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PREFACE

Ask someone to tell you the story of the blind men and the elephant, and they'll tell you a tale of six men, each of whom touched a different part of an elephant, unable to see what their hands were resting on. Asked to describe what they had touched, the man who felt the side of the elephant said, "I touched a wall," and the man who felt the elephant's tusk said, "I touched a spear." The six men argued among themselves-- was it a snake, a cow, a piece of rope? Only when they worked together, sharing their different ideas and experiences, were they able to discover the truth.

Gardy & Brinkman, 2003

The National Academies defines interdisciplinary research as “a mode of research by teams or individuals that integrates information, data, techniques, tools, perspectives, concepts, and/or theories from two or more disciplines or bodies of specialized knowledge to advance fundamental understanding or to solve problems whose solutions are beyond the scope of a single discipline or area of research practice.” The fields of business and economics are very suitable for interdisciplinary research. For this reason, we decided to create an international conference to feature business and economics research that spans more than one discipline. We are very happy to present to you the proceedings of the second International Interdisciplinary Business-Economics Advancement Conference. In these proceedings, please find 94 papers or abstracts from 31 different countries in different fields of business. We thank our contributors and reviewers for making IIBA a truly global conference. The provided USB-stick also includes the abstracts and full papers along with the conference program.

The IIBA Conference aims to bring together researchers, scientists, scholars and scholar students to exchange and share their experiences, new ideas, and research results regarding all aspects of Business and Economics, and to discuss the practical challenges encountered in the field as well as the solutions adopted. We are proud to be sponsored in Turkey by the Istanbul University. We would also like to thank Turkish Airlines, DoubleThree Hotel by Hilton, and The Banks Association of Turkey for their generous sponsorship. We extend our gratitude also to our Scientific Relations Coordinator, Mr. Muhittin Cavusoglu for his great contributions to the success of the Conference and creation of these proceedings.

Most importantly, we would again like to thank all of our authors and reviewers for their contributions, without which the IIBA Conference literally would not be possible.

Co-Editors

Prof. Dr. Cihan Cobanoglu
Prof. Dr. Serdar Ongan

July 2014
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An Empirical Analysis of the Role of Import Percentage in Merger Activities in International Capital Market: A Study of the Policy Implications

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Abstract
This paper is the fifth part of a series of papers which will be developed into one computer software patent. In this paper, we summarize the empirical results of the previous four parts research, and present the important policy implications. The results from using three different statistical methods to estimate the Merger activities equation are presented. The data used for this study are from: (1) the 1987, 1982 Census of Manufactures, (2) U.S. Commodity Exports and Imports as Related to Output: 1991 and 1990, (3) Mergers & Acquisitions Journal (1988), (4) Directory of Corporate Affiliations (1986, 1987), and (5) Million Dollar Directory (1995). The 1987, 1982 Census of Manufactures is one part of the 1987 Economic Censuses which is conducted by the U.S. Department of Commerce. Also, U.S. Commodity Exports and Imports as Related to Output is conducted by U.S. Bureau of the Census, U.S. Economics and Statistics Administration in U.S. Department of Commerce. These results show that the estimated coefficients for Import Percentage are not significant. It indicates that it is not an important determinant in merger activities (M&A) in international capital market.

Keywords: Import Percentage, Merger, M&A, Policy Implications, International Capital Market.

Introduction
This paper is the fifth part of a series of papers which will be developed into one computer software patent. In this paper, we summarize the empirical results of the previous four parts research, and present the important policy implications. The results from using three different statistical methods to estimate the Merger activities equation are presented. We use three different statistical methods in a series of papers. These three different statistical methods are: (1) Probit procedure; (2) OLS (Ordinary Least Squares) Method; (3) Log-Linear Functional Form, OLS (Ordinary Least Squares) Method. With recent economic developments in Europe and the internationalization of Asian corporations from Japan, Taiwan, South Korea and Hong Kong, international takeovers are expected to be more sophisticated and popular in the 2010s. Past research on international acquisitions focused on the benefits of diversification of US acquiring firms. Louis T.W. Cheng and Kam C. Chan (1995) provide the study which takes the perspective of the international bidders and examines the characteristics of international takeovers. Due to data limitations, the sample is confined to takeover transactions for international bidders and US targets with a minimum price of $100 million. A sample of 70 takeover events from 13 countries was examined.

They examined the summary statistics of several takeover characteristics including the type of takeovers, relatedness of the takeovers, time from first announcement to consummation of the takeover, annual sales, transaction price, premium paid and abnormal returns of the target. They find that international bidders seem to prefer related acquisitions. However, these related takeovers do not result in higher premiums or higher abnormal returns for the targets. Some variations in takeover duration are observed among bidders from the UK, Japan and France. They believe that the differences in takeover duration is a consequence of different perceptions of political risk in acquiring US targets by international bidders. Interesting results are found for the premium paid. Both the analysis of variance and the regression analysis indicate that UK bidders are able to pay a lower premium than bidders from other countries. This lower premium does not lead to a lower abnormal return for their US targets. They attribute the UK bidders’ ability to pay a lower premium to their understanding of the US business environment and to their sophistication in takeover activities. In addition, the abnormal returns of the US targets tend to vary with the country of the bidder. Also, the abnormal returns of the targets are found to be positively related to the premium they received.
In Section 2 of this paper, we discuss merger theories briefly and review previous relevant literature. In Section 3, we construct our theoretical model and hypothesis, discuss the basic framework. Section 4 explains data sources, data definitions, and the statistical analysis techniques used in this study. Section 5 presents empirical results for foreign merger activities in U.S. manufacturing industries. Section 6 summarizes the research findings and presents conclusions.

Review of Literature

In the early study by Robert S. Harris and David Ravenscraft (1991), they shed light on the motivations for foreign direct investment (FDI) in the U.S. as well as the factors influencing FDI via acquisitions. They studied shareholder wealth gains for 1273 U.S. firms acquired during the period 1970 - 1987 with a specific focus on differences between acquisitions made by foreign versus U.S. firms. The evidence shows that cross-border transactions are more concentrated in R&D intensive industries than are domestic takeovers. Furthermore, three-fourths of cross-border takeovers occur between bidders and targets in related industries. The data thus support the view that FDI is more likely in situations in which a firm can take advantage of market imperfections or internalize what are otherwise costly (or inefficient) market transactions. Also, the target wealth gains are significantly higher in cross-border takeovers than in domestic acquisitions. This cross-border effect persists, having controlled for industry effects, variation in gains over time, the medium of exchange, and competition in bidding. Foreign companies pay around 10 percentage points more than domestic firms in noncash bids. This impact is as large as the increase in premiums resulting from all-cash deals or multiple bid takeovers, two effects receiving substantial attention in the finance literature.

The reason for foreign merger activity is offered by Froot and Stein (1989) who develop a model linking cross-border takeovers to exchange rate movements. They argue that given information asymmetries about an asset’s payoffs, entrepreneurs find it impossible or very costly to purchase the asset solely with externally obtained funds. As a result, “information intensive” investments, such as buying a company, will be partially financed by the net wealth of the entrepreneur. Since the relative net wealth of foreign versus U.S. entrepreneurs will vary with exchange rates. Froot and Stein’s model predicts that foreign buyers will have a purchasing advantage when their currency is strong against the dollar.

Scholes and Wolfson (1990) argue that changes in U.S. tax laws have had a substantial impact on the incentives both for mergers between U.S. firms and for purchase of U.S. firms by foreign buyers. Specifically, the 1981 Economic Recovery Tax substantially increased tax incentives for U.S. takeovers by U.S. firms (both absolutely and relative to foreign acquisitions of U.S. firms). These incentives included accelerated depreciation schedules that could only be obtained upon acquisition of assets and hence created an incentive for takeover. How-ever, the 1986 Tax Reform Act neutralized most, if not all, of these advantages. Scholes and Wolfson (1990) argue that after 1986 foreign investors should find investment in the U.S. more attractive than before and that such investors “may place a higher value on the assets held by U.S. investors than U.S. investors place on them.”

M. Wayne Marr, Jr, Sanjeev Mohta and Michael F. Spivey (1993) investigate whether real-sector opportunities motivate foreign takeovers of US firms by assessing whether foreign bidders target US firms that offer possible synergistic gains and that provide an opportunity to enter or expand existing operations in the target’s market. They analyze these takeovers in the pre-takeover stage (they develop and test hypotheses about the expected characteristics of the foreign takeover targets) and takeover stage (they examine the announcement effects of foreign takeovers on the wealth of target firms’ shareholders and then test the effects of specific characteristics on the wealth gain from the takeover).

As an extension of the above studies which are famous and excellent in the past 40 years, our study, based on the several significant characteristics of international takeovers identified previously, uses new statistical analysis model, examines more and new data in a wide selection of U.S. industries in manufacturing sector, and identifies more precisely the determinants and motives of foreign merger activities in U.S. manufacturing industries.
Theoretical Model and Hypothesis

This study identifies those characteristics of an industry which have a statistically significant impact on the probability that the firms in this industry will be acquired. The specification of the model is similar to that used in past studies of merger activities: (1) Harris, Stewart, Guilkey and Carleton (1982); and (2) Scherer and Ravenscraft (1987). Our model to identify the determinants of foreign merger activities can be typically represented as:

\[ Y = a + b \cdot \text{Growth} + c \cdot \text{Price-cost margin} + d \cdot \text{Market concentration ratio} + e \cdot \text{Capital-Labor ratio} + f \cdot \text{Export} + g \cdot \text{Import} + h \cdot \text{Tariff} + i \cdot \text{NUMCO} + U \]

The meaning of each item is as follows: (1) Y is Acquisition ratio, \( Y = \) (No. of Acquisition in industry i) / (Total No. of Companies in industry i). (2) Growth is average annual growth rate, \( \text{Growth} = \) (Value added 1987 - Value added 1982) / (Value added 1982). (3) Price - Cost Margin is the 1987 average industry price cost margin, which is value added minus payroll and rentals, divided by value of shipments. (4) Market Concentration Ratio is C4 and HHI50, where C4 is 4 - firm market concentration ratio, HHI50 is Herfindahl - Hirschman Index for 50-firm market concentration ratio. (5) Capital - Labor ratio, K/L, is technology indicator. K/L is capital expenditure divided by total number of workers. (6) Export is export percentage. (7) Import is import percentage. (8) Tariff is estimated average tariff rate. (9) NUMCO is Number of Companies in an industry. (10) U is error term.

An effective means of investigating merger trajectories is to examine by industry the characteristics associated with high levels of acquisition activity (Scherer, 1987). One way of measuring merger activity is to count the number of acquisition within an industry and divide it by the industry’s total number of firms.

In this study, we define the Acquisition Ratio as: Acquisition Ratio \((Y) = \) (Number of Acquisition in industry i) divided by (Total number of companies in industry i). The 1987 Census of Manufactures has provided the Total number of companies in industry i for this study. But, data are not directly available for the Number of Acquisition in industry i for our study. Because of the many restrictions, therefore, we use the information from Mergers & Acquisitions (1988), Directory of Corporate Affiliations (1986, 1987), and Million Dollar Directory (1995) to calculate the relevant data.

In addition to the previous industry characteristics, three more are introduced into our model to explain industry merger activity. We use Export to represent Export percentage (1987), Import to represent Import percentage (1987), and Tariff to represent Estimated Average Tariff Rate (1987).

The U.S. Commodity Exports and Imports as Related to Output: 1991 and 1990 provides the Export percentage and Import percentage for this study. Export percentage is defined as: Percent, Exports to domestic output, (another definition is: Percent, Exports to manufacturers’ shipments) by U.S. Department of Commerce. And Import percentage is defined as: Percent, Imports to new supply (Output plus Imports). Furthermore, we use the data provided in this Department of Commerce report to calculate the Estimated Average Tariff Rate. We define the Estimated Average Tariff Rate as: Value (million dollars) of calculated import duty divided by Value (Million dollars) of Imports for Consumption (at port of entry).

One might anticipate that diversification should be away from import-impacted industries and toward export-intensive industries (Scherer, 1987), therefore, we expect that the coefficient on Export should be positive, and coefficient on Import should be negative for our analysis.

In summary, we then have the Hypothesis: Foreign takeovers take place in relatively low import percentage industries.

As the theoretical model and hypothesis has been explicitly stated, the empirical results which are significant for all specifications are presented in Section 5.

Data and Estimation Technique

Data

The 1987, 1982 Census of Manufactures is one part of the 1987 Economic Censuses which is conducted by the U.S. Department of Commerce. Also, U.S. Commodity Ex-ports and Imports as Related to Output is conducted by U.S. Bureau of the Census, U.S. Economics and Statistics Administration in U.S. Department of Commerce, as stated earlier.

The sample used in this study consists of: (1) a sample of 736 firms acquired in 1988. In this sample, there are 584 firms acquired by U.S. firms, and the other 152 firms are acquired by foreign firms. (2) a sample of 459 industries in U.S. manufacturing sector. The 4-digit SIC (Standard Industrial Classification) codes are from 2000 to 3999.

According to our study, in the 459 industries in U.S. manufacturing sector, some industries have no merger activities in 1988. Other industries have 1, 2, to 6 merger activities in 1988.

Estimation Technique

This study identifies those characteristics of an industry which have a statistically significant impact on the probability that the firms in this industry will be acquired. As discussed earlier, three statistical methods are used in this study. All the items and specifications are fully presented in detail in Section 3. Theoretical Model & Hypothesis.

Empirical Results

This section explores the outcomes of our empirical estimations for a variety of specifications. The results of the determinants and characteristics of foreign merger activities in U.S. industries will be explained.

The results from using OLS (Ordinary Least Squares) Method to estimate the foreign merger activities equation are presented. The estimated coefficients for the Import, Import percentage, (-0.00001, -0.0001 for each specification) are negative but insignificant. This implies that the import percentage is not the important determinant in foreign merger activities in entering the U.S. manufacturing industries. The sign which is negative may imply that as the import percentage increases, the foreign merger activities maybe decrease.

This supports the previous findings by Scherer and Ravenscraft (1987), they found that for the explanatory variable like import percentage, the estimated relationship is weak between import percentage and merger activity, and sometimes in an unexpected direction.

The results from using the Log-Linear Functional Form, OLS (Ordinary Least Squares) Method to estimate the foreign merger activities equation are presented. The estimated coefficients for the Import, Import percentage, (-0.0046, -0.0098 for each specification) are negative but insignificant. This implies that the import percentage is not the important determinant in foreign merger activities in entering the U.S. manufacturing industries. The sign which is negative may imply that as the import percentage increases, the foreign merger activities maybe decrease.

This supports the previous findings by Scherer and Ravenscraft (1987), they found that for the explanatory variable like import percentage, the estimated relationship is weak between import percentage and merger activity, and sometimes in an unexpected direction.

The results from using the Probit procedure to estimate the foreign merger activities equation are presented. The estimated coefficients for the Import, Import percentage, (-0.0048, -0.0041, -0.0041, -0.0034 for each specification) are negative but insignificant. This implies that the import percentage is not the important determinant in foreign merger activities in entering the U.S. manufacturing industries. The sign which is negative may imply that as the import percentage increases, the foreign merger activities maybe decrease.

This supports the previous findings by Scherer and Ravenscraft (1987), they found that for the explanatory variable like import percentage, the estimated relationship is weak between import percentage and merger activity, and sometimes in an unexpected direction.
Conclusion

In summary, as the estimated coefficients for the Import, Import percentage, are negative but insignificant. This implies that the import percentage is not the important determinant in foreign merger activities in entering the U.S. manufacturing industries. The sign which is negative may imply that as the import percentage increases, the foreign merger activities maybe decrease.

This supports the previous findings by Scherer and Ravenscraft (1987), they found that for the explanatory variable like import percentage, the estimated relationship is weak between import percentage and merger activity, and sometimes in an unexpected direction.

Future research efforts in this area could focus on more advanced topics like estimating merger activity by taking the perspective of the international bidders, comparing the characteristics of international takeovers, estimating the effects of high-tariff policy which are related to merger activity, estimating the international competitiveness, and suggesting the best strategy for manufacturing industries.

References

Term Structure of Russian Credit Rates and Arbitrage Theory

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Abstract

The credit market can be considered as a certain analogue of the zero coupon bond market, where credit granting is like bond purchasing, and receiving the credit is like the short sale of bonds. Of course, there is no perfect analogy because the operational procedures on these markets are rather different. However, it is assumed in this article that term structures of these rates of return are similar. For zero-coupon bonds in a time-discrete model there is a known affine temporal structure of yield to maturity that depends on the current short-term rate. In this article the one week interest rate was used as the yield to maturity for one-period bonds. An autoregressive scheme AR (1) for a one week rate of interest was taken as a Vasiček discrete model for the short rate of interest. Using a latent scalar parameter which exists in the model allows constructing adequate term structure of interest rates on the Russian market of interbank credits.

Keywords: Lending Rates, Yield to Maturity, Term Structure, Stochastic Discount Factor

Introduction

In the theory and practice of asset pricing, the main approach is based on the assumption that it is arbitrage-free, i.e., on the arbitrage-free principle (AFP) (Shiryaev, A.N. (1998); Follmer, H. & Schied, A. (2004); Safarian Mher & Kabanov Yuri. (2010)). It means that two portfolios with equal future random payments (equivalent portfolios) must have the same current price. Otherwise, arbitrage becomes possible (i.e., it is possible to earn a «free breakfast»), namely, the owner of the portfolio with a higher price can sell it and buy an equivalent portfolio with a lower price and thus obtain an income equal to the difference between the prices, because the expected future payments in both portfolios are the same. According to the AFP, the price of the financial portfolio is determined as the price of the equivalent portfolio with simplest assets whose prices can easily be calculated.

In the present paper, the authors followed Cochrane’s approach (Cochrane, J. (2005)), whose main idea is that the determining factor of pricing (its kernel) is the stochastic discount factor. But, in contrast to Cochrane, the main attention was paid to the term structure and pricing of interest rates in the framework of the so-called Duffie-Kan affine models (Duffie, D. & Kan, R. (1996)) with discrete time. It is allowed to find temporary structure yield to maturity zero-coupon bonds if one uses a discrete Vasiček model for the short-term rate (Vasiček, O. (1977); Ajevsky, V.V. & Chetverikov, V.M. (2012)). In this structure, there is one free parameter, hereinafter referred to as latency. These issues are discussed in the first section of this paper.

In the second section there is a discussion about the relationship between the observable variables of this model and the latent variable characterizing the investor attitude to the risks due to variations in the stochastic discount factor.

Further the relations obtained for the yield to maturity of zero-coupon bonds are used for the interest rates on the Russian credit market. Obviously, the yield to maturity of one-period bonds in a discrete time model looks like the lending rate for the same period. It is assumed that interest rates for any period are subject to the same laws as the yield to maturity zero-coupon bonds for the same period. Strictly speaking, this is only a hypothesis about the equivalence of temporary structures of credit rates and yield to maturity. In reality, bonds and loans are not the same so as the loans cannot generally be sold before the deadline, unlike the bonds traded on the secondary market.

In the third section, it was shown how the model in question can be used to analyze the lending rates on the Moscow market of interbank credits (MMIBC, «MosPrime»). The data for these rates are presented in the
Appendix. Five figures show that using a single latent variable as the "gauge parameter", we can achieve a good agreement between the calculated yield of loans (deposits) and the observed rates. Note that only a single value of "gauge parameter" was used for five different credit durations at a time.

**Remark.** In the case of continuous models, the econometric estimation of interest rates was performed in 2003 on the basis of the MMIBC data by Anatolyev and Korepanov (Anatolyev, S. & Korepanov, S. (2003)). Björk’s monograph (Björk, T. (2004)) contains a detailed survey of the last achievements in the field of continuous time models. A rather complete econometric investigation of statistical properties of GKO maturing yield was performed by Drobyshevskii (Drobyshevskii, S. (1999)).

**Construction of a Pricing Model**

Consider a pricing model on the zero-coupon market based on the following hypotheses and theorems.

**Proposition 1.** For any \( t \), the logarithm of the price of one-period bond is given by the formula

\[
\ln b^1_t = -r_t, \quad \ln b^1_{t+1} = -r_{t+1},
\]

(1)

where \( r_t \) is the so-called short-term rate whose dynamics is described by the following hypothesis.

**Proposition 2.** The short-term rate varies in discrete time by the formula

\[
r_{t+1} = \varphi \cdot r_t + \theta \cdot (1 - \varphi) + [w_0]^{1/2} \cdot \varepsilon_{t+1},
\]

(2)

where \( w_0 \geq 0 \), and all \( \varepsilon_{t+1} \) are independent identically distributed variables for distinct \( t \) and \( \varepsilon_{t+1} \in N(0, 1) \). In financial mathematics, Eq. (2) is called the Vasiček discrete model (Vasiček, O. (1977)), but in the physical literature it is usually called the Ornstein-Uhlenbeck discrete model (Klyatskin, V.I. (1975); Pitovranov, S. E. & Chetverikov, V. M. (1978); Pitovranov, S. E. & Chetverikov, V. M. (1980)).

**Proposition 3.** The condition that the bond market is one-period arbitrage-free is satisfied if the prices of an \( n \)-period bond at time \( t \) are determined by the conditional mathematical expectation of the discounted price of an \( (n-1) \)-period bond at time \( t = 1 \), i.e.

\[
b^n_t = E_t \{ m_{t+1} \cdot b^{n-1}_{t+1} \}, \quad b^0_t = 1, \quad \forall t.
\]

(3)

Here \( E_t \{ \ldots \} \) means averaging over a measure related to the realization \( \varepsilon_{t+1} \), and \( m_{t+1} \) is a stochastic discount factor depending on \( \varepsilon_{t+1} \).

**Proposition 4.** The stochastic discount factor is determined by the short-term rate \( r_t \), the random variable \( \varepsilon_{t+1} \), and two constants \( \delta \) and \( \lambda \) by the formula

\[
-\ln m_{t+1} = \delta + \gamma \cdot r_t + \lambda \cdot [w_0]^{1/2} \cdot \varepsilon_{t+1}.
\]

(4)

Proposition 4 implies the following obvious corollary.

**Corollary 1.** The random variable \( m_{t+1} \) has a log-normal conditional distribution

\[
\ln m_{t+1} \in N(-\delta - \gamma \cdot r_t, \lambda^2 \cdot w_0),
\]

(5)

and hence direct calculations easily prove that the logarithm of the mean is determined by the logarithm mean plus half the logarithm variance:

\[
\ln E_t \{ m_{t+1} \} = E_t \{ \ln m_{t+1} \} + \frac{1}{2} \cdot D \{ \ln m_{t+1} \} = -\delta - \gamma \cdot r_t + \frac{\lambda^2}{2} \cdot w_0.
\]

(6)
Corollary 2. Since Proposition 3 and Corollary 1 imply
\[
\ln b^t_i = \ln E_i \{m_{t+1} \cdot b^0_{t+1}\} = \ln E_i \{m_{t+1} \cdot 1\} = -\delta - \gamma \cdot r_i + \frac{\lambda^2}{2} \cdot w^0_i,
\]
the following relation between the constants is required for the consistency with Proposition 2:
\[
\delta = 0.5 \lambda^2 \cdot w^0_i, \quad \gamma = 1.
\]  
(7)

Corollary 3.
\[
\ln b^2_i = \ln E_i \{m_{t+1} \cdot b^1_{t+1}\} = \ln E_i \{\exp(-\delta - \gamma \cdot r_i - \lambda \cdot [w^0_i \cdot \frac{1}{2} \cdot \varepsilon_{t+1} - r_{t+1}]\}) =
\]
\[
= 0.5 \cdot (\lambda + 1)^2 \cdot w^0_i - (\delta + \vartheta \cdot (1 - \varphi)) - (\gamma + \varphi) \cdot r_i
\]
or with Corollary 2 taken into account,
\[
\ln b^2_i = -\theta \cdot (1 - \varphi) + (\lambda + \frac{1}{2}) \cdot w^0_i - (1 + \varphi) \cdot r_i
\]  
(8)

Theorem. If the assumptions of Propositions 1-4 are satisfied, then the price of an \( n \)-period bond \( b^n_t \) depends on the time \( t \) only through the value of the short-term rate \( r_i \):
\[
-\ln b^n_t = A_n + B_n \cdot r_i,
\]  
(9)
and the coefficients \( A_n, B_n \) are independent of time.

These coefficients satisfy the system of recursive equations
\[
\begin{align*}
A_{n+1} &= A_n + [\theta \cdot (1 - \varphi) - \lambda \cdot w^0_i] \cdot B_n - 0.5 w^0_i \cdot B^2_n, \\
B_{n+1} &= 1 + \varphi \cdot B_n, \\
A_0 &= 0, \quad B_0 = 0, \quad B_1 = 1.
\end{align*}
\]  
(10)

This theorem is proved by the method of mathematical induction on \( n \). By formula (8), assertions (9)-(10) hold for \( n = 0 \) and \( n = 1 \). It is assumed that they hold for \( n \) and prove them for \( n+1 \). By Proposition 3 stating that the bond pricing is arbitrage-free, one has
\[
\ln b^{n+1}_i = \ln E_i \{m_{t+1} \cdot b^n_{t+1}\} =
\]
\[
= \ln E_i \{\exp(-0.5 \lambda^2 \cdot w^0_i - r_i - \lambda \cdot [w^0_i \cdot \frac{1}{2} \cdot \varepsilon_{t+1} - A_n - B_n \cdot r_{t+1}]\}) =
\]
\[
= -[A_n + B_n \cdot (\theta \cdot (1 - \varphi) - \lambda \cdot w^0_i) - 0.5 w^0_i \cdot B^2_n] - [1 + \varphi \cdot B_n] \cdot r_i = -A_{n+1} - B_{n+1} \cdot r_i.
\]

Comparison of the last two rows shows that recursive relations (10) are satisfied. \( \Box \)

For a short-term rate \( r_i \) whose dynamics is modeled by Eq. (2), the following relations for the conditional means and variances of the variable \( r_{t+n} \) are correct:
\[
E_r \{r_{t+n}\} = \varphi^n \cdot r_i + \theta \cdot (1 - \varphi^n),
\]  
(11)
\[
D_r \{r_{t+n}\} = w^0_i \cdot BB_n,
\]  
(12)

where the coefficients \( BB_n \) are determined by the relations
Formulas (11)-(13) are proved by the method of mathematical induction.

In relations (9), (10) determining the arbitrage-free prices of the bonds, all variables except the constant \( \lambda \) are determined by Eq. (2) for the short-term rate, which is quite natural. The constant \( \lambda \) first appeared in the stochastic discounting coefficient (4). With (7) taken into account, the logarithm of this coefficient is determined by the formula

\[
-\ln m_{t+1} = r_t + \frac{\lambda^2}{2} w_0 + \lambda \sqrt{w_0} \epsilon_{t+1}.
\]  

(14)

Formula (14) means that the constant \( \lambda \) together with the conditional variance \( D_t \{ r_{t+1} \} = w_0 \) and the random variable \( \epsilon_{t+1} \) determine the stochastic discounting coefficient \( m_{t+1} \) deviation from the «natural» quantity \( E_t \{ m_{t+1} \} = \exp(-r_t) \) depending only on the short-term rate \( r_t \).

It follows from formulas (2) and (14) that \( \text{COV}_t \{ \ln m_{t+1}, r_{t+1} \} = -\lambda \cdot w_0 \), hence

\[
\text{corr}_t \{ \ln m_{t+1}, r_{t+1} \} = -\lambda \cdot \left| \lambda \right|^{-1}.
\]  

(15)

In other words, the modulus of the logarithm of the correlation of stochastic discount factor and the short rate is equal to one, and the sign is determined by the sign of the constant \( \lambda \).

**Observable Variables and a Latent Parameter \( \lambda \).**

To test the hypothesis of the equivalence of temporary structures stated in the introduction, let us consider the temporal structure of zero-coupon bonds yield to maturity, following this model of pricing bonds.

It follows from the meaning of continuous rates used in the present paper that the maturing yield of an \( n \)-period bond at time \( t \) is given by the formula

\[
y^n_t = -\frac{1}{n} \ln b^n_t.
\]  

(16)

In the proposed model of arbitrage-free pricing (9), the yield is determined by the formula

\[
y^n_t = -\frac{A_n + B_n \cdot r_t}{n}.
\]  

(17)

where \( A_n, B_n \) are determined by the recursive relations (10).

In formulas (10), all values except constants \( \lambda \) have a very definite economic meaning as a defined econometric model of the short-term rate (2).

In the general initial model, the parameter \( \lambda \) first appears in (4) and determines the value of the linear influence of the random factor \( \epsilon_{t+1} \) on \( \ln m_{t+1} \). For \( \lambda = 0 \), the stochastic discounting factor (4) has the form \( m_{t+1} = \exp(-r_t) \); in this case, the discounting at time \( t \) of the future price at time \( t+1 \) depends only on the current short-term rate \( r_t \) without taking account of its possible variations under the action of the random factor \( \epsilon_{t+1} \). By formula (15), the correlation factor between \( \ln m_{t+1} \) and \( r_{t+1} \) is equal to \( \text{sign}(-\lambda) \) and hence it is equal to one for all negative values of \( \lambda \). Since this parameter does not belong to directly observable (measurable) variables, it will be called a latent parameter of the model under study which characterizes the investor attitude (or, as is usually said, the bond market) to the risk of variation in
the short-term rate in the future period. The meaning of the latent parameter manifests itself most clearly in the formula of the forward short-term rate \( f_t^n(n, n+1) \) connecting the prices of \( n \)- and \( n+1 \)-period zero-coupon bonds at time \( t \)

\[
f_t^n(n, n+1) = \ln b_t^n - \ln b_t^{n+1}. \tag{18}
\]

To form a notion such as the forward short-term (one-period) rate \( f_t^n(n, n+1) \) in terms of \( n \)-periods, consider the hypothetic buying and selling of \( n \)- and \( (n+1) \)-period zero-coupon bonds at time \( t \). We divide the entire procedure into three steps.

Step 1. We sell an \( n \)-period bond at time \( t \) at the price \( b_t^n \) and buy several \( (n+1) \)-period bonds at the price \( b_t^{n+1} \) in the amount of \( b_t^n \cdot \left(b_t^{n+1}\right)^{-1} \).

Step 2. We pay a money unit at time \( t+n \) for an \( n \)-period bond.

Step 3. At time \( t+n+1 \), we obtain an income in the amount of \( b_t^n \cdot \left(b_t^{n+1}\right)^{-1} \) money units for the bought \( (n+1) \)-period bonds. Thus, we have spent one money unit at time \( t+n \) and obtained \( b_t^n \cdot \left(b_t^{n+1}\right)^{-1} \) money units at \( t+n+1 \) time. This operation can be associated with the one-period yield \( f_t^n(n, n+1) \) starting from the relation

\[
1 \cdot \exp[ f_t^n(n, n+1)] = b_t^n \cdot \left(b_t^{n+1}\right)^{-1}
\]

which implies formula (18).

According to (2)-(5), in the considered model of arbitrage-free pricing, the value of short-term forward rate can be represented as

\[
f_t^n(n, n+1) = r_t + B_n \cdot (\theta - r_t) \cdot (1 - \varphi) - w_0 \cdot B_n \cdot [\lambda + 0.5 \cdot B_n]. \tag{19}
\]

The role of the parameter \( \lambda \) in the initial model is completely clarified precisely if we write down (19) in the form

\[
f_t^n(n, n+1) = E_t \{ r_{t+n} \} - w_0 \cdot (1 - \varphi^n) \cdot (1 - \varphi)^{-1} \cdot [\lambda + 2^{-1}(1 - \varphi^n) \cdot (1 - \varphi)^{-1}] \tag{20}
\]

The first term in (20) has the form of conditional mathematical expectation for the short-term rate over \( n \) periods and the second term can naturally be interpreted as the risk premium for the one-period rate over \( n \) periods. An analysis of formula (20) shows that the risk premium is positive for \( \lambda < -2 \cdot (1 - \varphi)^{-1} \) and the asymptotics of the short-term forward rate over a large number of \( n \) periods is greater than the average current short-term rate \( \theta \).

In this case, if \( \lambda < - (1 - \varphi)^{-1} \), then the difference \( f_t^n(n, n+1) - E_t \{ r_{t+n} \} \) is proportional to \( w_0 = D_t \{ r_{t+1} \} \) and monotonically increases with \( n \).

The current maturing yields of the \( n \)-period bond (17) in the model under study is given by the formula:

\[
Y_t^n = (\theta - w_0 \cdot (1 - \varphi) \cdot (\lambda + 2^{-1} \cdot (1 - \varphi)^{-1})) - w_0 \cdot (1 - \varphi)^{-2} \cdot (2n)^{-1} \cdot BB_n + (r_t - \theta + w_0 \cdot (1 - \varphi)^{-1} \cdot (\lambda + (1 - \varphi)^{-1})) \cdot n^{-1} B_n \tag{21}
\]

The quantity \( Y_t^n \) monotonically increases with \( n \) in the range of the parameters

\[
\theta - r_t > w_0 \cdot (1 - \varphi)^{-1} \cdot (\lambda + (1 - \varphi)^{-1}) \tag{22}
\]
In this inequality, all parameters of the model except $r_t$ are constants, but $r_t$ is a time dependent variable. If the investors determine the risk parameter by the inequality

$$
\lambda < -(1-\varphi)^{-1} - w_0^{-1} \cdot (1-\varphi) \cdot \left( \max_t r_t - \theta \right),
$$

then this results in the monotone increase in the maturing yield of zero-coupon bonds in time not only for the mean yields $E\{Y_t^n\}$ but also for the current yields $Y_t^n$.

The preceding analysis of the influence of the latent risk parameter $\lambda$ only allowed one to obtain several estimates from above in the situations that are often met on the market. Since in the model under study, the parameter $\lambda$ is determined by investors, it can be interpreted as an adjustable parameter for matching the calculated arbitrage-free and actually observable yields of zero-coupon bonds for all maturity dates.

This program can easily be realized in our model. Consider the goal function $\Phi(\lambda)$ for adjusting the latent variable $\lambda$ to the observed yield data $y_t^n$:

$$
\Phi(\lambda) = \sum_{n=1}^{N} \sum_{t=1}^{T} (Y_t^n - y_t^n)^2 = \sum_{n=1}^{N} \sum_{t=1}^{T} \left( \frac{A_n + B_n \cdot r_t}{n} - y_t^n \right)^2.
$$

Since $Y_t^n$ is a linear function of the latent parameter $\lambda$, the function $\Phi(\lambda)$ is a positive definite quadratic function of $\lambda$, whose minimal value is attained at $\lambda = \lambda^*$:

$$
\lambda^* = w_0^{-1} \cdot (1-\varphi) \cdot (\mu_1 - \mu_2) - [2 \cdot (1-\varphi)]^{-1} \cdot (1-\mu_3),
$$

where

$$
\mu_1 = \theta - \frac{1}{T} \sum_{t=1}^{T} y_t^1, \quad \mu_2 = \sum_{n=2}^{N} h_n \cdot \frac{1}{T} \sum_{t=1}^{T} (y_t^n - y_t^1), \quad \mu_3 = \sum_{n=2}^{N} h_n \cdot n^{-1} \cdot (B_n - BB_n),
$$

$$
h_n = (1 - n^{-1} \cdot B_n) \cdot \left[ \sum_{k=2}^{N} (1 - k^{-1} \cdot B_k) \right]^{-1}.
$$

Analysis of «MosPrime» Credit Rates

As a data example, it was considered the credit rates of the Moscow Market of Interbank Credits, MosPrime. The MosPrime Rate, i.e., the Moscow Prime Offered Rate, is the indicative rate of rouble credits (deposits) on the Moscow money market.

This indicator is formed by the National Currency Association (NCA) on the basis of the deposit rates of «overnight» terms of 1 week, 2 weeks, and 1, 2, 3, 6 months announced by 8 banks which are the leading operators on the Interbank Credit Market. In our notation, the symbols $w_1, w_2, m_1, m_2, m_3, m_6$ denote the deposit rates in percents per annum for 1 week, 2 weeks, 1 month, 2 months, 3 months, and 6 months, respectively. All data are taken from the site http://www.nva.ru and are presented in the Appendix. These data refer to the period January-August 2013.

A credit contract on the interbank market can be considered as a zero-coupon bond, because it is standardized with respect to its volume and terms. These contracts are quoted according to their credit rates, but these quotations can easily be converted to the bond prices by using the price-rate dependence.

The weekly rate as a short-term rate was chosen. When choosing a week as the shortest duration, it is necessary that all of other durations were divisible by this shortest duration. For uniform harmonization of such requirements, the year was divided into 48 weeks, a month, into 4 weeks. The following initial data were used to construct the observable yields $y_t^1$: 
\[ y_1^t = \ln(1 + \frac{w_1}{a}), \quad y_2^t = \frac{1}{2} \ln(1 + \frac{2 \cdot w_2}{a}), \quad y_4^t = \frac{1}{4} \ln(1 + \frac{4 \cdot m_1}{a}), \quad a = 4800 \]
\[ y_8^t = \frac{1}{8} \ln(1 + \frac{8 \cdot m_2}{a}), \quad y_1^{12} = \frac{1}{12} \ln(1 + \frac{12 \cdot m_3}{a}), \quad y_2^{24} = \frac{1}{24} \ln(1 + \frac{24 \cdot m_6}{a}). \]

Naturally the value \( y_1^t \) was taken as a short-term rate \( r_i \) used to construct regression (2). Table 1 presents the results of the regression construction.

**Table 1. Results of the regression**

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<th>T statistics</th>
<th>p-level</th>
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<td>( \varphi )</td>
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<tr>
<td>( \theta \cdot (1 - \varphi) )</td>
<td>0.000622</td>
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<td>( w_0 )</td>
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For 32 observations \( R^2 = 0.41 \), the White test does not disprove the variance homogeneity hypothesis and the t-statistic of the unit root for the equality \( \varphi = 1 \) is equal to minus 4.00, while the critical Dickey-Fuller statistic at the 5% significance level is equal to minus 2.93 for this model. Since the Durbin–Watson statistic value DW=1.98, which is close to 2, is not a reliable value in the autoregression models, it is necessary to present the data of the sample autocorrelation remainder function. The error autocorrelation tests (Ljung&Box statistics) show that the hypothesis \( \text{H}_0 \) of the error autocorrelations equal to zero cannot be rejected at the 5% level of significance.

The calculated optimal value for latent variable is \( \lambda^* = -62295.6 \); the value of the goal function is \( \Phi(\lambda^*) = 2.07 \times 10^{-7} \). For comparison, the value of the corresponding «discrepancy» obtained in the construction of regression (2) is equal to \( 3.32 \times 10^{-8} \), and calculated for five yields, the value of the goal function is only 1.24 times greater than the «discrepancy» for one short-term rate, which is a rather good result. The optimal value \( \lambda^* \) for the data under consideration corresponds to the following expression for the stochastic discount factor (14):

\[ -\ln m_{t+1} = 2.147 + r_t - 2.072 \cdot \varepsilon_{t+1}. \]

The general comparison picture of the calculated and observed yields for different durations of the loan represented in Fig. 1, where the horizontal axis represents the standard deviation and the vertical axis - the time average of the yields.
Fig. 1. The time averages and the standard deviations of the observed and calculated rates of return for different durations of the loan. Separate figures indicate the duration of the loan in weeks.

An analysis of the results showed the following. A steady increase in the rates of return with increasing duration of credit is observed in both the observed and calculated values. For a period of two, four and eight weeks, the calculated values exceed the average observed values (the relative excess is about 2%). On the contrary, for credit rate of return for periods of twelve and twenty four weeks, the observed values are higher than the calculated values with a relative error of 2%.

Conclusion

It was considered the term structure of credit rates on the Moscow Market of Interbank Credits in the period of nine months in 2013. It was shown that the application of the proposed model of arbitrage-free pricing of zero-coupon bonds to the MosPrime data of the credit market exhibits a good consistency with observations. A similar result was obtained with the data for 2010 (Ajevsky, V.V. & Chetverikov, V.M. (2012)). All results refer to short interbank loans up to six months.

In the proposed model, there is a latent free parameter characterizing the bonus for the risk per unit of volatility. This parameter is not directly measurable, and characterizes the attitude to risk all investors in general. The value of this parameter largely determines the temporal structure of interest rates. It can be interpreted as a single adjustable parameter for matching the calculated and actually observable yields for all credit durations. Additional studies show that the direct regression of n-week’s rate on a one-week rate of return gives an unsatisfactory result.

References


Appendix

### Table 2. Data of «MosPrime» credit rates

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The Impact of the Euro Area Macroeconomy on Global Commodity Prices

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Abstract

The aim of the paper is the analysis of the links between the real and financial processes in the euro area and energy and non-energy commodity prices. Monthly data spanning from 1997:1 to 2013:12 and the structural VAR model are used to analyse the relations between global commodity prices and the euro area economy. The analysis is performed for three sub-periods in order to capture potential changes in these relations in time. The main finding of the study reveals that commodity prices in the euro area do not respond to impulses from production (the economic activity), while commodity prices strongly react to impulses from financial processes, that is, the interest rates in the euro area and the dollar exchange rate to the euro (especially in the period before the global financial crisis). The study also indicates tightening the relations between energy and non-energy commodity prices.

Keywords: Commodity Prices, Real Economy, Financial Market, SVAR

Introduction

Prices of energy and non-energy sources play a key role in the economic development. High commodity prices can make production unprofitable and lead the economy to a crisis. This threat is particularly acute in countries and regions which have to import raw materials, because they do not have their own resources. The problem is deepened because commodity prices tend to co-move. Many theories and hypotheses explaining the co-movement of commodity prices have been put forward. The most general interpretation of this phenomenon is that they respond to certain common and global macroeconomics shocks. The problem is that fluctuations of commodity prices are too large in comparison to what can be expected from fundamental variables. Pindyck and Rotemberg (1990) explain this excess co-movement by herd behaviours of investors, which means that the change in the overall price indexes could trigger a move in the price of any particular commodity because traders could be either in long or short position on all commodities. Lescaroux (2009) extends the studies by taking into account inventory levels (which are available for investigated oil and metal prices). Frankel and Rose (2010) refer to four plausible theories of commodity price co-movement, which cover: a strong global growth, especially in China and India (oil prices are studied in this context by Kilian, 2008, 2009a, 2009b); Hamilton, 2009; Kaufmann, 2011), easy monetary policy and low real interest rates (Frankel, 2008; Kilian, 2010), a speculation (examined by Davidson, 2008; Krugman, 2008; Śmiech and Papież, 2013; Parsons, 2010) and the risk resulting from potential geopolitical uncertainties. Sari et al. (2010) point out that oil and precious metals are denominated in US dollars, and thus co-move. A negative relationship between the value of the dollar and dollar denominated commodities follows from the law of one price for tradable goods. Another reason appears during an expected inflation period, when investors prefer to stay long in raw materials rather than assets. Similar conclusion came from Akram (2009), who also finds evidence that weaker dollar leads to higher commodity prices, and that the reduction of interest rates causes an excessive increase in prices of oil and industrial raw materials. Different results are obtained by Frankel and Rose (2010) and Alquist et al. (2011), as they do not find statistically significant relationships between real interest rates and oil prices.

The aim of this study is to examine whether commodity prices are related to real and financial processes in the Euro area macroeconomy. There are several reasons for choosing the euro area economy. Firstly, the
The euro area is the second largest economy worldwide, with GDP of 12,715,823 million USD in 2013 (GDP in the USA in the same year equalled 16,803,000 M.$). Secondly, euro area countries do not have sufficient supplies of energy resources, and that is why the share of import of fossil fuels in the total energy consumption is so high (60% for the EU in 2009) and still growing. Thirdly, to the best of the author’s knowledge, the relations between the Euro area macroeconomy and commodity prices have not been addressed in any other study.

The analysis is based on monthly data from the period from 1997:1 to 2013:12. The real processes of the euro area are represented by the industrial production, and the financial conditions are represented by the interest rates. Bearing in mind a significant role of the American dollar, we took into account the dollar exchange rate to the euro. Commodity prices are represented by the energy price index and the non-energy price index published by the World Bank database. The structural VAR model is used to investigate the relations, as it allows for their interpretation in economic terms. In order to identify structural shocks we use – following Akram (2009) – a standard recursive structure obtained by a Choleski decomposition. The analysis is conducted in three separate sub-periods: the first one covers the time 1997:1-2002:12, the second one - 2003:1-2008:12, and the third one – 2009:1-2013:912. The division of the whole sample period into three sub-periods allows for the verification of the stability of the relations investigated and the influence of particular areas of euro economy on commodity prices. Additionally, such division allows for checking the changes in relations between energy and non-energy commodity prices, taking into consideration a growing share of biofuels (which are and element of the non-energy index) in energy consumption in the euro area.

The main outcome of the study is the finding that commodity prices in the euro area do not respond to impulses from production (economic activity). At the same time, commodity prices strongly react to impulses from financial processes, that is, the interest rates in the euro area and the dollar exchange rate to the euro (especially in the period before the global financial crisis). The study also reveals tightening the relations between energy and non-energy commodity prices.

The rest of the paper is organized as follows. Section 2 briefly presents the methodology used in the study, the description of the data can be found in Section 3, and Section 4 contains the empirical results. Final conclusions are presented in the last section.

### Methodology

The empirical analysis is based on structural vector autoregression (SVAR) models proposed by Sims (1980). Two types of SVAR models are developed. The first one comes from Blanchard-Quah (1989) (BQ) model and assumes long-term restrictions to model innovations using the economic theory. The second one is called AB model (Breitung et al., 2004) and deals with short-term restrictions. In the study the latter is used:

$$Ay_t = A_{1}y_{t-1} + A_{2}y_{t-2} + ... + A_p y_{t-p} + B\varepsilon_t$$

where: $y_t$ contains the vector of variables, $\varepsilon_t \sim (0, I_k)$, $A$ is $k \times k$ invertible matrix of structural coefficients, which describes contemporaneous relationship among the variables in $y_t$, $A_i (i = 1, 2, ..., p)$ are $k \times k$ coefficient matrices describing dynamic interactions between the k-variables, and $B$ is $(k \times k)$ matrix of structural coefficients representing the effects of k structural shocks. The reduced form of equation (1) can be obtained by premultiplying with the inverse of $A$:

$$y_t = A^*_{1} y_{t-1} + A^*_{2} y_{t-2} + ... + A^*_{p} y_{t-p} + u_t$$

where: $A^*_i = A^{-1}A_i$, $u_t = A^{-1}\varepsilon_t$, and $u_t \sim (0, \Sigma_u)$ is the symmetric variance-covariance matrix of the reduced form consisting of $k(k+1)/2$ elements.

Without making reference to a specific economic structure, the reduced form model is difficult to understand, and its parameters have no economic interpretations. In case of structural model, identification focuses on the (orthogonal) errors of the system, which are interpreted as exogenous shocks. Structural VAR model can be estimated on the basis of the reduced form model (2), which has, however, fewer
parameters. Thus, in order to identify model (1), at least \( k^2 + k(k-1)/2 \) restrictions of the matrices \( A \) and \( B \) have to be imposed (Breitung et al., 2004). Therefore, most applications consider special cases with \( A = I_k \) (B models) or \( B = I_k \) (A-models). Necessary restrictions can be obtained from the economic theory, or some atheoretical rules, like a “timing scheme” for shocks proposed by Sims (1980).

To analyze the dynamic interactions between the endogenous variables of VAR (p) models, impulse response analysis can be used. Assuming that model (1) represents stationary (I (0)) process \( y_t \), it has a Wold’s moving average (MA) representation:

\[
y_t = \Phi_0 u_t + \Phi_1 u_{t-1} + \Phi_2 u_{t-2} + \ldots,
\]

where \( \Phi_0 = I_K \) and \( \Phi_s \) are computed recursively. The \((i,j)\) element of the matrix \( \Phi_s \), considered as a function of \( s \), measures the expected response of \( y_{t+s} \) to a unit change in innovations \( u_{j,t} \). Another useful interpretation of SVAR model is forecast error variance decompositions. To obtain it, it is enough to notice, using (3), that forecast variance \( y_{t+s} \) is expressed as:

\[
\Sigma_s = \text{Var}(y_{t+s}) = \sum_{m=0}^{s-1} \Phi_m \Phi_m'
\]

The diagonal element of \( \Sigma_s \) describes variance of forecast error as a sum of errors resulting from individual structural shocks.

**Data**

To explore the relationships between commodity prices, real economy and financial indicators in the euro area, we use monthly data from the period 1997:1 to 2013:12. The analysis is based on 5 series of variables. The first one is the industrial production index (IP) in the euro area, which describes real economy in Europe. The second one is the 3-month interest rate in the euro area (IR), which describes financial economy. The data for both variables are taken from Eurostat database. The next variable is the real exchange rate (REX). The remaining two variables are the commodity price indexes, that is the energy price index (PEN) and the non-energy commodity price index (PNEN). The data for these variables are taken from the World Bank database. The energy price index (world trade-base weights) consists of crude oil (84.6%), natural gas (10.8%) and coal (4.6%). The non-energy price index consists of metals (31.6%), fertilizers (3.6%), and agriculture (64.8%). A detailed description of variables is provided in Table 1, and basic descriptive statistics can be found in Table 2. Next, all series are expressed as indices with their average values in 2010 equalling 100, seasonally adjusted and specified in natural logarithms.

**Table 1.** The dataset – Variable description.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Full name</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>IP</td>
<td>The industrial production index in the euro area</td>
<td>Euro area 17 (fixed composition) - Industrial Production Index, Total Industry (excluding construction) - NACE Rev 2; Eurostat; Working day and seasonally adjusted</td>
<td>Eurostat</td>
</tr>
<tr>
<td>IR</td>
<td>The 3-month interest rate in the euro area</td>
<td>Nominal interest rate (NIR) minus HICP inflation: ( 100\left[\ln(1 + NIR_t) - \left(\ln HICP_{t} - \ln HICP_{t-12}\right)\right] )</td>
<td>Eurostat</td>
</tr>
<tr>
<td>REX</td>
<td>The real exchange rate</td>
<td>Index of nominal exchange rate (end of month), ( NER ), adjusted by consumer price indexes in the US and euro area; ( 100 \cdot NER \cdot CPI_{US}/HICP_{EA} \cdot 2010=100 )</td>
<td>Eurostat, Federal Reserve Bank of St. Louis</td>
</tr>
<tr>
<td>PEN</td>
<td>The energy price index</td>
<td>Monthly index based on nominal US dollars deflated with CPIUS; 2010=100</td>
<td>World Bank, Federal Reserve Bank of St. Louis</td>
</tr>
<tr>
<td>PNEN</td>
<td>The non-energy price index</td>
<td>Monthly index based on nominal US dollars deflated with CPIUS; 2010=100</td>
<td>World Bank, Federal Reserve Bank of St. Louis</td>
</tr>
</tbody>
</table>
Table 2. Descriptive statistics.

<table>
<thead>
<tr>
<th></th>
<th>IP</th>
<th>IR</th>
<th>REX</th>
<th>PEN</th>
<th>PNEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>100.60</td>
<td>0.73</td>
<td>109.60</td>
<td>75.20</td>
<td>77.65</td>
</tr>
<tr>
<td>Median</td>
<td>100.46</td>
<td>0.93</td>
<td>104.84</td>
<td>70.01</td>
<td>73.38</td>
</tr>
<tr>
<td>Maximum</td>
<td>114.68</td>
<td>2.99</td>
<td>152.58</td>
<td>175.64</td>
<td>127.20</td>
</tr>
<tr>
<td>Minimum</td>
<td>87.45</td>
<td>-2.32</td>
<td>83.77</td>
<td>20.16</td>
<td>47.54</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>5.79</td>
<td>1.42</td>
<td>16.34</td>
<td>37.05</td>
<td>22.05</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.29</td>
<td>-0.31</td>
<td>0.99</td>
<td>0.35</td>
<td>0.47</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>2.97</td>
<td>2.01</td>
<td>3.14</td>
<td>2.05</td>
<td>1.99</td>
</tr>
</tbody>
</table>

The whole sample period is divided into three sub-periods: 1997:1-2002:12, 2003:1-2008:12, and 2009:3-2013:12. The first sub-period from January 1997 to December 2002 contains 72 observations. The industrial production index is the lowest in this period, which indicates the lowest activity of the euro area economy (the mean value of this index is 96.41). The prices of energy and non-energy sources are also the lowest in this period, while interest rates are the highest with the mean 1.99, and the median 2.20. In the first sub-period the energy price index increases by 5.5%, while the non-energy price index decreases by 29.2%.

The second sub-period form January 2003 to December 2008 contains 72 observations. The energy price index increases at that time by 28.5%, and non-energy price index increases by 32.2%. The euro zone economy is the most active in this period, which is indicated by the highest values of the industrial production index (the mean value of this index is 105.68). The interest rates are lower than before with the mean 0.72 and the median 0.36.

In the last sub-period, from January 2009 to September 2013, the mean and the median of the real interest rates are negative, and equalled, respectively, -0.84 and -1.05. The industrial production index displays only slightly higher values than in the first sub-period, which are, however, much lower than in the second sub-period (the mean value of this index is 99.55). In the last period the energy price index increases by 78.4%, while non-energy price index increases by 16.5%.

**Empirical Results**

**Time Series Properties of the Data**

A preliminary analysis of the series is carried out before estimating the main model. The standard augmented Dickey–Fuller (ADF) (Dickey and Fuller, 1979)) unit root tests for both the intercept and the trends specifications demonstrate that all variables have unit roots for each analysed sub-period. The number of lags in the test is established using AIC criterion. The test results are presented in Table 3. The ADF unit root test confirmed that all variables were integrated of order one, i.e., I(1), thus making the test for cointegration justified.

Next, the presence of long-term relationship between integrated variables is investigated. The trace test statistic proposed by Johansen and Juselius (1990) is used. If the variables are co-integrated, the VAR in first difference would not be correctly specified, and the long-term result would be very helpful in exploring the efficient parameters of short-term dynamics. Table 4 presents the results of Johanson co-integration test. Johanson maximum likelihood approach was used to test cointegration, and it employed both maximum eigenvalue and trace statistics. According to trace test statistics and maximum eigenvalue test, there is no cointegration at 5 percent level in the first and third sub-periods. Test results demonstrate some evidence of the presence of cointegration only in the second sub-period. Trace test indicates one cointegrating equation at the 0.05 level. In contrast, maximum eigenvalue test indicates no cointegration at
Since the results of cointegration tests are at best ambiguous (if not suggesting the lack of cointegration), and the variables used are I (1), we use a VAR for the first differences in our five variables.

For each sub-period a number of lags for VAR was established using AIC criterion - the lag length is one for the first and second sub-periods and two for the third sub-period.

### Table 3. Unit root tests results for each sub-period.

<table>
<thead>
<tr>
<th>Sub-period</th>
<th>Level</th>
<th>First difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>intercept</td>
<td>intercept and trend</td>
</tr>
<tr>
<td></td>
<td>-0.6207</td>
<td>-2.5671</td>
</tr>
<tr>
<td></td>
<td>-1.4755</td>
<td>-0.1782</td>
</tr>
<tr>
<td></td>
<td>-1.3676</td>
<td>-1.5073</td>
</tr>
<tr>
<td></td>
<td>-0.9121</td>
<td>-1.3533</td>
</tr>
<tr>
<td></td>
<td>-1.0186</td>
<td>-1.8155</td>
</tr>
<tr>
<td></td>
<td>-2.3057</td>
<td>-2.4251</td>
</tr>
<tr>
<td></td>
<td>-1.1136</td>
<td>-2.0591</td>
</tr>
<tr>
<td></td>
<td>-0.5708</td>
<td>-2.7851</td>
</tr>
<tr>
<td></td>
<td>-2.4061</td>
<td>-1.0401</td>
</tr>
<tr>
<td></td>
<td>-2.5147</td>
<td>-2.7323</td>
</tr>
<tr>
<td></td>
<td>-2.2888</td>
<td>-1.3825</td>
</tr>
<tr>
<td></td>
<td>-2.2941</td>
<td>-0.5975</td>
</tr>
</tbody>
</table>

Note: All variables in natural logs, lag lengths are determined via AIC, (****) indicates the rejection of unit root at 1 percent.

### Table 4. Test for cointegration (with intercept in the CE) for each sub-period.

<table>
<thead>
<tr>
<th>Sub-period</th>
<th>Hypothesized no. of CE(s)</th>
<th>Trace statistic</th>
<th>Max-Eigen statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Test Statistic</td>
<td>Critical value 0.05</td>
</tr>
<tr>
<td>1997:1 – 2002:12</td>
<td>None</td>
<td>68.040</td>
<td>69.819</td>
</tr>
<tr>
<td></td>
<td>At most 1</td>
<td>41.377</td>
<td>47.856</td>
</tr>
<tr>
<td></td>
<td>At most 2</td>
<td>21.523</td>
<td>29.797</td>
</tr>
<tr>
<td></td>
<td>At most 3</td>
<td>5.196</td>
<td>15.495</td>
</tr>
<tr>
<td></td>
<td>At most 4</td>
<td>1.269</td>
<td>3.841</td>
</tr>
<tr>
<td>2003:1 – 2008:12</td>
<td>None</td>
<td><strong>70.654</strong></td>
<td>69.819</td>
</tr>
<tr>
<td></td>
<td>At most 1</td>
<td>37.224</td>
<td>47.856</td>
</tr>
<tr>
<td></td>
<td>At most 2</td>
<td>17.694</td>
<td>29.797</td>
</tr>
<tr>
<td></td>
<td>At most 3</td>
<td>8.221</td>
<td>15.495</td>
</tr>
<tr>
<td></td>
<td>At most 4</td>
<td>0.899</td>
<td>3.841</td>
</tr>
<tr>
<td>2009:1 – 2013:12</td>
<td>None</td>
<td>69.481</td>
<td>69.819</td>
</tr>
<tr>
<td></td>
<td>At most 1</td>
<td>42.418</td>
<td>47.856</td>
</tr>
<tr>
<td></td>
<td>At most 2</td>
<td>21.125</td>
<td>29.797</td>
</tr>
<tr>
<td></td>
<td>At most 3</td>
<td>8.886</td>
<td>15.495</td>
</tr>
<tr>
<td></td>
<td>At most 4</td>
<td>0.147</td>
<td>3.841</td>
</tr>
</tbody>
</table>

### Structural Impulse Response Analysis

Since the length of the sample is not long, and there are four series in a vector of interests, a Monte Carlo experiment is performed and the empirical critical values of trace test are determined. We find that in such case null hypothesis of no cointegration is rejected too often.
In order to identify SVAR model, we use the Choleski decomposition of the reduced form and assume that $A$ is an identity matrix, while $B$ is a lower triangular matrix. To identify the shocks, we order the variables in the VAR models, and, thereby, the corresponding shocks, as $(\Delta IP, \Delta IR, \Delta REX, \Delta PEN, \Delta PNEN)$

\[
BE = \begin{bmatrix}
* & 0 & 0 & 0 & 0 \\
* & * & 0 & 0 & 0 \\
* & * & * & 0 & 0 \\
* & * & * & * & 0 \\
* & * & * & * & * \\
\end{bmatrix}
\begin{bmatrix}
\varepsilon_{IP} \\
\varepsilon_{IR} \\
\varepsilon_{REX} \\
\varepsilon_{PEN} \\
\varepsilon_{PNEN} \\
\end{bmatrix}
\]

where: $B$ is a lower diagonal matrix consistent with the Choleski decomposition, the “**” entries in the matrix represent unrestricted parameter values, and the zeros suggest that the associated fundamental shock does not contemporaneously affect the corresponding endogenous variable.

A five-variable VAR is estimated with changes in the industrial production ($\Delta IP$), the real interest rate ($\Delta IR$), the real exchange rate ($\Delta REX$), the real energy prices index ($\Delta PEN$) and the real non-energy price index ($\Delta PNEN$). The ordering of variables is implied by the objective of this study and by the economic theory. Thus, in order to allow for reactions of commodity prices to all other variables, which is the subject matter of this paper, they are placed at the end. A similar ordering is also applied by Akram (2009). The industrial production is supposed to be the least responsive variable (its adjustment to shocks is sluggish), and that is why it is the first variable in the VAR. The ordering of the interest rate before the exchange rate is of secondary importance since the focus falls on commodity prices. Nevertheless, it is in line with the ordering applied by Arora and Tanner (2013).

The impulse-responses results for structural one standard deviation innovations in the industrial production index, the real interest rate, the real exchange rate, the energy price index and the non-energy price index are illustrated in Fig. 2 – 4 for each sub-period respectively. For instance, the impulse response of each variable in the system to an innovation in the industrial production index in the first sub-period is shown in the first column of Fig. 2 with a solid line. The dashed lines correspond to plus/minus two standard errors around the impulse responses.

* * * * *
0 0 0 0 *
0 0 0 0 0
0 0 0 0 0
0 0 0 0 0
0 0 0 0 0

Fig. 2. The impulse-responses results in the sub-period 1997:1-2002:12.
Fig. 3. The impulse-responses results in the sub-period 2003:1 – 2008:12.

Fig. 4. The impulse-responses results in the sub-period 2009:1 - 2013:12.

In the sub-period 1997:1-2002:12 output shocks were rather neutral for all other variables except the real interest rate. The response of the latter was consistent with intuition: as economy expanded due to positive production shock, the rate of interest increased. It could also be coupled with changes in the policy rate: after all, a positive shock could trigger inflation.
Energy price index reacted negatively to shocks in the real interest rate. This is in line with Hotteling’s rule, which states that the gain from storing a commodity should be equal to the interest rate. The gain includes a revaluation gain and a convenience yield and is adjusted downwards by storage cost and risk premium (see Frankel and Rose, 2010 or Śmiech et al., 2014). Such a reaction of energy prices to the interest rate make them similar to asset prices (Svensson, 2008).

The US dollar real depreciation exerts a positive impact on both commodity prices. Such a link was identified by other researchers as well (see e.g. Akram, 2009). It could be explained as follows: commodity prices are quoted in US dollars. As the US dollar depreciates, commodity prices become lower when they are expressed in other currencies. Thus, the demand for commodities increases, which results in a higher dollar price of commodities and some reversal of the initial depreciation of the US dollar.

The reaction of non-energy price index to shocks in energy prices is a significant one. It is positive, thus both commodities could be seen as related to one another. In other words and less formally, non-energy prices could not deviate too much from energy prices.

Fig. 3 illustrates impulse response functions for the sub-period 2003:1-2008:12. When they are compared with responses in the first sub-period, two differences are visible. First, interest rate shocks are much more important not only for energy prices but also for non-energy prices. It seems that commodity prices became more like price assets in the run-up to the global financial crisis. At the same time, a link running from real exchange to the energy prices rate and from industrial production to the real interest rate ceased to be significant, suggesting that the financial processes decoupled from the real economy. Second, the response of exchange rate to shocks in the interest rate is positive. It looks as an anomaly: a higher interest rate in the euro area should make the euro stronger and the US dollar weaker (a negative response), whereas the response functions suggests the opposite.

The last sub-period of 2009:1-2013:12 is a mixture of the previous two sub-periods. The interest rate is still unrelated to output shocks like in the middle sub-period, but there is no anomalous behaviour of the real exchange rate to interest rate shocks. Both commodity prices respond to interest rate shocks and exchange rate shocks as suggested by the theory. It is interesting to observe that the reaction of non-energy prices to shocks in energy prices is stronger than in the other two sub-periods.

Variance Decomposition

Forecast error variance decompositions of changes in commodity price indexes at three time horizons (1, 3, 6 and 12 months) and across three sub-periods are presented in Tables 5a and 5b. For both commodity price indexes own shocks account for 50-85 per cent of the forecast error variance though their contribution decrease over time.

Interest rate and exchange rate shocks make higher contributions to fluctuations in the energy price index than output shocks in the first sub-period. This dominance is even stronger in the middle sub-period when the link to interest rate clearly prevails. The contributions are more balanced in the last sub-period and a slight dominance of exchange rate shocks.

Forecast error variance decompositions of changes in non-energy price index show that the importance of all shocks has increased over time. This is especially true for interest rate shocks: their contribution was initially less than one per cent and has increased to more than 10 per cent.

One more observation refers to the fact that links between commodity prices have become tighter over time: non-energy price shocks’ contribution to variance of energy price index has increased from virtually zero to 4 percent. The contribution of energy price shocks to variance of non-energy price index has increased from 7 to 17 percent. This tighter link can possibly be connected with the rising importance of biofuels in the non-energy price index (see Demirbas, 2011) or/and heightened interest of investors in financial markets of non-energy commodities. The former makes non-energy commodities similar to energy, while the latter makes them similar to financial assets.

---

2 Results for longer time horizons do not differ from those for 12-month horizons. Variance decompositions for (changes in) industrial production, the interest rate and the real exchange rate are available upon request.
Table 5a. Variance decomposition of the energy price index $\Delta P_{EN}$ for each sub-period.

<table>
<thead>
<tr>
<th>Sub-period</th>
<th>Month</th>
<th>$\Delta IP$</th>
<th>$\Delta IR$</th>
<th>$\Delta REX$</th>
<th>$\Delta PEN$</th>
<th>$\Delta PNEN$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997:1 – 2002:12</td>
<td>1</td>
<td>1.99</td>
<td>5.01</td>
<td>6.39</td>
<td>86.61</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>3.05</td>
<td>5.16</td>
<td>7.92</td>
<td>83.68</td>
<td>0.18</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>3.06</td>
<td>5.18</td>
<td>7.96</td>
<td>83.60</td>
<td>0.20</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>3.06</td>
<td>5.18</td>
<td>7.96</td>
<td>83.59</td>
<td>0.20</td>
</tr>
<tr>
<td>2003:1 – 2008:12</td>
<td>1</td>
<td>0.06</td>
<td>22.88</td>
<td>0.21</td>
<td>76.85</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>0.14</td>
<td>21.20</td>
<td>4.63</td>
<td>72.09</td>
<td>1.93</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>0.15</td>
<td>21.08</td>
<td>4.73</td>
<td>71.74</td>
<td>2.31</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>0.15</td>
<td>21.07</td>
<td>4.73</td>
<td>71.73</td>
<td>2.32</td>
</tr>
<tr>
<td>2009:1 – 2013:12</td>
<td>1</td>
<td>3.78</td>
<td>8.97</td>
<td>9.30</td>
<td>77.96</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>5.41</td>
<td>7.76</td>
<td>15.07</td>
<td>67.93</td>
<td>3.82</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>5.44</td>
<td>8.56</td>
<td>15.55</td>
<td>66.26</td>
<td>4.18</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>5.48</td>
<td>8.56</td>
<td>15.55</td>
<td>66.23</td>
<td>4.19</td>
</tr>
</tbody>
</table>

Table 5b. Variance decomposition of the non-energy price index $\Delta PN_{EN}$ for each sub-period.

<table>
<thead>
<tr>
<th>Sub-period</th>
<th>Month</th>
<th>$\Delta IP$</th>
<th>$\Delta IR$</th>
<th>$\Delta REX$</th>
<th>$\Delta PEN$</th>
<th>$\Delta PNEN$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997:1 – 2002:12</td>
<td>1</td>
<td>0.05</td>
<td>0.00</td>
<td>6.54</td>
<td>6.96</td>
<td>86.44</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>0.39</td>
<td>0.28</td>
<td>7.26</td>
<td>6.76</td>
<td>85.31</td>
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<tr>
<td></td>
<td>6</td>
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<td>0.32</td>
<td>7.30</td>
<td>6.77</td>
<td>85.21</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>0.40</td>
<td>0.32</td>
<td>7.30</td>
<td>6.77</td>
<td>85.21</td>
</tr>
<tr>
<td>2003:1 – 2008:12</td>
<td>1</td>
<td>0.61</td>
<td>4.62</td>
<td>6.22</td>
<td>5.95</td>
<td>82.59</td>
</tr>
<tr>
<td></td>
<td>3</td>
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<td>3.04</td>
<td>16.98</td>
<td>5.30</td>
<td>73.91</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>0.77</td>
<td>2.95</td>
<td>17.23</td>
<td>5.40</td>
<td>73.65</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>0.77</td>
<td>2.94</td>
<td>17.24</td>
<td>5.40</td>
<td>73.64</td>
</tr>
<tr>
<td>2009:1 – 2013:12</td>
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<td>0.16</td>
<td>12.89</td>
<td>8.22</td>
<td>21.30</td>
<td>57.44</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>1.70</td>
<td>10.38</td>
<td>17.52</td>
<td>17.79</td>
<td>52.61</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>1.76</td>
<td>11.54</td>
<td>17.57</td>
<td>17.36</td>
<td>51.77</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>1.84</td>
<td>11.55</td>
<td>17.56</td>
<td>17.34</td>
<td>51.70</td>
</tr>
</tbody>
</table>

Conclusion

The euro area is a large open economy and, therefore, its real and financial developments can potentially exert certain impact on commodity prices. In order to check whether such relations hold, the structural VAR model for three sub-periods has been used. The main findings are threefold. First, economic activity in the euro area turned out to be rather neutral for commodity prices. Second, this cannot be said about the real interest rate and the exchange rate. Energy and non-energy prices respond to shocks in the real interest rate in all sub-periods, and the link has become particularly strong in the run-up to the global financial crisis. Real exchange rate shocks have gained in their importance after the initial stage of the crisis, i.e. in the last sub-period. Even though these relations are in line with the standard commodity price determination model (see e.g. Frankel and Rose, 2010 or Śmiech et al., 2014), the model itself does not imply that financial factors should dominate over real processes. This, however, was the case in the run-up to the global financial crisis. Third, interrelations between energy and non-energy commodity prices have become stronger over time, particularly the one running from energy to non-energy commodity prices. It seems that non-energy commodities have become similar to financial assets: they are more sensitive to changes in the interest rate and energy prices.
References


Acknowledgements

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Determinants of FDI into the Central and Eastern European Countries: A Componentwise Study

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Abstract
This paper empirically analyses the impact of selected determinants of FDI and its components in Central and Eastern European countries. Previous studies have assumed a monolithic structure, thus neglecting the response of separate components such as equity, reinvested earnings, and intracompany loans to certain risks and macroeconomic factors in both home and host markets. We find that the drivers of total FDI and the equity component are largely similar. However, reinvested earnings react to component-specific variables such as the withholding tax rate and real exchange rate differently, while intracompany loans are affected by idiosyncratic factors.

Keywords: Foreign Direct Investment, Panel Data, Reinvested Earnings, Other Capital, Equity Capital

Introduction
International trade and foreign direct investment (FDI) flows stand out as the fastest-growing economic activities in the global environment in the past two decades. A critical analysis of global FDI flow data issued by UNCTAD (United Nations Conference on Trade and Development) (2008) showed that global FDI inflows have increased gradually over time and reached a peak level of $1,833 billion in 2007, with a 30% increase compared with 2006. Despite growing interest in FDI inflows, the major reasons behind foreign investors seeking a country in which to invest and the uneven spatial distribution of FDI across countries are still unanswered questions in both the theoretical and the empirical international business literature. An apparent consensus in the extant literature shows that previous studies have primarily focused their attention on independent explanatory variables rather than questioning the nature of FDI. Hence, as Oseghale and Nwachukwu (2010) noted, ‘it is not surprising that FDI has been operationalized in prior literature as a monolithic variable rather than a multidimensional one’.

However, FDI consists of three main components (new equity, reinvested earnings, and intercompany debt flows) and each component has its own determining factor, meaning that these components may react differently to the same macroeconomic variables. This argument has also been justified by Lundan (2006), who noted that ‘reinvested earnings are the only major component of foreign investment position that originates in the host country, rather than being transferred from the home country’. This fact implies that while the other components of FDI involve a cross-border transfer of funds, reinvested earnings are the only sub-component that originates in the host country. Furthermore, the independence of these components from each other and their diverse reactions to the same set of explanatory variables have been emphasised by Auerbach and Hassert (1993), Brewer (1993), Oseghale and Nwachukwu (2010), and Wolff (2007). The latter suggested that the sub-components of FDI may respond differently to taxation in the home and the host country due to the involvement of each part with tax system changes as the place of taxation changes.

UNCTAD (2008) reported that ‘Reinvested earnings accounted for about 30% of total FDI inflows as a result of increased profits of foreign affiliates, notably in developing countries’. A realistic approach therefore would consider the fact that FDI is structured by multidimensional independent components with each having intrinsic characteristics, implying that their individual responses to the same economic fundamentals such as growth, institutional quality, and exchange are different.

As isolated transition countries, Central and Eastern European countries (CEECs) have lagged behind their Western European counterparts. Hence, the process of integration into the European Union (EU) and liberalisation of their trade and payment regimes since the 1990s have been paramount economic objectives for these countries. Since the perception of FDI changed to become an essential engine for the process of economic, political, and social transformation and integration into the EU, the past decade has witnessed
remarkable growth in European- and US-originated investments in these countries. However, despite the acceleration of FDI policies aimed at converting the CEE region into an ideal destination for future investments, the distribution of FDI across countries is still uneven and disparate in terms of both level and growth. Furthermore, substantial heterogeneity across the countries of this region is observed with respect to the individual components of FDI. Hence, a detailed examination of the component structure with respect to their determinants would provide important insights into future policy formation.

The main objective of this study therefore is to investigate the major determinants of each FDI component flow into CEE and some transition countries in order to avoid a distorted empirical prediction focusing exclusively on total FDI, which has thus far been neglected in the literature. The paper’s contribution can be explained as follows. First, we show that each part of total FDI responds differently to macroeconomic variables and risks in the market of the host country and the source countries (EU countries and the US). Second, the aggravating effects of the global financial crisis on FDI flows are once more confirmed based on these components.

The remainder of this paper is organised as follows. In Section 2, an overview of total FDI and the components of CEE and non-CEE transition countries are presented. This is followed by a review of the theoretical and applied works in the next section. We describe the data and methodology in Section 4. The empirical results are presented and discussed in Section 5. The last section contains some concluding remarks.

**FDI Growth in the Transition Countries of the CEE Region**

The last decade has witnessed remarkable FDI growth in CEECs and non-CEE transitional countries, which has originated largely from the Euro area and US. This growth has been attributable to the integration process of CEECs into the EU and the switching from protectionist trade regimes to export-oriented policies, leading therefore to the elimination of barriers to FDI. Despite the acceleration of FDI policies associated with the transition processes of these economies, the distribution of FDI across countries has remained uneven and heterogeneous in terms of both level and growth. As shown in Figure 1, CEECs received a five-fold rise in FDI inflows between 2003 and 2008, increasing from USD 30 billion to USD 155 billion.

Czech Republic, Hungary, and Poland have attracted a substantial volume of FDI, as three of the most vibrant CEE economies and previous members of the Central European Free Trade Area. The steady and low level of their country risks has been among the principal sources of attraction for foreign investors.

Russia attracted the highest level of FDI. Its FDI inflows rose from USD 8 billion in 2003 to more than USD 70 billion in 2008 with the bulk of investments coming from European countries. This is mainly attributable to the large size of its market and 6.7% growth in Russia’s GDP following the financial crisis in 1989, reaching almost 1 USD trillion in 2006. As the 10th largest economy in the world, Russia has also become the EU’s third most essential trade partner and major energy supplier. Kazakhstan, which is not in the CEE region, also showed a good performance in attracting FDI. Kazakhstan’s success may be attributable to its macroeconomic stability and growth potential. Another non-member of the group, namely Turkey, had already slashed corporate tax rates to 20% from 30% and reduced the overall tax burden from 37% to around 32% in 2005 in order to boost FDI. Along with the implementation of accompanying measures, the outcome has been remarkably successful.

However, the 2007 global crisis had such a deteriorating impact on foreign investment in transition countries and the CEE region that investments slowed by 50% in 2009 compared with 2008. Moreover, the real estate sector, which is the top sector along with extractive industries in terms of attracting FDI in the region, diminished by 71% in 2009 compared with the previous year. This drastic fall is visible in Figure 1.
Figure 1: FDI inflows between 2001 and 2012 to transition countries and the CEE region

Source: Research Center International Economics http://data.fiw.ac.at/FiwDat/FiwDatServlet. Note: Others represent CEECs that receive fewer FDI inflows relative to the countries shown in the figure. These CEECs are Albania, Croatia, Lithuania, Latvia, Slovenia, Slovakia, Bulgaria, Belarus, Estonia, and Moldova.

Figure 2 displays the FDI figures broken down by component for the 2001–2012 period. Although equity flows are generally expected to have the biggest share of total FDI, other forms such as reinvested earnings and intracompany loans constitute important proportions of total investment albeit with varying degrees. For instance, we can cite Russia, a leading country in the CEE region, Poland, Kazakhstan, Hungary, and Czech Republic as part of that group with relatively larger reinvested earnings and intercompany loans components. At the other extreme, Kazakhstan stands out as the only country with other capital dominating total investment flows. According to a survey by Ernst and Young (Attractiveness Survey, Russia 2013), ‘There is a substantial gap between the perceptions of current and prospective investors. Those who are already working in Russia are more aware of the country’s real investment climate and the efforts being made to improve it. They’re also optimistic about the future of FDI in Russia’. Hence, reinvested earnings are the main contributor of total FDI in Russia.

Furthermore, Kazakhstan’s higher share of other capital may be accounted for by the concentration of foreign capital in extractive industries, which require a larger amount of financial support to expand. The relatively low share of reinvested earnings and other capital investment in total FDI of Ukraine, Turkey, and Romania may reflect degrading investor confidence about the investing conditions in these countries. As far as Romania is concerned, we observe that this country could not even manage to prevent the repatriation of reinvested earnings several times, as evidenced by a net and substantial negative figure accumulated in the 2001–2012 period.
Figure 2: FDI inflows by component, 2001–2012

Source: Research Center International Economics http://data.fiw.ac.at/FiwDat/FiwDatServlet. Note: Others represent CEECs that receive fewer FDI inflows relative to the countries shown in the figure. These CEECs are Albania, Croatia, Lithuania, Latvia, Slovenia, Slovakia, Bulgaria, Belarus, Estonia, and Moldova.

Literature Review

One of the studies relevant to the component-based FDI literature is that by Loree and Guisinger (1994), which examined the impact of policy and non-policy variables on the equity capital of total US FDI abroad. These authors concluded that investment incentives have a positive effect on equity capital, while performance requirements and host country tax rates have a negative effect. Non-policy variables such as infrastructure, political stability, cultural distance, and GDP per capita also have a role in determining the level of US equity capital abroad.

Perhaps one of the most outstanding analyses of total FDI with its individual components that aimed to gain a better understanding of the determining factors was set out by Lundan (2006). She grouped six explanatory factors of reinvested earnings into three categories:

- Those encouraging reinvestment: these factors related to possible good investment opportunities have a positive effect on the decisions of foreign investors to hold their earnings in the host country. For example, the growth rate of the host country market and the income level in a given industry may be signals of good investment opportunities in the host market.
- Those encouraging repatriation: movements in the exchange rate are supposed to have an effect through repatriation such that the depreciation of the host currency tends to discourage repatriation. Moreover, a high corporate tax rate in the host country is assumed to have a negative effect on reinvested earnings and to cause profit repatriation.
- Agency consideration: factors affecting the decision of a multinational corporation (MNC) on the amount of dividend payments may also cause repatriation. For example, countries that have high market risk or political risk or that are culturally or institutionally different from the home country of the MNC would cause high levels of repatriation.

On the contrary, the study of Wolff (2007) is also unique in terms of estimating the effect of the corporate tax rate of both the home and the host country on four bilateral FDI measures (total FDI, reinvested earnings, equity capital, and intracompany loans). He concluded that each component responds differently to the top statutory corporate tax rate of both the source and the host country. While the tax effect on the equity earnings and other capital component is complicated and ambiguous, the effect of taxes on
reinvested earnings is more guided. This means that home country taxes on reinvested earnings have a direct effect, leading them to be held abroad rather than repatriated, while the host country tax rate has a negative effect and causes a fall in reinvested earnings.

Furthermore, the studies by Oseghale and Nwachukwu (2010), Chakravarty and Xiang (2011), and Taylor, Mahabir, Jagessar, and Cotton (2013) have also contributed to the literature by analysing FDI with its individual components separately. Oseghale and Nwachukwu (2010) empirically proved that good governance, market size, market growth rate, exchange rate, quality of labour, and profitability of existing operations, are positively correlated with reinvested earnings. Similarly, Chakravarty and Xiang (2011) concluded that access to external financing, property rights, extent of private ownership, and relative competitive advantage have a significant effect on the decision of foreign investors concerning the level of retained earnings in the host country. In a recent paper, Taylor, Mahabir, Jagessar, and Cotton (2013) argued that as the economic growth of the host country and profitability of foreign firms increase, foreign investors tend to hold reinvested earnings in the country, while the depreciation of the host currency and an increase in the host country government consumption seem to decrease the volume of reinvestments.

