only those were analysed in details which had some kind of attention grabbing information on them, so the rest of the products was disregarded. The noted messages were collected and examined by network analysis to explore connections between different messages. We described frequency by the help of simple descriptive statistics and then a more sophisticated network analysis was performed by UCINET software. The examined product categories are contained in Table1.

Table1. Examined food categories

Food category	Examined products
Cereals	Muesli, cereals, muesli-bar, breakfast cereal flakes
Meat products (pre-packaged)	Liver products, cold cuts, sausages, bacon, fat in display-fridge, other meat products
Food products in display-fridge	Yoghurt, butter, kefir, sour cream, cheese cream, cheese, cottage cheese, other dairy products, vegetable fat
Soft drinks	Fruit juice, mineral water, flavoured mineral water

Beside manufacturer brands we studied the product communication of private label goods too. Private label is such a product which are made for the store chain and sold exclusively in its own network of stores.

In Hungary the first store brand – alias private label – products appeared on the shelves of shops in 1995. In 2011 we cannot find any chain of stores without their own private label products in their line of goods. Beside manufacturer brands we saw private label important to examine too because their turnover shows a higher proportion in the product range of our national food chain stores.

In tense economic competition, it is not easy for chains of stores. Experience shows that it is more and more difficult to find such a product which successfully expands private label product lines. One of the most important options for progression is innovation, namely to develop brand products. According to R.D. Weaver and Y. Moon (2010) those innovation possibilities must be taken into consideration which can generate such health protective private label goods that are not part of brand product lines. The report throws light on the fact that as a consequence of globalisation, market evolvement and informational advantages, the retailers are in a bargaining position and can react to consumer needs quickly.

The proportion of the examined brand and private label products are shown in Table 2.

Table2. Proportion of Brand and Private Label goods

	Number of examined sample (piece)	Brand Label (%)	Private Label (%)
Cereals	52	48%	52%
Meat products	19	73%	27%
Dairy products	135	81%	19%
Soft drinks	72	82%	18%

Results

In this present study, due to limitations on length, we wish to elaborate on only one analysis, namely that of food products in display-fridge.

In the case of dairy products, desserts and vegetable fats, manufacturers use most often these phrases: 'reduced fat', 'Hungarian product' and 'light' out of all highlighted information (like design, pictogram or text) (Fig.1.).

The highlighted features were grouped as follows:

- Lack of an ingredient e.g. 'No E-additives'
- Highlighting active agent e.g. 'With vitamins', 'With Calcium', 'With dietary fibres', 'With Folic acid'
- Highlighting nutritive value e.g. 'GDA values given, highlighted'
- Highlighting an ingredient e.g. 'With fruit bits', 'With live cultures', 'With honey', 'With olive oil', 'With muesli', 'With Aloe Vera bits', 'Made of whole milk'
- General marketing information e.g. 'Creamy', 'Hungarian Grand Prize winner food',

'Hungarian Food', 'Premium quality', 'Practical packaging'

- Nutrient content statement e.g. 'Reduced fat', 'Sugar free', 'Low calorie', 'Light', 'Reduced salt', 'Lactose free'
- Health related statement e.g. 'Heart friendly', 'Lowers cholesterol', 'Scientifically proven positive effects', 'Supports the immune system'

The group proportion of highlighted information from products stored in display fridges are shown below by Fig.2. It is very common to emphasize the most advantageous feature of all product features.

After having checked the nature of the information we also examined the associations related to the individual product messages. We found that usually two or maximum three pieces of information are emphasized graphically on the packaging. The relations between different product messages and the strength of these relations are illustrated by the help of the UCINET software (Fig.3.) The size of the dots depicts the frequency of mentions while the width of the lines shows the strength of relations.

Fig.1. Highlighted information on food products in display-fridges.

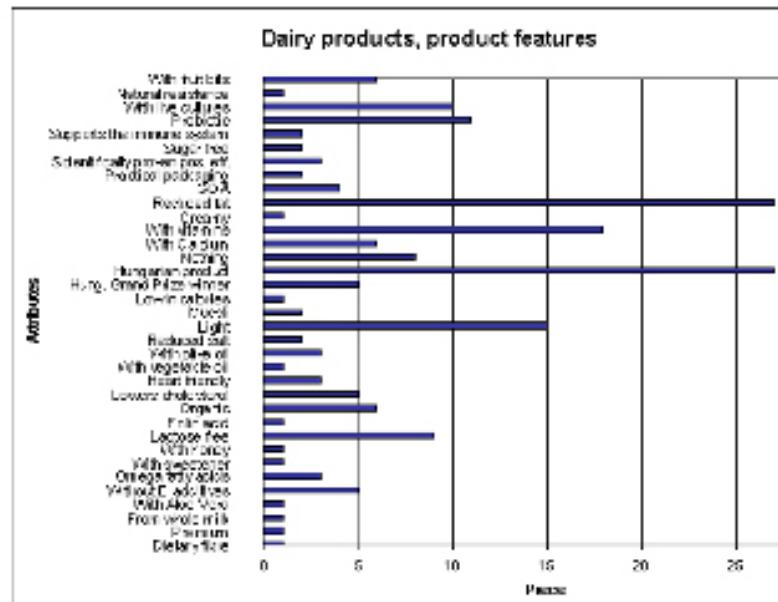


Fig.2. Grouping of highlighted information

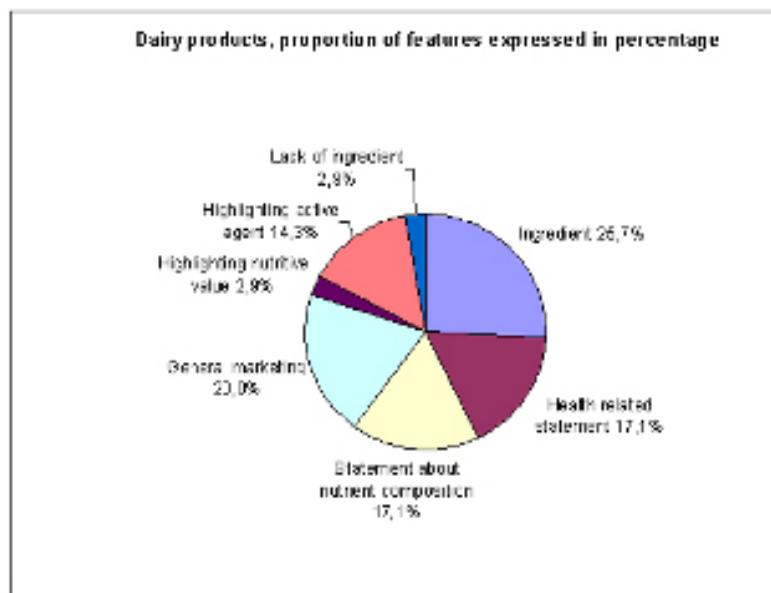
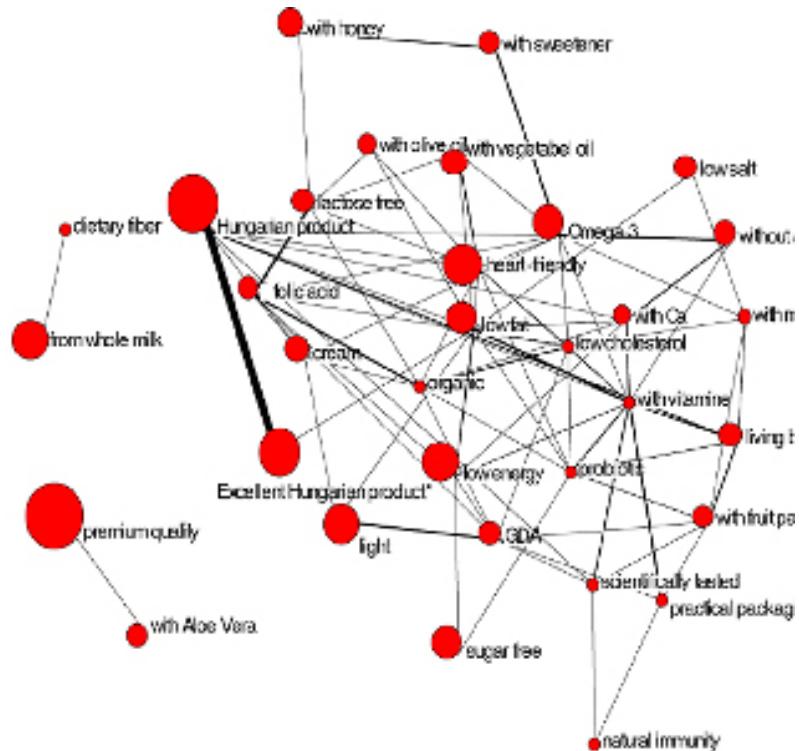


Fig.3. The relationship network of highlighted information from the products (displayed in fridges).



Conclusion

Manufacturers and distributors are wondering mainly about the challenges of the future, the analysis of the past and present might show a way to product development engineers and marketing experts. Defining the aspects of product development requires significant financial investment and throws great responsibility upon food manufacturers and distributors. Due to declining purchasing power the competition is growing, it is becoming more and more vital to define precisely the range of marketable and 'shelf-ready' products.

During our previous focus-group researches we found that in many cases Hungarian consumers cannot interpret the information on the packaging. It is not easy for them to choose an attitude towards those various 'scientific' statements which are usually unfamiliar to the layman. Before getting to know buyer behaviours, we felt it was important to

assess the range of products through the eye of the buyer. The results show that manufacturers mainly draw their customers' attention to the favourable components of food products. In our opinion – similarly to international tendencies – we will see more and more health statements on products in the future in Hungary too. We intend to examine the product range again at certain intervals which might prove or disprove the product innovation projections.

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TOURISTS' SATISFACTION AS AN IMPORTANT TOOL FOR INCREASING TOURISM DESTINATION COMPETITIVENESS IN THE GLOBALIZATION CONDITIONS – THE CASE OF DUBROVNIK-NERETVA COUNTY

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Abstract:

The increasingly impact of globalization process, that affect every field especially of social, economic, political, technological and cultural, have left a large imprint on the tourist market. Growing competitiveness between tourism destinations on the tourism market increases the role of marketing activities that work towards measuring the tourists' satisfaction of the tourism destinations and according that findings create qualitative tourist offer and at the other hand satisfied tourists who return to the destination. Satisfied tourist is the best way for the positive word-of-mouth communication. On the tourism market, under this conditions of growing competitiveness between tourist destinations, which try to find the best development strategy is one of the main problem for those who participate in creating tourist destination policy. Therefore, a main factor in the creation of tourism policies is the satisfied tourist who makes a positive image of a tourist destination. Tourist satisfaction has been considered as a main tool for increasing tourism destination competitiveness in the globalization conditions. That is connected to the efforts of having a tourist supply that can satisfy the expectation of tourists. Hence this paper explores and analyzes the relationship

between aspects of tourist education, motivation, accommodation and consumption and the tourist satisfaction on the case of the Dubrovnik-Neretva County in a changed environment caused by globalization process. The aim of the paper is to explore which tourist segments are satisfied with actually tourist offer and to identify the main attributes of tourist segment that are satisfied which results with return to the destination. The research problem is the decline of tourist demand for travel to the Dubrovnik-Neretva County as a result of the global economic crisis.

The purpose and the objectives of this research are to determine the level of satisfaction of tourist demand in the Dubrovnik-Neretva County. It is important to find models that would maintain the competitiveness of destinations on the tourist market in conditions of globalization. This research offers suggestions for further tourism destination development policy stressing the importance of the tourist satisfaction measurement.

Key words: tourists, satisfaction, tourism policy, Dubrovnik-Neretva County

Introduction

In the conditions of growing global competition tourism destinations are continuously seeking ways how to increase their competitiveness. For a tourism destination it is very important to adopt and implement a tourism strategy and to identify its target markets. The goal of every destination is to create good product and to offer value for money in order to have satisfied tourists who by using communication from mouth to mouth communicate his positive experience and may return to the destination. Tourists' satisfaction is considered a very important tool for increasing tourism destination competitiveness in the globalization conditions.

Dubrovnik-Neretva County with Dubrovnik, considered to be one of the most famous tourist attractions in the Mediterranean, in the conditions of growing global competition is constantly seeking ways how to increase competitiveness by increasing tourist satisfaction. In order to achieve success it is important to identify tourist segments that are satisfied with the actual tourist offer and to identify the main attributes of tourist segment that are satisfied which results with return to the destination and a positive word of mouth. The objectives of this research are to determine the level of satisfaction of tourist demand in the Dubrovnik-Neretva County and to find models that would maintain the competitiveness of destinations on the tourist market in conditions of globalization.

Literature review

On the tourism market strong competition is becoming increasingly harsher and not only among countries within a region, but also inter-regionally at global levels. In order to realize greater results, where competitive advantages are based primarily on satisfied tourist is perceived, a large number of existing and new destinations are competing for their market segment. Destination management in policy creating for a tourist destination, an emphasis must be put on the formation of a constantly research of tourists' satisfaction of the destination in order to achieve a competitive edge for the destination.

The researching of the main characteristics of the tourists' satisfaction is very important to successful organization of the destination management. There are few reasons and the most important is the fact

that the tourists' satisfaction has the great impact on the destination choice, the consumption of the tourism products and services and the repeat decision to return. Same researcher reported the research results in order to determinate destination attributes critical to the overall tourists' satisfaction levels (Kozak, Rimmington, 2000).

Tourists' satisfaction is based on cognitive and also on affective considerations. According Kesić tourist' satisfaction is created as the performance about tourist products or services on the basis of cognitive (functional) and psychological (emotional) value of the tourism product. Therefore, tourists' satisfaction may be caused by different functional characteristics, or psychological reasons. Beside that author emphasise that the satisfaction is internal due to its nature, which means that satisfaction operate at the level of tourist's consciousness. It cannot be expected that the functional performance will result with the high degree of satisfaction because the psychological experience is crucial for the pleasure of tourists. Although the satisfaction is predominantly psychological state under the direct influence of social norms and behaviour, it is caused by a wide system such as the meaning of beliefs, emotions, etc (Kesić, 2003).

Anton defines consumer satisfaction as a state of mind in which the customer's needs, wants and expectation throughout the tourism product are met (Anton, 1996).

Some of researchers have studied customer satisfaction applying the provided theories about tourism (Bowen, 2001). Pizam, Neumann and Reichel pointed out that it is important to measure consumer satisfaction applying as many destination attributes. They also pointed out that consumer dissatisfaction with one of the attributes leads to the dissatisfaction of whole tourism destination (Pizman, Neuman, Reichel, 1979).

Also Bowen and Clark identify a range supposed components of tourists' satisfaction that include expectation, performance, expectancy disconfirmation (intertwining of expectation, performance and disconfirmation), attribution, emotion and equity (a sense of fairness) and they consider that each of the components might be suppressed or heightened depending on a particular tourism situation (Bowen, Clarke, 2002). Meng, Tepanon and Uysal emphasize that the attribute importance, performance and

motivation serve as a function of measuring tourists' satisfaction and the collectively influence on the degree of overall satisfaction of a tourism destination. They also pointed out that tourism destination attributes especially the performance on quality and friendly service have more impact on tourists' mental perception on their journey experience than the categories of attributes importance and their motivation (Meng, Tepanon, Uysal, 2008). Furthermore, other authors explained that the relative importance of every attributes to the overall impression should be researched due to the fact that dissatisfaction can be the result of evaluating different on the one hand positive and on the other hand negative experiences (Rust, Zahorik, Keiningham, 1993).

According Chon and Olsen, there is a determined of fit correlation between tourists' expectation about tourism destination and their satisfaction. After they return from the tourism destination, if the experience evaluation of the tourism product is better than their expectation they will be satisfied with their journey experience. They also pointed out that although the posited social cognitive theory offers different ways of explaining tourists' satisfaction process, its methodological mechanism is analogous to that of expectancy disconfirmation theory that is that the concept of congruity and incongruity can be interpreted as the concept of confirmation and disconfirmation (Chon, Olsen, 1991).

The tourism product is evaluated by tourists considering a number of attributes as well as psychological expectations. Considering the fact that that tourist evaluate tourism product according several attributes, each of these attributes can be combined to become the basis for product differentiation from competitive tourist destination. Long-term relationship with tourists must be based on their satisfaction. It is much easier to achieve satisfied tourists through marketing communication and they spread the positive communication of the tourism product of the destination.

After travelling, tourists measure the level of satisfaction with the tourist product. The process of measuring of level of tourists' satisfaction is performed by comparing the assigned product with the expectation that it had before travel to the destination. Tourists' satisfaction is presented by its emotional response to the all tourism product attributes which are evaluated during their stay in a tourist destination. Evaluation is ranged from the

disappointment to the enchantment of the tourism product and includes positive, negative and neutral emotions that may arise after the trip (Karić, 2008). Unrealized expectations will result in dissatisfaction, while exceeding expectations will result in enthusiasm. The greater the difference between expectations and achievements expressed with a greater degree of tourists' satisfaction (Kotler, Keller, 2008). Therefore it can be conclude that the tourists' satisfaction is the function of the expected and realized value. Expected value for the tourists is the selected postulate for the process of decision making to choose the tourist destination. Tourists chose tourist destination considering the value that will be greater compared with its expectations (Vranešević, 2000). Tourists' satisfaction will always occur when expectations are aligned with tourists' needs, desires and demands (Marković, 1997).

The greatest value is related primarily to the tourists' perception of the possibilities of tourism product and service that are offered in the destination to satisfy their needs. Every tourist may have different expectations, but the model of all expectations are reduced to the simplest formula according to which valued that tourist get during his journey must be greater than the value that is invested. Therefore, tourists made a comparison between the expected benefits that will have and the expected investment. For the every tourist, subjective expression of the product in addition to its objective value, and satisfaction that is achieved during the journey and stay in the destination has particularly significance (Grbac, Lončarić, 2010).

Depending on the degree of the tourists involvement in the process of the tourist destinations selection process, also there are different levels of expectations. Considering the fact that the tourists that travel to the more distance destination have expressed a high level of involvement it can be concluded that it is the situation with the active tourist expectation.

Yuksel made exploratory research to provide destination managers and marketers with analytical insight into how repeat and first-time visitors develop their satisfaction and return intentions. He find out that the repeat and first-time visitors develop their satisfaction and return intentions based on slightly different aspects of holiday destination and he pointed out that while both groups commonly regard food quality, accommodation quality, hospitality and safety as a reason to return, they

consider different additional services in developing their return intentions (Yuksel, 2001).

Research the tourists' satisfaction with the tourism product and services is the important input for the tourists' behaviour model formation. The tourist that had a positive experience in a specific destination deposited that experience in long-term memory. From that part of memory in the phase of collecting information he applied internal search to evoke memories which will have a big impact in the making decisions process for the next journey. It is very important that the satisfied tourist by using communication from mouth to mouth unconsciously communicate his positive experiences. Therefore he is an important information channel to new potential tourists. Dissatisfied tourist spread negative information about the tourist destination in his environment and on that way contributes to the creation of negative attitudes of potential tourists for the tourist destination (Gutić, Barbir, 2009).

Foster emphasize a few reason why it would be appropriate to look extending the measurement of tourist satisfaction to more global level of tourist destination such as the fact that the millions of dollars are spent each year on destination marketing by national and state tourism offices, airlines and regional tourism bodies and that includes detailed surveys of potential markets as well as extensive advertising and promotional campaigns in source countries; peak organisations in the tourism industry recognise the need to encourage both new and repeat business and that the latter can best be achieved by ensuring that tourism destination current offerings are satisfying the needs, expectations and desires of current tourists and their propensity to recommend the destination to others; the measure could become a barometer of the 'health' of the industry for strategic planning purposes; the tourism industry itself is grappling with the issue of service quality and recognises that this is the key to long term success; monitoring tourists' satisfaction at the more global

level would provide a valuable framework for this and enable comparison between the efforts of the individual enterprise and those of the industry as a whole and the government agencies are now recognising the value of assessing the success of their programs in terms of outcomes rather than inputs (Foster, 1999).

Alegre and Garau in their research of tourists' satisfaction applied the penalty-reward method to confirm the premise that the tourists use a different value to reward and penalize the factors good and bad performance (Alegre, Garau, 2009).

Yuksel and Yuksel emphasize that conducting consumer satisfaction research is imperative, not only because it provides critical managerial information, but also it enables communication with consumers. Furthermore, they also stressed that the identification of tourism segments and understanding their service evaluation process are essential to develop effective marketing messages that would appeal to the target markets (Yuksel, Yuksel, 2003).

The main goal of tourism destination management and marketing should be meaningful level of tourists' satisfaction with the qualitative tourism product. It must be ensured in accordance with the adequate price and with the tourists' expectations (Schiffman, Kanuk, 2004).

Many researches emphasize a importance of relative influence on different variables on tourists' satisfaction while a few studies have been made to compare the main determinates of tourists' satisfaction in term of their level of impact satisfaction. This paper examines which tourist segments are satisfied with actually tourist offer and to indentify the main attributes of tourist segment that are satisfied which results with return to the destination.

Data and methodology

In order to determine the importance of tourism satisfaction for increasing tourism destination competitiveness in the globalization conditions, primary data was collected and compiled alongside the collection of secondary data. In order to identify the current situation in the Dubrovnik-Neretva County, empirical research was carried out using a sample survey taken from among 500 randomly-chosen tourists (only foreign) that stayed in the Dubrovnik-Neretva County. The research was carried out from April 1st to October 1st, 2009. In total, 550 questionnaires were distributed out of which 500 were correctly filled.

A semi-structured questionnaire, including 20 questions, was used. The first group of questions concerned the socio-demographic profile of tourists. Other groups of questions regarded

travel characteristics. The third group of questions regarded the stay in the destination and motivation, while the fourth group of questions was about tourist expenditures (structure, average daily and trip expenditure and share of expenditures for different services).

The last question required from tourists to verify degree of satisfaction with value for money during their stay in Dubrovnik-Neretva County. The data obtained from the survey were analyzed using different analytical tools, including methods of analysis and synthesis, inductive and deductive methods, method of generalization and specialization, and different statistical methods. A survey was made for the purpose of finding out statistically significant relations between tourist education, motivation, accommodation and total consumption and tourist satisfaction. The aim of the research was to define the dependence of satisfaction with different relevant parameters. Due to the fact that independent variable was measured on ordinal scale, in statistical analysis, which was realized using an SPSS package version 17.0, Kruskal-Wallis test was used.

Regarding that satisfied tourist makes a positive image of destination and is going to return, tourist satisfaction has been considered as a main tool for increasing tourist destination competitiveness. According to that, the goals of the research aimed to prove or reject the following hypothesis:

1. There is a statistically significant difference in satisfaction between tourists with different level of education.
2. There is a statistically significant difference in satisfaction between tourists with different motives of arrival.
3. There is a statistically significant difference in satisfaction between tourists who used different types of accommodation.
4. There is a statistically significant difference in satisfaction between tourists with different level of total consumption in destination.
5. There is a statistically significant difference in satisfaction between tourists with different annual income.

Results

The results of the descriptive statistical analysis of the questionnaire indicate that 35% of the respondents were from Great Britain, 27% were German, 18% were Italian, 9% were from the USA and 11% were from the other countries, but with low percentages. About 52% of the respondents were female and 48% were male. The age groups are represented as follows: 19.2% from 15-25, 30.2% from 26-40, 24.8% from 41-55, 23.6% from 56-70 and 2.2% over 70. In other words, 74.2% were young and middle aged (15 to 55). The education structure shows that 84.2% of respondents completed high school and higher education, which indicated that a large proportion of the sample was well educated. Specifically, over 50% of the total respondents had a university degree, 41% of the respondents were managers and employed as doctors, professors and in banks, 11% were administrators and 18% were retirees. In the Dubrovnik-Neretva County, 55% of respondents came by airplane, 19.6% by car and 12.4% by ship. Only 13% of the respondents traveled alone. The average length of stay in this County was six days. Respondents were mainly accommodated in hotels (66%), while 29% of them stayed in private accommodation. The respondents were motivated by rest and relaxation 61.8%. More than 900 € was spent on the trip by 62.2% of respondents. The average daily expenditure was 79 €. The total average trip expenditure was about 900€.

Analyzing certain tourists segments, it is evident that particular segments based on specificity indicate higher satisfaction than average.

The tables below show results obtained using the Kruskal-Wallis test. The methods noted were used in order to confirm the dependence of satisfaction with education, motivation, total consumption and assorted accommodation facilities.

H1: There is a statistically significant difference in satisfaction between tourists with different level of education.

Results of the Kruskal Wallis test are:

Chi-Square	= 3,702
Df	= 3
Asymp. Sig.	= 0,295

p=0,000 which is higher than 0,005 and shows that there is not statistically significant difference between satisfaction and level of education. That means that tourist all levels of education are equally satisfied with tourist offer.

H2: There is a statistically significant difference in satisfaction between tourists with different motives of arrival.

Results of the Kruskal Wallis test are:

Chi-Square = 30,935

Df = 6

Asymp. Sig. = ,000

p= 0,000 is lower than 0,005 and shows that there is statistically significant difference between satisfaction and motives of arrival.

The most satisfied tourists were those whose motives of arrival were participation in conference, rest and relaxation and family visit. As it was expected the most unsatisfied were tourists who arrived because of shopping.

H3: There is a statistically significant difference in satisfaction between tourists who used different types of accommodation.

Results of the Kruskal Wallis test are:

Chi-Square = 18,292

Df = 3

Asymp. Sig. = ,000

p= 0,000 is lower than 0,005 and shows that there is statistically significant difference between satisfaction and type of accommodation.

Table 1. Dependence of satisfaction and motives of arrival in the Dubrovnik-Neretva County

Table 1. Dependence of satisfaction and motives of arrival in the Dubrovnik-Neretva County

	motives of arrival	N	Mean Rank
satisfaction	rest and relaxation	309	262,64
	family visit	81	253,14
	entertainment	78	238,10
	shopping	7	29,07
	business	18	107,63
	congress	15	207,17
	other	12	102,33
	Total	500	

Table 2. Dependence of satisfaction and type of accommodation in the Dubrovnik-Neretva County

type of accommodation	N	Mean Rank
satisfaction hotel	333	264,88
tourist village	5	170,30
kamp	17	149,38
private accommodation	145	232,10
Total	500	

Tourists who were accommodate in hotels, regardless of category, and in private accommodation were the most satisfied.

H4: There is a statistically significant difference in satisfaction between tourists with different level of total consumption in destination.

Results of the Kruskal Wallis test are:

Chi-Square = 11,937

Df = 5

Asymp. Sig. = ,036

p= 0,036 is lower than 0,005 and shows that there is statistically significant difference between satisfaction and total consumption in destination.

Tourists whose total consumption in Dubrovnik-Neretva County was between 301 and 600 euros were the most satisfied. Those who spent more than 1.501 euros were also satisfied.

H5: There is a statistically significant difference in satisfaction between tourists with different annual income.

Results of the Kruskal Wallis test are:

Chi-Square = 21,534

Df = 6

Asymp. Sig. = ,001

p= 0,001 is lower than 0,005 and shows that there is statistically significant difference between satisfaction and annual income.

Tourists whose annual income was between 60.001 and 90.000 euros were the most satisfied with tourist offer in Dubrovnik-Neretva County.

This research resulted with the information about current tourists in Dubrovnik - Neretva County and how satisfied they are. More than 60% of the tourists were from Great Britain and Germany, 74.2% were young and middle aged (15 to 55) and well educated (84.2% completed high school and higher education). The majority of the tourists arrived in Dubrovnik-Neretva County by airplane and the average length of stay in this County was six days. They were mainly accommodated in hotels and private accommodation. The main motive of arrival was rest and relaxation, almost 62% and the total average trip expenditure was about 900€.