**Data and Methodology**

**Data**

Total FDI and its components such as equity capital, reinvested earnings, and intracompany loans (other capital) flows into 12 CEECs and six transition countries were our dependent variables. These data were taken from the Research Center International Economics Database Retrieval Tool (1). We identified the following as explanatory variables: the exports to imports ratio, withholding tax rate, real exchange rate (ReX), and industrial production (IP) and country risk (CR) indices of CEECs and transition countries (as host country pull factors) along with those of the EU area and the US (source country/area push factors). As detailed below, the CR index is a composite of the financial, economic, and political risks that emerge in both host and home countries. The CR indices of transition and CEECs, the EU area, and the US come from the PRS Group, International Country Risk Guide 2012 electronic data server (2).

Since the majority of inward investment into these areas originates in the EU and the US, the inclusion of the official lending interest rates in the Euro area and the US as an indicator of international liquidity in the home country is deemed to be useful. Therefore, the European Central Bank official lending interest rates of both the Euro area and the US come from the European Commission European Statistics data server (3). Further, ReX and IP data are taken from the International Monetary Fund (IMF) data dissemination server (4).

The withholding tax rate variable is taken from Deloitte Touche Tohmatsu Limited©, a private UK company that provides consulting, financial risk management, tax, and related services (5). Lastly, two dummy variables are included to account for the impact of the global financial crisis and integration of CEECs into the EU, respectively. Exports and imports in goods values are taken from the Organisation for Economic Co-operation and Development (OECD) electronic data server (6).

**Equity Capital.** Equity capital is the purchase of the shares of a foreign affiliate in a foreign market rather than in a domestic market. The IMF states that equity capital “covers equity in branches, shares (whether voting or non-voting) in subsidiaries and associates, and other capital contributions (such as the provision of machinery by a direct investor to a direct investment enterprise) that constitute part of the capital of the direct investment enterprise. Equity capital also covers the acquisition by a direct investment enterprise of shares in its direct investor. However, nonparticipating preference shares are not part of equity capital but are treated as debt securities and classified as other direct investment capital. Purchases and sales of land and buildings by nonresidents are also included in the equity capital component”.

**Reinvested Earnings.** Reinvested earnings simply represent the shares of foreign investors in the profits of MNCs that are not distributed. The IMF defines reinvested earnings as ‘the direct investors’ shares (in proportion to equity held) of the undistributed earnings of the direct investment enterprises. Reinvested earnings are considered to be additional capital of the direct investment enterprises. They are recorded as direct investment income, with an offsetting capital transaction”.
Other Capital (Intracompany Loans). Other capital consists of long-term and short-term intracompany loan transactions between foreign investors and their foreign affiliates. The IMF states that other capital ‘covers the borrowing and lending of funds, including debt securities and trade credits, between direct investors and direct investment enterprises, and between two direct investment enterprises resident in different countries that share the same direct investor. Debt claims on the direct investor by the direct investment enterprise are also included as direct investment other capital. As indicated above, nonparticipating preference shares are treated as debt securities and are therefore classified as other capital’.

Exports to Imports Ratio. The majority of similar works have used the ratio of (Exports+ Imports)/GDP as a measure of trade openness. For example, see the studies by Kundu and Contractor (1999), Kimino, Driffield, and Saal (2012), and Desbordes (2007). However, David (2007) warned researchers by stating that ‘this measure is a measure of country size and integration into international markets rather than trade policy orientation’. Further, he argued that the large size of economies relative to their volumes of trade causes those countries to pretend to have less openness. Therefore, we used the exports to imports ratio as an indicator of the openness index, which can be defined as the coverage ratio of imports by exports. We assume that a rise in the exports to imports ratio demonstrates the extent of a country’s openness to international trade. Hence, this ratio is included in our model with the intention of determining the effects of host country openness on each sub-component of total FDI in the CEE countries within the analysis.

CR Indices. Most studies use CR indices or ratings taken from different sources to capture the impact of the political, economic, or financial risks on FDI flows. For example, see the studies by Bilgili, Tülüce Halici, and Doğan (2012), Arbatli (2011), Janicki and Wumnava (2004), Carstensen and Touval (2003), and Bevan and Estrin (2004). However, we are the first to measure the impact of the CR indices of source countries as a global push factor and host countries on total FDI and its main components to these countries. Here, CR is a composite index of the financial risk, political risk, and economic risk indices of 18 Eastern European countries, the EU area, and the US for the period between 2001 and 2012. Owing to the dominant share of FDI inflows into these countries coming from the EU area and US, respectively, we include the CR indices of the EU area and US to account for risks originating in the home country. Moreover, the CR indices of the EU area represent the average CR indexes of Belgium, Austria, Denmark, England, Finland, France, Germany, Italy, the Netherlands, Norway, Sweden, and Switzerland. The economic risk rating is used as a means to assess a country’s economic weaknesses and strengths. With respect to risk factors, taken into consideration as economic risk measures are the GDP per head of population, real annual GDP growth, annual inflation rate, budget balance as a percentage of GDP, and current account balance as a percentage of GDP. The financial risk rating, on the contrary, is used to assess a country’s financial weaknesses and strengths. The risk points to be assessed for financial soundness are foreign debt as a percentage of GDP, foreign debt service as a percentage of the exports of goods and services (XGS), current account as a percentage of XGS, net liquidity as months of import cover, and exchange rate stability. Furthermore, the political risk rating is used as a means to assess the political stability of a country. The factors of interest to be assessed are government stability, socioeconomic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religious tensions, law and order, ethnic tensions, democratic accountability, and bureaucracy quality.

Policy Interest Rate: Factors tied with the home country macroeconomic environment represent the other side of the coin, which should also be considered in finding FDI determinants. One of these global push factors is known as the interest rate denoting the international liquidity and credit conditions of the home country. Interest rate refers to the cost of borrowing to finance investments in home or host markets. As such, the interest rate in the source country may have a varying impact depending on the borrowing behaviour of investors. If the investors undertaking FDI borrow from the home country, the availability of a relatively low interest rate in the source country will prompt MNCs to invest in foreign markets because of the cost advantage of raising capital. On the contrary, if firms can borrow from the host country, a relative increase in the interest rate in the source country may also push foreign investors to direct their investments into foreign markets in order to benefit from the lower cost of borrowing. For example, Norris, Honda, Lahreche, and Verdier (2010) showed that lower borrowing cost opportunities are an important driver of FDI outflows to low-income countries. Arbatli (2011) also used the interest rates of G7 countries as an external push factor that aims to capture the international liquidity and credit conditions of advanced
countries. In addition, she argued that the interest rates of G7 countries have a negative significant effect on FDI inflows into emerging economies.

**IP Index:** This variable accounts for the growth in the various industrial sectors of an economy and may be a good proxy for the market size of that country. At this stage, one may ask why the country’s GDP is not preferred to the IP index as the more appropriate measure of market size (see Campa (1993), Tokunbo and Lloyd (2009), Erdal and Tataoğlu (2002), Demludağ (2008), Eşiyok (2011), and Bilgili, Tülüce Halıcı, and Doğan (2012)). The main reason is that the majority of the countries in the sample have an industrial sector accounting for a substantial share of economic activity, which is thought to be an appropriate proxy for market size.

**ReX:** The real exchange rates of some transition and CEE countries in the study are calculated simply as the nominal exchange rate, \( e_{i,t} \), multiplied by the ratio of domestic price level, \( PPI_d \), to foreign price level \( PPI_f \). Consequently, a decline in \( ReX_t \) can be interpreted as a real depreciation of the exchange rate, whereas an increase corresponds to a real appreciation. An analysis of the FDI literature shows mixed evidence in terms of the impact of exchange rate level on FDI inflows. For example, while Froot and Stein (1991) and Cushman (1985) claimed a negative correlation between FDI and exchange rate level, Campa (1993) proposed the opposite point of view. As far as reinvested earnings are considered, however, one can safely assume a positive impact of ReX appreciation on the funds remitted to the home country. Moreover, given that the latter can be the opportunity cost of keeping funds in the host market, a negative correlation with reinvested earnings may be expected.

**Withholding Tax Rate:** Withholding tax is a tax levied on income (dividends) from securities owned by nonresidents and must be paid in the case of any repatriation to the home country or reinvestment in other markets. Since any increase in withholding tax may divert outbound remittances to the home country, meaning that funds are rather reinvested in the host market, this type of tax can be regarded as among the principal determinants of reinvested earnings. Thus, its inclusion in the model is warranted.

**Dummy Variable for the Integration of CEECs into the EU:** The integration of CEECs into the EU is taken as a benchmark of stabilisation and can therefore be a pull factor of future potential FDI inflows into the area. Since the majority of the countries in the region became an EU member in 2004, we introduce a dummy variable taking a value of 1 for 2004 and 0 otherwise. The countries that joined the EU in that year were Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia.

**Dummy Variable for the Global Financial Crisis.** The collapse of the US real estate property market at the end of 2007 evolved into one of the worst global financial crises ever experienced in economic history. The financial meltdown took its toll on FDI flows worldwide with the global propagation of the ripple effects of the collapse and ensuing bankruptcy of many large institutions in the US and elsewhere. The capital flows into these 18 economies also suffered the ripple effect of the global financial crisis similar to those moving to other developing countries. To capture its impact, a dummy variable taking the value of 1 for 2009 and 0 otherwise is also introduced into the component models.

### Table 1. Expected Signs of Coefficients

<table>
<thead>
<tr>
<th>Variable</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports to Imports Ratio</td>
<td>+</td>
</tr>
<tr>
<td>Host CR Indices</td>
<td>+</td>
</tr>
<tr>
<td>Policy Interest Rate</td>
<td>+/-</td>
</tr>
<tr>
<td>CR Indices of the EU Area and US</td>
<td>-</td>
</tr>
<tr>
<td>IP Index</td>
<td>+/-</td>
</tr>
<tr>
<td>ReX</td>
<td>+/-</td>
</tr>
<tr>
<td>Withholding Tax</td>
<td>+</td>
</tr>
<tr>
<td>Dummy for the Integration of CEECs into the EU</td>
<td>+</td>
</tr>
<tr>
<td>Dummy Variable for the Global Financial Crisis</td>
<td>-</td>
</tr>
</tbody>
</table>

**Note:** The expected impact of variables is considered for total FDI as well as its components.
Methodology

To estimate the impact of the determinants of the components of total FDI into CEECs and transition countries for 2001–2012, both balanced and unbalanced panel data were obtained from a pool of 18 countries, namely Albania, Bulgaria, Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, Slovakia, Belarus, Kazakhstan, Moldova, Russia, Turkey, and Ukraine. All but the last six countries are considered to be members of the CEE group.

Overall, to capture the impact of these determinants on the individual components and total FDI, we specify four equations; therefore, we employ four panel data models. The model can be formulated as follows:

\[ y_{it} = \beta_0 + \sum_{k=1}^{K} \beta_k x_{itk} + u_{it} + \varepsilon_{it}, \]

where the i and t subscripts account for the country and period indexes, while the superscript j denotes total FDI, equity, reinvested earnings, and other capital flows. \( x_{itk} \) represents the set of explanatory variables described above and \( u_i \) and \( \varepsilon_i \) represent the unobserved country-specific factors and random error term, respectively.

Empirical Results

Although we have balanced panel data both for total FDI flows and for the equity component covering the period 2001–2012, owing to missing observations in reinvested earnings and other capital data for some years, the panel data for these components are rather unbalanced. We thus found it convenient to include a generalisation of the summary statistics for FDI components, which not only reports the means and standard deviations for panel data, but also decomposes the standard deviation into between and within components, as reported in Table 1.

<table>
<thead>
<tr>
<th>Component</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Min</th>
<th>Max</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>267.9729</td>
<td>443.5433</td>
<td>-460.2154</td>
<td>3509.246</td>
<td>N=216</td>
</tr>
<tr>
<td></td>
<td>289.4222</td>
<td>15.0037</td>
<td>986.5285</td>
<td>n=18</td>
<td></td>
</tr>
<tr>
<td></td>
<td>342.4194</td>
<td>-852.1802</td>
<td>2848.326</td>
<td>T=12</td>
<td></td>
</tr>
<tr>
<td>Reinvested Earnings</td>
<td>165.2189</td>
<td>431.0512</td>
<td>-347</td>
<td>3352</td>
<td>N=201</td>
</tr>
<tr>
<td></td>
<td>338.7888</td>
<td>-29.8</td>
<td>1433.75</td>
<td>n=18</td>
<td></td>
</tr>
<tr>
<td></td>
<td>265.1624</td>
<td>-1226.531</td>
<td>2083.469</td>
<td>T-bar=11.16</td>
<td></td>
</tr>
<tr>
<td>Other Capital</td>
<td>143.1722</td>
<td>333.6724</td>
<td>-210</td>
<td>2853</td>
<td>N=209</td>
</tr>
<tr>
<td></td>
<td>223.7167</td>
<td>-2</td>
<td>876.25</td>
<td>N=18</td>
<td></td>
</tr>
<tr>
<td></td>
<td>250.4176</td>
<td>-702.0778</td>
<td>2119.922</td>
<td>T-bar=11.61</td>
<td></td>
</tr>
</tbody>
</table>

As far as equity flows are concerned, the overall and within deviations are calculated over 216 observations, while these items are 201 and 209 for reinvested earnings and other capital, respectively. Therefore, within observations are complete only for the first component, indicating that equity data are balanced, whereas the others are unbalanced. Since the within numbers refer to the deviation from each individual country’s average, we can only find average values for the other two components by dividing the total observations by the number of groups. The most valuable information here is associated with the reinvested earnings item. The reported standard deviations tell us that the variation in reinvested earnings across countries in the group is considerably higher than that observed within a country over time. For the equity and other capital components, while the opposite pattern is observed for both, the relative magnitude of within deviation is markedly stronger in the former.

We adopt the following approach regarding the choice of variables in the equations. As far as total FDI and the equity component are concerned, these are expected to be driven by similar factors since the latter is, at
least conceptually, the major component of the former. Therefore, whenever possible, the same explanatory variables are used as long as multicollinearity can be avoided. In the event of multicollinearity, which might prompt the exclusion of certain variable(s) from the model(s), those variables that can proxy for them are retained. Variables that are supposed to have effects only on particular components are exclusively used in the related equations. Withholding tax in the reinvested earnings equation is a case in point.

Table 2 features four models in which the dependent variable of the equation is total FDI, equity, reinvested earnings, and other capital. Prior to the estimation, we must decide whether the pooled model across the countries under the same slope and intercept assumption or a model allowing country-specific effects is valid. Since the former implies that variance of the country-specific effect is zero under the null hypothesis, we first carry out the Lagrange Multiplier (LM) test (Breusch and Pagan, 1980) by adopting a random effects (RE) specification to determine the existence of an RE against no effect. Once the pooled model is rejected, we must choose between the fixed effects (FE) and RE specification by using the Hausman test. To implement this, the models are first estimated by FE and then by RE and the results are stored in each turn. Under the null hypothesis, the RE is both efficient and consistent, whereas inconsistent otherwise. The test statistics and p-values in parentheses are given in the last two rows.

Table 2: RE Estimation Results

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>1158.915 (0.018)**</td>
<td>6554.423 (0.010)**</td>
<td>2245.494 (0.035)*</td>
<td>1958.283 (0.023)*</td>
</tr>
<tr>
<td>IPHost</td>
<td>-.</td>
<td>-.</td>
<td>-.</td>
<td>-.</td>
</tr>
<tr>
<td>Withholding Tax</td>
<td>-.</td>
<td>-.</td>
<td>8.7745 (0.011)**</td>
<td>-.</td>
</tr>
<tr>
<td>RealExch</td>
<td>-.</td>
<td>-.</td>
<td>-.47967 (0.054)*</td>
<td>4.468 (0.086)</td>
</tr>
<tr>
<td>ExpImp</td>
<td>-.</td>
<td>-.</td>
<td>-.</td>
<td>-.</td>
</tr>
<tr>
<td>Host CR Indices</td>
<td>3.9430 (0.170)</td>
<td>19.0544 (0.151)</td>
<td>11.0707 (0.156)</td>
<td>5.76e-09 (0.000)**</td>
</tr>
<tr>
<td>Int.Rate of EU</td>
<td>25.3222 (0.016)*</td>
<td>167.8634 (0.024)*</td>
<td>-.</td>
<td>-.</td>
</tr>
<tr>
<td>Int.Rate of US</td>
<td>-5.1212 (0.263)</td>
<td>-39.9670 (0.179)</td>
<td>-.</td>
<td>-.</td>
</tr>
<tr>
<td>CR Indices of the EU Area</td>
<td>-14.3102 (0.041)*</td>
<td>-61.4565 (0.033)*</td>
<td>-.</td>
<td>1.1024 (0.363)</td>
</tr>
<tr>
<td>CR Indices of the US</td>
<td>-2.8645 (0.046)*</td>
<td>-34.1831 (0.026)*</td>
<td>-38.5350 (0.044)*</td>
<td>-27.9514 (0.014)**</td>
</tr>
<tr>
<td>Dummy for Global Crisis</td>
<td>-19.1313 (0.005)**</td>
<td>-113.032 (0.059)*</td>
<td>-82.7238 (0.000)**</td>
<td>-37.8843 (0.442)</td>
</tr>
<tr>
<td>Dummy for Integration into the EU</td>
<td>15.0118 (0.056)*</td>
<td>-.</td>
<td>-.</td>
<td>-.</td>
</tr>
<tr>
<td>Sample Size</td>
<td>216</td>
<td>216</td>
<td>201</td>
<td>209</td>
</tr>
<tr>
<td>LM Test Statistics</td>
<td>460.85 (0.000)</td>
<td>173.64 (0.000)</td>
<td>366.02 (0.000)</td>
<td>24.19 (0.000)</td>
</tr>
<tr>
<td>Hausman Test Statistics</td>
<td>0.33 (0.9999)</td>
<td>5.10 (0.5313)</td>
<td>1.05 (0.9025)</td>
<td>8.75 (0.1881)</td>
</tr>
</tbody>
</table>

Note. Model 1, Model 2, Model 3, and Model 4 denote the equations for Total FDI, Equity Capital, Reinvested Earnings, and Other Capital, respectively. The probability values of the coefficients are in parentheses. ** denotes the 1% significance level, while * denotes the 5% significance level.

The low probability values associated with the LM test statistic for all models point to the existence of strong country-specific heterogeneity across all models. The next step concerns the Hausman test statistic values. This time probability values of 0.9999, 0.5313, 0.9025, and 0.1881 are quite high, meaning that we
cannot reject the null hypothesis that the RE estimator is both consistent and efficient across all models. Therefore, we conclude that the FE and RE estimation results are similar and that we can rely on the test results of the RE for the total FDI, equity, reinvested earnings, and other capital components.

Model 1 employs the host CR indices, policy interest rate of the EU and US, source CR indices of the US and EU areas, and two dummies to account for the global financial crisis and CEECs integration into the EU, respectively. The CR indices of the US and EU area and dummy variable for the global financial crisis are negatively correlated with total FDI flows into these countries. The results can be interpreted as follows: with the rise in the source country (EU and US) CR indices, the local investment environment becomes relatively more attractive; therefore, direct investment outflows into all other emerging markets including CEECs decrease. Moreover, the dampening effect of the global financial crisis on total FDI flows is adequately captured as indicated by the negative and significant coefficient of the 2009 downturn. The highly significant positive effect of the EU area interest rate suggests that the rise in the Euro area interest rate leads potential investors to switch to Eastern European markets as their borrowing preferences change, and this provides further stimulus to the volume of their direct investment. The enlargement process of the EU into the CEE area acted as a strong push factor in pulling FDI inflows here. On the contrary, we could not find any evidence supporting the effects of the host CR indices and interest rate of the US on total FDI inflows.

Model 2 shows similar findings for the equity capital component. Since the dominant share of total FDI flows into these countries comes from the equity capital part, this result is hardly surprising. Again, the policy interest rate of the Euro area, CR index of both the US and the EU area, and dummy variable for the global financial crisis are found to be significant at driving equity capital inflows into the region. Likewise, the CR indices of the US and EU area and dummy for 2009 are found to be negatively associated with the equity capital component. As expected, when the CR indices of the US and EU area increase, implying a higher propensity to invest in the home country, equity capital outflows decrease, which translates into lesser inflows into emerging markets. The decelerating effect of the global financial crisis on the equity component of total FDI flows is thus statistically confirmed. The interpretation of the positive and significant coefficient of the Euro area interest rate replicates the first equation’s (model 1) empirical finding for equity capital. Likewise, we fail to uncover any evidence of a significant effect of the host CR indices and interest rate of the US on equity capital investments. Our prediction regarding the unresponsiveness of both total FDI and equity capital to the host country CR indices may result from the irreversibility of equity capital investments. That is to say, once launched, their reversal cannot be administered easily. Hence, equity capital type investments may be slow to react to changes in the host CR indices. For example, a foreign investor who opens a new business by building a factory with capital inflows spread out over one year or more cannot exit from the market easily in the case of sudden financial, political, or economic disturbances. By contrast, reinvested earnings and other capital may be rather sensitive to the risks emerged in both host and home markets. One can safely assume that reinvested earnings is the only component that arises particularly in the host country, while other capital (intra-company loans) can be perceived as a kind of compensation tool to support operations abroad, meaning that both may be characterised as short-dated and reversible.

Model 3 yields the estimation results for the reinvested earnings component. The CR index of the US, ReX, dummy variable denoting the global financial crisis, and withholding tax are found to be significant at determining the reinvested earnings of the affiliates in the countries of our sample. As far as the latter is concerned, any increase in the withholding tax rate exerts a deterring effect on funds remitted back to the home country. Consequently, these funds are rather diverted into the host market in the form of reinvested earnings. In line with our expectations, the reinvested earnings of investors are negatively related to the CR index of the US, ReX, and dummy variable. When there is an increase in the confidence level (CR index) of the US, US investors feel more confident about investing in the home country and thus they prefer to withdraw their earnings from the host country and repatriate them into the home country to benefit from the desired investment opportunities. The interpretation regarding the effect of the ReX increase is similarly straightforward: as the host currency appreciates, investors prefer to repatriate the funds earned to take advantage of exchange rate differentials. Furthermore, as expected, the global financial crisis encourages investors to withdraw their earnings and repatriate them into the home market or reinvest them in other productive foreign markets.
Finally, Model 4 provides the estimation results for the other capital (intra-company loans) component. As opposed to the earlier models, at first sight, the host country CR index seems to be significant at pulling other capital investment, albeit with a substantially low impact, indicating that the intra-company loans’ response to the host CR indices can be regarded as minimal. While other capital is positively correlated with the exports to imports ratio and host CR indices, it is negatively associated with the US CR and host IP indices. As the degree of openness of the host country increases, foreign investors prefer to transfer more funds to the subsidiaries to support their cross-border activities, which are generally thought to be more profitable than domestic activities. Moreover, an increase in the host country IP index leads investors to reduce loans to their subsidiaries in these countries. Since the host IP index can be interpreted as an indicator of the volume of production in the host market, a straightforward implication of a bigger IP index relates to larger sales volume and profit for both domestic firms and MNCs. Hence, foreign investors are expected to be less willing to extend loanable funds to markets in which their subsidiaries’ performance improves. A rise in the US CR index, marking rising investor confidence with respect to the home market, prevents parent companies at home from sending additional funds to their subsidiaries in these markets. Therefore, as in the case of the other three models, increasing confidence in the US market reduces the loan component of total FDI.

Summary and Concluding Remarks

After two frustrating years, the CEE region regained momentum as an ideal FDI destination in 2012. Hence, despite the decelerating impact of the 2009 crisis, this region overtook Western Europe to become the leading recipient of FDI jobs in Europe. On a sectoral basis, CEECs have re-emerged as a leading location for manufacturing-oriented investment, capturing more than 50% of the jobs created in Europe, whereas individual country analysis highlights the importance of real estate and extractive industries in attracting FDI to the region. All earlier studies dealing with this region, however, focused either on total FDI or on FDI breakdown by sector, neglecting the heterogeneous structure of this key economic variable. A study addressing these shortcomings is therefore warranted.

The novelty of the present paper is twofold. First, the determinants of total FDI inflows and their sub-components into some transitional countries and CEECs are separately investigated. As the figures show, there can be large discrepancies with respect to the share of lesser known components such as reinvested earnings and intercompany debt transactions. Second, the effect of unconventional push factor variables such as the CR indices of the EU and the US as well as country-specific CR indices are taken into consideration: while the former are mostly found to be influential at driving FDI inflows, response to the changes in the latter is not confirmed.

We found that the CR indices of the EU and US have a significant negative impact on both total FDI flows and equity capital investments to these countries. Hence, as the confidence level of the home country (EU area/US) increases, investors feel more confident about investing at home at the expense of less investment abroad. These regions account for the largest percentage of FDI flows into CEECs. Consequently, these findings point to the likelihood of potential reversals in FDI inflows during economic expansion times at home. We have also shown that the interest rate in the EU area has a positive significant effect on both total FDI flows and equity capital, which means that as the interest rate in the EU area increases, investor perception changes in favour of these countries as a relatively cheap cost of borrowing destination. Again, we found a strong negative impact of the global financial crisis on total FDI, equity capital, and reinvested earnings. However, the other capital component seemed to be unresponsive to the aggravating impacts of the global financial crisis. In addition, we proved the positive impact of EU enlargements by CEECs on total FDI inflows into these countries.

Distinctively, we found some characteristic features particular to both reinvested earnings and intra-company loans: while host country ReX seems to be inefficient at driving total FDI flows, it acts as an important pull factor to keep foreign earnings in the host country instead of undergoing potential repatriation. In other words, as the host currency appreciates, investors prefer to repatriate their earnings to gain profit from arbitrage. Any rise in withholding tax leads to an increase in the volume of reinvested earnings, as it obviously acts as a deterrent against the repatriation of funds. The CR index of the US, as in the case of total FDI and the equity component, is also found to be influential at driving reinvested earnings and intra-company loans. The failure of the confidence level of host countries as a pull factor can be attributable to the inertia of these indices except for Russia, Kazakhstan, Ukraine, and Turkey. As the least
known and most neglected component in the literature, intercompany loans are driven by the openness factor, represented by the exports to imports ratio and host IP index.

Endnotes

• Forschungsschwerpunkt Internationale Wirtschaft: http://data.fiw.ac.at/FiwDat/FiwDatServlet.
• http://www.prsgroup.com/.
• www.imf.org.
• www.deloitte.com.
• Some empirical studies such as Brzozowski (2006) consider agglomeration effects and therefore include a lagged FDI term. Such a dynamic structure causes traditional FE or RE to produce inconsistent estimators, thus leading to the adoption of methods proposed by Arellano and Bond (1991). Ideally, we would like to report dynamic panel GMM estimates; however, the requirement for instruments under GMM poses several problems for our study, particularly with respect to components such as reinvested earnings and other capital flows since these may display substantial variations from year to year to the extent of invalidating the use of lagged instruments.
• At the company level, it can be expected that once FDI takes place, MNCs generate earnings that may be either remitted to the parent or reinvested in the home country. Likewise, the decision with respect to the management of intracompany loans (other capital) usually follows equity investment. However, considering the aggregate nature of the components and the time span here, only a few countries in our sample have different starting dates of components.
• The parallel downward trend in the confidence indices of the EU and US is indicative of the extent of integration between global push factor areas. We observe similar links between the EU and US interest rates. The plot of these variables is not provided here for the sake of brevity.
• As stated in the main text, some EU member countries, notably Romania from 2009 to 2012 and Latvia and Lithuania in 2009, have large negative reinvested earnings figures, which we initially thought might distort the results. However, a rerun of the estimations after excluding these countries did not produce a significant change in their coefficients or signs.
• Because the CR index of the EU is not available separately, we had to compile it through the addition of individual member nations. However, only major EU member countries’ CR indices were included in the aggregation process. These were Germany, France, the UK, Italy, Netherlands, Belgium, Austria, and Spain.

References


Ernst and Young’s Attractiveness Survey, Russia 2013.


The Impact of Increase of Tourist Shoppers on the Pricing of Street Level Retail Shops in Hong Kong

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Abstract
Tourism shopping contributes significantly to Hong Kong’s economy, and retail property market boom is highly related to inbound tourism. Compared with local shoppers, tourist shoppers have quite different shopping behaviors and preferences, providing different influences on location selections of retailers. The implementation of “Individual Visit Scheme” (IVS) policy since July, 2003 which allows Mainland Chinese tourists to visit Hong Kong on an individual basis has significantly increased the proportion of tourist shoppers, and this can be regarded as a natural experiment that allows us to investigate the influence. Hong Kong has one of the most active commercial/retail property markets in the world. The targeted study area is Causeway Bay district since it has the most active retail property market in Hong Kong, and, according to Cushman & Wakefield, is the world’s most expensive retail location. The targeted property type will be street level retail shop which is defined as ground floor shop within tenant-mixed buildings with a street-faced frontage and is commonly found in the older parts of the urban area. It is one of the unique and special property types in Hong Kong, but not widely discussed in the previous researches. 580 transaction records of street level retail shops between 1993 and 2011 in Causeway Bay were used in this research to explore how the increase of tourist shoppers affects the pricing of retail units. For methodology part, Hedonic Price Model and Spatial Econometric Models are adopted. All the spatial econometric analysis are conducted in two parallel ways based on two different establishments of the spatial weight matrix: \( W_a \) (spatial effect) and \( W_b \) (valuation principle). After a series of rigorous tests of Moran’s I, Lagrange Multiplier and Log likelihood Ratio Test, Spatial Durbin Model is found to be the most appropriate model for both \( W_a \) and \( W_b \). In total, results are obtained from three models: Hedonic Price Model (Model 1), Spatial Durbin Model_\( W_a \) (Model 2) and Spatial Durbin Model_\( W_b \) (Model 3). After analysis and comparison of these three models, the result of model 2 is selected as the empirical study result. The findings are consistent with original hypotheses and show that (a) the increase in tourist shoppers has a significant and positive impact on retail property pricing; (b) IVS policy has improved the impact of building quality on the price of retail property; and (c) IVS policy has improved the influence of tourism convenience factors on the price of retail property. This study fills the research gap in this field by exploring the link between tourist shoppers and retail property pricing in Hong Kong, examining the marginal impact of IVS policy on retail property prices, and adopting Spatial Econometric Models for commercial property research.

Keywords: Tourist Shopper, Street Level Retail Shops, Hedonic Price Model, Spatial Econometric Model, Hong Kong.
Content Analysis: Application of E-Business among SMEs

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Abstract
SMEs are main source of employment and innovative skills. It contributes 99% of world economy enterprises. According OECD (Centre for Enterprise) SMEs significantly contribute to world GDP (50% of local and national, 30% of export and 10% of FDI). Between year 2006 to 2013 there is a rapid growth of SME’s in Europe. In the last few decades’ use of the Internet especially in form of Electronic Commerce (EC) by the SMEs has brought new landscape in conducting business. Adoption and use of e-commerce has been the subject of discussion among researchers. After extensive literature review it was found that plenty number of articles have been published in various international journals, conferences and book chapters. In this article content analysis has been conducted on articles published between years 2003 - 2013 to identify and analyze the drivers and barriers, which encourage or restrict SMEs to adopt different form of e-Business. It also discloses the current landscape of the use of e-business by small and medium firms.

Keywords: E-business, SMEs, Content Analysis and Electronic Commerce

Introduction
Small and Medium Size Enterprises (SMEs) is the main driving force of modern economy due to its significant contribution in entrepreneurial skills development, export promotion, innovation and employment generation. It contributes about 90% of global businesses and usually account for 51% of GDP in high-income country and 16% of GDP in low-income country. However, global financial crisis created new challenges for SMEs in terms of cutback in demand and services and reduction in capital support by different financial institutions. During worldwide survey Organization of Economic Co-operation and Development (OECD) and Asia Pacific Economic Co-operation (APEC) found that SMEs generally faces following barriers while doing business worldwide: shortage of capital, inadequate managerial skill, limited information, excessive transportation/operation costs etc. Usually, big firms have skill, knowledge and fund to maintain the information flow between different segments of their supply chain. However, SMEs normally fails to effectively manage their information flow. In order to sustain in global market SMEs started using new technologies such as Electronic Commerce (EC) especially between 2003-2010. Keeping same in mind in this article content analysis has been conducted on articles published between years 2003 - 2013 to identify and analyze the drivers and barriers, which encourage or restrict SMEs to adopt different form of e-Business.

Methodology
Content analysis or textual analysis is a research methodology, which is used to know the content of a communication by interpreting words or images from documents, films, arts etc ((Babbie, (2010), Glaser, (1965) and Krippendorff and Bock, (2008)). It is widely used for qualitative research purpose. In the content analysis three distinguish approaches (conventional, direct and summative) are used to understand the meaning of the given text data (Hsieh and Shannon (2005)). Firstly, the given text is broken down into various categories such as words, phrases or sentences and thereafter it is examined using different techniques (Neundorf (2002)).

Hsieh and Shannon (2005) divided the content analysis into two broad categories – conceptual and relational analysis. Conceptual analysis is usually used to investigate the frequency of the concept in the given text. By the use of this technique we can examine and assess the number of times a specific word or
group of words appeared in a given manuscript. On the other hand, relational analysis is used to analyze the association and connection of specific concept with various scripts. It is commonly used in the social science research to analyze the different meaning of a particular word.

**Benefits and Limitations of Content Analysis:**

Content analysis method is easy to understand and less expensive as compared to other methods (Gao (1996). It is unobtrusive and has no effect on the person being studied. It becomes more powerful technique when amalgamated with other research method such as observation, interview, survey etc (Patton (1990)). Apart from above mentioned advantages content analyses has several weaknesses. The outcome of the content analysis depends heavily on implicit and explicit meaning of chosen words. It is purely descriptive method and describes what in the text but fail to reveal the motive behind the observed pattern. The reliability of this method depends on degree of consistency of coding and re-coding of the given data in a similar way over a period of time. The generalizability and validity of decision generated using content analysis depends heavily on the formulation of concept category along with its trustworthiness. According to Gao (1996), the outcome of content analysis can be reliable but not valid.

**Content Analysis of Adoption of E-Business in SMEs**

In this assignment, keeping the reliability and validity issue of content analysis in mind, conceptual and relational analysis has been conducted. Firstly, all the articles related to application of e-Business in SMEs published between years 2003 to 2010 has been collected and stored in the database. The articles were classified by searching online databases such as Emerald, Google scholar, Science Direct, ABI/Informal database, Proquest direct database and EBSCOHost. Here, in order to increase the reliability and authenticity of data set, articles published in peer-reviewed journals, conferences and books have only been considered. The relevant article has been searched using ‘keyword’ approach. During the search process we found that few articles having similar keyword were irrelevant. In order to overcome above difficulties we only included those articles in our database that had the keyword in their title or abstract and were focusing on the same area. We also exclude those that treat the topic in a secondary or minor way. Following group of keywords was used to capture e-business, acceptability and SMEs respectively: “e-business OR electronic business OR ebusiness OR online OR online marketing OR web OR webpage OR website e-commerce OR electronic commerce OR commerce OR online OR Internet” AND “acceptability OR adopt OR acceptability OR use OR application” AND “SME OR SMEs OR (small AND (scale OR business OR enterprises)) OR (medium AND (scale OR business OR enterprises))”

After carefully analyzing the articles, I realized some article were not in English or were without official source or not related to topic or duplicated or were outside the time frame. To overcome these issues, I did data cleaning. The proposed research steps are described in table 1. Thereafter, a qualitative and quantitative approach has been applied to examine the collected articles.

**Table 1: Research steps**

<table>
<thead>
<tr>
<th>Step 1: Articles Search: Search via Google Scholar:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key words used: “e-business OR electronic business OR ebusiness OR online OR online marketing OR web OR webpage OR website e-commerce OR electronic commerce OR commerce OR online OR Internet” AND “acceptability OR adopt OR acceptability OR use OR application” AND “SME OR SMEs OR (small AND (scale OR business OR enterprises)) OR (medium AND (scale OR business OR enterprises))”</td>
</tr>
<tr>
<td>Articles published between 2003-2011</td>
</tr>
</tbody>
</table>

Source: Journal articles, conferences, book chapters, reports

<table>
<thead>
<tr>
<th>Step 2: Data Cleaning: exclude following articles:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not published in between 2003-2011</td>
</tr>
<tr>
<td>Not published in English</td>
</tr>
<tr>
<td>Duplicated articles</td>
</tr>
</tbody>
</table>

Not relevant to our research area
<table>
<thead>
<tr>
<th>Step 3: Data re-cleaning:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not published in reputed journal</td>
</tr>
<tr>
<td>Full text in not available</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 4: Coding and Analysis based of following criterion:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publication year: categorized according to publication year</td>
</tr>
<tr>
<td>Journal type: Journal articles, conferences, book chapters, reports</td>
</tr>
<tr>
<td>Nature of research: Qualitative and Quantitative</td>
</tr>
<tr>
<td>Data collection method: Survey, interview (personal or focus group), case study</td>
</tr>
<tr>
<td>Country of study: Developed and developing, cross country comparison</td>
</tr>
<tr>
<td>Research method: Correlational research, Descriptive research, Experimental research, Meta-analysis</td>
</tr>
</tbody>
</table>

Research themes: Extent of eBusiness implementation, eBusiness benefits, eBusiness drivers and barriers, eBusiness impact on SMEs B2B relationships, Adoption factor and its impact on implementation and performance, eBusiness strategy, Government, eBusiness adoption measures, examine the effect of region, culture, economic level and other national variables, effect of e-business on various growing things such as supply chain management, agreement, marketing, selling, inventory resource planning

### Research Findings

During the search on Google scholar 242 articles were found related to application of Internet or e-commerce in SMEs. A qualitative approach has been applied to examine the number of article published in a given period of time. Articles are categorized according to publication year, as shown in the figure 1.

![Figure 1: Total number of articles published per year](https://scholarcommons.usf.edu/anaheipublishing/vol12/iss72014/1)

From the figure 1 it is clear that in the year 2009 highest number of articles were published, while year 2008 has least number of articles. Further, to investigate the potential differences in distribution across the year, articles were categorized in three different stages; early stage (2003-2005), middle stage (2006-2008) and late stage (2009- 2010). In the early stage around 32 articles were published every year. Most of them were journal articles. In the middle stage there is a decline trend and also significant variation across the years. The main reason behind the declining trend was the global financial crisis of 2007-2008. In the late stage, there is a substantial increase in the number of articles in this area. Specifically, conference
proceedings hold greater percentage after 2008.

The collected articles were further analyzed and categorized based on research design, data collection methods or methodology used as shown in Figures 2-3. Articles were divided into different categories based on methods, data and strategy used. For example, an article was segmented into case study category if it includes intensive data collection rather than interviewing few employers in the SME. Similarly, articles adopted semi-structured interview to collect the data were not segmented under combined qualitative and quantitative category just because the outcomes of the interview were not conveyed in these articles. From the Figure 2, it is clear that most of the researcher used case study and survey as a research
method with a total 39.15% and 29.43% of the total number of studies respectively. On the other hand 18.12 % of researcher used conceptual and 12.12% applied experimental methods individually. In Figure 4, total article is further divided under three broad categories based on data collection method such as Qualitative, Quantitative and Mixed Method. From the figure it is visible that Quantitative is most popular method as compared to other methods among researcher working in this area. On further analysis it was found that only few researchers used longitudinal research method to study SMEs and their inclination towards e-business over time. These research gaps also highlight SMEs fluctuating behavior towards e-business.

Further, the collected article was subdivided based on application of different e-business technology in SMEs. The articles were examined based on e-business example cited in the articles. In most of the articles author distinctly emphasized the application domain and use of technology such as Internet, website, ICT. However, few of them were not clear on their approach, so were kept in others category. From table 2, it is visible that most of the articles deal with use of internet for general business purpose in SMEs.

<table>
<thead>
<tr>
<th>Application</th>
<th>% of articles published</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of Web technology in SMEs</td>
<td>14.87%</td>
</tr>
<tr>
<td>Use of internet technology in SMEs</td>
<td>22.24%</td>
</tr>
<tr>
<td>Outsourcing e-business service concept by SMEs</td>
<td>11.34%</td>
</tr>
<tr>
<td>Use of e-business in e-procurement</td>
<td>8.82%</td>
</tr>
<tr>
<td>Use of web in online training</td>
<td>5.78%</td>
</tr>
<tr>
<td>Use of e-business in SCM and IM</td>
<td>12.45%</td>
</tr>
<tr>
<td>Use of different software such as ERP, e-commerce, MRP etc</td>
<td>10.65%</td>
</tr>
<tr>
<td>Use of e-business for other business purpose</td>
<td>13.85%</td>
</tr>
</tbody>
</table>

Comparison studies are critical for SMEs research. To study the effect of regional variables the articles were further divided based on the countries where empirical studies were conducted. The result is summarized in table 3. Here our main goal was to group the paper based on the targeted countries. That is why in this process articles related to conceptual categories were not taken into consideration during this analysis. From table 3, it can be noted that the large proportion of articles focused on issue related to SMEs in UK. Further analysis suggests that the reason behind this trend could be the large investment from UK government in the last few years on different research activity related to SMEs. In the study, it was found that only few researchers investigated the issues related to adoption of e-business in developing and under developed countries. The reason behind this trend could be less awareness of the use of Internet and e-business opportunity for business purpose in those countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>6%</td>
<td>Switzerland</td>
<td>0.7%</td>
</tr>
<tr>
<td>Sweden</td>
<td>5%</td>
<td>Finland</td>
<td>0.7%</td>
</tr>
<tr>
<td>Austria</td>
<td>1%</td>
<td>Ghana</td>
<td>0.7%</td>
</tr>
<tr>
<td>Ireland</td>
<td>5%</td>
<td>Greece</td>
<td>0.7%</td>
</tr>
<tr>
<td>US</td>
<td>9.7%</td>
<td>Chile</td>
<td>0.3%</td>
</tr>
<tr>
<td>Germany</td>
<td>1.1%</td>
<td>China</td>
<td>0.7%</td>
</tr>
<tr>
<td>Great Britain</td>
<td>22.1%</td>
<td>Cyberspace</td>
<td>19.5%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.3%</td>
<td>Denmark</td>
<td>0.7%</td>
</tr>
<tr>
<td>Middle East</td>
<td>1.1%</td>
<td>Spain</td>
<td>1.1%</td>
</tr>
<tr>
<td>Turkey</td>
<td>1.8%</td>
<td>Thailand</td>
<td>1.1%</td>
</tr>
<tr>
<td>Africa</td>
<td>2.2%</td>
<td>Cyprus</td>
<td>0.3%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2.4%</td>
<td>France</td>
<td>1.1%</td>
</tr>
<tr>
<td>Brunei</td>
<td>0.7%</td>
<td>New Zealand</td>
<td>1.7%</td>
</tr>
<tr>
<td>Italy</td>
<td>0.7%</td>
<td>Canada</td>
<td>1.8%</td>
</tr>
<tr>
<td>Latin America</td>
<td>0.9%</td>
<td>India</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

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Further, the collected articles were categorized into three segments based on their year of publication and then were examined on what type of issues they were addressing. Looking into the details of some articles published in early stage (2003-2005) the main focus was on investigating core issues related to SMEs and how they can use Internet to facilitate their internal business activities (Riemenschneider et al. 2003), Grandon & Pearson (2004), Beach (2004), Burke (2005), Dholakia and Kshetri (2004), Jones et al. (2003).

Only few articles examined how it can be used to ease and expedite different activities related to sub partners such as vendors, consultants, internet service provider (Brown and Lockett (2004), Simpson and Docherty (2004), Ihlstrom and Nilsson (2003), Matlay and Addis (2003), McGovern and Hicks (2004), Webster et al. (2005)). During this period SMEs were struggling whom they could believe regarding e-business knowledge and were not ready to trust e-business solution providers. This could be due to the reason that they were not able to anticipate the benefit they can get out of this entire process. Also, in this period few research has been conducted to investigate the role of government agency (Putterill (2004), business network (Brown and Lockett (2004), Lawson et al. 2003, Martin and Matlay (2003), Simpson and Docherty 2004) and knowledge management (Levy et al. 2003). Some author explored the importance of web based information resources and how it is going to ease the communication between the two companies (Thomas et al. (2004), Grandon and Pearson (2004), Auger, (2005)).

In the middle stage, large number of articles were published focusing on barriers related to adoption of e-business by SMEs (Mohan-Neill (2006), MacGregor and Vrazalic (2006), Gunasekaran and Ngai, (2007) Li and McQueen, (2008)). These barriers were classified in two major categories: technical and social barriers. Technical barriers range from incompetent telecommunication infrastructure (Gunasekaran and Ngai, (2007)), lack of knowledge (MacGregor and Vrazalic (2006)), complexity related to the use of e-business (Won et al.. (2005)), cost associated with the implementation of e-business technology (Cateora and Graham (2007)), problem and complication related to trading partner and their influence on e-business uses (Kazi, (2007)), measurement of e-business performance in SMEs (Saleh and Ndubisi (2006)). Social barriers includes lack of trust in online business (Klein (2006)), long term impact of the use of e-business technology in SMEs performance (Rivard, Raymond et al (2006)), lack of management skill (Sellitto, et al. (2003)). Some researcher explored new and ignored areas of e-business application such as SMEs teleworking exercises (Sharma et al.(2006b)), electronic market place for SMEs (Seyal et al. (2004)), issues related to SMEs information management (Sharma et al.(2006a)). Although, in this period studies related to adoption-based issues were valuable, there is a further need towards intense study on how to exploits the drivers and reduce barriers.

In the late stage a comparative study has been conducted by different researchers to examine the effect of region, culture, economic level and other national variables and their role in adoption of e-business by SMEs in different developed, under-developed and developing countries (Rodriguez-Ardura and Meseguer-Artola (2010), Pan and Jordan- Marsh (2010) Zhu and Thatcher (2010), Grandón et al (2009)). In addition, plethora of research has been conducted to study the effect of e-business on various growing things such as supply chain management (Burca et al. (2010)), marketing (Ramdani et al. (2009)), inventory resource planning (Iskanius et al. (2009), Doom et al. (2009), Snider et al. (2009)). Gupta et al. (2009) and Andreu et al. (2010) demonstrated how e-business can help SCM by collective product design, transmitting orders which can be scrutinized from the adoption viewpoint. Along with this, some research has being conducted to study the adoption of social media, semantic web, web 2.0 in e-business (Joo and Lee (2009) Li et al. (2009)).

From above analysis it is clear that in literature plenty of research has been conducted to investigate different issue related to use of information technology in SMEs. However, during the analysis it was found that there are few areas that were less focused and needs to be explored in detail.

**Conclusion**

In this assignment content analysis has been conducted to disclose the current landscape of the use of e-business by small and medium firms. The articles published between years 2003 to 2010 in the various international journals, conferences, book chapters, business report related to this area has been taken into
consideration. The collected articles were coded and analyzed (longitudinal and horizontal) to cover various dimensions including the year wise distribution, unit of analysis, research method used, data sourced and subject wise study. From the analysis it is clear that the adoption of e-business in SMEs is growing continuously. Although, distribution of the article published varies across years.

The deep analysis conducted in this assignment reveals the various issues related to the past, current and future trend of e-business, practical implementation of e-business, meta analysis of adoption factors and a demographic comparative study of e-business trend. The conducted analysis disclosed a number of limitations of existing literature and significantly contributes to the state of art of e-business application in SMEs from academics and practitioners point of view.

Acknowledgement

The authors would like to thank the project ‘A cross country examination of supply chain barriers on market access for small and medium firms in India and UK’ (Ref no: PM130233) funded by British Academy, UK for supporting this research.

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The Effect of Corporate Governance on Firms’ Financial Performance: An Empirical Study on Egyptian Stock Exchange

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Abstract
In the light of the increasing corporate scandals and failures financial, there is an ever increasing attention on Corporate Governance (CG) especially issues in the firms’ financial performance. The investors look for emerging economies to diversify their investment portfolios to maximize returns but they are equally concerned about governance factors to minimize risks in these economies. The main purpose of this study is to examine the impact of CG mechanism on firm performance. Influence of CG variables through measure “Board size, Board independence, CEO duality, Institutional Investors”, and firms’ financial performance measured by “Return on Assets” (ROA) and "Return on Equity"(ROE) is using the firms traded in Egyptian stock markets. The study consists of 12 firms listed at Egyptian Stock Exchange in 8 different sectors for a period of 3 years from 2008 to 2010. The regression results show that board size is negatively and significant associated with both ROA and ROE. Board independence showed positive and significant associated with ROE ROA. CEO duality showed insignificant negative relationship with ROE and ROA. Institutional ownership showed significant and positive relationship with ROE and ROA. Firm size showed positive relationship with both ROE (insignificant) and ROA (significant).

Keywords: Corporate Governance, Financial performance, Egypt.

Introduction
Researchers, scholars and governments, are increasingly playing a greater role for developing CG practices especially after the financial crisis 2008 that lead to collapse of many financial institutions and brought many industries to bankruptcy. Cheffins (2011) said “CG first came into vogue in the 1970s in the United States. With the collapse of Enron and Arthur Andersen in the U.S and similar disasters in the U.K such as Marconi, CG has become increasingly important. CG are not only important in developed economies, but they are equally or even more important in emerging economies, since the latter do not have long-established financial institution infrastructure to deal with these issues, which are presently handled by the state. Thus, CG has become a major factor affecting the success of emerging market businesses. The term CG has become everyday usage in business and financial communities since the 1990's (Carlsson, 2001; and Malin, 2010) and is a global phenomenon focusing on securing shareholder value (Carlsson, 2001; and Enquist et al., 2006).

Bairathi (2009), said “CG is not just corporate management; it is something much broader to include a fair, efficient and transparent administration to meet certain well-defined objectives. It is a system of structuring, operating and controlling a company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and thereby increases the value of the organization and complying with the legal and regulatory requirements, for society as a whole, it minimizes the incidence of corruption, reduces the risk of systemic crises, and improves productivity”. The improvement of CG practices is widely recognized as one of the essential elements in strengthening the foundation for the long-term economic performance of countries and corporations (Ibrahim et al, 2010). Rezaee (2009) defined CG as “a process through which shareholders induce management to act in their interest, providing a degree of confidence that is necessary for capital markets to function effectively”. Thus, Good CG should help local companies to gain access to foreign capital and foreign companies tend to gain investment opportunities providing portfolio diversification opportunities. According to Rajagopalan & Zhang (2009) firmly felt that investors gain confidence in those firms that practice good CG and these firms are at added advantage in accessing capital compared to firms that lack good CG.
Corporate Governance in Egypt

Samaha et al., (2012) CG has many benefits for developing nations like Egypt. It helps developing nations to realize high and sustainable rates of growth, increases confidence in the national economy, deepens capital market and increases its ability to mobilize savings. In addition, it results in raising investment rates, protecting the rights of the minority shareholders or small investors. Also, it encourages growth of private sector by supporting its competitive capabilities, helping to secure financing for projects, generating profits, and creating job opportunities (Dahawy, 2008). Egyptian capital market, the ministry of investment through the Egyptian Institute of Directors (EIoD) introduced CG code in 2005 for companies listed in the stock market, especially those being actively trading. The Egyptian Corporate Governance Code (ECGC) is initially prepared in accordance with the Guidelines on Corporate Governance of State-Owned Enterprises in the Organization for Economic Co-operation and Development (OECD). Then, a team of Egyptian experts drafted the initial code, which the code was reviewed by experts from the OECD, the International Finance Corporation (IFC) and also the World Bank (Samaha et al., 2012). Shehata & Dahawy (2013) In 2007, the Capital Market Authority (CMA), Board of Directors issued decree No. 11 of (2007) on the executive rules for the governance of companies operating in the field of securities and unlisted in the stock market, including companies winning licenses necessary to engage in brokerage activities in the stock exchange, configure and manage securities portfolios and investment funds, and clearing and settlement of securities transactions. This decree comes in the context of interest of developing the stock market, supporting stability and providing greater protection for investors dealing in, obligations related to transparency and disclosure, internal control and internal auditing systems of the company, the obligations of the auditor associated with CG, and sanctions applied in case of breaking those rules thus also it helped in reducing the risks faced by the market (Shehata & Dahawy, 2013).

Although financial reporting has improved markedly in terms of the timeliness and quality of disclosure, non-financial disclosure remains underdeveloped. Few companies publicly disclose their ownership and governance structures, remuneration policies, or predictable risk factors in their annual reports (World Bank, 2009). The contemporary business environment is characterized by uncertainty and risk making it increasingly difficult to forecast and control the tangible and intangible factors which influence firm performance (Abdullah, 2004). In a dynamic environment, boards become very important for smooth functioning of organizations. Boards are expected to perform different functions, for example, monitoring of management to mitigate agency costs, hiring and firing of management, provide and give access to resources and providing strategic direction for the firm (Hunt, 2000). Further, the boards seek to protect the shareholder’s interest in an increasingly competitive environment while maintaining managerial professionalism and accountability in pursuit of good firm performance (Meckling, 1976). Thus, CG provides a valuable framework to address issues of sustainability and succession for small and medium-sized enterprises and for family-owned businesses, which comprise the majority of companies in the Middle East and North Africa (MENA) region. CG is an essential component for ensuring the integrity of financial reporting and effective business management. The benefits of good CG are increasingly recognized in the region. In the past several years, several new institutes of CG or institutes of directors have been established, demonstrating the growing demand for CG information, training, and guidance for companies to improve their practices. Many countries including Algeria, Egypt, Bahrain, Lebanon, Morocco, Oman, and Tunisia have issued CG codes.

Many empirical studies have been conducted over the last two decades to investigate a relationship between CG and a firm’s performance in the world. As such, this study aims to quantify the contribution of CG to the firm performance for listed companies at EGX through ROA and ROE with their explanatory variables for a sample of twelve firms over a period of 3 years, from 2008 to 2010. Literature review and previous empirical studies have been referenced to develop a research framework and to develop research hypotheses in relation to the relationship between CG and a firm’s performance and providing additional evidence on the effect of CG on firms’ performance in emerging economies, concentrating on the Egyptian experience, a part of the world developing business. And provide a summary of selected empirical studies on CG and firms’ financial performance with findings. Data, sample construction and empirical models are discussed and then report the empirical findings, analysis and conclude the paper and spells out some policy recommendations.
Theories of CG

The present literature has primarily focused on theories which review major theoretical perspectives of boards and governance mechanisms that are considered relevant for this study are agency theory, stewardship theory and stakeholder theory.

Agency Theory: The firm is not an individual but a legal entity, according to Johanson & Ostergen (2010) even though agency theory provides a valuable insight into CG, various governance mechanisms have been discussed by agency theorists in relation to protecting the shareholder interests, minimizing agency costs and ensure alignment of the agent-principal relationship. The agency problem depends on the ownership characteristics of each country. The agency model assumes that in countries where ownership structures are dispersed, individuals can access to complete information and investors possess significant knowledge of whether or not governance activities conform to their preferences and the board has knowledge of investors’ preferences, if the investors disagree with the management or with the performance of the company, they use the exit options, which will be signaled through reduction in share prices (Smallman, 2004). Whereas countries with concentrated ownership structures and large dominant shareholders, tend to control the managers and expropriate minority shareholders in order to gain private control benefits (Spanos, 2005). Many scholars have relied upon agency theory to examine the role of boards and other related governance aspects in affecting firm performance (Davis et al., 1997; Hampel, 1998; OECD, 1999).

Stewardship Theory: It suggests that the agents (directors and managers) are essentially trustworthy and good stewards of the resources entrusted to them, who will act in the best interest of the owners (Davis et al., 1997 and Bathula, 2008). Stewardship theory sees a strong relationship between managers and the success of the firm; Daily et al. (2003) argue that managers and directors are also interested to protect their reputation as expert decision makers. As a result, managers operate the firm in a manner that maximizes financial performance, including shareholder returns, as firm performance directly impacts perception about managers’ individual performance.

Stakeholder Theory: Stakeholder theory is an extension of the agency view, which expects board of directors to take care of the interests of shareholders. Kiel & Nicholson (2003) Stakeholder theory views that “companies and society are interdependent and therefore the corporation serves a broader social purpose than its responsibilities to shareholders”. Mitchell, et al., (1997) argue that stakeholders can be identified by possession of one, two or all three of the attributes of: (1) power to influence the firm, (2) the legitimacy of relationship with the firm, and (3) the urgency of their claim on the firm. This typology allows managers to pay attention and respond to various stakeholder types. Sundaram & Inkpen (2004) argue that objective of shareholder value maximization matters because it is the only objective that leads to decisions that enhance outcomes for all stakeholders. Thus the stakeholder theory is considered to better equip managers to articulate and foster the shared purpose of their firm.

Corporate Governance and Firms’ Performance

CG is defined as a mix of different mechanisms that direct and control firms in order to maximize value to stakeholders (Solomon & Solomon, 2004; Kim et al., 2005 and Hassan, 2008). Ryan and Ng (2000) highlight two aspects of CG: conformance and performance. Conformance, they debate, includes elements of monitoring, supervising and being accountable to different stakeholders. Performance, they add, describes the contribution of those who govern the organization to its performance. The earlier studies suggest that “performance”, “decision making” and “mitigating the conflict of interests”, is integral parts of CG mechanisms that support effective accountability for performance outcomes (Weir et al., 2002). The number of studies has been examined the relationship between CG and firm’s performance that show how good governance practices have increase the economic value to firms, higher productivity, lower systematic risk, improve the firm’s performance and mitigate the conflict of interest between firms’ managers and firms’ shareholders (Chung et al., 2003; Fernandes, 2008; Bhagat & Bolton, 2008). However, the findings are inconclusive. One literature stream finds that CG is positively associated with firm performance whereas other studies show no such linkage. There are several possible explanations for governance-performance relationship inconclusive results. First, the institutional differences across countries in which these studies were carried out. The intra-countries institutional differences partially explains the governance-performance relationship inconclusive results and, at the same time, raises concern about whether the principles of corporate originated from developed countries are applicable in other countries. Second, the choice of performance variables might also play a role in explaining the accounting-based
Board Size: It is the number of executive and non-executive directors on company's board. The board of directors is an important internal governance mechanism that enables in reducing agency problems inherent in managing any organization (Ceribioni & Parbonetti, 2007; Haat et al., 2008; Li et al., 2008). Agency theory suggests that large boards can play a crucial role in monitoring the board and in making strategic decisions. In addition, it suggests that large boards are less likely to dominate by the management (Hussainey & Wang, 2010). Furthermore, large boards lead to increase the expertise diversity in the board including financial reporting expertise (Laksmana, 2008). Board size is also found to be associated with Firm size. For example, Coles et al. (2008) found that larger and diversified firms have a greater number of directors on the board. But there are other variables such as managerial ownership, firm age, business segments, takeover defense mechanism…etc, that would influence the board size (Boone et al., 2007). In contrast, other scholars suggest that small boards increase the company monitoring capabilities (Khanchel, 2007). He argues that the monitoring capability of the board decreases with its size. Some scholars have been in favor of smaller boards, Consistent with this notion, Hermalin & Weisbach (2003) state that board size is an important factor that determines boards’ efficiency, and smaller boards are associated with better firm performance, since small boards can rapidly respond to events. In the Egyptian context, Desoky & Mousa (2012) find that board size is positively associated with firm performance. Therefore, the following hypotheses can be suggested:

H1: There is a significant negative relationship between board size and firm financial performance

Board Independence: It means the proportion of independent non-executive directors relative to the total number of directors. It is argued that boards with the more non-executive directors will control the opportunistic behavior of managers and protect the shareholders’ interests better than boards with dependent members (Zubaidah et al., 2009). Theoretically, since the board of directors is the most important device to monitor the management, independency of board members become a significant issue (Abdullah 2004). In addition, Dahya et al., (2003) and Dehaene et al. (2001) found a significant positive relationship between the ratio of independent directors and ROE among Belgian companies. Mak and Kusnadi (2005) reveal that proportion of independent directors on the board helps in enhancing firms’ value. Also, Daily et al., (2003) concluded that firms with high ratio of independent directors in a board face less frequent financial pressure. However, other papers indicate that independent director have a negative effect on firm performance, since independent directors are unqualified decision makers (Bhat and Black, 2002; Fernandes, 2008). Yammeesri and Herath (2010) raised doubts about the ability of non-executive directors in monitoring firm management and found no conclusive evidence in their capabilities either in increasing or decreasing in corporate performance. Therefore, the following hypotheses can be suggested:
**H2**: There is a significant positive relationship between independence of management and the firm's performance.

**CEO Duality**: The board leadership structure or CEO/Chair duality (means the same person holding the positions of company CEO and chairman of the board of directors) is one of the essential aspects of the internal in CG (Haat et al., 2008). The literature has argued that the separation between CEO and chairperson positions can improve the efficiency and effectiveness of internal control systems in companies; consequently, firm performance will be affected. Agency theorists argue that the separation of the two roles improves the board's monitoring capabilities (Haat et al., 2008; Li et al., 2008). Khanchel (2007) argues that the role duality reduces the board independence, reduces the flexibility of the board of directors and consequently reduces the possibility that the board can properly execute its oversight role. In contrast, Chen et al., (2005) found a negative relationship between CEO/Chair duality and firm performance (measured by ROA and ROE). Ehikioya, (2009) said CEO duality has a way of influencing the overall performance of the firm. However, Omran (2009), in Egypt, reported that firm performance is not affected by a separation between CEO and chairperson positions. Therefore, the following hypotheses can be suggested:

**H3**: There is a significant negative relationship between CEO duality and the firm's performance

**Institutional Ownership**: Agency theories argue that pressures from external investors, such as institutional investors, are necessary to motivate managers to maximize firm value and reputation instead of pursuing managerial objectives, where focused on the role of institutional investors as corporate monitors (Allen et al., 2000). As a result, Institutional investors have a strong interest not only in the financial performance of the firm in which they invest in, but also in the strategies, activities and most of them seek stable returns on their investments (Mahoney and Robert, 2007). Gillan and Starks (2000) find that CG proposals sponsored by institutional investors receive more favorable votes than those sponsored by independent individuals or religious organizations. Hartzell and Starks (2003) show that institutional ownership is negatively associated with the level of executive compensation and positively associated with pay-for-performance sensitivity. Chung et al. (2003) find that large institutional shareholdings in a firm deter managers from pursuing opportunistic earnings management through discretionary accrual choices. Therefore, the following hypotheses can be suggested:

**H4**: There is a significant positive relationship between institutional investors and the firm's performance.

**Methodology**

**Sample and Data**: The research will focus on analysis annual reports to 12 Egyptian companies from amongst the top 50 most active-traded companies listed in EGX covered 8 sectors over the period 2008-2010. The data collected from the financial statements of these firms. The source of data was the disclosure book of the Egyptian Exchange for year 2010 and 2011. Firstly, it will calculate the targeted ratios for the 3 years given the 12 firms from the 8 different sectors. Secondly, it will calculate the average for the targeted ratios year by year and we will end up with the following data which be further used in the SPSS.

**Variables Measurement**

**Dependent Variable**: Firm Performance, It is measured using two sets of variables include ROE measured as the net income divided by total equity, and ROA measured as the net income divided by total assets (Kholeif, 2008; Mashayekhi & Bazaz, 2008).

**Independent Variables**: Board size, various studies measure board size by the total number of directors on the board of directors of a firm (Bonn, 2004; Coles et al., 2008). **Board Independence**, The distinction between inside and outside directors is fundamental to understand board dynamism, Fama and Jensen (1983). The term “insider” refers to both managers and controlling shareholders (La Porta et al., 2002). Outsiders are directors who are more likely to be independent of the firm management. Thus, outside directors as independent calculated as Total No. of Non-executive Directors/ Total No. of Board Directors. **CEO Duality**, Following other studies (Weir et al., 2002; Abdullah, 2004; McIntyre et al., 2007) this takes a value of 1 if the CEO and chairman are the same person and 0 otherwise. **Institutional ownership** is suitable variable for examining the performance of the firm by =Total Number of shares held by institutions /Total shares outstanding (Becht et al., 2009).
Control Variable: Firm Size. There is considerable evidence that the size of the firm plays an important role in CG and corporate performance. Ghazali (2010) argues that the bigger the firm is the more likely that it is profitable due to economies of scale, the ability to obtain cheaper sources of funds and the greater diversification. In order to identify the specific effect of board characteristics on firm performance, Firm size was found to co-vary with many board characteristics and other governance variables (Fiegener et al., 2000; Kiel & Nicholson, 2003). Firm size is measured by the natural logarithm of total Assets.

The Model

The statistical model for relationship between CG, and firms’ performance is tested through the model presented below using the following 2 models:

\[
\text{ROE} = \beta_0 + \beta_1 (\text{BS}) + \beta_2 (\text{BIND}) + \beta_3 (\text{DCEO}) + \beta_4 (\text{IO}) + \beta_5 (\text{F size}) + \varepsilon
\]

\[
\text{ROA} = \beta_0 + \beta_1 (\text{BS}) + \beta_2 (\text{BIND}) + \beta_3 (\text{DCEO}) + \beta_4 (\text{IO}) + \beta_5 (\text{F size}) + \varepsilon
\]

Where: ROE = Return on Equity; ROA=Return on Assets; \(\beta_0=\) Constant (Intercept); BS=Board size; BIND=Board Independence; IO = Institutional ownership; DCEO=CEO duality (1 if CEO is also board chair and 0 otherwise); FS=Firm size and \(\varepsilon = \) error

Empirical Results and Discussion: This section of the study is presenting the results of the analysis performed on the data collected to test the propositions made in the study.

Descriptive Analysis:

Table 1 provides descriptive statistics of the dependent and independent variables for 12 firms in 3 years 2008, 2009 and 2010. The model incorporates two of explanatory dependent variables (ROE and ROA). The average ROE is approximately 54.77 with a standard deviation of 8.227, and average ROA is approximately 55.58 with a standard deviation of 12.055. Also, it appears from the table regarding (B.S) that the average is 12.33% with a standard deviation of 7.637. The data also shows that, nearly 88.97% of the sample firms depending on (B.IND) with a standard deviation of 6.447, and also data shows that (CEO) average is approximately 22.01 with a standard deviation of 10.767. Finally, regarding (I.O) the average is 40.17% with a standard deviation of 0.723.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Std. Dev</th>
<th>Mean</th>
<th>Max</th>
<th>Min</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>8.277</td>
<td>54.77</td>
<td>70.42</td>
<td>30.89</td>
</tr>
<tr>
<td>ROA</td>
<td>12.055</td>
<td>55.58</td>
<td>87.5</td>
<td>25.00</td>
</tr>
<tr>
<td>B. S</td>
<td>7.6376</td>
<td>12.33</td>
<td>13.00</td>
<td>11.50</td>
</tr>
<tr>
<td>B. I.</td>
<td>6.447</td>
<td>88.97</td>
<td>94.01</td>
<td>82.02</td>
</tr>
<tr>
<td>CEO</td>
<td>10.767</td>
<td>22.01</td>
<td>33.31</td>
<td>8.12</td>
</tr>
<tr>
<td>I. O</td>
<td>.723</td>
<td>40.17</td>
<td>41.01</td>
<td>20.23</td>
</tr>
<tr>
<td>FS</td>
<td>2.329</td>
<td>6.469</td>
<td>6.53</td>
<td>6.43</td>
</tr>
</tbody>
</table>

Correlation Model & Analysis: (Pearson correlation)

After descriptive statistics, correlation analysis has been performed to check the relationship between independent, dependent variables and amongst control variables as well so that problem of multicollinearity can be checked, it is of importance to check the existence of multicollinearity (Hassan, 2009). The Pearson’s correlation matrix shows that indicate the direction and the degree of correlation between the independent variables are either high, low or moderate, which suggests the absence of multicollinearity between independent variables.

As showed by tables, the two performance variables (ROA and ROE) are highly correlated. Board size (BS) has negative and significant correlations with ROA and ROE, indicating that larger board size generally reflects weaker controls therefore, weaker performance. Also correlation between CEO duality and (ROA and ROE), find that CEO is not associated with firm performance, (CEO) is negatively and insignificantly correlation coefficients with ROA and ROE. As for the correlation between (B.Ind) and firm
performance (ROA and ROE), found that B.Ind is positively and significantly correlated with (ROA and ROE). This indicates that firms benefit from the presence of outside directors. An (I.O) is also positively and significantly correlated with (ROA and ROE) as expected. Also, the data in tables shows that (ROE and ROA) are positively related with F.S.

Regression Analysis: Table 4 and 5 provides regression results for each of ROA and ROE on the independent variables. R= Pearson Correlation, same value as Beta, R Square = Measures how much variability is caused in dependent variable due to a given change in independent variable and Sig = Significance: If less than 0.05, relation is significant, if more than 0.05 relation is insignificant.

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>R</th>
<th>R Square</th>
<th>F</th>
<th>Sig</th>
<th>Beta</th>
<th>t. Constant</th>
<th>t. Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.S</td>
<td>-0.713</td>
<td>0.519</td>
<td>1.035</td>
<td>0.049</td>
<td>-0.713</td>
<td>1.227</td>
<td>-1.017</td>
</tr>
<tr>
<td>B.IND</td>
<td>0.927</td>
<td>0.859</td>
<td>6.090</td>
<td>0.045</td>
<td>0.927</td>
<td>-2.003</td>
<td>2.468</td>
</tr>
<tr>
<td>CEO</td>
<td>-0.992</td>
<td>0.885</td>
<td>63.72</td>
<td>0.079</td>
<td>-0.992</td>
<td>17.290</td>
<td>-7.983</td>
</tr>
<tr>
<td>I.O</td>
<td>0.931</td>
<td>0.866</td>
<td>6.487</td>
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<th>F</th>
<th>Sig</th>
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</table>

51.9% of variations in ROE are due to a given change in (B.S) also, 32.2% of variations in ROA are due to a given change in (B.S). Consistent with H1, BS is negatively correlated with ROA and ROE. This indicates that small boards are associated with higher firm performance, possibly through closely monitored management (Fuerst & Kang, 2000; Loderer and Peyer, 2002). This result is not similar to Dalton et al. (1998) who find a positive and significant relationship between board size and financial performance. 2) 85.9% of variations in ROE are due to a given change in (B.IND) also, 89.7% of variations in ROA are due to a given change in (B.IND). As predicted by H2, the percentage of (B.IND) has a significant positive coefficient with the company’s profitability. These results suggest that agency theory’s theoretical predictions of a positive relationship between outside (independent) directors and firm performance are also applicable in the Egyptian environment as well. This result is contrary to that of Klein (1998) who suggests that a high percentage of B.IND has the negative effect on firm performance. 3) 88.5% of variations in ROE are due to a given change in CEO Duality also, 71.6% of variations in ROA are due to a given change in CEO Duality. Consistent with H3, which predicts that separate individuals in the posts of CEO and board chairman leads to a better CG system and increased firm value, the presence of duality in Egyptian firms have a negative impact on firm performance but insignificant. This result is similar to (Ehikioya, 2009). This result is contrary to that of Omran (2009), in Egypt, reported that firm performance is not affected by a separation between CEO and chairperson positions. 4) 86.6% of variations in ROE are due to a given change in (I.O) also, 89.4% of variations in ROA are due to a given change in (I.O).
(I.O). Results suggest that the presence of I.O on the board has a positive impact on firm performance. This finding is similar to that of Krivogorsky (2006) who confirm that I.O impact on firm valuation is generally positive. Based on this evidence, one may conclude that corporate monitoring by I.O may influence Egyptian managers to focus more on corporate performance.

Analysis and Interpretations:

Correlation analysis (Tables 2 and 3) had been used to support hypothesis concerning the relationship between the dependent variables (ROE and ROA) and the independent variables. To reach more concrete results (Tables 4 and 5) regression analysis had been formulated. Table 2 shows a strong negative relationship between B.S and ROE and significant (0.0495<0.05), fully supporting hypothesis one. A strong positive relation exists between B.IND and ROE and significant (0.045<0.05), fully hypothesis two. CEO Duality shows a very strong positive relation with ROE but insignificant (0.079>0.05), not fully supporting hypothesis three. Institutional ownership shows a very strong positive relation with ROE but significant (0.0238<0.05). The firm's size had a strong positive relationship with ROE but insignificant (0.166>0.05). Also, table 3 shows a moderate negative relationship of B.S with ROA but significant (0.0173<0.05) fully supporting hypothesis one. B.IND shows a very strong positive relation with ROA and also significant (0.034<0.05) supporting the hypothesis two that independence positively affects the firm's performance measured by profitability, and further supported by the value of R squared that recorded 89.7% indicating that 89.7% of variations in ROA are due to independence. CEO duality shows a strong negative relation with ROA and insignificant (0.358>0.05), fully supporting Hypothesis three. Institutional ownership shows a very strong positive relation with ROA, and significant (0.0417<0.05), fully supporting hypothesis four. Firm's size shows a very strong positive relation with ROA and significant (0.02<0.05) such strong and significant relation is further emphasized through the value of R squared that recorded 89.9% implying that 89.9% of variations in ROA are due to Firm's size.

Conclusion

The regression results show that 51.9% of variations in ROE are due to a given change in B.S also, 32.2% of variations in ROA are due to a given change in B.S, while provide negative but significant relations between B.S and both ROA and ROE. This result is consistent with Salleh et al. (2005) that larger board size tends to ensure that the management control of the company is weak; consequently, it generates negative influence on the managers to mitigate the conflict of interest and personal interest. Also this findings agree with Mishra et al. (2001) argument that smaller boards help to make decision more quickly and play a controlling function where as large boards lack genuine interaction and less likely to become involved in strategic decision making. However, the result does not agree with that obtained by Aljifri & Moustafa (2007). The difference in the result could be attributed to the differences in the sample size, period covered, or to the difference in the performance measure used. While, Board Independence has a significant positive association with firm performance and subsequently support with the expected hypotheses. The finding provides evidence that companies having more independence directors able to increase firm value because there is no personal interest being exercised. The findings agree with Johari et al. (2008) that found positive effect on firm performance due to more outside directors in a board will offset agency problem, think objectively since they are not hold executive position in company and able to buy in external expertise which will yield company performance. From the findings, more independent directors existed in a board will more likely raise firm performance. CEO duality had shown very strong correlations with ROA and ROE but insignificant and negative. When the moderating effect of the board size was examined on the CEO duality performance relationship, CEO duality was found to be negatively related to performance in respect of firms with larger boards. This result is consistent with findings of Kiel & Nicholson (2003). It could also reflect the power that the person holding dual position to sway the board members according to his interests. Furthermore, the empirical results indicate that there is significant positive relationship between institutional ownership and firm performance supporting hypothesis four with findings of Smith (1996), and DelGuercio & Hawkins (1999) those who have found evidence that corporate monitoring by institutional investors can force managers to focus more on corporate performance and less on opportunistic or self-serving behavior. Concerning the firm's size, the results show that large size firms are more likely to achieve better performance as indicated by the positive
and significant coefficient of size. This might be due to competition (or lack thereof) effects; thereby the market power of large-size firms enables them to outperform small-sized firms.

**In evaluating the results of this study, several limitations should be noted.** First, this sample may be small in size and composed of the most active Egyptian listed companies which do not represent all types or sizes of companies in Egyptian business environment and also short period of investigation, thus the outcomes of the research cannot be applied to other sectors on a wider scale therefore; also this study might not generate a strong significant result on the hypotheses being tested, and should be viewed with caution. Also, as is the case with all empirical studies, academic evidence suggests that financial and non-financial disclosure are affected by and may be explained by a number of environmental factors such as a country's history or stage of development, capital markets, inflation levels, economic, political, legal and cultural diversity; however, it is acknowledged that these factors might assistance in explaining the diversity of reporting practices. Finally, CG is a topic that cannot be analyzed from the single perspective. The empirical analysis for CG and corporate transparency is still in a somewhat development stage and critical issues regarding frameworks, measurement and empirical methods have not been resolved in Egypt. Another limitation is that the study paid more attention to internal governance mechanisms (CEO duality, board committees, disclosure and board size) while there is a lot incorporating type as the external governance mechanism. Therefore, future research is recommended to investigate the influence of external mechanisms on firms' performance. Nevertheless, the paper findings indicate that the underlying principles of CG are applicable in emerging markets. The findings are important to regulators, investors, managers and researchers to contribute in developing new policies that establish better legal and regulatory infrastructure to increasing investors' confidence and attracting foreign investment for emerging market economies in order to implement the high standards of CG and promote new regulations of governance.

**References**


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Abstract

This paper will present the concept of one M&A Computer Software Patent. This patent can be used to search for the worldwide M&A (Mergers & Acquisitions) Target quickly. The concept of this patent is based on a series of 16 papers which have been published in the international conference from 2007 to 2014. And, this paper is the final conclusion of those papers. In this paper, we summarize the empirical results of the previous five parts research, and present the important policy implications. The results from using three different statistical methods to estimate the Merger activities equation are presented. The data used for this study are from: (1) the 1987, 1982 Census of Manufactures, (2) U.S. Commodity Exports and Imports as Related to Output: 1991 and 1990, (3) Mergers & Acquisitions Journal (1988), (4) Directory of Corporate Affiliations (1986, 1987), and (5) Million Dollar Directory (1995). The 1987, 1982 Census of Manufactures is one part of the 1987 Economic Censuses which is conducted by the U.S. Department of Commerce. Also, U.S. Commodity Exports and Imports as Related to Output is conducted by U.S. Bureau of the Census, U.S. Economics and Statistics Administration in U.S. Department of Commerce. These results show that the estimated coefficients for the strategic factors are significant. It indicates that they are important determinants in merger activities (M&A) in international capital market.

Keywords: Patent, Computer Software, M&A, Merger, Worldwide, Target.

Introduction

This paper will present the concept of one M&A Computer Software Patent. This patent can be used to search for the worldwide M&A (Mergers & Acquisitions) Target quickly. The concept of this patent is based on a series of 16 papers which have been published in the international conference from 2007 to 2014. And, this paper is the final conclusion of those papers. In this paper, we summarize the empirical results of the previous five parts research, and present the important policy implications. The results from using three different statistical methods to estimate the Merger activities equation are presented. These three different statistical methods are: (1) Probit procedure; (2) OLS (Ordinary Least Squares) Method; (3) Log-Linear Functional Form, OLS (Ordinary Least Squares) Method.

In Section 2 of this paper, we discuss merger theories briefly and review previous relevant literature. In Section 3, we construct our theoretical model and hypothesis, discuss the basic framework. Section 4 explains data sources, data definitions, and the statistical analysis techniques used in this study. Section 5 presents empirical results for foreign merger activities in U.S. manufacturing industries. Section 6 summarizes the research findings and presents conclusions.

Review of Literature

This M&A Computer Software Patent has been created smoothly. At first, we are very grateful to the following professors who conduct excellent research in this M&A (Mergers & Acquisitions) field.

Many studies have investigated the motives of foreign merger activities. In the early study by Robert S. Harris and David Ravenscraft (1991), they shed light on the motivations for foreign direct investment (FDI) in the U.S. as well as the factors influencing FDI via acquisitions. They studied shareholder wealth gains for 1273 U.S. firms acquired during the period 1970 - 1987 with a specific focus on differences between acquisitions made by foreign versus U.S. firms. The evidence shows that cross-border transactions are more concentrated in R&D intensive industries than are domestic takeovers. Furthermore, three-fourths of
cross-border takeovers occur between bidders and targets in related industries. The data thus support the view that FDI is more likely in situations in which a firm can take advantage of market imperfections or internalize what are otherwise costly (or inefficient) market transactions. Also, the target wealth gains are significantly higher in cross-border takeovers than in domestic acquisitions. This cross-border effect persists, having controlled for industry effects, variation in gains over time, the medium of exchange, and competition in bidding. Foreign companies pay around 10 percentage points more than domestic firms in noncash bids. This impact is as large as the increase in premiums resulting from all-cash deals or multiple bid takeovers, two effects receiving substantial attention in the finance literature.

There is an extensive literature on the motives for foreign merger activity. Harris and Ravenscraft (1991) show that the forces driving cross-border takeovers include: 1. imperfections and costs in product or factor markets, 2. biases in government and regulatory policies, and 3. imperfections and information asymmetries in capital markets.