Analyses by tourist segments show that tourist of all levels of education are equally satisfied with tourist offer what indicates that the first hypothesis was not confirmed. The other four hypotheses were confirmed. The most satisfied tourists were those whose motives of arrival were participation in conference, rest and relaxation and family visit. The highest level of satisfaction with accommodation was shown by tourists accommodated in hotels, regardless of category, and in private accommodation. The respondent whose total consumption in the destination was less than average were the most satisfied. Tourists whose annual income was between 60.001 and 90.000 euros were the most satisfied with tourist offer.

Table 3. Dependence of satisfaction and total consumption in the Dubrovnik-Neretva County

Total consumption in €	N	Mean Rank
satisfaction <300	7	227,64
301-600	66	274,03
601-900	117	253,03
901-1200	102	249,81
1201-1500	56	197,34
>1501	152	259,43
Total	500	

Table 4. Dependence of satisfaction and annual income in the Dubrovnik-Neretva County

Annual income in €	N	Mean Rank
satisfaction <15000	138	217,68
15001-30000	141	255,27
30001-45000	106	255,85
45001-60000	55	248,21
60001-75000	44	309,43
75001-90000	12	327,33
>90000	4	225,50
Total	500	

Conclusion

Because of the growing competition on the tourism market the need to research the tourists' satisfaction with the destination offer for increasing tourism destination competitiveness is very important. Previous researches showed that tourist satisfaction has great importance on the destination choice. Many authors point out that becoming a competitive tourist destination that will satisfy the tourist expectation and needs is a difficult marketing challenge.

The research that was carried out in the Dubrovnik-Neretva County with the aim to identify which tourist segments are satisfied with actual tourist offer and to define the dependence of satisfaction with different relevant parameters, showed that there was a significant difference in the satisfaction of particular segments. The most satisfied segments according to different segmentation criteria are tourist whose motives of arrival were participation in conference, rest and relaxation and family visit, those who were accommodated in hotels

and in private accommodation, those whose total consumption in the destination was less than average and those whose annual income was between 60.001 and 90.000 euros.

The research showed which tourist segments are satisfied with the existing offer but also what are the weaknesses of the tourist offer regarding the tourist satisfaction. By examining how satisfied tourists are, and their other characteristics, planners can determine which tourists should be targeted. To succeed in today's marketplace, Dubrovnik-Neretva County must be customer centered; it must deliver superior value to its target tourists. High quality of tourist offer and high tourists' satisfaction builds loyal tourists base, creates positive word of mouth and can help in avoiding price competition.

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EVALUATION OF HONEY CONSUMPTION IN CONNECTION WITH HEALTHY NUTRITION IN HUNGARY

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Abstract

Nowadays health preservation becomes more and more important for people. It is stated by researchers that nutrition has an important role in it. In connection with it, people are increasingly motivated to find more and more information about healthy nutrition and preferred to prevention instead of therapy. Honey is strongly related to healthy nutrition, naturalism and traditions since it can be consumed without any further processing. Honey is not only a sweetener for people today, but even more: important source of nourishment since it includes almost all the important elements, - such as vitamins, minerals etc. – which are needed by our body.

Nowadays it can be seen two dominant food consumption trends in Hungary: the traditional and the healthy consumption. Honey has an important role in both these consumption trends. It is stated by a relevant research institute that only 16 per cent of the Hungarian population prefers healthy food. We analyze correlation between honey consumption patterns and healthy nutrition in this paper.

Keywords: Honey consumption, healthy nutrition, health preservation

This paper focuses on demonstrable connection between traditional honey consumption and the nowadays fashionable so-called healthy food trend. In our preconceptions this connection would be strong because honey is a natural food without any further human procession, and in this trend naturalness is very important viewpoint in the food alternatives. Honey is functioning as a natural sweetener, hereby it fits well into the diet of

those consumers who dislike artificial sweeteners and additives. Honey consumption is very low in our country, although Hungary is a very important honey exporter in the European Union. Several international papers focus on the positive effects of honey in peoples' health preservation and on its role in preventing nowadays' civilization diseases. In this research we analyzed the consumers' opinion regarding this question in the North-Great Plain Region in Hungary. Health preservation becomes more and more important for nowadays' consumers, they would like to get as much information as possible about healthy lifestyle, and would like to choose prevention against treatments (ENSER, 2001; INCZE et. al. 1998). These trends have effects on their connections with food: they try to find foods that they consider to be healthy (FENYVESSY et. al., 1999; MÓZSIK et.al. 1981; ZAJKÁS, 1998). Several research studies certifies that inclination to purchase traditional and rustic foods is increasing. There are two important motivations behind that: the consumers' need for gourmand and special foods, as well as, following traditions such as consumers' trends (SZENTE et al., 2006). Behind the growing need for organic foods there are two very important consumption trends: the naturalness and following the most natural lifestyle and the wellness lifestyle, as SZAKÁLY et al. (2009) have written. Most consumers say that less is sometimes more. It does not mean that they would not like to buy less lately, but they will look for the quality and the well-being. It is also proved by the market that nutrition advantage is not enough for a food to be successful, natural origin, excellent taste, colour, consistence, good appearance, convenience and acceptable price are also very important (ROWAN, 2001). Nowadays when talking about quality or

top quality regarding food, nutrition advantage is considered in one side and naturalness and marketability on the other side (LAKNER and SARUDI, 2004). While earlier convenience of buying and popularity of products were the most important factors in consumers' decisions, now the most important factor is healthiness (I1). Beside these trends we should not forget that in Hungary the ratio of followers of healthy lifestyle is very low. This ratio is about 16 per cent on the basis of a study carried out by GFK (GFK, 2006). Each above mentioned actual food trend has favourable effect on honey consumption. Honey, naturalness, healthy food and traditions are related terms. There is a simple reason for that, honey is consumable without any further processing. It is an important part of the healthy lifestyle as a natural sweetener against the so-called "white poison" sugar and artificial sweeteners.

Research and Method

Within the framework of the primary research two questionnaires were created and used for data collection in 2008 and 2010. The flexibility of questions ensures that this method is one of the most popular ones in primary research. The main aim of the 2008 survey was to analyse honey consumption and purchase habits in the 3 main cities (Debrecen, Szolnok and Nyíregyháza) of the North-Great Plain Region in Hungary. The main objective of the 2010 survey was to analyze the opinions of the consumers in connection with the quality of honey (because of the honey quality problems in the last 2 years). The questionnaires contained open and composed questions. In some cases ranking from 1 to 5 had to be done by the asked people. Data collection was carried out in hypermarkets and fruit and vegetable markets of the above mentioned cities.

Methods and characteristics of these surveys can be seen in Table 1.

Table 1 Methodology of surveys

Aspect	Consumer Survey 2008	Consumer Survey 2010
<i>Method</i>	questionnaire	questionnaire
<i>Area of the research</i>	North-Great Plain Region, Hungary	North-Great Plain Region, Hungary
<i>Objective of the survey</i>	analyze consumption and purchase habits regarding honey	analyze opinions of the consumers regarding honey quality
<i>Time</i>	April 2008	June 2010
<i>Selection method</i>	simple random sampling	quota sampling
<i>Number of questions</i>	37	24
<i>Number of interviewees</i>	821	386

Source: Authors' research, 2008 and 2010.

Results and Discussion

In the 2008 survey, consumers associate honey as a word mostly with honey bee and bear (35 per cent), taste and physical characteristics of honey (26 per cent). Honey as an alternative

treatment, effects of honey in health, and life and health counted altogether about 20 per cent of the mentions (Figure 1). Based on these figures it can be stated that honey and health are related expressions in the mind of consumers. It is good because if more and more consumer thinks

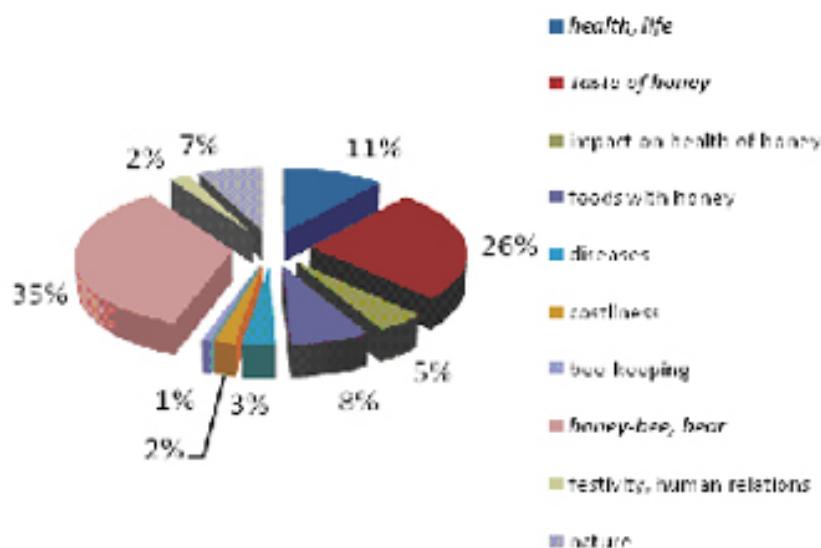
about honey as an alternative treatment and as an important tool in health preservation, honey consumption is expected to grow in Hungary.

On the basis of the survey of 2008, it can be stated that from the consumers' point of view honey consumption could be increased through detailed information on the effects of honey on healthy nutrition. In their opinion, if they know more about that, it would have a positive effect on their honey consumption. 61 per cent of asked consumers said that it would be very important and 23 per cent of them said that it would be an important incentive. The survey of 2010 included this question also and the answers were very similar like in 2008. In 2010 the asked consumers had to evaluate in a 1 to 5 scale the mentioned incentives (Table 2).

Table 2 shows that the most important incentive in 2010 was the reliable quality insurance due to honey quality scandals in the last few years. Emphasising the impact of honey in healthy nutrition and dissemination of this knowledge were also very important incentives. On the basis of the two surveys it can be stated that consumers do not have enough information on the benefits of honey consumption.

Detailed analysis of the sample has already been carried out by cross tables. With the help of these methods common occurrence of two variables can be demonstrated (Ketskeméty and Izsó, 2005). Cross tables were created according to demographical variables. Data coherences were analysed through Pearson Chi2 statistical method. Special attention was taken into consideration of results under $p = 0.05$ (5 % significance level). Analyzing the sample according to these demographical variables it can be stated that there were significant differences between sex, age groups, place of residence and importance of hearing more about healthy nutrition in increasing honey consumption. It was more important for women than men. The most sensitive for this incentive was the 26-35 age groups, it was very important for 53 per cent of them. This incentive was the less important in the age group 60 and elder, because they consume honey based on their traditions only. Among people living in cities and county centres (43.41 %) two times more people consider it as an important incentive, than people living in villages (22 %). Organic origin of honey was not important for most of consumers (Authors' research, 2008).

Figure 1 What do you associate with „honey” as an expression? (n=821)



Source: Authors' research, 2008.

Table 2 How could these incentives incite you for more honey consumption? (1=least of all, 5=most of all) (n=386)

<i>Incentive tools</i>	<i>mean</i>	<i>standard deviation</i>
<i>advertisements</i>	3.09	1.31
<i>telling about healthy nutrition</i>	3.52	1.52
<i>discounts</i>	3.10	1.44
<i>practical packaging</i>	3.05	1.15
<i>reliable quality</i>	3.87	1.48
<i>insurance</i>		
<i>marketing and product supply</i>	2.30	1.35
<i>price reduction</i>	3.47	1.41

Source: Authors' research, 2010

We analyzed whether there is any connection between the frequency of honey purchasing and consumption and subjective health condition of consumers. If we assume that honey is an important food in healthy nutrition and helps consumers in health preservation and preventing diseases, then consumers with bad subjective health conditions should buy and consume more honey.

On the basis of the survey of 2010 – as it can be seen in Figure 2 – the subjective health condition was average in 55 per cent of the sample and good in 30 per cent of the sample. The ratio of consumers who were satisfied with their health condition was very low. Official Hungarian Statistics do not support these results regarding this topic.

There was no significant difference between subjective health condition and frequency of honey purchasing.

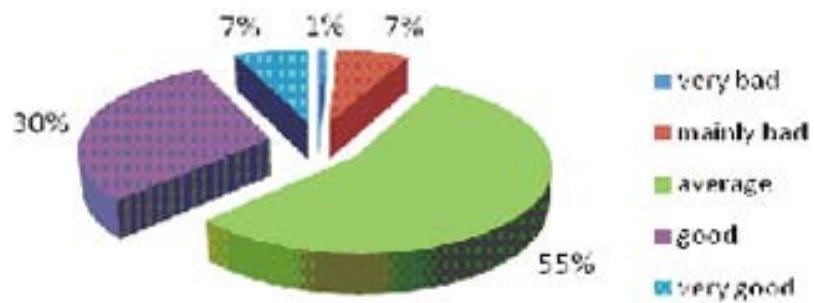
It can be stated that consumers with very bad subjective health condition buy honey monthly in the biggest ratio (67 per cent). In other categories honey purchasing is only occasionally characteristically. Consumers with very good subjective health condition generally buy honey weekly, but the ratio of them was very low.

58.5 per cent of consumers says that vitamin content of honey is prominently high, and 36.8 per cent of them says that it is average as it can be seen in Figure 3. Altogether 3.4 per cent of them says that vitamin content of honey is low.

The connection between frequency of honey purchasing and supposed vitamin content was analyzed also.

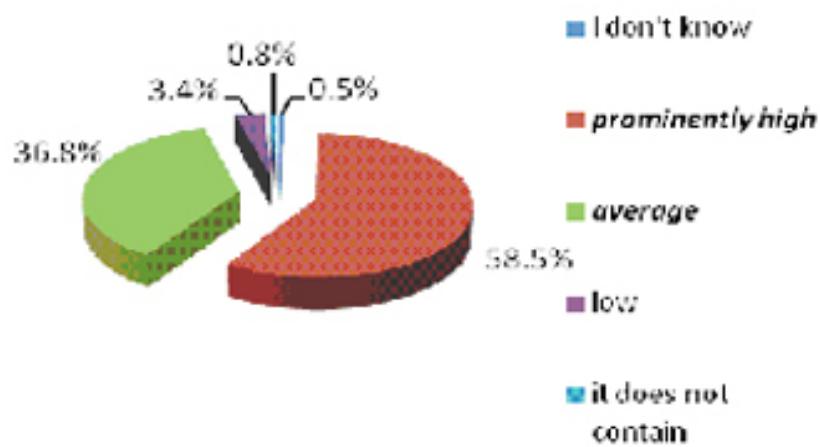
It can be stated that among the consumers who supposed that the vitamin content of honey was low, the ratio of "occasionally honey buying" was the highest. Most of these consumers purchase honey only occasionally (85 per cent). Most of those consumers who supposed that the vitamin content of honey is average, honey buying frequency is rare (70 per cent) but 21 per cent of them confirmed honey buying frequency as "monthly" and 4 per cent "weekly". In case of consumers who supposed prominently high vitamin content to honey "occasionally honey buyer" was "only" 57 per cent, 31 per cent of them buys honey monthly and 5 per cent of them weekly. It can be stated that higher supposed vitamin content of honey was related to more frequent honey buying and consuming.

Figure 2 What do you think about your own health condition? (n=386)



Source: Authors' research, 2010.

Figure 3 What do you think about vitamin content of honey?

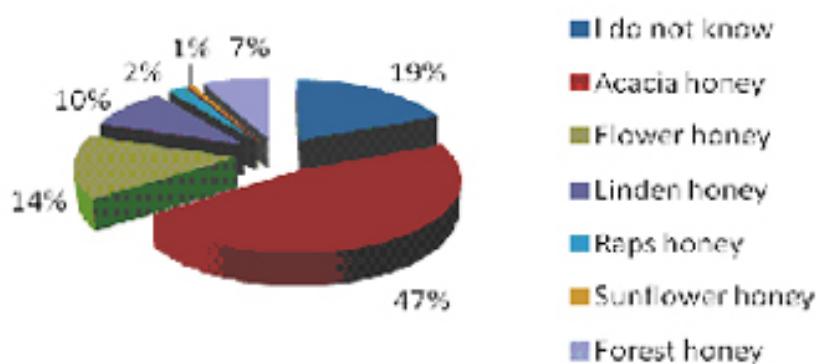


Source: Authors' research, 2010.

As regards the vitamin content of honey, a fact must be mentioned that honey contains lots of vitamins but in a very low concentrate. Under the researches of CZIPA (2010) it can be stated that the most valuable type of honeys are the Linden honey and the Forest honey regarding the content of vitamins and minerals. Information of consumers in connection with it are imperfect

and wrong because as it can be seen in Figure 4 most of consumers believe that Acacia honey –the mostly and in the biggest quantity purchased and consumed type of honey in Hungary – is the most favourable type of honey regarding physiological characteristics.

Figure 4 Which one do you think is the healthier type of honey? (n=386)



Source: Authors' research, 2010.

In our opinion, lack of information and the consistence of Acacia honey are in the background of this result. Since crystallisation of Acacia honey happens only after a very long storage time (2-3 years) and in consumers' mind crystallisation is similar to perishing.

Summary

Based on our results, consumers should know more about the role of honey in health preservation and its vitamin and mineral content contributing to their healthy nutrition. If so, they would surely eat more honey. The connection between honey and healthy nutrition is not enough close on the basis of our research. Honey needs repositioning in consumers' mind as a natural food and an important tool in their health preservation. Because of the deconcentration of the bee-keeping sector this task could be carried out by community marketing institutions.

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MARKETING ANALYSIS OF THE CONNECTION OF FOOD SOVEREIGNTY AND CONSUMERS' PATRIOTISM IN HUNGARY

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Abstract

Sustainability is closely linked to the concept of food sovereignty which in the last decade became a central concept of international social movements related to agriculture. The movement's philosophy is that farmers have the right to produce local food and consumers to decide what they want to consume; products produced by whom and how. This research focuses on the relationship of consumers' patriotism and traditional local food. Hungarian food are at a disadvantage against imported products. If we can demonstrate the positive consumers' attitude towards domestic products, the marketing strategy of Hungarian products can be completed with a new aspect. The Hungarian traditional regional products offer wider assortment for the consumer market via their unique features and top-quality images. In the primary research consumers were asked by standard questionnaire which was analyzed by mathematical and statistical methods. Results: the consumers' preferences and attitudes are positive. These products are considered as confidential and Hungarian consumers be aware of the traditional regional products' positive associations. The traditional products contrary to today's fast-paced lifestyle symbolize the slowing-down, searching for the "roots". Conclusion: There is a definite role of

marketing tools to repositioning and familiarizing these products.

Keywords: marketing, traditional food, patriotism, sovereignty

Introduction

Nowadays globalisation of commerce created an ever increasing competition on both local and international markets. Consumers may find goods in their local shops basically from any country. One of the oldest problems for actors on the international market is how customers perceive the fact that a product is of 'foreign' origin.

Researches showed that there is an existing partiality towards a country's locally produced products. Stereotypes about foreigners may have impact on the actual judgement of a product or in other words on the consumer ethnocentrism. Ethnocentric consumers opt not to buy foreign products due to their possible social and economic implications. We might say that cultural differences may never fully disappear as the presence of local preferences can never be ruled out in the international commerce. Perception of local and foreign products greatly depends on the customers' feelings towards their own country. Part of this emotional experience is how one loves his or her

home country or if he or she feels the country superior to others. Therefore, it is important to assess customer habits not only on local but on international markets too.

Due to the globalisation of commerce it is more and more necessary to measure customer habits and preferences.

The ever growing competition requires manufacturers to lay great emphasis on quality. They need to ensure steady and reliable quality and it shall be communicated towards customers as well.

Image of the country of origin is an important influence on how customers perceive goods from other countries. Researches show that customers evaluated similar and fully corresponding products differently because of their country of origin.

Consumer ethnocentrism is not only interesting because it is a global tendency but also because political influences on customer behaviour are particularly evident. Although, political attitude is one of the most important social criteria, contrary to other similar factors such as age, sex, education and social status its influence on customer decisions - other than patriotic purchase - is hardly detectable. We might say that it is such a determinant that buyers are not aware of when they make the customer decisions.

This topic bears special interest as beside its evident economic influences it also has social, psychological and political implications. How it forms a complex and how some of these factors become prominent as a result of various influences have significant actuality in our days. In a world where social issues like sustainable development or fair trade have major impact on forming public attitudes thus economic behaviour of people. Moreover, it characteristically became a political grouping criterion not only globally but also here – or especially here - in Hungary where views on buying local products are often confronting.

Customer behaviour

When launching a new product manufacturers develop a marketing strategy aiming to ensure the long term success of the goods. According to Vágási (2007) this strategy includes the following marketing functions:

- analysing customer behaviour and market
- determining the range of products and services to be produced and marketed
- informing potential buyers about the products and services
- organising sales
- influencing customers to buy the goods
- promoting customer relations

Each factor plays important part in the success of products. Probably the most important factor, however, is analysing customer behaviour and market. Profound knowledge on customer behaviour is essential to create good long term relations with them.

Hofmeister-Tóth (2003) define customer behaviour as range of activities performed during acquiring and utilisation of products aiming to enhance customer satisfaction.

Table 1. includes the factors influencing customer behaviour.

The notion of „customer ethnocentrism” was introduced by Shimp et al. Based on their observations they found that several customers think that French wines are of better quality than local ones, although, it was seldom chosen due to economic reasons.

In connection with Balabanis's (2004) researches we can say that the bigger a country's economic competitiveness the weaker the customers' resistance against its products. It was also found that the more similar two countries' cultures are the bigger the customer's acceptance towards the products made in that country.

In US research Shimp et al (1987) asked 800 customers the following question: "Is it right if Americans buy foreign made products?" In another survey they sent emails to 850 households and 1000 questionnaires to Denver and Los Angeles studying CETSCALE's efficiency and validity.

They came to the conclusion that further researches are needed to gather more information about how demographic, geographic, regional economic factors influence customer ethnocentric values and what roles these factors play in adulthood.

It also needs to be further researched how intimidation affects customer's attitude towards foreign products. Most intimidated manufacturers are those operating on economically less developed areas and in regions where presence of foreign competitors are more evident.

Roth (2006) definition of national identity is the following: all ideas that distinguish a given country from other cultures. National identity relates to customer ethnocentrism, therefore, it possibly has the same effects. Hence, stronger national identity may have negative effect towards foreign countries' image, thus negative impact on purchase intentions.

Country Image

According to Roth (2006) country image is the entirety of an individual's presumable descriptive and informative knowledge about a given country. It not only refers to the country's industrial, technological and political perception but also to emotions towards the country and pride.

Malota (2004) summarised this as follows: "Country image is all the descriptive, concluded and informational belief that we create about a country. It is the entirety of different beliefs, ideas, impressions that people hold about a given country."

Country image is a picture in our consciousness about a country. Country image indirectly includes the products as well; based on the country image we have preconceptions about the products too. The following factors may influence our attitude positively or negatively:

- Geographic and natural conditions: Having excellent natural conditions agriculture is a dominant sector in Hungary. Owing to natural factors the country is rich in unique regional products such as ground paprika from Szeged or Kalocsa
- Historic factors: historic relations between countries are determinative factor which may influence the formation of customer ethnocentrism. Nowadays this factor became important as well.
- Social factors, including demographics. Age distribution is a significant factor in connection with shaping country the image as younger

generation is not able to create ideal image about the country.

- Economic – commercial factors: in this case not only the hard, measurable data such as a country's GDP or unemployment rate shall be considered but also non-measurable factors such as hungaricum type goods that plays also important role in creating the country image.

Country of origin image

Country of origin image shall be taken into consideration when examining country image. The two concepts are in close connection, there is no distinct boundary between them.

According to Malota (2004) country of origin image is part of the overall image of a product and it is formed based on the country of origin. Accordingly, country of origin image arises from stereotypes associated with the product merely because it was made in a given country.

Country of origin image already comprises the images about products originated from that country. Let's think about our purchasing habits when we make decisions based on land of origin of the product. Germans are known for the exceptional meticulousness, their products are reliable, therefore, we happily buy German products.

Locally produced agricultural products and foodstuffs are especially sensitive to country of origin image, as product quality is influenced by several factors such as habitat, natural and human factors. Hungarian agricultural goods, particularly some products (e.g. Szegedi ground paprika, Makó onion, Egri Bikavér (red wine), Gyulai sausage) obtained fame and good reputation. This enables Hungarians living abroad to buy products made in their home country.

In order to comprehensively satisfy customer needs regional products shall comply with various qualifications and regulations. Marking ensures customers that they buy superior quality goods and due to regular controls they get the same quality on long term too.

Material and method

We made primary examinations in 2010. The sample is almost representative, 862 questionnaires

in total. The questionnaires reached all parts of Hungary, and made sure the distribution age, qualification, occupation and residence.

The questionnaire is the most important device of the primary market research methods. During our quantitative research we used standardised questionnaires, which suited to give numerical data. The standard characteristic of the questionnaire makes it possible that the answers of different consumers are comparable.

We have used SPSS 14.0 program for analysing the data obtained with questionnaire. From the various calculation options of the program we used the followings: descriptive and diagnostic data analysis, cross table analysis, cluster analysis, factor analysis.

When creating descriptive statistics the goal is to characterise the observations. We may evaluate results numerically or by using diagrams. Program helps analysing variables of different scales.

We can group the available mass data by cluster analysis. The point is to adequately differentiate the different groups and also to form such groups that bear common characteristics within the set. Grouping may be performed by various methods. I chose hierachic method at the processing.

Results

Where do you shop?

Results show that 47 respondents prefer smaller shops or discount shops; their group represents 29% of the total population (Figure 1). For us the most astonishing finding was to learn that almost the same amount of people goes shopping to hypermarkets (21%) and to farmers' markets (20%). On farmer's markets buyers are most probably find Hungarian products.

What are the characteristics of official Hungarian product (according to respondents)?

Respondents could chose more than one answer. Figure 2 shows that 45 people (28%) chose "Made from Hungarian materials", "Made in Hungary" and "Made by Hungarian manufacturer", which - we think - characterises the definition of official Hungarian product the best. According to 43% of the respondents the most important characteristic

is "Made from Hungarian materials"; this shows that people consider relevant if a product is made from local materials. In this way they support their home country's economy. Other factors" received, however, the most answers. This made us think that more researches shall be made in order to learn which other factors are important for customers. Unfortunately, the structure of our questionnaire did not allow respondents to express their opinion in a more detailed manner.

Analysing product groups

Our next question referred to product groups ranging from foodstuffs through clothes to toys. We highlighted those product groups that are - deriving from their nature - regularly purchased by customers, in other words flow products.

As a result of the performed cluster analysis 5 bigger groups could be formed. The first includes: frozen products; sweets, chocolates; muesli, corn flakes; tea, coffee; cosmetics; chinaware, glassware; toys; clothes; and other categories. Next group includes: spices, seasonings; pastas; alcoholic beverages. Fruit juices, soft drinks, mineral waters form a separate group. Fourth group includes milk, dairy products; egg, meat and sausages while bakery products, vegetables and fruit form the fifth group. The cluster including the most product groups contains "luxury products", whereas the last two the basic foodstuffs.

Analysis of shopping habits

When analysing customer habits (Figure 3) respondents were asked to describe themselves on a scale 1 to 8 where 1 meant "not important at all" and 8 meant "very important". Based on the answers received we can break up the questions into 4 groups by using factor analysis; these groups are: "Well informed, conscious customer", "Characteristics of Hungarian products", "External factors, opinions" and "Design, product image, brand". In the first factor the second question is the most significant (with 0.858 co-efficient), in the second factor packaging gets the biggest emphasis. Among "External factors, opinion" family members' opinion proved to be the most important whereas in the last group the brand name of the given product is the most influential factor.

Respondents needed to evaluate factors on a scale 1 to 5 where 1: "not influenced by that at all" and 5: "very much influenced by that". Figure 4 was prepared by averaging.

According to Figure 4 customers make insignificant distinction between traditional Hungarian foods and other foodstuffs. The largest difference was found in product prices. Trademarks are more often required for traditional products because such labelling represents excellent quality. However, their availability is not as good as their competitors.

Cluster analysis for protected geographical indication

By using cluster analysis we may sort Hungarian foods with protected geographical indication in 5 groups. First group includes hajdúsági horseradish, gönci apricot brandy a apricot, the second békési plum brandy, szatmári plum brandy and szabolcsi apple brandy, the third: makó onion, szegedi winter salami, szegedi and kalocsai ground paprika, csabai and gyulai sausages. Budapesti winter salami and kecskeméti apricot brandy both form a group on their own.

Conclusions, recommendation

Price of traditional Hungarian products could be decreased if vendors were left out of market chain since if we were able to buy directly from the producer we did not need to pay the traders' profit. Therefore, I think Shop of Hungarian Products network is an excellent initiation, here excellent quality products are available directly from the producer.

Traditional Hungarian products need effective communication network. Improvement of information flow would be the most important objective. The research showed that 22% of respondents searched Hungarian spices on the shop shelves. If communication of traditional Hungarian products was more effective demand for e.g. szegedi ground paprika would be bigger.

Communication of labels protecting Hungarian foodstuffs should be more efficient as the aforementioned trademarks are not widely known. Media publicity could be more appropriate as customers use media outlets such as newspapers, radio and television on daily basis. Not only the reputation of locally acknowledged trademarks should be improved but also those used in the European Union, as reputation of protected geographical indication was very low.

Overall, respondents consider Hungarian products average or good. Customers' ethnocentric behaviour needs to be reinforced; if a customer is satisfied with a Hungarian product he or she will choose locally produced goods.

For me it was positive outcome that 82% of respondents replied to be proud of Hungary. In each age bracket nearly same amount of people replied not to be proud of his or her home country. After mentioning the country's successes they reflected positively to the achievements of this small country.

72% of respondents expressed that they would not want to live in other country. The younger generation, however, thinks that their professional knowledge worth more abroad than in Hungary. Therefore, career-starters should be assisted with various grants.

Table 1: Factors influencing customer behaviour

Cultural	Social	Personal Characteristics	Psychological
- Culture	Reference groups	- Age, sex, family	Motivation
- Subculture	- Status and roles	- Lifecycle	- Attitude
- Social class		- Occupation	- Personality and self-concept
		- Income	- Perception, learning
		- Lifestyle	

Source: Author's editing based on Vágási (2007)

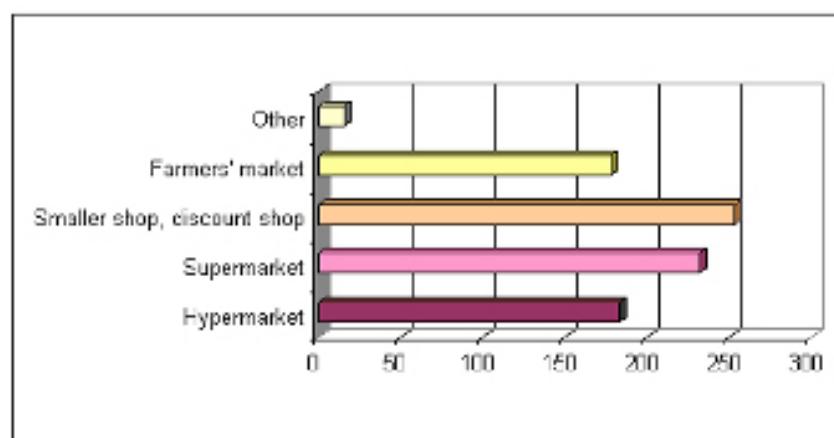
Figure 1. Where do you shop?

Figure 2. What are the characteristics of official Hungarian product (according to respondents)?

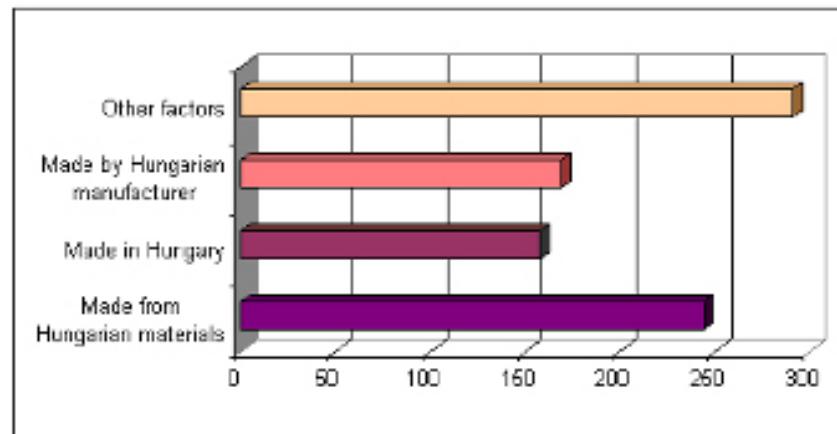


Figure 3. Customer habits observed during factor analysis

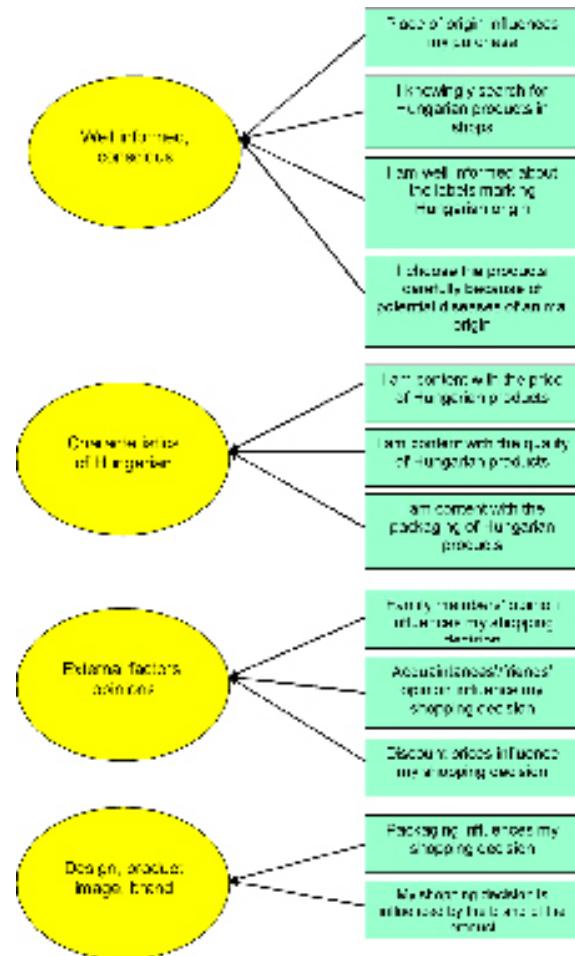
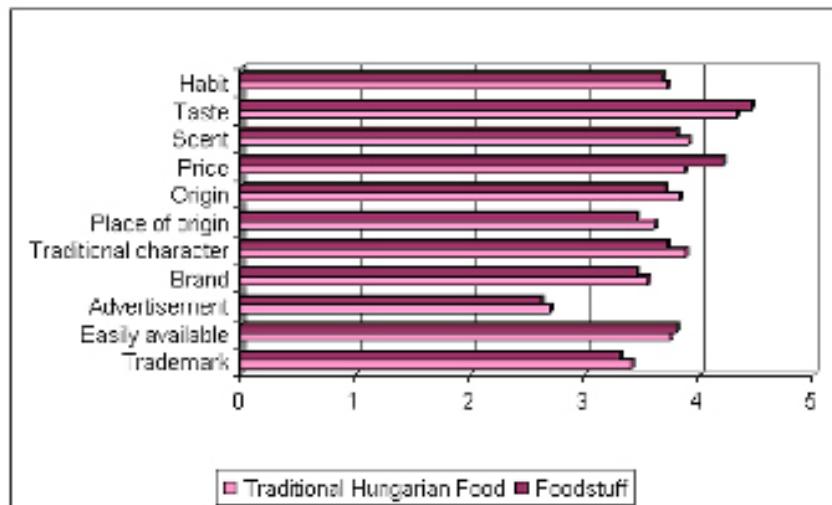


Figure 4. Comparison of traditional food and other foodstuff based on shopping decision

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THE TASKS OF TURISTICAL MANAGEMENT IN THE COUNTRYSIDE OF THE SMALL HUNGARIAN PLAIN

FERENC DARABOS

Abstract

The number of visitors to Hungary is high among the European countries. The number of tourists is not so favourable. Could the regions along the border be connected into the festival tourism? Is management prepared for that? The questions of minority is a big problem all over Europe. Is it possible that tourism is a step towards the solution of conflicts in Kisalföld (Small Hungarian Plain) which is part of the Carpathian Basin?

The Small Hungarian Plain, that combines natural unity, doesn't end at the northern and southern borders of Hungary. This is how it was created during the miocen pliocen geological time. We speak about 9000 km² area which consists of Seewinkel in Austria, and the Slovakian Plain along the River Danube.

In my research I was interested in the fact, that is it possible to make turistical destination there, and what kind of tasks are needed to be done by the workers of tourism. In order to measure that, I examined the main touristical attractions and their connected points. I analysed the strengths, the weaknesses, the possibilities and the danger of the region through SWOT analyses. In the conclusion of my research I have mentioned the tasks of the future and I have also written why it is important to set up the destination management.

To reach the goals, complementer turistical products are needed. Essential basic condition is to strengthen the local management organizations and to organize festival programmes along the border.

A further task is to realise a mutual turistical strategy, which is made by the help of the entrepreneurs, and refers to the area of the Hungarian-Slovakian border.

Key words: *touristical management, turistical strategy, Slovakian-Hungarian border, international co-operation*

Definition of festival

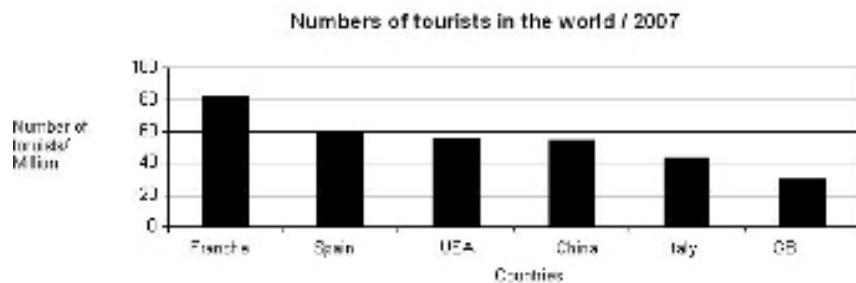
The meaning of festival is: 'traditional games, periodical cultural celebrations, artistic shows' ([wikipedia](http://hu.wikipedia.org/wiki/Fesztiv%C3%A1l) <http://hu.wikipedia.org/wiki/Fesztiv%C3%A1l> 2010-02-08). Its global meaning is the unity of different events organized at the same time, which is the greatest attraction for tourism. According to its type, it can be folklor, scientific, cultural, youth, agricultural, etc. For Hungary, it could be a breakthrough considering live folklor, history, sightseeings. It didn't happen by accident that the year 2010 was the year of festivals, and this is the year when the project of „Pecs, the cultural capital of Europe” is developed. Therefore the promotion of culture has appeared both abroad and inside the country. In my thesis I was looking for the answer, what role this touristical branches, and its management plays in Western Europe according to certain case studies. I was also interested in inland relations, mainly Kisalföld as possibility of touristical management of crossborder region.

International examples of festivaltourism

In my research I have used Diane O Sulivans és Marionj Jackson's research, made in 2002, about how to sustain festival tourism. Researches noticed the different villages and towns in Wales going back to their roots of culture to serve tourism. In the survey festivals were divided into three parts: local, tourist-attractive, and great festivals. It was researched how cultural tourism is sustainable and economical. I was interested in how their criteria of success can be used in Hungary from the management's point of you. The UK had 31m.

tourists. It was the sixth in the world, and fourth in Europe. Spending 38 b. USA \$ by tourists was enough only for the sixth place.

Figure 1 Number of tourists in the world



Source: UNWTO / own editing

Notting Hill in London, a two-day-long programme's cost of organizing was 15 m. £ according to Smith & Jenner research. In Hungary in 2008 the whole festivals throughout the country were supported by the state by 2,4 b Ft (that is only 50 % of the support in London). The aim of a festival in UK is to make profit. It is a good example for Hungary, although the market is much smaller.

The conclusion of the Wales' research is that profit is not the only aim, and the share of profit between the participants, and the sustainability of destination are also important. The successful festival gives a chance to collect money for charity, gives profit for the local entrepreneurs, and gives an opportunity for the local talented people, architectural reconstructions, and to form a positive image. It's very instructive that the aim of the festivals is not only to entertain local people, but the tourists as well. The conclusion is that in Wales the festivals, that attract tourists, have given the biggest opportunities for entrepreneurs for developing of skills for sustainability.

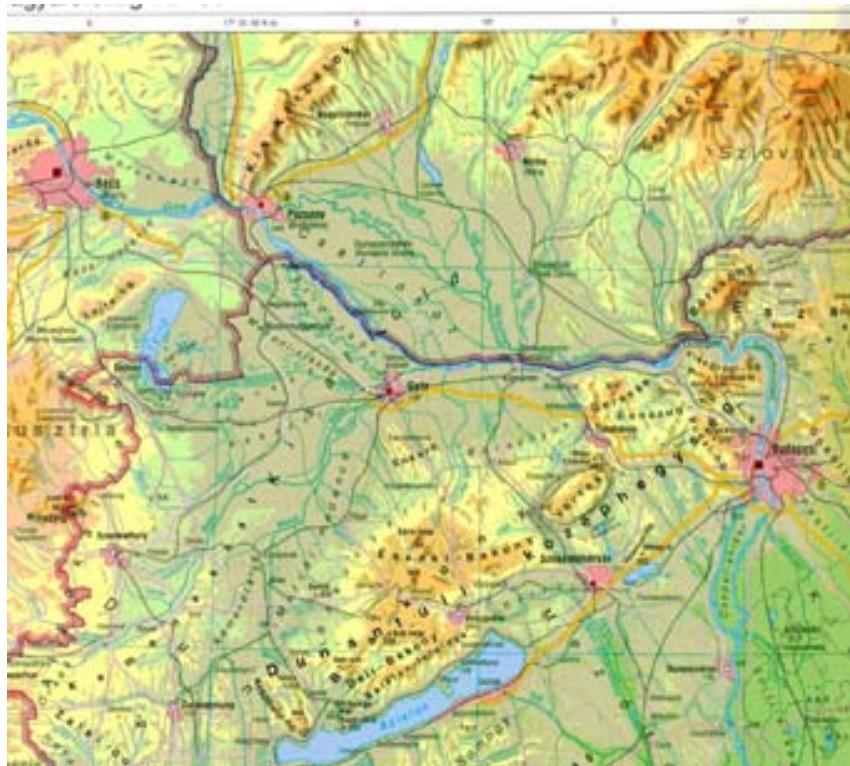
The figures show our drawback from West-Europe in connection with investments. The organizational background has been setup, the festival's quality system has been worked out well. All criterias of success in Wales can be found in it. To reach

the image of „a festival country”, a wide choice of festivals, a stronger inland tourism, the improving guest nights and profits are needed. Based on the statements above, I have chosen the Small Hungarian Plain, which is an innovative region, and I have a chance to make a survey about opportunities of management in festival tourism.

The geografical situation of Kisalföld Small Hungarian Plain”

The aim of the study of inland situation was to discover the touristical attraction of the area. I mainly use the Mosonmagyarovar micro-region touristical conception and strategy, which had been made by the Institute of Tourism in Győr.

As part of the Győr basin, Szigetköz (covers 400 km²) and together with its small parts (Fertő-Hanság basin, Mosoni-plain, Rábaköz, Marcal-basin, Komárom-Esztergom-plain) it covers 4000 km²-s altogether. This area is completed with the Small Plain of Slovakia, (its other name is Plain along the Danube) microlandscape of Mátyusland, and Csallóköz (these are 1600 km²) Together with the Austrian Seewinkel we can speak about a territory as big as 9000 km².

Figure 2.The geographical location of Kisalföld

Source: Geographical map

The smallest great landscape of Hungary is Kisalföld 'Small Hungarian Plain' belongs to Csallóköz, the biggest island of Europe. So we can state that the biggest supply of sweet water of Europe can be found here. The role of sweet water is becoming more and more important, so we are sitting on a "treasure island", and we have to design only its sustainable usage. According to its surface and its sea level, it is a plain. Only its frontier areas, Alpokalja 'Alps', Sokorói-dombság 'Sokoró hills', volcanic mountains: Ság, Somló, a Kis-Kárpátok 'Small-Carpathian', Dévényi kapu,'The gate of Dévény', at Nyitra Tribecs, and North-west Carpathian mean a relief variety on the surface. The value of the landscape, according to the relief, is great only on these frontier areas, but the main attractions are the biosphere of waters, nice buildings of the settlements, special services, and the folklor.

Useable attractions of Small Hungarian Plain

In my publication I study the cultural environment, the culture of bath, and in general the cultural attractions. I study deeper the opportunity of management cooperation, and in connection with that I also study the cultural programmes and events, and opportunities of mutual developments.

My presentation doesn't give a chance to study the branches above, but the most important examples will be underlined.

Cultural environment

In Csallóköz the important species of flora belong to the families of willow, and poplar (white willow, white poplar, black poplar, grey poplar). The species of animals living here are the birds living

near the water (great bustard, bald eagle). The backwater of 'Csicsó' is one of the most precious area of Csallóköz, appears with its irregular unique form.

Naturally You can find small games, and fishes. (catfish, carp, bream, pickerel). Csallóköz (used to be called Golden garden) is now a fortune mine, in certain areas the aim of fishing is representative, and scientific. For example at the Black Water, which is natural water and belongs to Kisalföld, in the Relax Holiday spa, the fish must be thrown back after catching, measuring and taking a photo of it.

On the Hungarian side, Szigetköz Landscape Protection Area is a natural complement of Csallóköz. In Hungary there are 48 orchidea species, 24 of these and 8 species of violet, live in the protected area. 16 of the 65 species of fish are protected (e.g.: botos kölönte, tarka géb). Both areas give home to a numerous water invertebrate, insects, amphibian, and reptile.

Some of the details, mentioned above, justify that a 'connected water empire' was created here, that could be taken care of. This idea was the base of the plan of the common national park.

Culture of bath

In connection with the culture of bath. Nagymegyer, the spa bath of Dunaszerdahely is outstanding. In Szigetköz, Lipót, Mosonmagyaróvár and Győr are the base in the branch of health tourism. Among the attractions of Kisalföld there is also a bath in Komárom. The creation of the whole verticum of the branch, based on the network of the spa bath, could be an important base. Pannon Termál Klaszter, initiated by people from Transdanubia, offers a good opportunity to extend the cooperation across the border.

Moson-Danube, Old Danube, small-Danube and River Vág give a chance to enjoy water tourism. This possibility is also part of the islands touristical usage. The power plant doesn't have many positive sides, but its canal became a favorite water-touristical center. The realisation of the infrastructure of the branch, ports, services, and to solve the lifting of boats are further important tasks

Built attractions, folklor

The churches, castles, museums of the settlements, as the elements of the built environment, mean local, regional value. I want to emphasize Csallóköz museum in Dunaszerdahely. Panning, blupainting, fishing are significant jobs from ethnological point of view. We can't miss Jedlik Ányos house, which has been rebuilt lately, and has been the home of tourist office, house of trades, and conference room since 2010. Twin developments in 2010 through the interreg application are fulfilled on the Mosonszolnok side. In Szigetköz the tradition of Panning, blupainting, fishing are also significant, museums and cultural centers can be found in Mosonmagyaróvár and Győr. The painting of Maria in the Basilica of Győr is an outstanding attraction. Among the famous attractions of the region we must mention Pannonhalma, which is the part of the World Heritage, situated in Szabolcs-Szatmár-Bereg region, and the church of Lebény, from the roman times.

The folklor of Mátyusföld, Csallóköz and Transdanubia have a lot in common. In my research I was interested in the change of their history and their development. Among their important dates, we must mention the following events: The fair of Márton day, Luca day, election of the new king of pentecost. Béla Bartók said the following statement in connection with the folk music of the area: '20 % of the Slovakian folk music contains the Hungarian influence, and 40% of the Hungarian folk music includes Morva-Slovakian elements.' The spectacular elements of Hungarian folklor represent the unique attraction in Europe. Specific folk dance types: pipedance, swederdance, handkerchiefdance, czardas, verbunk. The civil dances: mazur, polka (two step), walking polka also show slovakian influence.

The Slovakian economical and commercial situation has put a big pressure on Hungarian traditions. For example wood trade strengthened the contact between the northern and southern countries on the River Vág. The role of 'Tót' people was important in the change of information and it took place in the fairs and markets. As I have already spoken about the culture of spa bath I must emphasize here, that in the life of spa baths in the 19-20th century in Upper-Hungary, connected folklor programmes were regular. Associations that organized the programmes played an important role in preserving folklor.

After Trianon the River Danube does not appear as a new frontier river and the relationship of the countries in connection with wood trade stops. The loser of the process was the woodprocessor factory in Komarom. The homogenisation began in Slovakia. Although there were big festivals, the elements of the local folklor didn't appear, the fusion started. The regional frontier relationships started to get better from 1989, and folklor clubs come to alive.

SWOT analise

In my following work I am going to analise the festival tourism of Kisalföld in connection with strengths, weaknesses, opportunities and threats

- Strengths: folklor clubs, organizations (folkmusik groups e.g.: Jóka: Kis-Malmos, Malmos, jitterbands)
- Weaknesses: lack of money, certain unsolved economical and environmental questions, organizing experience, problems of the minority
- Opportunities: free borders, support of EU, infrastructures, civil initiations, introducing and preserving the multi-cultural frontier modell region
- Threats: globalisational trade influences, extreme view, apathy of the entrepreneurs

Suggestions how to develop the products of festival tourism, and its organization.

(The possibilities to cooperate for destinations along the border).

To make use of the attractions mentioned above, which are in connection with festival tourism, requires a lot of tasks. The aim of the Conception of Regional Development is the rural development and to make the cooperation among the settlements along the border. I would like to outline some goals: the tourism, the relationships among the catchment area, the improvement of accessibility, Hungarian- relationship, and the role of management. 'The cooperation along the borders is not efficient' said the Institute of Tourism of University of West Hungary Apaczai Csere János Faculty in the conception, prepared for the foreign tourism for Mosonmagyarovar micro-region in 2007-2013. Compared to this statement, the

actual interreg applications are big steps forward (Szimő-Mosonszolnok cooperation, training for tourist guides along the border). Location of Kisalföld, which lies along three borders, can be an advantage, because Vienna is 90 km-s far and Bratislava is 40 km-s far from the center of the micro-region. 33 People were asked in the survey and eleven people said that the development of cross-border cooperation is very important. Now passing through the borders are free and we hope that it will open the possibilities of destinations to cooperate.

In the second phase of our micro-region's strategy among the solutions are to take advantage of the projects and applications of cross-border, and to strengthen the initiatives over the borders. Building the contacts along the border can result a boom in conference tourism. According to cultural programmes, exchange programmes are available. Szigetköz, Csallóköz, Hanság, Mosoni-síkság could be the resort zones of the district Wien and Bratislava and the third markets. To reach these goals completer products are needed. And an essential condition is to make the management organizations stronger, and to make contact programmes along the border for them.

Among the tasks is to make a mutual touristical strategy (aktion plan) referring to the Hungarian-Slovakian crossborder areas based on the experiences of the management of entrepreneurs. It would be useful to extend it to the Austrian side.

Organizing a cultural festival going around the settlements of the border, year by year, would be important with the cooperation of experts from catering and culture. The aim of this festival is to pay Europe's attention to this area, and to introduce the choice of destination for people living in the neighbourhood. The programmes are one week long and different groups and bands go on stage for a week, for example: craftsman, artists. Opera, operetta, classical music, folkmusic, folk dance are outstanding. The local settlements, according to their possibilities, also take part in organizing the programmes.

Summarising

Collecting the information has a basic importance in making applications in the future. As the result of the work – based on the common, cultural traditions, and natural beauties – from year to

year, step by step, a unified target destination can be created in the Small Hungarian Plain , and their management organization could work together efficiently. The aim of the organization is to attract the tourists inland and from abroad to the festival programmes, with right timing and thematical programmes (folklor art, gastronomy, green festival, amateur programmes). The organizers should make a chance for the participants of the festival to discover the surrounding environment. In conclusion, it is proved that when organizing festivals, the wide range of attractions and wide range of participants should be considered to make success, to make people stay longer, to be well-known, and to have higher profit.

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THE SHADES OF GREEN LIVING IN HUNGARY

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Abstract

The aim of the present article is to show the environment-related consumer behavioral patterns of the Hungarian society based on the results of a representative research. The authors' empirical study focused on determining the consumers' environmental awareness and mapping out the differences between their behavioral intent and actual actions. The authors present the results of the quantitative part of the research. In the study the authors differentiated four consumer segments on the basis of the NEP scale: the skeptics, the indifferent, the sensitive and the egocentrists. After a detailed presentation of the four segments, the authors highlight the differences between the actual behavior of the segments at home and on holiday, as well.

KEYWORDS: environmentally conscious consumer groups, environmental consciousness, NEP, Hungary

Introduction

One of today's global problems is our ever-growing raw material and energy consumption, driven by the expansion in household consumption. Raising awareness of the issue and increasing individual responsibility have been a point of focus for the last thirty years, further underlined by the 2008 economic crisis.

By now, the environmental consciousness of European consumers has indeed started to constantly grow, even if at a slow pace (NationalGeographics and Globescan, 2009).

Pro-environmental behavior primarily manifests itself in actions like health-related consumption, paper recycling or reduced household purchases (Cetelem, 2010). Thus the opportunity is now given for the post-crisis new economic equilibrium to be built upon conscious and responsible behaviors.

Yet the preferences influencing the establishment of the institutions fostering this process and related communications activities might be different for each country. In order to define these preferences, however, one must have exact knowledge of the fundamental mechanisms behind the characteristics of the country's consumption.

Literature overview

Becoming a conscious consumer and adopting an adequate behavior is a long and versatile process, during which the individual gets acquainted with consumer goods and services and learns how to behave under market conditions. Environmentally conscious behavior, accordingly, is a complex phenomenon, one of the aspects of which is 'pro-environmental activities' (Majláth, 2004). This behavior might manifest itself in one's active participation in environmentalist political activities, their participation in / support of environmental organizations or the fostering of environmentally conscious decision making in the workplace (Smith-Sabasto and D'Costa, 1995, Stern, 2000).

Characteristics of environmentally conscious consumption

The concept 'environmentally conscious consumer' has been defined in many ways. According to Roberts (1996), a consumer is to be considered environmentally conscious if they purchase goods and services which they believe to have a positive or a less negative impact on the environment. Meffert and Kirchgeorg (In: Nagy, 2005) suggested that environmentally conscious consumers be defined as natural persons and legal entities who take into account ecological impacts in their purchase decisions. Eco-conscious consumers realize that the development, production, distribution, consumption, use and even the disposal of any product places a heavy burden on the environment and causes additional costs. They strive to minimize these negative effects and additional costs.