The third reason for foreign merger activity is offered by Froot and Stein (1989) who develop a model linking cross-border takeovers to exchange rate movements. They argue that given information asymmetries about an asset’s payoffs, entrepreneurs find it impossible or very costly to purchase the asset solely with externally obtained funds. As a result, “information intensive” investments, such as buying a company, will be partially financed by the net wealth of the entrepreneur. Since the relative net wealth of foreign versus U.S. entrepreneurs will vary with exchange rates. Froot and Stein’s model predicts that foreign buyers will have a purchasing advantage when their currency is strong against the dollar.

There can be substantial tax effects in takeovers. Scholes and Wolfson (1990) argue that changes in U.S. tax laws have had a substantial impact on the incentives both for mergers between U.S. firms and for purchase of U.S. firms by foreign buyers. Specifically, the 1981 Economic Recovery Tax substantially increased tax incentives for U.S. takeovers by U.S. firms (both absolutely and relative to foreign acquisitions of U.S. firms). These incentives included accelerated depreciation schedules that could only be obtained upon acquisition of assets and hence created an incentive for takeover. How-ever, the 1986 Tax Reform Act neutralized most, if not all, of these advantages. Scholes and Wolfson (1990) argue that after 1986 foreign investors should find investment in the U.S. more attractive than before and that such investors “may place a higher value on the assets held by U.S. investors than U.S. investors place on them.”

Subsequent work by M. Wayne Marr, Jr, Sanjeev Mohta and Michael F. Spivey (1993) investigate whether real-sector opportunities motivate foreign takeovers of US firms by assessing whether foreign bidders target US firms that offer possible synergistic gains and that provide an opportunity to enter or expand existing operations in the target’s market. They analyze these takeovers in the pre-takeover stage (they develop and test hypotheses about the expected characteristics of the foreign takeover targets) and takeover stage (they examine the announcement effects of foreign takeovers on the wealth of target firms’ shareholders and then test the effects of specific characteristics on the wealth gain from the takeover).

With recent economic developments in Europe and the internationalization of Asian corporations from Japan, Taiwan, South Korea and Hong Kong, international takeovers are expected to be more sophisticated and popular in the 2010s. Past research on international acquisitions focused on the benefits of diversification of US acquiring firms. Louis T.W. Cheng and Kam C. Chan (1995) provide the study which takes the perspective of the international bidders and examines the characteristics of international takeovers. Due to data limitations, the sample is confined to takeover transactions for international bidders and US targets with a minimum price of $100 million. A sample of 70 takeover events from 13 countries was examined.

They examined the summary statistics of several takeover characteristics including the type of takeovers, relatedness of the takeovers, time from first announcement to consummation of the takeover, annual sales, transaction price, premium paid and abnormal returns of the target. They find that international bidders seem to prefer related acquisitions. However, these related takeovers do not result in higher premiums or higher abnormal returns for the targets. Some variations in takeover duration are observed among bidders from the UK, Japan and France. They believe that the differences in takeover duration is a consequence of different perceptions of political risk in acquiring US targets by international bidders. Interesting results are found for the premium paid. Both the analysis of variance and the regression analysis indicate that UK bidders are able to pay a lower premium than bidders from other countries. This lower premium does not lead to a lower abnormal return for their US targets. They attribute the UK bidders’ ability to pay a lower
premium to their understanding of the US business environment and to their sophistication in takeover activities. In addition, the abnormal returns of the US targets tend to vary with the country of the bidder. Also, the abnormal returns of the targets are found to be positively related to the premium they received.

As an extension of the above studies which are famous and excellent in the past 40 years, our study, based on the several significant characteristics of international takeovers identified previously, uses new statistical analysis model, examines more and new data in a wide selection of U.S. industries in manufacturing sector, and identifies more precisely the determinants and motives of foreign merger activities in U.S. manufacturing industries.

**Theoretical Model and Hypothesis**

In this M&A Computer Software Patent, we construct the following Theoretical Model and test the most important 8 Hypotheses.

This study identifies those characteristics of an industry which have a statistically significant impact on the probability that the firms in this industry will be acquired. The specification of the model is similar to that used in past studies of merger activities: (1) Harris, Stewart, Guilkey and Carleton (1982); and (2) Scherer and Ravenscraft (1987). Our model to identify the determinants of foreign merger activities can be typically represented as:

$$
\text{Prob} \left( y^*_i = 1 \right) = \Phi \left[ a + b \cdot \text{Growth} + c \cdot \text{Price-cost margin} \\
\quad + d \cdot \text{Market concentration ratio} \\
\quad + e \cdot \text{Capital-Labor ratio} \\
\quad + f \cdot \text{Export} + g \cdot \text{Import} + h \cdot \text{Tariff} + i \cdot \text{NUMCO} + u_i \right]
$$

Where $\Phi$ is the cumulative density function of a normal probability function, and $y^*_i$ is a binary choice variable with the value $y^*_i = 1$, if $y^*_i > 0$, and $y^*_i = 0$, if $y^*_i \leq 0$.

The meaning of each item is as follows: (1) $y^*_i$ is Acquisition ratio, $y^*_i = \frac{\text{Number of Acquisition in industry} i}{\text{Total No. of Companies in industry} i}$. (2) Growth is average annual growth rate, Growth = $\frac{\text{Value added 1987} \ - \ \text{Value added 1982}}{\text{Value added 1982}}$. (3) Price - Cost Margin is the 1987 average industry price cost margin, which is value added minus payroll and rentals, divided by value of shipments. (4) Market Concentration Ratio is C4 and HHI50, where C4 is 4 - firm market concentration ratio, HHI50 is Herfindahl - Hirschman Index for 50-firm market concentration ratio. (5) Capital - Labor ratio, K/L, is technology indicator. K/L is capital expenditure divided by total number of workers. (6) Export is export percentage. (7) Import is import percentage. (8) Tariff is estimated average tariff rate. (9) NUMCO is Number of Companies in an industry. (10) $u_i$ is error term.

An effective means of investigating merger trajectories is to examine by industry the characteristics associated with high levels of acquisition activity (Scherer, 1987). One way of measuring merger activity is to count the number of acquisition within an industry and divide it by the industry’s total number of firms.

In this study, we define the Acquisition Ratio as: Acquisition Ratio ($y^*_i$) = $\frac{\text{Number of Acquisition in industry} i}{\text{Total number of companies in industry} i}$. The 1987 Census of Manufactures has provided the Total number of companies in industry i for this study. But, data are not directly available for the Number of Acquisition in industry i for our study. Because of the many restrictions, therefore, we use the information from Mergers & Acquisitions (1988), Directory of Corporate Affiliations (1986, 1987), and Million Dollar Directory (1995) to calculate the relevant data.

Furthermore, we use the Probit model. In the Probit model, only the sign of $y^*_i$ is observed, and that sign determines the value of $y^*_i$ according to the relationship:

If $y^*_i > 0$, then $y^*_i = 1$; and
If $y_i^* \leq 0$, then $y_i = 0$.

Thus we use a binary choice model. For industry $i$, the dependent variable, $y_i^*$, can take on two values, 1 and 0, depending on whether the firms in industry $i$ are acquired ($y_i = 1$), or not acquired ($y_i = 0$). The dependent variable, $y_i^*$, can be expressed in terms of a continuous latent variable, $y_i^*$ (Acquisition ratio), that is defined as the variable describing the attractiveness of firms in industry $i$ as a potential acquisition.

In summary, we then have the Hypothesis 1: Foreign takeovers take place in relatively low-growth industries. Hypothesis 2: High-profit industries are always the targets of foreign takeovers. Hypothesis 3: Highly concentrated industries experienced significant less foreign acquisition activity. Hypothesis 4: Cross-border takeovers are more concentrated in R&D-intensive industries. Hypothesis 5: Foreign takeovers take place in relatively high export percentage industries. Hypothesis 6: Foreign takeovers take place in relatively low import percentage industries. Hypothesis 7: Foreign takeovers take place in relatively high-tariff industries. Hypothesis 8: Foreign takeovers take place in the industries whose number of companies in an industry is relatively larger.

Furthermore, merger activities equations are estimated separately for foreign and domestic owners for all specifications. This allows for the comparison in investigating different motives of merger activities by owner-type.

As the theoretical model and hypothesis has been explicitly stated, the empirical results which are significant for all specifications are presented in Section 5.

Data and Estimation Technique

In this M&A Computer Software Patent, we use the following Data and Estimation Technique.


Data

The 1987, 1982 Census of Manufactures is one part of the 1987 Economic Censuses which is conducted by the U.S. Department of Commerce. Also, U.S. Commodity Exports and Imports as Related to Output is conducted by U.S. Bureau of the Census, U.S. Economics and Statistics Administration in U.S. Department of Commerce, as stated earlier.

The sample used in this study consists of: (1) a sample of 736 firms acquired in 1988. In this sample, there are 584 firms acquired by U.S. firms, and the other 152 firms are acquired by foreign firms. (2) a sample of 459 industries in U.S. manufacturing sector. The 4-digit SIC (Standard Industrial Classification) codes are from 2000 to 3999.

According to our study, in the 459 industries in U.S. manufacturing sector, some industries have no merger activities in 1988. Other industries have 1, 2, to 6 merger activities in 1988.

Estimation Technique

This study identifies those characteristics of an industry which have a statistically significant impact on the probability that the firms in this industry will be acquired. As discussed earlier, three statistical methods are used in this study. All the items and specifications are fully presented in detail in Section 3. Theoretical Model & Hypothesis.

Empirical Results

In this M&A Computer Software Patent, we summarize the empirical results of the previous five parts research, and present the important policy implications. The results from using three different statistical methods to estimate the Merger activities equation are presented. These three different statistical methods
are: (1) Probit procedure; (2) OLS (Ordinary Least Squares) Method; (3) Log-Linear Functional Form, OLS (Ordinary Least Squares) Method.

This section explores the outcomes of our empirical estimations for a variety of specifications. The results of the determinants and characteristics of foreign merger activities in U.S. manufacturing industries will be explained.

For example, the results from using the Probit procedure to estimate the foreign merger activities equation are presented. These results show that the estimated coefficients for PCM (Price-Cost Margin), K/L (Capital-Labor ratio), C4 & HHI (4-firm Market Concentration ratio, Herfindahl-Hirschman Index), Growth (Average annual growth rate), and Tariff (Average Import Tariff rate) are highly significant. It indicates that they are important determinants in foreign merger activities in entering the U.S. manufacturing industries.

**Special Critical Values:**

Special Critical Values will be provided in this M&A Computer Software Patent.

**Special Secret Values for Commercial Uses:**

Special Secret Values for Commercial Uses will be provided in this M&A Computer Software Patent.

**Special Dummy Variables:**

Special Dummy Variables will be provided, for each Continent, each Nation, etc., in this M&A Computer Software Patent.

**Special Commercial Weights:**

Special Commercial Weights will be provided, for each Continent, each Nation, etc., in this M&A Computer Software Patent.

**Conclusion**

In this M&A Computer Software Patent, we have reached the most important and useful conclusions.

In summary, for example, the results from using the Probit procedure to estimate the foreign merger activities equation show that the estimated coefficients for PCM (Price-Cost Margin), K/L (Capital-Labor ratio), C4 & HHI (4-firm Market Concentration ratio, Herfindahl-Hirschman Index), Growth (Average annual growth rate), and Tariff (Average Import Tariff rate) are highly significant. It indicates that they are important determinants in foreign merger activities in entering the U.S. manufacturing industries.

However, the estimated coefficients for Export (Export percentage), Import (Import percentage), and NUMCO (Number of companies in an industry) are not significant. It indicates that they are not important determinants in foreign merger activities in entering the U.S. manufacturing industries.

Specific conclusions reached for foreign merger activities are as follows: (1) foreign takeovers take place in relatively low-growth industries. (2) high-profit industries are always the targets of foreign takeovers. (3) highly concentrated industries experienced significant less acquisition activity. (4) cross-border takeovers are more concentrated in R&D intensive industries than domestic takeovers. (5) changes in U.S. tax laws have had a substantial impact on the incentives both for mergers between U.S. firms and for purchase of U.S. firms by foreign buyers, also, foreign takeovers take place in relatively low-tariff industries. (6) relationship between export percentage and merger activity is weak and sometimes in an unexpected direction. (7) the estimated relationship is weak between import percentage and merger activity, and sometimes in an unexpected direction. (8) the estimated relationship is weak between merger activity and NUMCO (number of companies in an industry) and sometimes in an unexpected direction.

**References**


The Status of Trade between Jordan and Palestine from the Perspective the Palestinian Business People, Importers and Exporters

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Abstract

This study sought to identify the status of trade between Jordan and Palestine from the perspective of the Palestinian business people, importers and exporters. To achieve the goals of this study, the researchers designed a twenty-eight item questionnaire focusing on three main aspects. 178 questionnaires were distributed (15% of the population of study), among of which 146 questionnaires were recovered (82% of the distributed questionnaires). The data were processed using SPSS, percentages, standard deviations and the arithmetic means. The findings of this study showed that the trade relationships between Jordan and Palestine are very considerable in the three main aspects.

Keywords: Business, Imports, Exports, Palestine, Jordan, Trade

Introduction

Recently the world has moved to free its economies allowing the private, national and international sectors to enter the market. The governments have encouraged investment, amongst was the Palestinian government which issued laws and gave facilities on its part to promote local investment. However investors face many difficulties because of the Israeli occupation which imposed a complicated reality through certain agreements that only serve the Israeli interests. Paris accords, for example, between Israel and the Palestinian Authority in 1994, limited the amount and types of imported goods to the needs of the Palestinian people, and prevented any attempts to recycle or export. Though these accords are valid only for five years where both parties should agree to renew them, they remain in force as there was no progress in the talks between the Palestinians and Israel for 20 years.

Economic cooperation is necessary between the world nations for prosperity and development; however the Palestinian economy is always hindered by the Israeli occupation which makes a barrier to collaboration between Palestine and any other countries as the agreements between both parties contradict all principles of international trade relations. Thus, the researchers think that the agreements between Jordan and Palestine, no matter how serious they are, will always collapse against the reality of occupation to the Palestinian territories.

The trade agreements between Palestine and Jordan are very important to the future of the Palestinian economy, as Jordan is the gate east to the Palestinians in the West Bank. The Jordanian ambassador in Palestine explained (in an interview with Ma’an News Agency) that the size of trade exchange between Palestine and Jordan every year amounts to 100 million USD dollar. He added that the balance of trade between the two countries is still weak after he listened to a number of remarks made by exporters and importers from Hebron to be put before the prime minister of Jordan to try to exert pressure on Israel to reduce measures on goods movement between the two countries (Ma’an News Agency, 2014). According to the Palestinian Bureau of Statistics (2013), Palestine exports reached 109 Million USD to the neighboring Arab countries, 639 Million USD to Israel and 34 Million USD to the other countries. Imports on the other hand and for the same period reached 187 Million USD from Arab countries, 3351 Million USD from Israel and 663 Million USD from the other countries.

Statement of Problem

Palestine is in urgent need for foreign investments and free trade with all countries, particularly with the neighboring ones and more specifically with Jordan. It is important for its viability to guarantee its economic resources through the gate with Jordan. The researchers believe that collaboration between
Jordan and Palestine is very weak and does not amount to both countries’ economic capabilities and aspirations. That could impact trading between both of them though they are very close geographically with similar political agendas and similar religious affiliations.

The Palestinian trade has very strong relations with Israel and that came because of Paris accords in 1994. Most of the commodities in the Palestinian territories come from Israel. To reduce the impact of occupation on the Palestinian economy, there should be substitute commodities from the neighboring Arab countries, particularly from Jordan as a border country. Given that, the agreements between Jordan and Palestine should be activated and improved to best serve both countries’ interests.

Aims of the Study
1. To identify the Palestinian foreign trade with Jordan over the past 5 years.
2. To understand the status of trade and economic relations between Palestine and Jordan by assessing the views of the study sample.
3. To strengthen and document the economic relations between the two countries by exposing the views of importers, exporters and businesspeople.

Importance of the Study
This study is important as it:
1. Highlights the importance of trade relations between the two countries, and shows the importance of Jordan as a passage to the Palestinians to the whole world. Jordan also could be a substitute passage to the Israeli crossings to the West Bank.
2. Establishes common economic policies between the two countries to use the resources in the best way.
3. Shows why it is important to stop dealing with the Israeli goods scattered all through the Palestinian territories, and import goods from the neighboring Arab countries, more specifically from Jordan to the West Bank, and Egypt to Gaza strip.

Study Hypotheses
1. There are no significant differences at the level ($\alpha \leq 0.05$) in the status of trade relations between Jordan and Palestine from the perspective of Palestinian businesspeople, importers, and exporters in Tulkarem district according to the variable of work.
2. There are no significant differences at the level ($\alpha \leq 0.05$) in the status of trade relations between Jordan and Palestine from the perspective of Palestinian businesspeople, importers, and exporters in Tulkarem district according to the variable of the capital
3. There are no significant differences at the level ($\alpha \leq 0.05$) in the status of trade relations between Jordan and Palestine from the perspective of Palestinian businesspeople, importers, and exporters in Tulkarem district according to the variable of number of workers
4. There are no significant differences at the level ($\alpha \leq 0.05$) in the status of trade relations between Jordan and Palestine from the perspective of Palestinian businesspeople, importers, and exporters in Tulkarem district according to the variable of the source of the capital
5. There are no significant differences at the level ($\alpha \leq 0.05$) in the status of trade relations between Jordan and Palestine from the perspective of Palestinian businesspeople, importers, and exporters in Tulkarem district according to the variable of the type of activity.
6. There are no significant differences at the level ($\alpha \leq 0.05$) in the status of trade relations between Jordan and Palestine from the perspective of Palestinian businesspeople, importers, and exporters in Tulkarem district according to the variable of the legal form.

Literature Review
Abu Aida (2012):
This study tried to investigate the main obstacles to Palestinian exporters to reach the international markets. The study used a questionnaire to collect data. The questionnaire had 30 items distributed according to the kinds obstacles the Palestinian exporters face to reach the international market. 49 questionnaires were
distributed between producers and Palestinian exporters who like to enter the international market. A descriptive analytical approach was used for data analysis. It was found that the Israeli occupation is the main obstacle to reach the international market. The study concluded also that time to reach the international market is inconvenient in some cases and that the desires and needs of the international consumers are not well assessed. The study recommended that there should be a policy that could terminate or at least reduce these obstacles to give the Palestinian product a more competitive value to reach the international market; something which could have direct and positive implications for the Palestinian economy.

Siry et al (2007):

This study aims to know the impact exports and imports could have on the quality of life of the individual in any country. The study conceptualized a model that is based on four components: 1) goods and services, 2) people, 3) capital, and 4) information.

The research focused on the free flow of goods and services as one of the four components of globalization. The study explained the globalization trade, showed its impact, explained under what circumstances the positive and negative impacts occur, and suggested a set of propositions to capture these mediation effects. Of the most important recommendations the study made are: to encourage firms with comparatively significant industries, to increase exports, to impose barriers on industries that could threaten outside competitiveness, and to assist displaced workers by retraining them to work in industries with significant importance.

Abu Jameh (2006)

This study discusses the important aspects of integration between the economies in the Palestinian territories (West Bank and Gaza Strip), Israel and Jordan. The main aspects of integration could be as following:

1. Customs union with Israel
2. The integration of Palestinian labour in the Israeli market
3. The monetary integration with both of Israel and Jordan

The study has shown that the Israeli dominance on the Palestinian trade impacted trade with the rest of world. Monetary integration with Israel has affected the Palestinian economy negatively. Jordanian policies that encourage stabilization on the other hand have very negligible impacts on the Palestinian economy.

Zaghrab (2005)

This study entitled ‘foreign trade: reality and prospects’ tried to plainly show the problem in the structure of the Palestinian economy, demonstrate the extent to which it is related to the Israeli economy and explain the possibility to improve the Palestinian economic sectors to reach a more balanced trade and solve other problems like unemployment and the Israeli closure.

The study showed some structural defects in the Palestinian economy caused by the Israeli occupation. The study concluded that there is a deep relationship between the Palestinian and Israeli economies. Of the solutions the study proposed are: developing the economic sectors to achieve a more trade balance, activating the agreements with the Arab countries, developing future programs and plans to facilitate importing and exporting internationally, and activating the role of the Palestinian embassies abroad. The study showed the need to draft a law for Customs and set a tariff on all Palestinian goods and modify the terms of the Paris accords, especially the lists of goods imposed on the Palestinian people.

Hitzer (2002):

The study tried to explain the relationship between imports, exports and jobs. It also tried to answer questions like what is a job tariff. What does it mean to lose job? It also considers the impact of international trade on workers, jobs loss in the United States, reactions of the labor market, traded competitions, both with regards to imports and exports. The study concluded that low imports increase cost, and therefore make goods more expensive and contended that there is a need to free trade as that supports local policies and protect workers.
Methodology and Procedure

This section discusses the study population, the sample, procedure, validity and reliability of data and data analysis including the statistical tests used to investigate the status of trade between Jordan and Palestine from the perspectives of businesspeople, importers and exporters in the district of Tulkarem as a case study.

The Study Population

The study population comprises all businesspeople (first and excellent classes), importers and exporters, according to the records of the trade chamber at Tulkarem district (1185 people).

The Sample of the Study

178 questionnaires were distributed in Tulkarem district, that is 15% of the study population. 146 questionnaires were recovered. Upon distribution, the researchers consider the variables work, the capital, the number of workers, the source of the capital, the kind of activity and the legal form of the enterprise. The sample was chosen randomly. The following table describes the sample the independent variables, each according to its different categories:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kind of work</td>
<td>Exporter or importer</td>
<td>43</td>
<td>29.5</td>
</tr>
<tr>
<td></td>
<td>Businesspeople (first class)</td>
<td>65</td>
<td>44.5</td>
</tr>
<tr>
<td></td>
<td>Businesspeople (excellent class)</td>
<td>38</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>146</td>
<td>100</td>
</tr>
<tr>
<td>Capital</td>
<td>Less than 100,000 JD</td>
<td>62</td>
<td>42.5</td>
</tr>
<tr>
<td></td>
<td>200,000-101,000 JDs</td>
<td>32</td>
<td>21.9</td>
</tr>
<tr>
<td></td>
<td>300,000-201,000 JDs</td>
<td>15</td>
<td>10.3</td>
</tr>
<tr>
<td></td>
<td>400,000-301,000 JDs</td>
<td>14</td>
<td>9.6</td>
</tr>
<tr>
<td></td>
<td>500,000-401,000 JDs</td>
<td>6</td>
<td>4.1</td>
</tr>
<tr>
<td></td>
<td>More than 500,000 JDs</td>
<td>17</td>
<td>11.6</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>146</td>
<td>100</td>
</tr>
<tr>
<td>Number of workers</td>
<td>Less than 100,000 JD</td>
<td>85</td>
<td>58.2</td>
</tr>
<tr>
<td></td>
<td>11-20</td>
<td>29</td>
<td>19.9</td>
</tr>
<tr>
<td></td>
<td>30-41</td>
<td>10</td>
<td>6.8</td>
</tr>
<tr>
<td></td>
<td>40-51</td>
<td>6</td>
<td>4.1</td>
</tr>
<tr>
<td></td>
<td>50-61</td>
<td>9</td>
<td>6.2</td>
</tr>
<tr>
<td></td>
<td>more than 50</td>
<td>7</td>
<td>54.8</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>146</td>
<td>100</td>
</tr>
<tr>
<td>Source of the capital</td>
<td>Bank loans</td>
<td>11</td>
<td>7.5</td>
</tr>
<tr>
<td></td>
<td>Investments</td>
<td>24</td>
<td>16.4</td>
</tr>
<tr>
<td></td>
<td>Personal assets</td>
<td>104</td>
<td>71.2</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>7</td>
<td>4.8</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>146</td>
<td>100</td>
</tr>
<tr>
<td>Kind of activity</td>
<td>Commercial</td>
<td>115</td>
<td>78.8</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>5</td>
<td>3.4</td>
</tr>
<tr>
<td></td>
<td>Industrial</td>
<td>16</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Agricultural</td>
<td>10</td>
<td>6.8</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>146</td>
<td>100</td>
</tr>
<tr>
<td>Legal form of the enterprise</td>
<td>Projects by individuals</td>
<td>93</td>
<td>63.7</td>
</tr>
<tr>
<td></td>
<td>Public joint-stock companies</td>
<td>11</td>
<td>7.5</td>
</tr>
<tr>
<td></td>
<td>Private joint-stock companies</td>
<td>31</td>
<td>21.2</td>
</tr>
<tr>
<td></td>
<td>General partnerships</td>
<td>6</td>
<td>4.1</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>5</td>
<td>3.4</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>146</td>
<td>100</td>
</tr>
</tbody>
</table>
Study Instrument and Validity

The researchers designed a questionnaire to study the status of trade relations between Jordan and Palestine from the perspective of businesspeople (first and excellent classes), importers and exporters, in Tulkarem District as a case study. The questionnaire has been refereed by five experts in the field. Some items have been modified following their recommendations. The questionnaire comprises two main parts as following:

1. The first part includes personal information about the kind of work, the capital, the number of workers, the source of the capital, the kind of activity, and the legal form of the enterprise.
2. The second part includes all the other items (28) distributed according custom policies, procedures of trade exchange, and international trade services.

Reliability

What is reliability?

Reliability is the degree an assessment tool produces stable and consistent results. In this research the researcher used Cronbach's Alpha to test reliability. The test scored 0.81 on all items, and that makes the questionnaire appropriate for the statistical analysis, and the aims of the study.

Procedure

The researchers did the following:

1. They make sure that the questionnaire is appropriate for data collection.
2. They chose respondents.
3. They distributed the questionnaires, and gave the responses in tables for processing.

Design of the Study

The researchers applied a descriptive analytical methodology to the relationship between the variables in the study, and used statistics to test the hypotheses and analyze the data. For this, the study approached the following variables:

Independent Variables

1. Work (3 levels)
2. The capital (6 levels)
3. The number of workers (6 levels)
4. The source of the capital (4 levels)
5. The kind of activity (5 levels)
6. The legal form of the enterprise (5 levels)

Dependent Variables

The variables in this part were given in the items designed to test the status of trade relations in Jordan and Palestine from the perspectives of businesspeople, importers and exporters, in Tulkarem District as a case study. For data analysis, the researchers used the SPSS to test the following:

- Frequencies and percentages
- Means
- Testing of independent samples
- Cronbach's Alpha to show consistency
- One way analysis of variance

Findings

This part will test the study hypotheses using the SPSS. The following sections will give the main findings of the study.

Findings related to the main research question in the study which is:
What is the status of trade relations in Jordan and Palestine from the perspectives of businesspeople (first and excellent classes) both importers and exporters?

To answer the question, the researchers used means as given in tables 7, 8, 9, and 10. For data analysis, the percentages were given as following:

<table>
<thead>
<tr>
<th>Degree of problem</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Problematic to the least extent</td>
<td>Less than 50 %</td>
</tr>
<tr>
<td>Problematic to a smaller extent</td>
<td>50-59%</td>
</tr>
<tr>
<td>Problematic to some extent</td>
<td>60-69%</td>
</tr>
<tr>
<td>Problematic to a large extent</td>
<td>70-79%</td>
</tr>
<tr>
<td>Problematic to a very large extent</td>
<td>More than 80%</td>
</tr>
</tbody>
</table>

First: Custom Policies

Table (2) means, percentages and degree of problem in the aspect of custom policies

<table>
<thead>
<tr>
<th>N</th>
<th>Number of questionnaire</th>
<th>Custom policies</th>
<th>means</th>
<th>%</th>
<th>Degree of problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6</td>
<td>Tariffs and taxes affect international trades negatively</td>
<td>4.1</td>
<td>82.08</td>
<td>Very large</td>
</tr>
<tr>
<td>2</td>
<td>5</td>
<td>Administrative procedures in the Palestinian Authority inhibit Palestinian exporters</td>
<td>3.81</td>
<td>76.11</td>
<td>Large</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>The state imposes limitations on quantity and quality of imported goods</td>
<td>3.78</td>
<td>75.62</td>
<td>Large</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
<td>The state policy guarantees benefits for chief exporters and reinforce their monopoly of goods</td>
<td>3.58</td>
<td>71.51</td>
<td>Large</td>
</tr>
<tr>
<td>5</td>
<td>7</td>
<td>Importers and exporters are aware of custom policies</td>
<td>3.32</td>
<td>66.34</td>
<td>Some extent</td>
</tr>
<tr>
<td>6</td>
<td>2</td>
<td>Firms sell imported goods with less prices than goods manufactured locally</td>
<td>3.11</td>
<td>62.19</td>
<td>Some extent</td>
</tr>
<tr>
<td>7</td>
<td>4</td>
<td>The state supports local products to increase competitiveness</td>
<td>2.92</td>
<td>58.33</td>
<td>Smaller extent</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>3.52</td>
<td>70.4</td>
<td>Large</td>
</tr>
</tbody>
</table>

As given in table 2 above, the degree of problem is very large in item 6 (82.08%). However it is to a large extent in items 3, 1, and 5 (between 70-79%). The problem is to some extent in items 2 and 7 as they scored percentages between 60 and 69. In Item 4, it is to the least extent as it reached 85.33%. The total degree of the problems in this aspect is 70.40%.

Secondly: Procedures of Trade Exchange

Table 3: Means, percentages and degree of problem in the procedures of trade exchange

<table>
<thead>
<tr>
<th>N</th>
<th>Number of questionnaire</th>
<th>Procedures of trade exchange</th>
<th>means</th>
<th>%</th>
<th>Degree of problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>14</td>
<td>Palestinian trade is dominated by Israel and that hinders the development of trade opportunities with Jordan</td>
<td>4.38</td>
<td>87.67</td>
<td>very large</td>
</tr>
<tr>
<td>2</td>
<td>16</td>
<td>There are restrictions on the borders by applying laws in case of exporting goods</td>
<td>4.03</td>
<td>80.68</td>
<td>very large</td>
</tr>
<tr>
<td>3</td>
<td>15</td>
<td>It is necessary to modify the signed agreements between Jordan and Palestine</td>
<td>3.98</td>
<td>79.59</td>
<td>large</td>
</tr>
<tr>
<td>4</td>
<td>11</td>
<td>All tools, necessary for importing and exporting are scrutinized (for example, health certificates, packing list, shipping license, certificate of origin, certificate of inspection)</td>
<td>3.85</td>
<td>76.94</td>
<td>large</td>
</tr>
</tbody>
</table>
There are limitations on the borders in case of importing.

There are restrictions imposed on exported goods (like packing, quantity, or product qualities).

There are restrictions on imported goods imposed by the government like goods' compliance with specifications, quality, health and environment considerations.

Importing is done after comprehensive studies of the market needs.

It is easy to get importing and exporting licenses.

As shown in the table above, there is a problem to a very large degree in items 14 and 15 (80%). The problem for items 15, 11, 13, 8, and 9 has a large degree as the percentages are between 70-79%. Only in item 12 the problem has a moderate degree (to some extent) (61.9%). Though the problem in item 10 has the smallest degree, the total degree of the problems in this aspect is 73.40.

### Thirdly: International Trade Services

#### Table 4: Means, percentages and degree of problem in the aspect of international trade services

<table>
<thead>
<tr>
<th>N</th>
<th>Number of questionnaire</th>
<th>International trade services</th>
<th>Means</th>
<th>%</th>
<th>Degree of problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>24</td>
<td>The Transportation system in Jordan and Palestine is good and appropriate.</td>
<td>4.5</td>
<td>90</td>
<td>very large</td>
</tr>
<tr>
<td>2</td>
<td>22</td>
<td>There is no delay in goods' delivery.</td>
<td>2.7</td>
<td>54</td>
<td>small</td>
</tr>
<tr>
<td>3</td>
<td>19</td>
<td>Service costs are high for imported goods from Jordan.</td>
<td>4.2</td>
<td>83.97</td>
<td>very large</td>
</tr>
<tr>
<td>4</td>
<td>26</td>
<td>Shipping costs are appropriate between Jordan and Palestine.</td>
<td>4.04</td>
<td>80.82</td>
<td>very large</td>
</tr>
<tr>
<td>5</td>
<td>23</td>
<td>The shipping of goods is flexible, there is no needs to split the goods in different transportations.</td>
<td>4</td>
<td>80</td>
<td>very large</td>
</tr>
<tr>
<td>6</td>
<td>25</td>
<td>Transportation cost is appropriate between Jordan and Palestine.</td>
<td>3.94</td>
<td>78.77</td>
<td>large</td>
</tr>
<tr>
<td>7</td>
<td>21</td>
<td>No problem in goods delivery.</td>
<td>3.82</td>
<td>76.44</td>
<td>large</td>
</tr>
<tr>
<td>8</td>
<td>27</td>
<td>Insurance and indemnity procedures are easy and flexible.</td>
<td>3.69</td>
<td>73.84</td>
<td>large</td>
</tr>
<tr>
<td>9</td>
<td>17</td>
<td>The packing of goods is in compliance with international standards.</td>
<td>3.67</td>
<td>73.47</td>
<td>large</td>
</tr>
<tr>
<td>10</td>
<td>20</td>
<td>Discharging and piling of goods are systematic on the borders with Jordan.</td>
<td>3.5</td>
<td>70</td>
<td>large</td>
</tr>
<tr>
<td>11</td>
<td>18</td>
<td>Some robberies happen during charging, discharging and transportation of goods.</td>
<td>3.45</td>
<td>69.04</td>
<td>moderate</td>
</tr>
<tr>
<td>12</td>
<td>28</td>
<td>The transfer of goods rates is facilitated by commercial banks.</td>
<td>2.92</td>
<td>58.47</td>
<td>small</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>3.7</td>
<td>74.07</td>
<td>large</td>
</tr>
</tbody>
</table>

Items number 19, 22, 23, 24 and 26 give the highest percentages showing that the problems are serious to a very large extent (more than 80%). Items 17, 20, 21, 25, and 27 on the other hand indicate that the problems are ranked large according to the responses (70-79%). The problem has a small degree in item 18, (69.04%). Though the problems are with small degrees in items 22 and 28 (50-59.90%), the overall degree of problems scored 74.07%.
Fourthly: Total Degree

Table 5: Means, percentages and degree of problem for the status of trade relations in Jordan and Palestine from the perspective businesspeople, importers and exporters.

<table>
<thead>
<tr>
<th>N</th>
<th>Status of trade relations</th>
<th>Means</th>
<th>%</th>
<th>DP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>International trade services</td>
<td>3.7</td>
<td>74.07</td>
<td>large</td>
</tr>
<tr>
<td>2</td>
<td>Trade exchange</td>
<td>3.67</td>
<td>73.4</td>
<td>large</td>
</tr>
<tr>
<td>3</td>
<td>Custom policies</td>
<td>3.51</td>
<td>70.4</td>
<td>large</td>
</tr>
<tr>
<td>Total degree</td>
<td></td>
<td>3.63</td>
<td>72.62</td>
<td>large</td>
</tr>
</tbody>
</table>

The table above shows that the degree of problem for the three aspects (trade services, trade exchange and custom policies) is large (70-79%). For the total degree of problem in the status of trade relations between Jordan and Palestine from the perspectives of businesspeople, Palestinian importers and exporters, it is large (73.40%).

Hypotheses Testing

Hypothesis 1

There are no significant differences at the level (α ≤0.05) in the status trade relations between Jordan and Palestine from the perspectives of businesspeople, Palestinian exporters and importers, according to the variable of work. To test the hypothesis the researchers used ANOVA. Table 6 and 7 below explain means and ANOVA results respectively:

Table 6: Means of the status of trade relations between Jordan and Palestine according to the variable of work

<table>
<thead>
<tr>
<th>Work Aspects</th>
<th>N=34 Imports or Exporters</th>
<th>First class businesspeople N=65</th>
<th>Excellent class Businesspeople N=38</th>
<th>DP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom Policies</td>
<td>3.43</td>
<td>3.56</td>
<td>3.52</td>
<td>large</td>
</tr>
<tr>
<td>Trade Exchange</td>
<td>3.71</td>
<td>3.7</td>
<td>3.55</td>
<td>large</td>
</tr>
<tr>
<td>International Trade Services</td>
<td>3.88</td>
<td>3.8</td>
<td>3.83</td>
<td>Large</td>
</tr>
</tbody>
</table>

Table 7: ANOVA results of the status of trade relations between Jordan and Palestine According to Work

<table>
<thead>
<tr>
<th>Work Aspects</th>
<th>Source of Variance</th>
<th>Degree of Freedom</th>
<th>Sum of squared Deviations</th>
<th>Mean Deviation</th>
<th>F</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom Policies</td>
<td>Between groups</td>
<td>2</td>
<td>0.456</td>
<td></td>
<td>1.1</td>
<td>0.34</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>143</td>
<td>29.681</td>
<td>0.208</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>30.136</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Exchange</td>
<td>Between groups</td>
<td>2</td>
<td>0.668</td>
<td>0.334</td>
<td>1.54</td>
<td>0.22</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>143</td>
<td>31.118</td>
<td>0.218.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>31.787</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Trade Services</td>
<td>Between groups</td>
<td>2</td>
<td>0.159</td>
<td>0.8</td>
<td>0.72</td>
<td>0.49</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>143</td>
<td>15.869</td>
<td>0.111</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>16.028</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Degree</td>
<td>Between groups</td>
<td>2</td>
<td>0.078</td>
<td>0.039</td>
<td>0.58</td>
<td>0.56</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>143</td>
<td>9.682</td>
<td>0.068</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>9.76</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Tabulated f at (α≤0.05) is 3.06
From the table above, $f$ values in the aspects (custom policies, trade exchange, international trade services, and the total degree) are respectively 1.10, 1.54, 0.72, and 0.58. It is clear therefore that all these degrees are below the tabulated degree (3.06). Thus we can conclude that there is no significant relationship ($\alpha \leq 0.05$) with respect to the status of trade relations between Jordan and Palestine from the perspectives of businesspeople, Palestinian importers and exporters, according to the variable of work. The hypothesis, therefore, is null.

**Hypothesis 2**

There are no significant differences at the level of ($\alpha \leq 0.05$) in the status of trade relations between Jordan and Palestine from the perspectives of Palestinian businesspeople, exporters and importers, according to the capital. To test the hypothesis the researchers used ANOVA. Table 8 and 9 below explain means and ANOVA results respectively:

Table 8: Means of the status of trade relations between Jordan and Palestine according to the capital

<table>
<thead>
<tr>
<th>Aspects</th>
<th>Less than 10,000 JDs</th>
<th>101,000-200,000 JDs</th>
<th>201,000-300,000 JDs</th>
<th>301,000-400,000 JDs</th>
<th>401,000-500,000 JDs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom policies</td>
<td>3.55</td>
<td>3.59</td>
<td>3.6</td>
<td>3.45</td>
<td>3.19</td>
</tr>
<tr>
<td>Trade exchange</td>
<td>3.74</td>
<td>3.66</td>
<td>3.51</td>
<td>3.63</td>
<td>3.77</td>
</tr>
<tr>
<td>International Trade Services</td>
<td>3.87</td>
<td>3.87</td>
<td>3.88</td>
<td>3.75</td>
<td>3.67</td>
</tr>
<tr>
<td>Total degree</td>
<td>3.75</td>
<td>3.73</td>
<td>3.69</td>
<td>3.64</td>
<td>3.58</td>
</tr>
</tbody>
</table>

Table 9: ANOVA of the status of trade relations between Jordan and Palestine According to the capital

<table>
<thead>
<tr>
<th>Aspects</th>
<th>Source of Variance</th>
<th>Degree of Freedom</th>
<th>Sum of squared Deviations</th>
<th>Mean Deviation</th>
<th>F</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom policy</td>
<td>Between groups</td>
<td>5</td>
<td>1.728</td>
<td>0.346</td>
<td>1.7</td>
<td>0.14</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>140</td>
<td>28.409</td>
<td>0.203</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>30.136</td>
<td></td>
<td>0.14</td>
<td></td>
</tr>
<tr>
<td>Trade Exchange</td>
<td>Between groups</td>
<td>5</td>
<td>1.035</td>
<td>0.207</td>
<td>0.94</td>
<td>0.46</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>140</td>
<td>30.751</td>
<td>0.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>31.787</td>
<td></td>
<td>0.46</td>
<td></td>
</tr>
<tr>
<td>International Trade Services</td>
<td>Between groups</td>
<td>145</td>
<td>0.627</td>
<td>0.125</td>
<td>1.14</td>
<td>0.34</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>5</td>
<td>15.401</td>
<td>0.11</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>140</td>
<td>16.028</td>
<td></td>
<td>0.34</td>
<td></td>
</tr>
<tr>
<td>Total Degree</td>
<td>Between groups</td>
<td>145</td>
<td>0.615</td>
<td>0.123</td>
<td>1.88</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>5</td>
<td>9.145</td>
<td>0.065</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>140</td>
<td>9.76</td>
<td></td>
<td>0.1</td>
<td></td>
</tr>
</tbody>
</table>

Tabulated $f$ at ($\alpha \leq 0.05$) is 2.27

As in the table above, the calculated $f$ values for all aspects (custom policies, trade exchange and international trade services) are respectively 1.70, 0.94, 1.14, and 1.88. All these values are less than the tabulated value (2.27). Thus it is clear that there are no significant differences in the status of trade relations between Jordan and Palestine from the perspectives of businesspeople, Palestinian exporters and importers, according to the capital in these aspects. So we can claim that the hypothesis is void.

**Hypothesis 3**

There are no significant differences at the level ($\alpha \leq 0.05$) in the status of trade relations between Jordan and Palestine from the perspectives of businesspeople, Palestinian exporters and importers, according to the capital.
variable of the number of workers. To test the hypothesis the researchers used ANOVA. Tables 10 and 11 below explain means and ANOVA results respectively:

**Table 10:** Means of the status of trade relations between Jordan and Palestine from the perspectives of businesspeople, Palestinian importers and exporters, according to the variable of the number of workers

<table>
<thead>
<tr>
<th>Years of experience</th>
<th>Less than 10</th>
<th>11-20</th>
<th>21-30</th>
<th>31-40</th>
<th>41-50</th>
<th>More than 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>85</td>
<td>29</td>
<td>10</td>
<td>6</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Custom policies</td>
<td>3.57</td>
<td>3.3</td>
<td>3.47</td>
<td>3.62</td>
<td>3.67</td>
<td>3.47</td>
</tr>
<tr>
<td>Trade exchange</td>
<td>3.64</td>
<td>3.76</td>
<td>3.76</td>
<td>3.69</td>
<td>3.75</td>
<td>3.41</td>
</tr>
<tr>
<td>International trade services</td>
<td>3.81</td>
<td>3.97</td>
<td>3.89</td>
<td>3.63</td>
<td>3.78</td>
<td>3.68</td>
</tr>
<tr>
<td><strong>Total degree</strong></td>
<td><strong>3.7</strong></td>
<td><strong>3.73</strong></td>
<td><strong>3.74</strong></td>
<td><strong>3.64</strong></td>
<td><strong>3.74</strong></td>
<td><strong>3.54</strong></td>
</tr>
</tbody>
</table>

**Table 11:** ANOVA of the status of trade relations between Jordan and Palestine from the perspective of businesspeople, Palestinian importers and exporters, according to the variable of the number of workers.

<table>
<thead>
<tr>
<th>Experience Aspects</th>
<th>Source of Variance</th>
<th>Degree of Freedom</th>
<th>Sum of squared Deviations</th>
<th>Mean Deviation</th>
<th>F</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom policy</td>
<td>Between groups</td>
<td>5</td>
<td>1.868</td>
<td>0.374</td>
<td>1.85</td>
<td>0.11</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>140</td>
<td>28.269</td>
<td>0.202</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>30.136</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Exchange</td>
<td>Between groups</td>
<td>5</td>
<td>0.917</td>
<td>0.183</td>
<td>0.83</td>
<td>0.53</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>140</td>
<td>30.869</td>
<td>0.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>31.787</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Trade Services</td>
<td>Between groups</td>
<td>5</td>
<td>1.04</td>
<td>0.208</td>
<td>1.94</td>
<td>0.09</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>140</td>
<td>14.988</td>
<td>0.107</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>16.028</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Degree</td>
<td>Between groups</td>
<td>5</td>
<td>0.261</td>
<td>0.052</td>
<td>0.77</td>
<td>0.57</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>140</td>
<td>9.5</td>
<td>0.068</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>9.76</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Tabulated f at (α≤0.05) is 2.27

At explicit in table 11, the calculated values of f for the aspects (custom policies, trade exchange, international trade services, and the total degree) are respectively 1.85, 0.83, 1.94 and 0.77. All these values are less than the tabulated figure 2.27. Accordingly, there are no significant differences in the status of trade relations between Jordan and Palestine from the perspective of businesspeople, Palestinian importers and exporters, according to the variable of the number if workers. Thus, the hypothesis is null as there are no significant differences.

**Hypothesis 4**

There are no significant differences (α ≤0.05) in the status of trade relations between Jordan and Palestine from the perspectives of businesspeople, Palestinian exporters and importers, according to the variable of the source of capital. To test the hypothesis the researchers used ANOVA. Table 12 and 13 below explain means and ANOVA results respectively.
Table 12: Means of the status of Trade relations between Jordan and Palestine from the perspective of businesspeople, Palestinian importers and exporters, according to the variable of the source of capital.

<table>
<thead>
<tr>
<th>The source of capital Aspects</th>
<th>Bank loans</th>
<th>Joint</th>
<th>Personal assets</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N= 11</td>
<td>N=24</td>
<td>N=104</td>
<td>N=7</td>
</tr>
<tr>
<td>Custom policies</td>
<td>3.35</td>
<td>3.49</td>
<td>3.53</td>
<td>3.59</td>
</tr>
<tr>
<td>Trade exchange</td>
<td>3.91</td>
<td>3.77</td>
<td>3.63</td>
<td>3.48</td>
</tr>
<tr>
<td>International trade services</td>
<td>3.84</td>
<td>3.94</td>
<td>3.82</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Total degree</strong></td>
<td><strong>3.74</strong></td>
<td><strong>3.77</strong></td>
<td><strong>3.69</strong></td>
<td><strong>3.61</strong></td>
</tr>
</tbody>
</table>

Table 13: ANOVA of the status of Trade relations between Jordan and Palestine from the perspective of businesspeople, Palestinian importers and exporters, according to the variable of the source of capital.

<table>
<thead>
<tr>
<th>The source of capital Aspects</th>
<th>Source of Variance</th>
<th>Degree of Freedom</th>
<th>Sum of squared Deviations</th>
<th>Mean Deviation</th>
<th>f</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom policy</td>
<td>Between groups</td>
<td>3</td>
<td>0.366</td>
<td>0.122</td>
<td>0.58</td>
<td>0.63</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>142</td>
<td>29.77</td>
<td>0.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>30.136</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Exchange</td>
<td>Between groups</td>
<td>3</td>
<td>1.266</td>
<td>0.422</td>
<td>1.96</td>
<td>0.12</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>142</td>
<td>30.521</td>
<td>0.215</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>31.787</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International trade Services</td>
<td>Between groups</td>
<td>3</td>
<td>0.399</td>
<td>0.133</td>
<td>1.21</td>
<td>0.31</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>142</td>
<td>15.629</td>
<td>0.11</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>16.028</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Degree</strong></td>
<td>Between groups</td>
<td>3</td>
<td>0.214</td>
<td>0.071</td>
<td>1.06</td>
<td>0.37</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>142</td>
<td>9.546</td>
<td>0.067</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>9.76</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Tabulated $f$ at ($\alpha \leq 0.05$) is 2.67

From table (13), the $f$ values for the different aspects (custom policies, trade exchange and international trade services) are respectively as following 0.58, 1.96, 1.21, and 1.06. All these values are less than the tabulated value (2.67). For this we can conclude that there are no significant differences at $\alpha \leq 0.05$ between the status of trade relations between Jordan and Palestine from the perspective of businesspeople, Palestinian importers and exporters, according to the variable of the source of the capital. Thus the fifth hypothesis is null.

**Hypothesis 5**

There are no significant differences in the status of trade relations between Jordan and Palestine ($\alpha \leq 0.05$) from the perspective of businesspeople, Palestinian importers and exporters, following the variable of the kind of activity. To test the hypothesis ANOVA was used. Tables number 14 and 15 below explain the means and ANOVA results.

Table 14: Means of the status of trade relations between Jordan and Palestine from the perspective of Businesspeople, Palestinian importers and exporters, following the variable of the kind of activity.

<table>
<thead>
<tr>
<th>Type of activity Aspects</th>
<th>Commercial</th>
<th>Services</th>
<th>Industrial</th>
<th>Agricultural</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N=115</td>
<td>N=5</td>
<td>N=16</td>
<td>N=10</td>
</tr>
<tr>
<td>Custom policies</td>
<td>3.54</td>
<td>3.29</td>
<td>3.44</td>
<td>3.47</td>
</tr>
<tr>
<td>Trade exchange procedures</td>
<td>3.69</td>
<td>3.22</td>
<td>3.7</td>
<td>3.61</td>
</tr>
<tr>
<td>International trade services</td>
<td>3.83</td>
<td>3.48</td>
<td>3.8</td>
<td>4.05</td>
</tr>
<tr>
<td><strong>Total degree</strong></td>
<td><strong>3.71</strong></td>
<td><strong>3.35</strong></td>
<td><strong>3.68</strong></td>
<td><strong>3.76</strong></td>
</tr>
</tbody>
</table>
Table 15: ANOVA of the status of trade in Jordan and Palestine from the perspectives of businesspeople, Palestinian importers and exporters, following the variable of the type of activity.

<table>
<thead>
<tr>
<th>Type of activity Aspects</th>
<th>Source of Variance</th>
<th>Degree of Freedom</th>
<th>Sum of squared Deviations</th>
<th>Mean Deviation</th>
<th>F</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom policies</td>
<td>Between groups</td>
<td>3</td>
<td>0.43</td>
<td>0.143</td>
<td>0.69</td>
<td>0.56</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>142</td>
<td>29.706</td>
<td>0.209</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>30.136</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade exchange procedures</td>
<td>Between groups</td>
<td>3</td>
<td>1.087</td>
<td>0.362</td>
<td>1.68</td>
<td>0.18</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>142</td>
<td>30.699</td>
<td>0.216</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>31.787</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International trade Services</td>
<td>Between groups</td>
<td>3</td>
<td>1.107</td>
<td>0.369</td>
<td>3.51</td>
<td>*0.017</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>142</td>
<td>14.921</td>
<td>0.105</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>16.028</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Degree</td>
<td>Between groups</td>
<td>3</td>
<td>0.68</td>
<td>0.227</td>
<td>3.55</td>
<td>*0.016</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>142</td>
<td>9.08</td>
<td>0.064</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>9.76</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Tabulated $f$ at ($\alpha \leq 0.05$) is 2.67

* Significant at ($\alpha \leq 0.05$)

According to table 15 above the $f$ values for the aspects (custom policies and trade exchange procedures are respectively 0.69 and 1.68. These values are less than the tabulated value (2.67). Thus there are no significant differences at the level ($\alpha \leq 0.05$). The $f$ value on the other hand for the aspects (international trade services and the total degree) are 3.51 and 3.55. These values are larger than the tabulated value (2.67). Thus there are significant differences at $\alpha \leq 0.05$ in the status of trading between Jordan and Palestine from the perspective of business people, Palestinian importer and exporters, according to the variable of the kind of activity.

To decide who is affected by these differences, the researchers used the Least Statistical Difference test to compare the means as following:

**First: International Trade Services**

Table 16: LSD between the means of the status of trade relations between Jordan and Palestine from the perspective of businesspeople, Palestinian importers and exporters, according to the variable of the kind of activity.

<table>
<thead>
<tr>
<th>Type of activity</th>
<th>Commercial</th>
<th>Services</th>
<th>Industrial</th>
<th>Agricultural</th>
</tr>
</thead>
<tbody>
<tr>
<td>commercial</td>
<td>*0.35</td>
<td>0.03</td>
<td>*0.22-</td>
<td>*0.57-</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td>0.32-</td>
<td></td>
<td>*0.25-</td>
</tr>
<tr>
<td>Industrial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- In the table above, there are significant differences at the level ($\alpha \leq 0.05$) between:
  - the commercial and services activities with the differences in favour of the commercial activities.
  - the commercial and agricultural activities with the difference in favour of the agricultural activities.
  - services and agricultural activities with the differences in favour of the agricultural activities.
- There are no significant differences between the types of activities at the level ($\alpha \leq 0.05$).
Second: The Total Degree

Table 17: LSD between the means of the status of trade relations between Jordan and Palestine from the perspective of businesspeople, Palestinian importers and exporters, according to the variable of the kind of activity.

<table>
<thead>
<tr>
<th>Type of activity</th>
<th>Commercial</th>
<th>Services</th>
<th>Industrial</th>
<th>Agricultural</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>*0.36</td>
<td>0.03</td>
<td>0.05</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>*0.33-</td>
<td>*0.41-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial</td>
<td></td>
<td></td>
<td>0.09-</td>
<td></td>
</tr>
<tr>
<td>Agricultural</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From table 17, we can conclude that:
- there are significant differences at the level ($\alpha \leq 0.05$) between:
  - commercial and service activities with the differences in favour of the commercial activities.
  - industrial and service activities with the differences in favour of industrial activities.
  - service and agricultural activities with the differences in favour of the agricultural activities
- There are no significant differences between the other categories at the level ($\alpha \leq 0.05$).

Hypothesis 6

There are no significant differences at the level ($\alpha \leq 0.05$) between the status of trade relations between Jordan and Palestine from the perspective of businesspeople, Palestinian importers and exporters, according to the variable of legal form of enterprise. Tables 18 and 19 below respectively explain the means and ANOVA results of this section:

Table 18: Means of the status of trade relations between Jordan and Palestine from the perspective of businesspeople, Palestinian importers and exporters, according to the legal form of the enterprise.

<table>
<thead>
<tr>
<th>Legal form Aspects</th>
<th>individual enterprise $N=93$</th>
<th>Public Joint-stock Companies $N=11$</th>
<th>Private Joint-stock companies $N=31$</th>
<th>Joint Liability Companies $N=6$</th>
<th>Others $N=5$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom Policies</td>
<td>3.54</td>
<td>3.6</td>
<td>3.38</td>
<td>3.55</td>
<td>3.69</td>
</tr>
<tr>
<td>Procedures of Trade Exchange</td>
<td>3.62</td>
<td>3.95</td>
<td>3.72</td>
<td>3.63</td>
<td>3.56</td>
</tr>
<tr>
<td>International Trade Services</td>
<td>3.82</td>
<td>4.02</td>
<td>3.84</td>
<td>3.83</td>
<td>3.67</td>
</tr>
<tr>
<td>Total Degree</td>
<td>3.69</td>
<td>3.89</td>
<td>3.69</td>
<td>3.7</td>
<td>3.64</td>
</tr>
</tbody>
</table>
Table 19: ANOVA for the status of trade in Jordan and Palestine from the perspective of businesspeople and the Palestinian importers and exporters following the variable of the legal form

<table>
<thead>
<tr>
<th>Legal form</th>
<th>Source of Variance</th>
<th>Degree of Freedom</th>
<th>Sum of squared Deviations</th>
<th>Mean Deviation</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aspects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custom policies</td>
<td>Between groups</td>
<td>4</td>
<td>0.857</td>
<td>0.214</td>
<td>1.03</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>141</td>
<td>29.279</td>
<td>0.208</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>30.136</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade exchange</td>
<td>Between groups</td>
<td>4</td>
<td>1.249</td>
<td>0.312</td>
<td>1.44</td>
</tr>
<tr>
<td>procedures</td>
<td>In groups</td>
<td>141</td>
<td>30.538</td>
<td>0.217</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>31.787</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International</td>
<td>Between groups</td>
<td>4</td>
<td>0.557</td>
<td>0.139</td>
<td>1.27</td>
</tr>
<tr>
<td>Trade Services</td>
<td>In groups</td>
<td>141</td>
<td>15.471</td>
<td>0.11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>16.028</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total degree</td>
<td>Between groups</td>
<td>4</td>
<td>0.455</td>
<td>0.114</td>
<td>1.73</td>
</tr>
<tr>
<td></td>
<td>In groups</td>
<td>141</td>
<td>9.305</td>
<td>0.066.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>145</td>
<td>9.76</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Tabulated $f$ at ($\alpha\leq0.05$) is 2.43

From table 19, the $f$ values for the four aspects are respectively as follow: 1.03, 1.44, 1.27 and 1.73. All these values are less than the tabulated value (2.73). Thus there are no significant differences between the status of trade relations between Jordan and Palestine at the level ($\alpha \leq 0.05$) from the perspective of businesspeople, Palestinian importers and exporters, according to the variables of legal form; therefore we can conclude that the hypothesis is null.

**Conclusion**

From the findings we have reached, we can conclude:

1. With respect to custom policies, the difference in status of trade relations between Jordan and Palestine is large from the perspective of Palestinian businesspeople in the district of Tulkarem, and that is evident through mean calculations.

2. With respect to trade exchange procedures, the difference in status of trade relations between Jordan and Palestine is large from the perspective of Palestinian businesspeople in the district of Tulkarem, and that is evident through mean calculations.

3. With respect to international trade services, the difference in status of trade relations between Jordan and Palestine is large from the perspective of Palestinian businesspeople in the district of Tulkarem, and that is evident through mean calculations.

4. With respect to the total aspect, the difference in status of trade relations between Jordan and Palestine is large from the perspective of Palestinian businesspeople in the district of Tulkarem, and that is evident through mean calculations.

5. There are no significant differences in the status of trade relations between Jordan and Palestine ($\alpha \leq 0.05$) from the perspective of businesspeople, Palestinian importers and exporters, in the district of Tulkarem because of work differences.

6. There are no significant differences in the status of trade relations between Jordan and Palestine ($\alpha \leq 0.05$) from the perspective of businesspeople, Palestinian importers and exporters, in the district of Tulkarem according to the variable of the capital on the total aspect; that means there are no differences in perspective according to the capital.
7. There are no significant differences in the status of trade relations between Jordan and Palestine (α ≤0.05) from the perspective of businesspeople, Palestinian importers and exporters, in the district of Tulkarem according to the number of workers on the total aspect; that means there are no differences in perspective according to differences in number of workers.

8. There are no significant differences in the status of trade relations between Jordan and Palestine (α ≤0.05) from the perspective of businesspeople, Palestinian importers and exporters, in the district of Tulkarem according to the variable of the source of capital; that means there are no differences in perspective according different sources of the capital.

9. There are significant differences in the status of trade relations between Jordan and Palestine (α ≤0.05) from the perspective of businesspeople, Palestinian importers and exporters, in the district of Tulkarem according to the kind of activity; the differences were significant the most in the commercial, industrial and agricultural services.

10. There are no significant differences in the status of trade relations between Jordan and Palestine (α ≤0.05) from the perspective of businesspeople, Palestinian importers and exporters, in the district of Tulkarem according to the legal form of the enterprise on the total aspect; that means there are no differences in perspective according to the legal form of the enterprise.

**Recommendations**

1. It is important to improve trade relations between the two countries by establishing joint enterprises.

2. It is necessary that banks facilitate international transfers.

3. Delay to deliver goods on the borders is because of interference from a third party, the Israelis in this case. For this it is important that Israel shows more commitment to the international agreements signed between Jordan and Israel.

4. The difficulties the Palestinians face are huge because if the Israeli dominance. For this, Jordan could be a substitute to Israel especially as there are agreements between Jordan and Israel.

5. Obstacles to the Palestinian exporters on the borders are serious. Efforts, therefore, are highly needed to reduce them through agreements between the two countries.

6. The lists of goods imposed on the Palestinian importers and exporters should be reconsidered as they negatively impact the Palestinian foreign trade, especially with Jordan.

7. Decision on what goods to import should follow a comprehensive study of the Palestinian market needs.

8. The taxation policy of the Palestinian foreign trade should be revised as it has serious implications as the study has shown

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Competition and Risk Management Practices in the Bulgarian Banking System

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Abstract

We study how the implementation of advanced rating techniques influences the profitability and the competitive position of Bulgarian banks depending on their portfolio structure and the characteristics of the competitive environment and the institutional setting of bank-borrower relations. To simulate rating sophistication we assume that in the process of credit assessment banks observe noisy signals about the creditworthiness of their credit applicants. Under conditions of competition, banks offer differential interest rates based on their loss estimates, whereas the customer chooses the credit with the lowest price. A simulation procedure is used to quantify the effects on bank profitability. The analysis reveals that from the perspective of a bank, despite the presence of implementation costs, adopting an advanced rating system generates a more accurate assessment of credit risks and creates a favorable profit differential over less sophisticated regimes. This may also turn out to be important for the efficient allocation of resources in the Bulgarian economy.

Keywords: Risk Management, Bank Profitability, Banking Distress
Revisiting Chaotic Interest Rate Rules

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Abstract

In a series of papers, Benhabib, Schmitt-Grohé and Uribe (2001a, 2001b, 2001c and 2002) have shown that active feedback interest rules may lead to unexpected consequences in a DGEM (Dynamic General Equilibrium Model): indeterminacy, deflation traps, large cyclical instability, and even lead to chaotic dynamics under standard sets of parameter values. The specification of the feedback rule used implies that the nominal interest rate is strictly positive and strictly increasing in the inflation rate. This paper concentrates in particular on the (2002b) model and puts forward three basic points: (i) the model developed by Benhabib et al. seems to display an undesirable characteristic which apparently has been unnoticed so far: the more aggressive the central bank becomes towards the fighting of inflation, the more unstable the economy will be; (ii) the model does not take into account that, given the particular nature of the dynamics that it comes up with (chaotic dynamics), tiny perturbations to the nominal interest rate may actually stabilize the economy without producing modifications to the original model, apart from locally changing its type of stability; (iii) ignorance about the true state of initial conditions are not a serious impediment to stabilize the endogenous dynamics in the model. We argue that the conventional view of economic policy in nonlinear general equilibrium models — when endogenous fluctuations exist in optimizing models, the associated policy advice should be laissez-faire — seems to be based on a misconception of nonlinear chaotic dynamics in general.

Keywords: Optimal Monetary Policy, Interest Rate Rules, Endogenous Fluctuations and Stabilization
The Distribution of ISE-100 Index Returns and Historical Performance Analysis; “What’s Past is Prologue”

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Abstract
In this paper, we analyze the daily and monthly statistical distribution of the Istanbul Stock Exchange index (ISE100) compounded returns for the interval 1988-2012, in order to find the best fitted statistical distributions among the three alternative specifications of normal, lognormal and scaled-t, distributions. Index returns are used as strategic tools in portfolio choice, options and warrant pricing decisions. The options market is on the verge of being introduced to the financial market of Turkey. Thus, this analysis will be of value in investment decisions optimization processes for different stocks and option investors, and traders.

Keywords: Index Returns, Statistical Distribution, Portfolio Choice, Investment Decisions, Options
The Interrelation among Faithful Representation (Reliability), Corruption and IFRS Adoption: An Empirical Investigation

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Abstract

The degree of corruption, among other things, indicates the non-implementation of laws, weak enforcement of legal sanctions and the existence of non-transparent economic transactions. Therefore, the expected change in reliability (faithful-representation) resulting from the adoption of IFRS, does not depend solely on the adoption of IFRS but is also influenced by the degree of corruption in each country. In many cases, the choice of accounting treatment by the management is allowed by IFRS in order to better reflect the economic reality. But in countries where corruption is high and the imposition of legal sanctions and law enforcement is weaker, this option enables management to manipulate the results with greater ease and without fear of legal sanctions, thus reducing to some extent the reliability of financial statements. Hence, the proper application of IFRS and the reliability of the financial statements are directly dependent on the degree of corruption that governs every country. The sample of this research consists of listed companies of fifteen European countries that have adopted IFRS mandatorily and the time horizon is 10 years. The findings resulting from the further investigation concerning the reliability of countries as in relation to the latter’s degree of corruption, support the aforementioned hypothesis.

Keywords: IFRS Adoption, Faithful Representation/Reliability, Corruption, Conceptual Framework.

Introduction

Following the decision taken in March 2002, the European Parliament decided to adopt the International Accounting Standards (IAS). Specifically, since 2005 all listed companies are required to prepare and present the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). The decision regarding the implementation of the IFRS constitutes a significant and unprecedented change concerning the way financial statements are prepared and presented.

The ultimate purpose of the Committee of the International Accounting Standards Board (IASB) is to create high quality standards in order to produce financial statements of the highest quality. To achieve this objective, the Commission establishes those standards that lead to the increase of the degree of relevance, faithful representation, comparability, timeliness, verifiability and understandability in financial statements. The Commission stresses that the financial statements must reflect the specific characteristics, as defined by the Conceptual Framework, so that the information provided is most useful.

As already mentioned, the IFRS creates the standards as well as the Conceptual Framework, while essentially aiming to produce higher quality financial statements. The critical question that arises is whether this goal has been achieved; that is, whether the financial statements following the IASB adoption are in fact, of higher quality.

Based on the existing literature, the quality is measured using different methods or, a combination of them, such as, by calculating discretionary accruals, conservatism, persistence of earnings etc. An important characteristic and a significant contribution of this research is the fact that the quality measurement methodology used, examines the quality of financial statements, as defined by the Conceptual Framework. The findings are expected to show whether the Commission actually achieved its initial objectives which is to enhance the quality of financial statements. Specifically, one fundamental qualitative characteristic (faithful representation/reliability) set by the IAS Committee through the Conceptual Framework is tested in much detail. Finally, it is argued that the expected change in reliability resulting from the adoption of IAS does not depend solely on the adoption of IAS but is, also, influenced by the degree of corruption in each country.

The findings regarding the aggregate sample (15 European countries) indicate a marginal increase in the reliability of the financial statements during the period following the adoption, nonetheless, without being...
statistically significant. In contrast, the findings that are identified for counties with a high degree of corruption indicate a statistically significant reduction in the degree of reliability.

The research findings constitute a useful tool both for the Commission as well as for users of financial statements. On the one hand, the Commission will be able to know the degree of achievement of the objectives set initially and to take the necessary actions/improvements wherever is deemed appropriate. Furthermore, the wide range of the sample comprising of 15 countries that are examined in this research enables one to identify potential problems with the application of IAS in specific countries (e.g. in countries where low levels of law enforcement are noticed) and to take the necessary measures. On the other hand, users are more equipped to make favorable decisions for their part.

Conceptual Framework

The conceptual framework of IAS essentially defines the general principles which should characterize the process of preparing and presenting financial statements. In no case does it have the power of a standard since the basic purpose of its creation is to help and guide the IASB to develop or review existing and future IAS. Furthermore, it directs those preparing the financial statements to correctly apply the standards and is an additional tool for handling accounting issues not covered by existing standards. At this stage it should be noted that if an existing standard conflicts with the conceptual framework, then the standard shall prevail. Finally, it helps auditors and users to understand whether the financial statements and the information provided is consistent with IAS.

The qualitative characteristics are divided into fundamental and enhancing. The fundamental features are designed to separate the information provided to users in the following parts: useful information or non-useful and/or misleading information. The two fundamental characteristics include relevance and faithful representation (KPMG, 2010). The conceptual framework highlights (paragraph 17) that in order for the information to be useful, it must be characterized by both of the aforementioned characteristics, i.e. relevance and faithful representation.

In addition, the IASB defines also four enhancing qualitative characteristics considered complementary to the fundamental characteristics. The main difference with the fundamental characteristics is that if the financial information is not characterized by the fundamental characteristics, then the enhancing characteristics alone cannot generate useful information to users. Specifically, the enhancing characteristics are comparability, timeliness, understandability and verifiability.

Literature Review

Reliability/Faithfull Representation and Adoption of IAS

Although IAS gives equal emphasis between the feature of relevance and reliability through their conceptual framework, the same does not apply as far as the literature is concerned. On one side, a significant proportion of literature has dealt extensively with the characteristic of relevance and how this is reflected in the financial statements. In antithesis, the emphasis of the characteristic of reliability is very limited (Richardson et al. 2005).

The vast majority of the literature deals with the characteristic of reliability of accruals identified by finding the discretionary (DA) and non-discretionary accruals (NDA). Several researchers have created models for measuring the degree of reliability using this methodology (Healy 1985, De Angelo 1986, Jones 1991, Dechow and Sloan 1991, Dechow et al. 1995), which are then used as tools for further research. Moreover, the concept of reliability of accruals has been identified with the concept of quality of accruals directly related to the literature that deals with the quality of earnings.

Escaping from the basic idea of the above researchers, which is to identify the DA and NDA, recently some researchers identify the quality of accruals and earnings by measuring the amount of error that arises from the relation between accruals and cash flows (Dechow and Dichev 2002, McNichols 2002).

In 2007, White, diverging significantly from the methodology of Dechow and Dichev (2002) and McNichols (2002), creates a new model that examines the extent to which the accruals at time t are converted into cash flow in year t +1. In comparison to the previous models, important differences lie in that the calculation of accruals is not based on their changes, but on the closing balances of the accounts.
Moreover, the model does not have as an independent variable the overall operating cash flows, which acts as the cause for the introduction of error.

Beyond the research dealing with the reliability of accruals, only a very small part of the literature deals with the reliability of specific accounting items or financial statements as a whole. Cotter and Richardson (2002), in order to identify the reliability of Asset Revaluations, compare the valuation of intangible assets arising from independent appraisers, with estimates arising from the board of the company. The findings indicated that the valuations of plant and equipment that have been made by independent appraisers are more reliable. For other non-current assets, no difference in the degree of reliability of valuations has been detected. The authors detect the degree of reliability by examining the write-downs of an upward revaluation that took place in the past. They claim that the greater the reversal, the lower the reliability, as it implies that there was greater error in the initial revaluation.

In 2007 Lanito, detects the degree of reliability of IAS in Finnish companies through questionnaires that target business managers and auditors of financial statements. The findings resulting from the responses, both for managers and auditors, recognize as reliable the information provided by several standards whilst the findings regarding those reliability standards requiring the exercise of judgment, are characterized as neutral.

Richardson et al. (2005) and Bandyopadhyay et al. (2010), measure the degree of reliability through the ability of current earnings to predict the earnings of the following period. This is based on the argument that the error arising from accruals is incorporated to the process of calculating the earnings, consequently weakening the relationship between successive earnings. In other words, the larger the error in the current earnings is, the lower the correlation to future earnings is as well, leading to a lower degree of persistence/predictive power. An important problem that arises is that this way of measuring the reliability is not consistent with the definition of reliability, as defined by the conceptual framework of IAS. It is alleged that this method may lead to conflicting findings concerning the degree of reliability, especially when the revaluation model is used. In particular, it is argued that the use of fair value introduces additional variation in earnings while reducing their predictive ability (Riedl 2010). Therefore, based on the empirical model of Richardson et al. (2005), the degree of reliability would be characterized as low whilst by the definition given by the conceptual framework, the reliability is high (as long as the fair values are portrayed without error, presenting faithfully the economic reality).

Finally, the findings associated with the reliability and adoption of IAS are identified in 2005 by Van Tendeloo and Vanstraelen, discovering while using the model of Jones (1991) that the financial statements of German firms that voluntarily adopt IAS are characterized by higher degree of DA, compared with companies that do not adopt IAS. In addition, Chen et al. (2010) examined 15 European countries and applied inter alia the modified model of Jones and Kothari et al. (2005), discovered opposite results in comparison to the findings of the Van Tendeloo and Vanstraelen (2005). Particularly, they find that the degree of DA is lower in firms adopting IAS, which supports the increase in the quality of their financial statements. In addition, the same researchers examine the quality of accruals through the model proposed in 2002 by the Dechow and Dichev, identifying a reduction in standard deviation of the residuals of the model, which again supports the rise in quality.

### Hypothesis Development

**Adoption of IAS and the Degree of Faithful Representation/Reliability of Financial Statements**

Based on the definition of faithful representation/reliability, as defined by the conceptual framework, the financial statements are said to be reliable when they do not contain any material error or bias and reliably reflect the economic events that they must present. In particular, the financial statements should be governed by five partial characteristics, to qualify as reliable. First, to present faithfully the economic events; secondly, they should not be the product of any prejudice whatsoever, that is to be neutral; third, to present the economic substance of economic events unconstrained by legal aspects; fourth, decisions taken by the management regarding uncertain events which require the exercise of judgment must be taken with caution and finally, the financial statements ought to be complete.

The purpose of the IAS Committee was the creation and provision, especially to investors, of augmented levels of relevance in the financial statements. Given the interaction between the characteristics of
relevance and reliability, the increase of the degree of relevance will be attained by increasing the reliability of financial statements. To achieve this objective, the IASB has taken the following actions: First, there was a reduction of alternative accounting methods (e.g. abolition of the LIFO method), which aims to reduce the degree of manipulation of results and thus, the increase of their reliability. Second, there was a focus on the economic substance of events, giving in many cases the option to management to choose the accounting treatment (e.g. introduction of fair value as the valuation method) resulting to the better reflection of economic reality in the financial statements. Finally, the detailed presentation of the principles relating to valuation, recognition and publication of the financial statements, suggests that the degree of manipulation by the management is reduced and at the same time a rise in terms of completeness is observed.

Additionally, with the adoption of IAS and the increase of the degree of comparability, especially at international level, investors are able to compare at a lower cost the financial statements, identifying omissions and/or errors in accounting statements easier. This leads both, managements and audit firms that audit the financial statements, to be more careful in the drafting and auditing of accounts, resulting in more reliable financial statements.

On the other hand, in some cases, the use of fair value and the exercise of judgment by the management may result in the rise of the degree of manipulation. Moreover, the difficulty of calculating the fair value can introduce additional estimation error. These elements can cause loss of reliability, but are not considered likely to lead to a reduction in the reliability of the financial statements in the period following the adoption of IAS.

If one relies on the definition of reliability, it can be drawn that before the adoption of IFRS the financial statements were governed by a low degree of reliability, since due to the use of historical cost the accounting data did not adequately describe the economic reality, because the book values of a firm deviate significantly from the economic values. The deviation from the economic reality - an indication of low-level reliability - resulting from the use of historical cost is expected to be greater than the deviation caused by the use of fair value, upon adoption (which as mentioned above, in some cases can be manipulated or can be inaccurate). The fact that the elements that seem to reduce the reliability of financial statements, such as those mentioned in the previous paragraph, seem unlikely to prevail and lead to the reduction of the degree of reliability in the period following the adoption of IFRS in combination with the actions taken by the International Accounting Standards Board to increase the reliability, and result to the following hypothesis:

**Hypothesis 1:** The faithful representation/reliability of the financial statements of firms adopting IAS is higher during the period following the adoption of IAS in relation to the period before the adoption.

**Interaction between Corruption and the Degree of Reliability**

The high degree of corruption, among other things, indicates the non-implementation of laws, weaker enforcement of legal sanctions and the existence of non-transparent economic transactions. Therefore, the expected increase in reliability (hypothesis 1) resulting from the adoption of IAS, does not depend solely on the adoption of IAS but is, also, influenced by the degree of corruption in each country.

In many cases, the choice of accounting treatment by the management is allowed by IAS in order to better reflect the economic reality. But in countries where corruption is high and the imposition of legal sanctions and law enforcement is weaker, this option enables management to manipulate the results with greater ease and without fear of legal sanctions, thus reducing to some extent the reliability of financial statements. The conclusion is that the proper application of IAS and the reliability of the financial statements are directly dependent on the degree of corruption that governs every country. The hypothesis which arises is the following:

**Hypothesis 2:** The improvement of the degree of reliability of the financial statements of companies adopting IAS is higher in countries with low corruption.
Methodology

Measuring Reliability - First Method

The first model used to measure the reliability has been developed by Kim and Kross (2005). Specifically, cash flows from operating activities and accruals at time t are set as the independent variables, whilst the cash flows from operating activities in t +1 as the dependent variable. The model which emerges is the following:

\[ Cfo_{it+1} = a_0 + a_1Cfo_{it} + a_2Acc_{it} + u_{it+1} \]  

(1)

\[ Cfo_{it} = \text{Cash flows from operating activities in } t \div \text{Total assets at } t, \]

\[ Acc_{it} = DWC - DEP, \]

\[ DEP = \text{Depreciation } \div \text{Total Assets at } t-1, \]

\[ DWC = \text{change in net accounts Receivables } \div \text{Total assets at } t-1, \quad \text{plus change in inventory } \div \text{Total assets at } t-1, \quad \text{plus change in other current assets } \div \text{Total assets at } t-1, \quad \text{minus change in accounts payable } \div \text{Total assets at } t-1, \quad \text{minus change in taxes payable } \div \text{Total assets at } t-1, \quad \text{minus change in other current liabilities } \div \text{Total assets at } t-1, \]

\[ u_{it+1} = \text{residuals} \]

Reliability is defined as the ability of the two independent variables to explain the cash flows from operating activities in t +1. This ability is identified by the coefficient of determination of the model (R²). In other words, the identification of higher R² indicates a higher degree of reliability of the financial statements and vice versa. The comparison of reliability between the two periods - before and after the adoption - is performed by comparing the R² of two independent samples. The statistical significance of the difference between the two R² is examined through a test used by Van der Meulen et al, in 2007, which was based on the analysis of Crammer (1987).

Measuring Reliability - Second Method

The second model used to measure reliability is based on the model developed by White, in 2007. There are two important properties of this model. First, is that the calculation of accruals is not based on changes in the accounting items (‘traditional’ approach), as older models (Dechow and Dichev, 2002, McNichols, 2002, Kim and Kross, 2005 etc.), but on their closing balances. Secondly, a distinction between accruals and deferrals is made, escaping from the hitherto definition of accruals that integrated the cumulative accruals and deferrals.

The underlying logic of the model is to isolate the amounts recognized in the year t and which are disbursed to the next (t +1) (payable/accruals), the amounts recognized in the year t +1 and disbursed to it as well as the amounts disbursed in fiscal year t +1 and in relation to the upcoming year (prepaid/deferrals). Finally, White (2007) examines the ability of these three variables to explain the cash flows at t +1. A basic assumption of the model is that short-term assets and liabilities are recovered or settled, within twelve months.

The higher the capacity of the three independent variables in explaining the dependent variable is, the higher the degree of reliability of the financial statements. In other words, when the accruals (payable/accruals at time t and prepaid/deferrals at time t+1) explain the operating cash flows at time t+1, then the management estimations relating to accruals can be regarded as reliable. Moreover, White (2007) argues that the introduction of the independent variable Cpcfit+1 introduces systematic measurement error in the regression (White, 2007: 18). Hence, he uses a proxy variable; the Cpcf it. Finally, the explanatory ability of the independent variables is measured by the coefficient of determination of the model (R²). As in the previous model the comparison of reliability between the two is performed by comparing the R² of two independent samples. Again, the statistical significance of the difference between the two R² is examined through the test used by Van der Meulen et al, in 2007. The model which emerges is the following:

\[ Cfo_{it+1} = a_0 + a_1Acc_{it} + a_2Cpcf_{it} + a_3Def_{it+1} + u_{it+1} \]  

(2)
Cfo_{it+1} = \text{Cash flows from operating activities in } t+1 \div \text{Total assets at } t,

Acc_{it} = \text{Net accounts receivables / Total assets at } t-1, \text{minus other current liabilities / Total assets at } t-1, \text{minus inventory accruals / Total assets at } t-1,

Cpcf_{it} = \text{operating income before depreciation at time } t \text{ minus } Acc_{it} + \text{Def}_{it-1}.

Def_{it+1} = \text{other current assets / Total assets at } t, \text{plus inventory deferrals / Total assets at } t,

U_{it+1} = \text{residuals}

Sample

The sample of this study consists of listed companies of 15 European countries, which according to the classification published by the FTSE Group in September 2009 (FTSE, Country Classification, 2009) are characterized as developed. The countries considered are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the UK. Moreover, three subsamples were created: a) countries with low corruption (Denmark, Finland, Sweden, Holland, Germany, and Ireland), b) countries with moderate corruption (United Kingdom, France, Belgium, Spain, and Portugal) and c) countries with high corruption (Greece and Italy). In order to categorise these countries to each subsample, the Corruption Perceptions Index published by Transparency International in 2010, was used.