Moreover, according to Meffert and Kirchgeorg (1993), eco-conscious consumer behavior might be accomplished in several different ways. The majority only considers a couple of factors, instead of taking advantage of all the opportunities. Meffert and Kirchgeorg (1993) identified five types of behavior which an environmentally conscious consumer might choose:

- (1) Reducing the consumption of traditional goods,
- (2) adjusting demand – purchasing eco-friendly products instead of traditional ones,
- (3) consuming environmentally efficient goods,
- (4) participation in recycling, in separate waste collection,
- (5) environmentally conscious complaints or protests.

An important issue in green marketing is to determine the qualities, habits and actions characteristic for eco-conscious consumers (Straughan and Roberts, 1999). Studies usually attempt to describe such consumers using demographic categories, based on their commitment to the environment. They examine environmental consciousness by studying the individual's attitudes and actions. According to Paco and Raposo (2009), previous research projects used the following four groups of criteria to identify consumer segments:

1. demographic characteristics: age, gender, religion, marital status, education, workplace, income etc.
2. psychographic information: lifestyle, personality, motivation, values, attitude

3. behavioral characteristics: knowledge, product use, purchasing habits, brand loyalty

4. environmental characteristics: concern, perceived consumer efficiency, emotions, commitment, environmental consciousness, subjective norms, consumption of pro-environmental products, information search, willingness to pay extra, recycling.

Eco-conscious consumers tend to be characterized as follows: young, highly qualified urban female with middle-to-high income. Yet different studies sometimes yielded differing, or even contradictory, characterizations. Straughan and Roberts (1999) explained such differences by the formation and the constant changing and strengthening of environmental consciousness. Consumers' environmental consciousness varies from country to country and it is also changing with time, thus consumer characteristics are constantly developing, as well.

An advantage of demographic segmentation is its ease of use, yet psychographic variables provide a much stronger and thus far more useful characterization of the eco-conscious consumer (Straughan and Roberts, 1999). Even though there is indeed a significant relationship between demographic characteristics and eco-conscious purchasing behavior, these variables lack explanatory power, which is stronger for psychographic factors. From a marketing point-of-view, accordingly, one should prefer psychographic or mixed (demographic and psychographic) segmentation models.

It is rather hard to choose the right segmentation criteria because a number of segments can not be found in the consumer market in their original form (Paco and Raposo, 2009). Of course, this choice heavily depends on one's research objectives, the characteristics of the market in question and the segmentation methods chosen.

Given that the objective of the present study is the exploratory examination of Hungarian consumers' environmental consciousness, segmentation was based on environmental attitudes - on consumers' views about the environment - which the authors chose to measure using the New Ecological Paradigm (NEP) scale (Dunlap et al., 2000).

Research results

Research methodology

The study focused on exploring the level of information of the Hungarian population, their environmental attitudes, the behaviors thought to be important along with the extent to which they are realized and the motivation behind these behaviors.

Data collection was carried out between May 15 and May 31, 2010. Total sample size was 803 respondents, representative of the entire population (with regard to regions, type of settlement, age and gender). All interviews were conducted in person. Data was analyzed using the SPSS software suite.

The questionnaire contained 21 questions, eight of which were about demographics. Questions were focused on exploring respondents' concerns and level of information about the environment and their pro-environmental behaviors and environmental attitudes.

Besides assessing the importance of environmental issues and the population's level of information, we also wanted to know the extent to which respondents were concerned about their environment and how knowledgeable they believed themselves to be about the topic. Next, we inquired about their actual actions. We were also interested in whether the motivations for these actions were of an ecological or a material nature and which actions the population consider important and feasible.

Beyond introducing pro-environmental behaviors, the present study also provides a characterization of the groups we distinguished by their environmental attitudes. The purpose of clustering was to identify the groups upon which a critical mass of support for change could be built.

General characterization of the sample concerning pro-environmental behavior

Respondents considered quite a number of pro-environmental behaviors highly important. The five behaviors mentioned as most important were separate waste collection, reducing energy consumption, purchasing local products, using

public transportation and choosing environmentally friendly accommodations. Comparing importance vs. realization for each action, however, yields significant differences (see Table 1).

The actions achieving the highest realization figures were: switching off the lights (91.41%), bringing their own shopping bag (73.97%), and turning off the tap (71.86%), separate waste collection (59.78%) and buying energy-saving bulbs (58.53%).

These are the actions which not only have a considerable effect on our everyday lives, but also are the actions we hear of most. At the same time, nonetheless, these are the ones requiring the least effort, too. The findings of our present study are in line with international research results (NationalGeographics & Globescan, 2009). Consumers have already discovered those behaviors which are easy to perform and the realization of which might also be motivated by financial savings. All positive changes so far were relatively easy to achieve. Car use has not yet been reduced and households have not yet been restructured, either. Changes up to this point have not required financial sacrifice and have not caused any inconvenience.

Environmental responsibility, however, is not the only motivation behind the aforementioned actions. The qualitative phase of our study suggested that respondents were driven by economic reasons -financial savings- rather than environmental consciousness. This suspicion is also confirmed by the data in Table 2.

Separate waste collection and the purchase of eco-friendly detergents are indeed motivated by environmental reasons. Moreover, the pro-environmental alternatives concerning consumers' vacations are also preferred – even though only by a minority of respondents – because of environmental considerations (choosing eco-friendly accommodations and consuming locally produced food).

Demographic characteristics, in contrast to motivations, demonstrated larger differences for these questions. There are weak significant differences by gender, primarily for housework-related items. Relatively more women pay attention to bringing their own shopping bags and to washing at a lower temperature. The relationship is the strongest in the case of washing, with a Cramer V

value of 0.262. The difference was relatively large for tooth brushing, as well – it is more typical of women to turn off the tap.

Considering age, the elderly generation -65 and above- proved to be more active than younger people in almost all cases. There is a significant difference in consuming home grown food products, where Cramer V = 0.175, thus the relationship is a weak one. The older the respondent, the less frequent they use rechargeable batteries. Most probably, this is due to younger generations' higher consumption of electronic products.

Concerning place of residence, environmentally conscious behaviors were less characteristic for respondents from Budapest. The most significant differences were detected for home grown food consumption and personal transportation habits. The share of those consuming home grown food products was far above the average (42.47%) amongst respondents living in townships or villages (70.20%) and the same holds true for holidays by train. In spite of the presence of significant differences, all other variables indicated weak relationships only.

Differences were also significant by level of education. The higher the level of education, the higher the frequency of eco-conscious behaviors, with college graduates scoring the highest. The consumption of home grown food, on the contrary, was most characteristic for those with the lowest levels of education. Vacation-related variables yielded surprisingly low figures for those with a university degree.

Considering respondents' income, a picture very similar to the ones presented above unfolds. The behaviors we examined proved to be more characteristic of those with either high or low earnings than of middle-income respondents.

Consumer groups and behavior patterns distinguished by their ecological worldview

Beyond exploring the various manifestations of eco-friendly behavior, our study also aimed at identifying some further characteristics and behavior patterns of the consumer groups we distinguished by environmental attitudes. A detailed review of our findings follows below.

Respondents' ecological worldview was assessed using the New Ecological Paradigm scale (Dunlap et al., 2000). According to its theoretical framework, the scale measures individuals' environmental concern along five dimensions, namely the reality of limits to growth (limit); anti-anthropocentrism; the fragility of nature's balance (balance); the rejection of exemptionism (anti-exemptionism) and the possibility of an ecocrisis (ecocrisis).

The fifteen items distributed into three – instead of the expected five – groups (comprehensive characteristics). Principal Component Analysis, with Varimax rotation, was used to combine variables. Data reduction retained 51 percent of the original dataset which is acceptable in the field of social sciences. This technique produced three factors (see Table 3) along which the fifteen NEP items got combined, namely:

1. Skepticism towards technology,
2. Concern about the disastrous consequences of upsetting the balance of nature,
3. The right of man to resources.

Based on the resulting factors, we carried out a hierarchical cluster analysis using Ward's method to partition our sample of respondents. Our objective was to create groups from the sample which are more homogeneous concerning environmental attitudes. From amongst the three-, four- and five-cluster solutions considered, the 4-cluster variant was chosen based on the analysis table and cluster centroid and standard deviation figures. The first cluster consisted of 223 respondents, while the second, third and fourth had 130, 245 and 184 members, respectively (see Table 4).

The four clusters are: Skeptics, Indifferents, Sensitives and Egocentric pushers.

Skeptics think that our planet does have the necessary amount of resources, but mankind lacks the knowledge needed to handle the problem. Consequently, members of this group are worried by these issues.

Indifferents have faith in technological progress and believe that it is the answer to environmental problems, as well. A potential ecocrisis and the exhaustion of resources, in their opinion, might be prevented by employing the appropriate technical solutions. They are hardly worried and have as good as no understanding at all of how complex

an issue this is. They are hardly worried and have practically no understanding of how complex an issue this is.

It is the Sensitives who have the most serious concerns. They consider the exhaustion of resources and the upsetting of nature's balance a very real threat of the future. They do not believe that human creativity and technological improvements would be sufficient to contain the problem. They attribute rights to all living creatures very similar to those attributed to humans.

The Egocentric pushers, just like the Sensitives, consider the narrowness of resources and the fragility of nature's balance to be real issues, yet they have faith in human knowledge. They firmly believe that technology can provide the solution to these problems, thus they are less worried than the third or the first group.

All four clusters appear to be balanced by age and gender, cluster averages varying around the sample average. Place of residence, however, showed significant differences. Budapest residents are under-represented in the first cluster. Those living in county towns represented a higher share in the groups of Sensitives and Egocentric Pushers, while urban respondents were most characteristic for Indifferents, with only 14 percent of them belonging to Egocentric Pushers. The majority of those living in townships and villages were part of the first cluster.

Concerning all other demographic variables, the four clusters very much resemble the sample, without any significant differences.

Skeptics

Social relationships and values are of special importance to the first cluster. Their most important values are the sense of belonging, good relationships with others and recognition. To them, the feeling of creation was the least important.

Environmental conservation is of average importance ($M=4.41$) to the members of this cluster and they feel they are the least well-informed about environmental matters ($M=3.03$).

They can be considered a consumer group of moderate eco-consciousness. The avoidance of littering and the consumption of local products were their most typical behavioral intention items.

A possible explanation is that this is the cluster representing those living in villages that have the highest proportion in the sample and have better opportunities for growing their own food or buying local products.

Their actual behavior is dominated by the simplest actions like bringing their own shopping bag or switching off the lights. They tend to be motivated by economic reasons, even in consuming home grown food products.

An important point about their consumer attitude is that they pay attention to buying products which do not harm the environment, or other people. This is the group for which risk aversion is most typical. Their health consciousness is just about the average, but they are concerned about the harmful substances in food products and about drinking-water quality. Skeptics are the least price conscious segment.

Indifferents

The sense of belonging was the most important value for this cluster, too, but from a slightly different aspect as for skeptics. The feeling of safety and self esteem were emphasized values, as well, thus indifferents' approach to the sense of belonging is of a more individualist nature.

Environmental protection is least important to this group from amongst the four clusters ($M=4.08$) and at the same time, they feel they are the least well-informed about environmental matters.

Being the least eco-conscious cluster, the only important eco-friendly action included in indifferents' behavioral intention is the avoidance of littering. The use of public transportation and environmental conservation during holidays / excursions is least important to them as compared to the other clusters, and their commitment is the lowest to any pro-environmental activity, as well. Neither economic reasons, nor environmental conservation motivates them for such actions. Interestingly enough, they pay more attention to how much water and energy they consume during a vacation as compared to the other three clusters.

Consciousness, however, is hardly a part of their consumer attitude at all; they are the least concerned about the amount of harmful

substances in a product. This segment, however, reported the highest level of health consciousness, accompanied by a low level of risk aversion and high price consciousness.

Sensitives

Considering this cluster, the importance of environmental conservation became apparent when exploring their values. Apart from environmental conservation, their most important values were self-actualization and the sense of creation. Entertainment and the enjoyment of life were least valuable to them.

This is the very group out of the four for which environmental protection is the most important ($M=4.7$) and they think they are moderately well-informed about the topic.

Their behavioral intention already includes some less trivial activities. Besides trying to avoid littering, they also strive to reduce the amount of their household waste and emphasize the purchase of locally produced goods. Considering actual behavior, this segment is the one that most frequently performs pro-environmental actions. Economic considerations and eco-friendliness are both relevant motivations for their environmentally conscious behaviors. Environmentalism, rather than financial gain, is the reason for them turning off the tap when brushing their teeth, as well.

They are rather consistent about these things when in their home environment, yet during their holiday, they are inclined to become less careful about their water and energy consumption and waste disposal.

Besides trying to keep well-informed about environmental matters, this segment is also particularly interested in health-related information. They are highly risk averse.

Their consumer attitude also confirms that this cluster, along with egocentric pushers, features the most conscious consumers. Their price-consciousness, however, lags behind that of indifferents.

Egocentric pushers

The enjoyment of life and the sense of creation are most valuable to them. They give the least

importance to the sense of belonging, to good relationships with others and to safety.

Considering the importance of environmental protection, they scored above the sample average ($M=4.6$). Cluster members provided optimistic answers to all questions; they are the ones who believe themselves to be more well-informed than the others even though their level of information is only moderate. They reported periodicals to be their most important sources of information.

The fact that this segment has the strongest faith in man's talents and that they believe technological development to be the solution to this crisis is clearly reflected in their behavioral intentions. Replacing their car for one with a lower emission and purchasing eco-friendly products is important to them. Just like in the case of sensitives, the avoidance of littering is of no special importance to them, either.

The consciousness reflected in their actual behaviors is similar to that of the third cluster, too. When in their home environment, they mostly prefer „visible” activities by which they can demonstrate to the neighborhood their commitment to such matters. They pay less attention to what remains hidden to others, like water and energy consumption. Similarly, visible activities dominate their vacation, as well: separate waste collection, consumption of locally produced goods. An interesting specialty of this cluster was volunteering during vacation time.

Another indication of their level of information is that they do take into consideration which company a given product was manufactured by. Their rejection of irresponsible corporations is stronger than the sample average.

They are, however, less bothered with their health than the other three clusters. They do gather relevant information, they even read food labels but they tend not to be worried all that much. Their risk aversion and price sensitivity is moderate.

Due to their differing ecological worldviews and other characteristics, the above groups need to be approached by different communication and support strategies in order to promote desired behavior patterns.

Limitations of the research and future directions

One limitation of our quantitative study was that we primarily focused on the internal factors of behavior, not taking into account external factors like fiscal incentives, the regulatory system, the institutional environment and social practices. It would be advisable to include these factors in the analysis and to conduct a longitudinal study on the basis of existing results.

Furthermore, we have come across several topics during the research project the exploration of which might contribute to developing a better understanding of sustainable consumption issues. Questions related to the phases of the process of commitment and to the location-specificity of pro-environmental behaviors might be worth paying special attention to, as the need for further investigations into these matters has already been confirmed by our previous qualitative studies, as well.

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CULTURAL PLANNING AND CREATIVE TOURISM IN AN EMERGING TOURIST DESTINATION

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Abstract

The latest trends suggest that tourism planning and development requires that destinations differentiate the tourism product in an increasingly competitive market. Expectations of today's experiential traveller require that destinations deliver the most memorable experiences. Tourism products must adapt to such changing tourist demand. As an emerging tourist destination, Viana do Castelo (Portugal) is pursuing specific strategies for enabling innovation to differentiate tourism attractions, products and destinations. Viana do Castelo strengthened its creative spaces, and thus its creative energy, by preserving heritage buildings as well as constructing a cultural transformation through better building design to showcase the uniqueness of the destination. The objective of this paper is to identify creativity strategies developed in Viana do Castelo for building the necessary infrastructure and environment in which creative tourism can flourish and to create awareness and share best practices with destinations facing similar challenges.

Key words: urban cultural planning, creativity, tourism, experiences

Introduction

Law (1993: 1) suggests that cities are arguably the most important type of tourist destination, offering a diversity of resources. Urban cultural and heritage assets—such as museums, galleries, historic centres, squares, theater, and architecture—have traditionally provided a wide variety of cultural opportunities. Cities have drawn upon their cultural heritage for developing the tourism potential. Cultural and heritage tourism has been used as tool for economic and community development

which has proved to be a blessing for many urban areas. Evidence suggests that urban spaces and assets can be used to improve the quality of urban life for residents and visitors alike. Boniface and Fowler (1993: 77) assert that “towns and cities are actually much more interesting than the tourist is often allowed to appreciate”. Boniface and Fowler’s assertion suggests that the authentic resources and living traditions can be used by local governments to revitalize the urban economy.

In recent years, culture has taken on a more instrumental meaning in cities. A “cultural turn” is taking place in which cities are being repositioned in the marketplace. Culture now represents the ideas and practices, sites and symbols, of what has been called the “symbolic economy”, i.e. the process through which wealth is created from cultural activities, including art, music, dance, crafts, museums, exhibitions, sports and creative design in various fields (Zukin, 2004: 3 in Richards and Palmer, 2010). Signs of change have emerged as more attention has been paid to experience production and creativity as an element of both tourism consumption and production (Richards and Wilson, 2007). The market is now more diversified, experienced, more quality-conscious and wants a higher activity level. The products on offer need to be flexible and customer friendly, they need to include natural experiences and personalized services (Poon, 1989).

The focus of many development strategies has therefore shifted from the cultural industries to the creative industries (Richards and Wilson, 2007). The growing importance of the creative sector is also a result of what Pine and Gilmore (1989) have called the experience economy, where competition based on producing goods or services has been replaced by competition to produce experiences. Tourism experiences are generated by the people

met, places visited, activities participated in and memories created from travel, particularly through watching, tasting, smelling, touching, listening to and being part of a culture or lifestyle that is distinctly different from everyday life. For the experience seeker it extends beyond a single activity and is a combination of experiences that reach an individual's deeper needs and desires (Tourism Australia, 2007).

In this sense, creativity could be applied to tourism through the development of new products or experiences; of new forms of consumption or new tourism spaces (Richards and Wilson, 2007). For example, the "slow philosophy" is beginning to emerge in tourism destinations in order to capture preferences of short-break segments of the market searching for soft adventure experiences, usually linked to local cultural heritage. Some cities are seeking to capitalize on their creative resources and meet emerging consumer needs by embracing "slow tourism places".

Destinations are therefore beginning to replace or supplement culture-led development strategies with creative development (Richards and Julie, 2007). The role of Florida (2002) in championing the "creative class" has also strengthened the link between creativity and cities, because the "creative class" according to his definition tends to concentrate in cosmopolitan, urban areas. Furthermore, the tendency to locate creativity within the urban sphere stems from the dynamic nature of cities and their role as centres for innovation and change (Amin and Thrift, 2002) in which design plays a crucial role. Consequently, cultural planning needs to be part of a larger strategy for urban development.

Emerging trends in the tourism industry

Tourist market needs are constantly changing. Tourists are taking more frequent and shorter leisure trips, a greater demand for experiential travel and an increasing popularity of city and short breaks, facilitated by the increased availability of low cost airlines and the internet revolution which represents a fundamental and extensive force in how people seek information and make their bookings.

In some areas the market for —sun, sand and sea products appears to have reached a stage of saturation, which explains the current interest of

tourism developers, public and private, in alternative resources transformable into tourist products. Many tourists are becoming increasingly bored with the packaged, sanitized products currently on offer in the tourism market. Even cultural tourism, seen by many destinations as the antidote to low quality, mass tourism (Richards, 2007; 2009), has become so ubiquitous and large scale that it has taken on many traits of conventional tourism.

Destinations are increasingly facing a challenge to develop new — place/product combinations which are strongly competitive, unique and attractive for special interest or niche markets that want specific products and experiences. Today, demand is much more fragmented which explains the drive to create innovative place products catering for smaller groups and fully independent travelers who create their own itineraries by drawing on the internet and other resources. The internet revolution has accelerated the growth of independent travel which is growing more quickly than the package holiday market. Consumers increasingly use the internet to buy flights, accommodation and car hire separately, rather than bundled into a package. This trend is forcing traditional package tour operators to rethink their approach to selling holidays.

Furthermore, evolving tourist trends have, over the last decade, led to a shift from standardised mass tourism to more individualistic patterns, in which greater flexibility and a more meaningful experience have gained prominence (Gilbert, 1989; Poon, 1989; Hummelbrunner & Miglbauer, 1994). There is a rapidly growing niche market that is directed towards unique and diverse experiences that are authentic to the place they are visiting, including local customs, traditions, arts, history, sites, and culture in an engaging and memorable way. On the consumption side, tourists are engaging more actively with the culture and creativity of places and increasingly turning their backs on products which reduce them to mere observers of culture (Richards, 2008: 83). Destinations that deliver memorable visitor experiences consistently create superior value and competitive advantage (Voss, 2004).

The growing importance of intangible culture also means that the type of cultural content is changing. In the past, cultural tourism was dominated by high culture, the museums, art galleries, and monuments that constitute the must-see sites for many destinations. Increasingly, these mass cultural

sites are places to be avoided for the discerning tourists, who prefers to seek out small scale, out-of-the-way places that other cultural tourists have not yet found ... what the tourist is seeking in these local places is more contact with real people and engagement with the local culture and creative practices (Richards, 2008: 82). Today's tourist seeks experiences that broaden and deepen his or her understanding of other places and people. Attractions must come alive for the visitors with human drama of history, not just names and dates. But they want the fairytale and not the hardships associated with the traditional activity. As a result, destinations need to develop creative policies and strategies and appropriate products need to be stimulated. If we follow the logic of Florida, it would seem that we need to attract the creative class in order to provide a basis for such production. Creativity needs space, and creative destinations make innovative use of their spaces to facilitate creative tourism. This also applies to the area of accommodation, which is usually one of the least creative aspects of the tourism product (Richards, 2008: 86).

Towards cultural planning for creative tourism

Patrick Geddes defined cultural planning as the strategic and integral use of cultural resources in urban and community development and insisted that all planning must take account of the three fundamental coordinates of Folk-Work-Place (in Meller, 1990:46):

Planners need to know how people live, work, play and relate to their environment. We need to be able to fold and integrate the complex, histories, textures and memories of our urban environments and their populations into the planning process. We need to do some cultural mapping - tracing people's memories and visions and values - before we start the planning. The cultural life - institutions, streets, programs, activities of a city has a crucial role to play in this but not if we limit this to the spectrum of "culture as art". Geddes argues strongly that we need to move away from both "mentalist" and "aesthetic" conceptions of culture and that we need to have a much more robust, "hands-on" relationship to the production rather than simply the consumption of culture.

With a little advice from Geddes and the benefit of our own experiences we can begin to recognise

that cultural planning is, as Franco Bianchini has put it, a "difficult art" (Bianchini,1989 in Meller, 1990). Cultural planning must take as its basis the pragmatic principle that culture is what counts as culture for those who participate in it. This can mean contemplating an art object and it can mean strolling down the street, sitting in a park, eating at a restaurant, watching people at work and so on. This is much closer to an anthropological definition of culture as a "way of life" than it is to an aesthetic definition of culture as art. This is why we need to return to some of the complexity suggested by Geddes' simple formula of Folk-Work-Place (Meller, 1990).

Nick Leon from Design London concluded his presentation at the Urban creativity: How cities can hold onto their talented workers conference saying that cities which do not innovate, decline. He said an integrated approach is essential if a city is to become globally competitive. A city must have a) an inclusive social and cultural programme to connect its talent, b) align this with its economic development strategy, c) focus on developing a sophisticated interdisciplinary innovation system, d) ensure integrated infrastructure, and e) underpin this with strategic urban design. <http://www.creativecapetown.net/urban-creativity-how-cities-can-hold-onto-their-talented-workers/>.

Since the mid-1990s, when "creative city" ideas heralded a new revitalization strategy for cities, urban and economic development planners in communities of all sizes have increasingly turned to arts and culture as development tools. Performing and visual arts centers, festivals, public art, artist live/work buildings, artists' centers and community cultural centers have been planned, invested in and built as ways to revitalize emptying downtowns, attract tourists, preserve historic buildings and cultural traditions while celebrating new ones, stabilize communities and solve community problems. These efforts are also aimed at nurturing urban distinctiveness and contributing to the creative economy by producing, attracting and retaining artists, who in turn export significant portions of their artwork and provide a flexible creative workforce for employers in cultural industries (Markusen, 2006).

The Creative City (Landry, 2000) is a call for imaginative action in the development and running of urban life and offers up a clear and detailed toolkit of methods by which "our cities can be revived and revitalized. Although the arts are

valued as an important constituent, the concept was meant to convey a more general strategy for urban regeneration and growth. The creative city identifies, nurtures, attracts, and sustains its talent to mobilize ideas, talents, and creative organisations to keep and attract the gifted and the young. Within a creative city is wrapped the idea of the creative economy. This focuses on the media and entertainment industries, the arts and cultural heritage, and creative business-to-business services (Landry, 2008: 35). Richards and Wilson (2007) argue that creative cities—particularly those recognized and emulated—pay as much attention to the public realm and city environs as to cultural buildings and visitor attractions. The city as art gallery or design centre is therefore an ambitious but shrewd strategy which benefits residents, workers and tourists, improving quality of life, access and mobility—the first to suffer under mass cultural tourism. This includes sculpture and art and architectural installations and public squares, parks and gardens—from traditional statuary to commissioned and temporary artworks. Miles and Paddison (2005: 833) observe, that within a space of just over two decades, “the initiation of culture-driven urban (re)generation has come to occupy a pivotal position in the new entrepreneurialism” and “the idea that culture can be employed as a driver for urban economic growth has become part of the new orthodoxy by which cities enhance their competitive positions”.

The strategic and integral use of cultural resources in urban and community development as referred to by Geddes is influencing a new form of tourism that has the potential to change existing models of tourism development [in urban areas] and to make a contribution to diversifying and innovating the tourist experience. By doing so, creative tourism can help stimulate local economic, social, and cultural development (Richards, 2008). Comprehensive planning for creative tourism development is crucial for assuring positive visitor experiences, benefits for local residents and minimal adverse impacts. Tourism planning must be locally driven and focused on the connections between cultural resources and the life of the community itself.

A possible strategy is the slow city approach. Slow cities developed out of the slow food movement, which started in Italy in the 1980's. Slow food promotes the protection of local biodiversity, the right to taste through preserving local cooking and eating traditions, and highlights the folly of fast food and fast life. Slow cities is expanding the concept

to be a way of life. It emphasizes the importance of local identify through preserving and maintaining the local natural and built environments, encouraging the use of production of local foodstuffs using eco-sensitive methods; supporting production based on cultural traditions in the local area; and promoting the quality of local hospitality. The focus is on appreciation of the seasons and cycles of nature, the cultivation and growing of local produce, through slow, reflective living. Slow cities is not opposed to progress, but focuses on changes in technology and globalisation as tools to make life better and easier, while protecting the uniqueness of towns' character. (Landry, 2008: 40).

With tourist demand based not only on features and benefits but on the sensations and memories that the experiences create, slow cities and slow tourism places can help meet emerging consumer needs for hassle free time for living, experiencing quality of life, tradition and lifestyle authenticity in a perspective of culture as a “way of life”.

Methodology

This study is based on ongoing research coordinated by the Tourism Laboratory of the Polytechnic Institute of Viana do Castelo with the participation of students from the Master degree in Innovative Tourism Development.

The study employs a case study approach involving a number of parallel investigation and analysis. The initial phase included desk research drawing on international practices; and, other sources included other documents, websites, brochures and other material published by local and regional authorities, including popular press (e.g., newspapers). In the second phase, an analysis of available research data was undertaken, e.g. emerging trends in the tourism industry, followed by a number of informal meetings with a cross-section of industry representatives drawn from the culture, design, arts, hospitality and tourism sectors who are members of the Viana do Castelo Municipal Economic and Social Council. The meetings with industry representatives included preliminary observations and recommendations for discussion.

Is Viana do Castelo creative tourism friendly?

Viana do Castelo is a seaside city located in northwest Portugal. The city is characterized by its fishing industry with a strong tradition in the salting and the drying of cod. During the 20th century Viana do Castelo was known for its mighty cod fishing fleet that departed from its harbor for the North Atlantic. The city is endowed with a rich natural and cultural heritage. Considered an emerging, unexplored tourism destination, Viana do Castelo has as its main feature an attractive main square with the architectural landscape dating back to the 16th and 17th century. A three-day festival in the month of August draws hundreds of thousands of visitors to honor the fishermen's patron saint—Our Lady of Agony. Located at the top of the hill and overlooking the city is the Santa Luzia basilica and where National Geographic magazine considers one of the most magnificent sceneries in the entire world. Viana do Castelo is famous for its textile crafts and colorful folklore costumes. But also for its decorative filigree jewelry which reflects back to the time of Moor occupation.

Amongst its other features is the iron bridge designed by the famous Eiffel House of Paris, with the particularity of having two overlapped trays for railway circulation in the bottom and roadway above. The Castle of Santiago da Barra is a fort located on the bank of the Lima River and facing the Atlantic Ocean. Since the 16th century this fort has protected the city from invaders. The Sé Cathedral is a Gothic influenced religious building dating back to the 15th century. There is an abundance of religious spaces and attractions throughout the city.

The Museum of Art and Archaeology is certified by the Portuguese Institute of Museums and is part of the Portuguese Museum Network.

The collections include Indo-Portuguese furniture — Valuable examples of Indo-Portuguese furniture from the 17th century including tables and contadores (cabinets with many small drawers) with inlaid work (teak, ebony and ivory) — Portuguese furniture in the styles of João V, José I and Maria I of Portugal, from the 18th to 19th century, Faience, including the pottery or faience from Viana from the 18th and 19th century made in a local factory - Viana (1774 - 1855), the Blue faience pottery from the factories in Lisbon and Coimbra dating back to the 17th to 19th century and still the pottery from

the post Pombaline period from the Porto and Gaia factories, paintings and drawings —works of art depicting religious themes, representing the Portuguese and Spanish schools of painting from the 16th to the 19th century, and some 20th century paintings by famous Portuguese painters, the tiled walls—the panels of glazed blue and white tiles along the wall's skirting-board are accredited to Master Valentim de Almeida, depicting the Age of the Discoveries, allegorically representing the four continents: Europe, America, Africa and Asia; hunting scenes and palace life, archaeology, including historical, epigraphic and heraldic (coats of arms) nucleus of the region; pre-roman ceramic, bronze objects, palstave, lance point, objects from the roman and medieval period (http://www.cm-viana-castelo.pt/index.php?option=com_content&view=article&id=340&Itemid=565&limitstart=5).

The Museum of Traditional Folklore Costumes was founded based on the people's desire to find a place where they could admire their ethnographic traditions, in particular Viana do Castelo's traditional costumes. As such, the museum's mission is to promote and study the regional identity of the people from the Alto Minho, of which Viana is part. The museum has a permanent exhibition entitled "Wool and Linen in the Alto Minho Costume" set up by the ethnographer Benjamin Pereira. It exhibits the various stages involved in making a costume from the planting of the flax (plant used to make linen) to the various steps that are needed until it is made into thread; and the manual looms where the thread was woven to then be embroidered with designs reflecting the surrounding nature by the delicate hands of local women. In addition to this exhibition the museum presents temporary exhibits on different aspects of Viana's popular culture. With the national costume as a reference, the museum recreates and studies the circumstances and settings under which this lavish array of costumes were used or shown, evidencing the traditional ways of life. This museum is also certified by the Portuguese Institute of Museums and is part of the Portuguese Museum Network http://www.cm-viana-castelo.pt/index.php?option=com_content&view=article&id=341&Itemid= 66&limitstart=4.

Historic preservation is more than simply rehabilitating deteriorating buildings; it is a proven partner in community revitalization and in developing local economies. One fine example is the Casa Melo Alvim, the most ancient manor house in the city, today a charming and welcoming hotel. Dating from 1509, this house has

welcomed several additions along the centuries that have enriched its architectural heritage. Three years of restoration have allowed this wealth to be preserved so it may now be enjoyed by the guests as they journey through the Manuelino, Chão, Baroque, Rococo and Romantic styles of Portuguese architecture. The choice of furnishings also allows contact with different styles like D. Maria, D. José or D. João V, especially in the rooms and suites. These are all different and with accentuated period décor <http://casameloalvim.arteh-hotels.com/>. Cultural planners identified the need to use the environment around them in an experience that celebrates culture and a unique setting for providing authentic and memorable experiences for guests which would also make itself stand out. For example, the chef suggests dishes where combining the best regional products with creative manners of presentation, and as a complement to the meals a visit to the bar for a nightcap accompanied by piano music is suggested. The small garden and cloisters invite you to rest or read in surroundings of complete tranquillity. To complete your stay, the Casa Melo Alvim has prepared a series of suggestions for jaunts into town and the neighbouring region and can also provide bicycles and even a basket for delicious picnics by the sea or in the mountain <http://casameloalvim.arteh-hotels.com/>.

Contemporary architecture is slowly contributing to turning this seaside city into a design destination. At a time when tourists are looking for visual magic, Wallpaper magazine classified recently constructed buildings as an "icon" for the city in which it is built by referring to it as an Architectural Mecca. Examples include the city's new white concrete municipal library, hovering above the commercial centre. The library dominates a re-imagined square master planned by Fernando Távora, a renowned architect that will be completed with the addition of a multi-purpose pavilion. This will feature an aluminum box on top of a light-filled structure, emphasizing the ethereal nature of Távora's vision for this part of town. It was a vision that had a profound impact on a local hotelier and owner of the local Axis Hotels and Golf Group with the arrival of an innovative stacked hotel (Saraiva, 2009). In an ever-competitive market, hoteliers are working with designers for distinguishing themselves and make their mark. Its long term effects have yet to be felt, but there is no doubt of its visual impact.

Viana do Castelo is uniquely designed in harmony with its environment and represents an excellent initiative in community living and sustainable development (and is part of the WHO European Healthy Cities Network). In the last few years, the city has increased pedestrian access, implemented recycling and reuse policies, and introducing an ecological transport system (see Landry, 2005). Alternative means of transportation are provided such as infrastructure to support walking, bicycling, and transit services, and parking sites are provided with safe pedestrian access and circulation to allow a more cohesive pedestrian environment. However, a comprehensive and coordinated network of signage directing tourists and residents to creative industries and [slow] shopping areas has not yet been implemented.

Vianado Casteloneeds to enhance the performance of its creative industries and become known as a centre for creativity by building on its capabilities in art, architecture and design, and strengthening the linkages between these capabilities and the tourism industry. Maximize space for arts and culture in the city's public spaces and the use of city building space for cultural activities possibly by integrating cultural space into all new municipal building projects and encouraging public art installations and performance spaces. Museums need to focus more on the local community with exhibits that have a sense of place and regular programs and workshops that people will return for.

Promote a dream factory by doing things that don't already exist, as opposed to "borrowing" ideas from others. Tourists are increasingly finding cities looking similarly. Cities tend to emulate each other's creativity formula. But places should have their own identity and ideas. Design initiatives need to be specific to its sense of place and endeavour to give it a special or extraordinary quality, whether it be a building, a shopping mall, a bridge or a public square.

Local gastronomy needs to reflect a bigger love of tradition. Food based customs, as part of local heritage, serve as motivation for people to visit [a certain] area (Whelpton, 1966). To the visitor, culinary customs bring change, novelty, a sense of the exotic, which are the basic tourist attractions. Moreover, when these customs are the authentic products of a living tradition and the signs of the human being's adaptation to his environment, it is pleasant and simple experience to become

acquainted with this from inside, so to speak (*ibid*, 10). Gastronomy may be used to distinguish a certain area, especially if carefully planned for providing memorable moments and experiences.

Seasonal events, such as festivals, that feature local history, artists, writers, and craftspeople are essential, as are workshops for residents and visitors alike. Festivals and other events require much planning in order to create a sense of being transported in time and place and mood, of seeing and hearing things as if for the first time, of being stimulated in the most pleasurable way.

Viana do Castelo organizes several festivals throughout the year, with emphasis on the annual three day event in honor of the fishermen's patron saint. Nearly all festivals have a religious, cultural connotation. The city needs an annual design festival to possibly include an annual award for a person who made an outstanding contribution to Viana do Castelo and design, arts and cultural fields in the course of his or her career.

An arts and cultural agency or department needs to be established to act on the municipality's behalf on all matters related to arts and culture and in pursuing efforts to attract and retain knowledge and creative sector workers in the city. It could have as its principle aim creating a haven for artists from around the country and main objective to attract the largest number of working artists per capita in the country. Aspiring artists tend to be more creative—with ambitions for success. For them, art is a full time obsession, but a part time activity. It also needs to boast a vibrant cultural life with a mix of galleries, theaters, museums and music performance venues and festivals.

Conclusion

This paper is based on an analysis of the existing realities of urban cultural planning and regeneration in Viana do Castelo. It covers the present policies and plans as well as the capacities and capabilities that constitute the creativity necessary for making use of all that the environment and history has to offer, including renovating existing structures or building new ones, serving local gastronomy, develop sites that have historic, cultural, natural, architectural, and artistic significance, using products of the region and employing residents and attracting others. The analysis identifies a number of important issues that will have to be addressed

in order to secure improved creative outcomes. On the basis of feedback during the study, visions for Viana do Castelo based on creativity, innovation, design and the link to tourist experiences and the tourism sector are examined. No proposal was made to reinvent tourism, but rather to reinvent urban and rural spaces to appeal to 21st century tourism. Emerging trends suggest that tourists seek not just a place to visit, but to experience. Ideas are what it's all about. Viana do Castelo still needs an attraction, or simply the repositioning of a certain attraction in the marketplace, that would help put it on the map, something that would put people talking about it nationally and possibly internationally. The study concludes with a discussion of actions and initiatives that can be taken possibly through the coordination and initiative of an arts and cultural agency in representation of, but not limited to local authorities. A seed has been planted. Let's hope that stakeholders do not expect too much too soon.

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DERIVATIVES MARKET DEVELOPMENT IN BOSNIA AND HERZEGOVINA: PRESENT OR (FAR) FUTURE?

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Abstract

Derivatives markets have been operating successfully in the USA since 1972. Their main purpose is to provide instruments for hedging risks associated with financial market movements. During these few decades there have been numerous disputes related to the efficiency of these markets. Some financial economists claim that derivatives markets if abused, may cause disturbances in the financial markets (what is recent crisis further indicated on), while some claim that derivatives markets provide irreplaceable instruments for hedging financial risks facing both financial and non-financial firms (which has its stronghold in normal market conditions). Understanding the importance of derivatives markets for the firms, it is our main goal to investigate the degree of derivatives market development in Bosnia and Herzegovina (B&H). Derivatives market in B&H does not exist as organized markets yet, but within the banking sector some types of derivatives are being offered to the firms, mainly derivatives for hedging foreign exchange and interest rate risk. In the paper we will present types of derivatives offered by banking sector, the level of demand for derivatives, the most attractive type of derivative and major arguments for its application, and at the end, possibilities and limitations of derivatives introduction to B&H stock exchanges.

Key words: derivatives market, B&H, banking sector

Introduction

Derivative instruments are financial market products available to management for transferring financial

risks that are not readily insurable by an insurance company. Such risks include risks associated with a rise in the price of commodity purchased as an input, a decline in a commodity price of a product the firm sells (commodity price risk), a rise in the cost of borrowing funds (interest rate risk), and an adverse exchange-rate movement (interest rate risk).

Most commonly used derivative instruments are futures contracts, forward contracts, option contracts and swap agreements. Most of these derivatives are traded on organized derivative markets – derivative exchanges. First organized derivative exchange was established at Chicago Board of Trade in 1848 where commodity derivatives were traded. Later in 1918, first rival futures exchange Chicago Mercantile Exchange was established. Then, almost 65 years later, in 1973 first option exchange was established. It was Chicago Boards Option Exchange. Today, there are numerous derivative exchanges all over the world trading all types of derivative instruments.

Recently, there have been many concerns about the use of derivative instruments by firms. These concerns arise from major losses resulting from positions in derivative instruments. However, an investigation of the reason for major losses would show that the losses were not due to derivatives per se, but the improper use of them by management that either was ignorant about the risks associated with using derivative instruments or sought to use them in a speculative manner rather than as a means for managing risk. Probably the three most widely cited stories of derivatives disasters (misuse) were Orange County, Barings, and Procter & Gamble.

Regardless of above mentioned concerns, if used properly derivative instruments, and consequently, derivatives markets provide irreplaceable instruments for hedging financial risks facing both financial and non-financial firms (which has its stronghold in normal market conditions).

Understanding the importance of derivatives markets for the firms, the main goal of this paper is to investigate the degree of derivatives market development in Bosnia and Herzegovina (B&H). Derivatives market in B&H does not exist as organized markets yet, but within the banking sector some types of derivatives are being offered to the firms, mainly derivatives for hedging foreign exchange and interest rate risk.

This paper is divided in to three sections. In the first section we present evolution and taxonomy of derivative instruments. In the second chapter we present selective history of financial market development in Bosnia and Herzegovina and explain its complexity. In the third, and central part of the paper, we present results of the survey conducted within banking sector with main objective to examine types of derivatives offered by banking sector, the level of demand for derivatives, the most attractive type of derivative and major arguments for its application and possibilities and limitations of derivatives introduction to B&H stock exchanges.

Evolution and taxonomy of derivatives

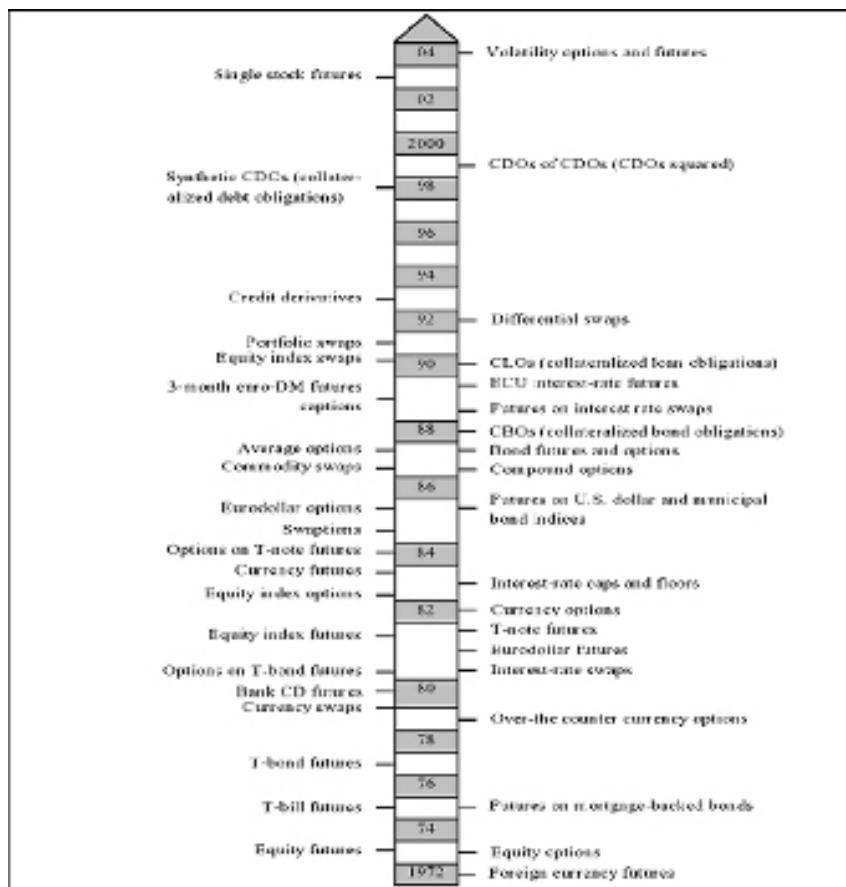
Financial derivatives or, in short, derivatives represent financial instruments which are derived from some basic assets such as: shares, bonds, various types of goods, etc. For example, European call option with price K and maturity T gives the holder a right, but not an obligation, to buy from seller upon expiration of maturity the underlying financial instrument (e.g. stock) by price which is equal to K . European put option gives a holder a right, but not the obligation, to sell upon expiration basic financial instrument (e.g. stock) for price which is equal to K .

Even though the rapid development of derivatives market happened only in last two decades, Nicholas Dunbar, technical editor of Risk Waters Magazine and author of the book with title "Inventing Money: The Story of Long-Term Capital Management and the Legends Behind It", interpreted the paragraph 48 of the Code of Hammurabi, which is the first documented record on usage of option concept in

purpose of providing financial coverage for risk of unsuccessful harvest. Paragraph 48 implied, as Dunbar stated, the following: "If anyone owes a debt for a loan, and a storm prostrates the grain, or the harvest fail, or the grain does not grow for lack of water; in that year he need not give his creditor any grain, he washes his debt-tablet in water and pays no rent for this year."

Besides this, the option was very clearly mentioned in Amsterdam at the end of 17th century (more precisely, in 1688), when it was plastic described by Joseph Penso de la Vega in his "Confusión de Confusiones", discussion between lawyers, traders and philosophers, observing the activities on Beurs of Amsterdam (Amsterdam Stock Exchange), first organized stock exchange in the world. This discussion contains what we today call the European call and put options and describes their application for investing equally good as for risk management, and even the term of short selling. In excellent recent translation [de la Vega (1966)], we could, besides other things, read the following: » If I may explain "opsies" [further, I would say that] through the payment of the premiums, one hands over values in order to safeguard one's stock or to obtain a profit. One uses them as sails for a happy voyage during a beneficent conjuncture and as an anchor of security in a storm. « [McNeil, Frey, Embrechts (2005), p. 5]. After this, de la Vega continues with some explicit examples that would not be out of place in any modern finance course on the topic.

Therefore, derivatives in general, and options in particular, are not so new. They appeared as instruments to manage risk, "anchors of security in a storm", rather than the inventions of the capitalist devil, the "wild beasts of finance" (Steinherr 1998), that many now believe them to be. Today, there is a broad spectrum of financial instruments for hedging risk, i.e. derivatives. Figure 1 shows timeline of financial derivatives introduction to the financial markets. Each derivative provides different level of liquidity and entails certain costs and benefits. First type of "modern" derivative currency futures was introduced in to market in 1972. Later other derivatives came in to the use, such as options and stock futures (1973), mortgage bond futures (1975), OTC currency options (1979), swaptions (1985), etc., all the way until credit derivatives (1993), single stock futures (2003) and volatility options and futures (2004).

Fig. 1: Evolution of financial instruments for risk hedging

Source: Crouhy, Mark, Galai (2006)

Most significant distinction between derivatives comes from the fact if those are instruments traded on stock exchanges or over-the-counter (OTC) instruments represented as private contract between two sides (often, corporations and commercial or investment banks). Instruments traded on the stock exchanges are based on limited number of underlying assets and they are much more standardized than OTC contracts. For example, exercise prices and maturity of the options traded on the stock exchange are defined and set in advance through stock exchange in order to commoditize the product of risk management and promote the success and liquidity of the market. In opposite to that, OTC products are issued by

commercial and investment banks and they are created according to the specific needs of clients (in terms of quantity of underlying asset, maturity, etc.). For example, OTC option on British pound can be created so that it has size and maturity corresponding to the needs of the clients and exercise price corresponding to the clients' strategy. OTC instruments can be created to closely "match" clients risk exposure, but they are missing price transparency and liquidity advantages compared to products traded on the stock exchange. Another disadvantage of OTC market is credit risk related to contractor upon each contract.

Today futures and options are actively traded on many stock exchanges. Forwards, swaps and various types of options are regularly traded on OTC markets, between financial institutions and their corporate clients. Other, more specialized, derivative instruments (e.g. instruments which guarantee highest interest rate – caps) are issued with bonds or stocks.

Active markets for derivative instruments traded on the stock exchanges in USA are mainly Chicago Board Options Exchange (CBOE), for trading stock and index options; Philadelphia Options Exchange, leading in currency options; Chicago Board of Trade (CBOT), which is offering big market for futures on indexes of stocks, bonds and staple commodities; Chicago Mercantile Exchange (CME), with main market for currency futures; and International Monetary Market (IMM), with options on currency futures and bonds and interest rates. There are also active markets for options and futures in London (London International Financial Future Exchange - LIFFE), Paris (Marché à Terme International de France - MATIF), Frankfurt and Zurich (European Exchange - EUREX) and other leading financial centres.

Diversity of stock exchange and, especially, OTC instruments is huge. In fact, investment banks are willing to set the price to any possible derivative based on known financial instruments being traded. This puts before corporative hedger an understandable problem to identify instruments which suite the best hedging of specific risk position of his company, taking into consideration costs and liquidity.

Selective history of financial markets in B&H

In general, the B&H financial system follows continental model, where banks have leading role and where financial markets and instruments are less developed. Financial markets in B&H involve capital markets with undeveloped money markets. Instruments of financial markets are relatively developed (without any innovative instrument).

The B&H capital market is organized and regulated as two separate capital markets – one in Federation B&H (F B&H) and other one in Republic of Srpska (RS). Securities are traded on two stock exchanges as well – Sarajevo and Banja Luka. The Sarajevo Stock Exchange (SASE) was

formed as joint stock company on September 13, 2001 by 8 broker companies (Central Broker Hause & Group, Inc., Sarajevo; eBrokers, p.l.c., Sarajevo; Credos, p.l.c., Sarajevo; BS Broker, Inc., Sarajevo; Fima International, p.l.c., Sarajevo; VGT Broker, Inc., Visoko; Bond Invest, p.l.c., Mostar, and Bifim, Inc., Bihać). Securities trading is being carried on three separate market segments in accordance with special rules of each particular market. Market segments are following: (a) official quotations (official market), where shares are traded of the most reputable domestic issuers, so called blue chips; (b) quotation of investment funds, as segment reserved for investment funds; and (c) free market, with the most lenient conditions. Banja Luka Stock Exchange (BLSE) is joint stock company as well, but founded by the commercial banks. It was founded on May 09, 2001. Unlike to SASE, BLSE consists of two separate segments, specifically (a) stock exchange quotations (official market), reserved for A list stock, B list stocks, closed-end investment funds, open-end investment funds, bonds and other debenture securities, short-term and other securities; and (b) free market, which includes shares, closed-end investment funds, open-end investment funds, bonds and other debentures securities, short-term and other securities.

Many economic analysts consider that the B&H capital market is less developed in relation to the countries in the region, members of former Yugoslavia. However, economic growth and development in these countries is jeopardized by recent, global financial crisis. Financial crisis has directly reflected on financial markets in the countries of this region, causing significant fall of quantitative indicators on these markets, i.e. index of all regional stock exchanges. But, unlike in developed countries, financial crisis has not had special negative impact to financial system of countries in this region so far. Financial system in these countries is stable primarily thanks to strict regulations of banking sector. Better transparency of financial markets in these countries, in relation to developed countries, due to lack of implementation of financial innovations (especially securitization) prevented considerable influence of crisis to banks and other financial institutions.

Recent crisis resulted in fall of all major stock exchange indexes and fall of stock value was mostly expressed on the capital market. This entailed “movement of capital” to other market segments,

as market of bonds, and specially derivates both financial and commercial. Therefore on the basis of contract between SASE, BLSE and Vienna stock exchange, on December 01, 2009, Vienna stock exchange started with calculation and publishing of the first index of B&H capital market - BATX-a. BATX follows movement of prices of 6 largest and the most solvent firms on SASE and BLSE, what enables this index be used as base for issuing of both structured and standardized derivatives. Issue of new products based on this index, may significantly increase solvency of the B&H capital market as a whole.

BATX is the first „investible“ index which is calculated for stocks listed on SASE i BLSE, i.e. index may serve as background for creation of derivative securities (structured products, futures and options). Calculation of this index will be done in two currencies EUR and BAM. BATX basic value of 1,000.00 points was set on of January 05, 2009. BATX will additional increase visibility of the B&H capital market for international investors, and will offer them additional possibilities for investment on SASE and BLSE.

Except of common index of the B&H capital market which should attract the attention of investor, it is necessary to prepare B&H market for introduction of structured products, such as certificates, warrants and exchange-traded funds (ETFs) in order to create conditions for increase of the securities offer. This is an opportunity for the B&H market to get close to developed markets.

The main goal of BATX introduction project is increase of transparency of the B&H capital market by increase of SASE and BLSE capacity, support development of common index of the B&H capital market, development of structured financial products and derivates, training of employees and members of both stock exchanges, as well as improvement of the field of data distribution. The project also includes analysis of potential benefits in concentration of ownerships in companies which have been privatized by certificates (vouchers) in order to solve the problem of weak corporative management. Findings and recommendations given in the project have the goal to promote investment in B&H firms, to support diversification of financial system, as well as to point out on capital markets as opportunity in financing of B&H firms.

Derivatives market in B&H: status and perspective

Year 2010 was the year with the lowest turnover in (not quite long) history of trading on SASE and BLSE. Significant decrease of turnover occurred in relation to 2009. For example, realized turnover of SASE in 2010 was as in 2003, because the average daily turnover was in amount of 300,000.00 BAM (approx. 150,000.00 EUR).

In order to provide necessary, but not sufficient, conditions for further development of organized capital market in F B&H and RS and, consequently, derivative market as its new and special segment it is necessary to assure acceptable investment environment for domestic and foreign investors. In that sense it is necessary to:

- complete the privatization process,
- incite emission of new debenture and ownership financial instruments,
- partially finance the great capital investments in power and infrastructure sector through issue of shares,
- perform deregulation of existing legal framework, in other words harmonize regulations in the field of capital market with the EU regulations.

International accounting standards, recognized in B&H, treat financial derivatives as financial instruments or other contracts which have the following characteristics:

- values is changed in accordance to change of interest rate, price of financial instrument, price of goods, exchange rate of foreign currency, index or rate of price, credit rating or credit index, or other variables;
- does not require any initial investment, or initial net investment less than necessary for all types of contracts from which is expected to react in similar way on changes of market factors, and
- will be settled on some future date.

Banks in B&H already hold derivatives in their portfolio, in order to help their clients in protection from financial risk. For example, one of the leading banks in B&H, NLB bank, offers to its clients (legal entities) forward transactions or futures sale and

purchase of foreign currencies. The goal is to protect firms from the currency risk in their future cash flows. There are exactly specified conditions for closing these contracts that needs to be met by the client and specified in the Rulebook of this bank. Likewise, even UniCredit bank in B&H also offers forward, currency and interest swaps and time options. Banks basic goal of derivatives sale is, primarily, to provide clients with financial and advisory support for development of business activity and guarantee of safety.

In order to evaluate overall level of derivative instruments demand in B&H, types of derivatives offered by banking sector and possibilities and limitations of introducing derivative market as market segment in B&H stock exchanges a research was conducted among commercial banks operating in B&H. For this purpose a specific questionnaire was created and sent to all banks operating in B&H. Sample included 29 business (commercial) banks, 19 in F B&H and 10 in RS, according to the data from Banking agencies in F B&H and RS.