The time period under examination in this research is a period of 10 years consisting of the period prior (2000-2004) and the period after (2005-2009) the adoption of IAS. Given that the effects of IFRS on the financial statements of companies that are mandatory IAS adopters are the ones examined, firms which are either voluntary adopters of IAS, or they adopt them at a time after 2005 (as listed on AIM London Stock Exchange - alternative investment market) are excluded from the sample. In other words, any firms whose first publication of their financial statements under IAS was held a year other than 2005 are crossed out from the sample.

The data for the sample were provided by DataStream database. In addition, other than the aforementioned exceptions firms in the financial sector are also excluded (so that the findings can be directly compared with previous research), since the exclusion of financial firms from samples of previous research is almost ubiquitous. Additionally, according to the existing literature, companies with negative book value of capital are excluded. Among others, Collins et al. (1997) and Collins et al. (1999) and Brown et al. (1999) argue that the samples used for the measurement of relevance should incorporate only positive observations of book value of equity. In addition, 2% of the extreme values are deleted. The process of the creation of the final samples, as discussed in the previous paragraphs, is summarized in Table 1.

<table>
<thead>
<tr>
<th></th>
<th>(N)</th>
<th>(N)</th>
<th>(N)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original sample</td>
<td>26876</td>
<td>23047</td>
<td>49923</td>
</tr>
<tr>
<td>Minus:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Observations for companies / fiscal year different from 1/1-31/12</td>
<td>7495</td>
<td>6501</td>
<td>13996</td>
</tr>
<tr>
<td>Observations for companies in the financial sector</td>
<td>1615</td>
<td>1459</td>
<td>3074</td>
</tr>
<tr>
<td>Observations for companies with negative book value of equity</td>
<td>581</td>
<td>572</td>
<td>1153</td>
</tr>
<tr>
<td>Voluntary adopters</td>
<td>7711</td>
<td>6686</td>
<td>14397</td>
</tr>
<tr>
<td>Data not available</td>
<td>437</td>
<td>449</td>
<td>886</td>
</tr>
<tr>
<td>Outliers (2%)</td>
<td>136</td>
<td>191</td>
<td>327</td>
</tr>
<tr>
<td>Final sample</td>
<td>8662</td>
<td>7428</td>
<td>16090</td>
</tr>
</tbody>
</table>

This sample refers to the reliability measure resulting from regression $Cfo_{it+1} = a_0 + a_1Cfo_{it} + a_2Acc_{it} + u_{it+1}$. Observations arising from the other model vary, depending on the unavailable data.
Results

Descriptive Statistics

In Table 2 the descriptive elements of the sample are presented. A detailed description of the variables used is presented in the table.

Table 2: Descriptive statistics

<table>
<thead>
<tr>
<th>Variable / Model Reliability 1</th>
<th>2000-2004</th>
<th>2005-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cfoit+1</td>
<td>Mean</td>
<td>Median</td>
</tr>
<tr>
<td></td>
<td>0.07</td>
<td>0.08</td>
</tr>
<tr>
<td>Accr t</td>
<td>0.08</td>
<td>0.08</td>
</tr>
<tr>
<td>Cpcf t</td>
<td>0.07</td>
<td>0.06</td>
</tr>
<tr>
<td>Def t+1</td>
<td>0.07</td>
<td>0.03</td>
</tr>
<tr>
<td>Cfoit+1</td>
<td>0.09</td>
<td>0.09</td>
</tr>
<tr>
<td>Cfo t</td>
<td>0.08</td>
<td>0.08</td>
</tr>
<tr>
<td>Acc</td>
<td>-0.05</td>
<td>-0.06</td>
</tr>
</tbody>
</table>

The model Reliability 1 refers to the regression: Cfoit +1year = a0 + a1Accrit + a2Cpcf t + a3Defit +1year, and model Reliability 2 refers to the regression: Cfoit +1year = a0 + a1Cfoit + a2Accit. Variables:Cfo it +1 = Cash flows from operating activities in t + 1 / Total assets at t, Cfo it = Cash flows from operating activities in t / Total assets at t-1, Accr it = Net accounts receivables / Total assets at t-1, minus other current liabilities / Total assets at t-1, minus inventory accruals / Total assets at t-1, Def it +1 = Other current assets / Total assets at t, plus inventory deferrals / Total assets at t, Cpcf it = Operating income before depreciation at time t minus Accr it plus Def it-1, Accit = DWC - DEP, DEP = Depreciation / Total Assets at t-1, DWC = change in net accounts Receivables / total assets at t-1, plus change in inventory / Total assets at t-1, plus change in current assets / total assets at t-1, minus change in accounts payable / Total assets at t-1, minus change in taxes payable / total assets at t-1, minus change in other current liabilities / Total assets at t-1, minus change in deferred taxes / Total assets at t-1. *** = 1% statistically significant, ** = 5% statistically significant, * = 10% statistically significant, T-test and Wilcoxon rank sum test have been used to test for differences means and median, respectively.

Empirical Findings

According to the first hypothesis, reliability of financial statements is expected to increase in the period following the adoption of IAS. Moreover, this increase is expected to be larger in countries with a low degree of corruption. Tables 3 and 4 illustrate the findings on this matter. The change of the degree of reliability is detected by the linear models 1 and 2 and more specifically, by examining the change of the coefficient of determination ($R^2$). In case of increasing reliability, the $R^2$ of each regression is expected to be higher in the period after the adoption in relation to the period before the adoption. The results from both methods, concerning the aggregate sample, detect a marginal increase in the degree of reliability but are not statistically significant whatsoever. Specifically, with regards to the aggregate sample, the change of $R^2$ regarding both, regression 1 and 2, shows a marginal non-significant increase in reliability at the rate of 3% and 2%, respectively (Table 3, 4).

Finally, the degree of manipulation of accruals is detected to be stronger in counties with a high degree of corruption where the non-implementation of laws, weaker enforcement of legal sanctions and lack of transparent transactions comprise of traits that characterize these countries. The findings resulting from the further investigation concerning the reliability of countries in relation to the latter’s degree of corruption, support this position. In particular, the findings that are identified suggest that countries with a low degree of corruption (Denmark, Finland, Sweden, Holland, Germany, Ireland and Luxembourg) have increased the degree of reliability - during the period following the adoption of IAS in relation to the period before the adoption - but, are not however, statistically significant. In countries with a moderate degree of corruption (United Kingdom, France, Belgium, Spain and Portugal), the degree of reliability is at the same level, while countries with a high degree of corruption (Greece and Italy) presented a reduction in the degree of
reliability. According to the aforementioned methods the reduction of reliability is identified to be statistically significant at 10% (Table 3, 4).

<table>
<thead>
<tr>
<th>Country</th>
<th>a0</th>
<th>a1</th>
<th>a2</th>
<th>Ad.R²</th>
<th>Dif.R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>All countries prior IAS</td>
<td>0.023369***</td>
<td>0.698654***</td>
<td>-0.093846***</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>All countries post IAS</td>
<td>0.014563***</td>
<td>0.679640***</td>
<td>-0.052264**</td>
<td>54%</td>
<td>+03%</td>
</tr>
<tr>
<td>Countries with low corruption</td>
<td>0.026736***</td>
<td>0.738618***</td>
<td>0.012380</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>Countries with moderate-corruption</td>
<td>0.007895</td>
<td>0.756328***</td>
<td>-0.038646</td>
<td>56%</td>
<td>+04%</td>
</tr>
<tr>
<td>Countries with high corruption</td>
<td>0.027605***</td>
<td>0.710540***</td>
<td>-0.048811**</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>Countries with moderate-corruption</td>
<td>0.019246***</td>
<td>0.684983***</td>
<td>-0.049401**</td>
<td>52%</td>
<td>0%</td>
</tr>
<tr>
<td>Countries with high corruption</td>
<td>0.017454*</td>
<td>0.680636***</td>
<td>-0.146830***</td>
<td>53%</td>
<td></td>
</tr>
</tbody>
</table>

Variables: Cfo_{it+1} = a0 + a1Cfo_{it} + a2Accr_{it} + u_{it+1}

Table 4: Reliability 2

<table>
<thead>
<tr>
<th>Country</th>
<th>a0</th>
<th>a1</th>
<th>a2</th>
<th>a3</th>
<th>Ad.R²</th>
<th>Dif.R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>All countries prior IAS</td>
<td>0.025848***</td>
<td>0.442617***</td>
<td>0.459280***</td>
<td>-0.295475***</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>All countries post IAS</td>
<td>0.016293***</td>
<td>0.450523***</td>
<td>0.489532***</td>
<td>-0.330955***</td>
<td>37%</td>
<td>+02%</td>
</tr>
<tr>
<td>Countries with low corruption</td>
<td>0.027127***</td>
<td>0.487748***</td>
<td>0.484303***</td>
<td>-0.356328***</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Countries with moderate-corruption</td>
<td>0.001231</td>
<td>0.497264***</td>
<td>0.533139***</td>
<td>-0.304032***</td>
<td>42%</td>
<td>+04%</td>
</tr>
<tr>
<td>Countries with high corruption</td>
<td>0.022311***</td>
<td>0.423948***</td>
<td>0.439616***</td>
<td>-0.291573***</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Countries with high corruption</td>
<td>0.028847***</td>
<td>0.423866***</td>
<td>0.454805***</td>
<td>-0.394640***</td>
<td>37%</td>
<td>-01%</td>
</tr>
<tr>
<td>Countries with high corruption</td>
<td>0.032389***</td>
<td>0.526987***</td>
<td>0.606710***</td>
<td>-0.506074***</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Countries with high corruption</td>
<td>0.018746***</td>
<td>0.389937***</td>
<td>0.419146***</td>
<td>-0.346933***</td>
<td>31%</td>
<td>-07%*</td>
</tr>
</tbody>
</table>

Variables: Cfo_{it+1} = 0.01Cfo_{it} + a1Accr_{it} + a2Cpcf_{it} + a3Def_{it+1} + u_{it+1}

Table 3: Reliability 1

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Conclusions

The IASB creates the standards and the conceptual framework in an attempt to create higher quality financial statements. Throughout this article, the extent to which this objective has been achieved is examined. Specifically, whether the quality of the financial statements of firms adopting IAS is superior to the period after the adoption of IAS, as compared with the period before the adoption, is examined.

An important characteristic and a contribution of this research is the fact that the quality measurement methodology used varies greatly from other existing methodologies that are identified in the existing literature. Specifically, the quality of financial statements was examined in the light of the Conceptual Framework.

The sample consists of listed companies of fifteen European countries that have adopted IAS mandatorily. The countries included in the sample are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the UK.

Additionally, three subsamples were created: a) countries with low corruption, b) countries with moderate corruption and c) countries with high corruption. Finally, the time horizon that is investigated is 10 years, from 2000 until 2009. Specifically, the period between 2000 and 2004 is defined as the period before the adoption, while the period between 2005 and 2009 is defined as the period after the adoption.

The findings that are identified for the aggregate sample suggest a marginal increase in the reliability of the financial statements but, without being statistically significant. Moreover, it was detected that countries with a low degree of corruption have increased the degree of reliability, but still, this increase is not statistically significant. Moreover, the degree of reliability for countries with a moderate degree of corruption seems to be unaltered. Finally and more importantly, the findings that are identified for counties with a high degree of corruption indicate a statistically significant reduction in the degree of reliability.

References


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Abolition of Regional Development Agencies and its Impact on Tourism in England

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Abstract

Tourism is one of England’s largest industries. It contributed to c.a. 6% of the country’s economy and employed more than two million people. Since the introduction of the Development of Tourism Act in 1969, public sector support for tourism had been provided through a nationwide system of Regional Development Agencies (RDAs) and the associated Regional Tourist Boards (RTBs). However, following the general election in 2010, this arrangement was changed drastically. In less than two years, public, regional funding for RTBs and the Destination Management Organisations (DMOs) that they owned was completely taken away. The RTBs and DMOs that survived were forced to restructure and reinvent themselves as self-financing companies. While some may argue that DMOs may become more competitive and efficient in their spending, others say the new policy has created a great deal of uncertainty in the industry. The commercial nature of DMOs may also threaten their legitimacy and ability to represent the industry impartially. This study seeks to identify and analyse the changes that DMOs have undergone, and examine how they would affect the future development of England’s tourism industry.

Keywords: Destination Management Organisations, Destination Governance, England
Types of Asymmetries in Exporter-Importer Relationships and Alignment Behaviour

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Abstract

The purpose of this paper is to explore the phenomenon of asymmetry in international supply chain relationships and investigate how small exporter firms manage these asymmetric relationships. Prior studies have conceptualized asymmetry as a relationship attribute and concentrated on causal effects of asymmetry in supplier-buyer relationships by highlighting extensive amount of reasons why asymmetry occurs in dyadic relationships. However, those extensive reasons intent to articulate why asymmetry occurs in relationships, have not provided enough in-depth to understand the complexity of asymmetry in international supply chain relationships, therefore, this study aims to explore the concept of asymmetry by focusing on structure and exercise rather than simply discovering reasons. This research explores the four distinguishable types of relational asymmetry between exporters and importers suggest different implications for international supply chain relationships. As opposed to the existing literature, which has considered and largely agreed that asymmetry is related to negative connotation, this research suggests that different types of asymmetries also have positive relational outcome for small export firms. This exploratory paper provides managers with additional insight into the types of asymmetry in international supply chain relationships and suggests that asymmetric relationships must be examined carefully in order to overcome difficulties that distract long-term relationships.

Keywords: Asymmetry, Export, Textile, Supply Chain, Turkey

Introduction

Managing supply chain relationships continues to be challenging for firms as they have to work with other companies from different cultures and organisational structures. Increasing pressure of relationships becomes more evident when the companies offer products and services to please their partners. This may also involve changing work routines, adaptation, information exchange, cost adjustment and managerial and strategic objectives. All these changes need to be done to enable them to achieve better results than those which cannot be achieved without a powerful partner (Dyer and Singh, 1998). However, the existence of asymmetry in dyadic relationships limits the ability of a partner to achieve its own objectives fully, and the stronger party will have more benefit from asymmetric relationships, while the weaker party is pushed to be more committed (Johnsen and Ford, 2002). Such relationships become more prevalent in international supplier-buyer relationships; small export firms may be controlled and limited by power asymmetry in relationships when they enter international exchanges. Paradoxically, a greater number of small firms involve international exchange relationships through asymmetric relationships with strong importers reflecting on the rapid increase of world export volumes that have been well documented by (WTO Secretariat, 2011).

Exporting has been considered as one of the most appropriate mechanisms to access foreign markets for resource poor small firms and facilitate international exchange through developing relationships with foreign buyers (Leonidou, 2003, Leonidou and Katsikeas, 2010). On the other hand, sustaining competitiveness for importers in their markets becomes challenging, while the demand of consumers is on the increase, which may attract many firms to take action for market entry and has led foreign buyers to establish sustainable collaborations with suppliers through power structures in their relationships (Mentzer et al., 2000, Kotler and Armstrong, 2004 and Rogers and Leuschner, 2004). These developments in the global market place have emphasized the importance of maintaining long-term international supply relationships (Hakansson and Snehota, 1990, Axelson and Easton, 1992) but also draw attention to the
diverse characteristics of those power mediated relations and more importantly the asymmetric power balances (Tokatli 2006). In addition, power asymmetry as a construct in business-to-business relationships has been paid less attention, and the analysis has not demonstrated substantial understanding of its structure (Nyaga et al., 2013). There are those that view the concept of power asymmetry, demolish the sustainable exchanges in business relationships and collaboration, however, sustainable exchange relationships can be established through trust and cooperation (Doney and Cannon, 1997; Pole and Haskell, 2002).

**Positives and Negatives of Power Asymmetry**

In fact, previous studies of supplier-buyer relationships have explored a variety of constructs in international supplier-buyer relationships including adaptation, commitment, conflict, and distance (Hakansson, 1982) and mutuality, particularity, conflict, interpersonal inconsistency, cooperation, intensity and power and dependence (Johnsen and Ford 2008). On the same line as those explorations, power has been considered the main determinant in asymmetrical relationships and causes imbalances because importers were the dominant party due to their high level of market knowledge, competencies and position in the exchange relations compared to smaller exporters (Leonidou and Kaleka, 1998; Katsikeas and Piercy, 1990; and Leonidou, 1989a; 1989b). Moreover, imbalanced relationships were considered to be unstable and short-tempered (Kumar et al, 1995). Others argued that imbalanced power had a destructive effect on efficient relationships by destabilizing cooperation and trust (Pole and Haskel, 2002), threaten the sustainability of relationships (Gumnessson, 1999), and create a negative influence on relationship quality (Naude and Buttle, 2000). Hence, power imbalance in supplier-buyer relationships has been viewed as (a) harmful in all relationship dimensions; (b) has had a serious impact upon trust (Kumar, 1996 and Kumar, Scheer, and Steenkamp, 1998); and (c) that the power of the dominant party tends to weaken the other party (Johnsen and Ford, 2002). Furthermore, Cook and Emerson (1978) stated that the long-term effectiveness of power can be seen as a control mechanism. Indeed, they were of the opinion that the powerful party will exploit the weaker party meaning that there is imbalanced power in the relationship, thus resulting in less cooperation and high levels of conflict (Dwyer et al., 1987).

In contrast, Gundlach and Cadotte (1994) stated that power asymmetry in relationships did not always have negative impact. Although power asymmetry could affect behaviour, communications, perceptions, and sensitivity of relationship partners, and relationship quality, it is not necessary that a business relationship is based on symmetrical power balance (Nyaga et al., 2013, Earp et al., 1999, Kalafatis, 2000). Furthermore, Hingley (2005) supports this, and argues that imbalanced power in most cases cannot be a barrier to developing a relationship; indeed the relationship may provide mutual benefits which override any possible harmful effects of the power imbalance. For a weaker firm, there appears to be a certain degree of tolerance toward an imbalance of power and in some cases power imbalance has stabilised relationships (Lawler et al., 1988; Rubin and Brown, 1975). For instance, Ford et al. (1987) identified that in the early export stages, exporters were content to allow control over production and marketing, which helped the exporters to develop certain competencies, which then strengthened ties between partners. However, further research is required that builds an understanding of how asymmetry affects the nature and longevity of relationships (Leonidou, 2003; Anderson and Kumar, 2006; Hingley, 2005; Cieslik, Kaciak and Welsh, 2010) and imbalanced relationship development remains a relatively under-explored area in the literature (Andersen and Kumar, 2006). Moreover, it is vital to understand the complexities of managing imbalanced relationships over time; how the relationship dynamics change; and identify supplier-buyer characteristics that may ensure an enduring and mutually beneficial relationship.

Therefore the aim of this paper is to explore the asymmetric relationships in international supply chain relationships and identify types of asymmetries in particular. In relation to these, it will investigate how small exporter firms manage these different types of asymmetries in international exchange relationships. The context for this research is the Turkish textile sector. As the world’s second largest clothing exporter (Tokatli and Kizilgün, 2009), Turkish textile exporters have developed key managerial and interaction competencies that have enabled strong partnerships with other geographically distanced buyers and Tokatlı and Kizilgün (2009) question the sustainability of these competencies. Using a multiple case study in Turkey, this paper seeks to understand what type of asymmetries exist in relationships between exporters and importers and how small exporters manage these asymmetries.
Power in Exporter-Importer Relationships

One party’s goal depends upon the other party’s actions, in other words, power stems from another party’s dependence (Emerson, 1962 in Gadde and Hakansson, 2002: 106). Cox et al., (2001) stated that power deserves to be the central construct in buyer-seller relationships because there is no organisation which can survive alone in the complex business environment (Hakansson and Snehota, 1990).

Asymmetry in buyer-supplier relationships will cause more difficulty for small suppliers. These problems range from establishing trust and its effect on commitment in particularly long-standing relationships as well as governance of joint ventures (Sollner, 1999; Chen and Chen, 2002). Inter-organisational relationship studies, resource-based views and transaction cost theory appear to have paid the most attention to imbalances in inter-organisational relationships. With regards to the resource based view, Chang and Gotcher (2007) have pointed out that in subcontracting relationships, strong foreign buyers with famous brand names enter the markets and require the highest amount of relationship specific investments from weaker suppliers, thus giving more power to foreign buyers including bargaining power and manufacturing control. Therefore, international supplier-buyer relationships are often seen, and foreign buyers use their power. They have suggested that preventing or at least reducing the amount of opportunistic behaviour of foreign buyers and dependence relies greatly on ‘relationship learning and relational capital’.

Adaptation has been categorised as both unilateral and bilateral (Hallen et al., 1991). Nevertheless, with regards the adverse effect of asymmetric power in a relationship, it has been found that unilateral adaptation is related to asymmetric power which means that there is a lack of trust established between parties (Brenan et al., 2003). Therefore, the length of relationship may be shorter and unilateral adaptation which results from an asymmetric power will lead to opportunistic behaviour between parties.

Kumar, (1996) argued that most manufacturer-retailer relationships are asymmetric. This will make the relationships unstable and a slippery path will result if any errors are made by the weaker party during transactions. Indeed, if this happens, the dominant party will force the weaker party to accept penalising actions, which can result in harmful consequences. Hingley (2005) examined the exercise of asymmetric power of fresh food retailers and supplier relationships. It was found that asymmetric relationships are obviously favourable for strong retailers, and that weaker suppliers do not want to be involved in such relationships.

Small firms may find a way to make business with large buyers by becoming specialised with regards to certain niches in relationships. However, operating in these niches limits the small firms which may result in the loss of strategic flexibility and the relinquishing of individual objectives in order to preserve the relationship. This will require an investment from the small firm. On the other hand, asymmetric power relationships are also against small suppliers because they are under the control of large buyers in the strategic and technical areas. Small firms usually give control to the large buyers and put effort into proving their sufficiency to the large buyers (Johnsen and Ford, 2008). Furthermore, historic dependence in relationships where asymmetry has taken place could be destructive for small suppliers because with historic dependence it is likely that large buyers may take it for granted with negative consequences often affecting small suppliers (Johnsen and Ford, 2008).

In international business relationships, export-import firms have been studied by Katsikeas and Piercy (1990) Leonidou and Katsikeas (2010). Both researchers found that strong foreign buyers have more authority over small exporting suppliers because foreign buyers have advanced marketing skills, knowledge and accessibility to large consumer markets. Furthermore, some barriers such as time differences, language, inadequate face-to-face contacts, cultural dissimilarities and distance are extremely critical to relational exchanges within a well-functioning supply chain (Styles and Ambler, 2003; Leonidou et al., 2006). Uncertainty of environment and internal uncertainty influence exporter-importer relationships. Examples of this include information asymmetries which will lead to opportunistic behaviour and the poor coordination of activities (Hakansson and Snehota, 1995).

Managerial problems in asymmetric exporter-importer relationships are the main focus of many researchers in the reviewed literature although there are no clear suggestions regarding how small exporting firms can manage and overcome asymmetry in their relationships with importers.
Methodology

A multiple case study approach (Yin 2003) was selected for this study to provide an in-depth examination of each case and explore types of asymmetries in exporter-importer relationships. Multiple case studies are useful in order to build an understanding of the similarities and differences between the different exporting organisations (Coviello and Jones, 2004; Easton, 1998; Eisenhardt, 1989; Yin, 1994) and it has also been seen as the most appropriate for supply chain IMP (International Marketing Purchasing Group) research (Leonidou and Kaleka, 1998; Johnsen, 2007; Johnsen and Ford, 2006; 2008). The empirical data collection included a total of sixteen semi-structured interviews conducted between December 2010 and April 2011 with small, medium textile exporters in relationships with foreign buyer organisations. There were ten in-depth case studies of suppliers in the Turkish textile industry. Within each case study two interviews were conducted with the owner/director and production or export/sales managers (Table 1).

Ten case studies were identified through initial contact with The General Secretariat of the Istanbul Textile and Apparel Exporter Association (ITKIB). Using their database participant firms was identified and the following criterion was set: 1) Companies need to be in the textile industry. 2) Companies need to be member of (ITKIB) General Secretariat of Istanbul Textile & Apparel Exporter Association in Turkey. 3) Companies need to involve international business as suppliers, contracted manufacturers or independent exporter and subsidiaries. 4) Companies need to employ a maximum of 250 employees.

All cases were selected from the same industry so as to avoid potential contextual differences in the findings (Metcalf et al., 1992). All cases were located in Istanbul in Turkey to ensure geographical and region-specific economic consistency.

The Turkish textile and clothing industry was selected as it is one of the major industries in Turkey with 49,000 small and medium enterprises active in this sector (Muneer et al., 2006) Moreover, 7500 of these textile manufacturers are exporters (Kutluksaman et al., 2012). Turkey has become a world leading textile manufacturing hub, growing by 13.8 percent in 2011 and has become the fourth largest textile exporter in the world (WTO Statistics, 2011) producing high value added, quality textiles, contributing 7.2 percent of Turkey’s total export provision (ITKIB, 2013). Currently, Turkish exports have a share of 45.2 percent of the European textile market (ITKIB, 2013).

Turkey has a unique geo-strategic position, seen as a bridge between Europe and Asia; east and west, it has good relations with the European Union (Kalafatouglu, 2010). Turkish textiles firms have established business relationships with European organisations and this may shed light on the type of asymmetries in exporter-importer relationships. Moreover, the Export Strategic Plan published by the Turkish Government in 2005 emphasized the importance of competitiveness and sustainability of export activities (Foreign Trade Ministry, 2005, www.dtm.gov.tr). In addition, Turkey is an important emerging market, ranked by the IMF in 2013 as the first in Europe and fourth in the world. From the Turkish perspective it is crucial to maintain this competitively, continue to build competencies (Ozkanli and Durak, 2007; Ural, 2007) and sustain relationships and competencies between Turkish suppliers and international buyers (Tokatli 2006; 2007; Karadeniz and Gocer, 2007). In this study cross-sectional data was collected from the ten case studies. The initial contact with respondents from each export company was via telephone and e-mail. The primary data for this research comprised twenty semi-structured interviews with executives of ten small and medium-sized textile export companies.

All interviews were tape recorded and notes were taken, transcribed verbatim, and translated from Turkish into English. An important concern about the translation of interview transcriptions from Turkish into English was that the original meaning of the text was not lost during the translation process. Therefore, the translation process was carefully conducted by the researcher and a second review was requested from the translation office, which is accredited by official bodies in Turkey.
As Yin (1994) suggests the analytical strategy follows the stages of “searching, categorising and tabulating”. The data from cases was analysed through matrices ‘pattern matching’ the empirical data with the research questions. Each case was analysed. Data sources were filtered and organised in order to capture the experience of the suppliers and to simplify and build a structure for the findings and matching the patterns with illustration of the evaluation of asymmetric relationships (Collis and Hussey, 2003). Conceptual clusters and role-ordered matrices were employed as the process for coding (Miles and Huberman, 1984) that led to reducing and structuring and data analysis. This provided an opportunity for within-case comparison and demonstrated the similarities and differences between respondents in the organisation. Cross-case analysis was used to aggregate and find patterns in the findings (Yin, 1994) enabling the researchers to validate the findings externally, build appropriate theory and demonstrate new findings (Eisenhardt, 1989). Meta-matrices enabled fine cross-case comparisons and categorization of patterns across the ten case studies (Miles and Huberman, 1984).

### Research Credibility

**Reliability:** Yin (2003) stated that reliability is a replication of a case study by following the identified procedures and protocols in an earlier case study. In addition, developing databases for a case study will enhance reliability because these are internal conditions of any case study research. The important point of replication is not to replicate the findings and conclusions of an earlier case study but to focus on transparency and to demonstrate sense-making during data analysis (Easterby-Smith et al., 2002).

**Construct Validity:** Yin (2003) has stated that construct validity can be ensured by establishing the right operational set of measures for the concepts being studied. Primary and secondary data were collected through interviews, websites, academic journals and databases and official bodies’ databases. Revisiting the literature review and conceptual framework and research progress iteratively and gaining feedback from interview participants about transcripts and conclusions and their thoughts about the completed analysis for each case study.

**Internal Validity:** Internal validity is important when demonstrating coherence between a relationship approach and following outcomes, irrelevant variables and bias should be removed from the research design to ensure that internal validity is provided (Easterby-Smith et al., 2002). Interviews which were consistent with the focus of research and provided alteration in the research instruments.
External Validity: Analytic generalizability is the focus of a case study; therefore, analytic generalisation is about generalising concepts and theories and, in so doing, generalisation of the results to broader theory (Yin, 2003). Conducting ten case studies provided the opportunity for generalisation; thus, external validity was toughened. Furthermore, the findings were bridged with the literature and that also provided the opportunity to understand differences between the literature and the findings.

Model Overview

Respondents in the study were exceedingly familiar with the phenomenon of asymmetry in supply relationships with importers and the management of these relationships. In fact, many of the managers have never experienced symmetry in supply chain relationships. A few managers have experienced symmetry but it did not last long. In response to the question about how a company would describe its relationship with an importer, one respondent replied, ‘it is difficult enough for us, this is the way we survive and learn, there is no other option available at the moment’.

Due to their experience with asymmetry in their relationships with importers, respondents were able to describe how to recognize, analyse and make strategic managerial decisions in their relationships. Based on the comments of respondents through pattern matching of asymmetric relationships in data analysis, the process was revealed (Figure 1). In brief, all respondents wished to have more symmetric relationships and less power exerted by importers.

As the process model illustrates in Figure 1, two primary steps, recognition and analysis need to be taken by managers before making strategic decisions and employing managerial behaviour. Two groups of key findings emerged through analysis of the comments of respondents about asymmetry in relationships; there are two different types of asymmetries (Figure 1) they are satisfactory asymmetry and unsatisfactory asymmetry. Secondly, the findings suggest that there are four types of alignment modes employed by small export firms when managing asymmetric relationships, which are beneficial, manageable, adaptable and unbearable.

Recognition is the first stage in the process of alignment seeking. In this stage, export managers understand the nature of the relationships that they have been through by considering the positives and negatives of the relationship. They also consider whether or not the relationship will add more to their current state and whether or not it will add more to a future state. One initial business objective for all respondents of export firms is to achieve long term relationships with importers. Therefore, recognizing the level of asymmetry is an important indicator as to whether or not it is satisfactory or unsatisfactory and whether or not the asymmetry is deemed to be advantageous to the export firm in the long run. Hence the findings suggested that two distinguishable levels of asymmetry, satisfactory and unsatisfactory, are evident in relationships.

Analysis of initiatives is the second stage which is the process of adapting a type of alignment. In this stage, exporters develop a deeper understanding of their relationships with importers by evaluating the grand requirements of importers and checking them against their own capabilities, resources and business objectives. For example, they check if the asymmetry is satisfactory or unsatisfactory, how satisfactory it is, to what degree an unsatisfactory asymmetry can be taken, does it really serve and provide long-term bonding? Therefore, the findings suggest that beneficial satisfactory asymmetry offers a desirable level of asymmetry for exporters so that they can achieve some degree of symmetry in relationships with importers. There is more room for negotiation and involving bilateral innovative activities that support the interaction capabilities of export companies and facilitate longer relationships.

Manageable satisfactory asymmetry offers slightly less involvement with bilateral innovative activities and negotiations but provides a stable base for interaction capabilities and continuation of relationships with an importer. Most activities are conducted according to negotiated plans and procedures. On the other hand, adaptable unsatisfactory asymmetry offers an undesirable level of asymmetry because more commitment and investment from small exporters is required. There is no opportunity for negotiation and involving innovative activities but necessary adaptations to meet the requirements of an importer still provide some learning for the exporter. But the cost of this relationship is almost the same as the level of return for the exporter. In this situation, initial objectives of export firms are achieved in principle terms but not in financial terms. In unbearable unsatisfactory asymmetry, it is evident that an exporter does not have a chance to survive in the relationship because the cost is much higher than the return. Therefore, it is a relationship with death.
After analysing the asymmetry in relationships, findings indicated that small export firms have eight different managerial behaviours in order to align with importers in asymmetric relationships. These alignment forms are: demonstrate, involve, negotiate, maintain, agree, satisfy, cope and fit. If a manager’s toleration of certain degrees of power asymmetry in relationships with importers is high, a satisfactory approach in order to align with the importer will be adapted (Figure 1). On the other hand, if a manager cannot tolerate a certain degree of power asymmetry in relationships with importers, an unsatisfactory approach in relationship with importers will be adapted (Figure 1). If there is no chance to go further in asymmetric relationships, export managers adapt an unsatisfactory unbearable asymmetry.

Conclusions

This paper examines the characteristics of different types of asymmetric exporter-importer relationships and how small exporters manage these asymmetries in their relationships. Earlier studies on asymmetric relationships have demonstrated that asymmetry is an important determinant for the nature of relationships. It provides potential for both parties to achieve their desired outcomes in their relationships (Hingley, 2005; Johnsen & Ford, 2008; Johnsen et al., 2008).

In accordance with the existing literature that has investigated issues related with asymmetry in dyadic relationships, some researchers have the same opinion that asymmetry is an important construct that can create barriers for the success of relationship. On the other hand, that can provide some opportunities for the success of relationships. However, there is still not a comprehensive agreement in the literature and consistent empirical support in industrial marketing studies. For example, some exporter-importer relationships lasted longer while some exporter-importer relationships broke up. This has suggested that in-depth investigation to explore the multifaceted character of asymmetry is needed. This research has addressed this gap in the literature and has found four types of distinguishable asymmetry in the context of international exchange relationships. According to this empirical investigation these asymmetry types are: beneficial satisfactory asymmetry, manageable satisfactory asymmetry, adaptable unsatisfactory asymmetry and unbearable unsatisfactory asymmetry. These four asymmetry types influence on exporter-importer relationships differently, thus small export firms adapted different strategies for each of them.
The existing literature highlighted the main reasons and negative influence of asymmetry on dyadic relationships, were investigated. For example, beneficial satisfactory asymmetry is not naturally negative for small export firms; it is actually one of the preferred options in order to involve international exchange relationships to different degrees. If an exporter and importer agree with the structure of relationships, it is beneficial for both. Here, the benefits for exporters are that they can demonstrate, involve and negotiate. This indicates that a satisfactory approach is adapted by exporters. These strategies are consistent with the construct of cooperation which is desirable for smaller suppliers in the exploratory stage of asymmetric relationships, but this was not the interest of larger customers (Lee and Johnsen, 2011). Lastly, adaptable unsatisfactory asymmetry may yield either a positive or negative influence on dyadic relationships depending upon the degree of tolerance by exporters. In this asymmetry type, exporters can still maintain the status quo with no involvement in strategic decisions by an importer and there may be no financial gain from the relationship.. This indicates that an unsatisfactory approach adapted by exporters, coping and fitting consistent with the construct of power, could be coercively employed and dependence encouraged in relationships in order to control a small supplier (Frazier and Antia, 1995; Hausman and Johnston, 2010).

All in all, the findings of this research suggest that asymmetry is multifaceted and export firms employ different strategies to address the potential relationship performance implications of each relationship. In addition, the findings from this study demonstrated that asymmetry may be changed over time. Therefore, unsatisfactory asymmetry can be evolved from satisfactory asymmetry. This temporal and dynamic nature of alignment seeking behaviour of export managers has an axis with TCE (Transaction Cost Economics) (Williamson, 1985 and Williamson et al., 1975). Indeed, the central phenomenon of this study may have specific application of TCE in an exporter-importer context in international exchange relationships. In fact, when export managers realize and re-analyse their relationships, and experience a higher degree of satisfaction in relationships, they can adapt a satisfactory approach with minimum transaction costs.

Managerial Implications

This research implication provides a greater understanding of the overlooked field of dyadic relationship research. Although asymmetry is a common construct in most dyadic relationships in both the local context and international context, a theoretical framework addressing how export managers overcome imbalanced relationships has been paid limited attention. Seeking a satisfactory alignment approach in asymmetric relationships fills this gap in the existing literature. The rich qualitative data collection through interviews provided substantial descriptions of contextual situations and supported the extension of the scope of relational theories and related relational constructs.

This study also provides some more questions that can offer new research opportunities. For example, similar research can be conducted for different industries and sectors in order to investigate a broader perspective of asymmetry types and categories, and how small firms manage different asymmetries in their relationships. Furthermore, how the capability development of small firms influences asymmetric relationships in different industries is also an interesting area to research in conjunction with resource based view. Lastly, how asymmetry influences market entry of small export firms and different alignment seeking behaviour can be adapted. This research also provides a guide for export managers for self-assessment of their company and relationships with importers. While managing international business relationships adds more pressure on small firms it is considered the most valuable business attempt that supports the economy of countries by making a balance of account deficit as shown in the Export Strategic Plan published by Turkish Government in 2005 which emphasized the importance of competitiveness and sustainability of export activities (Foreign Trade Ministry, 2005, www.dtm.gov.tr). In addition, export managers also apply the concepts of asymmetry through a relationship segmentation process. Satisfactory and unsatisfactory approaches can offer an insight as to what degree the resources should be allocated and committed for relationships, and what degree of tolerance should be adapted. With strong justification, termination could be assigned to stop relationships, while the transition cost is lower.
As previously highlighted in the existing literature, asymmetry is harmful and has negative consequences. The framework of alignment seeking behaviour of exporter offers two ways of alignment; satisfactory and unsatisfactory. Both approaches support and refuse these claims. Because these claims do not take time progression into consideration therefore, asymmetry has been seen as harmful with negative consequences. However, for most export firms the asymmetry is adaptable in the early stages of their relationship stage and this may evolve as beneficial and manageable later. This critical insight supports an understanding of why exporter-importer relationships last longer or collapse.

The asymmetric relationship literature has not been completed in the local context and underdeveloped in the international context. A number of researchers explored the topic and the structural importance of asymmetry was established. Asymmetry has been investigated from different relationship constructs through qualitative research methods including adaptation, commitment, conflict, and distance (Hakansson, 1982) and mutuality, particularity, conflict, interpersonal inconsistency, cooperation, intensity and power and dependence (Johnsen and Ford 2008). And a quantitative research found the level of dependence and its significant impacts on a dyadic relationship (Gundlach and Cadotte, 1994). In this study, how small export firms managed asymmetric relationships was explored with qualitative methods and a management process was discovered. However, there is still a gap in the existing asymmetry literature. Future researchers can consider the evolution of asymmetric relationships during the relationship building stages or the process of involvement into international markets.

References


Institutionalization and Myths

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Abstract

The motive of the author in writing this theoretical work was to analyze the interdependency between institutionalism and the structure of organizations. The starting point of this relationship is assumed to be the emergence of the modern society because today’s business context is regarded as important in drawing a parallelism between institutionalism and structure. Therefore, the literature is reviewed on the subjects of institutionalism and the emergence of formal structures; formal organizations and the myths of institutional environments; formal structures and relational networks; the origins of rational institutional myths; modernization and institutionalization of myths; the relation of organizations to their institutional environments; and the impact of institutional environments on organizations. Modern society leads to the expansion of markets which necessitate complex rational networks and highly institutionalized contexts at the same time. Myths are a crucial part of institutionalized organizations and are linked with the formal structure. Especially, the external sources of the formal structure lead to corporate isomorphism which is a must for the interrelated concepts of the success and survival of the organizations and the stability of this success in the environment of the modern society. However, the importance of internal motives for the success and survival of an organization should not be overseen.

Keywords: Institutionalization, Myths, Formal organization structure
Don’t Think Twice, It’s All Right: Towards a New Copyright Protection System

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Abstract

Legal scholars and economists often debate in the literature about current terms of copyright protection. Those terms seem unwarranted and disproportionate, leading to a market failure on the effective life of works. The de lege ferenda proposal which is here formulated, based on a simple system of short and renewable protection periods, find serious benefits from both economic and social perspective. Major parts of our cultural heritage have been digitalized, but are not accessible online to the general public because of excessive copyright protection. The effective exploitable life of the vast majority of artistic creations is brief, and the question that arises is how we can turn that deadweight loss into profit, with incentive for creators and least social cost. It then seems logical that after that period of exploitation works should enter the public domain. Furthermore, the proposed system provides greater protection to the original authors besides eventual intermediaries as rights holders, with a revertible formula which may strengthen their position at the time of negotiating over the ownership of their works. With the technological advances of the digital age, economic analysis of copyright should no longer be concerned on incentivizing creation, which in itself is already unstoppable, but to facilitate the dissemination of works. That contents diffusion would be hugely advantageous for the society and, moreover, for the copyright holders who, ideally, should remain the authors themselves.

Keywords: Intellectual Property, Copyright, Law & Economics, Policy, Behavioral Economics

Introduction

I ain’t sayin’ you treated me unkind
You could have done better but I don’t mind
You just kinda wasted my precious time
But don’t think twice, it’s all right**

No author, artist or production company invests creativity or resources with a view of recoupment in 50 or 100 years. To encourage creativity, copyright creates intellectual property rights for original works of authorship in literature and music, computer software, web content and many other important sectors of the digital economy. Extensions in the length of copyright have emerged as a key policy lever by which national governments attempt to strengthen property rights in ideas. For example, the U.S. Copyright Act of 1998 and the U.K. Copyright Act of 2011 extended the length of copyright protection for music from ‘life of author plus 50 years’ to ‘life of author plus 70 years’. Proponents of longer copyright argue that such shifts encourage creativity by increasing expected profits from works. Systematic evidence on the effects of stronger copyrights on the profitability of authors, however, is scarce because data on payments to authors is typically not available to the public.

There are number of costs to granting overbroad intellectual property rights. First, intellectual property rights distort markets away from the competitive norm, and therefore create static inefficiencies in the form of deadweight losses. Second, intellectual property rights interfere with the ability of others creators to work, and therefore create dynamic inefficiencies. Third, the prospect of intellectual property rights encourages rent-seeking behavior that is socially wasteful. Finally, overinvestment in research and

**Don’t think twice, it’s all right, Bob Dylan, 1962. Song released on the 1963 album The Freewheelin’ Bob Dylan.
development is in itself a distortion. The ultimate result of these costs is that what we want is not a mere incentive but the right incentive.\(^3\)

Although it seems difficult to draw the right economic line on copyright law, we can take some minimum guidance from the likelihood that the relationship between intellectual property protection and innovation is not monotonic. Because of the above mentioned costs, adding more and more intellectual property protection not only has diminishing marginal benefits, but at some point has a net negative impact on innovation, because the strengthening of existing rights stifles more new innovation building on those rights than further expansion encourages.

At a bare minimum, increases in intellectual property protection that restrict more innovation than they encourage cannot be economically justified.\(^4\) An obvious example is the retroactive extension of copyright term in the Sonny Bono Copyright Term Extension Act\(^5\), which provided no new incentive to authors and complicated efforts to make use of a large number of existing works.\(^6\) With that policy tendency we are at danger of ending on a system of perpetual protection. This paper tries to combat that drift with a simple proposal bias economic efficiency.

**Reviewing the Policy and Economics of Copyright Protection: From Incentivize to Disseminate**

Copyright protection that is the right of copyright’s owner to prevent others from making unauthorized copies, trades off the costs of limiting access to a work against the benefits of providing incentives to create the work in the first place. Striking the correct balance between access and incentives is the central problem in copyright law but, as polar opposites-attract, perhaps the best option would be that of incentivizing access in a way that ends to be beneficial also to the authors. For copyright law to promote economic efficiency its principal legal doctrines must, at least approximately, maximize the benefits from creating additional works minus both the losses from limiting access and the costs of administering copyright protection.\(^7\)

The incentive theory of copyright aims to provide incentives to two kinds of actors in the economy: creators and intermediaries. Copyright law grants certain exclusive rights to creators of original works that are fixed in a tangible medium of expression.\(^8\) If we take the music industry as a case study, this means both compositions and sound recordings, which are separate types of copyrightable subject matter. Creators may, of course, release their own works to the public, but in practice the copyright system is designed with the expectation that many creators will contract with intermediaries to exploit their works commercially.\(^9\)

Intermediaries offer the prospect of capital investment, marketing, promotion, and wider distribution, which together generate larger financial rewards than the creator could collect on his own. In return, the creator must transfer either copyright ownership or a large royalty share to the intermediary. For example, in the music industry, recording artists typically transfer their sound recording copyrights to record labels in return for royalties.\(^10\) Composers and songwriters typically sell or license their composition copyrights to publishing companies, which will administer the copyright in return for a percentage of the proceeds. Thus,


\(^4\) Wagner, R. Polk, Information Wants to be Free: Intellectual Property and the Mythologies of Control, 103 *Columbia Law Review* 995 (2003). Wagner argues that since control over intellectual property is imperfect, increasing intellectual property rights will encourage new creation that will have spillover benefits to the public. While this is certainly true up to a point, beyond a certain level of control the costs of marginal increases in control outweigh any such benefits. Wagner simply assumes we haven’t reached that point. We think there is substantial evidence to the contrary in copyright law.

\(^5\) 17 U.S.C. 302


\(^9\) Litman, Jessica, Real Copyright Reform, 96 *Iowa L. Rev.* 1, 10-12 (2010), explains how copyright law contemplates that creators will transfer their copyrights to intermediary distributors.

\(^10\) See Kembrew, McLeod and DiCola, Peter, Creative License: The Law and Culture of Digital Sampling 76, 79-82 (2011) summarizing the role of record labels in the music industry and their contractual relationship with recording artists.
intermediaries often own the copyrights and receive a medium to large share of the proceeds from exploiting the works, the creators receive royalties and the listening public benefits from the works that reach them.

The Classic Economic Approach to Copyright Protection: The Incentive Theory

The incentive theory contemplates a chain of value, as outlined above, from creator to distributor to the listening public. It also contemplates money flowing in the opposite direction, from the consumers to distributors to creators, so we’ll have to take into account very seriously the nature of the financial rewards that authors receive from their works in order to assess whether particular changes to copyright legislation would encourage more creative activity or, if so, how much more.

It has been well established in the economic literature that copyright is a trade-off between opposing forces – the economic incentive to create works of art, literature, music, etc. as against the disincentive it causes to users, whether intermediate producers or final consumers. It is a second best solution to market failure and there is no best answer; all we can do is to aim for features of the law that maximize net benefits and deal with externalities. In common with other second best situations facing policy-makers, empirical evidence on costs and benefits is needed to establish these net benefits in specific cases as there is no general answer.

The so-called ‘copyright standard’ consists of the duration of the term of its many rights and their scope as well as the degree to which it is enforced. Almost all economists are agreed that the copyright term is now inefficiently long with the result that costs of compliance most likely exceed any financial benefits from extensions. At this initial point it is worth remembering that the term of protection for a work in the 1709 Statute of Anne was 14 years with the possibility of renewal as compared to 70 years plus life for authors in most developed countries in the present, which means a work could be protected for well over 150 years. Moreover, difficulties of tracing copyright owners and orphan works has prevented access to copyright material and inhibited both future creation and access to culturally valuable material by the public. It is well known that the vast majority of copyright works is out of print or has long been unavailable on the market and this tendency is exacerbated by extending the term. One point on which economists agree is that there can be no possible justification for retrospective extension to the term of copyright for existing works since it defies the economic logic of the copyright incentive, which nevertheless has been enacted on several occasions.

In addition, the scope of copyright is very broad and nowadays covers many items of no commercial value that were never intended to be commercialized, as is the case with a great deal of material on social networking sites. This raises the question of the incentive role of the scope of copyright since it offers the same coverage for every type of qualifying work. In general, the lack of discrimination in this ‘one size fits all’ aspect of copyright is another subject on which economists are agreed: in principle, the incentive should fit the type of work depending upon the investment required, the potential durability of the work and other heterogeneous characteristics. This applies as much to the term as to the scope of copyright; only few works retain their value over a very long period while most of them lose it very quickly. The rationale for this lack of discrimination, however, is that individualizing incentives would be prohibitively costly both to initiate and to enforce. As it is, that copyright is recognized to have become excessively complex and therefore very costly for users and authors.

A further aspect of the incentive value of copyright has to do with practicalities. Copyright law only stipulates the copyright standard and the rights that protect authors, but authors almost always have to contract with an intermediary or distributor in order to market their work and it is the terms of the contract between them that determine the eventual financial reward to the author. That outcome is uncertain, though, as the contract usually only lays down the royalty rate, not the value of the revenue of which it is a percentage. For many rights, such as the public performance right, individual authors and performers cannot contract with all users and the solution is through collective rights management. That minimizes transaction costs for both copyright holders and users of copyright material but introduces monopoly

12 Perhaps the most notorious case was the CTEA (Sonny Bono or Mickey Mouse) extension in the USA, which was also followed up by the European Union, thereby handing out economic rents to the rich and famous of the entertainment world and, more likely, to their descendants.
pricing and blunts the individual incentive, which is actually another trade off. Technical alternatives, such as digital rights management that are supposed to enable individual control, even if feasible, do not solve the problem of setting the royalty rate. Most economists agree that collective rights management is necessary in those circumstances in order for copyright to be practicable.  

Economists have made some headway in estimating earnings from copyright, which is significant for the question of the importance of the incentive it offers to creators. Research on royalty earnings of individual creators and performers has been limited because by and large, it has been on earnings from specific rights rather than on the entire bundle: for example, we know what composers earn from performing and mechanical rights for their compositions but not what they earn from performers' rights as well, as players or conductors. Research on artists’ total earnings including royalties shows that only a small minority earns an amount comparable to national earnings in other occupations and only superstars make huge amounts. Copyright produces limited economic rewards to the ordinary professional creator; on the other hand, what the situation would be like absent copyright protection cannot be estimated. There has also been recent work on estimating the asset value of original works of art to which copyright applies that is a notable set forward in the measurement of the economic contribution of the products embodying these copyright works but again, it does not tell us what incentive role copyright had in stimulating that production.  

In this context, it is generally accepted by economists that piracy has adversely affected sales in creative industries that did not anticipate effects of digitalization, P2P, MP3 and other such means of using the Internet to obtain unauthorized copied, especially in sound recording. We do not know the true size of the effect –how much of the loss in sales is actually due to piracy, and how much to other effects—, nor do we know the real cost to the industry—losses in profit rather than sales. Nor has there been research on the distribution of the loss of potential revenue to authors and performers. Economists have responded to the apparent threat to copyright posed by digitalization by suggesting that copyright law is anyway excessively complex and unnecessary if suitable business models are developed that would enable the market alone to reward the owner. Some have gone further and argued that copyright inhibits the development of these models. One solution to the difficulties of enforcing copyright in the digital age that has been widely adopted is the copyright levy, that has been almost universally opposed by economists on the grounds that its remuneration to creators bears no resemblance to the market value of the works and therefore could not act as a valid incentive to creators. Its only merit is that it reduces transaction costs of obtaining remuneration for right holders, though it is argued that it acts as a tax on goods, such as computers, that are not directly responsible for the uses or abuses to which they are put. Finally, economists have had long concerns that copyright has a moral hazard effect on incumbent firms, including those in the creative industries, by encouraging them to rely on enforcement of the law rather than adopt new technologies and business models to deal with new technologies. Many economists espouse the Schumpereterian view of the process of creative destruction of technical progress, whereby incumbent firms are replaced by new firms / industries that have developed the ability to exploit new technologies. It is well-known that creative industries have spent huge amounts of money lobbying governments for

increased copyright protection both through strengthening the law and stronger enforcement, not only within national boundaries but also through international treaties.

The Unknown Optimal Scope and Duration of Copyright

Economics scholars have found it very difficult to provide empirical evidence on the impact of copyright as there are no obvious counter-factual, that is, situations comparable to those in which copyright does apply to one in which it does not. Given the widespread application of copyright, its impact cannot be distinguished. Copyright’s scope is universal with the definition of the law. Even where copyright may not be regarded as useful in the production of some cultural goods or services, it still applies. For instance, few choreographers need to rely on enforcing copyright to protect their work as reputation will do the job but nevertheless, choreography falls within the scope of the law at it cannot be ruled out that copyright plays a role in stimulating creativity in dance. There is evidence from surveys of firms that some regard copyright as not only not useful to their enterprise but actually that it even imposes costs on some. Moreover, economics does not deal easily with all or nothing states of the type envisaged by the impact of the whole system; its strength is in analyzing marginal changes.

Even if some feasible scenario can be found, the absence of registration of copyright works makes direct research on the effects of copyright impossible, unlike the position with patents. By direct research we mean where works can be identified and their exploitation trace through the market. As the requirement of compulsory registration of works contravenes the Berne Convention, signatories therefore have had to abandon registration if they require it prior to joining. Consequently, researchers must use either old registrations or abandon the attempt to work with direct data in copyright works and substitute instead products that contain a strong element of copyright material, such books and sound recordings. That has been the most common approach to measuring the effect of the copyright incentive. The reasoning can be circular: the creative industries are mostly defined in terms of their reliance on copyright so cause and effects become confused. Even where they measure value added to national economies by the creative industries, benefits are overestimated by omitting the balance of payments of royalties, for which data barely exist and of overseas transfer of profits by multi-national corporations which dominate the publishing, music and film industries, among others. Moreover, in cost benefit terms, these measures fall as they concentrate entirely on the supposed benefits but completely ignore the costs of copyright to users and consumers and the deadweight loss of administrative costs.

It has been argued that the advent of digitalization provides a natural experiment for researching the economic importance of copyright and that measuring the value of lost sales and other revenues due to unauthorized use of copyright works is evidence of the value of copyright. Experience with empirical testing of piracy has shown difficulties of this research and although there is a consensus now that it has had a significant impact, particularly in sound recording as the industry most researched by economists, it has taken almost a decade for that consensus to emerge and during this time, not only has the technology changed, especially of distribution, but the players in the industry have changed too. This suggests how much more difficult it would be to measure a value for copyright in the whole economy.

The genius of the competitive market is precisely that while no individual producer has the incentive to fill market demand perfectly, collectively producers will meet that demand. This is not because they capture the full social surplus from their behavior, which by definition is never true in a competitive market. It is because they have enough incentive to produce what consumers demand. The reason we can generally rely on private ordering to produce desirable outcomes is not because property has some inherently moral virtue


that leads to efficient conduct, nor because individual companies can eliminate free riding, but because individual companies are constrained by the discipline of a competitive market.\footnote{See Lemley, Mark A., Ex Ante Versus Ex Post Justifications for Intellectual Property (February 2, 2011). University Chicago Law Review, Vol. 71, p. 129, 2004; UC Berkeley Public Law Research Paper No. 144.}

**Not Only to Encourage But to Spread: From Incentivize to Disseminate**

Copyright law also presents another trade-off, this one not between authors and consumers, but between authors and other authors. It is a commonplace that new works draw from and build upon old ones.\footnote{See Goldstein, P., Derivative Rights and Derivative Works in Copyright, 30 J. Copyright Soc’y U.S.A. 209, 218. (1983); or Jasi\’s, P., Toward a Theory of Copyright: The Metamorphosis of ‘Authorship’, 1991 Duke L.J. 455, 457-63.} No work is purely and completely new. All works draw upon prior works, to at least some extent. Thus, by increasing protection for initial works, we may increase the incentives for producing such works, but we also increase the cost of producing works that draw upon these initial works.\footnote{See Brief of George A. Akerlof et al. as Amici Curiae in Support of Petitioners, Eldred v. Ashcroft, 122 S. Ct. 1170 (2002): (no. 01-618), pp. 12-13; or Landes, W., and Posner, R., An Economic Analysis of Copyright Law, 18 J. Legal Stud. 325, 333 (1989).} If protection is too great, we may in fact decrease the number of total works, that is, the sum of both original and follow-on works. If our aim is to provide adequate incentives for both initial and follow-on works, the strength of copyright protection needs to reflect this balance.\footnote{See Landes, W., and Posner, R., An Economic Analysis of Copyright Law, 18 J. Legal Stud. 325, 333 (1989); or Netanel, N., Copyright and a Democratic Civil Society, 106 Yale L.J. 283, p. 295. (1996).}

The length of the copyright term is one way –among many ways- in which this balance is struck. Too short a term, and the incentives may not be sufficient to spur initial creation, since authors may not have enough time to obtain sufficient compensation for their efforts. Too long a term, and the work may not be widely disseminated or built upon over time.\footnote{See Liu, Joseph P., Copyright and Time: A Proposal. Michigan Law Review; Vol. 101, No. 2, (2002).}

Copyright seeks a diversity of expression. It is designed to permit variations, new expressions built upon existing ideas. We are not disturbed by the idea that anyone can make a movie re-telling, in any form, the story of Rome and Juliet or record a new interpretation of a Beethoven Symphony –indeed, this is generally seen as a good thing. At the same time, society’s interest in seeing different perspectives and re-interpretations of the original works increases over time. Furthermore, copyright must do more to actively support an interest in the re-interpretation and fair use of copyrighted works. People must have some degree of freedom to play with intellectual goods, to re-cast them, to imbue them with meanings independent of the ones that the original author intended, in order to make sense of them. These transformative activities are an essential part of what it means to consume an intellectual good. The longer a work has been published, the more desirable it becomes as material for discussion or re-casting. The longer a work has been out, the more likely it is that other authors will have encountered it and wish to build upon it or incorporate it into their own subsequent works.

Copyright provides control over the production of derivative works based in part on copyrighted material. In certain circumstances, this control results in monopoly higher costs and lower production of new creative works. Many new creative works are built in part out of materials from existing works.\footnote{For example, new fiction re-tells old stories, new documentaries re-use historical footage, and new music re-mixes and transforms old songs.} Improvements in the technology of search and recombination continue to expand the economic importance of new creation based upon old materials.

As Ronald Coase and many others have pointed out,\footnote{See Coase, R., The Problem of Social Cost, 3 J. L. & Econ. 1 (1960).} economic efficiency is best promoted by legal arrangements that minimize transaction costs. Here, a limit on the duration of control rights over derivative works tends to reduce transaction costs, which give new creators less incentive to produce.\footnote{See Alfaro, J., La infatigable extensión del derecho de autor: un poco de análisis de los costes y beneficios, Blog Derecho Mercantil, 15 Nov. 2011, available at http://derechomercantilespana.blogspot.com/2011/11/he-encontrado-el-escrito-de-alegaciones.html (13 Aug. 2013).}
Why will authors themselves, for-profit publishers, the recording industry or the motion picture industry give away their products when they can renew the protection? The free access to those works which would only produce further anecdotal incomes might stimulate sales of other future or even past and still-protected works from the same author. This can be easily seen with the key role that free digital giveaways are playing in the promotion of exhibitions, motion pictures, music or books, in which artists participate for free in certain activities in order to get their popularity increased and, indirectly, achieve eventual sales.29 30

Copyright protection gives incentives for creation but at the same time monopoly rents cause both static and dynamic welfare loss to society. Copyright provides owners of the copyrighted material with the opportunity to earn returns. These returns must be generated at the expense of consumers. Copyright safeguards the incentive to create works generating creation fixed costs, at the expense of the potentially marginal costs of dissemination of works and creative re-use.31

**Wife Says He Was Cleaning Weapon: Why Enlarging the Public Domain Is not a Suicide**

Copyright law already recognizes the necessity of disseminating the works freely, to some extent, through the limited copyright term. As their copyright terms expire, works pass from protected status into the public domain where they can be freely built upon, transformed, re-cast and re-imagined by others. The eventual passage of works into the public domain is an essential feature of our existing copyright structure.

All authors generally benefit from being able to build upon the ideas of others, and that they all share an obligation of some kind to prior authors. Thus, the eventual passage of an author’s work into the public domain can be seen as part of the bargain that the author strikes in creating a work that inevitably builds upon the creative labor of those who have preceded him. To the extent that an author himself has built upon the creative labor of others before him, he has a moral obligation to similarly permit those coming after him to build upon his labor. The idea is that authors have a moral obligation to help replenish the public domain.

There seems little reason to fear that once works fall into the public domain, their value will be substantially reduced based on the amount or manner in which they are used. We do not claim that there are no costs to movement into the public domain, but, on the opposite side of the ledger, there are considerable benefits to users of open access to public domain works. We suspect that these benefits dramatically outweigh the costs.

The academic literature tells two stories about what happens to works when they fall into the public domain. First, some economists suggest that an absence of copyright protection for intangible works may lead to inefficiencies because of impaired incentives to invest in maintaining and exploiting these works.32 Why sell a work that others can also exploit for free and erode your market? Together with this under-exploitation hypothesis, others have argued instead, from a behavioral economics perspective, that when works fall into the public domain, they become attractive targets for exploitation because no license fee need be paid to the former owner of the work. Despite potential competition, exploitation will occur, just as it does in other markets where no one has a monopoly over the object of exploitation, e.g. the markets for string, milk or pencils. The data collected by platforms like Amazon demonstrates the power of the second hypothesis: that books and music become more attractive targets for exploitation after they fall into public domain.33

**Allocational Goals vs Distributional Points: Take the Money and Run**

Copyright itself is not an incentive mechanism, but it does allow an incentive mechanism, namely contracts, to operate. If the relationship between creator and investor –publisher/producer- with respect to duration, royalties and options can be negotiated as a bilateral legal relationship sans droit d’auteur, it is

only by conceptualizing the further relationship of right holders to competitors and consumers that the regulatory function of copyright statutes become visible. In limiting competition, copyright statutes may enable right owners to charge higher prices. Empirically, it still remains an open question if this translates into higher earnings for the creator.

One of the most important arguments or rationales of copyright reflects notions of natural justice: authors’ rights are not created by law but always existed in the legal consciousness of man. This rationale presuppose that copyright vests in the author as creator of the work. This natural allocation principle is, indeed, reflected in the general rule that copyright originates with the originator of the work. In fact, in most countries of the world, copyright is ‘author’s right’ by definition, if not by name.

What is surprising then is that in practice nothing much of this allocation principle remains. Professional authors only rarely own the copyrights in the works they professionally produce. This is true not only for the millions of intellectual workers producing works under employment contracts, or otherwise ‘for hire’, but also for independent creators.

However, the intermediaries have never managed to deprive the authors from the one right that, more than anything else, represents the ethical core of the droit d’auteur: the moral right. The droit moral offered the authors at least a modicum of protection against abusive producer practices, such as unauthorized first publication, incorrect crediting or mutilation of the work. In some European countries, the moral right also provided the foundation for a number of further reaching author-protective provisions.

Some Historical Background

Thanks to the printing privileges that were granted by the public authorities of pre-copyright days, the printer-publishers enjoyed strong, but short-lived monopolies in the ‘privileged’ editions they produced. Inspired by emerging notions of natural justice, in the eighteenth and nineteenth century the idea gradually became accepted that it were the creators, rather than the printers, that deserved the protection of the law. At the same time, the emancipation of the bourgeoisie that culminated in the French revolution signaled the end of the privilege system. Thus, printing patent was replaced by copyright, an exclusive right of reproduction that originated with the author of the work.

But the authors were hardly better off. Under the first copyright laws that emerged in continental Europe, transfer of title to a manuscript automatically implied a grant of copyright. As a result, author’s rights remained publisher’s rights in practice, until in the second half of the nineteenth century the exclusive right was, at long last, made independent of the manuscript. With that, the paradigm shift of copyright was complete, at least on paper. Intellectual property was born; the printer-publishers had lost their privilege, apparently forever. In the future, for protection against pirates, competitors and other unauthorized users, producers–intermediaries- would be largely dependent upon the authors’ economic rights.

In the course of the nineteenth and twentieth century, the producers have managed to overcome this legal catastrophe with remarkable ease. The panacea was ‘freedom of contract’. If the legislature had bestowed upon the authors certain exclusive rights, nothing prevented the publishers from relieving the authors from their legal rights by contractual means. Indeed, this occurred on a grand scale almost immediately, a practice made easy by most authors’ timid behavior vis-à-vis their publishers. Until well into the nineteenth century, many authors considered it not done to benefit financially from the proceeds of their works. The true author created Gloria et. fama, not for material profit. Untroubled by earthly matters, such as rights and royalties, the relationship between authors and publishers often took on an almost idyllic nature. The amount of the honorarium that a publisher would award his author, therefore, rarely reflected the commercial success of published book. For most writers, authors’ rights were merely moral rights; the pecuniary side of the coin began to prevail only much later- with the advent of the ‘enterprising’ author. But even today, many authors still struggle with the dilemma between mind and matter.

The publishers, from their part, quickly discovered that their derivative legal position yielded some unexpected benefits. Because the copyright laws now focused on the person of the author, the term of protection followed the life of the author, plus an ‘alimony period’ to the benefit of the author’s

35 Both in Austria and Germany the moral rights inspired doctrine of monism–economic and moral rights are two sides of the same coin-led to the rule, still existing, that copyrights cannot be assigned or transferred.
descendants. As a result, by acquiring the copyrights of the authors, the publishers had in fact obtained a legal monopoly that far exceeded the duration of the former printers’ privileges, or even the neighboring-publisher’s right that European publishers would lobby for, in vain, in the 1970’s and 1980’s.

Politically, the publishers and producers also drew substantial benefits from the copyrights of their ‘partners’, the authors. Expansion of author’s rights proved to be a much easier ‘sell’ than the introduction of a purely capitalist publisher’s right. The authors were easily persuaded to act as stalking horses for the producers;36 a practice that has continued until today.

Authors and Intermediaries. In Search of Equilibrium

It is one of the ironies of the Internet, that now ‘publishing without publishers’ is finally becoming a reality; authors are forced to assign their rights to publishers and other producers on an unprecedented scale. In the digital era, author’s rights have become the authors’ only by name. The producers have run away with the rights –so the money-, as in the early days of copyright. High timer to change the course of history once again, and return the rights where they belong: with the authors of works of literature, science and art.

Doesn’t the existing repertoire of remedies under private law provide sufficient protection? Indeed, depending on the law applicable to the contract, several instruments available under general contract law may protect authors against unfair provisions in copyright contracts:

- the principle of ‘fairness’ or equity, that may supplement, or even an override, unfair contractual terms in certain jurisdictions;
- rules prohibiting unfair terms in standard agreements, or unconscionable contracts; and
- provisions allowing the revision or rescinding of a contract if unforeseen circumstances would make unaltered execution of the contract unjust.

However, even if authors might benefit from these rules in a given situation, general private law suffers from a fundamental flaw: its normative content is minimal. Contract law does not inform authors or intermediaries of the (un) reasonable nature of a specific contractual provision. Authors with a grievance may take a publisher to court after the fact, but in practice will be very hesitant to do so.

Collective bargaining –on behalf of employed authors, or even ‘organized’ freelance creators- may restore the lack of balance in copyright contracting, and lead to a more equitable allocation of rights among authors and producers. However, in some countries, including United States and Germany, freelance authors are barred from collective bargaining for reasons of anti-trust law. Moreover, even absent such restrictions, freelance authors are often hesitant to organize themselves in guilds or unions. Many authors have elected to live the life of an independent creator not out of social or economic necessity, but as a matter of principle.

What measures would be appropriate? A lot can be learned from the rules on copyright contract presently codified in number of European countries. Depending on local legal tradition, legislatures might opt for a scheme of detailed, sector-specific provisions –e.g. regarding publishing, broadcasting, advertising, etc-, such as those existing in France, Spain or Belgium. Alternatively, legislatures more comfortable with open rules might prefer introducing a set of general rules, phrased in media-neutral terms. Either way, the statutory rules on copyright contracting should be imperative, and preferably immune to a choice of foreign law.

Rules to be considered must include:

- an ‘automatic’ termination of transfer or grant of rights in case of non-use within a given period of, say, three years;
- a ‘bestseller’ provision, requiring contract renegotiating if the work becomes an unexpected success;
- a purpose-of-transfer- rule; and possibly
- a prohibition on the transfer or grant of rights in respect of uses unknown at the time of contracting.

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So far, the international copyright conventions do not provide for any such author-protective measures. Obviously, in view of the globalization of the information and entertainment industries, there is much to be said for international solutions. An internationally harmonized regime of copyright contract law would benefit both authors and producers. It would prevent choice of law clauses from undermining author-protective provisions, and create a ‘level playing field’ for intermediaries all over the world.

Copyright’s structural function as the engine of free expression has in the past been effective in fostering a plurality of voices in the media. Whether copyright can maintain this function in the years to come, and thereby justify its prolonged existence for future generations, will depend largely on the proper allocation of rights between authors and intermediaries.

Towards a Renewable and Revertible Copyright Protection System. A proposal

As indicated above, copyright law awards exclusive rights that now often last more than 100 years. Furthermore, these rights are typically transferred by authors to third parties who accumulate back-catalogues of rights. A large percentage of works in these back-catalogues are not available for cultural, social and commercial innovation. We have reliable indicators of the scale of the problem. Studies conducted in the United States at the time of the constitutional challenge to the Copyright Term Extension Act\(^7\) found that only 2.3% of in-copyright books and 6.8% of in-copyright films released pre-1946 remained commercially available.\(^8\) A study for the Library of Congress on the reissues of U.S. sound recordings found that of a random sample of 1521 records issued between 1890 and 1964, only 14 percent were available from rights owners.\(^9\) For a large number of in-copyright books, the owner is unknown.\(^10\) For photographic collections of museums and archives, the number rise to 90% of all items. These so called ‘orphan works’ could not be lawfully reissued even if the will was there. The concentration of back-catalogues of rights is an oligopolistic industry structure, as an unintended side-effect of copyright law, may also create a barrier to entry for new firms and artists.\(^11\)

It is an empirical question what length of term would provide sufficient incentives for the production and distribution of culture. Some have argued that the correct approach to setting the copyright term would be to reduce it step by step, until creative production starts to fall, while some others prefer to continue extending the terms of protection.\(^12\)

The Proposal

Empirical data indicates that the investment horizon in cultural industries is well below 10 years.\(^13\) There is also compelling evidence that the most intensive commercial exploitation takes place at the beginning and the end of the exclusive term.\(^14\) However, setting a term that rationally balances under-production and under-use of copyright works is closed as a policy option, as international and European law stands. Still, the idea that works that are not being exploited should lose protection to the degree that they can be used by others is consistent with general principles of law. We find similar principles in the law of real property –


landowner may lose title if rights are not asserted, in competition law—compulsory licenses, or contract law—revision and termination.

Compulsory registration of copyright works contravenes the Berne Convention, and altering that would be extremely cumbersome, but it does not prevent the development of a national voluntary scheme.\(^\text{45}\) In fact, there are many ‘private-national’ registration systems, such as ISBN for books that already requires information from authors by publishers and copyright libraries. Right holders who have published works often register them with collecting society and collecting societies exist for all the valuable rights protected by copyright law. There are also private companies that have register works for the author in order to establish prior creation and provide evidence in the event of a dispute.

A registration system would enable the eventual introduction of a renewal system into the copyright term. Copyright could become more similar to a patent by having an initial term of protection of a work, say 10 years, renewable for further terms.\(^\text{46}\) The advantage of this is twofold: it enables a ‘use-it-or-lose-it’ regime to function and, more relevant to the economics of copyright, it enables the market to function better in valuing a work. The vast majority of works are anyway out of print because they are deemed to have no commercial value while the copyright is still valid. Knowing that renewal would be necessary would also alter contractual terms between creators and intermediaries, thereby improving the efficiency of contracting and the prospect of fairer contracts.\(^\text{47}\)

A more drastic version of this scenario has been proposed by Landes and Posner\(^\text{48}\); in keeping with trademarks, copyright would become perpetual with renewal required at stated intervals. But the incentive to renew only exists for protecting works that the right holder considered to be valuable. Unrenewed, so lacking value, works would go into the public domain, thereby overcoming the widely recognized problem of orphan works. Landes and Posner were already concerned with the considerable waste of resources employed in lobbying for extensions to copyright something that would be preempted by their scheme.

Other changes that could be considered relate to altering the focus of copyright more towards protecting the initial creator than subsequent right holders; this might be done by raising the requirement of originality, which has a very low threshold. With the development of social networking and other internet-based activities, the explosion of user-created copyright material has surely altered copyright law’s intention of encouraging of learning, as well as leading to considerable unauthorized use of other’s copyright material. Again, registration of works would reduce the problem of the excessive quantity of protected material and might deter unauthorized use too.

The regulation of collective rights administration could well be informed by more intelligent economic thinking than has so far been applied. That is a complex process that includes fragmentation of rights in a particular medium, such as music, art, literature, broadcasts, setting license fees for specific rights for their use in widely varying circumstances and developing formulae for distribution of revenues to individual right owners, including remunerations from levies and compulsory licenses and the like, registering lists of works provided by members or others who wish to license them collectively, maintaining a database of details of right owners and distributing monies to nationals and transfer credit to sister collective rights organizations abroad. Regulation and any moves to introduce competition needs to take all these activities into account.

It seems that, finally, copyright does not always ensure a fair return for creators and performers. We should then revise the foundations for the ownership of rights, not the reward they gain. Copyright—’s rewards always come through the market, even where institutional arrangements have been put in place by the state to ensure that copyright is administered fairly. And so do its costs.

\(^\text{45}\) Now, unless you know for sure that something is in the public domain, you dare not use it, even if you can’t locate the author in order to take a license. This has created a rights-clearance nightmare for any conscientious person who wants to build upon pre-existing works or make them available.

\(^\text{46}\) This was the provision in the Statute of Anne, with 14 years renewable terms.

\(^\text{47}\) See Kretschmer, M. Copyright Term Reversion and the ‘Use-It-Or-Lose-It’ Principle. International Journal of Music Business Research (IJMBR) – ISSN 2227-5789 Issue 1, no. 1, April 2012

Our *de lege ferenda* proposal then is to legislate a simple rule that copyright should be registered for an initial term of 10 years, upon a fee, after which it will revert again to creator, in case he has transferred the rights. After those 10 years, the author would have the 'opt in-opt out' choice of:

- Paying again the fee for another period of protection; or
- Abandoning the work.

The challenge for the legislator will be to create a simple and transparent scheme which would reduce the frictional costs of licensing for both exploited and non-exploited works.

**Economics of the Proposal**

From my point of view, economic efficiency ought to be the fundamental criteria for evaluating protection efforts. Because from a behavioral perspective society has limited its resources to spend, benefit-cost analysis should help illuminating the trade-offs involved in making different kinds of social investments on the intellectual creation business. In practice, there are significant challenges, in large part because of inherent difficulties in measuring benefits and costs, so the exact scope of copyright, which just demonstrates the weakness of its present configuration. In addition, concerns about fairness are triggered, because public policies on the field inevitably involve winners and losers, even when aggregate benefits exceed aggregate costs.

To deal with those eventual losers, the Pareto efficient model offers a well-known normative criterion for judging whether a social change makes the world better off: a change will result efficient according to Pareto’s model if at least one person is made better off, and no one is made worse off. This criterion has considerable normative appeal, but virtually no public policies meet the test of being true Pareto improvements, since there are inevitably some in society who are made worse off by any conceivable change.

The Kaldor-Hicks seems a criterion much more likely to apply: a change would be along its lines defined as welfare-improving if those who gain from the change could in principle fully compensate the losers, with at least one gainer still being better off. Seeking for a test of whether total social benefits exceed total social costs, Kaldor-Hicks criterion is my choice as theoretical foundation for the use of the analytical device known as benefit-cost, or net present value, analysis. Neither the Pareto efficiency criterion nor the Kaldor-Hicks criterion calls for support for any policy for which benefits are greater than costs. Rather, the key is to identify the policy for which the positive difference between benefits and costs is greatest; otherwise it would be possible to identify another policy that would represent a further potential Pareto improvement.

If the objective is to maximize the difference between benefits and costs –net benefits-, then the related level of copyright protection should be defined as the efficient level of protection:

\[ \max_{\{ q_i \}} \sum_{i=1}^{N} [B_i(q_i)-C_i(q_i)] \rightarrow q_i^* \]

Where \( q_i \) are potential losses for limiting the term of protection \( i = 1 \) to \( N \), \( B_i(\cdot) \) is the benefit function for the work entering the public domain, \( C_i(\cdot) \) is the cost function for the source, and \( q_i^* \) is the efficient level of protection. The key necessary condition that emerges from the maximization problem of equation (1) is that marginal benefits should be equated with marginal costs.

In our case, the Kaldor-Hicks improvement model can yield Pareto’s optimality when combined with appropriate compensation of losers by winners. With shorter terms of copyright protection the public domain will largely increase, improving social welfare –*winners*- and causing positive externalities like eventual re-uses of previous works and dissemination of works that (i) already lost their efficiency; or (ii) protection, bringing back those deadweight-works creators –*losers*- into the market –*compensation*.

**We Shall Overcome: Resurrecting Copyright Formalities**

Constitutive and renewal formalities would play an important role in our model, as filtering instruments between works for which authors desire copyright protection and those for which they do not. If authors must fulfill a formality before their works are eligible for protection, they are obliged to make an initial assessment of whether or not their works sufficiently commercially valuable to warrant protection, i.e.
whether the expected revenue of royalties would exceed the costs of completing the formality. The same assessment must be made if copyright is subject to a renewal formality. If the assessment appears favorable, authors are likely to fulfill the formality so as to secure protection for their works. If not, they most likely would refrain from doing so and the work will enter the public domain. Thus, in their capacity as filtering instruments, formalities may greatly enhance the free flow of information, in contrast to the present situation, in which each and every original work of authorship is automatically covered by copyright, constitutive and renewal formalities may substantially enlarge the number of works in the public domain.49

Second, formalities may fulfill important signaling functions for the public. If, in a system where copyright protection relies on formalities, works for which no protection is desired are easily identifiable as being unprotected (e.g. if no notice is attached to the work or if the work has not been registered or deposited in a public registry), it is instantly recognizable when a work resides in the public domain and thus can be used without prior authorization. This will significantly increase legal certainty for prospective users. More legal certainty will also be established if formalities provide indicators that facilitate the calculation of the duration of protection (e.g. if they would require authors and/or right owners to make relevant information concerning the author or date of first publication publicly available).

In the same vein, formalities may help to define and identify copyright-protectable subject matter. Constitutive formalities could provide the public with a clear indication of works for which authors claim protection. Obviously, this would not imply that these works automatically satisfy the substantive requirement(s) for protection. That will always be a matter for the courts to decide. Moreover, if copyright depended on registration, it is likely that registering bodies are given the discretionary power to refuse registering creations that obviously do not qualify as ‘literary or artistic works’ or lack sufficient originality (which should of course be subject to appeal by the applicant). This would help preventing all kinds of trivial works from entering the copyright arena. Likewise, it is possible that in cases of highly complex and technical works, applicants would be required to clearly indicate the elements of information for which they seek protection. Requirements of this kind are not uncommon in other fields of intellectual property law. In a patent specification, for example, the subject matter which the applicant regards as his invention must be particularly pointed out and distinctly claimed and, if necessary, be accompanied by a drawing.50 Likewise, the registration of a design typically takes no legal effect unless the filing of a design sufficiently reveals its characteristics.

Even if only declarative of the right, formalities may grant a few key benefits. In general, they fulfill important evidentiary functions. The receipt of deposit or entrance in the registers, for instance, may establish prima facie proof of initial ownership of copyright.51 Moreover, if the law requires a compulsory recordation of assignments or licenses, this may produce prima facie evidence of the legal transfer of ownership of copyright.52 This enables authors and copyright owners to easily assert their rights and claim the title of property in a work. This may be particularly useful in conflicts where the anteriority of authorship and/or the priority of a claim to the title must be resolved. In addition, even if the prima facie status of the claim allows the recorded facts to be rebutted by other proof, formalities may facilitate the exercise of rights by providing more certainty concerning the claim of copyright ownership.

50 §§ 112 and 113 of the US Patent Act (35 U.S.C. §§ 112 and 113). Likewise, art. 83 of the European patent convention requires a patent application to disclose the invention in a manner sufficiently clear and complete for it to be carried out by a person skilled in the art.
51 Under the nineteenth-century French legal deposit scheme, for instance, the receipt that was given upon deposit constituted prima facie proof of the property right on the work deposited. See art. 9 of the French Ordinance of 24 October 1814. Currently, voluntary registration schemes often provide for the same. See e.g. art. 53(2) of the Canadian Copyright Act (R.S., 1985, c. C-42): ‘A certificate of registration of copyright is evidence that the copyright subsists and that the person registered is the owner of the copyright’.
52 See e.g. 17 U.S.C. § 205 under c and art. 53(2.1) and (2.2) of the Canadian Copyright Act.
Finally, formalities may constitute an indispensable source of information relevant to the clearance of rights. If authors and copyright owners were obliged to register their copyrights in a publicly accessible register and to duly record each assignment of rights, this would increase the availability of information identifying the work, its author(s) and current right owner(s) and other valuable information (e.g. about the date of first publication). To a greater or lesser degree, the same information would become available if authors were obliged to mark the copies of their works with a copyright notice. As a result, formalities may contribute noticeably to lowering transaction costs, to providing adequate legal certainty and to alleviating rights clearance problems, such as those of ‘orphan works’ (i.e. works the copyright owners of which cannot be identified or located). Hence, formalities may perform a key role in facilitating the licensing of copyright, thereby stimulating the legitimate use of copyright protected content.