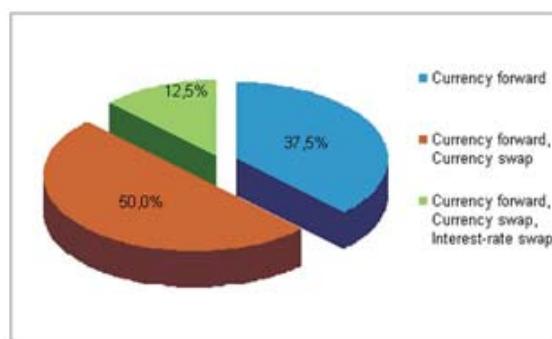
According to the data collected from the official web sites and questionnaires out of 29 commercial banks, 10 of them offer derivatives products (6 in F B&H and 4 in RS). Other 19 does not offer derivative instruments and have no intention to offer these instruments in the near future. Therefore these 19 banks were excluded from further research. Out of 10 banks that are offering derivative instruments

8 banks return questionnaire, which is 80% responses (all 6 banks from F B&H and 2 from RS return questionnaire).

Based on the answers provided by the banks it was concluded that, besides low supply of derivatives in banking sector (34.48%), OTC derivative market in B&H is relatively "young" and only exists for last five years. There is no formally organized derivative market as derivative exchange. Also, demand for derivatives in B&H is extremely low. Data show that bank, who is the biggest supplier of derivatives, closed only 10 contracts for derivatives with average value of 750,000.00 BAM (approx. 383,600.00 EUR) from august 2008. Other banks, all together, closed only 4 contracts for derivatives. Summa summarum, research results imply that derivative market in B&H is in the early phase of development, which is indicator of low derivative market potential in B&H.

Research also shows that offer of derivative instruments in B&H is very poor. Commercial banks offer just three types of derivatives, which are commonly used for foreign exchange risk and credit risk hedging: currency forwards, currency swaps and interest rate swaps. Research shows that all three types of derivatives is offered by 12.5% surveyed banks, currency forward and currency swaps are offered by 50% of surveyed banks and 37.5% surveyed banks is only offering currency forwards. Structure of derivatives offered at OTC market in B&H is shown in figure 2.

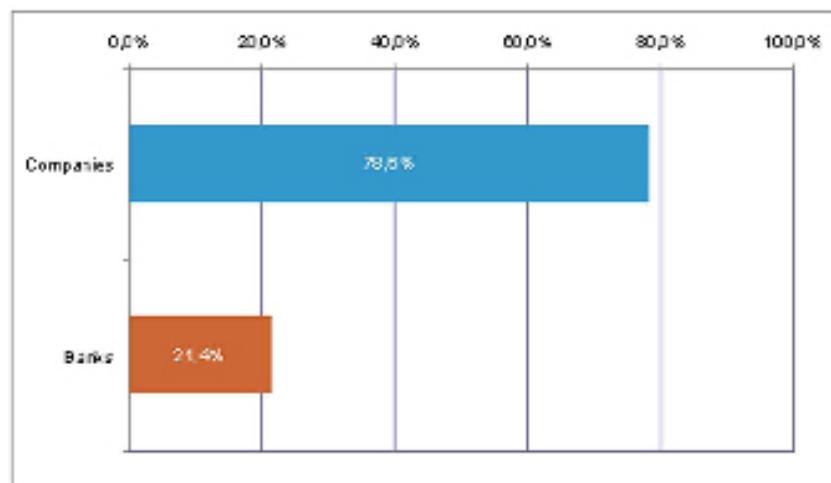
Fig. 2: Types of derivatives at OTC market in B&H



Demand for derivative instruments is also very low. According to the surveyed answers, the biggest interest among bank clients is for currency forwards, with average grade 2.33, than for currency swaps (2.20) and then interest rate swaps (2.00). Further, information provided by the users of derivatives (through informal communication) revealed that major reasons for low usage of derivative instruments is due to lack of information about procedure of derivatives usage and lack of knowledge about potential benefits of these instruments in domain of risk management. Also, the major limiting factor of larger derivative usage can be relatively low number of business operation of B&H companies on international market.

Companies have major role in the structure of users who closed contracts for derivatives with surveyed banks. According to the survey dominant users of derivatives are companies involved in production and distribution of oil and oil derivatives, furniture production companies, trading companies (especially trading companies with imports from China), gas trading and supplying companies and IT companies. Other users of contracts for derivatives are banks, but in less lower percentage. Structure of derivative users in B&H by client segments is shown in figure 3.

Fig. 3: Structure of derivative users in B&H (client segments)



Survey also shows that most important conditions and/or limitations for derivative purchase by companies are as following:

- necessity of having deposit on special bank account for covering forward transaction (usually 10% of transaction value),
- value of client turnover with the bank,
- considerable need for buying different currencies,
- collateral (depending on clients credit worthiness).

Positive fact is that surveyed banks are giving great attention to offer of basic financial instruments, and, therefore, have organized special department (trading and asset departments) in their organization structure with specialized personnel for this type of offers. Negative side related to operations on OTC derivatives market is that only 25% of surveyed banks hired specialized persons with adequate knowledge and international certificates for trading with financial instruments (e.g. ACI Dealing Certificate), while other banks are only satisfying legal obligations and hiring personnel with adequate brokerage certificate and investment advisors certificate issued by the Securities Commissions in F B&H and RS.

None of the surveyed bank will form department for derivatives trading in near future, which is logical due to lack of substantial demand for derivatives. This fact will, ceteris paribus, slow down further development of financial market and derivative market, respectively, in B&H. As for derivative types offer enlargement, 75% of surveyed banks are planning to offer new derivative instruments, 12.5% is not planning to offer new derivative

products, while 12.5% did not have clear answer on this question (See figure 4.)

Banks, who answered positive to expanding derivatives offer, will offer interest rate swaps, currency swaps and credit options. Detailed structure of derivative offer development in B&H is shown in figure 5.

Fig. 4: Derivative offer expansion in B&H

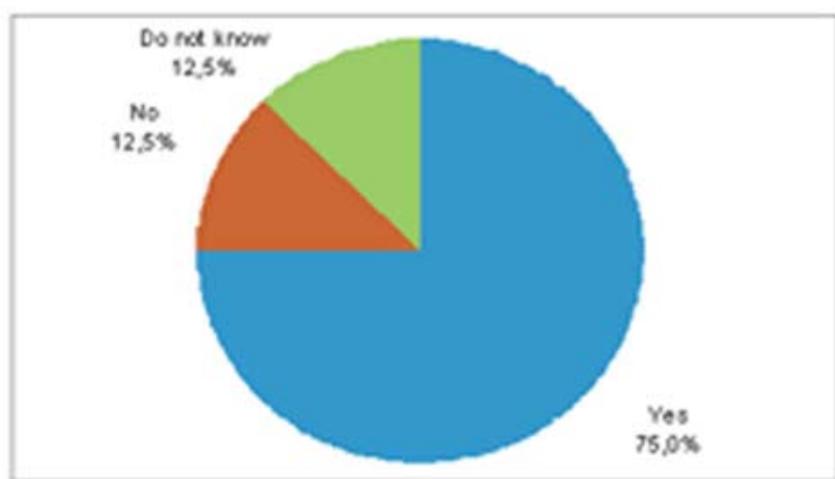
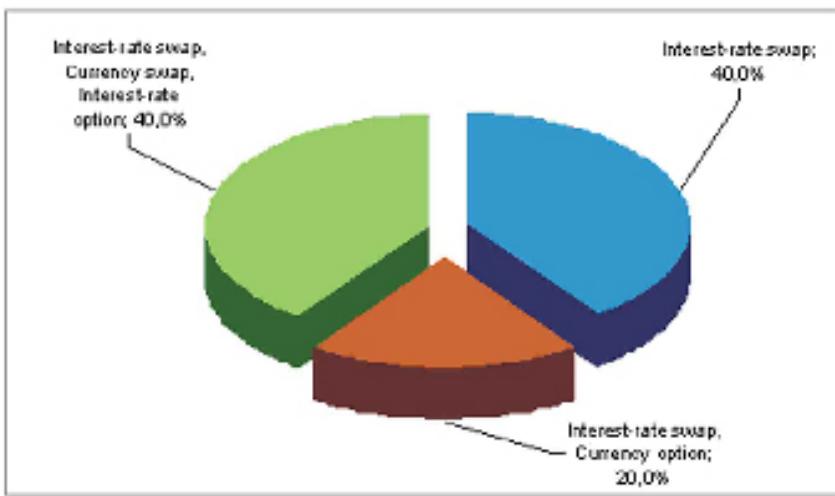


Fig. 5: (Intended) structure of derivative offer development in B&H



As for the need to establish organized derivatives market as a market segment within SASE or BLSE, surveyed banks are divided where 50% of them think that establishing derivatives market will contribute to development of financial market in B&H in general, while other 50% think that there is no need for it establishment yet.

The most interesting conclusion of the survey is that all banks express the need for further education of their staff in field of derivatives trading and derivatives usage as the tool for managing risks. This fact led us to general conclusion that main reason of low level of derivatives supply and demand is lack of information and education of banks personnel in derivatives contracting, but also banks prudence in the aftermath of global financial crisis.

When asked what particular type of education is needed, most of the answers were ACI Dealing Certificate exam, and also the need for basic education and trainings in all aspects of business operations with derivatives. Education is necessary for staff not only employed in the front desk, but also for the those who are working in other department who are dealing with derivative transactions, such as financial department, trading department, credit department, etc.

Conclusions

Derivatives market in B&H exists as OTC market, where banks play dominant role and offer different types of derivative instruments. Three types of derivatives are being offered: currency forwards, currency swaps and interest rate forwards. The main reason for poor offer by the banks is low demand, lack of client's knowledge about benefits of derivatives, and low business operation on international markets by banks clients.

Main conclusion of the research is that in near future there would be no need for establishing organized derivatives market, as market segment of stock exchanges in B&H, what would be key limitation for further financial market development. On the other hand, some of the commercial banks are planning to expand their offer with new types of derivatives, such as interest rate swaps, currency swaps and credit options.

Lack of banks personnel knowledge is one more reason for low derivatives offer. Surveyed banks concluded that undoubtedly there is a need

for further educations and trainings, both basic education and advanced trainings in field of business operations with derivatives.

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URBAN RENEWAL IN BUDAPEST: A CASE STUDY ON IMAGE BUILDING, COMPETITIVENESS AND TOURISM

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Abstract

Urban regeneration refers to a complex development process, which can result in solutions to several urban problems. Economic, environmental and social improvements may have a long term character. The image of the district or quarter can be totally repositioned, following physical regeneration of the environment and changes in the population patterns. Developments in tourism can be generated based on hotel and hospitality sector investments.

This presentation examines how and in what way large scale residential district development affects attractiveness and economic competitiveness. How tourism activities are developing in a renewed environment and what kind of interdependence can be observed in these process.

Empirical research carried out by the author has resulted in new observations related to the opinions of local people. Students having temporary accommodation, placement and activities in the district were also interviewed. The 9th district performs an important role in Budapest tourism, with its several hotels, six colleges and universities as well as through its attractive cultural life. Research, although very limited in scope, has offered some evidence to verify hypotheses that urban renewal regeneration increases people's pride, self worth and generates a better image, which may in turn create a stronger feeling of identity. This can promote business activity, among others, in the area of tourism services.

Key words: urban regeneration, competitiveness, image building, tourism development

Introduction

According to researchers involved in the science of urbanism, the 21st century will be a time for cities, as the urban way of life is becoming increasingly more the norm. (LICHTENBERGER, E, 1990) If we consider the statistics, we can feel the timeliness of the previous statement: while in 1970, 36.6% of the world population lived in cities and towns, in 1994 this figure was 44.8%. According to future forecasts, by 2025 the number of urban inhabitants will increase to 61.1%. (SZIRMAI V. 2005)

Urban existence continues to raise new problems from social, economic and urban planning aspects. The question of urban rehabilitation has been a research area for historians, social scientists, geographers, sociologists and economists for a long time.

The future lines of research have also been identified at the closure of a conference on the future of urban science (Forward Look in Urban Science, Final Conference 2005. Helsinki). According to this, the complex economic and social analysis of towns, the rehabilitation of physically decayed areas and the future developments in rehabilitation will be given particular emphasis. (SZIRMAI V. 2005)

The research topic of this paper is the theoretical and practical analysis of urban rehabilitation from the aspect of competitiveness. The studied areas are sections of Districts VIII, IX and XIII of the Hungarian capital, where rehabilitation has taken place or is still in progress.

In this present study I wish to focus on the rehabilitated areas within the section of District IX (Ferencváros - Ferenc town) of Budapest, the area referred to as Middle-Ferencváros. I have been

monitoring urban development and associated social changes here since the rehabilitation started. As a later study of mine is also on the topic of competitiveness, in relation to this present conference I particularly focused on the positive effects of rehabilitation, thus their stimulating effects on competitiveness and from these the questions of urban tourism as regards the district as well as the quarter.

The structure of the study:

- Examination of the history and nature of urban rehabilitation that takes place in Budapest, in detail for District IX
- The impact of the change on the competitiveness of the district
- Focusing on tourism – within the framework of this presentation
- Presentation of own research

The hypothesis that is being tested:

- The rehabilitation that is taking place in the district considerably influences and shapes the opinion of the habitants
- The prestige and position of the district within Budapest has strengthened
- The touristic significance of the district has appreciably increased

Urban rehabilitation shall mean the renewal of inner city areas, the renovation of residential houses and apartments, institutes and infrastructure in degraded urban environments. The aim is to maintain the structure, the building style and the valuable building stock of that section of the town quarter.

The types of urban development are categorised differently by researchers and by differing aspects. The most general division of urban development is by the degree of intervention, renovation and rehabilitation. Furthermore it can also be typed based on the ratio of the number of demolished apartments and the trend of the renovation activity. (EGEDY T.-KOVÁCS Z. 2003)

In Europe the beginnings of urban rehabilitation may be placed to the 1950s, while in Hungary such urban development commenced at the beginning

of the 1980s. The following table provides a brief overview of the development stages of European urban rehabilitation. (Table 1)

The reconstruction stage falls to the period following World War II, with the reconstruction of old quarters taking place and the beginning of suburbanisation, as well as the construction of residential estates, parallel to the elimination of slums. In Hungary the construction of the first residential estate in Budapest, the József Attila estate in District IX, commenced around this time, in 1957.

The stage of revitalisation represents the start of early urban rehabilitation activities as well as the continuing construction of edge-of-town quarters. The beginning of urban rehabilitation in Hungary, as I previously indicated, falls around the early 1980s.

The stage of renewal is represented by the appearance of plans at residential quarter level and the development of peripheral areas. The 1980s are a period of great developments, the age of the so called flagship projects. This is the time when rehabilitation began in Budapest.

Regeneration is the beginning of the launching of an overall urban policy. In Hungary rehabilitation in several districts also began at this time, and is now based on overall urban development plans. (EGEDY T.-KOVÁCS Z 2003)

In Budapest, urban rehabilitation started in the Middle-Ferencváros (Figure 1) quarter in District IX. Sociologists mention that the first realisation of block rehabilitation was 'Block No 15' in Erzsébetváros (Elisabeth town). However this, just as the previous reconstruction in Józsefváros (Joseph town) failed (MLÁSZLÓ-K TOMAY 2002). In these areas a "socialist urban rehabilitation" took place. Residents of higher social status moved in, however socialist apartment allocation practice was asserted, thus the authorities ensured that only certain social layers would move into the renovated blocks, those who would appreciate the renovated apartments. Following this, the rehabilitation process commenced in several districts in Budapest, such as Middle-Józsefváros (District VIII), Kőbánya-Centre (District X), Újpest (New Pest)-Centre (District IV). Currently rehabilitation is ongoing in certain areas of District XIII.

Table 1: The development stages of urban development in Europe and in Hungary

DECade	DEVELOPMENT STAGES IN EUROPE	STRATEGY IN HUNGARY
1950s	reconstruction	Construction of the first residential estate
1960s	revitalisation	Construction of further residential estates, neglected urban areas
1970s	renewal	First urban development plans
1980s	redevelopment	Beginning of urban rehabilitation in the capital
1990s	regeneration	Overall urban development, the real beginning of rehabilitation

Source: by the author based on STÖHR 1989-LICHFIELD 1992 and TEGEDY-ZKOVÁCS 2003

Figure 1. Map of Budapest and Ferencváros

Source: INTEGRATED URBAN DEVELOPMENT STRATEGY, Volume I, Municipality of District IX, 2009, page 6

Let us have a look at the location and characteristics of Middle-Ferencváros, the district quarter, discussed in the study.

Middle-Ferencváros is the area between Nagykörút (Great Ring Road) and Haller út (Haller Road) (Figure 2). Haller út, which for a long time was the boundary as well as flood protection line of the town, is still the boundary for enclosed urban buildings. In the section between Mester utca

(Mester Street) and Üllői út (Üllői road) of Middle-Ferencváros, following the urban rehabilitation that had started at the end of the eighties, private contracts are currently underway. Individually designed apartment blocks are being built in considerably higher number than the Budapest average to replace the hundred year old shabby tenements and even older village style houses.

Whilst Inner-Ferencváros was previously a city-like development, the section outside the Ferenc Körút (Ferenc Ring Road) was different. City-like development was mainly characteristic along main roads, with almost village-like single-storey buildings remaining in the side streets.

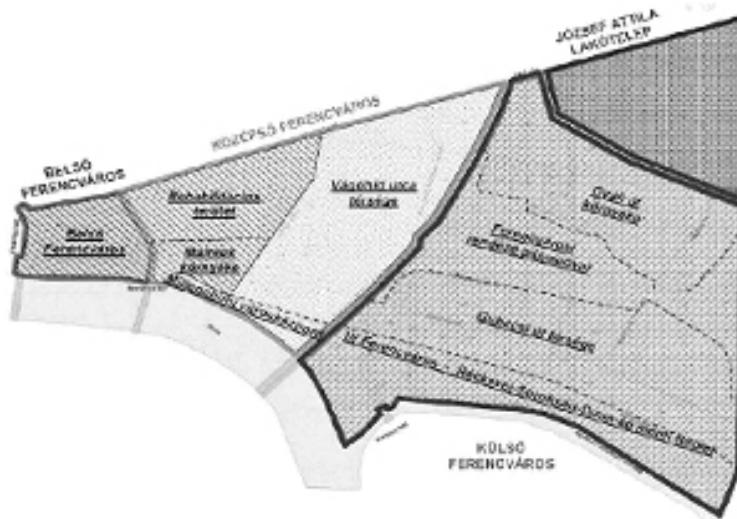
In the extensive development period of the capital following World War II, massive residential estates were built in the external parts of the city, with inner areas becoming neglected at the same time. This process also took place in the examined Middle-Ferencváros. In this period less money was spent on the maintenance of residential buildings than would have been necessary based on their technical conditions. The deterioration of the apartment stock, the already unfavourable flat structure to start with, the high ratio of flats without basic amenities resulted in the start of

unfavourable trends and clear slum formation tendencies in the previously characteristically middle-class residential areas.

The influx of disadvantaged groups into the state owned rented flats of the degrading inner-Pest rented dwellings had accelerated. This was also characteristic in the district, and the phenomenon was also observable in Józsefváros as well as in Erzsébetváros. As a result, the value of these residential zones depreciated.

From the 1970s, numerous plans have been prepared for the renovation of the inner city sections of Budapest, however the majority of these presumed complete evacuation and demolition, which of course would have entailed enormous investment costs, thus the works have not been started. (MUNICIPALITY OF FERENCVÁROS 2002)

Figure 2. Map of Ferencváros



Source: INTEGRATED URBAN DEVELOPMENT STRATEGY, Volume I, Municipality of District IX, 2009, page 90

The history of rehabilitation

The city council with the participation of and financial support from OTP, in 1986 began, similarly to several districts, rehabilitation in the areas of Ferencváros that fell outside Nagykörút (Great Ring Road). From the aspect of maintaining the existing

heritage worthy of keeping, works commenced almost at the last moment. This process lasted from 1986 to 1990. From the planned 12 blocks, only three were completed during this period.

This was followed by a brief stagnation. Political transformation also created a new situation in flat management. Solving the economic and

social problems arising from the state owned flats of increasingly worsening condition was the responsibility of the newly formed municipalities. In 1990 the regulatory plan for the district was completed, and at the same time the so called prohibition list was prepared for the district, thus preventing the privatisation of deteriorated dwellings and restricting the right of purchase. (SEM IX RT. 2004)

The representative body of Ferencváros recognised that the basis for any improvement in the social, health and educational standard of the quarter as well as for the management of widespread social problems was through the alteration of the living environment. They established that the only option for development is the rehabilitation of the quarter. As an example of best practice, they saw it as not selecting "the levelling option", thus the complete demolition that had worked in other areas, although this might be the cheapest solution, but strictly insisted on to keeping the architectural heritage still salvageable. Heritage preserving urban rehabilitation was set as an aim, and in connection with this they were the first amongst the districts of Budapest to prepare the district heritage preservation order, as the national and municipal protection does not extend to buildings constructed in the 19th century that are important for the district. The mayor expressed it as "we do not have 500 year old buildings, but have buildings of around 100 years old, we have to look after them and renovate them in a way that they would match the new and meet the requirements of today in their functionality". (GEGESY F 2006)

The district thus submitted the apartment privatisation processes to the alteration of the living environment and kept the areas to be reconstructed in the possession of the municipality. In 1993, urban development action was organised for the rehabilitation of the quarter, by consciously undertaking the huge task and focusing their resources on this area, even at the cost of their other responsibilities.

For organising the urban development action, following the example of the French SEMs (Société d'Economie Mixte) (IZSÁK É 2003) a majority municipality-owned public limited company was established in 1992. A new era had started in the life of the district from 1993, jointly financed by the company called SEM IX Rt and OTP Bank. The

first period of the urban renewal process lasted from 1990 until 1995.

The next period took place between 1995 and 2000. At that time it was confirmed that the urban development action was able to halt the "slummification" of the quarter, and even demonstrated that the reverse process was possible. The realism of the set objectives was also verified. During this period the leadership of the district was heaped with prizes and awards for the success of the rehabilitation. (for example: House of the Year Award 1995, Hild Medal 1996, 1st Prize at the Hungarian Real Estate Developer Competition 1997, PRIX D'EXCELLENCE – FIABCI, 1st Prize of the International Real Estate Federation (FIABCI) – the OSCAR award of the real estate profession 1998) (INTEGRATED URBAN DEVELOPMENT STRATEGY, 2009)

The third period in the urban development processes has been ongoing since 2001. In 2000 the involvement of private capital in the construction and renovation commenced. Besides investor financing, (Magyar Telecom Zeneház (House of Music), hotels, restaurants) investments by the municipality (Trafó House of Contemporary Arts) and also national investments (Holocaust Memorial Centre, Páva Street Synagogue) appeared in the quarter.

Additional focal areas have been identified for the future. One of these areas, of cultural significance, is the property at 3 Gát utca (Gát Street), which is the birth place of Attila József who was one of the most important and well-known Hungarian poets. According to the Municipality the development of the house and its surroundings at the same time also hallmarks the preservation of this cultural heritage, with this area being one of the most critical points of the district. The rehabilitation taking place here is a social rehabilitation. The name of the project to be continued in the fourth focal area of the urban renewal action therefore became the József Attila Plan. Renovation works of the residential dwellings and streets of this area are scheduled for the period between 2007 and 2013. (INTEGRATED URBAN DEVELOPMENT STRATEGY, 2009) The following table shows some typical numerical data in connection with the urban renewal action of the district. (Table 2)

Table 2: Characteristic data of the urban renewal action between 1986 and 2009 (in HUF)

200 billion was invested	between 1986-2009	From this prior to 1982
- 25 billion	National capital	10%
- 45 billion	Municipality	
- 130 billion	Private capital	
Residential dwellings accommodation		
- 51 apartments renewed	1062 apartments	9 buildings 146 apartments
- 17 buildings partially renewed	383 apartments	
Public park		
- 3 new		
- 2 renewed		
Streets		
- 6 streets renewed		
Residential garden within a block		
- 19		
Residential dwelling		
- 130 buildings constructed	6109 apartments – investor finance	20 buildings with 436 apartments
- 217 buildings demolished	1371 apartments demolition	41 buildings with 281 apartments

Source: INTEGRATED URBAN DEVELOPMENT STRATEGY, Volume I, Municipality of District IX, 2009, by the author

The main harmonised activities of the urban development action:

- Complete renovation of municipality-owned residential dwellings by the Municipality. Great care shall naturally be taken for the permanent or temporary relocation of the habitants.
- Infrastructure improvements, development of public areas, green areas and parks. The law specifies minimum 10% green area at district level; Ferencváros however is planning to develop more than this.
- Residential dwelling renovations with non-repayable grant from the Municipality.

The sale of building plots, gained by the demolition of deprecated non-renewable buildings, to contractors takes place through the SEM IX. The investors will realise residential, commercial and cultural establishments etc in the area. (INTEGRATED URBAN DEVELOPMENT STRATEGY 2009)

The urban development plan provides a flexible regulatory framework for all this. Besides

maintaining the traditional street-square structure, with the enclosed courtyard buildings, residential gardens unified within the block are created. These green areas considerably improve the quality of the living environment and form one of the major attractions of the area. Despite the principles being identical, all blocks differ in character and profile.

The ground floors with the obligatory community functions, shops and restaurants contribute greatly to maintaining the characteristics of traditional urban streets. Through the careful and quality modifications of public areas, "furnished" streets and squares with calmed traffic are created. (Figure 3)

The appreciation of the area is also indicated by the doubling of hotels and office blocks. It should also be remembered that although the quarter has been physically renewed, its social problems such as deep poverty, segregation and the positive and negative effects of gentrification is still visible in this part of the district. Due to restricted scope of this study, it can only be covered briefly.

In the worse quarters an increase in the poorer groups can be observed. In certain parts of District IX there was even mention of ghetto formation of the Roma minority. Therefore these areas have not been very popular with very few moving there.

The segregation trend, which in specialist literature is referred to as "embourgeoisement", or "gentrification", as the forming of an upper middle class of the inner quarters and the concentration of those with high social status, has started vigorously. (SZIRMAI V 2004)

Gentrification refers on the one hand to the physical renewal of deteriorated areas of the town, and on the other, the departure of low social status groups living there, in parallel to the influx of upper and

middle class groups to the area. Sociologists have named this phenomenon the negative proceeds of gentrification, as those leaving do not solve the problem; rather the problem is moved to other districts of the capital, as a result of the apartment exchange cooperation between the districts.

The positive effect of gentrification is best understood by the rapid regeneration of the living environment and the increase in its social prestige. The production segment has declined, the service sectors are spreading and the middle class is strengthening. The once decaying quarters are being rediscovered by the intellectual and management layers. (KOVÁCS Z 1990)

Figure 3. The Tompa utca – Páva utca corner previously and today



Source: INTEGRATED URBAN DEVELOPMENT STRATEGY, Volume I, Municipality of District IX, 2009, edited by the author based on page 123

Tourist development opportunities

The Podmaniczky Programme – The Medium Term Urban Development of Budapest – is based on the framework of objectives of the City Development Concept. The district has adopted its thematic aims. (INTEGRATED URBAN DEVELOPMENT STRATEGY 2009)

I would like to highlight two areas that are the most important for the development of the district: Residential area developments for a liveable city - the rehabilitation of the inner districts with the focus on culture and tourism, together with the social rehabilitation of the deteriorated quarters, and Culture and tourism in the economy, to which the district joined willingly as a supporter of culture. New functions have also been identified for Middle-Ferencváros, amongst which culture is of major

importance, and thus developments in tourism and increasing tourism attraction.

If we look at the district as a whole, it is clear that a conscious image building and forming has also commenced. This was expressed by the Mayor in that Ráday utca (Inner-Ferencváros) now represents the culinary and cultural quarter in Inner-Ferencváros. Development is being generated in this direction with only restaurants, galleries and book shops being allowed to move in. Middle-Ferencváros is defined by its new functions of culture and tourism, with the quarter growing increasingly effective at meeting these new roles.

The other direction in which image building is moving,, is to develop the district into one of the bastions of education. Whilst in the 1990s there

were only three higher education institutes in the district, this number has by now increased to six.

The Municipality assists the starting process by any means they can. An agreement had already been signed by the legal predecessor of Corvinus University in 1998 to expand the university, for which the land was favourably supplied by the Municipality. The construction works of which have already been completed.

The increasing tourist attraction and the growth in tourism can be viewed as criteria of a successful town, region or village. There are several economic pointers for measuring this, for example:

- the number of hotels constructed and opening in the area,
- the utilisation of hotel capacity
- the number of arriving tourist groups and individual tourists,
- service and commercial revenue trends.

Amongst the local places of interest and sights that most define the characteristics of the tourist face of Ferencváros are:

- Great Market Hall, which has started to breath a real "eastern bazaar" feeling, in a cultured environment,
- National Theatre
- Palace of Arts (MÜPA)
- Holocaust Memorial Centre, Páva Street Synagogue,
- Sport establishments, primarily the Stadium of Ferencváros,
- Attraction and connections of the higher educational institutes located within the district.

Four three-star and one four-star hotel has been built in the rehabilitated area of Middle-Ferencváros. Four out of the five hotels have facilities suitable for conferences. An impressive conference venue in the district is the Museum of Applied Arts, the quarter also has a spa, the Dandár Baths. Café and restaurant opening fever is considerable in the rehabilitated area and in this part of the district five travel agents are in operation. The district through these has become the "sleeping city" for urban

tourism visiting the inner city of Budapest. The popular and well-known inner city destinations are only a few tram, bus or metro stations away. Based on data received from the hotels in the quarter, it can be stated that the increase in the number of tourists is proportionate to the progress made in rehabilitation.

Cultural events such as the "Ferencváros Celebration Games" may add further momentum to the development in tourism. Certain events of this have also been moved to rehabilitated areas of the district. It is also worth mentioning that there is still space within the district for developing such high standard communal areas, parks and entertainment facilities for which there is no more room in the inner districts.

It is also possible that the Ferencváros block rehabilitation that can be considered as an urban development case study may be an attraction itself for certain professional circles.

Own research

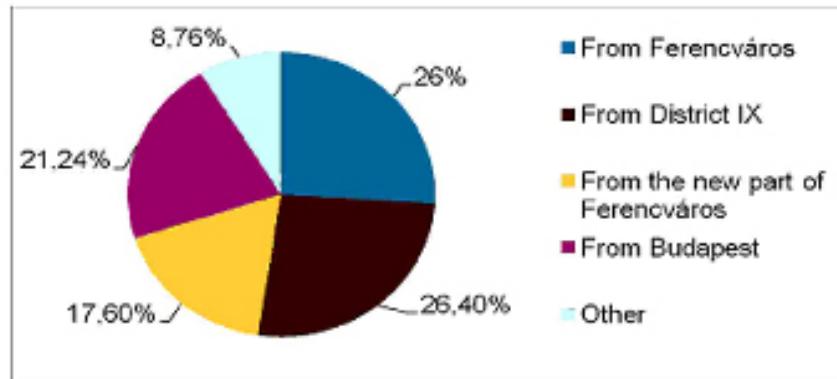
My research consists of two parts. First I completed a questionnaire, which was a pre-research, based on a random sample of 100 people amongst the inhabitants of those permanently working in the studied district. I was seeking the answer to my hypothesis outlined in the beginning of the study, as to how the ongoing rehabilitation in the district influenced the opinion of those living there. I was also looking to answer the district municipal assumption as to whether there is a district identity. The opinion of the respondents was also invited as regards the significance and role of tourism in the district.

From the respondents 74% were women and 26% men. As regards marital status 34% were married, 26% single and 40% in relationship. From the respondents 39% had children. With regard to qualifications, 58.3% held degrees, 12.8% had professional training, 16.7% only completed secondary school, with the remaining 12.2% not having a secondary school leaving certificate.

72.7% live in the district with 27.3% working there permanently. To the question how many flats have they lived in within the district, 53% responded that this was the first flat for them, 26% the second, 8.8% the third and 11.8% have exchanged flats more than three times in the district.

In response to the question "Who do you consider yourself to be based on your place of residence," 70% of the respondents declared to be a Ferencváros inhabitant, broken down as per the following. (Figure 4)

Figure 4: Who do you consider yourself to be based on your place of residence?



Source: the author

From the respondents 95% see a strong growth in attraction in connection with the completed rehabilitation. In response to the question as to what they were proud of in the district, 26% replied as being proud of the development, in addition many tourist attractions were listed, there were respondents who named it the liveable city and some who were proud of everything. However 33% replied as not being proud of anything. This is definitely a point worthy of consideration.

98% believe the district to be well suited for tourist functions. The respondents listed 40 places of interest in answer to the question "what they would consider showing tourists in this quarter of the district.

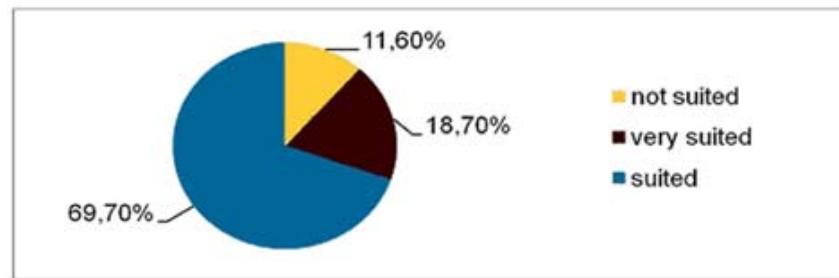
As a large number of places of interest were named by the respondents, let us examine Figure 5 to see how the question "Based on the places of interest, to what extent is the district suited to carrying out tourism related tasks?" was evaluated.

From a tourism point of view, the district was positively valued by the respondents, therefore I asked them to list the attractions that they would be keen to show to their friends or visiting tourists. On

average each respondents named 10 attractions, with over 40 kinds of sights listed in total.

It is clear from the answers that the inhabitants of the quarter are proud of the renovations and the results achieved by rehabilitation. This was indicated by listing elements such as the renewed internal gardens, the renovated pedestrianised street, restored facades, refreshed parks, the converted buildings of the former mill and the green areas. Many named their former school or a health institute. From the respondents 8.8% would also show the rehabilitation to those visiting the area. The birth place of Attila József however was only marked by three (!!) respondents. Many combined the sights with Ráday utca in Inner-Ferencváros and its surroundings with the studied part of the district. The powerful image shaping influence of this neighbouring quarter can be felt. (26.6 % listed it amongst those to be shown). For visiting tourists, most would show the National Theatre (35.5%), and 31% the MÜPA, as well as other sights of the quarter including: the Holocaust Memorial Centre 24.4%, the Trafó House of Contemporary Arts 8.8%, Ferenc tér (Ferenc Square) 22.2%, the renovated Tompa utca (Tompa Street) 17.7%, the internal gardens 13.3% and the rehabilitated area itself 8.8%.

Figure 5: Based on the places of interest to what extent is the district suited to carrying out tourism related tasks?



Source: the author

In the second part of the study I was interested in the opinion formed by tourism graduates as regards the district. I was interested in how much the district is known amongst them and their attitude towards it. In addition I asked about the tourist role and heritage of the district. The sample was also a questionnaire based on a random sample of 100 people.

From the questioned students 96% were between 20-25 years old, 90% female, 57% single and 43% in relationship. 27% were born in the capital and 60% have lived there for 3-5 years. 43% said they have been to the studied district and 38% to know it well. 62% liked to visit the district (Ráday utca 54% and the National Theatre 33% were two of the destinations).

Most of the students visit the district for entertainment (26%), 21% visit friends there and 18% come for cultural reasons. The district is considered as having a nice atmosphere by 33%, as friendly by 23% and by 17% as cultured. According to some opinions the district was in need of renovation, is old fashioned, partially neglected and not too friendly. There is more work to be done on the image of the district; however it is clear that its attraction has definitely increased. In general the district was considered suitable for tourism. From the respondents 85% mention specific sights, exactly 32 attractions were listed by the students as places that they would like to show visiting tourists.

Summary

The district when outlining the future prepared the following motto: "The district where it is good to live, reside, study, work and relax in". As a basic objective the achievement of a "Modern and liveable Ferencváros" was set. (INTEGRATED URBAN DEVELOPMENT STRATEGY 2009) These objectives are realistic; the management of the district is on the right track, despite still having issues to be addressed.

Economic development and within this further improvement of competitiveness were identified as the most important strategic objectives. The development of culture, the economy and tourism are considered as priority. Renewal of the urban environment is the next key point, where in the Integrated Urban Development Strategy the continuation and completion of the rehabilitation and in the area of improving quality of life and building community was highlighted by the district.

The results of the rehabilitation achieved so far demonstrate that the urban rehabilitation plan of the district has been successful, the quality of the built-in environment has improved, the living environment has become more attractive and not only in the eyes of those living there. Through the establishment of new institutes, amongst them many cultural institutes, the strengthening of urban functions have been realised. Streets and squares have been renewed and the number of green areas increased. Through the investments of hotels and cultural institutes, the number of tourists visiting the district has been considerably

increasing year on year. I believe the hypothesis that the touristic significance of the quarter has increased, is verifiable.

The district is successful, although there is room for further improvements as the questionnaires showed. As has been demonstrated, the inhabitants have a pronounced opinion on the ongoing processes in the district. The completed rehabilitation was very positively evaluated; with the majority of the population feeling that positive changes have been started and are proud of their district.

The assumption of the Municipality, that there is a district identity, in my opinion is not yet provable. However what is certain is that those living here are attracted to the quarter, and more and more of them are also seeking their second or third apartment here. Despite this, intensive municipal marketing work is required for strengthening their sense of identity.

In conclusion, on the whole it can be stated that the urban rehabilitation and renewal action that is taking place in the district can be held up as an example to other districts of the capital as well as other cities of the country.

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SERVICE QUALITY FOR UK GROCERY RETAILERS: A PILOT STUDY EXAMINING TWO TYPES OF RETAIL FORMATS

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Key Words: Consumer satisfaction, value, service quality, customer expectations, quality-led grocery stores, discounters

Introduction

Customer Satisfaction has been defined as the result of the relative impact of product quality, service quality, pricing and more recently, experience quality on "customer perceived value and intention to shop in the future." (Getty and Thompson 1994; Bloemer and DeRuyter, 1998; Vavra 1997; Oliver 1980 cited in Caruana 2002; Bearden and Teel, 1983 cited in Theodoridis and Chatzinpanagiotou, 2009). This paper focuses on service quality as a means to achieving customer satisfaction in the context of grocery retailing. Research demonstrates there are positive links between pricing and product quality which in turn can lead to customer satisfaction within the grocery sector. However, the relative importance of service quality in a grocery context is under examined (Huddleston et al 2009). Furthermore, the recession has led to a trading down in consumer shopping habits, with many customers not only opting for budget or value orientated lines, but increasing their visits to discount providers. This paper seeks to investigate the relative importance of service quality across two different types of retail formats. The aims of this research are to i) evaluate the relative importance of service quality in grocery food retailing ii) to compare consumer expectations of service quality between a discounter and a quality-led store iii) to compare the relative importance of staff interaction and engagement within a retail grocery context for a discount store and a quality-led store.

Rationale and Background

Retailing is one of the most important industries in this country. It is defined as the sale of goods and services to the ultimate consumer for personal, family and household use (Cox and Brittain, 2004). The grocery market was worth £150.8bn in 2010, an increase of 3.1% on 2009. Food and grocery expenditure accounts for 53p in every pound of retail spending (Mintel, 2010). This data illustrates the importance of the industry for the UK economy. From a competitive perspective, fundamental to the formulation of retail marketing strategy is thus a clear understanding of customer needs, motives and patronage decision processes (McGoldrick, 2002).

The retail environment is changing with intensifying competition and more sophisticated and demanding customers who have greater expectations (Mintel, 2009; Dabholkar et al., 1996; Sellers, 1990). The grocery industry is becoming consolidated with large chain supermarkets exerting more power over smaller speciality and luxury food outlets (Mintel, 2009). The supermarkets, including discounters are the largest segment of the UK food retail industry, accounting for 61.3% of the UK industry's total value and total revenues of \$114.1 billion in 2009. Historically, location, product range and price (value for money) have been identified as the most important marketing functions for grocery shopping (Ryding 2004). Indeed, supermarkets generally prospered in the aforementioned marketing factors. However, contemporary literature highlights the importance of other key factors, such as service quality and overall experience as being crucial. To fully appreciate this, it has been argued that companies

must adopt a company strategy that will facilitate the process of being customer orientated and that will focus on relationships as a means to competitive advantage through the quality of service provision.

Customer Satisfaction Defined

The customer satisfaction concept is relatively new. Whilst customer satisfaction is built on the core marketing management philosophy, for many organisations, the aggression of various marketing activities, primarily sales and promotion, has led to the actual concept being lost. The concept is revolutionary and has led to a whole literature being developed, because it brings marketing management back to its roots (Vranešević et al; 2004). Whilst understanding how to optimise the marketing mix from an industry specific perspective is still important, it is equally important to understand how value is created, through a number of researched components including product quality, service quality, pricing and experience quality.

Many researchers define consumer satisfaction as a post-choice evaluative judgement that concerns a specific purchase decision on a product or service

that has been given an existing pre-purchase expectation (Getty and Thompson 1994; Bloemer and DeRuyter, 1998; Vavra 1997; Oliver 1980 cited in Caruana 2002; Bearden and Teel 1983 cited in Theodoridis and Chatzinpanagioutou 2009). Additionally, Rust and Oliver (1994 cited in Sivadas and Baker-Prewitt; 2000) state that consumer satisfaction is a cognitive or affective reaction to a single or prolonged set of service encounters. Sivadas and Baker-Prewitt (2000) and Anderson et al., (1994) state that satisfaction should be a judgement based on the cumulative experience rather than a transaction-specific phenomenon. According to Wong and Sohal (2003) and Gomez et al (2004) customer satisfaction has been linked to sales performance, customer retention and loyalty. The more satisfied the customer over a period of time, the higher the retention rate, which then leads to an increase in annual return on investment. Zeithaml et al., (1994); Bei and Chiao (2001); and Voss et al. (1998) consumer's overall satisfaction with a transaction is based on three components: product quality, pricing, and service quality. Indeed, if all three of the components are in place this could then influence satisfaction (see figure 1).

Figure 1: A Conceptual Framework for the Effects of Perceived Product Quality, Service Quality, and Price Fairness on Consumer Satisfaction and Consumer Loyalty.



Source: Bei and Chiao (2001)

According to Schiffman and Kanuk (2004, p. 188-189) customers judge the quality of a product or service based on their perceived expectations, which can lead to customer satisfaction and loyalty. Consumer perceived expectations is the expected performance or standard of a product or transaction based on price or previous experience. For example, some customers base their purchasing decisions on intrinsic cues to the product such as physical characteristics (e.g. colour, size) in order to judge product quality. In addition, extrinsic decisions can be made based on brand name, packaging, pricing and even peer pressure. It should also be considered that the pricing of a product can determine the perceived quality of the product or service. For instance, a product with a higher price is perceived to be of a higher quality than of a product that is of a lower price, which is seen to be inferior. According to Schiffman and Kanuk (2004, p. 193) perceived product value is defined as the trade-off between the producer's perceived benefits (or quality) and the perceived sacrifice (both monetary and non-monetary) to acquire the product. Schiffman and Kanuk (2004, p. 194) state that a number of studies have shown that consumers rely on price as an indicator of product quality and that their characteristics such as income and age can affect the perception of value, which is based upon the price/ quality relationship. Hence, some realise that a lower priced product may infer that it is of a reduced quality.

Schiffman and Kanuk (2004, p. 188) state that it can be difficult for consumers to evaluate the quality of services in comparison to when evaluating the quality of products. This is because service quality is intangible and variable. Hence, Schiffman and Kanuk (2004, p. 189) suggest that consumers rely on extrinsic cues to evaluate service such as the store environment, ease of locating items, the pleasantness of the checkout assistants, staff packing systems and general staff engagement and interaction.

Service Quality

Service quality can be defined as the difference between customer's expectations of service and their perceptions of the actual service performance (Zeithaml and Parasuraman, 2004, p. 1-3). Schiffman and Kanuk (2004, p. 189) highlight that a consumer's evaluation of service quality is the gap between the customer's expectations of service

and the customer's assessment (perception) of the service actually delivered. Grönroos (2001) proposed two types of service quality: technical quality (the outcome of the service) and functional quality (the process of service delivery). In addition, Lehtinen and Lehtinen (1982 cited in Caro and Garcia, 2008) and Dabholkar et al; (1996) suggest that there are three kinds of service quality: physical quality (physical aspects of the service such as equipment and building); corporate quality (a firm's image/ reputation); and interactive quality (the interaction between service personnel and customers as well as among other customers). This highlights that there are various perspectives about assessing customer's overall experience of the service provided. Thus, indicating that consumer's evaluations of service quality can be initiated by various factors, which can be controllable and non-controllable to the organisation.

Zeithaml and Parasuraman (2004, p. 2) found that customers evaluate service quality along five dimensions (although it can vary across services):

Assurance: Employees' knowledge and courtesy and their ability to inspire trust and confidence

Empathy: The caring, individualised attention a firm provides its customers

Reliability: A firm's ability to perform the promised service dependably and accurately

Responsiveness: Employee's willingness to help customers and provide prompt service

Tangibles: A firm's physical facilities, equipment, personnel,

Source: Zeithaml and Parasuraman, 2004, p. 3

According to Zeithaml and Parasuraman (2004, p. 3) service quality can be improved by 'closing the gap' between customers' expectations and perceptions of the service. This can include: knowing what customers expect; selecting the right service designs and standards; delivering to service standards; and matching performance to promises in order to fulfil the 'gap' between customer's expectations and perceptions (Heskett et al., 1997, p. 41 and Blythe, 1997, p. 173). Indeed, by fulfilling customer's pre-expectations by offering a high quality service, it could generate more customer satisfaction, thus, increasing the possibility of a repeat purchase (Schiffman and

Kanuk, 2004, p. 190). This could also lead to customer loyalty and favourable word-of-mouth advertising (Jones, Mothersbaugh and Beatty, 2000). Although Blythe (1997, p. 173) explains that the service level should also be appropriate to meet expectations and not at the maximum level, as some consumers may expect drawbacks if they are paying a low price.

Zeithaml and Parasuraman, 2004, p. 2-5) identify that there are variations in the components that constitute service quality and that it can be dependent on the type of industry. For instance, a customer would expect more confidentiality and a high level of personal assistance in a bank, compared to a supermarket. This highlights that although it can be easy to define service quality, there are conflicting perspectives of what it encompasses. Thus, service quality can be defined in various ways, albeit as customer service, return policies, staff politeness and courteousness. In addition, Morschett et al., (2005) and Cottet et al.,(2006) state that contact employees deliver the promise of the firm, create an image of the company and sell the firm's services. Thus, indicating that employees play a major influence in the service provided by staff. Additionally, Schiffman and Kanuk (2004, p. 188) and Heskett et al.,(1997, p. 41) state that it can be difficult for consumers to evaluate the quality of service than the quality of products, as it can vary from day-to-day, from service employees and from customer to customer. This is because service quality is intangible and heterogeneous (Zeithaml and Parasuraman, 2004, p. 4-5).

Links between Customer Satisfaction, Profit and Loyalty

The theory so far points to the notion that a series of relationships exist between perceived expectations of product quality, perceived service quality and customer satisfaction. The tentative relationship between customer satisfaction, profit and loyalty has also been noted. The idea that customer satisfaction is linked to profit through

repeat purchase is best expressed through the PIMS project (Profit Impact of Marketing Strategy), which emphasises those organisations which hold a higher perceived service quality and value usually excel more than those with lower perceived quality and value (Buzzell et al. 1987; Reichheld and Sasser, 1990). Results from the PIMS project show that the top 20% of companies which create a higher perceived quality (a term used in PIMS and which may be identified with exceptional customer satisfaction considering the received value) have up to twice the profit than the bottom 20% of companies. Benefits enjoyed by companies with a superior perceived quality include higher customer loyalty, higher rates of repeat purchase, less sensitivity to price wars, possibility of achieving higher prices without the risk of decreasing the number of buyers, less costs of market functions and increase in market share (*ibid*). Whilst a satisfied customer is not always a loyal customer and product or service satisfaction is not always related to the desire to participate in future decisions (Zeithaml, 2009), satisfying customers is certainly a starting point. Anselmsson (2006) explains that a crucial determinant of an organisation's success is to understand and fulfil customer expectations, which can lead to satisfaction. In addition, Schiffman and Kanuk (2004 p. 188) and Lee, Lee and Yoo (2000), state that customers judge the quality of a product or service based on their perceived expectations (such as previous experience), which can lead to customer satisfaction and loyalty. The customer satisfaction index (CSI) model developed by Fornell et al.(1996) and the customer satisfaction and loyalty model, highlights that customer expectations determine the level of a customer's perceived quality and value. The following section provides an overview of key models and frameworks which exist within the extant literature. These models and frameworks are a useful starting point to understanding the different perspectives which exist surrounding customer satisfaction and service quality.

Key Models and Frameworks for Consumer Satisfaction and Service Quality

Table 1, presents an overview of the key academic models within consumer satisfaction field of study.

Academic models within customer satisfaction and service quality	Approach/ Perspective	Key Attributes of Model
SERVQUAL Model Parasuraman et al. (1994)	Customer's perspective through an instrument to measure the gap between expectations and actual performance.	Measures 22 service attributes followed by perceptions of the same 22 attributes. The 22 attributes represent 5 service dimensions and includes assurance, empathy, reliability, responsiveness and tangibles.
Service profit cycle Heskett et al. (1994)	Organisational and customer perspective which highlights that both customers and employees can have a direct influence on each other.	Illustration of how internal customer satisfaction leads to customer satisfaction and loyalty. The model depicts strong relationships between profit, growth, customer loyalty, customer satisfaction, value, employee capability and productivity.
Kano model As cited in Bicheno (2000)	Customer's perspective of product and service attributes that are perceived to be important.	Model illustrates customer satisfaction is a result of a firm's competitive and exciting features. The more competitive and exciting the features, the greater the degree of satisfaction.
Levitt (1985) Model of Four circles as cited in Vignali, Vranesovic	Assessment of quality relies on four levels commencing with core product (generic benefits), expected product	Demonstrates how value can be added to the customer experience through

Vignali, Vranešević and Vrontis, 2008 A model which presents an organisation's primary and secondary support roles in delivering customer value. Model outlines support roles such as HR, Technology, Procurement and the firm's overall infrastructure in the contribution of value and how the management of logistics, marketing and general service play a key role in the creation of customer value.

According to Zeithaml and Parasuraman (2004), SERVQUAL is the most dominant approach to quantitatively assessing service quality. East, Wright and Vanhuele; 2008, p. 176, explain that SERVQUAL is a measuring instrument used to assess any service using one standard set of questions, and to measure the gap between customers' expectations of services and their perceptions of the actual service delivered. The scale has five dimensions: reliability; responsiveness; assurance; empathy; and tangibility (Schiffman and Kanuk, 2004, p. 190-191). These are divided into two groups: the outcome dimension, which looks at the reliable delivery of the core service, and the process dimension, which focuses on how the core service is delivered such as the employees' responsiveness and empathy in handling customers (Rosesa, Hoppena and Henrique, 2009). The scale shows that if the service exceeds customer expectations compared to other companies offering a similar core service, then this could give them a customer-focused competitive advantage (Lin, Lee and Jen, 2007).

Relative Importance of Service quality in a Grocery Context

In a grocery context, customer expectations of service quality are in simple terms the standards that consumers would expect from the supermarket which meets their pre-purchase expectations. This could be evaluated through the level of engagement and interaction of store personnel as well as a number of other factors outlined in the literature, ranging from physical store attributes through to functional quality such as the actual process of service delivery. In a supermarket context, service quality may be evaluated on the basis of the physical amenities within the store as well as the degree by which staff greet customers politely; listen to problems or requests or deal with complaints in an effective manner. Blythe (1997, p. 173-175) suggests customers shopping in a

discount store compared to a quality-led store, would expect a lower functional service quality such as longer queues, as customer expect lower prices and are prepared to accept a lesser service in return for goods sometimes 20-40% cheaper than competing mainstream providers. The use of experiential service quality, for example, natural lighting, colour schemes and atmospherics including bakery smells and the smell of fresh produce could help to entice and encourage customers to buy more products and create an in-store experience which is different to that of their competitors (McGoldrick, 2008).

In addition, it is assumed in the literature that there is a higher importance of staff interaction and engagement for some providers to create consumer satisfaction in a way that closes the gap between expectations and actual service quality (Zeithaml and Parassuraman 2004). For example, employees are in direct contact with consumers and they can influence the extent to which the consumers receive a positive or negative service experience. The Service Profit Cycle, (Heskette et al., 1997) highlights the role employees play in creating consumer satisfaction, when they are rewarded and their needs are recognised by the organisation.

Mintel (2009) argue that accessibility and value are essential for the success in this market, and found that the main attributes that consumers value are convenience, variety and reliable quality. In addition, one of the main findings from Mintel's Report (2009) is that two-thirds of customers surveyed said that it would be worth paying more to shop in a pleasant environment. Indeed, this highlights that there is more to grocery shopping than low prices. This could suggest that supermarkets may need to focus on offering consumers more value-added benefits and less quantifiable aspects such as a relaxing in-store ambience, staff expertise, efficiency and warmth. In addition, it should also be worth considering whether customers shopping at quality-led stores are willing to pay higher prices for their groceries than discounter grocery shoppers for the perceived premium service that they receive, and whether discounter shoppers would be prepared to pay higher prices for an improved service quality.

Methodology

The following hypotheses were developed from the literature in order to establish the relative importance of service quality in the UK grocery sector;

H1: Service quality is positively related to customer satisfaction within the grocery sector. H2: Service quality will be stronger for quality-led stores than for discounters.

H3: Staff interaction and engagement is stronger for quality-led stores than it is for discounters.

Data was collected using a mixed method approach. A questionnaire was developed by adapting an existing retail service quality scale (Dabholkar et al 1996). The questionnaire was carried to consumers who shopped at Aldi, a grocery discounter in the North West region of the UK and a sample was also carried out to Booths consumers, a quality-led grocery store, located in the same geographic region. The purpose was to collate this data and statistically analyse the results using SPSS package. This would provide the research with a demand side perspective of the relative importance of service quality. Two semi-structured interviews were also carried out with store managers of the aforementioned stores in order to provide a supply side perspective. The interviews were tape recorded and the subsequent themes which emerged were derived using a coding method of analysis (Saunders et al; 2007).

According to Saunders et al (2009, p. 156) emphasis must be placed on the reliability and validity of the research design. Rogers (1961, cited in Raimond, 1993, p. 55) explains that the researcher must prevent themselves from forming subjective hunches. According to Easterby-Smith et al. (2008, p. 109) reliability refers to the extent to which the data collection and analysis will yield consistent findings, such as transparency in the analysis of the raw data and would similar conclusions be made by another observer. Robson (2002) argues that there may be four threats to reliability which include subject or participant error/ bias and observer error/ bias. The research

therefore took into account the possible threats to reliability through the research design and administration. Both the questionnaires and interviews were conducted at similar time frames throughout the day and week.

Findings and Discussion

H1: The overall perceived quality of customer service is positively related to customers' level of satisfaction for both a discounter and quality-led store grocery store.