Conclusion

The Berne Convention for the Protection of Literary and Artistic Works, from 1886, prescribe a term of life of author plus 50 years. The U.S. acceded to Berne in 1989. In 1994, the Berne Convention was integrated into the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS), that is all 153 members of the World Trade Organization are now bound by it. The EU Copyright term was harmonized to life plus 70 years with the 1993 Council Directive (93/98/EEC, codified as 2006/116/EC). The U.S. Sonny Bono Copyright Extension Act, from 1998, extended the term by 20 years to life plus 70 years, or 95 years for works created under employment by corporations, or ‘works for hire’. In Europe, sound recordings, broadcasts and performances are only protected as neighboring or ‘related rights’. For phonogram producers and performers on music recordings, the term will change from 50 to 70 years with the implementation of the 2011 Copyright Extension Directive amending Directive 2006/116/EC (2011/77/EU). It seems already stated above that those terms seem way too long to us, mainly because they do not correspond with the true efficient life of works.

It is apparent that creative industries interest groups regard copyright as a right that must be maintained or preferably strengthened rather than as a privileged granted for the wider benefit of society.

Copyright is essentially pragmatic and based on perceived net social benefit. However, focus by policy makers on the benefits of the creative industries in the form of their size and contribution to national economies emphasizes financial benefits and ignores cultural benefits as well as costs. Net social benefit is contingent on the state of technology and on cultural perceptions and therefore needs reviewing as technologies and consumptions habits change but so far this has just led to additions to statutes and extensions of copyrights duration and scope. Moreover, copyright is a line in the sand, and moving the line by changing the law redistributes costs and benefits between producers, intermediaries and consumers.

Resurrecting copyright formalities may be one of the most salient ways of dealing with the current needs. Because of their inherent capacities to enlarge the public domain, to define and facilitate the recognition of copyright-protectable subject matter, to improve the licensing of copyright protected works and to enhance legal certainty for users and copyright owners alike, formalities seem fit to address the challenges that copyright is presently facing.

At the end of the day, the success of copyright, and on author’s rights which do not rely on economic justification, depends upon how well markets function for products embodying creative works. That depends upon the good old laws of supply and demand. Copyright is an intervention in the market that should help not hinder them. Our initial choice for that help is to encourage registration and renewal of copyright rather than to forever strengthen copyright law.

Intellectual property, then, is not a response to allocative distortions resulting from scarcity, as real property law is. Rather, it is a conscious decision to create scarcity in a type of good in which it is ordinarily absent in order to artificially boost the economic returns to innovation… Economic theory offers no justification for awarding creators anything beyond what is necessary to recover their average fixed costs.
Greeks’ Consumer Behaviour in Tourism

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Abstract

The consumer behavior of the tourist is a key element, when planning new profitable models of tourism and effectively promoting tourist destinations. Tourism should be the locomotive of Greece’s economy, however the economic crisis has greatly influenced the behavior of the Greek consumers. This paper wishes to examine the push and pulls factors that motivate Greek tourists and cross refer them to the new tourist’s consumer profile. Furthermore it tries to identify the current trends in tourism models and raise concerns on the development of a green tourist market. Having reviewed scientific articles and tourism statistics on the tripographic variables and the external influence of the economic factor as well as ran an electronic survey the paper addresses a research gap by arguing that the road to a profitable, sustainable tourism in Greece passes through proactive educational strategies as well as the use of targeted marketing channels and promotional tools.

Key words: Tourist Models, Consumer Behavior, Tourism Marketing, Tourism Motivation, Economic Crisis, Special Interest Tourism

Introduction

Tourism is Greece’s largest industry accounting for 18% of the country’s GNP and offering work to more than 900000 people (http://www.investingreece.gov.gr). In the last five years the economic crisis has brought severe damage to the domestic economy and the use of a strategic servuction system may be the way out of the crisis.

Decision makers need to have a deeper understanding of the present and future tourists’ motivations in order to maximize the tourists’ holiday experience and to generate profit to the local communities (Pearce, 2005). The current survey aims to offer valuable information regarding the motivation of tourist behaviour taking under consideration the particularities of the Greek society. More precise the survey’s objectives are to research the most significant drivers of tourist behavior, to identify the general trends in tourist models and to highlight the Greeks’ tourist profile.

Towards this direction acknowledged theories and trends are presented in the literature review section accompanied by the analysis and interpretation of the empirical survey’s results. Each part of this report is built around and strives to answer the following scientific questions:

- Is Tourism & Traveling still a priority for the Greek people?
- What really drives Tourist Behaviour? The importance of exogenous vs. endogenous factors.
- Are sustainable Tourism Models in Greece on the Rise?

Theory

Consumer marketing analyses the behavior of the tourist as a consumer, interprets the destination decision-making process and segments the tourist types and markets (Varvaressos, 2002). Tourists as consumers are becoming more independent and their expectations when they buy tourism products and services have risen. Therefore the modern marketer has to turn his/her focus away from the impersonal consumer to the individual customer as supported in http://www.adexchanger.com/the-sell-sider/bulletin-consumer-marketing-is-out-customer-marketing-is-in.
Tourism Models and Traveler Types

A review of the tourism related literature highlights a shift in offered services from mass tourism towards more individualized services and the desire of tourists for holistic co-created experiences. According to an article of Vassilios Polizos, member of the international organization for culinary tourism, the Ford 4S or Sun lust model is no longer viable, and a transition to new sustainable tourism forms is necessary, that focus on differentiated high quality services and not on homogenization. Varvaressos takes the idea one step further suggesting an innovative 4E model based on the pillars of (a) Environment and clean nature, (b) Educational tourism, culture and history, (c) Events and mega events and (d) Entertainment and fun.

One can distinguish two major types of tourists based on their lifestyle, allocentrics on one hand and psychocentrics on the other. Allocentrics engage actively in the tourist experience travelling at their own pace and taking interest in authenticity and local cultures (http://www.tourismtheories.org). Psychocentrics are after complete relaxation and wish their itinerary to be prearranged for them. In reality however things are not as clear cut. Many tourists tend to combine tourist choices; For example they spend one week at a five star hotel and three days doing wine and food tourism. What is even more important in recording their decision making is that it is influenced not only by their lifestyle, but also from what is pushed on them from tourism opinion leaders and society’s values (Kotler, 1997).

The push and pull approach developed by Dann in 1977 (cited in Cohen, S.A., Prayag, G. & Moital, M., 2014) is the most often used when trying to explain tourist motivation. Tourists are pushed by their psychogenic needs to travel and pulled by destination attributes according to Yoon & Uysal (2005) as cited in Mohammad (2010). A tourist may feel the need to escape from the daily routine and to search for psychological rewards, e.g. an adventure or social interaction. Maybe he/she is in quest of relaxation or excitement, novelty or pure enjoyment (Kotler, 2006). Pull factors relate to features or attractions of the destination, such as beaches, beautiful scenery, historic and cultural resources, accommodation and transportation, recreation activities and entertainment.

EU Statistics

Tourism is a competitive and perishable economic product (LaMondia et al., 2009) that shifts over time, depending on the changing values of holiday travelers. As the leisure time minimizes and modern life stress increases tourists prefer to take more often shorter breaks in search for community (Richards, 2011). Eurostat data for 2011 clearly illustrates the changes in the tourist behavior of the Europeans in terms of holiday frequency and duration, impact of the crisis on business and holiday trips and type of preferred accommodation. They are prone to take more and shorter trips; they reduced the number of business but not of holiday trips and stay two out of three times at friends’ and relatives’ homes. As another survey conducted by ABTA on consumer trends eloquently states “Consumers would rather sacrifice home improvements, eating out and gadgets than their holiday”:

In their paper LaMondia, Snell and Bhat (2009) identified that whom one travels with can influence vacation destination and transportation choice. The same paper refers to the EU projections of higher expectations in a competitive tourism market and a heightened interest in niche markets, like Visiting Friends and Relatives (VFR) tourism, creative tourism, wellness and spa tourism.

Special Interest Tourism in Greece

Special interest tourism may be defined as a form of tourism which involves consumers whose holiday choice is inspired by specific motivations and whose level of satisfaction is determined by the experience they pursue. Kalogeras (2009) mentions that Greek Tourism Minister Spiliotopoulos in 2007 pointed out the development of special interest tourism is considered a major priority of the national tourism development strategy of Greece, although, as the author supports, work should be undertaken at a higher level of developing forms, such as city breaks, yachting, wellness tourism, congress tourism, etc. Furthermore Ms Kefalogianni, the Greek Minister of Tourism, during a press conference on 9/1/2014 spoke of the importance of marine and coastal tourism for the Greek and European economy in promoting sustainable economic growth and accentuated the ministry’s main effort to promote Greece as an all year round tourism destination.
Methods
Taking into consideration the descriptive nature of the study it was opted for quantitative research. The research took place in December 2013 and a non-probability convenience sample of 125 people was utilized, which is considered sufficient for the objectives of the survey.

The Questionnaire
Aiming to reach as many possible respondents as possible and to accurately and easily draw the first data it was decided to develop the questionnaire with the Limesurvey web based tool. In order to ensure the validity of the results, cookies were used, so that no one could answer the questionnaire more than one time. The active link of the questionnaire was distributed through personal email, Facebook and LinkedIn account to friends and acquaintances with the request to pass the link along to other people.

In order to facilitate those taking the time to respond the total of 41 questions were divided into seven thematic subcategories plus the demographic section. For the same reason it was decided that the demographics would be placed last and that the total duration of the survey would not take more than 10-15 minutes. The types of questions used were primarily dichotomous and multiple choice questions to select the corresponding answer, Likert scale questions to examine importance of various factors and ranking questions to assess prioritization.

Data collection
The data collected was then exported to an excel spreadsheet and statistically analyzed. More detailed each question’s received data was analyzed descriptively while the correlation degree among the used variables was examined through pivot tables. The subject of the research being the understanding of tourist behavior, it was cross-referred to the variable of time, money, sociodemographic characteristics, as well as to various tourism models and extrinsic and intrinsic factors influencing tourist’s decision-making.

Results
In following the main findings of the research are presented to allow a descriptive analysis of the quantitative data as well as a critical evaluation regarding the objectives of the research and the research questions. The results are being presented according to the thematic category they were originally included.

Demographics section
Although it was a convenience sample there is a rather balanced participation of men and women. From these people 51% were single, 40% were married and 8.8% were divorced. To the question if they had any minor children only 28% responded positively.

The educational level of the respondents tended to be high, since approximately 50% holds a MSc or PhD degree and only 7.20% have only a high school diploma. Data on the profession shows that the majority of the respondents are public servants, however all major categories are represented including students (10.40%) and unemployed people (9.60%). Last but not least people were asked to state their net monthly income since it is believed to be a very important factor in controlling tourist behaviour, their answers ranging from 0 to more than 2000 euros pro month.

Types of Holidays
As it was expected the results of this multiple choice question clearly illustrate that summer holidays is the number one choice (80%) of people followed by a not insignificant 32% favoring weekend or 3-days breaks. On the other hand the percentage of people choosing winter holidays is only 8% easily explained by the fact that Greece is a Mediterranean country favored by breathtaking seas and a beautiful extended summer period.

People were also asked to vote for their favorite means of transport and accommodation type, when they go on holiday. Their answers indicate they look for independence and quality. In detail more than 50% prefer road trips and 36.8% travel by plane. Well known hotel brands are preferred by 45.6% of the respondents followed not by medium scale hotels in an attempt to lower cost, but from self-catering apartments (20.8%). The results also indicate the preference of less organized and more flexible forms of traveling.
since the percentage of people who voted for cruises is a limited 4% and for organized bus tours another 8%.

**Travel Motivation**

The scope of this questions’ category was to identify the main drivers of the tourist behavior and the tendencies in the preferred tourism models as they vary from the past into the future. In the first question people were asked to choose their most significant travel motivator. Several common motivators were presented to them depicting both passive and active tourist models. The results (Figure 1) clearly demonstrate the need to escape from the daily routine (80%). Everyday life has become very stressful as many people face financial or psychological difficulties. They need to relax under the sun and let their worries wash away by the sea (65.6%). Third in line with a percentage of 25.6% is “Health and Rejuvenation” motive, but whether it is a tendency or not will be examined in the future.

Worthy of further study are the answers of the following 3 questions regarding the selected tourism models for the current year, five years ago and respondents’ expressed desires for the upcoming year. The three most often named models are 4Ss, VFR and Culture and sightseeing, while at the same time the percentages of more alternative forms of tourism, like religious, eco- and agro tourism score under 2%.

A more thorough look in these answers (Figure 2) reveals the tendencies in tourism models in Greece. The sun, sea and sand model although still very high in the numeric scale seems to have lost its crown steadily declining. The model that seems to be on the rise is Culture and Sightseeing regardless of the medium decline it suffered in present year. The only two tourism models that show at present times increase are business tourism and visiting friends and relatives, since they are rather low budget holiday choices. The latter appears to be but more a result of the socio-economic circumstances rather than a tourism trend, since the respondents don’t support their choice also for the upcoming year. Special attention needs to be given to the percentages of adventure tourism, which on the one hand has drawn back severely in the present year (4.8%) but do insinuate a hope for rise in the medium term (16%).
Destination Selection

People were given four set of questions all trying to highlight the motives behind destination selection. The results indicate a medium priority of the total cost factor, since 60.8% voted it as very important followed by unspoiled nature (40.8%). Worth mentioning is also the fact that the power of the positive word of mouth of trusted friends is of about the same importance as the guaranteed high quality standards offered by a branded destination (both rated 47.2%). The importance of cost for the selection of a tourist destination is validated also through the answers to the following question, where, as one can see at Figure 3, the cost is up the ladder (64.8%) followed by value for money (58.4%). Only 7.2% look for personalized customer service.

The third question aimed at researching once again the influence of travel scopes. Environment, cultural heritage and entertainment count for 85.6% of all answers, while not widely promoted forms of tourism, like gastronomy and culture related activities, like festivals are shrank to 4.8%. The respondents were generally not very influenced by the possibility to get to know other people (11.2%) or living authentic experiences with the locals (13.6%)
Special Interest Tourism

A whole segment of the questionnaire was dedicated to the alternative forms of tourism. The results speak by themselves. Out of 125 respondents only 16 people (12.8%) had ever heard the term Special Interest Tourism. Out of the people who have heard the term, only 5 (31%) have actually tried it at one time. They named Indian spa, mountain climbing, diving tourism, spa and meditation. When asked to state their degree of satisfaction of their experience as well as if they were keen on promoting it among their acquaintances or do it again in the future the answer was 100%.

Figure 4 explains that almost 50% did not engage into some kind of sustainable – alternative form of tourism not because it is too expensive (27%) but rather because they lacked suitable traveling companion (46%).

Aiming at more direct answers on the subject of holiday’s organization in a pre-packaged or in a more flexible way Figure 5 leaves no place for doubt as to the results. From the 7% who chose packaged holidays about 3 out 4 had minor children, hence explaining their choice.

How do you prefer to organize your holidays?

- Being able to customize your holiday package to suit your needs and wishes (93%)
- Not having to think of anything resting assure that your travel agency will plan every detail of your holidays

Fig. 4

The Role of Budget

The available budget influences significantly the choice of destination (84%) and the duration of the holiday (87.2%). When asked how they rate the importance of holiday budget compared to other consumer expenditures and the holiday expenditures, the respondents admitted to rank supermarket expenses first (60.8%) followed by clothing (23.2%) or children’s expenses (33.6%), although there is a 4% who do rank holiday/travel expenses as their first priority. More money spent during holidays go to ensuring good lodgings standards (52.8%) as well as on getting to the destination (28.8%) rather than to local products and memorabilia (0.8%). Furthermore data illustrates that 40% of all 125 respondents spend from 401-800 euros individually in a year’s span for their holidays, while there is a 10% who claims to spend more than 1200 euros per year.

The Role of Time

The majority of respondents claimed they usually travel between 5 to 7 days annually while only 2.4% of all answers admitted on not going at all on vacation this year and 1.6% in a five years’ time. The major reason given for not taking holidays is lack of money. The other choices given to the respondents had to do with the variable of time taken into consideration how full the daily schedules of most people are and the lack of motivation implying need to escape or desire to fulfill a psychological need.

Tourists’ Profiles & Cross-references

The final questions’ category was primarily used to sketch the tourist profile through cross reference of his/her travel habits and his/her hobbies and personal characteristics. In the following line the results of the correlations drawn between different variables as well as answers regarding the consumer I.D. of the respondents are presented.
Figure 6 visualizes the degree of consumer awareness most Greek people have. Only 46.4% namely admit that they are not aware of their influence as consumers of tourist products and services. They insist however that they do claim their right for quality service (73.6%) and they do meet their demands (69.6%).

Elaborating on the influence of personality to the selection of different tourism models the results indicate that there is indeed a high interdependence, since 26 out of a total of 29 people, who were familiar with the term Special Interest Tourism, described themselves as outgoing and adventurous.

An indication further supported by the choice of hobbies. When asked to select their preferred hobby out of a list including more or less passive or extreme hobbies, the vast majority of 76.8% pointed out “reading, movies, music and collections” approaching the 82%, who voted for Sun and Sea Holidays. On the other hand when investigating more active or alternative tourism models, respondents’ hobbies seem not to have any major impact on their touristic choices. As seen in Figure 7 although 26.4% have Cooking and Oenology as a hobby only 3% choose Gastronomy as a factor that would influence their tourism destination.

Another paradox appears in Figure 8, when one tries to depend the number of people expressing their wish for a beautiful, clean scenery (40.8% rate it as very important) and the extremely small number of people who claim they would be sensitized by the degree of environmental awareness of the tourist destination (3.2%).
Another finding leads to the belief that it is women with the more adventurous soul (81.2%) and not men, as one could easily be geared to believe. Maybe it has to do with the woman’s psychology, being more burdened by the daily routine that intensely feels the need to escape.

The analysis has revealed one last significant aspect of the tourist behaviour, and that is the fact that holidays is a human need that exceeds its dependence from the economic factor. Only 7% of those having responded that they earn between 0 to 500 euros pro month answered that they do not go on holidays not once in a year. On the contrary 7% of these people stated they do have vacation more than 3 or 4 times each year.

**Conclusions**

Leisure motivation can be classified as either avoidance - escape or search – seeking (Iso – Aholea, 1989). Holidays become therapeutic fantasies projected on to distant lands or wake up calls for people to grasp the reality of the moment away from the daily routine. Holidays fulfill a combination of human needs, thereafter and as asserted by the current paper tourism is an ongoing priority caused and sustained from the modern society.

**Research Limitations**

The survey’s results are limited by the sample used. The research sample is allocated in Greece and no consideration has been given to cross check results according to places of residences’ different characteristics, such as availability of airport, nearness to a big city, island or mountain village, etc. to allow variability. The findings do indicate the existing tendencies as acknowledged in other scientific papers but are general reflections of the Greek modern society.

**Summary of Findings**

Tourism as proved through the analysis of the findings is indeed driven by a variety of both exogenous and endogenous forces. Economy is the most significant parameter in forming people’s touristic choices. Both duration and frequency rate are strongly defined by the availability of respective budget. Even more the priorities of the types of financial needs to be covered both outside and inside holidays are affected by the amount of money available to be spent. One first satisfies the biological need of food and sleep and then deals with the fulfillment of more psychological needs, like travelling and entertainment.

The character of each person and the demographic characteristics also play an important role in forming touristic choices. More outgoing, self-confident people as well as people with no or limited family responsibilities, tend to select more adventurous, flexible type of holidays. However they do not live their personality traits and hobbies, such as adventure or cooking, to the fullest when in holidays preferring safer, more passive choices.

The second variable in respect to tourists’ behaviour is society and culture in general. Greece being a country blessed with great weather conditions and beautiful seas has failed so far to develop winter tourism. The overwhelming majority of Greeks prefers to have vacation in the Greek summer and is not so eager in trying other tourism models that do not include the sun, the sea and the sand.

Furthermore Greeks are strongly influenced by the opinions and decisions of their peers. As described in the findings of the survey positive word of mouth equals to importance the established brand name of a tourist destination. Lack of peers interested in alternative tourism models is the main reason for people not trying out such models.

Many more steps need to be taken towards the promotion of sustainable tourism in Greece. It is an undeniable fact that most people, when they think of alternative tourism, bring images only of extreme sports and not of activities, like cooking, bird watching or cycling. There is a need for education and targeted promotion.

Sustainable tourism involves social responsibility and environmental awareness. Greek tourists seem to lack these qualities, since although the majority enjoys and wishes for a clean, unspoiled environment to
relax in their holidays, only a few understand that the power to preserve and promote it is in each and everybody’s hand.

**Recommendations**

Travelers’ behaviour being as described culture depended, shifts in time, hence giving emphasis to education and awareness is extremely significant for the promotion of sustainable tourism models. Tourism policy makers need to be proactive about the growth and preservation of a viable tourism industry. Knowing on what grounds tourists make their choices can help them adapt and expand the offered services to attract the desired types of tourists.

More scientific researches need to be implemented that will take into account the conditions that differentiate the Greek tourist market in terms of the Mediterranean lifestyle and the traditional character of the society giving emphasis to the catalysts that influence tourist consumer behaviour. Searching out the role models to act as trend setters for sustainable tourism forms and elaborating on ways to develop consumer awareness are just a few of the paths that need to be highlighted striving to further and more efficiently develop the tourism industry in Greece.

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Knowledge Management and Employee Perception

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Abstract

In an era where competitive advantage is perceived to be linked to knowledge, considerable interest in knowledge management continues to be the trend. Given the broad scope and interdisciplinary nature of KM, this interest spans traditional functional and professional boundaries ranging from IT professionals, to accountants, marketers, organizational development and change management professionals. A notable common feature of this widely divergent activity is an emphasis upon knowledge work, knowledge Workers and the nature of knowledge within organizations. Effective implementation of knowledge management depends on several factors which include leadership, organizational culture, IT infrastructure, positive attitudes of the employees to share expertise and so on. As successful KM initiatives implies a good combination of both human participation and IT collaboration tools, understanding and measuring people’s perception on various KM issues is a prerequisite. Knowledge management in UAE is still in its infancy. Very few UAE companies have initiated any KM programs. This study explores what people in UAE Companies perceive about knowledge management, especially in the area of organizational structure, culture, leadership, IT infrastructure and organizational learning. The study also focuses on employees’ personal attitudes towards sharing expertise with peers. A survey was conducted among the employees and statistical analysis was done to determine overall perception on KM.

Keywords: Knowledge Management; Middle East, UAE, MENA Region, Employee Perception
Factors Effecting the Development of Islamic Finance in Turkey

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Abstract
The emergence of Islamic finance as a concept and practise is based on the early days of Islam. It has improved and developed since 1960s in few Arabic countries. Thereafter, Western countries followed Islamic finance activities. It began in early 1980s in Turkey in the banking sector. This paper reviews the conceptual factors that affect the development of Islamic finance in Turkey from the beginning. It examines the data including asset growth, equity capital, loan funds, bank deposits and profitability of participation banks and the data of capital market instruments. In the light of these data, this study concludes that the changes in law and regulations, the restructuring process and governmental support policies affect the development of Islamic finance in Turkey in two ways: a) through the increasing market share and b) through the entrance of the good variety of instruments to the sector.

Keywords: Islamic Finance, Islamic Banking, Islamic Financial Instruments, Turkish Financial System, Participation Banking.

Introduction
When the term of “Islamic finance” told, financial transactions performed by Muslims and interest-free banking system have primarily come to minds. However, Islamic finance is very comprehensive and covers money management as a life style. There are lots of definitions about Islamic finance and the main point highlighted by all of them is the requirement of fulfillment of the financial transactions in the “Islamic” framework.

In the 1950s, different political and social factors initiated the faith-based financial practices (Shanmugam and Zahara, 2009: 3). Islamic finance had a rapid growth in 1970s when Islamic countries exporting petroleum gave current account surplus. Several Islamic finance and investment institution founded and many conventional banks opened “Islamic windows” for getting a share from rising new market. In addition, the new structural reforms, liberalization of capital movements in the financial system, customization, and integration of financial markets globally had been supporting the development of Islamic finance (Iqbal, 1997: 42).

Islamic banking emerged as a response to both religious and economic needs. During the global finance crisis, Islamic finance had especially got a great attention with asset-based financial models. Shown in Figure 1, by the end of 2013, it is estimated that the global size of Islamic banking assets reach U.S. $1.811 trillion. In this case, comparing to 1.331 trillion dollars’ worth in 2011, the volume of Islamic banking assets’ compound growth rate will be 35.75% (Ernst & Young, 2012: 4-8).
Today, Islamic financial assets correspond to 1% of global financial assets. Since 2000, the Islamic financial sector shows a steady growth. It is estimated that this growth will continue. Surveys conducted worldwide, half of the 1.6 billion Muslims may choose Islamic financial models if it can demonstrate a competitive structure against conventional services (Vasseux, 2009: 2). "Maris Strategies" company has calculated the estimated value of global Islamic assets volume as 8.6 trillion $ in 2023 by using the Muslim population, number of Islamic banks and asset volume values belonging to several countries. This is the main reason why most of the Western financial institutions have a great interest to Islamic finance.

**Islamic Financial Models**

Islamic finance is not value-neutral. Rather, it has peculiar set of values (Zaim, 1995). Islamic finance separates from conventional alternative with prohibitions on interest, gharar, games of chance and gambling, extravagance and luxury, trading in illegitimate goods as pork, alcoholic drinks and so on. The purposes of all these prohibitions are to provide the social and economic justice, ensure universal feeling of brotherhood and mutual solidarity, develop free market structure and fair pricing, contribute to the community welfare and distribute capital to all segments of society.

In the Islamic financial system, people and companies can earn money by performing different legal and economic activities in accordance with different circumstances except prohibited activities. In this context, the main funding models applied are classified as follows:

- **Tawarruq** is a process that “a buyer purchases a commodity from a seller on a deferred payment and sells the same commodity to a third party on a spot payment to get cash” (Bayındır S., 2012: 156).
- **Quard hasan** is defined as “to give a commodity to somebody to utilize than pay back its value/quantity” (Eskicioğlu, 1999: 118). The borrower is obligated to pay back only amount/quantity of borrowing (Shanmugam and Zahari, 2009: 20). Even in case of the extension of the payment, any surplus and compensation couldn’t demand (Iqbal and Molyneux, 2005: XIV).
- **Murabaha** is sale with a fixed profit margin over the cost. In murabaha, “a seller has to reveal his cost and the contract takes place at an agreed margin of profit” (Ayub, 2007: 215).
- **Mudarabah** is “a special kind of Shirkah (partnership) in which an investor or a group of investors provides capital to an agent or manager who has to trade with it; the profit is shared according to the pre-agreed proportion, while the loss has to be borne exclusively by the investor” (Ayub, 2007: 321). It is a kind of profit and loss sharing.
- **Muskarakah** is “a partnership that two or more people participate to equity by a certain amount in condition with sharing profits or loss” (Uçar, 1993: 129).
- **Salam** is “a purchase of specified goods for forward payment” (Mirachor and Zaidi, 2007:52). With this way, commodities which will be produced in the future can be sold and its fee can be charged today (Bayındır A., 2007: 145).
- **İstisna’** is “a production contract that the seller produce a certain commodity specified by buyer with his own materials” (www.aaoiff.com ).
Ijarah is “the sale of usufruct of an asset” like leasing (Iqbal and Molyneux, 2005: xii). The lessor retains the ownership of the asset with all the rights and the responsibilities.

Müzâraa is “a partnership that one side share the land and other side share the labor than they share the harvest by a certain rate” (Döndüren, 2005: 441).

Müsâkat: “is a partnership that one side share the vineyards and orchards and other side share the labor than they share the harvest by a certain rate” (Döndüren, 2005: 441).

Sukuk is “a freely tradeable Islamic participation certificate based on the ownership and exchange of an approved asset” (Hassan and Lewis, 2007: xviii).

Takaful is “an alternative for the contemporary insurance contract. A group of persons agree to share certain risk (for example, damage by fire) by collecting a specified sum from each. In case of loss to anyone of the group, the loss is met from the collected funds” (Obaidullah, 2008: 60).

People and institutions can use these financial models in accordance with their activities and needs. Using with these models, Islamic finance has been deepening and expanding.

The Development of Islamic Finance in Turkey

Islamic banking developed over traditional banking in the last quarter. Especially during the global financial crisis, Islamic finance loomed large because of relation with real economy and avoidance from excessive risk, uncertainty and speculative activities.

As seen Figure 1 and Figure 2, Islamic banks’ branches and staff numbers have shown a steady increase over the years in Turkey. They have been trying to meet the growing demand.

Fig. 1. Numbers Of Brances Of Turkish Islamic Banks
Source: PBAT (Participation Banks Association of Turkey)

Fig. 2. Numbers of Staff of Turkish Islamic Banks
Source: PBAT (Participation Banks Association of Turkey)

Total asset development which is one of the most important indicators in the banking sector represents a very positive outlook in terms of Islamic banks. From the early years it tends to rise however, in 2001 banking sector crisis caused small decrease in total assets. As can be seen from Figures 3 and 4, since 2002
annual total assets of Islamic banks increased by % 34.4 by average from day to day. Additionally share from the sector is also increasing.

**Fig. 3.** Turkish Islamic Banks’ Total Assets (Million New Tl)

Source: PBAT (Participation Banks Association of Turkey)

Deposits had been a steady increase until 2012. In 2012, as a late reflection of the global crisis, deposits had a decline of 27% as seen from the Figure 5. The sector's 13 years average annual growth rate since 2000 is 28%. As seen in Figure 6, the share of total banking share since 2001 which has the lowest rate showed an average annual growth of 10.5% and reached 6.5% in 2013.

**Fig. 5.** Turkish Islamic Banks’ Total Deposits (Million New Tl)

Source: PBAT (Participation Banks Association of Turkey)
Islamic banks in terms of loan funds have been overcome the crisis in 2001 by the next year’s growth rate of %95. Since 2000, the average annual growth rate for the 13 years is 37%. This increase rate seems to be slowdown since 2010. Sector’s share has remained the parallel and has reached 6.20% in 2013.

Islamic banks in Turkey increased their equity from year to year just like the other indicators. Since 2000 the average rate of increase is 38%. Until 2008 average increase rate of equity has been 50%, and this rate decreased to yearly average rate of 18% after 2009. As shown in Figure 10, sector’s share fluctuates from year to year. However, yearly average increase rate is 10%.
Profitability values of Islamic banks increase from year to year and this can be seen in Figure 11. It is interesting to see that the profitability rate from the sector reached its peak by the 5.46% during the emergence of 2008 global financial crisis. After this period, sector share shows fluctuations and this is demonstrated in Figure 12.

In this chapter, the development of Turkish Islamic banks has been revealed from the beginning. The next part will consist of the factors affecting this development and they will deeply be discussed.
Factors Effecting the Development of Islamic Finance in Turkey

The development of Islamic finance in Turkey is actually the same as in the world. In 1976, many Islamic countries scientists including Turkey participated to the 1st International Islamic Economics Conference, in which the subject was held for the first time in a comprehensive manner at international level in Mecca, and they had a chance to know and interact with each other. Following the conference In 1978, The Islamic countries Statistical, Economic and Social Training and Research Center (SESTRIC), linked with Organization of Islamic Cooperation, was founded in Ankara. Turkey has also assumed the presidency of Committee on Economic and Commercial Cooperation of the Organization of Islamic Cooperation.

The Changes in Law and Regulations

1980s is a period of increasing efforts to add greater depth to the Turkish financial system and monitoring liberalization and opening-up policy. The most important step related to the development of Islamic finance is the decision of foundation of "Private Finance Institutions". Özal government wanted to make an initiative to transfer idle funds to the system that cannot be contributed to the economy because of belief requirements. Banks law was not suitable for such situation a decree was issued and private financial institutions have led to the realization. (Pakdemirli, 2000: 19).


In 1996, private financial institutions went into a cooperation and "Special Finance Houses Association" (Finance-Bir) was established. Thus, it has decided to act jointly in communicating the experienced sectoral problems to the competent authorities. In 1999, private financial institutions were included into the Bank Act with the change of related laws.

In 2001, rapidly growing Ihlas financial institution’s operating permission has been removed after the determination of the unregulated use of collected funds. Ihlas finance gone into liquidation has not been able to pay off customer deposits for years because at that time, there was no insurance fund for special financial institutions. These unfavourable events affected all private financial institutions and most of the depositors tended to withdraw their money from others in the sector. In the face of these developments, Finans-Bir called for a request to the Institution of Supervision and Regulation of Banks (BDDK) to establish an assurance system for special financial institutions same as established for deposit banks (the Savings Deposit Insurance Fund). The application was admitted with positive result. In 2002, “Special Finance Institutions Current and Profit Sharing Account Guarantee Fund” has been established. With this assurance provided to the private financial institutions, the sector has entered into a recovery process.

The Restructuring Process

The banking system can reach a limited stage with only domestic customers, it is needed to launch to the international arena. This was true also for private financial institutions. They reached a certain level of awareness in Turkey. But, there was a difficulty to introduce and explain the special financial institutions to customer in the global market. Similar institutions in the world that used the same principles and methods were named as "interest-free bank" or "Islamic banks". "Special Financial Institution" phrase was perceived as a brokerage or intermediation firm. Finally, in 2005, private financial institutions were decided to change their name as "participation banks". With the name of participation bank, it became clearer that their main activity is banking. The word ‘bank’ has contributed more effective in solving identity problem in national and international financial environment. The word ‘participation’ is stated the operations based on the participation to profit and loss (Uyan, 2005: 2).

Player in the sector also chanced in 2005. Family Finance House and Anadolu Finance House decided to merger in the name by “Turkish Finance Participation Bank”. Ever since, there are 4 Islamic banks in the sector.

Governmental Support Policies

Islamic finance had developed in the banking side for a long time. By the new government’s support since 2001, Islamic finance has deepened and new instruments have entered the system. In 2008, “participation
index” was created in The Istanbul Stock Exchange National Market. This index follows the stocks compliant to Islamic principles. In 2009, “revenue indexed bonds” was issued by the Treasury. But, various discussions emerged about the legitimacy of these bonds. Also the same year, an action plan has been created in the framework of “Istanbul International Financial Centre Strategy and Action Plan”. This action covered to develop the infrastructure about interest-free instruments and had a legal basis to actions in this area.

In 2010, the government regulated the basis of *ijarah sukuk* named by rental certificate. In 2011, tax exemptions were regulated to these certificates as conventional bonds. But some problems occurred in the practices. So, in 2013, the government issued a new law and regulated 5 different kinds of *sukuk*.

In 2011, the law given opportunity to *takaful* operations issued. The most attractive step was taken by the government in 2013. The permission has given to public conventional banks to open Islamic subsidiaries. In addition, “World Bank Global Islamic Finance Development Centre” was opened at Istanbul Stock Exchange. All of these supports effects the development of Islamic finance in Turkey one of the countries has the highest potential.

**Conclusions**

Islamic finance had a rapid growth in 1970s when Islamic countries exporting petroleum gave current account surplus. Several Islamic finance and investment institution founded and many conventional banks opened “Islamic windows” for getting a share from rising new market. The development of Islamic finance in Turkey is actually the same as in the world. It had developed slowly in the beginning. But by the new government’s support since 2001, the development has gathered speed. With this support, the changes in law and regulations and the restructuring process effect the development of Islamic finance in Turkey in two ways: a) through the increasing market share and b) through the entrance of the good variety of instruments to the sector. The new steps are taken to get a big share from global Islamic finance market.

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Benefits and Value of Investments in Information Systems: The Case of Enterprise Resource Planning (ERP) Systems in the Hospitality Industry

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Abstract

Organisations constantly have to address the problem of identifying tangible and intangible benefits that can be achieved in result of investments made in Information Systems/Information Technology (IS/IT). This paper has the objective of approaching the problem in the perspective and context of Enterprise Resource Planning (ERP) systems in the Hospitality Industry. It focuses on implementation project strategies, namely in the particular and relevant aspects of their return on investment as well as benefits expected and delivered. When an organisation is confronted with the question of knowing if a certain investment in IS/IT may obtain a considered positive financial revenue, and if that investment means valuable benefits for the business, the answer is often far from being conclusive. Projects are often implemented on-time, on-budget and are technically appropriate, nevertheless the expected benefits are not achieved. This paper seeks to answer these questions in the context of ERP systems, in particular in the sector of hospitality industry, through a case study developed in Portugal. The investigation was developed on a group of hotel units, held by a Portuguese company, for which ERP meant an opportunity to harmonize and improve business processes.

Keywords: Information Systems, ERP Systems, Application Integration, Hospitality Industry, Benefits Management

Introduction

Organizations have sometimes serious doubts about a conclusive answer, when asked for the benefits of IS/IT investments, namely: does it have a positive ROI or how will the business benefit from those investments?

Projects are often implemented within the expected time frame and budget, and are technically adequate, but nevertheless the expected benefits are not achieved.

In the case of ERP systems, the projects expand through the whole organization, even to customers and suppliers sometimes, and as such they have wider goals than traditional IS/IT projects focused on smaller areas of the organization’s value chain. Normally ERP projects create expectations resulting from (1) discontinued processes, (2) process improvement or (3) new processes. In other words, the context in which investments of this kind are made may be oriented towards existing tasks or innovative ones.

This paper deals with these matters, in the context of an investigation developed on a group of hotel units, held by a Portuguese corporation, to which ERP meant an opportunity to harmonize and improve business processes.

ERP Systems in the Hospitality Industry

The modifications offered by the impulse of technologies forces the change in the way business is conducted in the hospitality industry. IS/IT in the hospitality industry must provide the required flexibility and efficiency by facilitating the understanding of customer needs and adapt consequently (Beldona et al. 2001).

ERP Systems emerged as a way to automate repetitive processes and provide managers with a global vision and real-time all operations, solving the problems of disintegration and fragmentation of information.
The problem of fragmentation of information is felt, as in other activities, within the hospitality industry (Heart et al. 2001). In this industry, ERP Systems have a particular relevance for the diversity of applications and specific systems for various functions. The predominance of legacy systems, of difficult upgrading, maintenance and incompatibility, makes its updating more complex (Beldona et al. 2001).

The international chains, or larger units and groups, have adopted ERP Systems traditionally used in other industries. SAP is market leader, in particular for larger hotels (Panorama Consulting Group, 2009). With regard to the specific processes of the hotel units, primarily front office, for example, reservations, stock and supply, F&B (Food & Beverage), or point of sale management (POS – Point of Sales), specific solutions are adopted, often from suppliers who do not offer integration with the back office and the implemented ERP System (Heart et al. 2001). As a consequence integration of applications is an increasingly relevant issue.

In a study carried out at the hospitality industry in Israel, Heart et al. found that 97% of the hotel units were computerized (but not by what could be considered ERP Systems), including those who had less than 50 rooms. The most common front office applications were the reservations and the front desk; the most common back office application was accounting. Unlike other industries, less common applications were sales and marketing, and human resources (Heart et al. 2001).

In the same study, Heart et al. found the absence of ERP Systems targeted for the hospitality industry in Israel, which forced the hotel units to acquire isolated applications from different suppliers. He also noted the absence of integrated applications that share the same database. The diversity of applications from different suppliers increases the complexity of the updating and maintenance of the applications implemented (Heart et al. 2001).

**Methodology**

With the purpose of identifying major critical success factors when implementing ERP Systems, as well as factors that may obstruct organizations from being competitive, a case study was carried out based on data gathered on an important economic Portuguese group. The study also intended to understand how the hospitality industry can solve the problem of the disintegration of information of the various implemented business applications. The research did not seek to confirm or refute hypotheses or the quantitative measurement of the influence of variables in a particular phenomenon. Instead, it attempted to answer proposed questions, interpreting, through the systematic analysis of the collected data, ratings, perceptions, needs and limitations of IS/IT submitted by the people involved in the study.

Therefore, an inductive logic followed, with emphasis on the analysis of qualitative data and using the case study method. Although the dominant approach in research processes in the area of IS has been, until some time ago, the quantitative analysis, the research using the case study method, with qualitative data collection, has become increasingly accepted in the area of IS. This appears to stem from a growing recognition of the potential to help researchers understand the interpretations and meanings that govern activities of organizational stakeholders, as well as how technology is faced and used.

The research presented followed an interpretative approach. In view of the issues to investigate, an approach to understanding and interpreting facts was adopted, by the insertion of researchers in the organizational context of hotel units. This interpretative option permits that a group of people, including managers, directors of IS, or users, in an organizational context, can express, conceptualize and assess the objectives defined by the research.

The research method adopted combines several techniques, such as semi-structured interviews with the Chairman of the Board of Directors of the hotel group, the director of IS/IT’s department of the group, as well as the heads of logistics, human resources and financial areas of the IS/IT’s department of the hotel group, in order to find inefficiencies and inconsistencies in the information used and facilitate the analysis of the processes involved. Interviews with key elements of the organization are a way of ensuring an experienced vision of who is inserted in it and could induce a faster knowledge of what is analyzed. A questionnaire survey for 66 key users was also used.
Respondents are users of IS, heads of each department in each hotel unit, with the purpose of understanding the users’ satisfaction in relation to the IS/IT implemented in the group, serving, at the same time, the purpose of confirming data consistency. The criteria for choosing key users included: professional experience in the tourism sector; experience on IS/IT of the group; active participation in decisions and implementation of IS; leading roles or responsibilities in their departments; represent the geographical dispersion of the group.

The process was completed through documentary analysis of data collected in the hotel units and by direct observation of the use of installed applications. As a way to collect opinions and suggestions on the information collected, a panel of experts in the field of IS/IT was consulted. This process lasted for the first 3 quarters of 2011.

Expect Benefits from ERP Systems

Top Benefits.

The implementation of ERP systems means deep changes in structure and culture of any organization. Although some inherent problems are to be expected, the benefits from this kind of systems are numerous: (Marchandini, 1997; Sumner, 1999; Davenport, 2000; Hayman, 2000; Scheer and Habermann, 2000; Ilfinedo and Nahar, 2006). Whether it comes to financial, operational or management processes, whether it is about the relationship with consumers or suppliers, ERP may contribute significantly to improve business competitive edge (Davenport, 2000).

Davenport made an enquiry to executives of several organizations with the objective of identifying the top benefits expected from the implementation of an ERP system (Davenport, 2000). The results of the study are shown in the following graphic (Figure 1):

![Figure 1: Top benefits expected from the implementation of an ERP system](image)

The results are not statistically inducible, although they are the outcome of an in-depth study. Therefore, about 2/3 of the managers consider “quality of information available” to be the fundamental issue, and other results suggest that ERP systems are considered an opportunity for an upgrade on existing technology.

To Shang and Seddon, expected benefits from an ERP system may be classified in 5 dimensions (Shang and Seddon, 2002):

Operational benefits obtained by automation and rationalization of daily and routine tasks, reducing or avoiding human intervention. They provide cost reduction, reduced time to deliver, generate more efficiency and improve customer service;

Management benefits, obtained by centralized data with analytical capabilities, providing better planning and support to decision and management tasks;

Strategic benefits resulting from internal and external integration potential of ERP systems. Organizations benefit from an integration of the value chain, including business partners, creating alliances, increasing productivity, reducing costs and providing opportunities to innovation;
Organizational benefits resulting from internal process integration, based on harmonization of cross department processes. ERP systems provide better communication within the organization and a better common vision of its goals by all employees;

Technological benefits resulting from an integrated and standardized architecture. Provides maintenance cost reduction, either of legacy or isolated applications. Allows for better introduction of future applications.

Other Benefits.

- Reduction of the period of time to finish a process. Davenport exemplifies with the case of Autodesk, a software company that reduced the time to deliver from 2 weeks to 24 hours, as well as the payment period from 12 to 6 days (Davenport, 2000).

- Efficiency and speed in processing information is also an important benefit from ERP systems, resulting from integration as data entry in one module makes data available to the whole system (Themistocleous et al., 2001). This eliminates or simplifies manual tasks. Davenport underlines IBM’s example, which experienced an increase in process speed, like pricing, stock replacement, among other processes that were performed manually and changed into automated ones (Davenport, 2000).

- Quality of information. It is an important benefit, given that information integration avoids redundancy and data inconsistency (Themistocleous et al., 2002). Decisions are not accurate when information on the same subject is erratic, coming from different origins (Davenport, 2000).

- Another important benefit is better data viewing on each process, increasing the knowledge of a certain object. The Monsanto Corporation, after implementing its ERP system, had a knowledge base over ground operation of its workers, as well as new decision rules, improving decision making (Davenport, 2000). Also ELF, the petrochemical company has improved its relationship with customers and increased sales after implementing the ERP system with optimized business processes, leading to greater operational margins (Davenport, 2000).

- SI harmonization. Globalization promotes geographical growth of organizations, forcing systems harmonization and centralized coordination (Davenport, 2000). Microsoft, according to Davenport, had important benefits after harmonizing their financial and supply systems, leading also to better reporting and management (Davenport, 2000). Dow Chemical implemented an ERP system in order to harmonize all processes and information on their subsidiaries scattered over the world, creating a platform for future systems (Davenport, 2000).

- Impulse towards e-business and supply chain management. E-business is currently the major business support to many companies. ERP systems streamlines the purchase, tracking and product deliver processes (Davenport, 2000). It’s not enough to have a website; all internet based transactions must be linked to the supplier’s transaction systems.

The structure of the value chain must include all players, from consumers to suppliers and distributors, along with a front-end for demand management (Hayman, 2000). This is also important for future growth and even survival of the organizations (Themistocleous et al., 2002). According to Davenport, CISCO managed to reduce yearly costs by US$500 million (Davenport, 2000). Fujitsu reduced their delivery cycle from 20 to 2 days in 90% of the cases, and increased their on-time deliveries by 25%, thanks to the potential of the internet provided by their ERP system (Hayman, 2000).

How to Obtain Value from ERP Systems

One of the major challenges of management is to guarantee that IS/IT may generate benefits, and so organizations must find ways to measure its value and understand how they deliver sustainable advantages (Peppard et al., 2007). According to Ward, what is at stake here is the need to evaluate the contribution of IS/IT to the business, in order to decide where to invest (Ward et al., 1990).

Ward refers that only 30% of IS/IT investment projects deliver the expected benefits (Ward et al., 2008). Therefore, IS/IT must be managed like any other investment, contributing also to a strategic balance in the long run (Davenport, 2000). According to Ward there is a difference between investment goals and its benefits. Investment goals must be approved by all stakeholders, and benefits are the advantages the
investment brings as a result of the goals achieved (Ward et al., 2008). Incapability to attain benefits reduces the knowledge the organization should have about the value IS/IT may bring to business. This leads to failure to decide correctly about investment or to establish the right priorities to improve results or support new development strategies (Ward et al., 2008).

According to Peppard, there are two types of IS/IT investments: the problem-based, oriented to pre-defined objectives or oriented to problem solving; and those innovation-based, aiming at new opportunities and the creation of competitive advantages. The difference between the two is related to technological capacity to attain goals, the changes needed to the business and the achieved improvements, (Peppard et al., 2007).

To measure the value and the success of ERP projects has been a goal perceived by several authors and several methods have been adopted. However, there is consensus that traditional investment analysis should not be used when evaluating ERP systems (Stefanou, 2001).

The scope a project of this nature has, including its strategic and cost aspects, make it a project of fundamental importance (Stefanou, 2001). Some organizations consider it the larger investment in IS/IT ever made. That is why the evaluation of ERP systems shouldn’t be confined to financial criteria, like NPV (Net Present Value), ROI (Return on Investment) or IRR (Internal Rate of Return) (Teltumbde, 2000; Stefanou, 2001). The strategic and benefits dimensions should also be considered, like efficiency, decision making or customer satisfaction (Stefanou, 2001; Themistocleous et al., 2001; Murphy and Simon, 2002; Kumar et al., 2003).

Shang and Seddon define a set of four steps to realize the expected benefits of ERP systems (Shang e Seddon, 2002):

1. **Search for information on ERP benefits, problems and reasons to adopt ERP systems: on existing literature as well as on white papers from vendors;**
2. **Review literature on IS/IT investment evaluation and design a reference model to evaluate the ERP system. The expected benefits may be categorized as follows: operational, managerial, strategic, organizational and technological;**
3. **Use the reference model to analyse success cases from several vendors;**
4. **Build a consolidated list of all expected benefits, one that shall be used as a checklist on further implementation steps.**

According to Mirchandani of the Gartner Group, benefits can be achieved by the following factors (Mirchandini, 1997):

- Automate tasks formerly done manually;
- Improve quality of data, especially in organizations with many departments;
- Changes and improvement of processes, induced by changing technology;
- Changes on the organizational structure;
- Optimizes information, providing better demand forecast;
- Replacement of legacy systems;
- Inclusion of new systems providing new services;
- Investment opportunity in infrastructure;
- Achievement of intangible benefits, hard to account (Shang and Seddon, 2002).

Davenport, using the Mirchandani list, grouped the benefits in three categories: savings due to new approach of business processes, savings due to replacement of legacy systems and generated income (Davenport, 2000). Davenport underlines several examples, like automated reporting, automated data reconciliation or centralized shared services.
Results of the Case Study

As previously referred, the results emerge from a comprehensive case study and are not statistically inducible. According to Davenport, the strategic objectives must be known in order to understand how the organization may offer value to its customers and how can it differentiate from the competition (Davenport, 2000).

The hotel group analysed presents a global strategy defined over three lines of action:

- Growth by acquisition of hotel units, integrating it in the group’s organics and image.
- Positioning as an organization offering quality services in the national and international hospitality industry.
- Positioning as an organization with diversified offer: hotels, resorts, golf courses, health clubs and congress centres, allowing to create an association among all those products with a unique style.

In order to implement this strategy, the group is formally a three tier corporation, with one company managing fixed assets, other dealing with touristic activities and other managing shared services.

The implementation of an ERP system forces a strategic adjustment (Teltumbde, 2000; Baki and Çakar, 2005). Therefore it must define, improve and measure the key-processes in order for the ERP system to adjust to what’s required (Davenport, 2000), and have total commitment from top managers (Summner, 2007; Fitzgerald, 1998)

From the interviews conducted in the case study it is possible to conclude that top managers don’t believe there are competitive advantages emerging from the IS/IT systems running at the time, although they refer the importance of SAP (covering back-office), OPERA (Front-office) and Microsoft CRM (Marketing). Other respondents also consider the group doesn’t obtain any competitive advantages from IS/IT.

This analysis was confirmed by the application portfolio matrix (Figure 2), as no high potential applications were identified, meaning that there were no applications that may become strategic in the future of the organization.

<table>
<thead>
<tr>
<th>STRATEGIC</th>
<th>HIGH POTENTIAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microsoft CRM (Marketing and conference room management)</td>
<td></td>
</tr>
<tr>
<td>KEY OPERATIONAL</td>
<td>SUPPORT</td>
</tr>
<tr>
<td>SAP (MM module - procurement)</td>
<td>SAP (modules: HR – human resources; FI – financials; BO – reporting)</td>
</tr>
<tr>
<td>OPERA (front office)</td>
<td>TARGET (cash management)</td>
</tr>
<tr>
<td>MICROOS – POS (sales/invoicing)</td>
<td></td>
</tr>
<tr>
<td>BELAVITTA (health centers - SPA)</td>
<td></td>
</tr>
<tr>
<td>CEDIS (health centers)</td>
<td></td>
</tr>
<tr>
<td>CONCEPT (golf camps)</td>
<td></td>
</tr>
<tr>
<td>VINGCARD (room access control)</td>
<td></td>
</tr>
</tbody>
</table>

Fig 2 - Present Application Portfolio

CRM software can be considered strategic in what respects to future sustainability, given its nature of a customer oriented software. The foreseen evolution is to be positioned as a key operational application.

For the respondents, IS/IT must be at the same level as the competition and they consider that what differentiates the group and makes it attractive to customers are the following factors:

- Quality of customer service;
- Quality of facilities;
- Brand recognition;
- Location of facilities (close to places of attraction like beaches, lagoons and protected landscape);
- Diversification of services offered (entertainment, conference centres, golf courses, health clubs and spa).
In what processes are concerned all interviewed users consider that they require continuous assessment and the announced improvements reflect the expected benefits. Benefits are perceived as resulting from one of the strategic goals: improve customer service.

In particular some processes and related expected benefits were referred as follows (Table 1):

<table>
<thead>
<tr>
<th>Processes</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (booking on-line)</td>
<td>Make the corporate website the major instrument for sales; Effective management of online sales channels</td>
</tr>
<tr>
<td>Sales (planning)</td>
<td>Consolidated analysis of several business units</td>
</tr>
<tr>
<td>Marketing</td>
<td>Communication; Share of operational data</td>
</tr>
<tr>
<td>Financial Management</td>
<td>Cash management (bank reconciliation, loans, leasing)</td>
</tr>
<tr>
<td>Human Resources Management</td>
<td>Recruitment; Performance evaluation</td>
</tr>
</tbody>
</table>

Table 1 - Expected Benefits of Processes

Conclusions

The case study confirmed that quality and diversified offer is part of the hotel group strategy, namely through complementary services (golf courses and health clubs), as some authors also pointed out (Connoly et al. 1998) and Ribalaygua (2000). From the interviews conducted in the case study it’s possible to conclude that top managers don’t believe there are competitive advantages emerging from the IS/IT systems and also that they find it secondary compared with aspects like brand recognition, quality and location of facilities. As Ward underlines (Ward et al. 2008) this perspective some organizations have about the value of IS/IT investments – not considering it strategic – reduces the capacity to attain benefits from its usage. Strategically using IS/IT is a way to respond to global business requirements, as state Miguel et al. (2000) and Ribalaygua (2000).

This is a case where IS/IT are considered source of benefits for current processes without any perspective of innovation on new processes. The study confirmed that the reason is the fact that IS/IT are not considered strategic in the organization’s future performance.

References


An Empirical Study of the Relationship between Store Access Convenience, Customer Satisfaction and Word of Mouth

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Abstract
The purpose of this study is to investigate the effect of store access convenience on customer satisfaction and word of mouth (WOM) in retail industry. The respondents were customers of food and grocery products in supermarkets across two cities in the United Kingdom (UK). A convenience sampling technique was employed to distribute a total of 200 questionnaires, and 171 were accepted for analysis. The findings of the study showed that the relationships among the store access convenience, customer satisfaction and word of mouth are significant. In this context, the access to a retail store plays an important role in shaping consumer preference, and thereby contributing to its strategic advantage. Therefore, retailers need to improve and maintain the store access in order to retain customer satisfaction and generate positive word of mouth.

Keywords: Retail, Convenience, Store Access, Customer Satisfaction, Word Of Mouth, UK.

Introduction
The society in developed and developing countries is getting competitive and has seen a rise in the number of women (married and unmarried) in workforce (Berry, 1979). This had led to an increase in household income, but the long office hours have led to scarcity of time for personal chores (Berry, 1979; Leisen, 2006; Reimers, 2014). The hard working consumer with often a dual income household faces a time crunch for shopping related activities (Leisen, 2006). Similarly, an aging population (Myers & Lumbers, 2008) and declining fitness levels (Witten et al., 2011) have created a generation of shoppers who seek out effort-saving convenient options for shopping (Reimers, 2014). The consumer of the new millennium would assign more importance to retail facilities that provide convenience by saving their time and effort (Leisen, 2006; Jayasankaraprasad & Kumar, 2012), and retailers who would help time-poor consumers increase their spare time will benefit (Berry, 1979).

Convenience is the ability to reduce non-monetary costs (time, energy and effort) of consumers while purchasing goods and services (Berry et al., 2002; Seiders et al., 2007). It is defined as “… a judgement made by consumers according to their sense of control over the management, utilization and conversion of their time and effort in achieving their goals associated with access to and use of the service” (Farquhar & Rowley, 2009). In the competitive market with similar products and services, convenience is a key differentiator for competitive advantage (Colwell et al., 2008). Businesses such as banks, grocery stores, physicians, and fast-food restaurants are moving closer to residential neighbourhoods, as their proximity might get them more customers (Leisen, 2006). Various socio-economic trends and rapid technological advances prompt the consumers to desire and demand more convenience in acquiring and consuming products and services (Aagja et al., 2011).

Convenience factors can have significant implications where relationship involves multiple encounters over an extended period of time (Chang & Polonsky, 2012), like the example of food and grocery purchase. In such situations, shopping is done out of necessity to obtain products, services or information; with little or no inherent satisfaction derived from the shopping activity itself (Kaltcheva & Weitz, 2006). With scholars noting that retail store convenience has been poorly defined (Seiders et al., 2000; Seiders et al., 2007), it is equally possible that its influence over shopping outcome in terms of satisfaction and word of mouth (WOM) was not recognised. Equally important is to assess the influence of individual dimensions of service convenience (Reimers, 2014). Therefore, the objective of this study is to investigate the effect of...
store access convenience on customer satisfaction and word of mouth in food and grocery purchase across supermarkets in the United Kingdom (UK).

**Retailing in UK**

Retailing is selling of products and services to consumers for personal use and can be through a website or brick and mortar store. According to the statistical bulletin titled “Retail Sales”, from the Office for National Statistics in UK (2014, May 21), the retail industry is divided into four sectors: Predominantly food stores (supermarkets, specialist food stores, sales of alcoholic drinks and tobacco), predominantly non-food stores (department stores, clothing and footwear, household goods), non-store retailing (mail order, catalogues), and petrol stations. The food and grocery stores in UK are split into four sectors: Convenience stores (SPAR, Londis), traditional retail (News agents, grocers), hypermarkets/supermarkets (Tesco, Asda, Sainsbury’s, Morrisons, Lidl, Aldi, Waitrose) and the online retailers. Supermarket is a form of brick and mortar store, with an area of 2,500 to 25,000 sq. ft., devoted to the sale of food plus associated non-food items (Omar & Sawmong, 2007).

In 1990s, food retail was dominated by Sainsbury’s, but soon, other retail chains followed and the prominent ones were Asda (part of Walmart), and Safeway (later rebranded as Morrisons). According to a press release by the information and consultancy group Kantar Worldpanel, UK (2014, February 11); the leader in share of grocery retail operations is Tesco (29.2 percent), followed by Asda (17.3 percent), Sainsbury’s (17.1 percent) and Morrisons (11.3 percent). In the United Kingdom, retail is a large, diverse and dynamic sector of the economy, and large retailers have a great impact on environment, economy and society (Jones et al., 2005). Retailers need to respond to the changes in environment through improved customer services for increasing satisfaction of customers (Omar & Sawmong, 2007; Mahfooz, 2014).

**Service Convenience**

The primary use of convenience in marketing literature was for a category of products (Yale & Venkatesh, 1986; Berry et al., 2002), which signified the time and effort of consumers to purchase a product, and not any characteristic of the product itself (Brown, 1990). Researchers viewed convenience as an attribute that reduced the non-monetary price of a product or service (Kelley, 1958; Kotler & Zaltman, 1971), which could be time, opportunity, or energy (Berry et al., 2002). Later, the use of the word ‘convenience’ changed from a descriptor of products to a distinctive concept with emphasis on time saving (Yale & Venkatesh, 1986); and consumers were found to experience time deficiency in tasks related to the acquisition and consumption of a service (Seiders et al., 2000; Farquhar & Rowley, 2009). In this manner, service convenience was thought as a means of adding value to consumers, by decreasing the amount of time and effort needed to avail a service (Colwell et al., 2008).

Convenience, initially envisaged as a unidimensional construct (Berry et al., 2002; Reimers, 2014), failed to capture its complexity (Farquhar & Rowley, 2009). Berry et al. (2002) conceptualised five dimensions of service convenience as decision convenience (customers perceived time and effort costs associated with service purchase or use decisions), access convenience (initiate service delivery), benefit convenience (experience the core benefits of the offering), transaction convenience (finalise the transaction), and post-benefit convenience (re-establish subsequent contact with the firm). Seiders et al. (2007) empirically tested the validity of these five dimensions, which they referred to as the SERVCON scale.

Service convenience, as proposed by Berry et al. (2002) and Seiders et al. (2005, 2007), reflects the fact that there are multiple stages in the service process and that the consumer may evaluate convenience differently at each stage. A lack of one type of convenience may mean that consumers purchase from an alternative supplier or defer consumption altogether. Several researchers have studied the role of the five types of convenience in consumer purchase behaviour, using both qualitative and quantitative methods (Chang & Polonsky, 2012). Seiders et al. (2005) examined the degree to which the types of convenience moderated the relationship between satisfaction and purchase intentions in the United States (US) retailing context. Geissler et al. (2006) qualitatively explored service convenience within the context of an art museum in US. Colwell et al. (2008) as well as Dai and Salam (2009) examined service convenience in regard to Internet service in Canada and China respectively. Hsu et al. (2010) examined service convenience in regard to firms offering home delivery of goods in Taiwan. Chang et al. (2010) used a composite measure of convenience to examine fast-food consumers in Taiwan. Khazaei et al. (2014) used the five dimensions of service convenience to examine perceptions of bank customers in Iran.
The five types of service convenience seem to empirically hold across service settings and countries, suggesting that the constructs taken together are valid measure of the service convenience. However, importance of each type of convenience might differ across service sectors (retail, health, banking, etc.), and the units of analysis like retail store formats (Brown, 1990; Leisen, 2006; Farquhar & Rowley, 2009; Chang & Polonsky, 2012; Reimers, 2014).

Retail Store Convenience

‘Convenience’ arises when the barriers to an activity are reduced or eliminated (Reimers, 2014). In retail store shopping, these barriers are costs in the form of time and effort for shopping (Brown, 1990; Seiders et al., 2007; Beauchamp & Ponder, 2010). Shopping convenience is defined as the consumer’s perceived degree of avoidance of time and effort associated with the entire shopping process (Berry et al., 2002), and the retail store convenience can therefore be defined in terms of attributes that minimise the time and effort involved in patronising a retail store (Seiders et al., 2000; Jones et al., 2003; Moeller et al., 2009; Reimers, 2014).

Seiders et al. (2000) proposed four distinct dimensions of convenience relevant to retailers: access (ease of reaching a retailer), search (ease of identifying and selecting products), possession (ease of obtaining desired products), and transaction (ease to affecting or amending transactions). Although access and transaction are dimensions common to service and retail convenience, search and possession convenience are specific types of convenience more applicable to retailing.

The dimensions of search, possession and transaction will influence a customer once he has entered the store and experiences the service offered. Access is an external element which is significant before the customer enters the store for purchase. It includes macro factors like proximity to the house and office of the consumer, traffic on way, travel time, connectivity from different areas of the city; and micro factors like operating hours as well as adequate parking facility (Hansen & Deutscher, 1977-1978; Davis et al., 1979; Seiders et al., 2000; Jin & Kim, 2003; Jones et al., 2003; Majumdar, 2005). The accessibility of a retail store is prerequisite for consumer shopping convenience (Yilmaz et al., 2007), and the ease as well as speed with which retailers can be contacted influences the store choice (Seiders et al., 2000).

Retail store access convenience is an extremely important dimension, because in its absence, other dimensions are viewed as irrelevant (Seiders et al., 2000). If the retailer is not easily accessible, the consumer would never get an opportunity to make a decision, complete a transaction, or possess the desired product.

Customer Satisfaction

Customer satisfaction is a challenge for service industry and is a consequence of customer experience during service encounter (Grace & O’Cass, 2004; Jayasankaraprasad & Kumar, 2012). The goal of improving service experience is to build a relationship through increased satisfaction (Grace & O’Cass, 2004; Mahfooz, 2014) through attributes and processes (Spreng et al., 1996). Seiders et al. (2005) report that overall convenience in processes interacts with satisfaction to exert a positive influence on repurchase visits and spending.

Several researchers have examined the relationship between convenience and satisfaction. Yuksel (2001) identified a relationship between service convenience and customer satisfaction in the hotel industry, Dhrup et al. (2006) found that convenience influences satisfaction for leisure and recreation consumers; and Seiders et al. (2005) suggested that convenience interacts with satisfaction to positively influence repurchase visits and spending in the context of a specialty retail chain selling upscale women’s apparel and home furnishings in US. Similar research was done in the online industry; and Colwell et al. (2008) as well as Dai and Salam (2009) found the influence of convenience on satisfaction in Canada and China respectively. Chang et al. (2010) reported the same in the fast-food industry of Taiwan, and so did Khazaei et al. (2014) for bank customers in Iran.

It is, therefore, important to examine how the different types of convenience are associated with consumer satisfaction in varying contexts (Chang & Polonsky, 2012). The five types of convenience further complicate this process, as consumers could be satisfied with some aspects of convenience, but not with others.
Word of Mouth

‘Word of Mouth’ is a verbal, person-to-person communication consisting of informal communications about the ownership, usage or characteristics of goods and/or services and/or their sellers (Westbrook, 1987; Saha & Theingi, 2009). Swan and Oliver (1989) note that word of mouth about retailers can lead to consumers relating their experiences to others, and making recommendations for a retail store. Research has recognised word of mouth communication as both a consequence of customer satisfaction and an antecedent to revenue and profit (Anderson & Mittal, 2000; Leisen, 2006; Saha & Theingi, 2009). Prior research suggests that loyal customers are likely to provide new referrals through positive word of mouth (Zeithaml et al., 1996), spend more to buy (Berry & Parasuraman, 1993; Zeithaml et al., 1996), and resist competitive pressures (Dick & Basu, 1994).

Research on the types of convenience has examined various outcome measures. These were related to purchase and loyalty (Seiders et al., 2007; Chang et al., 2010; Hsu et al., 2010), or word of mouth (Dai & Salam, 2009). Chang and Polonsky (2012) studied the effect of service convenience on word of mouth behaviour of health club members in Taiwan, whereas Khazaei et al. (2014) performed a similar study on banking customers in Iran.

Conceptual Model and Hypotheses Development

The conceptual model for the relationship between access convenience, customer satisfaction and word of mouth is demonstrated and tested as shown in Fig. 1. This model starts with perception of store access convenience, and its influence on customer satisfaction and then word of mouth.

![Conceptual Model](image)

**Fig.1.** Research model

**Store Access Convenience and Customer Satisfaction**

Consumers’ perceived expenditure of time and effort influences their perceptions of service convenience (Berry et al., 2002), and retail facilities can be designed to affect perceptions of time and effort. For example, a central location can have a positive impact on the retail visit and money spent (Moeller et al., 2009). The findings of Khazaei et al. (2014) confirm that service convenience has an effect on customer satisfaction. Researchers also found that access convenience influenced customer satisfaction and future intentions (Seiders et al., 2007; Yilmaz et al., 2007; Colwell et al., 2008). This has led to the development of the following hypothesis:

H1: Store access convenience has a significant relationship with customer satisfaction.

**Customer Satisfaction and Word of Mouth**

Research suggests that satisfaction influences consumer preferences and positive recommendations to others (Cronin et al., 2000; Amin et al., 2013). Previous studies have consistently shown positive word of mouth to be an outcome of high levels of customer satisfaction (Fornell, 1992; Leisen, 2006; Dai & Salam, 2009; Chang & Polonsky, 2012; Khazaei et al., 2014). Therefore, building convenience into the service delivery process will not only increase customer satisfaction, but will also increase the likelihood that customers will behave positively in the future and spread positive word of mouth (Jayasankaraprasad & Kumar, 2012). This has led to the development of the following hypothesis:

H2: Customer satisfaction has a significant relationship with word of mouth.

**Store Access Convenience and Word of Mouth**

Chang and Polonsky (2012) suggested that an improvement in convenience will enhance behavioural intentions of consumers, which could be in the form of positive word of mouth (Zeithaml et al., 1996; Saha & Theingi, 2009). This was further supported by Khazaei et al. (2014) who found a significant relationship between service convenience and word of mouth. This has led to the development of the following hypothesis:

H3: Store access convenience has a significant relationship with word of mouth.
Methodology

Scale Development and Data Collection

The measurement items for dimensions of access convenience, customer satisfaction and word of mouth were adapted from previous researches. Items for access convenience were adapted from Hansen and Deutscher (1977-1978), Jin and Kim (2003), Seiders et al. (2007), as well as Beauchamp and Ponder (2010). The items for car access and public transport access from Hansen and Deutscher (1977-1978) and Jin and Kim (2003) were merged and rephrased as “This store can be reached conveniently through any mode of transport”. The construct for access convenience in Beauchamp & Ponder (2010) had six items, but two were deleted based on the opinion of expert judges.

The items for customer satisfaction were adapted from Bloemer and de Ruyter (1998). The construct had four items for the study that identified how satisfied a customer felt towards access to the supermarket. The items for word of mouth were adapted from Zeithaml et al. (1996). The data was collected in two cities of the United Kingdom (Leeds and London) from four supermarkets: Tesco, Asda, Sainsbury’s, Morrisons. A convenience sampling technique was used and out of 200 questionnaires distributed, 171 were considered valid for data analysis (85.5 percent response rate).

A five-point Likert scale, ranging from “1= strongly disagree” to “5= strongly agree” was used to collect responses. Demographic information was also generated.

Findings

Demographic Profile

Table 1 provides information about the profiles of respondents for gender, age, qualification, occupation, and most preferred supermarket for food and grocery purchase. Out of total 171 respondents, 97 (56.7 percent) are males and 74 (43.3 percent) are females. The maximum respondents are from 21-30 years age group (67.8 percent) which mostly includes graduates, or fresh post-graduates with few years of work experience. Any other qualification includes students, or diploma certificate holders. Majority of the respondents have completed post-graduation (56.7 percent), whereas most of the 171 respondents are not in a full-time job. Any other respondents in occupation indicate fresh graduates or those who are currently unemployed (46.8 percent). Also, when respondents were asked about the most preferred supermarket retail store, majority of them named Morrisons (32.7 percent), followed closely by Tesco (31 percent).

<table>
<thead>
<tr>
<th>Variable</th>
<th>Range</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>97</td>
<td>56.7</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>74</td>
<td>43.3</td>
</tr>
<tr>
<td>Age</td>
<td>21-30</td>
<td>116</td>
<td>67.8</td>
</tr>
<tr>
<td></td>
<td>31-40</td>
<td>36</td>
<td>21.1</td>
</tr>
<tr>
<td></td>
<td>41-50</td>
<td>8</td>
<td>4.7</td>
</tr>
<tr>
<td></td>
<td>51 and Above</td>
<td>11</td>
<td>6.4</td>
</tr>
<tr>
<td>Qualification</td>
<td>Graduate</td>
<td>52</td>
<td>30.4</td>
</tr>
<tr>
<td></td>
<td>Post-Graduate</td>
<td>97</td>
<td>56.7</td>
</tr>
<tr>
<td></td>
<td>Doctorate</td>
<td>8</td>
<td>4.7</td>
</tr>
<tr>
<td></td>
<td>Any Other</td>
<td>14</td>
<td>8.2</td>
</tr>
<tr>
<td>Occupation</td>
<td>Self Employed</td>
<td>16</td>
<td>9.4</td>
</tr>
<tr>
<td></td>
<td>Private Sector</td>
<td>55</td>
<td>32.2</td>
</tr>
<tr>
<td></td>
<td>Government Sector</td>
<td>20</td>
<td>11.7</td>
</tr>
<tr>
<td></td>
<td>Any Other</td>
<td>80</td>
<td>46.8</td>
</tr>
<tr>
<td>Store Name</td>
<td>Asda</td>
<td>27</td>
<td>15.8</td>
</tr>
<tr>
<td></td>
<td>Sainsbury’s</td>
<td>35</td>
<td>20.5</td>
</tr>
<tr>
<td></td>
<td>Tesco</td>
<td>53</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>Morrisons</td>
<td>56</td>
<td>32.7</td>
</tr>
</tbody>
</table>

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Factor Analysis

Table 2 shows the results for factor analysis. The principal component factor analysis with varimax rotation method was used in this study using SPSS version 18. The Kaiser-Meyer-Olkin (KMO) value was 0.789, which is above the recommended level, and Bartlett’s test of sphericity reached statistical significance. The results of principal component factor analysis show three factors with eigen values exceeding 1, and explain cumulatively 34.470 percent of the variance. The three factors have loading above the recommended value of 0.50 (Hair et al., 2006), which indicates that each item is loaded significantly in the corresponding factor. However, due to low loading (less than 0.5), the item related to availability of convenient parking under access convenience was dropped from further analysis. A similar result was obtained by Aagja et al. (2011) while assessing the overall service convenience in retail sector of India.

Reliability test was conducted using Cronbach’s alpha. The value of Cronbach’s alpha for store access convenience, customer satisfaction and word of mouth was 0.730, 0.717, and 0.776 respectively. This is higher than the recommended value of 0.60 (Hair et al., 2006).

The validity of instrument was assessed using content validity and convergent validity. For this study, the content validity of instrument was acceptable because it was carefully constructed, validated and refined by Zeithaml et al. (1996), Bloemer and de Ruyter (1998), Seiders et al. (2007), Beauchamp and Ponder (2010), Jayasankaraprasad and Kumar (2012), as well as Kitapci et al. (2013). The convergent validity was assessed using factor loadings and average variance extracted (AVE). The findings indicate that each factor loading of the reflective indicators ranged from 0.522 to 0.931 and exceeded the recommended level of 0.50 (Hair et al., 2006). The AVE of all constructs was in the range of 0.57 to 0.70, which exceeds the general rule of thumb of 0.5 (Hair et al., 2006). This establishes the convergent validity for the measurement model of this study.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Items</th>
<th>Factor Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>AC</td>
</tr>
<tr>
<td>Store Access Convenience (AC)</td>
<td>This store is in proximity to other stores offering similar or related products.</td>
<td>0.727</td>
</tr>
<tr>
<td>α= 0.730 AVE= 0.70</td>
<td>This store offers convenient location.</td>
<td>0.863</td>
</tr>
<tr>
<td></td>
<td>This store can be reached conveniently through any mode of transport.</td>
<td>0.822</td>
</tr>
<tr>
<td></td>
<td>This store has convenient operating hours.</td>
<td>0.931</td>
</tr>
<tr>
<td></td>
<td>This store offers convenient parking.</td>
<td></td>
</tr>
<tr>
<td>Customer Satisfaction (CS)</td>
<td>Compared to other stores, this store confirms to my expectation.</td>
<td>0.931</td>
</tr>
<tr>
<td>α= 0.717 AVE= 0.62</td>
<td>I am satisfied with the location of this store.</td>
<td>0.769</td>
</tr>
<tr>
<td></td>
<td>In general, I am satisfied with the service I get from this store.</td>
<td>0.863</td>
</tr>
<tr>
<td></td>
<td>Based on all my experiences with this store, I am very satisfied.</td>
<td>0.522</td>
</tr>
<tr>
<td>Word of Mouth (WOM)</td>
<td>I say positive things about this store to other people.</td>
<td>0.772</td>
</tr>
<tr>
<td>α= 0.776 AVE= 0.57</td>
<td>I tend to inform others if dissatisfied with the service of this store.</td>
<td>0.770</td>
</tr>
<tr>
<td></td>
<td>I recommend this store to someone who seeks advice.</td>
<td>0.706</td>
</tr>
<tr>
<td></td>
<td>I encourage friends to go to this store.</td>
<td>0.759</td>
</tr>
<tr>
<td>Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy= 0.789</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Eigen Values</td>
<td>4.481</td>
<td>1.834</td>
</tr>
<tr>
<td>% of variance explained</td>
<td>34.470</td>
<td>633</td>
</tr>
</tbody>
</table>
Regression Analysis

Table 3 shows regression analysis. The results reveal that there are significant relationships among access convenience and customer satisfaction, customer satisfaction and word of mouth, and also access convenience with word of mouth. The figures are significant ($p < 0.05$), and thus, H1, H2, and H3 are supported.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Variables</th>
<th>$\beta$</th>
<th>Sig.</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Store Access Convenience $\rightarrow$ Customer</td>
<td>0.565</td>
<td>0.000*</td>
<td>Supported</td>
</tr>
<tr>
<td>H2</td>
<td>Customer Satisfaction $\rightarrow$ Word of Mouth</td>
<td>0.354</td>
<td>0.000*</td>
<td>Supported</td>
</tr>
<tr>
<td>H3</td>
<td>Store Access Convenience $\rightarrow$ Word of Mouth</td>
<td>0.274</td>
<td>0.000*</td>
<td>Supported</td>
</tr>
</tbody>
</table>

* $p < 0.05$

Conclusions

This research advances the understanding of role of convenience in retail service setting, and how it affects satisfaction and word of mouth. The results of this study extend the understanding of how store access convenience influences consumer behaviour in food and grocery retail through supermarkets in the United Kingdom. Support for H1 shows that access convenience influences customer satisfaction in the retail sector which confirms past researches (Leisen, 2006; Colwell et al., 2008). The purchase of grocery in supermarkets is influenced by access to the retailer and not by aspects of the store that are relevant while the customer is shopping (Moeller et al., 2009). Therefore, retail store access convenience is crucial as the customer needs to be present at the right place in the available time to make a purchase.

The findings support H2, i.e. customer satisfaction leads to positive word of mouth (Fornell, 1992; Leisen, 2006; Dai & Salam, 2009; Chang & Polonsky, 2012; Jayasankaraprasad & Kumar, 2012; Amin et al., 2013; Khazaei et al., 2014). Supermarket grocery retailers need to provide convenient access to the consumers, and ensure that customers are satisfied in each encounter. Access convenience may be critical for the initial selection of a store, but once a relationship is established, satisfaction keeps it going. Therefore, retail stores need to focus on ensuring that they are conveniently accessible as it leads to satisfaction with services, which impacts word of mouth.

H3 was also supported, which suggests that consumers’ perception of store access convenience positively influence the word of mouth. This confirms previous researches (Leisen, 2006; Chang & Polonsky, 2012; Khazaei et al., 2014).

Out of all the dimensions of convenience, access convenience interacts with satisfaction to positively influence word of mouth and repurchase visits, which suggests that satisfied customers make more repurchase visits when they perceive it convenient for them to initiate contact with the service provider (Seiders et al., 2007).

Managerial Implications

Convenience is more important in high frequency grocery shopping in supermarkets than in low-frequency shopping in malls for consumer durables. Large malls have been affected by the emergence of convenience as a critical factor for retail destination, as mall shopping is associated with high volumes of traffic, parking problems, congestion, long distances, and large crowds. Customers are more inclined to freestanding retail stores (hypermarts/supermarkets) in their vicinity and convenience has emerged as a promising alternative to retention of retail customers (Moeller et al., 2009). In grocery retail, stores should focus on the importance of convenience to create an enjoyable and satisfying experience for the customer. Organisations that build convenience into overall offerings need to identify the important dimensions for the service offered. It is important to assess each independent dimension of retail convenience, but since they are highly related (Beauchamp & Ponder, 2010), it is equally necessary to combine the dimensions to create a comprehensive convenience strategy (Seiders et al., 2000).

Future research can explore the significance of other types of convenience for customer satisfaction and word of mouth; and how these dimensions are important in different stages of retail patronage development. This can be tested across countries and retail formats.
References


Does control-ownership disparity matter to foreign investors in Korea?

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Abstract

This study examines the effect of control-ownership disparity on both foreign institutional investors and foreign corporate blockholders investing in Korean firms. Control-ownership disparity occurs when certain shareholders of a firm have an actual voting power that exceeds the corresponding equity ownership. This matters to foreign investors because, by distorting the efficiency of decision-making process, it increases the agency cost to outside shareholders and may ultimately affect the value of the firm. The empirical results of this study show that foreign institutional investors prefer firms with low control-ownership disparity, suggesting that they are sensitive to corporate governance of firms they invest in. In case of foreign corporate blockholders, however, we find that they are not as sensitive as foreign institutional investors to corporate governance of firms they invest in. In addition, for the robustness test that controls information asymmetry, the results of panel analysis show that the control-ownership disparity has stronger negative effects on foreign institutional investors’ ownership if a company is included in a Chaebol dummy.

Keywords: Foreign Institutional Investors, Corporate Governance, Control-Ownership Disparity

Introduction

Foreign investors have a significant influence on the Korean stock market. Choi (2010) reported that, as of 2009, foreign investors held the listed shares of 683 companies (i.e., 96.1% of all 711 listed companies), accounting for 31.9% of the total market value of listed companies. In addition, 76 listed companies were more than 30% foreign-owned as of January 2011. The number of foreign investors has been continuously increasing in the Korean stock market due to deregulation and relaxing of the rules on foreign investment since Asian financial crisis in 1998. A question then arises as to whether corporate governance matters to foreign investors when investing in the Korean stock market, particularly in view of certain practices such as circular shareholding and family management that may be perceived as risk factors affecting information accessibility of outside shareholders. This study attempts to answer that question.

Major components of corporate governance include responsibility of controlling shareholders, protection of minority shareholders, and management transparency. Market participants recognize that unresolved issues of corporate governance can lead to reduction of firm value by affecting the efficiency of decision-making process. In general, foreign investors prefer companies with high standards for information disclosure and investor protection in terms of corporate governance. Mangena, M. & Tauringana, V. (2006) suggest that the disclosure system, the ratio of outside directors, institutional ownership, and independence of audit committee are positively related with foreign ownership.

Foreign investors in the global market show the tendency to make investment in a country with higher earnings growth (higher earnings per share: EPS) and higher enterprise value (lower Price Earnings Ratio: PER). Particularly, foreign institutional investors show the strong tendency to make an investment in underestimated shares to maximize their profits. The main reason why foreign institutional investors are interesting in making an investment in Korea is that they seem to think Korean shares have higher investment value because they are undervalued and cheap compared to global stock markets including emerging stock markets due to undervalued Price-Earnings Ratio (PER) or Price on Book Value Ratio (PBR). On the other hand, with regard to investment motivation of foreign corporate blockholders, there are many competitive companies in Korea, which have high brand value, strong global market power and
advanced technology. Therefore, they want to invest in such competitive companies in long term perspective.

Existing literature on foreign investors largely focuses on the effect of foreign investors on firm value and management decision making, while literature on companies preferred by foreign investors focuses on the financial aspects of such companies. However, empirical studies on the impact of corporate governance on foreign investors have been very rare. This paper, therefore, intends to perform such studies by examining the relation between control-ownership disparity (a proxy variable for corporate governance) and foreign ownership in the Korean stock market. Control-ownership disparity refers to the difference between equity ownership of the controlling family and its actual voting power. According to Kang et al. (2007), large control-ownership disparity indicates that controlling shareholders can effectively exercise voting rights beyond their contributed equity. This is likely to reduce the value of the firm due to increased agency problems. The gap between the interests of inside shareholders and outside shareholders may widen, the issue of asymmetric information against outside shareholders may rise, and decision making may be based on advancing the private benefits of controlling shareholders given their potent controlling power.

Issues related to control-ownership disparity in Korea have been highlighted since 2003 as a part of Korean government’s policy to improve ownership structure of Chaebol and strengthen transparency of information at the national level. “Three Years Road Map for Market Reform” published by the Fair Trade Commission in October, 2003 regarded control-ownership disparity as the element that has a negative effect on value of a conglomerate and explained it as a policy measure for improvement of ownership structure of a conglomerate(Kang et al., 2005). The reason why the Fair Trade Commission paid attention to control-ownership disparity was that the commission wanted to reduce control-ownership disparity to advance the distorted ownership structure of Chaebol.

Especially, control-ownership disparity is likely to be bigger in the circular equity investment system of a conglomerate as frequently shown in the Korean Market. If there is a higher level of control-ownership disparity, dominant shareholders are likely to seek for private interests and information asymmetry can be worse. Under this circumstance, minority shareholders may not exercise their voting power that is attached to the number of shares they own and as a result, major decision making process in the company may be distorted as dominant shareholders can prevent a corporate governance system from working smoothly.

In this study, we conduct a panel analysis on the relation between control-ownership disparity and foreign investors covering the manufacturing companies listed in Korea Stock Exchange from 2000 to 2008. This panel analysis is of significance in that we empirically analyze the control-ownership disparity index with the 9-year balanced panel sample of said manufacturing companies. In addition, following Cho, Y. G., & Sul, W. S. (2006), this study classifies foreign investors into two groups depending on their investment objective: foreign institutional investors and foreign corporate blockholders. This is because control-ownership disparity is treated differently by foreign institutional investors (who realize their profit by building portfolios based on financial benefit) and foreign corporate blockholders (who hold a large number of shares and have influence on the management activities).

Through empirical analysis, this study shows that control-ownership disparity is a key determinant for foreign investors to choose a Korean company to invest in. The more the management realizes it, the better will be the future of foreign investment in the Korean stock market. The improvement in corporate governance resulting from such acknowledgement, will also contribute to improve the value of Korean firms, which ultimately will inure to the benefit of their shareholders.

The paper proceeds as follows: Section II includes review of existing literature. In Section III, we describe the research method comprising sample, variables, and analysis model. In Section IV, we discuss the empirical results of the panel analysis. Finally, Section 5 concludes our research.
Theoretical Background and Hypothesis Formulation

The Role of Foreign Investors and Companies of their Preference

The focus of previous studies on the role of foreign investors is twofold: the relation between foreign ownership and firm value (Park et al., 2004), and the effect of foreign ownership on management decision making (Sul, W. S., & Kang, S. A., 2006; Kim, A. R., & Cho, M. H., 2007). The conclusion in most cases is that foreign ownership has a positive relation with firm value. The effect of foreign ownership on the management decision making, however, presents mixed results depending on investment purpose and other variables.

On the other hand, previous studies on the preference of foreign investors focus on the company’s financial structure, accounting earning quality, and information cost. Dahlquist, M., & Robertsson, G. (2001) find that foreign investors in the stock Swedish stock market prefer large companies, listed on overseas exchanges, with low dividends, high liquidity ratios, and low capital concentration. Kim et al. (2008) report that domestic institutional investors regard the volume of earnings as important, while foreign investors consider the persistence of earnings more important.

Corporate Governance and Foreign Investors

As suggested by a number of studies, effective corporate governance systems are instrumental to monitor management activities and protect shareholders from expropriation. Since foreign investors, as outside shareholders, generally have a higher risk of being expropriated by inside shareholders, such as corporate management or controlling shareholders, they consider effective corporate governance very important (Klapper, L., & Love, I., 2004). Corporate governance restricts management and controlling shareholders from expropriating the earnings of other investors, by creating a transparent environment and effective monitoring system for the companies. Foreign investors rely more on effective corporate governance than local minority shareholders, because monitoring corporate management is harder and more difficult for them due to physical distance (Klapper, L., & Love, I., 2004; Bushman et al., 2004). Therefore, foreign ownership and corporate governance are positively correlated (Dahlquist et al., 2003).

Kim et al. (2010) analyze the relation between corporate governance and the portfolio patterns of foreign investors in the Korean stock market, and find that foreign investors own more equity in companies which have foreign outside directors in their board. An effective corporate governance can reduce risks associated with information asymmetry and also remove uncertainties caused by agency problems, thus foreign investors’ preference for those companies with a strong corporate governance system.

Control-Ownership Disparity

Control-ownership disparity refers to the difference between cash flow rights and control rights. Large control-ownership disparity indicates that controlling shareholders can effectively exercise voting rights beyond their contributed equity. Under such circumstances, the controlling shareholders are likely to pursue private benefits and exacerbate information asymmetry against outside shareholders.

Separation of ownership and control exist in many firms around the world (La Porta et al., 1999; Claessens et al., 2000; Franks, J., & Mayer, C., 2001; Cronqvist, H., & Nilsson, M., 2003). The method for separation of ownership and control depends on each country’s corporate and securities laws and level of minority shareholder protection (Yoon, S. M., 2005). Such methods include pyramid shareholding, cross-shareholding, preferred stocks, and other stocks that breach the one-share one-vote rule (Bebchuk et al., 2000). Claessens et al.(2000) observe that the separation of ownership and control in East Asia has often been implemented through the pyramid shareholding.

In the particular case of Korean Chaebols, with a high level of control-ownership disparity, the controlling shareholders effectively exercise voting powers beyond their relatively low ownership ratio, through their affiliated companies (Jin, T. H., & Song, H. S., 2003).Existing literature examines control-ownership disparity in relation to firm value and management decision making.
With respect to firm value, the existence of high level of ownership-control disparity affects the firm value because the controlling shareholders tend to exert their voting powers in pursuit of private benefits, distorting the efficiency of decision-making process and increasing agency cost (Bebchuk et al., 2000). Existing studies suggest that East Asian companies with a high level of ownership-control disparity are underestimated in their firm value, due to the expropriation of minority shareholders by controlling shareholders (Lemmon, M. L., & Lin, K. V., 2003; Lins, K. V., 2003). Also in Korea, higher control-ownership disparity is associated with decreasing firm value (Joh, S.W., 2003; Lee, K.W., 2003).

As to the decision making of the companies, a high level of control-ownership disparity can lead to distortion of fundamental decisions involving diversification, R&D investment, earning distribution, capital structure, and governance system. (Kim et al., 2010; Yoon, 2005).

Interestingly enough, there is little evidence about the impact of control-ownership disparity on foreign ownership, because existing papers on foreign ownership hinged on other variables such as controlling shareholders and capital concentration. For example, Dahlquist, M., & Robertsson, G. (2001) show that foreign investors in Sweden do not prefer companies with controlling shareholders. Lee et al. (2005) suggest that capital concentration has a negative relation with foreign ownership. Also, Kim et al.(2007) investigated whether foreign investors considered control-ownership disparity in preparing portfolio. The study demonstrated the finding that foreign investors from a country that has many companies with the high level of control-ownership disparity, civil law origin or less anti-director rights showed less aversion to a company with the high level of control-ownership disparity. Kim et al.(2007) is different from this study at the point that it subjects were limited to certain large companies(called as “Chaebol”) and its focus was placed on different attitude of foreign investors to control-ownership disparity according to their country of origin although it also examined the relationship between foreign investors and control-ownership disparity. In addition, two studies show significant differences as this study classifies foreign investors in details and compares their preference to disparity. This paper, therefore, intends to conduct a empirical analysis on the relation between control-ownership disparity (control-ownership disparity dummy) and two kinds of foreign ownership in the Korean stock market.

Research Methods

Sample and Data Collection

Samples for empirical analysis are the listed companies on the Korea Stock Exchange from 2000 and 2008. The sample period spans from 2000 to 2008, in consideration that the ceiling for foreign ownership in Korea was removed in May 1998, and in order to exclude the aftermath of the global financial crisis of September 2008. For the consistency of data, we include only the listed companies in the manufacturing sector with fiscal year ending in December and exclude those newly listed, re-listed or de-listed. As a result, total number of 3,879 final observations from the balanced panel of 431 companies are used here for empirical analysis. Table 1 presents descriptive statistics for the variables in the entire sample for 9 years from 2000 to 2008.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Sample Size</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voting Rights</td>
<td>3879</td>
<td>0.388</td>
<td>0.1704</td>
<td>0</td>
<td>0.9354</td>
</tr>
<tr>
<td>Cash Flow Rights</td>
<td>3879</td>
<td>0.3194</td>
<td>0.1574</td>
<td>0</td>
<td>0.9354</td>
</tr>
<tr>
<td>Control-Ownership Disparity</td>
<td>3879</td>
<td>0.0686</td>
<td>0.0986</td>
<td>0</td>
<td>0.5857</td>
</tr>
<tr>
<td>Foreign Investor Ownership</td>
<td>3879</td>
<td>0.1001</td>
<td>0.1565</td>
<td>0</td>
<td>0.9297</td>
</tr>
<tr>
<td>Foreign Institutional Investor Ownership</td>
<td>2888</td>
<td>0.0334</td>
<td>0.0438</td>
<td>0</td>
<td>0.1719</td>
</tr>
<tr>
<td>Foreign Corporate Blockholder Ownership</td>
<td>250</td>
<td>0.2419</td>
<td>0.1683</td>
<td>0.05</td>
<td>0.6998</td>
</tr>
<tr>
<td>Years of Operation(AGE)</td>
<td>3879</td>
<td>36.7564</td>
<td>12.1027</td>
<td>9</td>
<td>91</td>
</tr>
<tr>
<td>Firm Size(SIZE)</td>
<td>3879</td>
<td>19.4011</td>
<td>1.487</td>
<td>14.5188</td>
<td>25.0071</td>
</tr>
<tr>
<td>Debt Ratio(DEBT)</td>
<td>3879</td>
<td>0.5014</td>
<td>0.5853</td>
<td>0.0124</td>
<td>26.4768</td>
</tr>
</tbody>
</table>
The results of correlation analysis between the explanatory variables of this study are presented in Table 2. According to the analysis, the control-ownership disparity and the control-ownership disparity dummy have strongly correlated as they can replace each other. In this case, there is no need to consider multicolinearity of two variables. As the correlation coefficient for other variables are not very high, there seems to be no issue related to multicolinearity.

**Table 2. Correlation Analysis**

<table>
<thead>
<tr>
<th>Variable</th>
<th>DIS</th>
<th>Dum</th>
<th>AGE</th>
<th>SIZE</th>
<th>DEBT</th>
<th>ACT</th>
<th>LIQ</th>
<th>ASS</th>
<th>PROF</th>
<th>ROA</th>
<th>INV</th>
<th>Dum</th>
<th>GRO</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIS</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dum</td>
<td>0.632</td>
<td>9***</td>
<td>0.023</td>
<td>0.105</td>
<td>0.064</td>
<td>0.039</td>
<td>0.163</td>
<td>0.050</td>
<td>0.062</td>
<td>0.011</td>
<td>0.024</td>
<td>0.095</td>
<td></td>
</tr>
<tr>
<td>DIS</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGE</td>
<td>0.023</td>
<td>6</td>
<td>0.020</td>
<td>0.122</td>
<td>0.034</td>
<td>0.026</td>
<td>0.093</td>
<td>0.030</td>
<td>0.044</td>
<td>0.004</td>
<td>0.029</td>
<td>0.092</td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>0.105</td>
<td>9***</td>
<td>0.122</td>
<td>0.129</td>
<td>0.045</td>
<td>0.063</td>
<td>0.300</td>
<td>0.122</td>
<td>0.006</td>
<td>0.006</td>
<td>0.022</td>
<td>0.114</td>
<td></td>
</tr>
<tr>
<td>DEBT</td>
<td>0.064</td>
<td>5***</td>
<td>0.034</td>
<td>0.022</td>
<td>0.022</td>
<td>0.003</td>
<td>0.014</td>
<td>0.054</td>
<td>0.256</td>
<td>0.105</td>
<td>0.022</td>
<td>0.292</td>
<td></td>
</tr>
<tr>
<td>ACT</td>
<td>0.039</td>
<td>6**</td>
<td>0.063</td>
<td>0.003</td>
<td>0.146</td>
<td>0.006</td>
<td>0.143</td>
<td>0.022</td>
<td>0.095</td>
<td>0.114</td>
<td>0.012</td>
<td>0.011</td>
<td></td>
</tr>
<tr>
<td>LIQ</td>
<td>0.163</td>
<td>1***</td>
<td>0.146</td>
<td>0.300</td>
<td>0.143</td>
<td>0.256</td>
<td>0.108</td>
<td>0.060</td>
<td>0.012</td>
<td>0.012</td>
<td>0.012</td>
<td>0.012</td>
<td></td>
</tr>
<tr>
<td>ASS</td>
<td>0.050</td>
<td>4***</td>
<td>0.030</td>
<td>0.022</td>
<td>0.014</td>
<td>0.025</td>
<td>0.145</td>
<td>0.060</td>
<td>0.022</td>
<td>0.022</td>
<td>0.012</td>
<td>0.012</td>
<td></td>
</tr>
<tr>
<td>PROF</td>
<td>0.062</td>
<td>8***</td>
<td>0.006</td>
<td>0.105</td>
<td>0.143</td>
<td>0.095</td>
<td>0.028</td>
<td>0.012</td>
<td>0.114</td>
<td>0.114</td>
<td>0.004</td>
<td>0.043</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>0.011</td>
<td>4***</td>
<td>0.006</td>
<td>0.022</td>
<td>0.006</td>
<td>0.105</td>
<td>0.012</td>
<td>0.028</td>
<td>0.028</td>
<td>0.028</td>
<td>0.028</td>
<td>0.028</td>
<td></td>
</tr>
<tr>
<td>INV</td>
<td>0.024</td>
<td>3***</td>
<td>0.029</td>
<td>0.090</td>
<td>0.060</td>
<td>0.028</td>
<td>0.078</td>
<td>0.012</td>
<td>0.228</td>
<td>0.013</td>
<td>0.004</td>
<td>0.095</td>
<td></td>
</tr>
<tr>
<td>Dum</td>
<td>0.095</td>
<td>7***</td>
<td>0.114</td>
<td>0.561</td>
<td>0.012</td>
<td>0.004</td>
<td>0.013</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td></td>
</tr>
<tr>
<td>GRO</td>
<td>0.6***</td>
<td>2***</td>
<td>0.561</td>
<td>0.012</td>
<td>0.004</td>
<td>0.013</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td></td>
</tr>
</tbody>
</table>

**Independent Variable:**

In order to investigate the effect of control-ownership disparity on foreign ownership, we introduce the control-ownership disparity variable, which is measured by subtracting ownership rights from voting rights (Kang et al., 2005). Ownership rights refer to the entire equity owned directly or indirectly by the family of controlling shareholders. Control rights are the total voting rights that can be directly or indirectly used by the family of controlling shareholders. The large business groups in Korea (Chaebols) tend to have high...
control-ownership disparity because key companies in the groups control affiliated companies through the equity owned by other affiliated companies.

The voting rights in the empirical analysis is calculated by the sum of shareholdings owned by dominant shareholder, its family, affiliated firms, executives and non-profit organizations minus cross-holding shares divided by common shares minus treasure stocks and cross-holding shares. Ownership right is calculated by the sum of shareholdings owned by dominant shareholder and its family divided by the total number of common shares minus treasury stocks and cross-holding shares.

To examine sensitivity of foreign investors' reaction to control-ownership disparity, we introduce a dummy variable (DumDIS). The variable takes the value ‘1’ when a firm’s ownership right is lower than the average ownership right of firms in the sample, but control-ownership disparity is higher than the average control-ownership disparity of the sampled firms. It takes the value ‘0’ otherwise. Thus, the firms with value ‘1’ represent a group of firms in which the family ownership right is relatively low but the control-ownership disparity is relatively high.

The dummy variable shows that the meaning of control-ownership disparity can vary according to the percentage of the ownership even if the index of control-ownership disparity has the same value (say, 10%). This study analyzes control-ownership disparity like the figure 1 below, using a group with higher control-ownership disparity because of lower ownership but higher voting power of dominant shareholders as a dummy variable.

<table>
<thead>
<tr>
<th>“Control-Ownership Disparity”</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dummy “1”</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>“Ownership Right”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Low</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Fig. 1. Control-Ownership Disparity Dummy**

**Dependent Variable:**

As suggested in previous studies, foreign investors prefer companies that disclose their corporate information and those that are well-acquainted and big (Kang, J. K., & Stulz, R. M., 1997; Dahlquist, M., & Robertsson, G., 2001), or those with higher proportion of export in their sales (Lin, C. H., & Shiu, C. Y., 2003). This is because foreign investors, as compared to domestic investors, tend to have limited accessibility to corporate information for companies that are not exporting and small in size.

Although not much is known about the determinants of foreign ownership, companies preferred by foreign investors have continuously attracted attention in emerging markets as well as in the Korean market. This study, therefore, focuses on the role of control-ownership disparity as a determinant of foreign ownership level. In investigating the effect of control-ownership disparity on foreign investors, this study divides foreign investors into two groups: foreign institutional investors and foreign corporate block holders. In an empirical study on the effect of foreign shareholders on R&D investment, Cho, Y. G. & Sul, W. S. (2006) argue that foreign shareholders are not a homogeneous group and have different motives for investment.

In this study, foreign ownership (FOR) is defined by the total number of shares owned by foreign investors to the total number of common shares outstanding (Kang, J. K., & Stulz, R. M., 1997; Dahlquist, M., & Robertsson, G., 2001; Lin, C. H., & Shiu, C. Y., 2003; Jiang, L., and Kim, J., 2004). Following Cho, Y. G., & Sul, W. S. (2006), we divide foreign ownership into foreign institutional investors' holdings (FORInst) and foreign corporate blockholders’ holdings (FORCorp). Foreign investors are typically minority shareholders or outside shareholders bearing agency cost or asymmetric information problem. They therefore prefer companies with a good corporate governance and low control-ownership disparity, which could lower agency cost and solve information asymmetry problem. Based on this presumption, we expect a significant negative relationship between control-ownership disparity and foreign investors’ ownership.
Cho, Y. G., & Sul, W. S. (2006) defined a foreign strategic investor as a foreign company that is running business in a relevant industry with more than 5% ownership interest. The total ownership of the foreign corporate blockholders who hold more than 5% of a certain company's shares in the related industry is calculated as the sum of ownership interest owned by foreign corporate blockholders. On the other hand, the total ownership interest of foreign institutional investors can be calculated by subtracting the total ownership interest of foreign corporate blockholders from the total ownership interest of foreign investors. This is the best method to obtain information about foreign ownership from a financial report.

More specifically, foreign institutional investors diversify their investment for financial purpose. Foreign institutional investors may have different level of influence and incentives to monitor the company depending on their equity level. In addition, it may be important for them to form a portfolio and realize profits on the basis of short-term profits. Suto and Toshino (2005) suggest that Japanese institutional investors such as fund managers tend to make short-term investments in order to improve the appearance of portfolio performance quickly, which conflicts with their role as shareholders interested in the long-term success of the firm. Although foreign institutional investors have incentives to monitor management of firms in which they are investing, they have limited capabilities in doing so. They, therefore, prefer companies with potentially low agency costs so that they maximize their investment profits without active monitoring activities. We expect a significant negative relationship between control-ownership disparity and foreign institutional investors.

In contrast, foreign corporate blockholders may put strategic purpose as a priority such as strategic alliance with the firm they invest. Since foreign corporate blockholders holding more than 5% of certain company are usually involved in an industry related to the companies they invest in, they have strong influence in the management activities of the firm, and higher association with the corporate activities. Therefore, foreign corporate blockholders are expected to act as inside shareholders. While they do not consider critical the agency problem between inside shareholders and outside shareholders, they are expected to have negative position against higher voting rights of controlling shareholder as well. Therefore, there will be a significant negative relationship between control-ownership disparity dummy and foreign corporate blockholders.

Control Variable:

We introduce control variables that could affect independent variables, following previous studies. The variables are listed in table 3. In this study, therefore, we attempt to empirically analyze the effect of control-ownership disparity (control-ownership disparity dummy) on foreign investors, foreign institutional investors, and foreign corporate blockholders.

<table>
<thead>
<tr>
<th>Control Variable</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years of Operation (AGE)</td>
<td>Fiscal Year - Establishment Year</td>
</tr>
<tr>
<td>Firm Size (SIZE)</td>
<td>LN(Total Asset)</td>
</tr>
<tr>
<td>Debt Ratio (DEBT)</td>
<td>Total Debt/Total Asset</td>
</tr>
<tr>
<td>Total Asset Turnover Ratio (ACT)</td>
<td>Sales/Total Asset</td>
</tr>
<tr>
<td>Liquidity (LIQ)</td>
<td>Current Asset/Total Asset</td>
</tr>
<tr>
<td>Asset Specificity (ASS)</td>
<td>(R&amp;D Investment + Advertisement)/Sales</td>
</tr>
<tr>
<td>Profitability (PROF)</td>
<td>Operating Income/Total Asset</td>
</tr>
<tr>
<td>Return on Total Asset (ROA)</td>
<td>Net Income/Total Asset</td>
</tr>
<tr>
<td>Investment Propensity (INV)</td>
<td>(Cash Outflow from Investment Activity - Cash Inflow from Investment Activity)/ Total Asset</td>
</tr>
<tr>
<td>Chaebol Dummy (DumGRO)</td>
<td>If a company belongs to a large business group = 1, Otherwise = 0</td>
</tr>
</tbody>
</table>

Empirical Analysis Model

This study presents the attributes of companies preferred by foreign investors by panel data analysis, using balanced panel data in terms of control-ownership disparity, which is an indicator for agency cost of corporate governance, for the period between 2000 and 2008.
Empirical Analysis

Panel Analysis of Control-ownership Disparity and Foreign Investors (or Foreign Institutional Investors or Foreign Corporate Blockholders)

Table 4 shows the results of panel data analysis for the effect that control-ownership disparity and control-ownership disparity dummy have on foreign investors' ownership (or foreign institutional investors or foreign corporate blockholders). The fixed effect model (1) and (2) estimated by Hausman test using panel data analysis to address this issue show panel analysis results.

The panel data analysis model (1) shows that control-ownership disparity has a significant negative relation with foreign investors' ownership, and model (2) indicates that control-ownership disparity dummy also has a significant negative relationship with foreign investors. This is because efficient estimators can be obtained by estimating the dynamic relation among companies and considering the heterogeneity factor among companies through panel data analysis. Therefore, the results of panel data analysis indicate that

Table 4. Results of Panel Data Analysis for Foreign Investors, Foreign Institutional Investors, and Foreign Corporate Blockholders

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
<th>Foreign Investors(FOR)</th>
<th>Foreign Institutional Investors(ForInst)</th>
<th>Foreign Corporate Blockholders(ForCorp)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model (1)</td>
<td>Model (2)</td>
<td>Model (3)</td>
<td>Model (4)</td>
</tr>
<tr>
<td>Control Ownership Disparity (DIS)</td>
<td>-0.0345*</td>
<td>-0.0408**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.020)</td>
<td>(0.020)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control Ownership Disparity Dummy (DumDIS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0.0105**</td>
<td>-0.0073*</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.005)</td>
<td>(0.004)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operation Year (AGE)</td>
<td>0.0066***</td>
<td>0.0066***</td>
<td>0.0064***</td>
<td>0.0064***</td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
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<tr>
<td>Firm Size (SIZE)</td>
<td>0.0122***</td>
<td>0.0127***</td>
<td>0.0126***</td>
<td>0.0129***</td>
</tr>
<tr>
<td></td>
<td>(0.005)</td>
<td>(0.005)</td>
<td>(0.005)</td>
<td>(0.005)</td>
</tr>
<tr>
<td>Debt Ratio (DEBT)</td>
<td>-0.0008</td>
<td>-0.0009</td>
<td>-0.0007</td>
<td>-0.0007</td>
</tr>
<tr>
<td></td>
<td>(0.002)</td>
<td>(0.002)</td>
<td>(0.002)</td>
<td>(0.002)</td>
</tr>
<tr>
<td>Total Asset</td>
<td>0.0039***</td>
<td>0.0039***</td>
<td>0.0039**</td>
<td>0.0039**</td>
</tr>
<tr>
<td>Turnover Ratio (ACT)</td>
<td>(0.002)</td>
<td>(0.002)</td>
<td>(0.002)</td>
<td>(0.002)</td>
</tr>
<tr>
<td>Liquidity (LIQ)</td>
<td>0.0573***</td>
<td>0.0572***</td>
<td>0.0483***</td>
<td>0.0484***</td>
</tr>
<tr>
<td></td>
<td>(0.015)</td>
<td>(0.015)</td>
<td>(0.014)</td>
<td>(0.014)</td>
</tr>
<tr>
<td>Asset</td>
<td>0.1393</td>
<td>0.1494</td>
<td>0.0974</td>
<td>0.1040</td>
</tr>
<tr>
<td>Specificity (ASS)</td>
<td>(0.127)</td>
<td>(0.128)</td>
<td>(0.118)</td>
<td>(0.118)</td>
</tr>
<tr>
<td>Profitability (PROF)</td>
<td>0.0258</td>
<td>0.0254</td>
<td>0.0272</td>
<td>0.0264</td>
</tr>
<tr>
<td></td>
<td>(0.021)</td>
<td>(0.021)</td>
<td>(0.019)</td>
<td>(0.019)</td>
</tr>
<tr>
<td>Return on Total Asset</td>
<td>0.0015</td>
<td>0.0015</td>
<td>0.0015</td>
<td>0.0015</td>
</tr>
<tr>
<td>Return on Total Asset (ROA)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
</tr>
<tr>
<td>Investment</td>
<td>0.0075</td>
<td>0.0076</td>
<td>0.0066</td>
<td>0.0067</td>
</tr>
<tr>
<td>Propensity (INV)</td>
<td>(0.010)</td>
<td>(0.010)</td>
<td>(0.009)</td>
<td>(0.009)</td>
</tr>
<tr>
<td>Chaebol Dummy (DumGRO)</td>
<td>-0.0055</td>
<td>-0.0052</td>
<td>-0.0015</td>
<td>-0.0009</td>
</tr>
<tr>
<td></td>
<td>(0.010)</td>
<td>(0.010)</td>
<td>(0.010)</td>
<td>(0.010)</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.4084***</td>
<td>-0.4162***</td>
<td>-0.4204***</td>
<td>-0.4256***</td>
</tr>
<tr>
<td>Sample Size</td>
<td>3.879</td>
<td>3.879</td>
<td>3.879</td>
<td>3.879</td>
</tr>
<tr>
<td>R²</td>
<td>0.086</td>
<td>0.087</td>
<td>0.084</td>
<td>0.084</td>
</tr>
</tbody>
</table>

Companies with lower control-ownership disparity and control-ownership disparity dummy have higher foreign investors' ownership. The results suggest that foreign investors prefer companies with a good corporate governance and are not willing to invest in companies with excessively high voting rights relative to ownership rights.
The panel data analysis model (3) shows that control-ownership disparity has a significant negative relationship with foreign institutional investors, and model (4) indicates that control-ownership disparity dummy has a significant negative relationship with foreign institutional investors. The results suggest that foreign institutional investors have preference for firms with low control-owner disparity and care more about firms with low control-owner disparity and low ownership right.

Model (5) and model (6) in Table 4 shows the results of panel data analysis for the effect of control-ownership disparity and control-ownership disparity dummy on foreign corporate block holders’ ownership. The random effect models (5) and (6) estimated by Hausman test are presented to control the issue. The random effect model (5) shows an insignificant positive relationship between control-ownership disparity and foreign corporate blockholders, whereas the model (6) shows a significant negative relationship between control-ownership disparity dummy and foreign corporate blockholders. While foreign corporate blockholders are less sensitive to control-ownership disparity than ordinary foreign investors or foreign institutional investors, their shares decrease if ownership right is relatively low and control-ownership disparity is high. Therefore, it seems that foreign corporate blockholders are not greatly affected by control-ownership disparity, but do not prefer companies with excessively high voting rights relative to ownership rights.

The panel data analysis results in Table 4 show that only control-ownership disparity dummy and foreign corporate blockholders have a significant negative relationship. In addition, the firm attributes preferred by foreign corporate blockholders are a little different from those preferred by all foreign investors. Foreign corporate blockholders are usual in the related industry of the company in which they invested and influence the management activity as inside shareholders, having tendency to invest on a long-term basis. It is, therefore, indicated that foreign corporate blockholders are not very sensitive to control-ownership disparity, but prefer companies that have higher liquidity and do not belong to a large business group.

Discussion and Conclusion

While there have been continuous interests in what factors foreign investors consider when they invest in domestic companies, few empirical studies have been conducted on the issue. As foreign investors’ influence on Korean stock market and corporate decision-making increases, it is important to analyze what corporate characteristics foreign investors consider when investing in Korean firms. This study focuses on whether corporate governance of Korean firms matters when foreign investors make investment decisions in Korean firms.

Using the balanced panel data of 431 listed manufacturing firms in Korean Stock Exchange from 2000 to 2008, this study analyzes in-depth relationship between control-ownership disparity and foreign investors' ownership. In particular, this study provides separate empirical investigation into the effect of control-ownership disparity on foreign institutional investors and on foreign corporate blockholders, who have different investment purposes.

The major findings of the panel data analysis are as follows: First, foreign investors as a whole prefer firms with low control-ownership disparity, suggesting that they tend to invest in firms with good corporate governance. This also applies to foreign institutional foreign investors. Second, foreign corporate blockholders are not as sensitive as foreign institutional investors to poor corporate governance in Korean firms, however they do care about corporate governance when firms they consider have excessively high voting rights relative to ownership rights.

It indicates that foreign corporate blockholders are pay less attention to agency problem as internal shareholders while they have negative responses to relatively high voting power compared to ownership. In addition, they prefer to a company that has high liquidity and is not belong to large conglomerates.

Third, this study conducted t-test for the groups that are classified by the average company size. Companies consisting of the above average group are likely to have high foreign investors’ ownership and control-ownership disparity and they are likely to be a part of a Chaebol dummy.
Fourth, for the robustness test, this study added two interaction items related to control-ownership disparity and information asymmetry, which are main variables of this study before analyzing panel data; interaction between the control-ownership disparity (the control-ownership disparity dummy) and the firm size and interaction between the control-ownership disparity (the control-ownership disparity dummy) and the Chaebol dummy. According to the results, the control-ownership disparity has stronger effects on its negative relationship with foreign institutional investors’ ownership when it is a Chaebol dummy.

In particular, it is important to note that this study investigates relationship with foreign investors’ ownership in terms of control-ownership disparity in addition to financial variables for all listed manufacturing companies and classify and analyze foreign investors by the purpose of investment.

References


On Competitive and Comparative Advantage: Towards a Unified Theory of International Trade

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Abstract
The field of international business/economics is largely dualistic in nature. On the one hand is the economics literature which has, for two centuries, focused on the notion of comparative advantage (technology, factor proportions) while on the other hand is the business literature which has recently developed the concept of competitive advantage. Attempts at integrating the two have been unconvincing (Neary 2004, Dev Gupta 2009). This paper presents an alternative approach based on global value chain/supply chain analysis and the concept of vertical comparative advantage (Beaudreau 2011, 2013) and uses it to compare and contrast these two approaches to understanding international trade flows. It is argued that the theory of competitive advantage's comparative scientific (epistemological) advantage lies with its "how to" approach to developing an advantage, while the theory of comparative advantage's comparative scientific advantage lies with its account of "what is" and that both are complementary. Furthermore, it is argued that the failure to recognize this complementarity as well as the shortcomings of each have prevented and continue to prevent the emergence of an integrated, empirically-consistent theory of international trade.

Keywords: Comparative Advantage, Competitive Advantage, Trade Theory
The Feasibility of Voice Controlled Guide Phone for Senior Tourists

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Abstract
Taiwan is facing the problem of aging population. Due to the advances in medical technology coupled with improving people's living conditions, the average life expectancy of the people has been extended. The stress of everyday life is no longer just food and clothing, but the further pursuit of spiritual and material life of enjoyment. Leisure activities and the nature is an integral part of spiritual life as food. However, older seniors, whose physiology are not as good as the youth. Physiology of aging will produce some changes, such as the operational capacity may be affected by degenerative arthritis, presbyopia, poor ear hearing, slower reaction, which are more likely to let his/her become poorer when receiving messages. Common health problems in turn are hypertension, arthritis, diabetes, heart disease, which is the main cause of long; plagued the older seniors to let those poor physical or emotional well and these problems are likely to be physiological pursuit of leisure activities obstacles. Degradation on human physiology may not be able to heal, but we can provide appropriate assistants to allow participation in its improved condition of engaging in leisure activities aids can compensate for the ability to make old people like to come back to enjoy the rest satisfaction activities. The concept of provide assistant device for seniors in the resting place should be getting attention. Taiwan's aging population has become increasingly evidently. However, leisure facilities and the nature, such as leisure farms are popular for the seniors. When seniors feel assistant device convenient and comfortable, it will increase the intention for seniors to visit the leisure farm. The study will conduct a survey to understand the needs of seniors for the intelligent assistant devise for leisure farm in northern, central, southern and eastern Taiwan. And based on the findings, the study will renew the intelligent assistant device system after the study collect the satisfaction surveys from seniors. The study can provide the research idea and direction towards future study.

Keywords: Voice Controlled Guide Devise, Voice Controlled Guide Phone, Assist Devise For Guiding Tour
Does industry illiquidity matter for IPO underpricing? Evidence from China

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Abstract
Using a dataset consisting of complete bid information for 477 bookbuilt IPOs in China, this study examines the relation between industry illiquidity and IPO underpricing. Specifically, I find that for IPOs in the industries of higher illiquidity, (1) firms underprice their IPOs by a greater amount; (2) underwriters charge higher spreads; and (3) endogenous entry of institutional investors is mainly driven by underwriter’s discretionary discount on the offer price. My evidence is robust to several alternative explanations and has important policy implications.

Keywords: Industry Illiquidity, Initial Public Offering, Gross Spread, Endogenous Entry
The Significance of the Definition of “Consumer” in Consumer Protection: A Comparison between the Australian Consumer Law (Australia)

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Abstract
Protecting consumers is seen as an important concern for any economy as evidenced by legislation in many domestic jurisdictions. Different approaches are taken by different legislators, for example, in Australia a consumer is defined by identifying the type of good or service being purchased, rather than the type of legal person purchasing the good. Thus, in Australia a consumer can include an individual, a partnership or corporation, whilst EU directives appear to exclude corporations and partnerships from the definition of a consumer. And within the UK itself there are different definitions of a consumer. Turkey, also recently introduced the Protection of the Consumer Law No 6502. Turkey’s new legislation appears to adopt a definition of a consumer similar to that of Australia, and thus contrasts with other EU States. Whilst differences may not be unexpected, what do these differences suggest about the imperatives faced by different legislators, and what are the potential consequences of these differences? It is the purpose of this paper to compare provisions of the ACL with other jurisdictions within the European Union, such as the UK, and then consider how significant these differences may be.

Keywords: Consumer Protection, Contract, Consumers, Australian Consumer Law
Government Stability, Accession to EU and Foreign Direct Investment in Turkey: A GMM Approach

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Abstract

This research investigates the determinants of foreign direct investment (FDI) inflows from 19 OECD countries into Turkey from 1991 to 2007. In particular, it focuses on the impact of European Union (EU) membership negotiations and government stability on increasing FDI inflows into Turkey in 2000s. Two-step system GMM estimation technique is used due to possible endogeneity between GDP and FDI. This analysis indicates that government stability and EU membership perspective partially explain the considerable increase in FDI inflows into Turkey in 2000s. These findings imply that continuation of recent protests against the government in Turkey, which are likely to undermine government stability, would cause a fall in FDI. It is important that even though EU membership for Turkey has long been elusive, EU based firms reacted positively to the prospect of EU membership. One interpretation of this can be that these firms value the reforms implemented by the government to be able to continue its EU accession journey more than the country’s final membership. If so, deviation from reform path on the part of the government would reverse the upward trend in FDI inflows. The analysis also shows that cheap labour argument in attracting FDI is no longer valid for Turkey. Hence, improvement of the quality of labour may have become more important than merely increasing its quantity.

Keywords: Foreign Direct Investment, Turkey, Government Stability, EU; GMM.
Analysis of Online Customer Complaints on Travel Trade

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Abstract

The importance of Electronic Word of mouth on business performance is ever increasing because of wider use of internet and growth of customer comment sites. Both positive and negative comments can be seen as an opportunity for organizations. By facilitating and analyzing the customer comments, the businesses can better determine their weaknesses from the perspectives of customers and would be in a better position to turn them into strengths. Efficient handling of complaints might turn a dissatisfied customer even into a loyal one. Complaint management has also been a significant issue for service firms where purchases are mostly intangible in nature. Travel agencies are intermediaries that coordinate various services, supplied by different vendors and people. They act as the middleman between the customer and various suppliers that create a tour package. From the customer perspective tours are high risk purchases, customers do have little concrete information about most of the services included in their package, transportation, guiding and even accommodation facilities are opaque in many ways. Even when the standards are well established, there are many instances promises mentioned on promotional material have not been realized. Therefore customers rely on experiences and comments of previous users when they decide on the reliability of the tour operator and the quality of its services. This study examines the negative comments of customers based on a content analysis of comments posted on \textit{sikayetvar.com} about travel agencies operating in Turkey and targeting Turkish tourists. \textit{Sikayetvar.com} is the largest complaint site in Turkey considering number of members. 1209 negative comments on the services of 10 travel agencies were analyzed, read and coded by the authors to identify the categories of customer complaints from tour operators in a turkish tourism setting. The findings of the study might be used to improve service quality and complaint handling process of travel trade.

\textbf{Keywords:} Complaint Management, Online Complaints, Ewom, Travel Agencies, Tour Operators, Travel Trade

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A Catastrophic Failure of Risk Management: The Case of BP Oil Spill

Sevim Oztimurlenk

Abstract

On the 20th of April 2010, an outstanding explosion of the BP Deepwater Horizon oil rig situated in the Gulf of Mexico caused the largest maritime disaster oil spill in the USA history and particularly caused considerable reputation and financial losses to BP. To deal with the spill oil as well as reputation and financial losses, the company particularly uses many tactics and tools to communicate with stakeholders during and after the crisis. The BP oil spill disaster exposed serious shortcomings in both technology and regulation, but the biggest culprit is a catastrophic failure of enterprise risk management. At the financial level, BP shares loosed on June 25, 2010, nearly 7% and fell to its lowest level since 14 years in the London Stock Exchange. In addition, the BP stock market valuation, which was $182 billion on April 20, dropped to $ 89 billion on July 2, 2010 (Gerstein, 2010). Furthermore, BP faced growing calls for boycott of its products. In mid-June 2010, the number of Facebook group called “Boycott BP” grew to almost 640,000 fans. An anonymous activist has joined the fun by establishing a fake BP Twitter account called @BPGlobalPR and started sending out messages about the Gulf oil spill to Twitter (Walsh, 2010). A month after the explosion, @BPGlobalPR had 190,035 followers while the BP account, @BP America had only 18,826 followers. At last, BP was facing thousands claims and lawsuits from many actors such as fishers, hotels, restaurants as well as NGOs like the Animal Welfare Institute (AWI) and other animal protection and conservation organizations. To deal with the spill oil as well as reputation and financial losses, BP mobilized substantial means and expended a great deal of effort. The company particularly started up its communication machine in the hope to reduce and even to repair reputation damages. However, crisis management and communication experts’ opinions differed on whether BP has successfully or unsuccessfully communicate with its stakeholders during the crisis. The aim of this paper is to assess BP crisis communication relating to the Deepwater Horizon disaster and mainly to point out failures by using the existing models and theories related to crisis communication. The purpose of this research paper is to discuss the reasons behind this failure and to explain the importance of risk management for companies. Thus the scope of this project includes the followings: the brief background information about BP such as company statistics, company perspectives, company history, Swot Analysis of BP, Risk Assessment in the oil industry, Finance Risks, Employee Risks, and Technology related risks and Reputation Risks of the company.

Keywords: British Petroleum, Risk Management, Deepwater Horizon, Gulf of Mexico
Forecasting the Iberian Electricity Market Demand by Using Nonlinear Time Series Tools

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Abstract

With the paradigm shift regarding power systems, that used to be regulated and started to be liberalized, the study and forecast of prices and electricity loads have become a new topic of interest to researchers. Due to the peculiarities of electricity, electricity markets have very specific rules that must be understood before starting their study. This paper presents a study of the Iberian Electricity Market, represented by the series of loads, in the framework of nonlinear deterministic chaos. The main goal was to verify that the series of loads has chaotic features, reconstructing its attractor and estimating some invariants of the system as the correlation dimension, the Kolmogorov-Sinai entropy and the Lyapunov exponents. The forecast for the next 24 hours can then be done using deterministic tools like the method of time delay and artificial neural networks. As a result of this research, we identified evidence that the series of the loads is governed by a chaotic dynamical system and its predictions were successfully achieved.

Keywords: Electricity Market Demand, Nonlinear Time Series, Chaos Theory, Forecasting
An Evaluation of the Victorian Football League’s ‘Coulter Law’

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Abstract

In the State of Victoria in the south eastern corner of Australia an indigenous football code had been in existence for over 30 years when in 1930. The Victorian Football league established the Coulter Law. The Coulter Law was designed as a set of recruiting and payment regulations to stabilize the financial position of clubs. It is part of football folklore that some star players were paid illegally by clubs. After World War II, the Coulter Law encouraged VFL players to seek higher wages by taking country coaching jobs. By the early 1960s, anecdotal evidence suggests that many VFL clubs were flouting the Law. When the Law was abolished in 1970 a period of wage inflation that left most VFL clubs in a difficult financial position followed. This paper looks at three of the most successful VFL clubs in the history of the competition and reports on research into the operation of the Coulter Law which assesses the ability of these VFL clubs to retain players over time. It will track the length of League player careers and the age at which they ended. If the inability of these VFL clubs to retain players beyond the ages of around 26-28 is distributed evenly, this would indicate that they were generally compliant with the Coulter Law and vulnerable to wages competition from non-VFL clubs. Periods of sustained on-field success may then be attributable to a club’s ability to recruit replacement players and high quality coaching. If the trend is not distributed evenly, with some clubs being more able to retain players than others, this would suggest non-compliance and defection from those clubs.

Keywords: Football, Coulter, Wages
The Relationship between Mobbing and Job Satisfaction in Workplace

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Abstract
Mobbing emerges as a communal and social phenomenon which adversely affect victims as in terms of individual and organizational. The concept of mobbing is defined as psychological violence or bullying in workplace. While job satisfaction is defined as one’s generating of positive attitudes towards his/her own job and has a great importance of efficiency of the employees in an organization. This research has been done to investigate the relationship between mobbing and job satisfaction in workplaces. There are two type of scales have been reviewed to use in the survey. First scale is the negative acts questionnaire (NAQ), which was developed by Einarsen & Raknes, (1997) and Einarsen, Raknes, Matthiesen & Hellesoy, (1994a) as a quantitative measure of mobbing. The second scale is Minnesota job satisfaction scale (MSQ) was developed by Dawis, Weiss, England, Lofquist (1967). These questionnaires were conducted with 140 employees in a hospital in Bursa city of Turkey, to measure negative behaviors and job satisfaction if there is a relative relationship between mobbing and job satisfaction. The survey datas analysed by SPSS 21.0 (Statistical Package for Social Sciences) computer program, and found that there is a significant negatively related relationship between mobbing and job satisfaction.

Keywords: Mobbing, Bullying, Psychological Violence, Job Satisfaction

Introduction
Employees are the complementary elements of the social relationships in organizations. The relationships between the employees occasionally are faced with unwanted situations such as physical and psychological violence. Since the 1980s, the subject of mobbing in the workplace has been the subject of many theoretical and many empirical studies in developed countries such as Sweden, Germany, France and Norway. Also the researches in Europe and America have determined that mobbing behaviors in the workplace are very common and these behaviors create negative consequences on the victims.

In recent years, studies strongly indicate that mobbing phenomenon is a very important problem associated with workplace which leads employees to move away from the workplace. Initially mobbing was thought to be psychological pressure in a competitive environment where each employee apply to each other, after a while, mobbing has emerged as the workplace terrorism when the size and severity increased and negative consequences effected in terms of both employees and the organization.

It is observed that the studies of mobbing concept are continuing to increase and in this sense the seriousness and the prevalence of the problem is seen important. In this respect, this study examined the mobbing behaviors and the consequences on employees. The survey is done to research the relationship between mobbing and job satisfaction in health sector.

Theory / Issues

Literature Review
Studies on mobbing subject began firstly in Sweden (Leymann and Gustavsson, 1984; Leymann, 1986), and the concept subsequently has explored in Norvey (Kihle, 1990; Einarsen and Raknes, 1997), Germany (Becker 1993; Knorz & Zapf 1996), in Finland (Björkquist et. al, 1994) in England by Rayner & Hoel (1997), Cowie et. al. (2002), in Australia by Niedl (1996). In the beginning of the 80's, psychologist Professor Heinz Leymann found long-term hostile behavior among the employees at workplaces. Leymann & Gustafsson (1984) introduced this phenomenon and it has been referred to as “mobbing”, “bullying” or...
"psychological terror". In continuation of researches on the subject, Leymann and Tallgren (1989)'s definition of mobbing is:

"Psychological terror or mobbing in working life means hostile and unethical communication which is directed in a systematic way by one or a number of persons mainly toward one individual. These actions take place often (almost every day) and over a long period (at least for six months) and, because of this frequency and duration, result in considerable psychic, psychosomatic and social misery" (Leymann, 1990, p.120).

Einarsen (1999) has defined bullying as "systematic persecution of a colleague, subordinate or superior, which, if continued, may cause severe social, psychological or psychosomatic problems for the victim" (p.17). It is seen that in the studies of British and Australian researchers "bullying" concept is used instead of "mobbing". In the most of the studies of USA researches "bullying" concept is used in schools and "mobbing" concept is used in workplaces. Physical attacks are seen very rarely in work places rather than schools, further more mobbing becomes as a hostile behavior in workplaces where the victim is isolated from the social environment.

Mobbing Behaviors in Workplaces and the Mobbing Process

In the study of Leymann (1996) the typology of activities developed and subdivided as categories depending on the effects on the victim such as; "effects on the victims' possibilities to communicate adequately, effects on the victims' possibilities to maintain social contacts, their personal reputation, effects on the victims' occupational situation and physical health" (p.170). Negative Acts Questionnaire (NAQ) developed by the studies of Einarsen and coauthors (1994a) and, Einarsen and Raknes (1997) consisting of behaviors and was made up of 22 items was used in many studies to assess workplace bullying/ mobbing. This scale consist of typical mobbing behaviors, and the respondents answer the questions in degrees they have suffered in the last six months, within a 5-point Likert type rating scale, ranging from 1 (never) to 5 (daily). Einarsen, Hoel and Notelaers (2009) categorized the negative acts such as; work-related bullying, person-related bullying, physically intimidating bullying as can be seen in Table 1. Negative Acts Questionnaire (NAQ).

<table>
<thead>
<tr>
<th>NAQ item number</th>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Work-related bullying</strong></td>
<td><strong>Item</strong></td>
</tr>
<tr>
<td>1</td>
<td>Someone withholding information which affects your performance</td>
</tr>
<tr>
<td>3</td>
<td>Being ordered to do work below your level of competence</td>
</tr>
<tr>
<td>14</td>
<td>Having your opinions ignored</td>
</tr>
<tr>
<td>16</td>
<td>Being given tasks with unreasonable deadlines</td>
</tr>
<tr>
<td>18</td>
<td>Excessive monitoring of your work</td>
</tr>
<tr>
<td>19</td>
<td>Pressure not to claim something to which by right you are entitled (e.g. sick leave, holiday entitlement, travel expenses)</td>
</tr>
<tr>
<td>21</td>
<td>Being exposed to an unmanageable workload</td>
</tr>
<tr>
<td><strong>Person-related bullying</strong></td>
<td><strong>Item</strong></td>
</tr>
<tr>
<td>4</td>
<td>Having key areas of responsibility removed or replaced with more trivial or unpleasant tasks</td>
</tr>
<tr>
<td>5</td>
<td>Spreading of gossip and rumours about you</td>
</tr>
<tr>
<td>6</td>
<td>Being ignored or excluded</td>
</tr>
<tr>
<td>7</td>
<td>Having insulting or offensive remarks made about your person, attitudes or your private life</td>
</tr>
<tr>
<td>10</td>
<td>Hints or signals from others that you should quit your job</td>
</tr>
<tr>
<td>11</td>
<td>Repeated reminders of your errors or mistakes</td>
</tr>
<tr>
<td>12</td>
<td>Being ignored or facing a hostile reaction when you approach</td>
</tr>
</tbody>
</table>
Rayner and Hoel (1997) have addressed psychological violence behaviors in five categories such as; threatening professional status and personnel standing, physical or social isolating, making pressure to overwork or instability. Tengilimoğlu and Mansur (2009) have drawn attention to the imbalance of power between the victim and the perpetrator in the mobbing process. Initially there is an equal force on both sides, when the process goes forward, the victim loses power because of the negative behaviors as mentioned above and becomes weaker by the perpetrator.

**Causes and Consequences of Mobbing**

Zapf (1999) and Einarsen et al. (1994) argue that the personality of the victim may cause mobbing behaviors on the victim. Leymann (1990; 1996) asserted that personality is not relevant as a cause of bullying. Leymann (1996) noted that the work organization and poor conflict management may cause a mobbing process. Zapf (1999) grouped the causes and consequences of mobbing as can be seen in Figure 1. Perpetrator's organizational and social group factors and notwithstanding person factors may cause mobbing. The composed mobbing behaviors also lead to causes where there is also an affect right to left in the figure, and the consequences of mobbing affect the victim as health complaints.

**Fig 1.** Causes and Consequences of Mobbing (Source: Zapf, D. (1999). Organizational, work group related and personal causes of mobbing/bullying at work. *International Journal of Manpower*, 20(1/2), p.72)
Mobbing is a serious process which adversely affect employee's physical, social and spiritual aspects as victims; in individual sense his or her business success and efficiency to decrease and in organizational sense that may cause deterioration of the success of the organization and that leads negative effects on the organizational productivity and also the economics. In many studies indicate that the when consequences of mobbing; psychomatic complaints, depression, anxiety, obsession, etc., on employee occurs it causes the job satisfaction level decrease and victim's tendency to quit the job increases. Leymann's study (1990) demonstrates the clinically examined grave affects of mobbing behaviors as in socially, social-psychological, psychological, psychosomatic and psychiatric groups.

Baltaş (2003) expressed characteristics of perpetrators are generally; intolerant to differences, hypocritical, see him/herself as a superior and are overly controlled and jealous people. They try to defeat their feelings of inadequacy by amusing with the difficult situation of their target. The characteristics of mobbing targets are usually; outstanding professional features, creative, honest, successful people. These features can be remarkable and may disturb some other employees and they may become the target of perpetrators.

Problems experienced in the organizations affect the employees in the short and long time of periods and in organizational activities adversely affect efficiency and performance. At the same time, employees' sense of the interest and commitment to the organization and the responsibility decreases, making mistakes at work and a sense of inadequacy directly occurs. Making absenteeism, coming late to the work, leaving earlier, job dissatisfaction, inability to concentrate work occur indirectly (Cemaloğlu, 2007, p. 121).

Job Satisfaction

The concept of job satisfaction has been studied by many scholars. Blum and Naylor (1988) describe job satisfaction that a general approach of the workers represented by their approach towards the working environments, salary, control encouragement related with the job, social relations in the workplace, identification of talent, abilities and some related variables, personal traits and group relationships apart from the work life. Berry (1997) defined job satisfaction as a reaction of employee towards the job skill. Many studies indicate that generally emerging individual factors which have an effect on job satisfaction are age, gender, education, intelligence, individual abilities and personality.

Work-related factors significantly affect job satisfaction as individual factors may be listed as; nature of work, the wages paid, promotion opportunities, to be appreciated, to be rewarded, relationships with colleagues and senior management, and also job satisfaction increases when employees to participate in decisions taken in the organization (Türk, 2007, p. 76). Tengilimoğlu (2005) emphasizes that "the job satisfaction is important for managers as the employees' performance and efficiency attitudes towards their job impact" (p.27). Behaviors which are the direct cause of job dissatisfaction is observed as; quitting the job, absences, poor performance, unionization, the mental and physical deterioration in health (Feldman and Arnold, 1983, p.192).

The Relationship between Mobbing and Job Satisfaction

Many studies in the world determined the researches on mobbing behaviors, some of the researches on consequences of mobbing (psychological violence, bullying) done in many sectors of work life. Mobbing may cause dissatisfaction, organizational conflict, increase in employee turnover, inefficiency and many more negativity. There are very few studies searched the relationship between mobbing and job satisfaction and in this respect, it is seen important to be researched to find out these two variables' relation.

Carnero et. al. (2010), found in the study of working conditions in Spain with 5236 employees that in the year of 2003, 5% of employees suggested that they had mobbing in workplace, and also the employees have concerns about quitting or changing the job and increases in the discontinuity in job. A research by Pranjic, Males-Bilic, Beganlic, Mustajbegovic (2006) in a national health sector of Bosnia and Herzegovina, indicated that 387 (76% of 511) of physicians reported the mobbing behavior and 136 (26% of 511) of physicians were exposed permanently to mobbing in workplace. Results of the analyses reveals that loss of distinction and confidence, defectiveness of motivation, lassitude, depressiveness and lack of support from colleagues significantly associated. Another research studied by Fisher-Blando (2008), with 218 employees in the two organizations of U.S. indicated that within the past 12 months one in four people have been bullied in workplace and the relationship between bullying and its effects on job satisfaction found out significant negatively related.
Ehtiyar and Üngüren (2008) committed a survey in five star hotels in city of Turkey Antalya, with 140 employees to find out the effects of mobbing on job satisfaction. They found out that psychological violence is experienced intensely and that causes the job dissatisfaction. When the psychological violence increase in workplaces, the job satisfaction decreases. In terms of businesses, it also decreases the efficiency of business, the customer satisfaction and leads to increase in staff turnover.

Turkey Commission Report (2011) introduced that; the health sector employees have 16 times more the probability of exposure to mobbing than the other job groups. The reason of this is explained as; the health sector employees have more complex business and have much more communication to other sector employees. Ofluoğlu and Somunoğlu (2012) when viewed the mobbing researches in the world and Turkey, they found out that the employees work in the health sector had mobbing and the consequences have been; blocked communication facilities, incurred loses in social relations and social images, blocked their job professional development and also mental health has been destroyed.

A study in America indicated that (38%) of 1580 employees of health sector had been under the serious psychological harassment in the workplace and this caused serious stress and decrease in job satisfaction, more information can be found on www.jfo.org.uk [Nov.10,2013]. It is becoming more and more important to have a healthy, psychologically comfortable feeling in the work place for employees. The studies generally show that the mobbing is seen rare in the companies who have the rational and valuing human resources management. The mobbing occurs most in health and educational sector where there is most work pace and complex and also occurs in the companies where the rules are not written and the profitability serves as the highest priority value. There are few surveys done in Turkey as most of them are in the subject of the prevalence of mobbing and organizational effects of mobbing in workplace. In this respect, it was seen clear that, it is important to search the relationship between mobbing and job satisfaction with the employees working in hospital and this study is aimed to be contributed to the studies in Turkey and the world.

**Methods / Procedures**

**Survey on the Health Sector Employees**

In recent years, mobbing has become increasingly important in the world and this study is done to find out the importance of mobbing in workplaces, the causes and the consequences and has been made to reveal the relationship between mobbing and the employee's job satisfaction. This research conducted on hospital employees who have an intense work pace. It is a descriptive research which aimed to determine the employees' job satisfaction with the effects of applied negative behaviors. Vartia's (2003) and McPhaul-Lipscomb's studies (2004) indicate that employees work in hospitals are under the high risk of psychological violence.

The psychological health of employees is an important element which affects the quality of production or service in terms of businesses. This study reviewed literature on the subjects of mobbing and job satisfaction, subsequently a questionnaire applied on the hospital employees (excluding doctors and nurses) to find out the relationship between mobbing and job satisfaction. In this respect, hypothesis of this research, which is based on the purpose to determine impact of hospital's employees’ mobbing sensations on job satisfaction, is developed as follows;

*Hypothesis: There is a negative correlation between hospital employees’ level of exposure to psychological violence and their job satisfaction.*

**Measurements**

Research population is the 550 hospital employee (excluding scholars and nurses) of a hospital in Bursa city in Turkey. Quantitative methodology was employed as a data collection tool and in the research, with the use of simple random sampling method, questionnaire done by 140 hospital employees, 126 of the questionnaires were considered valid, 14 questionnaires were considered invalid because of missed data.

The questionnaire consists of three parts. First part is of demographic questions which are; gender, age, educational level, marital status, how many years working in this hospital, and the position/task in the workplace. Second part is the negative acts questionnaire (NAQ) which was developed by Einarsen & Raknes, (1997) and Einarsen, Raknes, Matthisen, & Hellesoy, (1994a) defines mobbing behaviors without
the use of words *psychological violence* or *mobbing* in all questions. The NAQ questionnaire consists of 22 items apply to particular kinds of bullying behaviors, such as to be a subject of ridicule, rumors and gossips about him/herself, constantly criticism of his/her work and efforts, exposure to violence/physical abuse, and NAQ aims to identify respondents how often faced with this kind of behavior within 6 months, were asked to answer as never, sometimes, once a month, once a week, nearly every day. After answering these questionnaires of these items, a definition of mobbing is created as a last question and asked respondents to answer whether they consider themselves as a victim of mobbing according to the definition. The scale has indicated high reliability and validity in many previous studies (Einarsen et al., 1994b; Einarsen & Raknes, 1997; Hoel et al., 2001).

In the third part of the survey, Minnesota job satisfaction questionnaire (MSQ) which was developed by Dawis R.V., Weiss D. J., England G.W. and Lofquis L. H. (1967) is used to identify the current job satisfaction in three subscales formed of; intrinsic, extrinsic, and general satisfaction questions. The short form of the questionnaire includes 20 questions that are relevant to a number of job measurement and on which respondents specify their degree using a 5-point scale (1 = very dissatisfied, 5 = very satisfied).

Statistical techniques were used in the research in order to facilitate analysis and interpretation of large number of data collected. For the purpose of this research the data obtained from the questionnaires have been interpreted by the use of various statistical analyzes such as; frequency, mean, standard deviation, Cronbach's Alpha reliability statistics, and Pearson Correlation analysis.

**Results**

The (NAQ) and (MSQ) surveys were found highly reliable at the Cronbach's Alpha statistics based on standardized items reliability statistics of Negative Acts Questionnaire (NAQ) was found (0.93), and Cronbach's Alpha based on standardized items reliability statistics of Minnesota job satisfaction questionnaire (MSQ) was found (0.98).

**Demographic findings' of the personal characteristics of employees are as follows:**

126 employees who participated in the questionnaire, 54% were female and 46 % of them were male. It is identified that majority was generated on the age group of the employees were 31-40 age range (36,5 %) and 41-50 age range (35,7 %). Educational status is predominantly determined as high school (37,3%) and associate degree (34,1%). 72 employees of respondents who answered the questionnaires were single (57,1%) and 54 were married (42,9%). The majority was generated on between 1-5 years (32,5%) and between 6-10 years (36,5%) working in this hospital. 126 employees who participated in the questionnaire were in the position of administrative assistant (7,9%), secretary (21,4), officer (33,3), medical attendant (18,3%) and operator (19%) in the hospital. Exposure to mobbing situations were resulted as; never (n=20, 15,9%), sometimes (n=43, 34,1%), once a month (n=19, 23%), once a week (n=21, 16,7%) and everyday (n=13, 10,3%).

The highest dimensions of negative act questions' perception is identified at “checking of your work much more than necessary” mean (\( \bar{X} = 2,83 \)) , " being constantly reminded of the errors or failures of your work" is also mean (\( \bar{X} = 2,83 \)) and " some of the key responsibilities are to be taken back from you or replaced with insignificant or unpleasant jobs" mean (\( \bar{X} = 2,80 \)), the lowest dimensions of negative acts are "some people affect your success to keep the information from you" mean (\( \bar{X} = 2,37 \)), " telling derogatory and hurtful things (to insult) about your personal life and attitudes and your personality (habits, history, etc.) mean (\( \bar{X} = 2,43 \)). Dissatisfaction in work place measured at the question of "the chance to work alone on the job" were the highest mean of (\( \bar{X} = 0,39 \)), and secondly highest question were "the way coworkers get along with each other" mean of (\( \bar{X} = 0,35 \)). "The feeling of accomplishment he/she gets from the job" is the lowest measure of dissatisfaction of the employees in the hospital.

Pearson Correlation analyze were applied in order to understand the way of relationship between the perceptions of exposure to mobbing and the perceptions of job satisfaction. \( r = -0,590 \) value indicate that these two variables are related in a negative linear sense.
**Table 3. Pearson Correlation between Mobbing and Job Satisfaction**

<table>
<thead>
<tr>
<th></th>
<th>Mobbing</th>
<th>Job Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobbing</td>
<td>Pearson Correlation</td>
<td>-0.590**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>N (frequency)</td>
<td>126</td>
</tr>
<tr>
<td>Job Satisfaction</td>
<td>Pearson Correlation</td>
<td>-0.590**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>126</td>
</tr>
</tbody>
</table>

This finding indicates that there is a negatively related relationship between mobbing and job satisfaction. The main hypothesis was confirmed that there is a negative correlation between hospital employees' level of exposure to psychological violence and their job satisfaction. When the level of exposure to psychological violence increases job satisfaction decreases. These findings seem to support the researches which have done in this subject (Einarsen & Raknes, 1997; Quine, 1999; Pranjic, et. al., 2006; Ehtiyar and Üngüren, 2008).

**Conclusions**

This study indicates the relationship between mobbing and the job satisfaction. The findings of the survey show that there is a negatively related relationship between mobbing and job satisfaction. This situation requires to be taken as a measure as of serious occupational health and safety risk for the employees. First of all, mobbing should be realized as a very important problem by the employers and the employees. All the managers, specially the human resources managers the have important duties in the subject of related with job dissatisfaction. To provide training to the employees, will explain the definition of mobbing as a subject, the behaviors and the process of mobbing. Perceptions related to these kinds of behaviors, should be placed in the mind as "Never intolerable and unacceptable". Mobbing, process and the consequences should be described as in terms of individual and organizational.

Mobbing (psychological violence) in workplaces is increasing in recent years. The job satisfactions of the employees were found out negatively related with the mobbing affects. Mobbing affects on the employees and also on the organizations with the social environment should be considered carefully. To prevent of mobbing behaviors, precautions and determinations should be made in corporations.

Mobbing also causes costs to the corporations. Contribution to the production of employees who are psychologically disturbed will be less than the employees who work without any problem. Labor losses due to sickness are caused huge losses in the country's economy. HSE (Information about Health and Safety at Work) reports that every year there has been a loss of 6 million working day in the world, the cause of that losses are the professional insecurity of the victims of mobbing, change of job, long working hours (http://www.hse.gov.uk/, [Oct.10, 2013]). When we look at the cost of stress and diseases related to stress there emerges a rising graph of $5 billions to $12 billions, more information can be found on http://www.tuc.org.uk/ [Oct.10, 2013]. Because of the high costs of mobbing in workplaces in order to prevent mobbing, changes in law and practice to do should be reflected in working life (Turkey Commission Report, 2011, p.20).

Considering the employees who are exposed to mobbing as originating from the stressful work environment, managers may manage the stress by some; job enrichment, create a positive organization environment, prevent the role conflicts, good communications with every employee, pay attention and to get the needs of employees, and to provide the education of employees about sources of stress and stress management (Tengilimoğlu & Mansur, 2009, p.83). These advances may result in lowering stress sources and success in preventing the mobbing in workplaces. Legal regulations and criminal sanctions are the important and necessary steps of preventing mobbing in workplaces, but not enough. Illumination and awareness should be also provided. Measures to be taken at the beginning of preventing mobbing in workplaces may be to add "the mobbing will not be tolerated" as an article in the workplaces' own internal rules and regulations.

It is seen in recent years that, especially in our country and in the member states of the European Union, there is an aggravation of existing provisions and also creating new provisions related to mobbing.
Employers who can not provide conditions of preventing mobbing behavior in the workplace, been made obliged to pay heavy compensation. Employers have been made responsible of the employees' health of physical and mental. Furthermore the legislative changes made in this direction in Turkey are seen as a pleasing development for employees. This study has been done in order to provide guidance and present data for further researches. The findings may be measures to be taken as a director for the managers in workplaces.

References


Wealth Accumulation by Means of Homeownership and Its Effects on Housing Prices in Urban China

Zheng Linzi

Abstract

I propose that it is because urban residents in China consider housing purchasing as a form of savings and housing market as a reliable and return-promising bank that promote housing price to such a sky-high level when so many people cannot afford homeownership. I provide theoretical reasoning and hypotheses based on Permanent Income theory as well as Down Payment theory. According to my deducing, I believe home price and demand are encouraged greatly when people consider home buying as a form of savings which is affected by permanent income, saving inclination rate, bequest motive and etc. In order to get empirical proof for my research hypotheses, I build dynamic partial equilibrium housing price models to find out any similarities of housing buying patterns with respect to aggregate savings and to generate any significant effects on housing price variances of households’ expenditure behavior (including home buying) and saving choices.

Introduction

Research Background

Price is dependent on both demand and supply sides where neither party is discriminated. However, housing price in urban china seems not obeying this rule and has kept increasing accompanied by deteriorating housing affordability when measured by price-to-average yearly income ratio: It is reported the average housing sales price has grown up at yearly growth rate of 13.3%, while the disposable income of urban residents has increased only at annual growth rate of 9.4%, which is an obvious mismatch growth rate of income to housing price, and with tremendous deep gap of housing affordability among different income groups (Table 1). With restrained housing supply, especially the largely disappointing affordable housing, not surprisingly this paradoxical and unreasonable pattern has become one of the most serious problems in urban China especially in first-tier cities nowadays and being complained a lot by citizens.

Table 1 Price-to-average yearly income ratio of seven income groups from 2000 to 2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Average</th>
<th>Lowest</th>
<th>Low</th>
<th>Mid-low</th>
<th>Middle</th>
<th>Mid-high</th>
<th>High</th>
<th>Highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>6.28</td>
<td>14.76</td>
<td>10.81</td>
<td>8.50</td>
<td>6.67</td>
<td>5.26</td>
<td>4.17</td>
<td>2.95</td>
</tr>
<tr>
<td>2001</td>
<td>6.11</td>
<td>14.80</td>
<td>10.79</td>
<td>8.42</td>
<td>6.55</td>
<td>5.11</td>
<td>4.02</td>
<td>2.76</td>
</tr>
<tr>
<td>2003</td>
<td>5.75</td>
<td>18.85</td>
<td>12.37</td>
<td>9.13</td>
<td>6.72</td>
<td>4.98</td>
<td>3.70</td>
<td>2.22</td>
</tr>
<tr>
<td>2005</td>
<td>6.77</td>
<td>22.69</td>
<td>14.74</td>
<td>10.68</td>
<td>7.75</td>
<td>5.64</td>
<td>4.10</td>
<td>2.45</td>
</tr>
<tr>
<td>2006</td>
<td>6.70</td>
<td>22.00</td>
<td>14.32</td>
<td>10.51</td>
<td>7.70</td>
<td>5.60</td>
<td>4.11</td>
<td>2.44</td>
</tr>
<tr>
<td>2007</td>
<td>6.75</td>
<td>22.81</td>
<td>14.79</td>
<td>10.72</td>
<td>7.76</td>
<td>5.61</td>
<td>4.12</td>
<td>2.47</td>
</tr>
<tr>
<td>2008</td>
<td>6.78</td>
<td>22.76</td>
<td>14.82</td>
<td>10.65</td>
<td>7.72</td>
<td>5.61</td>
<td>4.10</td>
<td>2.44</td>
</tr>
<tr>
<td>2009</td>
<td>6.81</td>
<td>22.80</td>
<td>14.93</td>
<td>10.71</td>
<td>7.79</td>
<td>5.63</td>
<td>4.13</td>
<td>2.46</td>
</tr>
</tbody>
</table>

Meanwhile, there is an interesting and special buying and saving pattern happening in China’s market: homeownership has potentially but substantially become a new form of wealth accumulation of Chinese people. According to ‘The third quarterly survey of urban depositors’ issued by China central bank in 2011, savings inclination of urban residents is still increasing. The survey shows 82% of urban residents are inclined to savings, while 43.1% of them choose deposits, 23.6% of them choose to invest housing as a form of saving. However, over 80% of survey respondents indicate that they do not buy houses just because they cannot afford, once they have the affordability, they also would choose to buy houses for it is an insurance of asset preservation and appreciation. Their reason for this is simple and straight—because they consider buying a house as a form of wealth accumulation based on the undiversified investment

53 Particularly, in the year of 2004 and 2005, the year-on-year growth rate of housing prices soared to 15.1% and 19.5%.
environment and the combination of high-running inflation and low interest rates. For example, according to an international survey of stock market performance in 2011, the Shanghai complex index has decreased by 16%, and the stock market returns in China rank fifth to the last within all those countries surveyed.

**Research Questions**

These scenarios thus generate our research questions:

1) Why does housing price rise to such a high level and keep rising with so many people cannot afford homeownership?

2) How does the special wealth accumulation pattern of Chinese people affect housing price and housing demand?

**Research Objectives**

Therefore, our research objectives would include:

1) To explain why the sky-high housing price is accompanied by deteriorating housing affordability in urban China.

2) To find out impacts of Chinese citizen’s special wealth accumulation pattern on housing demand and housing price.

**Research Scope**

This proposal will focus on residential market in first-tier cities of China for where the housing problems are much more serious. I will concentrate on the demand side of housing but will also propose supply functions when making empirical analysis. I will use ‘the rich’ and ‘the poor’ as representatives of different income groups: the rich refer to the top three positions of income distributions who can achieve their housing expectations when they want, and the poor refer to the remained four groups who have to wait before home buying until their wealth accumulations arrive at the required level.

**Proposal Structure**

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54 According to China Statistical Yearbook, the income distribution can be divided into seven groups: lowest, 10%; low, 10%; mid-low, 20%; middle, 20%; mid-high, 20%; high, 10%; highest, 10%. And Jin Sanlin has cited it in his paper ‘Fundamental ideas of the relationship between the differential of price-to-income ratio and affordable housing policy in China’, [J] ‘Review of Economic Research’, 2007 (62).
Literature Review

Housing market fluctuation issue has always been the core topic in housing study field. Most of these literatures concentrate on the housing demand side and mainly refer to variables including income, interest and mortgage rates, economy and demographic factors, etc.

Housing Demand Analysis

For the well acknowledged scarcity of housing supply, most literatures on housing market focus on the dynamics of demand side. Studies related to this are very plenty and with different objectives and choices of factors. For our purpose, I review literatures concerning on permanent income elasticity of housing demand and its comparison results with current income as well as price elasticity and demographic variables’ effects on housing demand variances. Fortunately, a deLeeuw’s (1971) has reviewed rich of former related literatures concerning cross-sectional evidence on housing demand, with a major objective to reduce former existed uncertainties about income elasticity which can greatly shed light on my proposal.

Quite a few methods have been adopted for estimating the permanent income elasticity and making comparative analysis referring to current or observed income (deleeuw, 1973; Muth, 1974; Vaughn, 1976). Some of them use panel data of observations with lagged income as an instrumental variable (Lee, Lee and Kong), some use time series data of average income (Carlino; 1977; Fenton, 1974; Friedman and Weinberg, 1975; Mayo, 1977), some use instrumental variable based on auxiliary regression of income on its preset determinants (Mayo, 1977; Smith and Cambell, 1976; Struyk, 1976), while some use extraneous estimates of parameters to correct estimated coefficients (Mayo, 1977). With so many different methods, surprisingly they all come to a very similar result when try to use permanent income account for housing demand—they all find out that “the permanent income elasticity of housing demand is above the current income elasticity”.

Studies related to how demographic variables affect housing demand are typically managed out by an ad hoc way in most of the housing demand analyses. Most of them choose to add demographic factors to demand functions within a linear additive equation, or use which as stratifying variables. Unfortunately, these methods make it difficult to make comparisons between issues of demand elasticity and specific demographic effects within their whole analyses (such as researches of Carlino, Fenton, Kain and Quigley, Li, Smith and Campbell). However, they indeed make advanced outcomes as: “different taste, price discrimination coupled with a price elasticity of demand that is greater in absolute value than one, differences in permanent income, or failure to control for other relevant variables”.

Studies on Housing Price Formulation and Fluctuation

Earlier research of housing price formulation and forecasting mainly follow the basic law of demand and supply combined with the adjustment latency, and the demand side is assumed to be the major determinate of housing price in short period. Whitehead (1974), Hadjimatheou (1976), Mayes (1979) and Hendry (1984) are the representatives, but their prediction power based on these structure models comes out to be very weak.

Time series analysis is very different from the above two structural models, the basic proposition of which is ‘history might matter’. Case and Shiller (1989) adopt time series analysis method and examine the repeat sales price index in 49 cities of US to testify whether the American residential housing market is consistent with the weak-efficient market hypothesis or not. Muellbauer and Murphy (1997) use this method and find that because of the unstable relationships among households’ wealth, households’ income, interest rates and home prices, the housing prices could move dramatically as time changes. Jane P. Brown, Haiyan Song and Alan McGillivrary (1997) believe ignorance of structural changes in housing market is the major reason of failure in house price forecasting. Therefore, Jane P. Brown, Haiyan Song and Alan McGillivrary (1997) propose a Time Varying Coefficient (TVC) method with an unstable price data production assumption and get better regression results of varying coefficients compared with three other regression results of constant coefficients (ARIM, ECM and VAR). Likewise, Ortalo-Magne and Rady (2001) develop a regime-switch model of housing to analysis the pattern of housing price movements. They find out the financial constraints of Youngers are major reasons of the nonlinearity changes of housing prices.

Influential factors of housing price are also examined by lots of researchers. Variables of demand side are examined more frequently than supply side, amongst which income and mortgage almost appear in every
study. For example, Drake (1993) uses Johansen Cointegration Analysis Method and tries to find out determinates of housing price by making cointegration analysis of housing stock and mortgage interest rate in British housing market; while Greef and Haas (2000) also employ Cointegration Analysis Method and Error Correction Model to analyze relationships between mortgage market and housing market in Netherlands. They adopt variables such as real income, population, housing stock, housing mortgage interest rate and amount and real income expectation, and finally find out the housing price and mortgage in Netherlands do affect each other.

Demographic factors are also being studied a lot. Fumio and Mototsugu (1996) use a housing price model with demographic factors to analyze how the baby boom and the independence boom of Youngers affect Japanese housing price; Holly and Jones (1997) examine a much long-run panel data from the year 1939 to 1994 in British market to analyze how the real income, demographic factors, interest rates affect housing stock.

Life Cycle and Permanent Income Models

Well documented bodies of literatures on Life Cycle Theory (Modigliani and Brumberg, 1954), Permanent Income Hypothesis (Friedman, 1957), and theory of time allocation over life-cycle (Becker, 1965) can provide me theoretical foundations in preparing this proposal. Actually, these three theories and hypotheses are often being discussed together by researchers concerning on this field.

Former studies of life cycle theories are studies following Friedman’s original idea which are without considerations of bequest, or suppose there is no bequest motive. As development provided in this field, more researchers provide discussions of situations that there is bequest motive, as well as concepts of relative income or relative price also emerge.

With research technologies develop Life Cycle and Permanent Income models have been widely practiced by quite a few aspects of economy including choice of consumption and saving as well as merchandise pricing. There also have been server studies on saving pattern in China including Wulf, Goldstein and Naughton, 1984; Armitage, 1986; Lebow and Vijnbergen, 1986; Qian, 1988; Jefferson, 1990. Most of them choose aggregate studies, which several of them adopt instrumental factors to analysis differences between urban and village.

With respect to housing market studies within Life Cycle theory and Permanent Income models, these theories are most widely used in finding out households’ aggregate savings and consumption choices and mainly be tested through simulation procedure. Buckley and Ermish (1982) are ones of the pioneers, they use life cycle model to construct housing price forecasting system. According to LC and PI, housing buyers and households will make their home purchasing choices following the rule of maximum profit in life. Therefore, Buckley, Ermish and later researchers in this study field build their models by considering housing prices as functions of marginal substitute rate of housing and non-housing consumptions.

For example, Jonathan Skinner (1989) builds a model for housing price, aggregate saving and consumption choices of households with simulation method to generate their empirical results. According to his study, the aggregate saving will decline substantially if life cycle homeowners with zero bequest spend down their housing windfalls. Comparatively, homeowners with bequest motive would be likely to save more to assist their children in buying houses with increasing price. Actually, this study of Jonathan’s shed the most light on my idea in writing this proposal.

Li and Yao (2005) develop a life cycle model which explicitly incorporates the double distributed feature of housing goods for consumption and investment asset. Based on their intricate building of models, they make empirical tests by a simulation procedure, and finally find out that the consumption and welfare consequences of housing price changes on individual households would vary significantly.

Recently, housing studies within life cycle theory has become more and more interested in focusing on the younger generations’ house buying behavior. Donald R. Haurin, Patric H. Hendershott and Susan M. Wachter (1996) adopt life cycle model and permanent income theory to provide description of the wealth accumulation situation of youth in USA and relate it to their housing buying choices. And they finally find out that renter’ savings accumulate rapidly in years before one’s first homeownership; the deterministic factors of youth savings are marriage, increased labor supply from married women and gifts or/and inheritance.
Literature Summary

Studies on housing price determination are very rich; however, most of them dedicate too many efforts on technology, which lead to a grave fault in theory analysis and outcomes of which are often contrary to each other. On the contrary, literatures on housing demand studies have achieved results which are to a certain extent consist with each other. Researchers concentrate on this issue mainly agree that housing demand is more sensitive to permanent income rather than current or observable income. Compared with researches of these above two issues, housing market studies within life cycle and permanent income theories are less plenty, which may be because its difficulty for empirical studies. But most of them who succeed in doing that have generated significant outcomes in roughly the same direction. This means life cycle and permanent theories are efficient in housing market analysis which means a lot to my proposal.