This hypothesis relates to the relative importance of service quality within the two store types. To determine the overall customer satisfaction with the store, the data was aggregated from the items referring to the pleasantness; store layout; ease of locating; product availability; high quality; reliability; customer service; operating hours; parking spaces; help packing. A new variable was created from the aggregate data, which encompassed all the aforementioned variables that have demonstrated that they influence customer perceptions of satisfaction. The overall customer service will now be known as store service. In order to test the relationship between the two stores and the respondent's satisfaction levels correlation matrices were analysed using Pearson's product-moment correlation. Figure 2 illustrates the correlation matrices.

Booths data illustrates customer service is positively related to store satisfaction with a Pearson correlation of $r= 0.704$ and the significant value is less than 0.001, so the probability of getting a correlation coefficient this big in a sample of 50 people if the hypothesis was true (there was a positive relationship between these variables) is high (Field, 2005, p. 178-179). Aldi data illustrates customer service is positively related to store satisfaction with a Pearson correlation of $r= 0.772$ and the significant value is less than 0.001, so the probability of getting a correlation coefficient this big in a sample of 50 people if the hypothesis was true is high (Field, 2005, p. 178-179).

Figure 2: Booths and Aldi respondents – Customer service and Store satisfaction correlation matrix

		Booths		Aldi	
		Customer Service	Store Satisfaction	Customer Service	Store Satisfaction
Customer Service	Pearson Correlation Sig. (2-tailed) N	1 0 50	.704** 0 50	1 0 50	.772** 0 50
Store Service Satisfaction	Pearson Correlation Sig. (2-tailed) N	.704** 0 50	1 0 50	.772** 0 50	1 0 50

**. Correlation is significant at the 0.01 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

The importance of product quality and pricing were beyond the scope of this study, as the focus was primarily on service quality. Boshoff and Gray (2004) and Berry et al., (1994) explain that service quality can be a contributing factor in creating consumer satisfaction, which can also lead to a competitive advantage. This view coincides with the views of the managers who agree that service quality can play a part in consumer satisfaction. The findings from the study relate to the view of Schiffman and Kanuk (2004, p. 188-189) who state that customers judge the quality of a product or service based on their perceived expectations, which can lead to customer satisfaction and loyalty.

The findings from the questionnaire indicate that both Booths and Aldi participants place importance on service quality. Indeed, we can gain confidence that there is a genuine relationship between customer service and store satisfaction within both store types. In other words, this means that as customer service increases, the level of customer satisfaction with the store increases, so there is an interrelationship between the two variables. This genuine relationship suggests at this stage that the findings from the study confirm this hypothesis.

Hypothesis 2

H2: Service quality is more important for quality-led grocery stores.

Most Booths' participants rated the importance of service quality as being very important compared to the Aldi participants. The data suggests that the main reasons why customers shop at Booths is service, convenience and quality; whereas, price was very insignificant. In comparison, the Aldi participants frequented the store due to convenience and price, and service played a very insignificant factor. The Aldi manager indicated, "if it wasn't for cost we would be more developed with regards to customer service, but any customer service incentive that is considered would be scrutinised for the cost behind it, it is as simple as that". In contrast, Booths have adopted a differentiation strategy whereby they offer products and services to be of a higher quality and charge premium prices for the additional service that they offer customers. This was further emphasised as the Booths manager explained that they cannot compete with competitors based on price, as it would not make economic sense, so instead they focus on delivering exceptional service and high quality produce to provide them with a unique service.

The two store managers agreed that service quality is important at their stores. However, the two stores differed in the level of importance placed on service. The Booths manager, for example, stated that service was very important for the survival of the business as it offers them a point of difference from their competitors. In comparison, the Aldi manager explained that Aldi operate with a cost saving approach and customers shop because of the low prices and value for money, and not the general service provision in terms of staff engagement, bag packing and physical store ambience. This relates to the expectancy-disconfirmation model whereby companies try to under-promise, but over-deliver by offering beyond or exceed what customers expected (Woodruff and Gardial, 1995, p. 87). For example, Aldi are managing their customer's expectations, and because they are competing on cost they sacrifice their service levels; therefore, they promise customers little in terms of service, but deliver exceptionally reduced costs in an attempt to exceed their customer expectations. A quality-led store, on the other hand, would be expected to deliver a high quality service, and if this is not delivered then customers will complain or feel dissatisfied, as the price reflects the higher service. If however, the service is already to a high quality then they would expect this and their satisfaction would be fulfilled. This relates to the view of the Booths manager who explained that if customers are not given the service that they expect then they would not hesitate to voice their opinions, but they may overlook this at a competitor store.

The results indicate that Booths and Aldi participants rate service quality to be important when asked generally about service quality. However, when the different components of service quality were broken down, it was found that some components were not as important for Aldi participants. For example, Aldi customers stated that they were neither satisfied nor dissatisfied with bag packing, as the staff did not pack their shopping, but when questioned if it was important to them, most customers explained that it was not important. In addition, the most important characteristics for Aldi customers would be dealing with customer complaints and politeness and courteousness of staff, which scored the highest. In comparison, the Booths participants stated that all of the components to be important especially courteousness and staff interaction. Interestingly, when asked about staff bag packing, the participants from both stores

did not place this to be particularly important. For example, at Booths 76% of participants stated that they would prefer to pack or would not mind to pack, and 70% at Aldi said the same. Additionally, 90% of all participants stated that they would not pay a higher price for this service. The findings therefore suggest that bag packing is not very important to customers at either Aldi or Booths.

The findings from the interviews and surveys indicate that the quality-led, Booths, create an experience for their customers using service quality measures, which is reinforced by the staff getting to know all of their customers, store tasting events, book signings, staff with specialist training and knowledge. For example, when recruiting new employees, they are for potential employees who will uphold their reputation and deliver excellent service quality to customers. Hence, the Booths manager stated, "personality does play a big part in that interaction as service quality comes from interaction with the customer and some customers do not want that interaction so the individual has to be able to judge that as well". This demonstrates that Booths offer their customers beyond their competitors, as they want to ensure that they create customer satisfaction and loyalty. In comparison, Aldi aim to keep costs to a minimal in order to offer low prices to customers, thus they have to work very efficiently to identify cost savings. Indeed, Aldi believe that by keeping costs down with a simple store layout and less frilly surroundings, which means that they can offer low prices to customers, with a trade off in service quality (Porter, 2008).

According to Varley (2001) discount retailers sell at a lower than average price; therefore, it is only sustainable if the retailer has other low cost elements within their marketing mix such as a basic store environment. The Aldi manager emphasised that if they had strategies to develop service quality then every cost would be scrutinised due to the company's focus on running efficiently with tight cost controls and no-frill approach to store design and environment, with low levels of customer service. McGoldrick (2002) therefore questions whether discount retailers need to establish whether higher levels of service can be feasible for them, but it can be costly to deliver, so they need to determine whether it is actually important for customers. This highlights that the two store formats are different in the way that they operate and aim to create consumer satisfaction through the use of service quality. Based on this, we can gain confidence that service quality

is more important for differentiator grocery stores than for discounter stores; therefore, it is possible to confirm this hypothesis.

Hypothesis 3

H3) Staff interaction will be stronger for differentiator stores than for discounters.

On average, participants from Booths were very satisfied with the staff interaction at the Booths store (Mean = 4.60 (on a scale of 1-5), Standard deviation = 0.81) compared to the participants from Aldi about the staff interaction within the Aldi

store (Mean = 3.14 (on a scale of 1-5), Standard deviation = 1.16). This difference was significant $t(98) = 7.30$, $p > 0.05$, which means that we can gain confidence in the hypothesis that the staff interaction within the two store types are different, so this confirms this hypothesis that the difference between the two store types in terms of staff interaction is significant (Field, 2005, p. 340). It also represents a medium-sized effect $r = 0.593$. Indeed, the results indicate that staff interaction is stronger at differentiator stores than for discounter stores.

Figure 3 : Booths and Aldi respondents – independent Samples T Test on Staff interaction

	Independent Samples Test									
	Levene's Test for Equality of Variances		Test for Equality of Means						95% Confidence Interval of the Difference	
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper	
Set (2-sided)	13.02*	.000	7.299	86	.000	1.43	.200	1.063	1.837	
Equal variances assumed			7.299	87-464	.000	1.43	.200	1.062	1.832	
Equal variances not assumed										

Calculating the effect size

$$r = \sqrt{7.2992}$$

$$7.2992 \div 98$$

$$= \sqrt{53.275}$$

$$151.275$$

$$r = 0.593$$

The Booths manager explained that the building of relationships between customers and staff can be important to make them 'feel part of booths' and offer them an additional service that they do not receive from other supermarkets. The manager admitted that customers can easily switch to competitors and expect to pay less for products, but they would trade off service for low prices. Therefore, they have to ensure that staff interaction and building a strong rapport with customers and creating an in-store experience meets and fulfils customer's expectations so that they do not want to switch to a rival supermarket. In contrast, the Aldi manager explained that their customer contact is minimal as it is only at the checkouts; this is mainly due to their low-cost strategy of employing a minimum number

of staff who are trained to work in all departments, so that they are not positioned in one job.

According to Bettencourt and Brown (1997) contact employees deliver the promise of the firm, create an image of the company and sell the firm's services. Thus, indicating that employees play a major influence in the service provided by store staff. However, this study has highlighted that the importance that staff interaction can play can be dependent on store type. In addition, the Aldi manager justifies that their store does not actually need a number of staff on the shop floor as their store layout is simple and small, so customers are able to easily locate items without having to ask for assistance. In addition, the Aldi manager explains that they are "trained to be nice, polite, answer

any questions, make sure that my cashier charges the customer correctly and making sure that the customers get through the tills quickly and happily, that all the product are available and are of a good quality". In comparison, the Booths manager highlighted the number of measures that they will be introducing to increase customer satisfaction even further such as the developments in the 'slow lane strategy', so that staff have the expertise and knowledge within the service areas.

Indeed, the findings from the independent t test reveal that staff interaction will be stronger for quality-led stores than for discounters. This is because customers expect to have higher staff engagement and be served by staffs that have the knowledge and expertise in the products and services.

Conclusion

The results from this research are consistent and support other empirical studies

(Huddleston et al., 2009 and Lee, 2008) in that the relative importance of service quality can vary according to the type of organisation. This study has found that in a grocery context, service quality is an important component for quality-led stores as it can be a critical determinant of satisfaction. With rising consumer expectations and increasing demands on the product and service provision, one would assume consumers shopping at discounters would also expect increasing levels of service provision. However, data within this study confirms that the degree of influence or relative importance of service to consumer varied by store type and consumers who shop at the discounter are still primarily concerned with cost and convenience and are willing to accept a lower level of service as a consequence.

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EXHIBITION VISITOR AND EXHIBITOR GROUPS IN EASTERN-EUROPE

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Abstract

This paper discusses the experiences with the newly-developed KAVA-model. This model works on cash basis and evaluates cash inflow, outflow and NCF in connection with four different interest groups connected to the given exhibition. The model was tested also on four different exhibitions: Farmerexpo (Debrecen, Hungary) in 2005 and 2006, OMÉK (Budapest, Hungary) from 2005 and Polagra-Farm (Poznan, Poland) 2006. The different fairs can be compared by their relative „economic values” that makes the auditing more reliable. The model in the everyday teaching process has already been introduced based on an electronic lecture note. The basic version of the model is suitable to run tests (including what-if analyses, as well) and evaluate them by the students.

Keywords: economic effectivity, fairs, exhibitions, model testing

INTRODUCTION

Complex economic evaluation of fair and exhibition events is an actual topic in the literature. In the model running are evaluated all stakeholder groups with numerical terms, calculated with cash inflow and outflow categories. The net cash flow calculation gives (in the author's opinion) an economic value. The categories summarized give a so-called complex economic value. A KAVA numerical model was developed to carry out the calculations for the complex economic value of those events.

Fairs and exhibitions belong to the oldest marketing tools. Many authors deal with evaluation of these events, examining them from different viewpoints. In this article a model testing is presented that

gives answers about this economic value, by numeric figures regarding the economic effectivity of a fair. In this paper the author presents the practical approach of the KAVA model, using it for assessment of four different exhibitions: Farmerexpo (Debrecen, Hungary) in 2005 and 2006, OMÉK (Budapest, Hungary) from 2005 and Polagra-Farm (Poznan, Poland) 2006.

LITERATURE REVIEW

Participating an exhibition makes a good possibility for PR, CRM, and Direct Sale purposes, too, because an exhibition concentrates a market, making it similar to a classic free competition. "Notwithstanding the caliber of the topic, the most cited authors in the territory of marketing have no special attention concerning this type of communication and sale and the buyer-seller relationships." [1]

Kotler's (1998) book contains the motivations of the exhibitors as follows: "The participating sellers want to acquire diverse advantages, for example:

- To make new contracts
- To manage existing customer relations
- Introducing new products
- Meeting new buyers
- Further sales to the present consumer public
- The "school" the consumers with printed materials, videos and other audiovisual methods." [2]

Jobber (1999) manages the exhibitions as a part of the communications-mix. He ranks the relative

significance of the sales promotion instruments comparing the exhibitions, as follows:

- Personal sale
- Information source of industrial trade
- DM and printed flyers [3]

He differentiates the fair; (concentrated place of the supply of economic sectors where not only information-exchange, but direct sale is allowed), the exhibition (offers the representative supply of one or more economic sectors, gives information, but the sales at the stands is mostly not allowed) based on the MKVSZ formulation (Hungarian Association of Exhibiton- and Fair Organizers). [4]

The objectives for a company participating in a fair can be:

- Occasion for contacting the market-segments with special interests.
- Strengthening the brand knowledge and building new relationships.
- Management of existing customer relationships.
- Possibility of introducing products.
- Define the customer needs and modify their demand.
- Collecting information about the competing market.
- Market launch by newly developed products.
- Recruiting wholesalers and/or retailers.
- Keeping up/ development of the company image.
- Handling the complaints.
- Sales.

Tomcsányi (1988) differentiate the fair (market-oriented organizations of one or more economic sectors, organized regularly, on the same place, for professionals); the exhibition, or trade show (they introduce an economic sector for guidance or propaganda, and are opened for the public. The exhibition allows sales of products.) and a historic approach (market, the meeting point of sellers and buyers, which makes the product change possible). This is different from the MKVSZ's formula! He describes the exhibition as a complex advertising space where the product plays the lead. Important factors are hospitality, flyers, information collecting. In his opinion the exhibitions show a lot of common characteristics with the advertising, but belongs not to it. [5]

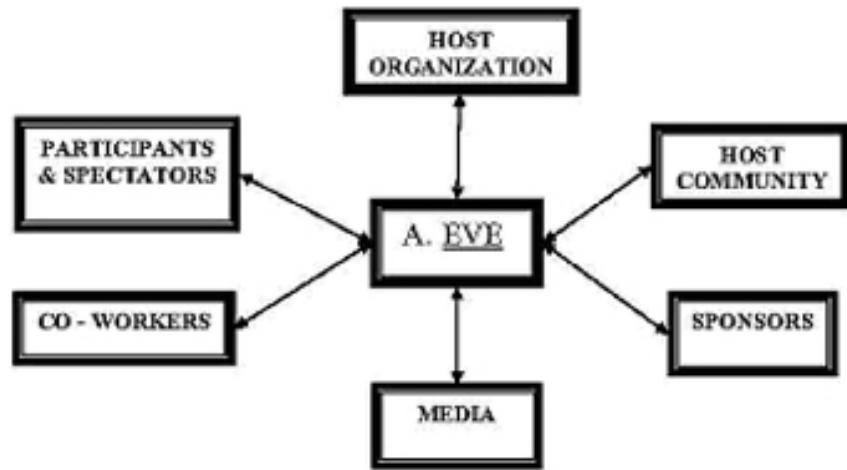
In his later book (Tomcsányi - Lehota, 1994) he describes the exhibition, as a concentrated market, and as a part of the Sales Promotions. Here he typologies the exhibitions and the visitors, too, as follows:

- Buyer, or potential buyer
- "Buyers of buyers" (or end-consumers)
- Influentials (non-buyer, but participant in the buying process)
- Experts (engineers, specialists, etc.)

Their goals can be:

- To come to know new products and developments
- Collecting product and technical information
- Tightening the connection with the sellers
- Getting new ideas [6]

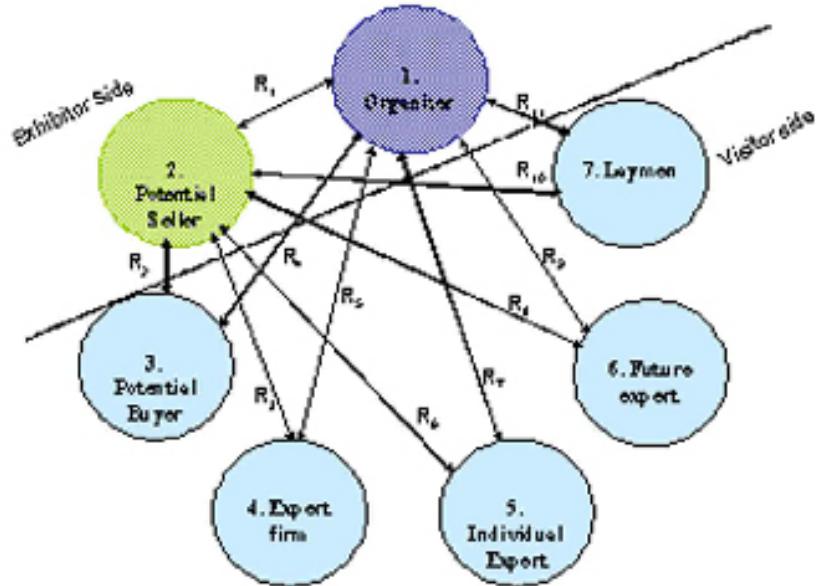
The model of Spiropoulos et al. (2006) includes six major event stakeholder groups. These are the "Host organization," the "Host community," the "Co-workers" and the "Event sponsors," the "Media," and the "Participants and spectators" (See Figure 1).

Figure 1. The relation of stakeholders to events. [7]

Getz (2007) and his colleagues summarize the major stakeholder roles similarly to six groups, but different ones, as we can see in Figure 2.

Figure 2. Major stakeholder roles [8]

The basis for elaborating this model was the one published by Varga – Karpati (2006), see in Figure 3, where the authors evaluated the fairs stakeholders qualitatively in a complex way. This article served as a basis for creating the complex economic model of fairs' evaluation that was named as KAVA after the family name of the authors.

Figure 3. Relationship Network in the Exhibition Business. [9]

The first step of measuring the economic value of the exhibitions was the calculation of attractiveness radius [10] and the modification of this radius [11].

The main approach of the KAVA model is to evaluate separately the stakeholders' role of a given fair economically and by summarising them to determine the complex economic value of the fair. The main stakeholder groups in connection with a fair can be distinguished, as below:

- organizer
- exhibitor
- professional buyer
- expert company
- individual expert
- future expert / student
- ordinary visitor / layman
- region / settlement (the laughing third = beneficiaries of positive externalities)

The list above contains all the stakeholders who somehow are connected financially to a

fair / exhibition and that is why their role can be calculated in money terms in connection with an event. In the KAVA model any stakeholder has three money flow categories, as below:

- money inflow for the given stakeholder, that is called yield value in the model
- money outflow for the given stakeholder, that is called cost value in the model
- net cashflow, calculated as money inflow minus money outflow, that is called economic value in the model

THE OBSERVED EXHIBITIONS

A. Farmerexpo

From the very first moment, FARMER-EXPO has consciously endeavoured to create opportunities for widening relations, deepening partnerships, supporting agribusiness sector. In accordance with the description above Farmerexpo provides a forum for all the agribusiness employed, and also for the domestic or foreign companies connected to the agricultural sector to introduce their products and services.

The professional programme of the exhibition has been widening year by year. Among the programmes there are professional conferences, forums for agricultural experts to collect new, important knowledge, the latest research results and other practical, useful experiences.

The show had been developing dynamically - taking both the net exhibition area and the number of exhibitors into consideration - until 1999, when an other exhibition organizing company got interested in Farmer-Expo.

This fact and the hardenings of agriculture contributed to 30% decrease in the exhibition area and a 20% decrease in the number of exhibitors. In year 2000, the National Agricultural and Food Industrial Exhibition (OMÉK) - held in every 4 year - moderated the interest towards the exhibition, still a 10% increase could have been noticed. In 2001 the net exhibition area increased 40 % (from 12.197 squaremeter to 17.000 squaremeter), and the number of exhibitors about 12% (from 369 to 412). This growth continued both in 2002 and in 2003. In 2004 expectations in terms of joining the EU and reduction of costs were typical for the companies, that resulted in a small decrease in the number of exhibitors.

The professional programmes provide various subjects from business meetings through plant breeding symposiums to agricultural political forums. The Hungarian Animal Breeders' Association acknowledges FARMER-EXPO as its official live-stock exhibition. Since 1994 - when as first member of the live-stock exhibition the pig appeared - the organizers has consciously broadened the live-stock exhibition year by year. Today 7 species of animals are shown at the exhibition - pig, horse, poultry, cattle, sheep, goat and rabbit.

FARMER-EXPO has been acknowledged as one of the most visited exhibitions. In the last 8 years, an average of 40,000 visitors came to see the four day long event. A considerable amount of visitors (approx. 50%) return to the show every year. The compound of visitors reflect the professional characteristic of the exhibition, since 70% of the visitors have some kind of relation to agriculture. [12]

B. OMÉK

The first Hungarian pedigree animal breeding exhibition was organized by István Széchenyi at the turf, in 1829. The initiative of Széchenyi belongs in historical view to the oldest animal exhibitions, such as "Royal Show" in England, or the exhibition in Bern in 1804. Miklós Szabó reports over 53 rural exhibitions between 1867 and 1909. After the World War I. in 1921 participated Minister of Agriculture Nagyatádi Szabó István and Minister President Teleki Pál. After the World War II the first "bigger" international exhibition was located at the area of agricultural exhibitions in 1971: the I. Hunting World Expo. The OMÉK 1990 was represented by numerous participants of research and educational institutions [13].

"OMÉK the International Exhibition of Agriculture and Food is the oldest and largest farming exhibition in Hungary. The history of OMÉK begins with the 1896 Millennial Exposition in Budapest when Hungary celebrated its first thousand years. In 2005 will witness the 74th time this event that welcomes both representatives from the field and the general public as well. It will also see the historic first time the exhibition is being held within the European Union.

OMÉK's role has always been twofold: one, to give an account of where the sector has gone in the previous five years and of what has been achieved; and, two, to set a course for the coming years and outline the tasks that lie ahead in terms of growth and progress. With OMÉK 2005, this dual role has become all the more important in the light of our accession to the European Union: a report must be made on our experience of little more than a year as an EU member-state, one which discusses EU requirements and options for farming and the regions as well as evidence of suitability for EU membership." [14]

C. Polagra

Poznań International Fair (MTP) was established in 1921. It is one of the trade show organizers with the longest history. The 1st Poznań Trade Fair, a domestic trade show, was organized between 28 May and 5 June 1921 at the initiative of Poznań merchants. In 1927 MTP joins UFI, the Global Association of the Exhibition Industry. In 1929 - General Domestic Exhibition (PWK) was an overview of the economic and cultural achievements of Poland. The exhibitions, organized on a space of 650,000 square metres, attracted 4.5 million visitors. In the 1930s the Poznań

International Fair flourished and was ranked the fourth European organizer of international trade shows. In the late 1940s, the trade grounds, which were badly destroyed during the Second World War, were rebuilt. In the following years the Poznań International Fair developed its exhibition programme and gradually added new exhibitions and trade shows to the programme. Old exhibition halls were rebuilt and expanded and many new halls as well as other facilities were built. 1956 – a general strike against the communist rule in Poznań; the events of 28 June 1956 were witnessed by thousands of trade fair guests from Poland and abroad. 1958 – a decision to organize trade shows twice a year – in spring and in autumn. In the '60s – a rapid development of the Poznań International Fair and problems with the traditional exhibition space. Exhibitions are additionally organized around Lake Kierskie, in Edwardowo and in Wilson's Park. 1973 – the traditional June show is divided into International Technical Fair held in June and International Trade Fair of Consumer Goods TAKON held in September. In the same year specialist trade shows were organized – Salmed, Poligrafia, Drema, and Intermasz. 1990 – the Poznań International Fair transformed into a limited liability company with the State Treasure as one of its shareholders. Every year the Poznań International Fair changes its image, upgrades the old exhibition halls and builds new pavilions and facilities. Presently the Poznań International Fair organizes over 60 events every year – different trade shows prepared for over 100 sectors of the economy. Every year it attracts over 300,000 visitors and more than 11,500 exhibitors [15].

Polagra Farm was a complex agricultural exhibition, including the machinery, buildings, animal husbandry and the crop production, organized yearly with its complementer: the Polagra Food. Nowadays the Polagra brand is divided for three exhibitions: Food, Tech and Premiery.

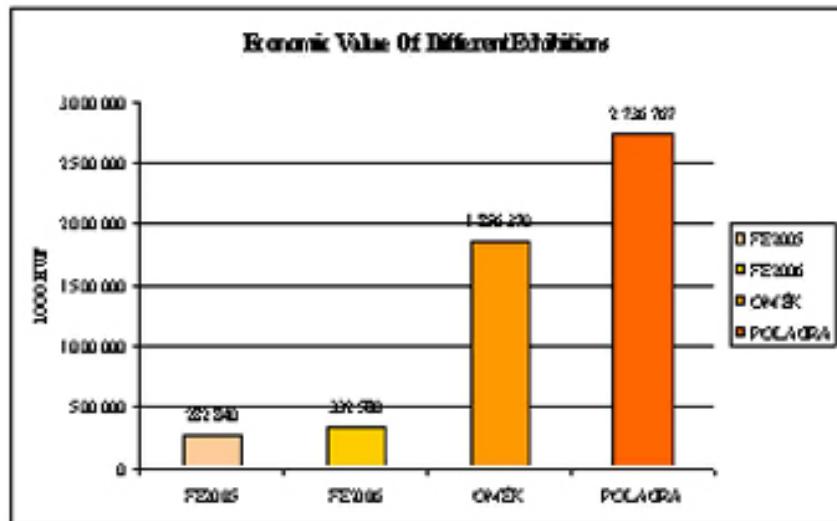
COMPLEX ECONOMIC VALUE OF EXHIBITIONS

The main findings of the calculations based on the KAVA-model can be seen in Table 1. (at the last page). The interested parties are divided into 8 groups, and where it was needed, also into subgroups. The calculations were refined according to the special interest of these (sub)groups.

If we take a closer look on the table above, we can see that the highest economic value is characteristic for the Polagra, what is depending basically on the size of the country, and the arisen higher distances, the exhibitors and visitors have to travel. (This information is also highlighted in the Figure 4.) The higher values of OMÉK are bounded to the length of the event (10 days) and the higher of visitors and exhibitors, compared to the Farmerexpo's two years' numbers. The change in case of the Farmerexpo can be explained by the quick date-changes the organizers had to make, because of the time-schedule of the OMÉK, what is a five-years-organized-event, and disturbed the usual timing of the Farmerexpo in 2005.

Going further in the analysis, and taking a look on the shares of the different exhibitions, we can see, that not all stakeholder groups have a positive balance regarding the events. The other exhibitors (the smallest ones) and the laymen visitors may have a negative one, since their costs may be higher, than the benefit they gain from participating the fairs.

The model in the everyday teaching process has already been introduced based on an electronic lecture note. The basic version of the model is suitable to run tests (including what-if analyses, as well) and evaluate them by the students.

Figure 4. Calculated Economic Value of Different Exhibitions. (HUF – Hungarian Forint)**REFERENCES**

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