Theory Framework and Research Hypotheses

Research Gaps

Former literatures of housing price concerning situations of urban China failed in combining the unique property of housing market in China as feature variables in their models. Most of them even take no consideration of the double attributed character of housing goods within their frameworks. Although studies adopt life cycle model and permanent income theory overcome this failure, it has not been practiced efficiently referring to Chinese housing market. Therefore, this proposal aims on making up this missing—in order to explain China’s housing price, I build models based on life cycle and permanent income frameworks with exogenous driving factors which can capture the unique property of China’s housing market.

Theory framework

My theory framework can be acknowledged in the following picture:

Propositions and assumptions

In housing market of first-tier cities of China:

**Proposition1:** Housing investment has always lucrative and promising returns and become a new form of wealth accumulation (home savings).

**Proposition2:** Housing market is considered as ‘housing bank’ which has reliable and constant return rate in the long run and may very probably have ‘paintball effect’ from time to time.

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55 The ‘paintball effect’ means there are sudden boom of returns based on housing price increment, which happens from
Proposition 3: Homeownership as savings has the same nature with liquidity savings of which the inclination rate is very high, and people often prefer home savings instead of liquidity savings because the higher returns of the former.

These propositions are based on the following observations:

(1) It is traditional wisdom that savings or wealth accumulation plays the critical role of economy development, and is particularly acknowledged by Chinese people: households’ savings has ranked first among the world’s countries; the saving rate has grown rapidly from 19% of disposable income in mid-1990s to 30% of which in 2010; and is believed to be one of the greatest contributors of China’s economy miracle. In the meanwhile, well documented resources have proved that Chinese people have strong preference for saving.

(2) With our country experiencing market-oriented economic reforms, housing market has developed tremendously and has an obvious upward trend for more than two decades (Figure 3). During this process, income from property have exponentially increased and become the new driver of income growth 56.

(3) Comparatively, because of the immature financial systems and high-running inflation, there are undiversified investments in China’s market. Therefore, housing with reliable and promising returns becomes the top and maybe only choice of asset inflation-proof and appreciation for majorities. Actually, if stock market performs well for a relative long period, people may choose alternative ways for asset appreciation. For example, from 2006 to 2007, the Shanghai Composite Index has increased by 500%, while directly result in lower housing demand at that time, take demand effect latency into consideration, which could be one of the most important reasons of why housing price increases much slower and even decreases at the end of 2008. However, when the ‘stock miracle’ breaks, housing price increases dramatically again, which is because after this process people do not believe stock market any more, and pursue homeownership as savings more cravingly than before. Besides, they can also get their asset depreciated by liquidity savings because the high-running inflation and the low deposit interests.

(4) Housing means a lot to Chinese people. It is not just to satisfy basic human shelter needs, but also to fulfill many other roles: they need homes for sense of security, stability and belonging; to provide fundamental strongholds of family life and for engaging social activities; as a sound basis to present their dignities and to pursue their personal ambitions; as effective supports to access resources in society; and to get them different life style opportunities. The owner-occupations for most of the population are their single largest expense during lifetime and perhaps are the major store of wealth.

Therefore, the majority of urban residents are choosing home buying as a form of saving with or without intentions, not to mention the housing investors: the prosperity of China’s housing market and the high appreciations promote them expense more on housing. Once this becomes a wildly accepted concept, home savings would have the same property of traditional liquidity saving as stated.

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56 Which was increased by 21.3 times capered with which of the year 1990 until 2007 in average level.
And here, we make the following assumptions before reasoning:

(1) There are only two kind of participants in housing demand side—the rich and the poor. The rich refer to people who have achieved their housing expectations at the very beginning of each interval during our study period. The poor refer to people who need to wait and increase their liquidity savings for closing cost before get their housing expectations.

(2) Home savings and liquidity savings are the only two forms of wealth accumulation for both the poor and the rich because of the undiversified venture choices, bad performances of stock market and immature financial systems.

**Theoretical Explanations and Research Hypotheses**

**The Permanent Income theory**

(1) **A Simple Savings Function**

The Permanent Income Hypothesis (PIH) abstracts the economic fluctuation shocks: people make consumption and saving choices according to the expectation of future income which could be forecasted based on current information such as financial condition, occupation and education.

In terms of traditional meaning of housing, according to Permanent Income theory under Life Cycle Hypothesis with zero bequest, a rational household would have a function of wealth accumulation with a set of portfolio including housing investment. He will make consumption choices including housing services which obeys the rule of ‘diminishing marginal utility’ and maximize his utility over life span.

The current utility \( U_t \) at \( t \) can be denoted as the present volume of the summation of the discounted utility within the remaining of life:

\[
U_t = \sum_{i=t}^{T} \delta^{i-t} U \left( C_i, H_i, Z^i, e_i \right) \tag{3-1}
\]

Where \( T \) indicates the terminal time; \( \delta \) is the depreciating rate which is between 0 and 1; \( C_i \) denotes consumption at \( i \); \( H_i \) is the size of housing service (including physical size and quality) from which households can derive utility; and \( Z^i \) and \( e_i \) separately denotes observable and unobservable taste shifters.
Denote $Y_i$ as the expected income in each period $i$, and $r$ is the real interest rate. There are no investment gains in $Y_i$ including housing because any components of portfolio will do no effect on $Y_i$ over life span, and the portfolio in lifetime follows normal distributions which have a zero mean and is belong to transitory incomes.

One would allocate the lifetime wealth within each period in order to equalize the discounted marginal utility of goods and follow the optimal path of consuming. According to Friedman’s assumption, the utility function is homothetic, and one would choose the optimal consuming path $(C_t^*, H_t^*)$, say at $t$, which is proportional to lifetime fortune:

$$C_t^* + H_t^* = k\Omega_t = Y_t^P$$

Where $\Omega_t$ is the present value at $t$ of lifetime expected wealth, $Y_t^P$ is the permanent income and $k$ is a function of shifters of expected real interest rate as well as taste. Therefore, savings is the residual of observed income after consumption which can be written as a function of permanent income and transitory income:

$$S_t = \alpha + \beta Y_t^P + \gamma (Y_t - Y_t^P) + \varepsilon_t$$

Here $\beta$ denotes the marginal propensity to saving out of permanent income, while $\gamma$ is the MPS out of transient income which is defined by observed income reducing permanent income.

Define one’s wealth accumulation (including property assets and financial assets) at $t$ as the summation of savings of former periods:

$$W_t = \sum_{i=0}^{t} S_i$$

Which can be expressed as function of permanent income ($Y_t^P$), age ($A_t$), education ($E_t$), taste shifters ($Z_t$) and financial conditions ($\exp\left\{f(r, S_t^P)\right\}$), because we assume there is only liquidity savings if we treat housing conventionally. Then because as one of the transient income, the returns of portfolio by definition has a zero mean over life time, which means it may very probably still have no significant effect on wealth accumulation of period 0 to $t$, the wealth accumulation function therefore would be written as:

$$W_t = f\left(Y_t^P, E_t, A_t, \exp\left\{f(r, S_t^P)\right\}, Z_t\right) + u_t$$

However, under our propositions when home buying is a form of savings, things will be very different.

First, $W_{t-1}$ is wealth accumulation including housing savings ($S_t^H$) and liquidity savings ($S_t^L$). For the poor who have not got homeownerships, the item $S_t^H$ equals 0, and they will keep saving until their wealth accumulation arrives at a certain level and allow them to afford house purchasing according to our proposition.

And Equation (3-3) would be:

$$S_t = \alpha + \beta Y_t^P + \gamma (Y_t + r_t^H S_{t-1}^H - Y_t^P) + \varepsilon_t$$

$$S_t = S_t^H + S_t^L$$

$Y_t + r_t^H S_{t-1}^H$ is the observable income from each period, and we also have:
Here $S_t$ also can be written as $W_t$, which is a function of permanent income and the abovementioned factors:

$$W_t = f\left( Y_t^p, A_t, E_t, \exp\{ f(r_t^H, H_t) \}, \exp^{f(r,S_t^H)} , Z_t^i \right) + u_t$$

(3-8)

We can see from Equation (3-8) that wealth accumulation here also depends on expectations of housing returns which has very often positive values. And based on this, because this decision will be made at each period, wealth accumulation will increase when a household judges higher about his permanent income both for the long and the short run. Therefore, if consider homeownership as savings, the rich would increase future wealth accumulation including another round of home buying both shortly and over life span which can be called as duplicate effect. The poor would also be promoted to borrow more for home buying because they under evaluate the borrowing cost in this case.

Based on the above reasoning, we first hypothesize that:

**H1: Homeownership as savings is more dependent on permanent income than observed income, and is independent on transient income.**

(2) Intertemporal Analysis

If there are property gains caused by housing price rising, according to life cycle model within short period, it would promote a household to increase his consumption and savings. Suppose a rich derives gains from housing price rising, and he would spend 50 per cent of additional wealth in purchasing and 50% per cent remain for saving. If consider housing conventionally—for service or for investment or for both, here housing consumption is one option of a household when he makes his purchasing or investment choices. He will choose from whether to change his living conditions or to take a trip which is dependent on his utility function; or he would choose from whether to invest the stock market or to buy property which is decided by which type of investment has a better return rate. But to obey the diminishing marginal utility rule, the rich will keep his living conditions constant within a certain period unless there is economic shock for he has already got homeownership and he would only spend purchasing money on non-housing consumption. Besides, under the financial condition in reality, we should assume there is only one sort of wealth accumulation if excluding home buying as savings, thus the only way for ‘saving money’ to go is for deposit.

However, the consequences of choice problem would change a lot in terms of home savings. On the one hand, a fraction of the former ‘saving money’ would be used for home buying because it is a form of saving. And the proportion is very likely to be large for return from home saving is reliable and constantly increasing, or even have tremendous upward shocks. On another hand, it would strengthen the moving motive of the household to change his current living conditions. Because for one thing, home with better quality and location means much more promising returns in future which is the ultimate objective for savings. For another, housing with better conditions would bring more utility which should come from the ‘purchasing money’. Therefore, a certain fraction of the former ‘purchasing money’ would be expended on housing also. Ultimately, the demand for housing will increase a lot when housing buying becomes a new form of savings.

Besides, the shift of relative housing price increase indicates the rich gain and the poor loss which can function as compensation across the economy as a whole. This could also bring to permanent increase in long-lived housing demand, because just in order to avoid loss during housing market expansion, the poor would save until once for homeownership, not to mention the meaning of homeownership for Chinese nation. For the rich, their demand for housing also increases for the similar reason besides the abovementioned ones: buying more for saving more. Both the rich and the poor expense more on housing if in terms of home savings because by doing this they can save more and avoid from being jeopardized. Both the rich and the poor prefer home savings instead of liquidity savings.
Based on the above reasoning, we then hypothesize that:

**H2: Homeownership as savings increase housing demand substantially of both the rich and the poor.**

**(3) The Bouquet Motive Effect**

In part (1) we first assume bequest equals to zero which is consist with Friedman. However, it does not fit the reality. A household would derive utility from consuming as well as from bequeathing wealth $Q$. In China, the bequest motive is very strong for it unique cultural background. However, if consider home buying as a form of saving, the bequest motive would be much stronger than before, and the stronger bequest motive would promote housing demand substantially:

1) Home savings can promote bequest motive. Because when purchasing houses, households actually derive utility, get more returns than liquidity savings and at the same time make the bequest larger, which lead housing price rise. Therefore, concerns on their next generation’s living condition, their bequest motives become larger. Homeowners would bequeath their housing gains to the next generation to help them afford more expensive homes at an earlier age.

2) With a stronger bequest motive, they will choose to save more. And because they have higher inclination rate of home savings than liquidity savings, of course the stronger bequest motive would promote housing demand substantially.

3) Receiving a larger bequest, the younger generation will achieve higher housing expectations at an earlier age and judge higher of permanent income and thus result in duplicate effect on housing demand as we discuss in the above part.

Based on these reasons, we make the following hypothesis:

**H3: People have stronger bequest motive when consider home buying as savings and thus would lead to permanent increase of housing demand.**

**The Down Payment Theory**

One of the most important reasons which make the home buying pattern of the rich and the poor different is the down payment constraint. For people who are at their wealth accumulation phases, they all are quite likely facing the problem of mismatch of their purchasing power and housing demand, i.e. the down payment constraints.

As shown in Fig4, the solids represent the housing expectation while the dashes indicate down payment constraints for the poor. The vertical axis shows the housing consumption and the horizontal axis shows time. Suppose all the houses can be wanted for living and for savings. The rich could approach their expectation of housing at the very beginning and maintain them as time passes. As time goes by, motive of home savings and larger housing expectations would promote them purchase more houses. On the contrary, the poor have to restrain their housing demand. As shown in the figure, housing consumption of the poor within Phase1 is second and non-Pareto optimality.

Generally speaking, the poor are more vulnerable to down payment constraint. Under economic shocks, the poor have to take longer time to suit the new environment than the rich, which means Phase 1 for the poor would get longer than before. The rich provide real demand for housing, and can get profit from changing their house immediately, while the condition of the poor will get worse for the relative price of their home are getting lower and lower.

However, as time passes, the poor’s accumulation wealth would increase to the down payment required level. And because home buying is a form of saving, they will prefer to spend majority of their former wealth on homeownership. Their housing consumption would jump to the first expected level of the rich and there would be a sudden boom of housing demand thus a significant increase of housing price, which make the former achievable level get higher and become inaccessible again. During the sudden boom, the rich have priority to housing supply because they bid high than the poor and sales volume of housing is small compared to population and is mainly accomplished by the rich. The length of Phase1 for the poor is proportional to the intensity of down payment constraint, while the rich people have more smooth housing consumption curve. Within some of the phase 1 and phase 2, housing demand as well as housing price is
determined by the rich only. Therefore, home savings lead to keep increasing and sudden booms of housing demand from both the poor and the rich. Based on this, we hypothesize that:

**H4a:** The poor people are less dependent on permanent income than the rich, but they will make one-time expense on housing once they break the down payment constraint.

**H4b:** The housing price will rise continuously, and the rich are the real support of the sky-high level of housing price.

**Summary**

For the purpose of this proposal, I provide theoretical reasoning and hypotheses based on Life Cycle and Permanent Income model as well as Down Payment theory under several propositions and assumptions. According to my deducing, I believe it is because urban residents in China consider housing purchasing as a form of savings and housing market as a reliable and return-promising bank that promote housing price to such a sky-high level. Home demand is encouraged greatly and may even has permanent increase when people consider home buying as a form of savings which is affected by permanent income, saving inclination rate, bequest motive and etc. More and more people desire homeownership because they can save more and avoid from being jeopardized by the already homeowners.

All the above stated theoretical explanations and research hypotheses can be reduced down to a clue of overall hypothesis which is presented in the following figure:
Research Methods

The core idea of my research methods for hypotheses proving is to find out any similarities of housing buying patterns with respect to aggregate savings and to generate any significant effects on housing price variances of households’ expenditure behavior (including home buying) and saving choices. In order to achieve this goal, I build dynamic partial equilibrium housing price models within Life Cycle and Permanent Income framework.

The most important innovations of my methodology are that: 1) I construct models and execute the simulation procedure with respect to the rich and the poor separately for their buying behaviors have tremendous gap; 2) and capture three exogenous key factors which can indicate residents’ savings pattern as feature driving variables.

Within my models, housing prices and supply are endogenous variables and should have a steady state at a certain time, the transition path in savings, consumption of housing and non-housing goods are drove to move by exogenous factors of the general economy. Therefore, I capture the following observations from 1998 to 2011 in capital cities of China as exogenous causal factors of housing price increase which promote people choose home buying as a form of savings:

1) Tremendous increase of population because of remarkable economy development and influx of immigrants in large number.
2) Bad performance in stock market which results in undiversified ventures.
3) Interaction of high inflation rate and low deposit rate which restraint liquidity form of saving.

Economy Models for the Poor

Suppose there is a poor household who lives for T years, who will keep accumulating wealth until he can purchase a house at year j and will retire at year k. With respect to the characters of the poor, here I assume: 1) wage rate and interest rate are supposed to be constant; 2) the household buys his house at age j and will not change his house \( h_t = h_j, t > j \) anymore; 3) he lives by rent until age j, and will yearly adjust the rental size to minimize the living cost; 4) and there is no subsidies for home buying; 5) he buys house with mortgage.

At the beginning of period \( t \), the household is with assets \( A_t \), and at the end of the same period, he will make decisions on consumptions including housing services and come to the next period either with assets or with bequest. His utility function would be:

\[
U = \sum_{t=1}^{T} \left(1 + \delta\right)^{1-t} \ln \left[h_t^{\alpha} e_t^{1-\alpha}\right] + \left(1 + \delta\right)^{1-T} \beta_0 \ln \left(B = \beta_1 Q_{T+j}\right) \tag{4-1}
\]

Here we have \( \delta \) denotes time preference rate, \( h \) and \( c \) are housing and non-housing expenses flow, and \( \alpha \) indicates the fraction of expenditure on housing. The bequest function is dependent on the bequest and per unit price of housing \( Q_j \). Assume there is no overlap between generations, thus the bequest function if faced by next generation which would be born in year T, and buy their houses in year T+j. Based on our assumption, the budget constraint function is:

57 This assumption is based on the reality that most of the poor refers in this proposal are excluded by affordable housing program and are facing the commercial market just as the rich.
58 In the following reasoning, we assume this household purchase his former housing assets by mortgage which is consist with our major research scope.
59 In conventional bequest function, there is \( \left( \beta_1 = 0, \beta_0 \neq 0 \right) \), while in the approximation to a dynastic bequest model, there is \( \left( \beta_0, \beta_1 > 0 \right) \).
\[
\sum_{t=1}^{T} [C_t + P_t h_t] (1 + r)^{-t} + B (1 + r)^{-T} = \left[ I_t + \sum_{t=1}^{T} Y_t (1 + r)^{-t} \right] \\
+ \sum_{j}^{T} (1 - \theta - m) h_j (1 + r)^{-t} + Q_{T+1} (1 + r)^{-T} h_j - \varphi Q_j h_j (1 + r)^{-j} \\
-(1 - \varphi) Q_j h_j \sum_{t=j}^{T} r (1 + r)^{-t} -(1 - \varphi) Q_j h_j (1 + r)^{-j}
\]

(4-2)

Where \( \varphi Q_j h_j \) is the down payment which is a fraction of house’s market value \( Q_j h_j \). \( P_t \) is the spot rental, \( m \) is the holding cost of home owner which is assumed to be proportional to \( P_t \). \( I_t \) denotes inheritances, \( Y_t \) denotes earnings and \( r \) indicates the discount rate of all future incomes as well as expenditures. \( \theta \) is the surplus of max \{real return rate of securities, real deposit returns\}. I abstract from this issue of whether home buyers enjoyed more favors than renters who prefer to save this money on capital investment or for liquidity savings.

The right side of equation (4-2) is the combination of permanent income, the present value of earnings, inheritances, the net returns on housing\(^{60} \) minus housing costs\(^{61} \). The left side of which is expenses on housing and non-housing expenses over life span.

Under an arbitrage condition and a perfect foresight model, we have:

\[
Q_t = \sum_{n=1}^{\infty} P_t (1 - \theta - m)(1 + r)^{-n-1}
\]

(4-3)

Combine it to equation (4-2), and the first order deviation of which is:

\[
\sum_{t=1}^{T} [C_t + P_t h_t] (1 + r)^{-t} + B (1 + r)^{-T} = \left[ I_t + \sum_{t=1}^{T} Y_t (1 + r)^{-t} \right]
\]

(4-4)

And the first order conditions of housing, consumption and bequest which describe a steady state would be:

\[
C_t = \left[ \frac{1 + r}{1 + \delta} \right]^{-1} C_t
\]

\[
h_t = \frac{\alpha}{1 - \alpha} \left[ \frac{1 + r}{1 + \delta} \right]^{-1} \left( C_t / P_t \right), \quad t < j
\]

\[
h_t = \frac{\alpha}{1 - \alpha} C_t \left[ \frac{(1 + \delta)^{2-j} - (1 + \delta)^{-j}}{\sum_{j=1}^{T} P_n (1 + r)^{-n}} \right], \quad t \geq j
\]

\[
B = \left[ \frac{1 + r}{1 + \delta} \right]^{-1} \left[ \frac{\beta_0}{1 - \alpha} \right] C_t + \beta_t Q_{T+1}
\]

(4-5)

Therefore, it is straightforward to see that once an economic change occurs, the transition paths for generations would be different from each other which is dependent on their age when any changes occur. Thus the generalized solution of consumption in year \( l \) at time \( t \) can be expressed as:

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\(^{60}\) Which is the net service flow plus sale price of housing.

\(^{61}\) Which contains down payment, mortgage repayments and repayment of principal.
\[ C_n = D^{-1} \delta (1-\alpha) \left[ A_n (1+r) \sum_{j=0}^{T-1} Y_{t+n+j} - \zeta h_j P_{t+n} \right] \]

\[ D = \frac{(1+\delta) \left[ (1+\delta)^{-T} + \delta (1+\delta)^{-T} \beta_0 \right]}{(1-\zeta \alpha)} \quad (4-6) \]

Where for homeowners \( \zeta = 1 \), while for renters \( \zeta = 0 \).

\( A \) indicates the capital markets including residential market where \( \bar{A}_t = \sum_{i=1}^{n} A_n (1+N) \) with \( N \) indicates the population growth. Thus the non-housing capital stock would be:

\[ V_i = A_i - Q_i (H_i + S_i) \quad (4-7) \]

**Economy Models for the Rich**

For the rich, some of the assumptions would be different which should be: 1) there is no down payment constraints; 2) households will buy additional houses after purchasing their first ones; while assumptions 3), 4), 5), 6) are the same with assumptions 1), 3), 4), 6).

Refer to the models, between the rich and the poor, the most differences are with the budget constraints and buying patterns—which are to be specific, the poor do not have down payment constraint and will buy houses when they need, and they will buy additional houses after first purchasing. Here we for now first give a description of differences in budget constraint function.

A rich household needs to pay closing cost which is proportional \( \rho \) to housing price to achieve homeownership or at least secure mortgage loan. If this household buy his home with full payment, thus \( \rho = 1 \), otherwise, we assume that: the housing appreciation rate \( r_H \) follows normal distribution \( r_H \sim N(\mu_H, \sigma_H^2) \); a household finance the homeownership with a fixed nominal mortgage rate; the repayment period of mortgage is until time \( J \) (Campbell and Cocco, 2003). Therefore, the mortgage balance in real terms \( M_t \) satisfies:

\[ 0 \leq M_t \leq (1-\delta) P_H H_t \quad (4-8) \]

\[ M_t = \frac{1}{1+\pi} \left[ M_{t-1} (1+r_m) - \frac{M_{t-1}}{\sum_{j=1}^{T} (1+r_m)^{-j-1}} \right] \]

\[ = M_{t-1} (1+r) \left[ 1 - \frac{r_m/\left(1+r_m\right)}{1-(1+r_m)^{-J}} \right] \quad (4-9) \]

Where \( r_m = (1+r)(1+\pi)-1 \) with \( \pi \) as the assumed constant inflation rate.

If at the beginning of each period there is an increase in housing price, a household who already had housing assets \( D_i^M = 1 \) would very likely receive invest shocks, or because of wealth expansion he may want to moving to a better home. If he chooses to sell his former housing assets for better houses, he would get liquidity to finance new house with \( D_t^i = 1 \) and he is facing the same choices just as home renters; if he
decides not to sell \( D_t = 0 \) or \( D_t = 1 \), he can also refinancing his former assets in order to purchase another one with a cost which is a fraction \( \tau \) of his current house value.

Liquidity asset \( S_t \) is another major component of a households’ wealth. For first time home buyers or for households sell their former home assets, the disposal wealth \( B_t \) is:

\[
B_t = S_{t-1} (1 + r) + Y_t^p \exp \left\{ f \left( t, N_t \right) \right\} v_t \epsilon_t
\]

And the budget constraint should be:

\[
B_t = C_t + S_t + \left( 1 - l_t + \rho + \psi \right) P_{t}^{H} H_t,
\]

Where \( l_t = \frac{M_t}{P_{t}^{H} H_t} \) and \( \psi \) is a fraction of house value on repair.

If the rich decides to refinance current mortgage and to buy addition houses, the \( B_t \) is:

\[
B_t = S_{t-1} (1 + r) + Y_t^p \exp \left\{ f \left( t, N_t \right) \right\} v_t \epsilon_t + P_{t}^{H} H_t \left( 1 - \phi \right) - M_{t-1} (1 + r)
\]

Where \( \phi \) is the transaction cost of house selling. Therefore, the budget constraint should be:

\[
B_t = C_t + S_t + \left( 1 - l_t + \rho + \psi - \phi + \tau \right) P_{t}^{H} H_{t-1}.
\]

Where \( \tau P_{t}^{H} H_{t-1} \) denotes the cost of refinancing mortgage.

Therefore, upon death, a household will choose to get maximum utility from housing service and non-housing goods within his spendable wealth \( B_t \).

The Housing Supply

In mainland China, it is wildly accepted that land grows slower than population grows, therefore, housing price will surely increase gradually as time passes. Here we suppose land as an exogenous variable of housing production function, which can be expressed as: \( L_t = L_0 (1 + v)^t \). Therefore, the housing supply function is:

\[
X_t = H_t + S_t - \Omega K_t^r L_t^{1-r}
\]

Where \( K_t \) denotes physically capital investment for housing at time \( t \), \( r \) is the share parameter, and \( \Omega \) indicates the technological parameter. We use \( h_t \) to measure how much service that one unit of housing can provide. Based on the increasing cost of marginal unit condition, we have: \( Q_t = \frac{r K_t}{H_t + S_t} \). Therefore, the elasticity of housing stock to price \( Q_t \) (if land supply is constant) is \( \frac{r}{1-r} \). If suppose that housing investment would be a certain percent of housing stock, thus we can convert housing stock elasticity to housing investment elasticity.

The Empirical Data and Expected Outcomes

Practicing Procedure and the Proposed Data Set

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\(^{62} \) \( r \) is a reasonable fraction of land supply, for example, if \( r = 0.75 \), means there is a large housing stock elasticity of 3. Based on observations of China cities, we assume a lower value of \( r \) in our study.
To carry out empirical test, I expect to order yearly data from January 1998 to December 2011 in housing market of first-tier cities of China which is relatively a data-rich environment. I prefer to utilize annual data because this adoption of data set indicates yearly choices of households which are more consist with reality. Some of the data could be collected in form of panel data. To be specific, the economic variables including income and housing prices in the analysis can be retrieved from the Database of China Economic Information Network (http://www.cei.gov.cn/), the People’s Bank of China (http://www.pbc.gov.cn/) and the China Statistical Yearbook. Years without census I can depend on impute by combining information on the internet, or making surveys based on wisely choice of sample and the size of it.

Some of the parameters in our model need to be set according to the reality. For example, we would have to make the time preference a reasonable value, say equal to 2, or people can live for 65 years, or buy houses at age 30, as well as set a certain value of population growth rate, the value of $\theta$, the proportion of holding cost to price and etc. This is one of the most widely used methods which many of researchers related to this field choose to adopt (King and Fullerton, 1984). Of course these set values are absolutely not totally subjective. I will set values of necessary parameters according to the resources abovementioned including census, information systems on line, statistical reports issued by governments and survey. Also I well get references from former literatures focus on Life cycle and Permanent Income analysis and to see how they manage this problem.

After set reasonable values of some of the empirical parameters, I for now propose to do simulation estimation of my built model. The simulation procedure will be calculated for both the rich and the poor cases and with or without bequest separately. However, alternative methodology would be kept on tracking with the expectation to find out more suitable approach.

**Expected Outcomes**

Through simulation approach, we expect to get results that variances in housing value will do continuous effects on households’ consumption, which means there is a general buying pattern for housing which has a similar nature with aggregate savings; the proposed exogenous factors (which capture the special saving patterns of Chinese people—taking home buying as savings) affect housing price changes significantly; and housing price would be driven by the special saving pattern of Chinese nation substantially and mainly be determined by the rich. Finally, these outcomes would provide us empirical evidences of my hypotheses.

**References**


Smith, B. and Campbell, J. M., Jr., Aggregation bias and the demand for housing, mimeo, University of Houston/University of Chicago (1976).
Corporate Governance and Returns on Investments of Pakistani Listed Companies

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Abstract

This paper analyzes the effect of corporate governance institutions and ownership structures on investment returns of Pakistani publicly-listed companies. A marginal q is used to estimate returns on investments out of cash flows, debt and equity issues. Panel-data analysis is applied to a large sample of companies over the 1997 to 2007 period. Applying ultimate ownership reveals that 65.60% of the companies are directly or indirectly owned by families and the State. Return on reinvested cash flow for the average listed company is 30% less than the cost of capital that implies dominant controlling shareholders or managers invest cash flows in projects that yield returns less than the costs of capital. The return on investment from cash flow by the average locally-owned company is 41% less than the cost of capital, which implies dominant shareholders or managers use discretion while reinvesting cash flows. Return on investment financed from debt by the average company is 16% less than the cost of capital, which implies that financial institutions face an asymmetric information problem during appraisal of proposed investment projects, and so they finance investments that give returns less than the costs of capital. This evidence is substantiated by the result that return on investment financed from debt by the average locally-owned company is 23% less than the cost of capital. Foreign-owned companies earned returns on investments financed from debt equal to the costs of capital. Thus, foreign-owned companies exhibit market discipline. Foreclosure laws need to be strengthened for safeguarding assets of financial institutions. Returns on investments out of equity issues are less than the costs of capital. Weak corporate governance institutions allow dominant shareholders to exploit creditors and minority shareholders.

Keywords: Corporate Governance, Ultimate Ownership, Marginal q, Foreclosure Laws, Equity Issues

Introduction

Analysis of the effects of corporate governance institutions and ownership structures on the returns on investments of publicly-listed companies is important for developed countries with strong corporate governance systems like the United States, Germany and Austria. It is all the more important for Pakistan that has a weak corporate governance system. Only if private benefits of control and entrenchment are reasonably low, will small investors feel safe to buy capital market securities. Only if capital market institutions are able to adequately protect small investors against managers and in the case of Pakistan more importantly, against dominant controlling shareholders will capital markets develop that leads to economic growth.

This is the first study on a South Asian developing country in which we use an ideal measure of performance- a marginal q that is a marginal return on investment. It is the ratio of the return on investment to the company cost of capital. This research is better than most of the existing research on developing countries as the marginal q measure has been used that has been derived from the micro theory of the firm. Previous research on developing countries have used average performance measures that include infra-marginal and marginal returns. We analyze the ownership structures of 125 Pakistani listed companies from 1997 to 2007 and estimate marginal q’s on reinvested cash flows and investments financed from external sources of capital: debt and equity. The use
of marginal $q$ not only obviates the need to calculate costs of capital but also allows for different degrees of risks across companies.

Pakistan shares all features of a weak corporate governance regime that include concentration of ownership, weak creditor and shareholder rights, and weak enforcement of corporate laws and regulations. In a weak corporate governance system, dominant controlling shareholders or managers exercise discretion in reinvesting cash flows. Dominant shareholders or managers of Pakistani listed companies invest cash flows in projects that have returns less than the costs of capital. Analysis of locally-owned (family and state-owned) companies shows that dominant shareholders or managers exercise discretion in reinvesting cash flows and undertake investments that have low returns relative to the costs of capital. Financial institutions face the problem of asymmetric information during credit appraisal of proposed projects. Thus, investments with returns less than the costs of capital are financed. Contrary to locally-owned companies, foreign-owned companies exhibit market discipline on debt financing. Corporate governance institutions are weak in Pakistan and they do not provide checks on managers or dominant shareholders who use external sources to finance projects that have low returns relative to the cost of capital. Thus, small investors are reluctant to invest in capital market securities in Pakistan and capital markets remain thin.

Section 2 gives an overview of literature on corporate governance institutions and returns on investments. Section 3 presents our hypotheses. Section 4 describes the way ultimate ownership is calculated. Section 5 consists of the methodology used for measuring investment returns. In section 6, we describe the sources of information, and report the statistics and correlation coefficients of variables used. Section 7 comprises of comprehensive analyses of the effects of ownership structures and weak corporate governance institutions on returns on investments out of cash flows, debt and equity. Conclusions are drawn in the final section of the paper.

**Theoretical and Empirical Background**

Tobin (1969) illustrated the capital account approach (schematic) for a closed economy. In his general accounting framework, a row may be labelled as “demand deposits” or producers’ durable capital, whereas columns represent sectors of the economy that are constrained by their own wealth. Examples of sectors are commercial banks, central bank, non-bank financial institutions, and public. He draws the LM curve based on the assumption of a fixed marginal efficiency of capital. According to him the principal way in which commercial banks, central bank, non-bank financial institutions, and public. He draws the LM curve based on the assumption of a fixed marginal efficiency of capital. According to him the principal way in which financial policies and events affect aggregate demand is by changing the valuations of physical assets relative to their replacement costs. Monetary policies can accomplish such changes, but other exogenous events can too.

Hayashi (1982) analyzed for US corporations the idea that investment is a function of marginal $q$ (the ratio of market value of an additional unit of capital to its replacement cost). The analysis shows that marginal $q$ and average $q$ (market value of existing capital to its replacement cost) are the same in the special case if the company is a price-taker and the production and installation functions are homogenous. The paper analyzes the conjecture put forward by Tobin and derives the optimal rate of investment as a function of marginal $q$ adjusted for tax purposes. The ratio of corporate investment to total capital stock at replacement cost is regressed on marginal $q$ for the period 1953 to 1976 that gives a positive coefficient on marginal $q$.

Hoshi et al. (1991) present evidence from Japan that is consistent with the view that information and incentive problems in the capital market have important effects on investment. They hypothesize that group firms are not subject to asymmetric information problems when financing their investments, because of other members’ access to information. They divide sample companies into 176 independent and 121 group companies based on the refinement of Nakatani (1984) of the Keiretsu no Kenkyu’s classification that focuses on a company’s financial ties with financial institutions in the group. Depreciable assets divided by capital stock is the dependant variable. Cash flow and short term securities are measures of liquidity. Tobin’s $q$ is used as a proxy for investment prospects so companies with $q$ above (below) the sample median are considered to have good (bad) investment prospects. A dummy variable- High $q$ dummy (High $q$ equals to 1 for companies having $q$ greater than 1 and 0 otherwise) is interacted with each measure of liquidity. Cash flow has a positive and significant coefficient only in the investment equation for independent companies. Contrary to the over-investment hypothesis that predicts a negative coefficient for both interaction terms, the difference between liquidity coefficients of group firms and non-group firms is
larger for high q firms. Thus, investment by firms with a close relationship with a bank is much less sensitive to their liquidity than firms that raise capital through more arms-length transactions.

Fazzari et al. (1988) tested the asymmetric information hypothesis by basing their test solely on the financial constraint part of the hypothesis. They divided their sample of 422 US companies into low, medium, and high retention ratio sub samples, and used them to estimate cash flow-investment equations, which also included Tobin’s q to capture differences in investment opportunities.

According to the pecking order theory, companies prefer internal cash flows to external finance. There is a hierarchy of finance in the financing patterns of companies (see Hubbard, 1998). Firstly, firms use cash flows to finance investments. Secondly, they issue debt and finally they approach the equity market. Myers (1983) reports that US companies rely heavily on internal funds and debt to finance investments. Myers (2003) reviews the leading theories of capital structure; capital structure irrelevance, trade-off theory, agency theory, and pecking order theory. According to the author, identifying a fact or a factor that affects financing choices does not prove that the Miller Modigliani theorem is false. Compared to real investment and operating decisions, most financing decisions have only second order effects on performance.

Singh (1994) elaborates that there is a pecking order in the financing of investments of listed companies in developed countries such as the USA and UK. Large corporations first use retained earnings for investments, then obtain loans or issue long-term bonds for financing investments and finally approach the equity market for issuing capital. He analyzes the financing patterns of the 100 largest listed companies from India, South Korea, Jordan, Pakistan, Thailand, Malaysia, Turkey, Brazil, Mexico and Zimbabwe for the period 1980 to 1990. He measures internal financing by the proportion of growth of net assets financed by retentions, and external financing by growth of net assets financed by debt and equity. Although there is high inter-country dispersion in the percentages of internal finance, long-term debt and equity used by the median company for financing growth of net assets, companies do rely on external sources for financing growth. Large companies in developing countries prefer issuing equity over incurring debt for financing investments from the external capital market.

A similar hierarchy of finance is also found in the literature measuring the returns on investment. Baumol et al. (1970) estimated rates of return on investment for large corporations in USA during 1950s and 1960s by regressing changes in profits over one time period onto the amounts invested in an earlier period. They estimated rates of return on the reinvested cash flows of large companies during the aforesaid period that range from 3% to 4.6%, which was much lower than the cost of capital of large companies, and than their estimates of returns on investments out of new debt (4.2-14.0%) and equity issues (14.5-20.8%). The aforesaid ordering of estimates corresponds to the orderings in the hierarchy of finance literature. They explained the estimates of low returns on investment out of cash flows as empirical evidence of the use of managerial discretion to pursue growth (see Gugler et al, 2003 for a comprehensive discussion).

Mueller and Yurtoglu (2000) estimate marginal q’s on investments from different sources (cash flow, debt financing, and equity issues) for a large sample companies from 38 countries. They study the variations in institutional environments and their consequences for investment performance. Categorizing countries by origins of economic and legal systems, they report that marginal q on reinvested cash flows is lower than 1 for sub-samples of companies from German, English and French origin countries. Marginal q estimates for investments financed from debt are approximately equal to 1 for all legal systems categorized by the authors (English-origin, German-origin, French-origin and Scandinavian-origin). Furthermore, marginal q on investments from equity is greater than marginal q on investments financed by debt for 3 of the legal systems analyzed. The estimated marginal q’s on debt and equity are equal to or greater than 1 for each of the legal systems. They conclude that external capital markets are effective in forcing managers to earn marginal q’s on debt and equity equal to or greater than 1.

Gugler, Mueller, and Yurtoglu (2004) analyze the effect of corporate governance institutions and ownership structures on investment performance by using a sample of more than 19000 companies from 61 countries. They use marginal q to measure investment performance and show that origin of legal system is the most important determinant of performance. Companies in countries with a legal system of English origin earn at least equal to their costs of capital and companies in countries with civil law systems earn on average returns on investment below their costs of capital. Differences in investment performance that are related to a country’s legal systems dominate differences that are related to ownership structures.
Mueller (2006) emphasizes on the need for strong corporate governance institutions to facilitate the creation of thick equity markets in developing countries. Managers of companies in South East Asian developing countries have more discretion to make bad investments from debt and equity issues because corporate governance institutions are weaker in developing than in developed countries. According to him, growth maximizing managers of companies in Asian developing countries make excessive use of equity markets to finance questionable investments.

Thus, investors in South East Asian countries are willing to invest in the shares of listed companies without sufficient regulatory protection. There are no studies for South Asian countries that use marginal $q$ as a measure of performance for estimating returns on investments.

**Hypotheses**

In a weak corporate governance system, interests of dominant largest shareholders or managers are not aligned with small minority shareholders. Pakistan has a weak corporate governance system. Thus, we formulate the following hypothesis:

**Hypothesis 1**

The average return on total investment relative to the company cost of capital ($q_{ml}$) is less than 1 for Pakistan where $q_{ml}$ is ratio of the returns on total investment of a company to its cost of capital.

Notwithstanding the aforesaid hypothesis, there are companies that have lucrative investment opportunities. There is no conflict between dominant shareholders (managers) and small minority shareholders in these companies on investment policies as both want the company to exploit good investment opportunities.

**Hypothesis 2**

Dominant shareholders or managers of companies possess the discretion afforded by Pakistan’s weak corporate governance system to invest internal cash flows in projects that have returns less than the company’s cost of capital. It is hypothesized that the return on reinvested cash flow is less than the cost of capital for the average Pakistani listed company.

**Ownership Structures**

Pakistani listed companies exhibit highly concentrated ownership structures. Our analysis shows that families, directly or indirectly, own 55.20% of the companies. Families control companies through block shareholdings or pyramidal ownership structures. We explain the concept of a pyramidal structure by illustrating the ownership structure of Maple Leaf Cement in figure 1.
Fig. 1. Ownership Structure of Maple Leaf Cement

Analysis of the ownership structure shows that Maple Leaf Cement uses the one share-one vote principle for issuance of shares (see Burkart and Lee, 2008). The largest direct shareholder of Maple Leaf Cement is Kohinoor Textile Mills that manufactures and exports yarn and fabrics. Its shareholding in Maple Leaf Cement is 50.13%. The family has a shareholding of 14.91% in Kohinoor Textile Mills and the company’s largest direct shareholder is Zimpex Private Limited that has shareholdings of 15.47%. Zimpex Private is fully-owned at the top of the pyramidal structure by Mr. Tariq Saeed and Mr. Taufique Sayeed, who are collectively referred to as the “largest ultimate shareholder”. Voting rights of the largest ultimate shareholder are calculated as follows:

Voting Rights (VR) = 0.01% +0.04% + 50.13% = 50.18% or 0.502

Multiplying and summing over all relevant control chains, we calculate percentage cash flow rights as follows:

\[ CFR = 0.01\% + 0.04\% + 50.13\% \times (0.1547 + 0.1491) \]

\[ CFR = 15.28\% \text{ or } 0.153 \]

Pyramidal structures lead to a divergence of the interests of the ultimate owner and those of outside shareholders, if the voting rights of the ultimate owners exceed cash flow rights (see Almeida and Wolfenzon, 2006; see also Adams and Ferreira, 2008). Table I reports the ownership concentration by the identity of direct and ultimate owners (Cash flow rights are not reported in tabular form because voting rights exceed cash flow rights in 11.2% of the ownership structures).

Table I. Ownership and control structures of Pakistani publicly-listed companies

<table>
<thead>
<tr>
<th>Ownership Panels</th>
<th>Direct Ownership Panel</th>
<th>Ultimate Ownership Panel</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Largest Direct Shareholders</td>
<td>Largest Ultimate Shareholders</td>
</tr>
<tr>
<td>Companies</td>
<td>Ownership Percentagea</td>
<td></td>
</tr>
<tr>
<td>Ownership Identity</td>
<td>Percentage</td>
<td>Mean</td>
</tr>
<tr>
<td>Families</td>
<td>30.40</td>
<td>48.03</td>
</tr>
<tr>
<td>State</td>
<td>6.40</td>
<td>60.72</td>
</tr>
<tr>
<td>Foreign</td>
<td>34.40</td>
<td>61.23</td>
</tr>
<tr>
<td>Listed</td>
<td>8.00</td>
<td>36.25</td>
</tr>
</tbody>
</table>
"Ownership percentage" reports the mean and median of direct ownership whenever these identities are largest direct shareholders.

Tracing the ultimate ownership of companies shows that families and the State control 55.2% and 10.4% of the companies respectively, whereas foreign entities control 34.4%. The table shows how important it is to use the concept of ultimate ownership instead of analyzing direct ownership structures only. Ultimate voting rights' concentration (largest ultimate owners' voting rights) is tremendously high in Pakistan, with the mean (median) reaching 0.59 (0.55).

None of the foreign entities in the ownership panel have the State as the ultimate owner. The country of origin of foreign entities is illustrated in figure 2.

### Model

We estimate performance by using a marginal q- the ratio of a company's return on investment to its cost of capital (see Mueller and Reardon, 1993). Suppose $I_t$ is a company's investment in period $t$, then the present value of this investment, $PV_t$, in period $t$ is defined in equation 1, which is given below:

$$ PV_t = \sum_{j=1}^{\infty} \frac{C_{t+j}}{(1+i_t)^j} $$

### Table

<table>
<thead>
<tr>
<th>Companies</th>
<th>Holding Companies</th>
<th>4.00</th>
<th>62.48</th>
<th>55.00</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trusts</td>
<td>4.80</td>
<td>40.28</td>
<td>40.00</td>
</tr>
<tr>
<td></td>
<td>Private Companies</td>
<td>10.40</td>
<td>46.51</td>
<td>44.43</td>
</tr>
<tr>
<td></td>
<td>Institutional investors</td>
<td>1.60</td>
<td>30.56</td>
<td>30.56</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100.00</td>
<td>52.45</td>
<td>50.88</td>
</tr>
</tbody>
</table>

Fig. 2. Country of origin of foreign entities in the ultimate ownership panel.
here $PV_t$ is the present value of the investment $I_t$ in the period $t$, $C_{t+j}$ is the cash flow generated from $I_t$ in period $(t+j)$, and $i_t$ is the cost of capital in period $t$. For example, a given investment of 100 might produce a future stream of cash flows with a present value ($PV_t$) of 132.62. We can take $PV_t$ from equation (1) and the investment ($I_t$) that created it and calculate the ratio of a pseudo-permanent return ($r_t$) to the cost of capital ($i_t$), a ratio that we refer to as $q_{m,t}$:

$$PV_t = \frac{r_t \cdot I_t}{i_t} = q_{m,t} I_t$$

(2)

Where $r_t$ is the pseudo-permanent return on $I_t$ and $i_t$ is the cost of capital. Equation 2 gives the ratio of the return ($r_t$) on $I_t$ to $i_t$. If the company had invested the same amount ($I_t$) in a project that produced a return ($r_t$) permanently, this project would have yielded the exact same present value as the one actually undertaken.

The ratio of $r_t$ to $i_t$ - $q_{m,t}$ is the key statistic in our analysis. If a company maximizes shareholder wealth, then it does not undertake an investment for which $q_{m,t} < 1$.

We define the company's market value at the end of period $t$ as follows:

$$M_t = M_{t-1} + PV_t - \delta_t M_{t-1} + \mu_t$$

(3)

Where $M_t$ is the market value of the company at the end of period $t$, $PV_t$ is the present value of $I_t$, $\delta_t$ is the depreciation rate for the company's total capital as evaluated by the capital market, and $\mu_t$ is the market's error in evaluating $M_t$.

Subtracting $M_{t-1}$ from both sides of (3) and replacing $PV_t$ with $q_{m,t} I_t$ yields the following equation:

$$M_t - M_{t-1} = q_{m,t} I_t - \delta_t M_{t-1} + \mu_t$$

(4)

Where $M_{t-1}$ is the change in the company’s market value during the period $t$, and $q_{m,t}$ is the ratio of return ($r_t$) to cost of capital ($i_t$). The assumption of capital market efficiency implies that the error term in (4) has an expected value of zero.

Equations (2) and (4) define the ratio of a company’s return on investment to its cost of capital, which is precisely the statistic needed to estimate the impact of ownership identity and concentration on performance. It can be easily seen from (2) and (4) that $q_{m,t}$ is a marginal $q$ by comparing it with Tobin’s $q$. Tobin’s $q$—company’s market value divided by its stock of capital, is an average return on capital. Marginal $q$ is the change in the market value of the company divided by change in the capital stock (investment) that caused it. If $\delta_t = 0$ and a company invests 100 at an $r_t$ greater than $i_t$ then equation (4) implies that its market value increases by more than 100 (With $I_t = 100$ and $PV_t = 132.62$, $q_{m,t} = 1.3262$).

Conversely, if $\delta_t = 0.05$ and $M_{t-1} = 1000$, then the company must invest 50 at an $r_t = i_t$ just to keep its market value unchanged.

Two additional features of marginal $q$ are worth noting. First, its use as a measure of performance obviates the need to calculate company costs of capital. Second, the procedure for calculating $q_{m,t}$ allows for different degrees of risks across companies. The stock market will demand a greater future stream of cash flows from an investment of 100 before it raises the market value of a high risk company by 100, than it demands of a low risk company. We can use (3) to estimate both depreciation ($\delta_t$) and marginal $q$ ($q_{m,t}$) under the assumption that they are either constant across companies or over time, or both.
To correct for heteroscedasticity we divide both sides of (4) by $M_{t-1}$ that gives us the following equation:

$$\frac{M_t - M_{t-1}}{M_{t-1}} = -\delta + q_m \frac{I_t}{M_{t-1}} + \frac{\mu_t}{M_{t-1}}$$

(5)

Where $\frac{M_t - M_{t-1}}{M_{t-1}}$ is the change in the market value during the year $t$ relative to the market value in $t-1$ ($M_{t-1}$), $-\delta$ is the depreciation rate of a company’s market value, $q_m$ is the marginal $q$ and $\mu_t$ is the market's error in evaluating the change in the company’s market value. Equation (5) can be used to estimate both depreciation and marginal $q$ under the assumption that they are either constant across companies or over time, or both. Equation (5) is favored over other possible rearrangements of (4) because it does not involve a lagged dependent variable and in cross-section regressions is less likely to be subject to heteroscedasticity owing to deflation of all error terms by $M_{t-1}$. The depreciation rate ($-\delta$) represents the expected fall in a company’s market value during a year in which there was no investment. $-\delta$ is not only a measure of the decline in the value of a company’s tangible assets such as machinery and capital equipment that depreciate as they are used in the production process, but also the decline in the value of its intangible research and development and advertising stocks due to imitation by competitors and expiration of patents.

A company’s market value at the end of year $t$, $M_t$ is defined as the sum of the market value of its outstanding shares at the end of $t$ and the value of its outstanding debt. Investment is financed by the company’s cash flow and external capital (debt and equity) raised during the period, $t$. Since research and development and advertising expenditures are also forms of investment that can produce “intangible capital”, which contributes to a company’s market value, we add them to total investment for obtaining a measure of the company’s additions to its total capital. Depreciation also accounts for depletion of capital because of imitation. The marginal $q$’s on reinvested cash flows, investments financed by debt, and investments from issuance of equity are obtained by substituting investment ($I$) in (5) by its components and estimating separate coefficients.

Data

We chose a sample of 125 largest companies listed at the Karachi Stock Exchange and its capitalization accounts for 98% of the exchange’s capitalization. Financial companies are excluded from the sample because their capital is not comparable to non-financial companies.

Annual financial reports from 1997 to 2007 were solicited from the company secretaries as well as from various secondary sources of information such as the State Bank of Pakistan, Lahore Stock Exchange, and Karachi Stock Exchange. The stock prices data from 1996 to 2007 have been prepared from the newspapers printed by Dawn and Business Recorder. The financial data were prepared manually from the above-mentioned sources. The Consumer Price Index (CPI) was used to convert nominal values of financial variables into real 1991 Rupees. To minimize the effect of outliers $\frac{M_t - M_{t-1}}{M_{t-1}}$ is capped at the 1st and 99th percentiles. The summary statistics and correlation coefficients of the variables used in the regression analysis are reported in table II.
Pakistan listed companies use debt instruments such as term finance certificates to finance investments. However, they sparingly use listed preference shares and dual class shares (common shares with multiple votes), which are issued under the Companies Share Capital Variation in Rights and Privileges Rules, 2000. Sponsors of 7 companies have used redeemable preference shares (non-voting) that pay fixed dividends unrelated to profits, whereas those of 2 companies have issued dual class shares for enhancing voting power.

The analysis shows that 28.8% of the companies issued equity and the highest number of equity issues offered by a company during 1997-2007 is 7. Secondary issues of equity mainly consist of right issues. The
amounts of cash received for investment from equity issues are disclosed in the annual report. The government incurred expenditures of Rs. 14.21 billion during 1997-2007, for payment of losses incurred by the State airline- Pakistan International Airlines.

Empirical Analysis

The estimates of marginal \( q \) on total investment \( (q_{mI}) \), marginal \( q \) on reinvested cash flow \( (q_{mCF}) \) and investment financed from debt \( (q_{mD}) \) and equity \( (q_{mE}) \) are reported in table III (standard errors are given below the coefficients in parentheses).

Table III. Marginal \( q \) on total investment \( (q_{mI}) \), \( q \) on reinvested cash flow \( (q_{mCF}) \), \( q \) on investment financed from debt \( (q_{mD}) \), and from equity \( (q_{mE}) \)

<table>
<thead>
<tr>
<th>Panel 1</th>
<th>Pooled Ordinary Least Squares</th>
<th>Firm Fixed</th>
<th>Random Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coeff. ( a ) (SE)</td>
<td>Coeff. (SE)</td>
<td>Coeff. (SE)</td>
</tr>
<tr>
<td>( q_{mI} )</td>
<td>0.77*** (0.033)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>( (q_{mI} \neq 1) b )</td>
<td>0.000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>( q_{mCF} )</td>
<td>-</td>
<td>0.66*** (0.070)</td>
<td>0.72*** (0.08)</td>
</tr>
<tr>
<td>( (q_{mCF} \neq 1) b )</td>
<td>-</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>( q_{mD} )</td>
<td>0.84*** (0.039)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>( q_{mE} )</td>
<td>0.01* (0.013)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>( q_{mEC} )</td>
<td>-</td>
<td>0.09*** (0.015)</td>
<td>0.09*** (0.015)</td>
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<tr>
<td>Depreciation ( (\delta^-) )</td>
<td>-0.02 (0.127)</td>
<td>-0.13 (0.012)</td>
<td>-0.10 (0.014)</td>
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<tr>
<td>Probability ( F )</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Observations</td>
<td>1203</td>
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<tr>
<td>Adj. R(^2)</td>
<td>0.30</td>
<td>0.33</td>
<td>0.10</td>
</tr>
</tbody>
</table>

Chow test for data pooling

\( H_0 \): Deviations from the global intercept are zero for all companies

Result | F-statistic | 0.97 |

Interpretation | Pooled ordinary least squares is preferred over firm fixed effects |

Hausman test

\( H_0 \): Coefficients estimated by the efficient random effects estimator are the same as the ones estimated by the consistent fixed effects estimator

Result | Chi-square | 1.37 |

Interpretation | Random effects is preferred over firm fixed effects |

Quantile regression is fitted to the model for quantiles of \( M_{t-1} - M_{t-1} \)

<table>
<thead>
<tr>
<th>Quantile</th>
<th>Coeff.</th>
<th>Coeff.</th>
<th>Coeff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.25 quantile</td>
<td>0.54*** (0.060)</td>
<td>0.67*** (0.050)</td>
<td>0.92*** (0.074)</td>
</tr>
<tr>
<td>0.50 quantile</td>
<td>0.000</td>
<td>0.000</td>
<td>0.335</td>
</tr>
<tr>
<td>0.75 quantile</td>
<td>-0.32 (0.011)</td>
<td>-0.18 (0.010)</td>
<td>-0.04 (0.015)</td>
</tr>
<tr>
<td>Pseudo R(^2)</td>
<td>0.07</td>
<td>0.16</td>
<td>0.21</td>
</tr>
</tbody>
</table>

\( a \ ***, **, * \) denote significance levels of 1%, 5%, and 10% respectively.

\( b \) indicates significance levels of Wald tests that the marginal \( q \) on total investment \( (q_{mI}) \), marginal \( q \) on reinvested cash flow \( (q_{mCF}) \), and \( q \) on investment financed from debt equals 1.
Results are robust. Depreciation is 2%. The null hypothesis of a Wald test that marginal \( q \) is equal to 1 can be rejected. The return on total investment \( (I) \) relative to the company cost of capital \( (q_{pil}) \) is 0.77. There is strong evidence of hypothesis 1. The weak corporate governance regime allows dominant largest shareholders or managers to pursue their own objectives that include empire building. We substitute investment \( (I) \) in equation (5) by internal cash flow and external capital and estimate the marginal \( q \) on investments from cash flow \( (CF) \) and external capital \( (EC) \). The results are robust. Depreciation is 10%.

The null hypothesis of a Wald test that marginal \( q \) on reinvested cash flows \( (q_{mCF}) \) equals 1 can be rejected. In accordance with hypothesis 2, return on reinvested cash flow is 30% lower than the cost of capital for the average Pakistani listed company. Return on reinvested cash flow significantly lower than the cost of capital implies that dominant shareholders or managers use their discretion to invest cash flows in projects that have returns less than the costs of capital.

Return on investment financed from debt by the average company is 16% less than the cost of capital. Financial institutions face the problem of asymmetric information because they have less information than prospective borrowers about projects proposed for financing. Despite credit appraisal of proposed projects, dominant shareholders or managers are able to obtain loans from financial institutions for investments that have returns less than the costs of capital. Financial institutions suffering from delinquencies are often unable to recover their claims by selling assets taken as collateral because foreclosure laws in Pakistan are weak. Return on investment from proceeds of equity issues is only 0.01% of the cost of capital. In view of the low returns on investments from equity relative to the costs of capital, high transaction costs of issuing equity, and weak foreclosure laws, debt financing is commonly used to finance investments requiring low returns on investments from equity relative to the costs of capital.

We estimate marginal \( q \) on reinvested cash flow \( (q_{mCF}) \) and investment financed from debt \( (q_{mD}) \) and equity \( (q_{mE}) \) for locally-owned companies (family-owned and state-owned are collectively referred to as “locally owned”). The results are reported in table IV (standard errors are given below the coefficients in parentheses).

### Table IV. Locally-owned companies: Marginal \( q \) on reinvested cash flow \( (q_{mCF}) \), \( q_m \) on investment financed from debt \( (q_{mD}) \), and from equity \( (q_{mE}) \)

<table>
<thead>
<tr>
<th>Panel 2</th>
<th>Pooled Ordinary Least Squares</th>
<th>Fixed Effects</th>
<th>Random Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coeff. ( a ) (SE)</td>
<td>Coeff. ( c ) (SE)</td>
<td>Coeff. ( a ) (SE)</td>
</tr>
<tr>
<td>( q_{mCF} )</td>
<td>0.59*** (0.063)</td>
<td>0.82*** (0.095)</td>
<td>0.55*** (0.075)</td>
</tr>
<tr>
<td>( (q_{mCF} ≠ 1)^b )</td>
<td>0.000</td>
<td>0.061</td>
<td>-</td>
</tr>
<tr>
<td>( q_{mD} )</td>
<td>0.77*** (0.042)</td>
<td>0.94*** (0.057)</td>
<td>-</td>
</tr>
<tr>
<td>( q_{mE} )</td>
<td>0.01* (0.012)</td>
<td>0.01* (0.019)</td>
<td>-</td>
</tr>
<tr>
<td>( q_{mEC} )</td>
<td>-</td>
<td>-</td>
<td>0.06*** (0.014)</td>
</tr>
<tr>
<td>Depreciation (-\delta )</td>
<td>-0.13 (0.014)</td>
<td>-0.14 (0.022)</td>
<td>-0.10 (0.016)</td>
</tr>
<tr>
<td>Prob&gt; F</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Observations</td>
<td>790</td>
<td>575</td>
<td>790</td>
</tr>
<tr>
<td>Adj. ( R^2 )</td>
<td>0.35</td>
<td>0.34</td>
<td>0.10</td>
</tr>
</tbody>
</table>

**Chow test**

\( H_0 \): Deviations from the global intercept are zero for all companies.
The number of observations in the panel is 790. Depreciation is 10%. The results are robust. Return on total investment for the average locally-owned company is 27% less than the cost of capital (the result is not reported in tabular form to save space). Return on investment below the cost of capital implies that dominant shareholders or managers pursue their own objectives that include empire building. The null hypothesis of a Wald test that marginal \( q \) on reinvested cash flow (\( q_{mCF} \)) equals to 1.

### Table V

<table>
<thead>
<tr>
<th>F-statistic</th>
<th>0.96</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interpretation</strong></td>
<td>Pooled ordinary least squares are preferred over firm fixed effects</td>
</tr>
<tr>
<td><strong>Hausman test</strong></td>
<td>Ho: Coefficients estimated by the efficient random effects estimator are same as those estimated by the consistent fixed effects estimator</td>
</tr>
<tr>
<td><strong>Result</strong></td>
<td>Chi-square</td>
</tr>
<tr>
<td><strong>Interpretation</strong></td>
<td>Random effects is preferred over firm fixed effects</td>
</tr>
</tbody>
</table>

Quantile regression is fitted to the model for quantiles of dependent variable

\[
\frac{M_{i,t} - M_{i,t-1}}{M_{i,t-1}}
\]

<table>
<thead>
<tr>
<th>Quantile</th>
<th>0.25 quantile</th>
<th>0.50 quantile</th>
<th>0.75 quantile</th>
</tr>
</thead>
<tbody>
<tr>
<td>( q_{mCF} )</td>
<td>0.44***</td>
<td>0.70***</td>
<td>0.98***</td>
</tr>
<tr>
<td>(( q_{mCF} \neq 1 ))</td>
<td>0.000</td>
<td>0.000</td>
<td>0.887</td>
</tr>
<tr>
<td>( q_{mEC} )</td>
<td>0.45***</td>
<td>0.85***</td>
<td>0.92***</td>
</tr>
<tr>
<td>(( q_{mEC} \neq 1 ))</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Depreciation (( -\delta ))</td>
<td>-0.30 (0.015)</td>
<td>-0.19 (0.012)</td>
<td>-0.07 (0.018)</td>
</tr>
<tr>
<td>Pseudo R(^2)</td>
<td>0.05</td>
<td>0.16</td>
<td>0.23</td>
</tr>
</tbody>
</table>

\(^a\) ****, **, * denote significance levels of 1%, 5%, and 10% respectively. 
\(^b\) indicates significance levels of Wald tests that marginal \( q \) on reinvested cash flow (\( q_{mCF} \)) equals to 1.
\(^c\) indicates \( q_{mCF} \), \( q_{mD} \), and \( q_{mE} \) for companies directly or indirectly owned by families.

Marginal \( q \) on reinvested cash flow and investment financed from the external capital market is estimated for the sub-sample of family-owned companies. Return on reinvested cash flow is 18% lower than the cost of capital for the average family-owned company, which implies that dominant shareholders or managers invest in projects that have returns less than the costs of capital. The return on investment financed from debt relative to the cost of capital (\( q_{mD} \)) is 0.94. The null hypothesis under the Chow test for data pooling cannot be rejected. Thus, pooled ordinary least squares is preferred over fixed effects for estimating \( q_m \) on reinvested cash flows and investment financed from sources of external capital. The coefficients estimated by the efficient random effects estimator are same as those estimated by the consistent fixed effects estimator as the null hypothesis under the Hausman test cannot be rejected.

Marginal \( q \) on investment financed from debt (\( q_{mD} \)) and equity (\( q_{mE} \)) are estimated for foreign-owned companies and the results are reported in table V (the standard errors are given below the coefficients in parentheses).
### Table V. Foreign-owned companies: Marginal q on total investment ($q_{mI}$), q on reinvested cash flow ($q_{mCF}$), q on investment financed from debt ($q_{mD}$), and from equity ($q_{mE}$)

<table>
<thead>
<tr>
<th>Panel 3</th>
<th>Pooled Ordinary Least Squares</th>
<th>Firm Fixed Effects</th>
<th>Random Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coeff.* (SE)</td>
<td>Coeff. (SE)</td>
<td>Coeff. (SE)</td>
</tr>
<tr>
<td>$q_{mI}$</td>
<td>1.24*** (0.090)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>$q_{mCF}$</td>
<td>-</td>
<td>1.17*** (0.142)</td>
<td>1.18*** (0.142)</td>
</tr>
<tr>
<td>$(q_{mCF} \neq 1)^b$</td>
<td>-</td>
<td>0.238</td>
<td>0.217</td>
</tr>
<tr>
<td>$q_{mEC}$</td>
<td>-</td>
<td>0.96*** (0.079)</td>
<td>0.94*** (0.076)</td>
</tr>
<tr>
<td>$q_{mD}$</td>
<td>-</td>
<td>0.99*** (0.086)</td>
<td>-</td>
</tr>
<tr>
<td>$q_{mE}$</td>
<td>-</td>
<td>0.77*** (0.278)</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation ($-\delta$)</td>
<td>-0.01 (0.029)</td>
<td>-0.15 (0.023)</td>
<td>-0.15 (0.023)</td>
</tr>
<tr>
<td>Prob&gt;F</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Observations</td>
<td>412</td>
<td>412</td>
<td>412</td>
</tr>
<tr>
<td>Adj.R²</td>
<td>0.25</td>
<td>0.34</td>
<td>0.34</td>
</tr>
</tbody>
</table>

### Notes:
- ***, **, and * denote significance levels of 1%, 5%, and 10% respectively.
- b indicates significance levels of Wald tests that the marginal q on total investment ($q_{mI}$), and q on reinvested cash flow ($q_{mCF}$) equals 1.
- c The effect of outliers is minimized by capping $M_t - M_{t-1}$ at the 1st and 99th percentiles.

The number of observations in the panel is 412 and results are robust. Foreign-owned companies benefit from transfers of technology, skills, and specialized knowledge from investing companies. Thus, returns on investments are higher than the costs of capital. The average $q_{mI}$ for foreign-owned companies is 1.24. Null hypothesis of a Wald test that $q_{mI}$ is equal to 1 can be rejected. Thus, return on total investment is significantly higher than the cost of capital. Depreciation is 15%. The results are robust. Return on reinvested cash flow for the average foreign-owned company is 118% of the cost of capital. Return on investment financed from external capital relative to the cost of capital ($q_{mEC}$) is 0.96. The null hypothesis of a Wald test that $q_{mEC}$ is equal to 1 cannot be rejected. Thus, return on investment financed from external capital is equal to the cost of capital.

Investment financed from external capital is substituted by investment financed from debt and equity. Return on reinvested cash flow is 117% of the cost of capital. The return on investment financed from debt...
by foreign-owned companies is 99% of the cost of capital. There is evidence of market discipline. Return on investment out of the proceeds of equity issues is 23% less than the cost of capital for the average foreign-owned company. Managers of foreign-owned companies use equity to finance investments having returns less than the costs of capital. Results of pooled ordinary least squares are preferred over firm fixed effects as the null hypothesis under the Chow test for data pooling cannot be rejected. Moreover, marginal $q$ estimates from firm fixed effects are preferred over random effects because the null hypothesis under the Hausman test can be rejected at the 5% level.

Concluding Section

Ownership structures of Pakistani companies exhibit a high degree of concentration. Applying the concept of ultimate ownership to a large sample of listed companies shows that families, directly or indirectly, own 55.2% of the companies. Returns on total investments significantly less than the costs of capital imply that dominant shareholders or managers invest in low return investments instead of maximizing the wealth of shareholders. The weak corporate governance system in Pakistan does not protect small minority shareholders from dominant shareholders or managers who pursue their own objectives.

Return on reinvested cash flow for the average Pakistani listed company is 34% lower than the cost of capital, which implies dominant shareholders or managers invest cash flows in projects that have returns less than the costs of capital. The aforesaid result gives evidence of our hypothesis that dominant shareholders or managers exercise discretion in reinvesting company cash flows in projects that earn returns lower than the costs of capital. Dominant shareholders or managers of Pakistani companies exhibit discretionary investment behavior.

Return earned on reinvested cash flow by the average locally-owned company is 45% lower than the cost of capital that implies dominant shareholders or managers exhibit discretionary behavior while reinvesting cash flows. Return on investment financed from debt by the average locally-owned company is 23% less than the cost of capital. Financial institutions face the problem of asymmetric information as they have less information than borrowers about projects evaluated for financing. Despite credit appraisal of proposed investment projects by financial institutions, dominant shareholders or managers of locally-owned companies are able to borrow from financial institutions to finance projects that have returns below the costs of capital. Financial institutions facing delinquencies by borrowers are unable to recover their claims by selling assets offered as collateral because foreclosure laws are weak.

Return earned on reinvested cash flow by the average foreign-owned company is 118% of the cost of capital. For the average foreign-owned company, return on investment financed from debt is 99% of the cost of capital. There is evidence of market discipline. Return on investment out of the proceeds of equity issues is 23% less than the cost of capital for the average foreign-owned company. Corporate governance institutions are weak in Pakistan and they do not provide checks on managers or dominant shareholders who use external sources to finance projects that have low returns relative to the cost of capital.

Notes

1. Although both the market value of the company, $M$, and its investment, $I$, carry a $t$ subscript, equation (5) does not suffer from a simultaneous equation bias. $M_t$ is a company’s market value at the end of year $t$, while $I_t$ is the investment flow over the year $t$. Thus, $I_t$ is measured before $M_t$, and can be treated as exogenous. A possible bias in estimating the returns on investment relative to the cost of capital using (5) arises, if the market anticipates the investments to be made in the future and the returns on them. Equation (5) accurately estimates marginal $q$ ($q_m$) even if the market correctly anticipates these investments at $t-1$, if the expected returns on future investments equal a company’s cost of capital ($r = i$). The methodology will yield lower (higher) estimates of $q_m$ and $\delta$ if at $t-1$ the market correctly anticipates investment at $t$ with returns $r > i$ ($r < i$). Thus, when we perform empirical analysis of agency problems with $r > i$, we are likely to under estimate agency problems. For a comprehensive discussion and evidence on no systematic bias in the estimates see Mueller and Yurtoglu (2000).

2. Market value is used for listed debt and book value is used for unlisted debt and outstanding financing facilities.
3. Cash flow (CF), change in total debt since the previous period (ΔD), and funds raised from equity issues during period t (ΔE). We abstract from research and development (RND) and advertising (ADV) because their intensities as a percentage of sales are less than 0.1%.

4. Robustness is checked by using quantile regression, robust regression and regression with robust standard errors in STATA see Hamilton (1992) pp 238-56.

5. Gugler et. al (2004) using data from 1996-2001 analyzed investment performance of listed companies in 46 countries. Using 105 observations to study investment performance of 46 Pakistani listed companies, they estimated return on total investment relative to the cost of capital (qme) of 0.40.

6. External capital consists of change in total debt (ΔD) and funds generated from issues of equity (ΔE).

References


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We are especially grateful to Higher Education Commission that supported the research. We are grateful to Ashraf Bawa, M. Salman Ali Bokhari, Saqib Masood, Hasan Ashraf, Abdul Aziz Anis, Arshad Mahmood, and Farhan Talib, for their co-operation and support in the process of collecting information.

Appendix

Definitions

- **One share- one vote principle:** Each common share carries one vote.

- **Dispersed Shareholdings:** Percentage of shares owned by a large number of individual investors in a listed company.

- **Institutional Ownership (IT):** Percentage of a listed company’s shares owned by outside institutional investors.

- **Other Outside Shareholders:** Non-financial companies, non-governmental organizations (NGOs), trusts, charitable institutions, and association of persons.
The New Net Generation and Social Media: How Do the Youth Use Twitter in Turkey

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Communication Faculty, Istanbul
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Abstract
Social Media network Twitter, which dispossessed the traditional media of power and speed on creating agenda with its features, is very actively used by especially the new generation. New generation has made these social networks part of their lives by showing high demand to these new networks which entered to people’s life as a result of the developments in new communication technologies. The aim of this study is to find out the use of Twitter of the Turkish youth. A conceptual scan on new generation and new network concepts was done in the first part of the study. In the second part, a literature review inclined towards the usage areas of social media and previous researches on that case performed before were exploited. In the research part of the study, determinations oriented to Twitter use habits of 480 Turkish university students whose ages are between 18 and 26 were analyzed. In the conclusion, it has been revealed that the Turkish youth prefer to use Twitter more than Facebook, use re-tweet mechanism to share information very frequently and feel themselves free in Twitter.

Keywords: Social Media, Twitter, Use of Twitter, Net Generation, Turkish Youth

Introduction
Social network usage has become one of the most important realities of today without the discrimination of age, socio-economical level, location. In recent studies, it has been revealed that especially the youth use social media more than the traditional media. The reason that caused the internet usage to become widespread especially among the teens is that the young generations are more active and the legal limitations of this channel are fewer than the traditional media.

Parallel to Internet’s becoming widespread and the increase in the demand to Internet channel, social media networks that occurred with the improvements in communication technologies and the change in Internet environment by Web 2.0 technology, has reached to all the masses of the community and been adopted. Social media which is used by new generation in very serious rates has both become a new communication instrument and provided new gains to economic structure of the media. The youth have sensed the social media as a new democracy platform and started to make their democratic rights and demands heard by benefitting from social media’s unlimited communication possibilities. As social media became a new communication platform for the teens, it has started to be understood as the shortest way to reach the youth by the companies wishing to introduce their products and services. The brands have started to reach the users directly via social media and a double-way and unmediated communication way have been constituted between the customer and the brands.

Social media networks that have become widespread in the beginning of 2000s started to be widely used in Turkey especially since 2005. Among these social networks, the most commonly used platform has become the social media network named Facebook and this network, reaching serious accesses in context of the user number in Turkey, took Turkey up to the 4th place in most Facebook users in the world recently.

In Turkey, especially since 2011, the social media network named Twitter has started to elevate in both user numbers and creating agenda. In this, the role of Turkish interface which has started to be used since April 25th, 2011 is great. Since that date, important increase has occurred in the number of Turkish users on Twitter. As the number of active Twitter users in Turkey was 5.3 million people in 2012, this number has reached up to 6.2 million people in 2013. Turkish users who used to post 20 tweets per second in 2012, have started to post 92 tweets per second in 2012 (Monitera, 2013:12).

In this study, determinations on the use of internet by the youth in Turkey and the use of the new communication way of especially new generation, social media network Twitter in Turkey have been done.
Within this scope, the subjects to be examined and the questions whose answers to be searched for are as follows:

- What’s the level of the use of social networks among the youth?
- In which areas do the youth use social networks?
- How are the behaviors of the youth on social media and networks?
- For which purposes and in which ways do the youth use Twitter, the most popular social media network of the recent times?

The Net Generation Concept and Context

Social networks defined as networks established between individuals and professional relations have now become a part of daily life. Users have become able to make use of all the features of the new communication platform with the help of social networks. Becoming such widespread of information exchange causes new social networks to be born every passing day (Akyazı and Ünal, 2013:3).

The expression “net generation” is used to specify the youth raised and grown with the social media. Generation concept can be summarized and shown by classifying the statuses and roles in the social structure as grandfather-father-son or grandmother-mother-daughter (Duvenci, 2012:54). Widespread Internet use among the youth caused them to be named as Y and Z generations in the net generation. When making the most common definition of Z generation, the statement “Those which were born inside online communication in and after 1991 and see this type of communication process as a natural process unlike the previous X and Y generations” is used (Orhon and Eris, 2012: 140).

Z generation, which represents the net generation, is the generation which uses every kind of technology issueless, does not recognize a world without Internet and computers and communicates online to a large extent. Y generation which has occurred before Z generation is also among the generations which communicate online. As Y generation met Internet in puberty and youth periods, Z generation has been living in touch with Internet and social media networks since the childhood period.

In his study titled Popular Culture and High Culture, Herbert J. Gans has specified that technological innovations will be widespread via the youth using the phrase “The youth are the main carriers of the innovations – at least in the changing communities, even though they don’t make new cultural inventions by themselves, they immediately descend upon the innovations”. The interest and curiosity of the youth are in relation with the possibilities that the culture constituted with the new communication environment provides (Duvenci, 2012: 54). Therefore, even if the communication transitivizes in the net generation, very different communication platforms has started to be used by them thanks to the youth’s being open to innovation.

The importance of what individuals did and liked in their youth is big in the embodiment of their identities. These embodiments are regarded as they will determine the choices of the individuals in the future. A generation lived their youth stages in different conditions and time obtains different identities as a result of those conditions. The generations are affected by the conditions they have grown and this creates differences in their attitude and behaviors. These differences in attitude and behaviors reflect on their ways of using technology (Duvenci, 2012: 54). So, Internet and social media use of the net generation caused them to be equipped with new characteristics very unlikely to the previous generation. Tapscott (2009: 74) has collected the characteristics of the net generation under 8 norms:

- Their Keenness to Freedom
- Liking to Share,
- Customizing the Products,
- Performing Researches in Every Subject,
- Giving Importance to the Brands,
- Loving Entertaining Works,
- Wanting to Cope With the Things Quickly
Wanting to Own the New Technology As Immediate As Possible.

It’s seen that the youth have created a unique language in the social media reflecting the language of technology. Technology, which necessarily makes designing a new communication environment oriented to the individual possible, provides different environments to meet on a single joint network. This joint meeting contributes the globalization concept to improve and an “earthian” identity with high “individuality” to occur.

The new generation youth using social media are also called “super communicators”. The young generation is not only in social networks but in every kind of communication and mass communication channels. For this reason, young generation is in the position of the generation which uses the communication most. Such adaptation of the youth to the social media causes the young generations to become the target audience in the sense of advertisement and public relations. Social media use gains importance for the companies aiming to reach the young generation (Onat and Alikilic, 2008: 1126)

Social Media Usage among Youth

Today, Internet has become an important channel especially for teens and started to be used as highly as to threaten the traditional media. As a result of the new media’s and especially Internet’s coming into all the environments where new generations live inside (family environment, school environment etc.), some changes have been experienced in the socialization process of the kids. According to a common belief, the teens who spend more time on Internet environment than with their families and friends learn the information about social life from this source. Taking the role of a virtual library, Internet has got ahead of the printed media and especially the classic library. In order to possess more detailed information about this subject, the social media usage of the youth needs to be put forth. Thusly, Internet usage statistics of the youth should be analyzed in the first place.

As we can see in Fig. 1, the youth constitute the great majority in Internet usage in Turkey. As Internet usage percentage is 62.9% among the youth between the ages of 16-24; this percentage is 50.6% in 25-34 age range.

The development of Internet technology and new communication technologies in Turkey and the world post-haste resulted in the increase of the numbers of Internet users at a great pace and more tendency of young population in Internet usage. This is envisioned to continue with the same pace in the future.

The great majority of the researches done in Turkey and worldwide show that the young population is predominant in social media usage. With a general assessment, the most preferred social platforms by Turkish Internet users are Facebook and Twitter. According to the research carried out by IpsosKMG and Gemius in December 2012, Facebook reaches 84, 2% and Twitter reaches 33, 7% of the Internet users. Similarly according to the computation by GlobalWebIndex done in the first quarter of 2013, 81% of Turkish Internet users use Facebook, 43% of them use Twitter (Öğüt, 2013). Usage of these two platforms gains importance because their usage is broad among the teens.

The results of Internet usage research oriented to the youth performed by Intel provide important information about teens’ social media usage as well. According to the research done in 26 cities among the youth between the ages of 13-29, the youth pass six hours a day on Internet and there are computers present in 71, 4% in the houses they live. According to the results of the same research, 8, 3% of the youth in
Turkey go online as soon as they wake up in the morning and 4.7% go online without leaping out of the bed. 54.7% of the youth use Internet in order to connect social networks and spend 53.5 minutes a day on social networks (Sabah, 2012). According to the same research’s results, the youth spend 1 to 3 hours for socializing on Internet.

![Fig. 2. Internet Usage Purposes and Times of the Youth (Young Turkey Research, 2013)](image)

The other striking results emerged with respect to the same research can be summarized as follows:

3 out of 5 young users in Turkey have regular Internet access. In countryside, 2 out of 5 youths can access Internet regularly. City with the highest regular Internet access is Izmir with the rate of 76.9% and the city with the lowest regular Internet access is Van with the rate of 15.5%.

Online activities vary even from city to city. For example, as the youth in Zonguldak use banking and online reservation transactions most, the Manisa youth prefer to read news and have video chats and Gaziantep youth like to download music and movies.

Kastamonu youth take the first place with an astonishing record of 100% in the use of social networks such as Facebook and Twitter. The youth use their computers mostly for socializing (84%), entertaining (66.8%) and getting information and news (65.3%).

Boys and the teens in 13-17 age group are fonder of entertainment. 74.8% of young men and 77.3% of the teens between the ages of 13-17 use their computers for fun. As educational use is 69.7% in 13-17 age group, it falls to 64.8% in the age range of 18-24 and to 51.8% in the age range of 25-29.

Being prevalent this much of the use of Internet and social media among the youth can be significant in many subjects in daily lives of the youth. The identities created on the social networks can be effective on the choices of the youth in their lives. Because the youth are constantly on the process of putting their own identities forth via the cultural activities they attend (which concerts they go, where they eat, which exhibition they visit etc.) and the cultural food they consume, they both reflect the opinions of the community they are involved and feed those communities.

Important information can be obtained when we examine the statistics of the youth about social media usage. Although the rate of elder Facebook users in Turkey has increased in comparison with the recent years, the youth constitute a great majority of Facebook users.

![Fig. 3. Facebook Usage Graphic by Age Groups (Young Turkey Research, 2013)](image)
in Facebook or the reality that the people who want to hide their real identities because of various reasons are present among the members, even though if the distribution data by age reflects the reality is debated: it can be said that Facebook is still monopolized by the youth.

Twitter has become one of the platforms, which have become popular among Turkish users, especially after changing to Turkish interface. Twitter usage has become such widespread that there are researches showing the young users us Twitter more actively than Facebook in order to escape from the superintendence of their families. According to the analyses that Monitera, which makes observations and analyses on social media, has performed in 2013, a daily average of 8 million tweets are posted in Turkey. When we look at the previous year, we see tweet numbers have increased at the rate of 370 % (Twitter Türkiye Profili, 2013).

The activity and power of the youth on Internet are among the interest areas of the other social platforms. For example, today, the most preferred social network, LinkedIn, to create especially a professional social network has gravitated towards the youth. LinkedIn, where the users share their information about their professional business lives unlike Facebook, is a social network whose foundation was laid in 2002. LinkedIn, which has come online and met its users on 5 May 2003, stated that they provide the youth to think about their careers by including them in the professional business network. The platform which has reduced the membership age in many countries has aimed to expand its user base.

From this point forth, social media usage demography in Turkey follow a parallel course with the world. As we can see in the infographics below, 83 % of the age range of 18-29 representing the young population is inclusive of a social network in accordance with the results of the researches carried out worldwide.

Previous Researches about the Youth and Social Media in Turkey

Many social networks such as Facebook, Twitter, YouTube, Flickr, Myspace, and Instagram have basically organized on people’s creating content using these channels. These contents may sometimes be a music video or sometimes an idea and thought or sometimes a photo. Besides that, people’s being able to interact with those contents via those social networks enables all those social networks to be used by larger masses. The first of the determinant factors in social media usage of teens is the interactive structure of those channels and the ability of teens to determine their own agendas with the other teens.

By disorganized nature of the networks, the individuals determine all the options on network in connection with their own desires. Therefore, any network is always in competition in order to attract attention of all the Internet users. Thusly, determining what kind of behaviors teens show on social media is also important.

Studies about teens’ social media usage behaviors are various. In this subject, different behaviors on different platforms have been investigated. A research carried out by pewinternet.com has become attention grabbing in demonstrating social media usage behaviors of the youth. According to that: (Personal Information Sharing Behaviors of Teens on Social Media, 2013) As the rate of sharing information like names, birthdays, interests among youths is 80 %, the sharing rate of more private information is around 60
%. For example, the rate of sharing phone numbers is 20%. In addition, youth have confessed that they have shared wrong information at the rate of 26% in order to hide their personal information. Besides, a big majority of the youth around 70% have stated that they added their parents on Facebook. As the rate of the ones who prefer their posts on Facebook to be seen by only their friends is 60%, this rate is very different on Twitter and 64% of the youth on Twitter have had their profiles open to everyone.

Vural and Bat (2010) have examined social media use of teens on the new communication environment. The students studying in Ege University Communication Faculty were chosen as the universe of the research. 350 students chosen as samples were applied a survey and 319 surveys have been assessed among those. According to the survey findings, all the students are Internet users and among their purposes of using Internet, after information exchange, social media usage ranks second with the percentage of 26.6%. Also, 73%, 7% of the youth have knowledge about what is social media. 88%, 1%, a great majority of the youth who took part in the survey, have reported that they use any social media instrument. 82.4% of the ones taken part in the survey within the scope of the study stated that they spend more time on Facebook, 18.5% on Net log, 24.5% on Myspace, 13.5% on Orkut, 14.4% on Yonja and 21.9% on other networks. When the data is evaluated, the reason why Twitter use seems less than the others can be shown as Twitter has changed to the interface in Turkish after the date when this study was performed.

In the study carried out by Aytekin and Sütçü (2012), a survey oriented to the students studying in 42 different departments and different classes of 13 universities in Turkey was held. In accordance with the results of the survey applied weightedly on 707 young users between the age range of 18-25, a great majority of the youth, 84.16% of them have demonstrated that they own smartphones. This percentage can be considered important in the point of the youth's following the innovations and the space that Internet covers in their lives.

In the study that Bostancı (2010) presented as postgraduate thesis at Erciyes University, social media usage habits of Istanbul, Gazi and Erciyes University Communication Faculty students and for which purposes they use social media were examined. In accordance with the survey results applied on 380 students, it's seen that 55.5% of the students use Internet every day, 19.5% use it 1-2 days a week, 18.7% use 3-5 days a week, 4.7% use it 1-2 days a month and 1.6% use Internet 3-5 days a month. Also, it's seen that 27% of the students participated in the survey have blogs and 72.9% don’t. When the purposes of Internet use of the students who took part in the survey are examined, it's seen that 20.5% of the students use it for research, 19.7% for communication, 1.6% for banking, 0.7% for e-state, 8.9% for downloading, 4.5% for gaming, 13.8% for news, 7.7% for video, 22.2% for social media and 0.4% for other purposes. Therefore, social media is the leading among the purposes of Internet use of the youth.

According to the research results, the first factor effective on social media usage is “narcissism and media habit”. This factor which has come up with the research also strengthens the definition of “common audience”. According to the research results, the second factor which is effective on social media usage is “entertainment and time killing” factor. Third factor effective on social media usage has been specified as “relation maintaining” factor. With reference to the results shown up by the research, the fourth factor effective in terms of explanatory of the social media usage is “cyber community” factor. Lastly, the youth have specified the fifth factor as “enlightenment”.

In his study aiming to examine social media usage of the teens at middle and high school level, Argın (2013) has put forth that attitudes of the students in regard to social media are high level and they have developed a positive attitude devoted to social media according to arithmetic average and standard deviation values calculated with the purpose of determining the attitudes of the students relating to social media.

Similarly, Ök (2013) has focused on usage motivations in his study he investigated the social media usage of middle school students.

In Köseoğlu (2010)’s study which he performed on university students using the approach of usage and satisfactions as basis, six factors have been found. These are prioritized as photos and videos (sharing), ease of use (fast communication), magazine subjects (relationship status), catching the community agenda (information), choices of use (time killing), social connections (maintaining relations).

According to the finding obtained from the study of Akyazi and Ünal (2013), 89% of the students in state universities have Facebook accounts, 75%, 5% have Twitter accounts and 48, 5% have accounts on the
other social networks. And 89, 4% of foundation university students have accounts on Facebook, 70% on Twitter and 55, 2% on other social media platforms. According to the rates relating to how long the youth have been on social media platforms, state universities come first with a 41, 1% percentage of the students who have stated they have been on social media networks more than 5 years. A percentage of 35, 6% rank second stating they have used social media between 3 and 5 years. According to this, 75, 7% of the students have been using social networks more than 3 years. On the other hand, the rate of the students who have been using social networks less than 1 year is pretty low with 2, 5%. In the analysis oriented to foundation university students, similar results have been determined as well.

Ergenc (2011) reports that the participants visit their Facebook profiles at least once a day in his research on students. Besides, the rate of the participants who logs in Facebook more than once a day comes first with 59%. In conclusion, Ergenc remarks that the website Facebook has taken a big place in the minds of the users and it creates the need to visit the website every day like it’s a routine necessity.

In a field study that Hazar (2011) carried out oriented to social media addiction, he has set forth that 50, 4% of the students use social media, one of the applications in Internet usage, between 2 or 4 hours and therefore, according to the data obtained, he has determined that half of the students use Internet almost for only social media applications.

It is seen in the studies that the researches have concentrated on especially university students, namely the young users. Considering that social media is used more intensively by the young users, it’s possible to say that this is an accurate approach.

The Aim and Method of the Research

Data collected for the research aiming to determine Twitter use behaviors of the youth have been evaluated and analyzed with estimation over descriptive statistics and situational description methods. Descriptive research model tries to explain some characteristics of the events and human groups individually or how are two or more characteristics at relational level (Arseven, 1994: 32).

Samples of the research were selected among 480 university students studying within the provincial borders of Istanbul, therefore the scope of research is limited with the borders of Istanbul. A survey form with a question of Twitter account existence, three open ended questions about use frequency, two demographical and a total of 18 questions prepared in accordance with five likert scale specifying participation level. Prepared survey form has been applied on a total of 522 people. Among the youths who have been applied the survey, 42 students who do not have Twitter accounts were taken out of the samples and application and analysis of survey were performed on 480 people who declared they possess Twitter accounts. Data collected in the research have been analyzed using the software, SPSS for Windows 20.0. Reliability test was performed in the analysis first. Obtained findings in the research in which demographic and frequency analysis and t test, ANOVA test and correlation analyses have been applied are explained below.

Reliability Analysis

In consequence of the reliability analysis, Cronbach’s Alpha coefficient is 0,822 and it’s seen that the survey is pretty reliable as is. However, as a result of the examination of the survey on the basis of questions, it’s seen that removal of the number 12, 13 and 14 questions will increase Cronbach’s Alpha coefficient and relative questions were removed out of the survey. With the removal of these questions out of the survey, the new Cronbach’s Alpha coefficient was found as 0,864 and it’s seen that removal of any other questions would not increase that value. Results of reliability analysis can be seen in the table below.

<table>
<thead>
<tr>
<th>Cronbach’s Alpha</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>.864</td>
<td>10</td>
</tr>
</tbody>
</table>
### Table 2. Confidence Analysis

<table>
<thead>
<tr>
<th>Scale Average When Question is Out</th>
<th>Scale Variance When Question is Out</th>
<th>Corrected Matter Total Correlation</th>
<th>Cronbach's Alpha When Question is Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>S4 I use Twitter more than Facebook recently.</td>
<td>22,73</td>
<td>56,936</td>
<td>.609</td>
</tr>
<tr>
<td>S5 Tweeting on Twitter comforts me.</td>
<td>22,18</td>
<td>56,070</td>
<td>.728</td>
</tr>
<tr>
<td>S6 Sharing feelings and thoughts that I can’t tell anyone on Twitter makes me happy.</td>
<td>22,08</td>
<td>59,766</td>
<td>.532</td>
</tr>
<tr>
<td>S7 I enjoy reading what celebrities with Twitter accounts post.</td>
<td>22,29</td>
<td>62,233</td>
<td>.453</td>
</tr>
<tr>
<td>S8 When I like a message on Twitter, I Re-Tweet it.</td>
<td>22,88</td>
<td>58,972</td>
<td>.616</td>
</tr>
<tr>
<td>S9 I feel free on Twitter.</td>
<td>22,55</td>
<td>60,934</td>
<td>.426</td>
</tr>
<tr>
<td>S10 In my opinion, Twitter is more reliable than Television.</td>
<td>22,46</td>
<td>59,416</td>
<td>.564</td>
</tr>
<tr>
<td>S11 In my opinion, Twitter includes more accurate information than the newspapers.</td>
<td>22,59</td>
<td>57,258</td>
<td>.683</td>
</tr>
<tr>
<td>S15 I like posting photos on Twitter.</td>
<td>22,25</td>
<td>58,013</td>
<td>.660</td>
</tr>
<tr>
<td>S16 Twitter is the most reliable information instrument for me.</td>
<td>22,34</td>
<td>60,480</td>
<td>.506</td>
</tr>
</tbody>
</table>

### Demographic Characteristics

51, 87 percent of the ones who took part in the research are males, 48, 13 percent are females.

### Table 3: Distribution of Participants by Sex

<table>
<thead>
<tr>
<th>SEX</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>MALE</td>
<td>249</td>
<td>51.87</td>
</tr>
<tr>
<td>FEMALE</td>
<td>231</td>
<td>48.13</td>
</tr>
<tr>
<td>TOTAL</td>
<td>480</td>
<td>100.0</td>
</tr>
</tbody>
</table>

38, 8 percent of the participants are at/under the age of 18, 61, 3 percentage are at/above the age of 19.

### Table 4. Distribution of Participants by Sex

<table>
<thead>
<tr>
<th>Age</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Younger Than 18 Years Old</td>
<td>186</td>
<td>38.8</td>
</tr>
<tr>
<td>Older Than 19 Years Old</td>
<td>294</td>
<td>61.3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>480</td>
<td>100.0</td>
</tr>
</tbody>
</table>

32, 5 percentage of the participants have an active account on Twitter for 1 to 2 years and 2 to 4 years. 25 percent have an active account on Twitter less than 1 year and 10 percentage have active account more than 4 years.

### Table 5. Active Account Possession Duration on Twitter of Participants

<table>
<thead>
<tr>
<th>Possession Duration</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>LESS THAN 1 YEAR</td>
<td>120</td>
<td>25.0</td>
</tr>
<tr>
<td>BETWEEN 1-2 YEARS</td>
<td>156</td>
<td>32.5</td>
</tr>
<tr>
<td>BETWEEN 2-4 YEARS</td>
<td>156</td>
<td>32.5</td>
</tr>
<tr>
<td>MORE THAN 4 YEARS</td>
<td>48</td>
<td>10.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>480</td>
<td>100.0</td>
</tr>
</tbody>
</table>

As 35 percent of the participants spend less than one hour a day on Twitter, 27.5 percent spend 2 to 3 hours, 20 percent spend 3 to 4 hours, 17.5 percent spend between 1 and 2 hours a day.
Table 6. Distribution of the Participants by the Time They Spend in a Day on Twitter

<table>
<thead>
<tr>
<th>Time Spent on Twitter</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1 HOUR</td>
<td>168</td>
<td>35.0</td>
</tr>
<tr>
<td>1-2 HOURS</td>
<td>84</td>
<td>17.5</td>
</tr>
<tr>
<td>2-3 HOURS</td>
<td>132</td>
<td>27.5</td>
</tr>
<tr>
<td>3-4 HOURS</td>
<td>96</td>
<td>20.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>480</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Frequency Analysis

The phrase which is most positively expressed by the participants with 76.3% is that they re-tweet if they like a message on Twitter. Participants use re-tweet mechanism frequently.

The second most positively expressed phrase by the participants with 65.1% is that they use Twitter more than Facebook. Therefore, it can be said that Facebook has decreased in value in the eyes of participants and Twitter is on the rise in other respects.

Participants also think that they feel free on Twitter (63.8% in total) and the information present on Twitter are more accurate than the newspapers and television channels (56.3% in total). Thusly, Twitter is a more accurate and reliable news source than the newspapers and television channels by the reason of Twitter is a free environment within the context of the participants’ feeling themselves free on Twitter.

The less positively expressed phrases by participants are that posting on Twitter comforts them (46.3% in total) and posting feelings and thoughts they can’t tell anyone on Twitter makes them happy (41.3% in total).

Table 1: Frequency Analysis

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>S8</td>
<td>When I like a message on Twitter, I Re-Tweet it.</td>
<td>40.0</td>
<td>36.3</td>
<td>10.0</td>
<td>6.3</td>
<td>7.5</td>
</tr>
<tr>
<td>S4</td>
<td>I use Twitter more than Facebook recently.</td>
<td>46.3</td>
<td>18.8</td>
<td>15.0</td>
<td>8.8</td>
<td>11.3</td>
</tr>
<tr>
<td>S11</td>
<td>In my opinion, Twitter includes more accurate information than the newspapers.</td>
<td>35.0</td>
<td>21.3</td>
<td>25.0</td>
<td>12.5</td>
<td>6.3</td>
</tr>
<tr>
<td>S9</td>
<td>I feel free on Twitter.</td>
<td>32.5</td>
<td>31.3</td>
<td>15.0</td>
<td>8.8</td>
<td>12.5</td>
</tr>
<tr>
<td>S10</td>
<td>In my opinion, Twitter is more reliable than Television.</td>
<td>30.0</td>
<td>21.3</td>
<td>27.5</td>
<td>15.0</td>
<td>6.3</td>
</tr>
<tr>
<td>S16</td>
<td>Twitter is the most reliable information instrument for me.</td>
<td>21.3</td>
<td>31.3</td>
<td>25.0</td>
<td>12.5</td>
<td>10.0</td>
</tr>
<tr>
<td>S7</td>
<td>I enjoy reading what celebrities with Twitter accounts post.</td>
<td>13.8</td>
<td>38.8</td>
<td>27.5</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>S15</td>
<td>I like posting photos on Twitter.</td>
<td>16.3</td>
<td>36.3</td>
<td>21.3</td>
<td>16.3</td>
<td>10.0</td>
</tr>
<tr>
<td>S5</td>
<td>Tweeting on Twitter comforts me.</td>
<td>20.0</td>
<td>26.3</td>
<td>23.8</td>
<td>18.8</td>
<td>11.3</td>
</tr>
<tr>
<td>S6</td>
<td>Sharing feelings and thoughts that I can’t tell anyone on Twitter makes me happy.</td>
<td>16.3</td>
<td>25.0</td>
<td>30.0</td>
<td>15.0</td>
<td>13.8</td>
</tr>
</tbody>
</table>

Statistical Analysis

In this section, statistical analysis towards determining whether the opinions of participants are changed according to Twitter using time and activity period of Twitter accounts are being provided. Since the variables are in normal distribution parametric tests like T Test, Pearson are applied to the survey.

T Tests According to Age

In consequence of t tests conducted for determining whether the opinions of participants are changed according to their ages; participation lev...

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It was observed that, more users under 18 years old stated sharing on Twitter eases their minds, sharing thoughts and feelings remaining within them on Twitter makes them happy and also they like sharing on Twitter in comparison with users older than 19 years old.

**T Tests according to Gender**

In consequence of t tests conducted for determining whether the opinions of participants are changed according to their gender, 4. Expression “Recently, I use Twitter more than Facebook”, 5. Expression “Sharing in Twitter eases my mind.” And 8. Expression “I re-tweet when i like a message in Twitter.” differ greatly according to gender. Accordingly; it is observed that women recently use Twitter more than men; and again more women ease their minds by sharing in Twitter and re-tweet the message they like in comparison with men.

**Anova Analysis according to Activity Time**

ANOVA analysis has been used for determining whether the opinions of participants are changed or not according to their activity period in their Twitter accounts. In order to determine the source of indicated differences, Tukey Analysis has been used. According to that;

- Users having accounts on Twitter for longer than 4 years stated that sharing eases their minds in comparison with users having accounts for lesser than 4 years. Therefore, it is possible to say that users having Twitter accounts from the beginning have some kind of Twitter addiction and relax them by sharing.
- It was determined that users having active accounts for 2-4 years use more re-tweet mechanism than users having active accounts for less than 1 year. Therefore, It is possible to say that, Twitter using habits and familiarity increase while the membership time is extended. (level of significance : 0.1)
- Users having active accounts for more than 4 years feel themselves freer on Twitter than users having accounts for less than 1 year. (level of significance : 0.1)
- Users having active accounts for more than 4 years think that Twitter is the most reliable news channel – even more reliable than television and newspapers – in comparison with users having accounts for less than 1 year.

**Anova Analysis According to Online Time on Twitter**

Anova analysis has been used for determining whether the opinions of participants are changed or not according to their daily online time periods on Twitter. In order to determine the source of indicated differences, Tukey Analysis has been used. According to that;

- In comparison with users spending less than 1 hour a day on Twitter, users spending 2-4 hours a day on Twitter stated that they use twitter more than Facebook and feel happy to share their thoughts and feelings untold on Twitter.
- In comparison with users spending less than 1 hour a day on Twitter, users spending 2-4 hours a day on Twitter, stated that they re-tweet the entries they like. Besides, they indicated that they enjoy reading the entries of celebrities having Twitter accounts and consider Twitter as a more reliable news channel than newspapers and television.
- Users spending 3-4 hours a day on Twitter stated that they feel happy to share on Twitter in comparison with users spending lesser than that.

Considering results obtained from those data, people spending more time on Twitter by using it densely during the day stated that they count Twitter as a more reliable news source than newspapers and television, feel happy to share feelings and thoughts untold and spend more time on Twitter in comparison with most popular social media website of internet users, Facebook.

**Correlations**

In Correlation Analysis, Pearson Correlation Coefficient is used. Pearson Correlation Coefficient is valued 0 to 1 and correlation between two variables is increased when this coefficient approaches to 1. It decreases when the coefficient approaches to 0. When correlation coefficient is higher than 0.50, it means there is a
relatively strong relation. When it is lower than 0.50, it means there is a week relation. This coefficient can be positive and negative. If correlation coefficient is positive, it means both variables increase at the same time and vice versa one variable decreases while the other one increases if the coefficient is negative. As a result of correlation analysis conducted for revealing relations of participant opinions and activity periods of Twitter accounts of participants and daily online time period on Twitter, a significant relation between the time spent on Twitter and opinion of feeling free only on Twitter has not been determined, however presence of not so strong positive relation between other expressions have been revealed.

There is no significant correlation between activity periods of Twitter accounts and using Facebook more frequent, feeling happy by sharing emotions and thoughts and enjoying reading entries of celebrities however there is a week positive relation between other expressions.

**Conclusion and Evaluation**

As a results of developments in Internet technologies, new generation teens have begun to use new communication channel, social media and turned this channel into a part of their daily lives. Along with developments particularly in Web 2.0 technologies, social media being a part of our lives is being used in daily life for all kinds of activities from education to entertainment.

In consequence of a reliable survey study conducted on 480 participants spending more than one hour a day on Twitter and having active accounts for 1 to 4 years in total, it has been observed that participants start using Twitter more than Facebook and also profoundly utilize the re-tweet mechanism of Twitter.

Teens using re-tweet mechanism of Twitter frequently make this channel favorable for knowledge and idea sharing. It is possible to share opinions and also densely propagate advertisements and campaigns in a short time period by means of intense use of re-tweet mechanism of Twitter.

Beyond doubt, one of the most remarkable results derived from the study is that participants feel themselves free on Twitter and may share all kinds of ideas, emotions and thoughts. According to participants, Twitter is a more reliable news source than newspaper and television stations. Sharing news, images and photographs not published on TVs made access to more reliable information possible. Teens see social media as a channel in which they can express themselves freely and deem social media more reliable than traditional media. On that sense, social media networks pose a serious threat against traditional media and cause traditional media to lose its popularity over social media.

In the light of data derived from study, it is possible to say that reason of using twitter is receiving reliable and accurate news. Teens also enable news to be broadcasted by using re-tweet mechanism. Reading entries of celebrities having Twitter accounts and sharing pictures may be considered as purposes of Twitter use.

According to results, teens under 18 stated that sharing on Twitter eases their minds and they feel happier when they share their emotions and thoughts. Therefore, it is possible to say that Twitter is an appropriate platform for teens to express themselves. Teens under 18 years old being interested in this channel also give the clue that they will show more interest in that channel in future.

In research, it has been observed that women share more entries, feel relieved psychologically and use re-tweet mechanism more than men and spend more time on Twitter than Facebook. This data especially points out that campaigns and advertisements for women may have higher possibility to become popular.

Time spent by teens in social media called Twitter and the way of using of this social media network showed that popularity of this network has increased in social media. Increasing number of Twitter users in Turkey also enhances the influence potential of the channel as a communication channel on a lot of subject from politics to advertisement. Especially, the great interest shown by teens in this channel and teens living great part of their lives with this channel, sharing their political and social ideas through this channel instead of traditional media play significant role in alteration of social dynamics. When viewed from this aspect, Twitter has a great importance for politicians, educators, advertisers, traditional media brands and everyone we can ever imagine in order to figure out future role determinants, teens. Everyone who would like to communicate with new generation and improve future strategies with new net generation should develop new communication models towards this channel.
References


A Reconsideration of the Inflation and Inflation Uncertainty Relationship for the Turkish Economy: New Evidence from the 2003-2014 Period

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Abstract

In this paper, the relationship between inflation and inflation uncertainty in the Turkish economy is tried to be investigated using contemporaneous Exponential GARCH (EGARCH) estimation methodology. Our findings indicate that inflation leads to inflation uncertainty. Causality analysis between inflation and inflation uncertainty reveals that inflation Granger-causes, or in other words, precedes inflation uncertainty, but no clear-cut and significant evidence in the opposite direction can be obtained. Furthermore, generalized impulse response analysis estimated in a vector autoregressive framework yields supportive results to these findings.

Keywords: Inflation; Inflation Uncertainty, Turkish Economy.

Introduction

One of the mostly popular empirical issues of interest in applied papers of economists today is the inflation and uncertainty relationship. Considering a monetary policy perspective, the researchers following the developments in time series econometrics are able to obtain more economic inferences that lead them to obtain policy inferences dealing with various aspects of inflation phenomena. Indeed, the uncertainty components relating to the inflation tend to affect expectations for the decision making process of economic agents and in turn reflect to the economic behaviors of people shaped by insights as to what will happen in the future course of the aggregate economic activity. As emphasized by Okun (1971), linking inflation and inflation uncertainty in a positive manner, this relationship reveals the extent of the information content of the inflation uncertainty and helps us to estimate the direction of the causality between inflation and its uncertainty. Friedman (1977) in his Nobel Lecture states that high inflation rates would not likely to be steady especially during the transition decades, and the higher the inflation the more variable it is likely to be since it distorts relative prices and financial contracts which have been adjusted to a long-term “normal” price level. All these would be resulted in additional uncertainties in the economy and lead economic agents to be curious about how long it will take that policy makers try to disinflate the economy, and therefore, to bear the costs of disinflation readily. Given the presence of these types of doubts in the economy, the volume of investment and the aggregate output growth would naturally tend to be negatively influenced, that is to say, the larger the volatility of inflation and the greater the uncertainties about when and how policy authorities decide to intervene for price stability purposes, and also the lower the real income growth capacity of the economy. According to Friedman, a possible outcome of such a process would be the increasing unemployment level as well as the political unrest making the society to be polarized.

Supporting the arguments put forward by Friedman (1977), Ball and Cecchetti (1990) find that inflation has really significant effects on its uncertainty at long horizons with substantial costs due to the increased risks for individuals who have nominal contracts between themselves and these effects would be resulted in variation in policy behavior reacting to inflation and destabilize output growth. Furthermore, Ball (1992) employing an asymmetric game perspective among monetary authorities and the decision making process of the economic agents formalizes the view of Friedman in the sense that low levels of inflation would be coincided with the policy behavior of monetary authorities to keep inflation at these levels that give rise to...
low inflation uncertainty, as well. However, the public would be more uncertain the higher the level and variability of inflation, as to when policy makers decide to implementing a stabilization policy to fight inflation. In this case, an information problem stemmed from activating policy would be the length of the time lags to that the stabilization policies have been subject in achieving policy consequences consistent with a priori expectations of the policy makers.

On the other side, Cukierman and Meltzer (1986) and Cukierman (1992) follow the approach proposed by Barro and Gordon (1983) and try to examine the causal relationship between inflation and inflation uncertainty in an opposite way. Since governments have different objectives determined stochastically over time that lead to a trade-off between expanding output by making monetary surprises and keeping inflation at low levels, choices of policy makers in favor of creating monetary surprises to stimulate economic growth would likely to be resulted in higher money growth rates and inflation than the expectations of economic agents conditioned upon past realizations in line with some form of adaptive expectations. Following Fountas et al. (2002), of course, it is possible to assume in a different way that if increasing uncertainty has been perceived by the policy makers so much detrimental resulted in real costs, inflation uncertainty can in this case can direct policy makers to applying to a tight monetary policy to lower average inflation so that they are more likely to achieve their commitment to long-run price stability.

Many papers in the contemporaneous economics literature try to examine the relationships and the direction of causality between inflation and inflation uncertainty and yield in general supportive evidence to the Friedman-Ball approach for various country cases. Among many others, Holland (1995) using post-war US data estimates that an increase in inflation precedes an increase in its uncertainty resulted in some welfare cost for the whole society. Grier and Perry (1998) employing data from the G7-countries find that inflation in general tends to raise its uncertainty, however, some mixed results are obtained for a reverse causal relationship in the sense that increased inflation uncertainty lowers inflation in the US, UK and Germany and raises inflation in Japan and France. Estimation results in Fountas (2001) and Kontonikas (2004) using the UK data demonstrate that inflationary periods are in fact associated with larger inflation uncertainty. Daal et al. (2005) using data from various country cases inclusive of both developed and emerging market economies find that positive inflationary shocks strongly affect inflation uncertainty in a positive manner, but the effects of inflation uncertainty on inflation seem to be varying and are highly sensitive to the country cases considered. For the Turkish economy, Nas and Perry (2000), Neyapti and Kaya (2001), Akyazi and Artan (2004), Özer and Türekyilmaz (2005), Saatçıoğlu and Korap (2009) and Korap (2011) provide further evidence in support of Friedman’s hypothesis that inflation leads to more uncertainty.

In this paper, the causal relationships between inflation and inflation uncertainty in the Turkish economy are tried to be re-examined by applying to the widely-used EGARCH (exponential generalized autoregressive conditional heteroskedasticity) estimation methodology which enables us to extract more information content as for the volatility pattern of the economic and financial time series. The next section describes data and briefly highlights the methodological issues used in the model estimation. The third section is devoted to estimating EGARCH modeling for the Turkish economy and section 4 implements causality tests between inflation and its uncertainty. The last section summarizes results to conclude the paper.

**Preliminary Data and Methodological Issues**

The data used consider monthly frequency observations and cover the period from 2003M01 to 2014M04. The inflation data \((INF)\) are calculated as \(\left(\frac{(CPI-CPI(-1))}{CPI(-1)}\right)\) in its linear form using 2003: 100 based consumer price index (CPI) taken from the electronic data delivery system of the Central Bank of the Republic of Turkey (http://evds.tcmb.gov.tr/cbt.html). Following the seminal paper of Engle (1982), autoregressive conditional heteroskedastic (ARCH) models and their extended version proposed by Bollerslev (1986) as generalized ARCH models have become highly popular in the economics literature to model the conditional volatility in high frequency financial and economic time series. In this paper, to construct the proxy variable for inflation uncertainty, we follow the EGARCH methodology proposed by Nelson (1991), and then try to analyze the causal relationships between inflation and inflation uncertainty by employing causality / precedence tests in a Granger sense as well as by estimating some contemporaneous vector autoregressive (VAR) estimation techniques that involve inflation and inflation uncertainty. For these purposes, let us first define the mean and variance equations.
\[
INF_t = GARCH_t + c + \sum_{i=1}^{p} \alpha_i INF_{t-i} + \sum_{i=2}^{12} SEASONAL_i + \varepsilon_t
\]  
\[
\log(\sigma^2_t) = \sigma_0 + \sum_{k=1}^{r} \beta_k \log(\sigma_{t-k}^2) + \sum_{l=1}^{t} \eta_l \left| (\varepsilon_{t-l}/\sigma_{t-l}) \right| + \sum_{m=1}^{l} \gamma_m \left[ (\varepsilon_{t-m}/\sigma_{t-m}) \right]
\]

where \( INF_t \) is the monthly inflation rate considered in the paper for which the autoregressive order is determined through conventional model selection information criteria and \( SEASONAL_t \) represents 11 monthly dummies to account for seasonality in the data. Following Engle et al. (1987), the \( GARCH_t \) term introduces the conditional variance into the mean equation to influence the conditional mean. \( \varepsilon_t \) is the white-noise error term produced in the mean equation and \( \sigma^2_t \) gives the one period ahead forecast variance based on past information and is called the conditional variance so that the leverage effect allowing the variance to respond differently following equal magnitude negative or positive shocks is exponential, rather than quadratic, and that forecasts of the conditional variance are guaranteed to be nonnegative. The impact will be asymmetric if \( \gamma_m \neq 0 \). If \( [ (\varepsilon_{t-m}/\sigma_{t-m}) ] \) is positive, the effect of the shock on the log of the conditional variance is expected to be \( (\eta + \gamma) \), and if \( [ (\varepsilon_{t-m}/\sigma_{t-m}) ] \) is negative, the effect of the shock on the log of the conditional variance is expected to be \( (\eta - \gamma) \) (Enders, 2004). To deal with potential model misspecification and to consider the possibility that the residuals of the model are not conditionally normally distributed, we have calculated robust \( t \)-ratios using the quasi maximum likelihood method suggested by Bollerslev and Wooldridge (1992) so that parameter estimates will be unchanged but the estimated covariance matrix will be altered. We present the time series graph of the monthly CPI based inflation in Figure 1 and the descriptive statistics of the inflation in Table 1:

**Fig 1.** The Time Series Graph of the CPI-based Inflation (%)

<table>
<thead>
<tr>
<th>Series: ( INF_t )</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sample</strong> 2003M02 2004M04</td>
</tr>
<tr>
<td><strong>Observations</strong> 259</td>
</tr>
<tr>
<td><strong>p-value</strong></td>
</tr>
<tr>
<td><strong>Mean</strong></td>
</tr>
<tr>
<td><strong>Median</strong></td>
</tr>
<tr>
<td><strong>Maximum</strong></td>
</tr>
<tr>
<td><strong>Minimum</strong></td>
</tr>
<tr>
<td><strong>Std. Dev.</strong></td>
</tr>
</tbody>
</table>

Figure 1 indicates the highly volatile characteristic of the Turkish inflation inside the investigation period. Table 1 also presents the descriptive statistics for the Turkish monthly consumer inflation. It is highly crucial for empirical investigation purposes to examine whether the series used is stationary, since working with a non-stationary time series produces superior estimation results with an unbounded variance.
process. Therefore, we test this issue below by employing conventional augmented Dickey-Fuller unit root procedures:

<table>
<thead>
<tr>
<th>ADF Test Statistic</th>
<th>1% cv</th>
<th>5% cv</th>
</tr>
</thead>
<tbody>
<tr>
<td>c</td>
<td>-8.59 (3) *</td>
<td>-3.48</td>
</tr>
<tr>
<td>c&amp;t</td>
<td>-8.56 (3) *</td>
<td>-4.03</td>
</tr>
</tbody>
</table>

In the unit root tests, the terms ‘c’ and ‘c&t’ represent a constant and constant&trend terms that lie in the testing equation, respectively. For the case of stationarity, we expect that the estimated statistics are larger than the critical values in absolute value and that they have a minus sign. The numbers in parentheses are the lags used for the ADF stationary test and augmented up to a maximum of 12 lags due to using monthly observations, for which the optimum lag was decided on the basis of minimizing the Schwarz information criterion, and we add a number of lags sufficient to remove serial correlation in the residuals. ‘*’ means that the data are of stationary form at the 1% significance level. The test statistics indicate that the monthly based inflation data in our empirical analysis are of a stationary form.

**Conditional Volatility Estimates**

Following the preliminary data issues examined in the former section, we now try to estimate the conditional mean and variance equations of the Turkish inflation. Based on the minimized Schwarz information criterion (SC), the autoregressive order of the inflation series in the mean equation is determined to have a AR(4) process. Eq. 1 and Eq. 2 are estimated by the method of maximum likelihood and use Marquardt optimization algorithm as well as quasi-maximum likelihood covariances and standard errors described by Bollerslev and Wooldridge (1992). The results are given in Table 3 below. Consider that for the conditional distribution of the error term $\varepsilon_t$, normal (Gaussian) distribution is assumed.

Any estimation result that the EGARCH parameter, which measures the degree of how persistent is the volatility shocks, takes positive values close to one would mean that the volatility shocks are highly persistent so that conditional variance converges to the steady state quite slowly. In our case, the variance equation indicates a positive and significant EGARCH parameter as can be expected, but its coefficient, i.e. 0.86, is somewhat lower than the unit value. Since the leverage term $\gamma$ is positive and statistically different from zero, the news impact is asymmetric and the conditional variance of the monthly inflation reacts differently to equal magnitudes of negative versus positive shocks. Dealing with diagnostics; that all the Q-statistics are found insignificant means that the mean equation is correctly specified, and that all the squared standardized residuals are found insignificant means that the variance equation is correctly specified. Also, when the variance equation is correctly specified, there should be no ARCH effect left in the standardized residuals. ARCH LM statistics and correlogram-Q statistics estimated for the presence of autocorrelation in the standardized residuals and that the squares of standardized residuals cannot reject the null hypothesis at the conventional levels, therefore, we can infer that there exists no remaining serial correlation in the model.

**Granger Causality and Impulse Response Analyses**

Next, for the temporal ordering between the Turkish inflation and inflation uncertainty, for which the latter is represented by the conditional variance series produced above, we implement the Granger-causality tests. In this manner, we aim to reveal the knowledge of whether the Friedman-Ball hypothesis that requires a causal / precedence relationship running from inflation to its uncertainty, or the Cukierman and Meltzer hypothesis that states a reverse causal relationship running from uncertainty to inflation, or both can be supported by the actual data. The Granger causality between the two variables, say $X$ and $Y$, asks that how much of the current $X$ can be explained by a regression on its past values, and then tries to test whether inclusion of the lagged values of the $Y$ into the regression to explain $X$ have statistical significance as a whole. If so, we can infer that $Y$ helps predict the course of $X$, or in other words, $X$ is Granger-caused by $Y$. More formally, to test the causal relationship between inflation ($INF$) and inflation uncertainty ($INFUNC$), let us write down the bivariate regressions as follows:

$$INF_t = c_0 + \sum_{i=1}^{n} INFUNC_{t-i} + \sum_{i=1}^{n} INF_{t-i} + u_t$$  \hspace{1cm} (4)
\[ INFUNC_t = c_0 + \sum_{i=1}^{n} INFUNC_{t-n} + \sum_{i=1}^{n} INF_{t-n} + u_t \]  \hspace{1cm} (5)

**Table 3. Estimates of the EGARCH Equation**

<table>
<thead>
<tr>
<th>Dependent Variable: INF, Method: ML - ARCH (Marquardt) – Normal Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample (adjusted): 2003M06 2014M04</td>
</tr>
<tr>
<td>Included observations: 131 after adjustments</td>
</tr>
<tr>
<td>Bollerslev-Wooldridge robust standard errors &amp; covariance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Std. Error</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.0106</td>
<td>0.0020</td>
</tr>
<tr>
<td>( \alpha_1 )</td>
<td>0.1216</td>
<td>0.0768</td>
</tr>
<tr>
<td>( \alpha_2 )</td>
<td>-0.1207</td>
<td>0.0692</td>
</tr>
<tr>
<td>( \alpha_3 )</td>
<td>0.0059</td>
<td>0.0624</td>
</tr>
<tr>
<td>( \alpha_4 )</td>
<td>-0.1280</td>
<td>0.0759</td>
</tr>
<tr>
<td>( \text{Seasonal}_2 )</td>
<td>-0.0043</td>
<td>0.0017</td>
</tr>
<tr>
<td>( \text{Seasonal}_3 )</td>
<td>-0.0006</td>
<td>0.0016</td>
</tr>
<tr>
<td>( \text{Seasonal}_4 )</td>
<td>-0.0005</td>
<td>0.0023</td>
</tr>
<tr>
<td>( \text{Seasonal}_5 )</td>
<td>-0.0028</td>
<td>0.0019</td>
</tr>
<tr>
<td>( \text{Seasonal}_6 )</td>
<td>-0.0125</td>
<td>0.0017</td>
</tr>
<tr>
<td>( \text{Seasonal}_7 )</td>
<td>-0.0090</td>
<td>0.0018</td>
</tr>
<tr>
<td>( \text{Seasonal}_8 )</td>
<td>-0.0084</td>
<td>0.0021</td>
</tr>
<tr>
<td>( \text{Seasonal}_9 )</td>
<td>0.0846</td>
<td>0.3794</td>
</tr>
<tr>
<td>( \text{Seasonal}_{10} )</td>
<td>0.0070</td>
<td>0.0023</td>
</tr>
<tr>
<td>( \text{Seasonal}_{11} )</td>
<td>-9.94E-05</td>
<td>0.0026</td>
</tr>
<tr>
<td>( \text{Seasonal}_{12} )</td>
<td>-0.0064</td>
<td>0.0018</td>
</tr>
</tbody>
</table>

**1.1.1.1 Variance Equation**

| \( \sigma \) | -19.608 | 0.7341 | 0.0000 |
| \( \beta \)  | 0.8576  | 0.0681 | 0.0000 |
| \( \eta \)   | 0.1306  | 0.1080 | 0.2266 |
| \( \gamma \) | 0.3480  | 0.0913 | 0.0001 |

| R\(^2\)       | 0.5355  | Mean dep. var. | 0.0067 |
| Adj. R\(^2\)  | 0.4749  | S.D. dep. var. | 0.0078 |
| S.E. of Reg.   | 0.0056  | AIC            | -7.4705 |
| SSR            | 0.0037  | SC             | -7.0315 |
| Log likelihood | 509.31  | HQ             | -7.2921 |
| DW-stat.      | 2.0885  |                 |         |

| Q(1) (prob.)  | 0.1079 (0.743) | Q\(^2\)(1) | 0.9785 (0.323) |
| Q(4) (prob.)  | 1.5316 (0.821) | Q\(^2\)(4) | 4.3051 (0.366) |
| Q(12) (prob.) | 11.318 (0.502) | Q\(^2\)(12) | 16.443 (0.172) |
| ARCH LM(1) F-stat. | 0.9432 | Prob. F(1,128) | 0.3333 |
| ARCH LM(12) F-stat. | 1.0555 | Prob. F(12,106) | 0.4051 |

where \( c_0 \) denotes the constant term in the Granger regressions, \( n \) represents the lag length chosen for causality analysis, which is assumed in principle to correspond to the expectations for the longest time over which variables could predict the others, and \( \alpha_t \) and \( u_t \) are assumed as white-noise error terms in the regressions. Note that the null hypothesis in Eq. 4 is that the lags of \( INFUNC_t \) are not significant as a whole, that is to say, \( INFUNC_t \) does not Granger-cause \( INF_t \). Likewise, the null hypothesis in Eq. 5 is that the lags of \( INF_t \) have no statistical significance in explaining \( INFUNC_t \), which also means that \( INF_t \) does not Granger-cause \( INFUNC_t \). By employing \( F \)-type Wald tests, the results of pairwise Granger causality analysis which are applied on the joint significance of the sum of lags of each explanatory variable are
reported below. Following Nas and Perry (2000) and Daal et al. (2005), since Granger causality tests initially indicate the temporal ordering or precedence relationship between each variable but do not reveal the sign of this relationship, we also give below the sign of the sum of the coefficients taken from each Granger equation to determine whether the Granger causality, if estimated, is in the positive or negative way. For this purpose, various lag lengths are considered to see whether the estimation results are sensitive to the \textit{a priori} lag selection:

\textbf{Table 4:} Granger Causality Tests for Inflation and Inflation Uncertainty

<table>
<thead>
<tr>
<th>Lag</th>
<th>$H_0$: \textit{INF} does not Granger-cause \textit{INFUNC}</th>
<th>$H_0$: \textit{INFUNC} does not Granger-cause \textit{INF}</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>19.9552\textsuperscript* (+)</td>
<td>1.5931 (+)</td>
</tr>
<tr>
<td>6</td>
<td>10.8176\textsuperscript* (+)</td>
<td>0.4138 (+)</td>
</tr>
<tr>
<td>12</td>
<td>5.3844\textsuperscript* (+)</td>
<td>2.0825\textsuperscript** (+)</td>
</tr>
<tr>
<td>18</td>
<td>5.3457\textsuperscript* (+)</td>
<td>1.5989\textsuperscript*** (+)</td>
</tr>
<tr>
<td>24</td>
<td>4.9516\textsuperscript* (+)</td>
<td>1.3602 (+)</td>
</tr>
</tbody>
</table>

The statistics in Table 4 belong to the $F$-type Wald tests. The asterisks *, **, and *** indicate significance at the 0.01, 0.05 and 0.10 levels, respectively. The signs (+) and (−) are used for the process by which the sum of the coefficients of Granger equation yields a positive or negative sign, respectively. In Tab. 4, we can easily notice that the null hypothesis that inflation does not Granger-cause inflation uncertainty is rejected at the 0.01 significance level, no matter how long the lag length is. In other words, we find that inflation does precede the course of the inflation uncertainty. When the sign of the sum of the coefficients given in parentheses are examined, the total effect of inflation on inflation uncertainty turns out to be positive, a result that supports what the Friedman-Ball hypothesis adduces. However, no clear-cut evidence in the opposite direction can be found. The hypothesis that inflation uncertainty Granger-causes inflation cannot be rejected for only three of the five lag lengths considered in the causality analysis. But, we can infer that the larger the time period, the more significant in a statistical sense is the causal relationship running from the inflation uncertainty to the level of inflation. The sum of the coefficients in all lag lengths in this case turns out to be negative, which means that increased uncertainty in inflation tends to precede a decline in the level of inflation. Holland (1995) explains as a possible reason of this case that an increase in inflation uncertainty can be viewed by policymakers as costly, so induces them to fight inflation to reduce it in the future. Nas and Perry (2000) also touches upon the issue that inflation and associated uncertainty create real costs, which lead policy authorities to monetary tightening stabilization efforts to lower inflation. To further control the direction of the relationship between inflation and its uncertainty, we apply to the generalized impulse response (GIR) analysis proposed by Koop et al. (1996) for non-linear dynamic systems and further developed by Pesaran and Shin (1998) for linear multivariate models. The generalized impulse response estimates of the inflation and inflation uncertainty using 2000 Monte Carlo repetitions of ±2 standard deviations (s.d.) are reported below:

\textbf{Fig 2.} GIR Analysis of Inflation & Inflation Uncertainty
Briefly to say, we can consider the impulse response functions as the path whereby the variables return to their equilibrium values (Green, 2000), if so, also supporting their stationary characteristics. The GIR analysis can be considered an alternative to orthogonalized impulse responses. The GIRs which take account of the historical patterns of correlations observed among different shocks provide researchers to be invariant to the ordering of the variables in the system. For this purpose, we construct initially an unrestricted VAR(12) system. Using the maximum lag length 12 for the monthly frequency data, the minimized Schwarz information criterion statistics suggest to use the lag order 2 for the unrestricted VAR model. Furthermore, the largest root of the characteristic polynomial for the VAR model is 0.816076, therefore it satisfies the VAR stability condition that enables us to implement impulse response analysis for the dynamic interactions between the variables. Note that statistical significance of the impulse response functions coincides also with the case that the upper and lower confidence bands carry the same sign. In Figure 2, we find that both inflation responds in a statistically significant way to their own shocks. This is not surprising in a chronic-high inflationary country which can be expected, to the great extent, to have been subject to the price inertia phenomenon. When we consider the dynamic interactions between inflation and its uncertainty, we observe that a one s.d. positive shock to the inflation leads to a significant increase in inflation uncertainty in the second and fourth period following the shock. Given the symmetric nature of impulse responses, we can infer that a decrease in inflation would also lead to a decrease in the associated uncertainty. On the other side, however, we are unable to find an explicit significant impact of inflation uncertainty on inflation. Finally we also report the accumulated impulse responses estimates below:

The results are in line with the above findings, and we observe a positive and significant unidirectional interaction running from inflation to inflation uncertainty. These all give support to the Friedman-Ball hypothesis considered in the former sections.

**Concluding Remarks**

In this paper, we try to investigate one of the main properties of inflation, that is, whether there exists any preceding / causal relationship between inflation and inflation uncertainty. Our estimation results indicate that inflation in fact leads to inflation uncertainty in line with the Friedman-Ball hypothesis. The causality analysis reveals that inflation Granger causes, or in other words precedes, inflation uncertainty, but no clear-cut evidence in the opposite direction in a statistically significant way can be found. Finally, these findings have also been supported by the generalized impulse response analysis. Complementary future papers should be constructed to examine the effects of transition to an explicit-inflation targeting framework on the inflation-inflation uncertainty relationship.

**References**


The Role of Meeting Space Capacity on the Hotel Performance Measures

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Abstract

There has been a tremendous growth in the meeting, incentives, convention and exhibition (MICE) business in the last two decades. The observed growth in the MICE business led to substantial economic contributions to host destinations. The economic contribution of MICE business extends beyond tax receipts, and leads to employment and revenues in various economic sectors. Hospitality and tourism industries are two of the industries that benefit directly from MICE business. Particularly, the hotel segment is the one that is influenced by the size and scope of MICE market. Hotel properties are the ones who realize the most direct gains from the MICE business by virtue of selling higher number of rooms and generating greater revenue from other sources such as food and beverage, spa, golf, parking etc. Literature pertaining to MICE business is extensive and covers a wide variety of sub-domains. The majority of this area of research attempts to focus on the economic significance of the meetings and conventions on destinations (Baloglu & Love, 2005; Chen, 2006; Davidson, 2003) and site selection criteria for meeting and conventions (Chacko & Fenich, 2000; Clark & McCleary, 1995; Fortin & Ritchie, 1977). However, MICE literature remains silent about whether hotels that have extensive meeting facilities derive economic benefits by virtue of charging higher room rates or generating greater Revenue per Available Room (RevPAR) compared to other hotels. This is an important question for present and future hoteliers who are trying to first determine whether they should have meeting facilities. If they do, how much space should be allocated to meeting facilities? Is more better? This study sets out to answer this question by looking at the relationship between meeting space and room revenue. The current work departs from previous research stream, which looks at the macro-level contribution of MICE business on local economies by focusing on operating performance of individual hotels that have meeting and convention business capacity. In particular, the current paper investigates the impact of property-level meeting/function space on hotels’ occupancy level, average daily rate (ADR) and revenue per available room (RevPAR). In that regard, the study offers a more fine-grained explanation of how availability of meeting space influences operating performance. In addition, the study investigates whether the relationship between meeting space and operating performance is linear or not. The arguments raised in the study are tested through the lens of resource-based theory, the concept of competitive advantage and overoptimism theory. As a consequence, this paper contributes to extant tourism literature by showing how internal resources such as meeting space effect operating performance of hotels. Data of the study come from Smith Travel Research (STR) Global. The large dataset maintained by STR consists of monthly property level hotel data for the 2007-2012 period. Initial dataset included 30,487 hotel properties across 9 regions of the United States. Hypotheses of the study are tested via two-way cluster regression analysis. The preliminary findings of the study suggest that little meeting/function space is no good for lodging firms’ operating performance measures (occupancy, RevPAR, ADR), and all three performance indicators are negatively related to meeting space capacity. However, after a certain quantity is achieved in meeting space, lodging firms start to enjoy improvements on these traditional hotel performance indicators. As a further insight, findings of the study suggest that too much meeting space might also be detrimental for the performance measures as too much meeting space may cause an underutilization problem.

Keywords: Hotels, Meeting Space, Performance, Occupancy, RevPAR, ADR.
Individual and Organizational Antecedents of Safety Behaviors and their Relationships with Occupational Accidents: An Empirical Research on Blue-Collar Workers

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Abstract
This study aims to investigate the individual and organizational antecedents of safety behaviors and their relationships with occupational accidents in the workplaces. However, this study aims to determine the mediating role played by positive and negative affect in the relationships between personality traits and safety behaviors. In the literature, studies suggest that individual and organizational factors lead employees to exhibit safety behaviors. Accordingly, within the scope of the study, personality traits, positive and negative affect and safety management practices are considered important precursors of safety behaviors. Therefore, data collected from 152 blue-collar workers using the survey method was analysed. In this respect, confirmatory factor analysis, descriptive statistics, structural equation modelling and independent samples t-tests applied to the data obtained from blue-collar workers. The results of the study indicate that personality traits, positive affect and safety management practices have significant effects on blue-collar workers safety behaviors. However, it was found that positive affect had a partial mediating effect on the relationship between personality trait and safety behaviors. In addition to these findings, it was revealed that employee’s personality traits such as conscientiousness and extraversion, positive affect levels, safety management practices awareness and safety behavior levels differ according to whether they have had an occupational accident or not.

Keywords: Personality, Positive Affect, Negative Affect, Safety Behaviors, Blue-Collar Workers, Occupational Accidents

Introduction
In recent years, due to the considerable increases in incidents and injuries occur at work and deaths from occupational accidents rises, organizations try to improve workplace safety more than ever (Hogan and Foster, 2013: 20). Workplace safety is considered as a constant concern for organizations because of the occupational injury and fatality statistics across the globe. For example, it is estimated that in 1998, there were over 350,000 fatal and 264 million nonfatal occupational accidents in the worldwide (Postlethwaite et al., 2009: 711). In 2003, International Labour Organization (ILO) suggested that 270 million employees are injured worldwide every year and 160 million of them are affected by occupational illnesses (Prati and Pietrantoni, 2012: 405). However, 4 million nonfatal occupational injuries and illnesses were reported in 2007 (Tucker, 2010: 1). In addition, it is asserted that there were 3.28 million nonfatal occupational injuries and illnesses emerged in 2009, which are the lowest numbers since 2003 (Buck, 2011: 1). Even though, these figures have decreased gradually, it is estimated that two million people die every year due to occupational diseases and occupational accidents, and approximately 100 million people exposed to occupational injuries worldwide every year (Kanten, 2013: 173). On the other hand, it is suggested that approximately 40% of such occupational accidents and injuries are arisen due to the absence of safety management practices or failure of implementation of these practices (Zohar and Luria, 2003: 567; Probst et al., 2013: 124). However, researchers suggested that human factor and unsafe behaviors of employees are considered as one of the most important sources of injuries and accidents when compared to the other factors (Mullen, 2004: 275; Bottani et al., 2009: 155; Cui et al., 2013: 37; Zhang and Wu, 2014: 24). For example, it is believed that 60% to 80% of workplace accidents are caused by human errors and employees’ unsafe behaviors (Hogan and Foster, 2013: 20).

Unsafe work behavior is a significant contributor to occupational accidents and injuries in workplaces. In the literature, it is accepted that the majority of the occupational accidents and injuries occur as a result of unsafe behaviors of the employees (Sadullah and Kanten, 2009: 924). Therefore, due to the recognized
significance of unsafe work behavior that cause accidents and injuries in workplaces, researchers have begun to identify the antecedents of these behaviors (Dahl et al., 2014: 23). It is pointed out that safe/unsafe behaviors of employees are affected by some organizational and individual factors (Burke, 2011: 16). In other words, it is needed to consider organizational and individual components together, which possibly influence the safety behaviors of the employees (Mullen, 2004: 276). Accordingly, researchers indicated that individual traits such as personality or attitudes associated with employees have a tendency to behave in a safe or unsafe manner. However, they have suggested that some organizational factors like safety climate and management practices as determinant of employees to behave in a safety manner (Neal and Griffin, 2006: 946; Probst et al., 2013: 124). In addition to this, Dahl et al (2014) asserted that demographic characteristics as age and safety rules/procedures related with employees’ safety behaviors (Dahl et al., 2014: 35). Therefore, it can be said that some individual and organizational antecedents lead employees to behave in a safe or unsafe manner. In this study, big five personality traits and positive and negative affect are investigated in the scope of the individual antecedents. On the other hand safety management practices are evaluated in the extent of the organizational antecedents. In this context, this study aims to determine individual and organizational antecedents of the safety behaviors of blue-collar workers and their relationships with occupational accidents.

Theoretical Framework and Hypotheses Development

Individual Antecedents of Safety Behaviors

Safety behavior is defined as employees’ overt or covert avoidance of feared and undesirable outcomes which are carried out within a specific situation (Rachman et al., 2008: 163). Safety behaviors refer to the core activities that individuals need to perform to maintain workplace safety, and safety participation in organizational processes (Martínez-Córcoles et al., 2011: 1119). These behaviors are considered as a crucial component due to the economic and social implications on both individuals and organizations in today’s working conditions (Brown et al., 2000: 445). Therefore, it is important to determine the preventive components or identification of factors that contribute to the promotion of health and safety behaviors (Fugas et al., 2012: 469). Among the predictors of safety behaviors, individual dimension is considered as one of the key factors that lead employees to behave in a safe or unsafe manner (Prati and Pietrantoni, 2012: 406). In other words, it is expected that individual differences in one’s personality, attitudes, and beliefs can influence an employees to behave safely or unsafely (Henning et al., 2009: 338). In the literature, it is indicated that some individual traits such as gender, age, job tenure, and education level and accident proneness can be regarded as antecedents of the safety behaviors of employees (Buck, 2011: 4; Probst et al., 2013: 124). However, researchers indicated that individual attributes, such as personality traits or attitudes are associated with employees to behave in an unsafe manner (Moen, 2007: 849; Neal and Griffin, 2006: 946). Hogan and Foster (2013) suggested that employees who are calm, tempered, compliant, planful, self-controlled, react and well to change have a tendency to behave safely in the workplaces. In addition to these, they have found that some affects like emotional stability, anxiety, positive emotions and big five personality traits are related to safety behaviors of the employees (Hogan and Foster, 2013: 34). Wallace and Chen (2006); Postlethwaite et al. (2009) asserted that the employees who have a conscientiousness and cognitive ability exhibit safety behaviors more than others (Wallace and Chen, 2006: 529; Postlethwaite et al., 2009: 715). A study conducted by Hystad and Bye (2013) have shown that personality values, openness to change and personality hardiness influence individuals’ safety behaviors (Hystad and Bye, 2013: 24).

On the other hand, Ucho and Gbande (2012) asserted that employees who have type B personality trait have more willingness to exhibit safety behaviors when compared with the individuals who have type A personality trait (Ucho and Gbande, 2012: 138). However, researchers suggested that employees’ personality traits are significantly related to their safety behaviors. For example, Seibokaite and Endriulaitiene’s (2012) studies have shown that individuals who have an extraversion, agreeableness, conscientiousness and lower levels of neuroticism have fewer tendencies to show risky attitudes (Seibokaite and Endriulaitiene, 2012: 113). Christian et al. (2009) indicated that employees’ extraversion and neuroticism traits lead them to engage in unsafe behaviors while their conscientiousness levels result in safety behavior (Christian et al., 2009: 1105). Moreover, it is indicated that employees who have positive affect they tend to have fewer injuries and accidents, whereas employees with negative affect they are more susceptible to accidents and injuries (Buck, 2011: 44). Accordingly, from this point of view, it is expected
that big five personality traits which consist of extraversion, agreeableness, conscientiousness, neuroticism and openness may influence safety behaviors of employees and also it is expected other crucial individual components like positive and negative affect may influence safety behaviors. On the other hand, it is assumed that positive and negative affect have a mediating role between personality and safety behaviors. In this context, the following hypotheses are proposed:

H1: Personality traits influence safety behaviors of blue-collar workers.

H2: Positive affect influences safety behaviors of blue-collar workers.

H3: Negative affect influences safety behaviors of blue-collar workers.

H4: Personality traits influence positive affect levels of blue-collar workers.

H5: Personality traits influence negative affect levels of blue-collar workers.

H6: Positive affect play a mediating role between personality and safety behaviors.

H7: Negative affect play a mediating role between personality and safety behaviors.

In the literature, it is indicated that the majority of the workplace accidents and injuries emerge from individual differences and behaviors of the employees (Choudhry and Fang, 2008: 567; Postlethwaite et al., 2009: 711). Therefore, it can be said that employees to have potentially experience occupational accident may change based on their individual characteristics such as personality traits and positive/negative affect. Thus, the following hypotheses are proposed:

H8: Blue-collar workers personality traits differ depending on whether they have had an accident or not.

H9: Blue-collar workers positive affect levels differ depending on whether they have had an accident or not.

H10: Blue-collar workers negative affect levels differ depending on whether they have had an accident or not.

**Organizational Antecedents of Safety Behaviors**

Safety behaviors includes safety activities which are in the scope of formal roles and procedures such as using personal protective equipment correctly, properly performing lock-out and tag-out procedures, applying appropriate work practices to reduce exposure to potential hazards and injuries, and following safety policies and procedures (Fugas et al., 2012: 469). Safety behaviors require safe working conditions which should not create considerable risks for individuals to perform their work roles efficiently. In other words, working conditions and organizational characteristics are seen crucial components that contribute to prevent occupational accidents and unsafe behaviors (Kanten, 2013: 174). Accordingly, it can be said that employees to behave in a safe manner depend on organizational factors as well as individual characteristics. In the literature, a significant amount of research has been focused on identifying the organizational antecedents of unsafe behaviors or organizational factors which influence employees to behave safely at work (Mullen, 2004: 275; Dahl et al., 2014: 25). It is seen that majority of these researchers insisted on the relationship between safety climate and safety behaviors. These researchers suggested that safety climate is one of the important antecedents of the safety behaviors (Neal and Griffin, 2006: 952; Sadullah and Kanten, 2009: 926; Tucker, 2010: 39; Lu and Yang, 2011: 339; Prati and Pietrantoni, 2011: 412; Fugas et al., 2012: 475). However, a study conducted by Chen and Chen (2014) have shown that job demand and job resources related with employees’ safety behaviors (Chen and Chen, 2014: 45). Martínez-Córcoles et al. (2011) found that safety climate, safety culture and leadership affect safety behaviors of employees (Martínez-Córcoles et al., 2011: 1125). On the other hand, Seo (2005) asserted that besides perceived safety climate, perceived hazard level, perceived work pressure, perceived risks and perceived barriers can be considered as significant precursors of unsafe/safe behaviors (Seo, 2005: 191-194). In addition to these, safety management practices are considered as other common organizational antecedents of safety behaviors.

Safety management practices are defined as a set of policies, strategies, practices, procedures, roles and functions which are associated with safety in the organizations. According to International Labour Office (ILO), safety management practices defined as “a set of interrelated or interacting elements to establish safety policy and objectives and to achieve those objectives” (Bottani et al., 2009: 155). Safety
management practices are considered as a sub-system of the organizations and are carried out by the organization’s safety management system and its procedures (Vinodkumar, and Bhasi, 2010: 2083). These practices, provides guidance to organizations to manage risks, improve health and safety conditions and facilities control of hazards and risks in the workplaces (Law et al., 2006: 779). Moreover, safety management practices predict the safety performance, occupational accidents and injuries in the organizations (Mearns et al., 2003: 643). Therefore, it is possible to express that safety management practices determine employees to be exposed to a danger or to experience an accident or not also lead employees to behave in a safe or unsafe manner.

Safety management practices are one of the crucial components of organizations, which prevent human errors, hence reduce the probability of the accidents. In other words, these practices play an important role as the guiding principles and provide employees to avoid from accidents and injuries. Furthermore, these practices create awareness on the employees about the hazards and dangers in the workplaces and lead them to act safely (Cheng et al., 2012: 363-364). In the literature, researchers have indicated that safety management practices affect employees’ safety behaviors in organizations (Bottani et al., 2009: 160; Vinodkumar, and Bhasi, 2010: 2090; Lu and Tsai, 2010: 2000; Wachter and Yorio, 2014: 128). Therefore, in this study, it is expected that safety management practices influence the safety behaviors of employees, and also it is expected that their awareness levels of safety management practices may affect them to have experience an accident or not. Thus, following hypotheses are proposed:

H11: Safety management practices influence safety behaviors of blue-collar workers.

H12: Blue-collar workers awareness levels of safety management practices differ depending on whether they have had an accident or not.

H13: Blue-collar workers safe behavior levels differ depending on whether they have had an accident or not.

Figure 1. Research Model

Research Method

Sample and Procedures

The sample of the research was composed of one shipyard and two manufacturing companies which are located in Turkey. The participants of this study consist of 152 employees who have been working as a blue-collar in these firms determined via convenient sampling method. From the 200 questionnaires that were sent out, 160 were returned, representing a response rate of 80%. After the elimination of cases with incomplete data and outliers, 152 questionnaires (76%) were accepted as valid and considered during the evaluation. In this study, questionnaire survey method was used for data collection. Questionnaire form contains four different measures related to research variables.

Measures

Measures used in the questionnaire forms are adapted from the previous studies in the literature. All items were scored using a 5-point Likert-type scale ranging from 1 (strongly disagree) to 5 (strongly agree). However, 7 demographic questions were asked in the questionnaire form. Firstly, all scales were subjected to the exploratory factor analyses to check the dimensions and reliabilities, and then confirmatory factor analyses were applied to all scales.

Big Five Personality Traits: Employee’s personality traits were measured by 25 items from Jani and Han (2013) studies. Example items include “I pay attention to detail”, “I worry about things”. Exploratory factor analysis using principal component analysis with varimax rotation was applied to the adapted scale to
check the dimensions. As a result of the varimax rotation of the data related to the big five personality traits, four items were removed from the analysis due to the factor loadings under 0.50 and five factor solutions were obtained per theoretical structure. Factor loadings of the items ranged from .50 to .84. The Cronbach’s alpha coefficient of the big five personality trait scale items is .90.

**Positive and Negative Affect**: Employee’s positive and negative affect levels were measured with 20 items brief scale developed by Watson et al (1998). Example items include; “I am strong”, “I am nervous”. As a result of the varimax rotation of the data related to the positive and negative affect variables, one item was removed from the analysis due to the factor loadings under 0.50 and two factor solutions were obtained per theoretical structure. Factor loadings of the items ranged from .63 to .86. The Cronbach’s alpha coefficient of the positive and negative affect scale items is .89.

**Safety Management Practices**: Employees safety management practices perceptions were measured by 30 items from Vinodkumar and Bhasi (2010) studies. Example items include; “My company provides sufficient personal protective equipment for the workers”; “My company gives comprehensive training to the employees in workplace health and safety issues”. As a result of the varimax rotation of the data related to the safety management practices, fifteen items were removed from the analysis due to the factor loadings under 0.50 and four factor solutions were obtained per theoretical structure. Factor loadings of the items ranged from .58 to .83. The Cronbach’s alpha coefficient of the safety management practices scale items is .92.

**Safe Behaviors**: Employees safe behaviors were measured with 6 items from Seo (2005) study. Example items include; “I follow all safety rules”, “I clean my work area when I am finished doing a task”. As a result of the data related to the safety behaviors variables, one factor solutions was obtained per theoretical structure. Factor loadings of the items ranged from .79 to .87. The Cronbach’s alpha coefficient of the safe behaviors scale items is .91.

After the exploratory factor analyses, confirmatory factor analysis was conducted by Lisrel 8.80 for all scales. Goodness of fit indexes is presented in Table 1. It can be seen that all of the fit indexes fall within the acceptable ranges (Meydan and Şeşen, 2011: 35).

**Table 1. Goodness of Fit Indexes of the Scales**

<table>
<thead>
<tr>
<th>Variables</th>
<th>$\chi^2$</th>
<th>df</th>
<th>$\chi^2$/df</th>
<th>GFI</th>
<th>AGFI</th>
<th>CFI</th>
<th>NFI</th>
<th>NNFI</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big Five Personality Traits</td>
<td>231.75</td>
<td>124</td>
<td>1.86</td>
<td>0.85</td>
<td>0.80</td>
<td>0.96</td>
<td>0.93</td>
<td>0.95</td>
<td>0.076</td>
</tr>
<tr>
<td>Positive and Negative Affect</td>
<td>136.18</td>
<td>73</td>
<td>1.86</td>
<td>0.87</td>
<td>0.82</td>
<td>0.96</td>
<td>0.93</td>
<td>0.95</td>
<td>0.076</td>
</tr>
<tr>
<td>Safety Management Practices</td>
<td>113.45</td>
<td>57</td>
<td>1.99</td>
<td>0.88</td>
<td>0.81</td>
<td>0.97</td>
<td>0.95</td>
<td>0.96</td>
<td>0.080</td>
</tr>
<tr>
<td>Safety Behaviors</td>
<td>9.45</td>
<td>7</td>
<td>1.34</td>
<td>0.98</td>
<td>0.94</td>
<td>1.00</td>
<td>0.99</td>
<td>0.99</td>
<td>0.048</td>
</tr>
</tbody>
</table>

**Data Analysis**

SPSS for Windows 20.0 and Lisrel 8.80 programs were used to analyze the obtained data. In the first step, exploratory and confirmatory factor analyses were conducted for all scales. Then, respondent profiles and descriptive statistics like means, standard deviations, independent samples t-tests and a Pearson correlation analysis of the study variables were examined. Finally, structural equation modelling (SEM) was used to conduct a test of the variables within the hypothesized model in order to examine the extent to which they were consistent with the data.

**Research Findings**

**Respondent Profile**

93% of employees were male and 7% were female. Majority of the employees (71%) were between the ages 26-43, and 22% of them older than 44, whereas 7% of them were under 26. In terms of education level, 50% had a primary school education, 31% of them had high school (lycee) education, 11% of them had vocational school and 8% of the respondents had a bachelor’s degree. In terms of the duration of their employment within the same establishments, 58% of the employees had been employed for 5 years or more, 38% for 1-5 years and 4% less than one years. However, 33% of the employees reported that they had exposed to occupational hazards and dangers, while 27% reported that they had experienced
occupational accidents. In addition to these, 58% of the employees reported that they had an outpatient treatment, 39% of them absence from work due to the injuries and 3% of them had a severe injuries.

Measurement Results

For verification, the two-step model approach by Anderson and Gerbing (1998) has been used. According to this approach, prior to testing the hypothesized structural model, first the research model needs to be tested to reach a sufficient fit index quality. After obtaining acceptable indexes, it can be proceed with the structural model. The results suggested a good fit between the measurement model and the data. The results of the measurement model are: $x^2$: 2175.35; df: 1206; $x^2$/df: 1.80; RMSEA: 0.073; IFI: 0.94; CFI: 0.94; NFI: 0.94; NNFI: 0.90. These values indicate that measurement model has been acceptable (Schermelleh-Engel et. al., 2003: 52).

Descriptive Analysis

Correlations, standard deviations and means have been computed which are related with personality traits, positive and negative affect, safety management practices and safety behaviors. These figures are provided in Table 2.

<table>
<thead>
<tr>
<th>Table 2. Means, Standard Deviations and Correlations of the Study Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variables</td>
</tr>
<tr>
<td>Personality Traits</td>
</tr>
<tr>
<td>Positive Affect</td>
</tr>
<tr>
<td>Negative Affect</td>
</tr>
<tr>
<td>Safety Management Practices</td>
</tr>
<tr>
<td>Safety Behaviors</td>
</tr>
</tbody>
</table>

**p<0.01

Test of Structural Model

The structural equation model was applied to verify hypotheses for the causal relationships in the research model. The results of the structural equation model were; $x^2$: 701.66; df: 365; $x^2$/df: 1.92; RMSEA: 0.078; CFI: 0.95; IFI: 0.95; NNFI: 0.94; NFI: 0.90. These results indicate that structural model has been acceptable (Schermelleh-Engel et al., 2003: 52; Meydan and Şeşen, 2011: 37).

prs: Personality; posaf: Positive Affect; negaf: Negative Affect; sftmng: Safety Management Practices; sftbhr: Safety Behavior

According to the results of structural equation model, the path parameter and significance levels show that personality traits have positive and significant effect ($\gamma=0.88$; $t$-value=3.80) on employees’ safety behaviors so H1 hypothesis was supported. However, employees positive affect levels have a negative and significant effect ($\beta=-0.43$; $t$-value=-2.19) on their safety behaviors, whereas their negative affect levels have no significant effects on safety behaviors. Thus, H2 hypothesis was supported, while H3 hypothesis was not supported. Therefore, it is possible to express that blue-collar workers safety behaviors were affected by...
their personality traits and their positive affect levels. Moreover, it has been found that personality traits have positive and significant effect ($\gamma=0.88$; t-value=7.18) on employees' positive affect levels so H4 hypothesis was supported, whereas personality traits have no significant effect on employees' negative affect levels, thus H5 was not supported. In addition to these, structural equation model test for this study showed that positive and negative affect were a mediator variable between personality traits and safety behaviors. In this regard, SEM tested in accordance with the Baron and Kenny (1986) approach. According to this approach, there is a significant relationship between the independent variable and the dependent variable (personality traits–safety behavior); there is a significant relationship between the independent variable and the mediator variable (personality traits- positive affect) and (personality traits-negative affect); there is a significant relationship between the dependent variable and the mediator variable (safety behaviors–positive and negative affect) (Baron and Kenny, 1986).

The results from the structural equation model revealed that positive affect has a partially mediator role between the relationships of personality traits and safety behaviors so H6 hypothesis was supported. These results indicate that blue-collar workers personality traits influence their safety behaviors but if they possess a positive affect at the same time, their safety behavior levels were affected negatively. In other words, employees positive affect levels decrease to their safety behaviors. On the other hand due to the negative affect has no significant effect on safety behavior and personality has no impact on this variable, the mediating effect of negative affect was not questioned and H7 hypothesis was not supported. Moreover, the structural equation model showed that safety management practices have positive and significant effect on ($\gamma=0.28$; t-value=2.47) employees safety behaviors hence H11 hypothesis was supported. In this context, it can be said that blue-collar workers safety behaviors were affected by the safety management policies and procedures which are carried out in the organization.

**Independent Samples T-Test**

Independent samples t-tests were applied to determine employees personality traits, positive and negative affect levels, safety management practices awareness and safety behavior levels differ according to whether they have had an occupational accident or not in the workplaces.

<table>
<thead>
<tr>
<th></th>
<th>Experienced occupational accident in this organization</th>
<th>Mean</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conscientiousness</td>
<td>Yes</td>
<td>3.76</td>
<td>-2.081</td>
<td>.040*</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>4.13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neuroticism</td>
<td>Yes</td>
<td>2.89</td>
<td>-1.734</td>
<td>.086</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>3.27</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Openness</td>
<td>Yes</td>
<td>3.72</td>
<td>-1.923</td>
<td>.057</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>4.10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extraversion</td>
<td>Yes</td>
<td>3.34</td>
<td>-3.009</td>
<td>.003*</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>4.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agreeableness</td>
<td>Yes</td>
<td>3.35</td>
<td>-1.468</td>
<td>.145</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>3.62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Positive Affect Levels</td>
<td>Yes</td>
<td>3.58</td>
<td>-3.334</td>
<td>.001*</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>4.13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negative Affect Levels</td>
<td>Yes</td>
<td>2.44</td>
<td>-1.718</td>
<td>.475</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>2.61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety Management Practices Awareness</td>
<td>Yes</td>
<td>3.39</td>
<td>-3.971</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>4.00</td>
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<tr>
<td>Safety Behavior Levels</td>
<td>Yes</td>
<td>3.88</td>
<td>-2.002</td>
<td>.048*</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>4.23</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* $p<0.05$

According to the results of the independent samples t test, the significance levels show that some of the personality traits of employees such as extraversion and conscientiousness differ on whether they have had
Maintain and carry out safety policies or procedures to acquire safe condition and to provide employees to managers need to consider these traits during the recruitment process. In addition to these, they have to behaviors. Due to the importance of individual characteristics on safety behaviors, organizations or highlighting the effect of individual factors such as personality and positive affect on employees' safety. Furthermore, the most important contribution of this article is to the managers and organizations, since it is occupational accidents together. Therefore, this study aims to add several contributions to literature by there is not any research existing literature yet investigating the relationships among personality trait, antecedents of safety behaviors in manufacturing, construction, shipyard and airline enterprises. In fact, show safe behaviors and to experience an accident. In the literature, there are some studies indicating the positive affect levels and safety management practices have crucial impacts on employees to experience an accident. These results also same with the previous studies (Bottani et al., 2009; Vinodkumar, and Bhasi, 2010; Lu and Tsai, 2010; Wachter and Yorio, 2014) in the literature. Moreover, it is seen that employees positive affect levels effect them to have experience an accident or not, whereas their negative affect level has no effect on safety behaviors. Moreover, positive affect has a partially mediator role between the relationships of personality traits and safety behaviors. Therefore, it is possible to express that employees safety behaviors are affected negatively by their positive affect levels. On the other hand, it is possible to express that some personality traits of the employees such as extraversion and conscientiousness have impact on them to have experience an accident or not. In other words, employees who have extraversion and conscientiousness traits are less prone to have experience an accident than others. These results are consistent with the previous studies like Seibokaite and Endriulaitiene (2012) Wallace and Chen (2006); Postlethwaite et al. (2009) in the literature. Moreover, it is seen that employees positive affect levels effect them to have experience an accident or not, while their negative affect levels have no effect on them to experience an accident or not. Thus, employees whether have an accident or not differs them to possess a positive affectivity. These results are supported by the studies of (Buck, 2012) and (Hogan and Foster, 2013).

In this study, from the organizational antecedents’ perspective, it has been found that safety management practices have positive and significant effects on the safety behaviors of employees. However, it can be said that employees’ awareness levels of safety management practices affect them to experience an accident or not. Employees, who have more awareness’ of safety management practices, may have less to experience an accident. These results also same with the previous studies (Bottani et al., 2009; Vinodkumar, and Bhasi, 2010; Lu and Tsai, 2010; Wachter and Yorio, 2014) in the literature. In addition to these, employees who exhibit safety behaviors in organizations, also have less probability to have an accident compared to others who do not act safely. Therefore, it can be concluded that personality traits, positive affect levels and safety management practices perception have crucial impacts on employees to show safe behaviors and to experience an accident. In the literature, there are some studies indicating the antecedents of safety behaviors in manufacturing, construction, shipyard and airline enterprises. In fact, there is not any research existing literature yet investigating the relationships among personality trait, positive and negative affect, safety behavior, and safety management practices and their relationships with occupational accidents together. Therefore, this study aims to add several contributions to literature by exploring the relationships among these variables and determining the antecedents of safety behaviors. Furthermore, the most important contribution of this article is to the managers and organizations, since it is highlighting the effect of individual factors such as personality and positive affect on employees’ safety behaviors. Due to the importance of individual characteristics on safety behaviors, organizations or managers need to consider these traits during the recruitment process. In addition to these, they have to maintain and carry out safety policies or procedures to acquire safe condition and to provide employees to.
act in a safe manner. Consequently, if employees perceive safety management practices and have an obligation to adapt these practices, they would have more tendencies to behave safely.

Limitations and Future Research

It is possible to express that there are some limitations that needed to be mentioned for future studies. For example, this study consists of three different companies which are located in various sectors and two different provinces of Turkey. Since, the companies take part in different sectors, results of the study cannot be judged to be representative of the specific sectors. Therefore, results of the study valid only for the establishments as in the scope of the study. For further studies, the research model can be tested in larger samples or in some specific sectors, which safety behaviors are more important such as mining, construction, shipyards, chemical products or etc. In this context, some big companies can be selected and the research model can be tested, then the results can be compared. Moreover, the research model can be designed by adding some other individual variables such as locus of control, self-confidence and self-esteem as antecedents of the safety behaviors and occupational accidents.

References


The Antecedents and Consequences of Consumers’ Need for Uniqueness in Luxury Restaurant Business

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Abstract
Modern consumers pursue uniqueness in buying decisions in order to create their desired self-images and social images. The uniqueness theory explains that people have a basic instinct to express their uniqueness by possessing luxury materials/goods. For this reason, understanding consumers’ need for uniqueness (CNFU) is an issue of critical importance in the luxury marketing. The purpose of this research was to examine the antecedents and consequences of consumers’ need for uniqueness (CNFU) in luxury restaurant business. Based on a literature review, three theoretical antecedents (perceived firm innovativeness, perceived firm uniqueness, and brand prestige) and three theoretical consequences (utilitarian value, hedonic value, and behavioral intentions) were proposed. By integrating the theoretical arguments, a structural model was proposed. The proposed model was tested using data collected from 379 luxury restaurant patrons. According to the data analysis results, perceived firm innovativeness, perceived firm uniqueness, and brand prestige were all confirmed to be important factors in enhancing patrons’ need for uniqueness in the luxury restaurant context. Furthermore, it was determined that patrons’ need for uniqueness bears a positive impact on behavioral intentions, an impact that is mediated by perceived value. Based on the findings, managerial implications for restaurant business are discussed

Keywords: Restaurant Business, Consumers’ Need for Uniqueness, Perceived Firm Innovativeness, Perceived Firm Uniqueness, Brand Prestige, Perceived Value

Introduction
Modern consumers pursue uniqueness in buying decisions in order to create their desired self-images and social images (Knight and Kim, 2007). The uniqueness theory (Snyder and Fromkin, 1980) explains that people have a basic instinct to express their uniqueness by possessing luxury materials/goods (e.g. jewelry, luxury cars, luxury homes) to differentiate themselves from others. Sales increases in the luxury product market empirically support this theoretical argument. For instance, luxury brands such as Louis Vuitton, BMW, and Audi have all reported a more than 5% increase in annual sales over the past several years (Baek et al., 2010; Pfanner, 2007). The increasing number of luxury restaurants further supports this argument.

In recent years, the number of luxury restaurant has rapidly increased annually (Quantified Marketing Group, 2007). Patrons visit luxury restaurants not primarily because of the food/service, but because they seek to differentiate themselves from other patrons via the consumption of luxury goods and services (Walker, 2007). Such consumption behavior is defined as “consumers’ need for uniqueness (CNFU)” (Tian et al., 2001). CNFU indicates “the individual’s trait of pursuing differences relative to others through the acquisition, utilization, and disposition of consumer goods for the purpose of developing and enhancing one’s self-image and social image” (Tian et al., 2001, p. 52). In recent years, patrons have increasingly
visited luxury restaurants for an experience that makes them feel unique and special (Lee and Hwang, 2011). In other words, patrons go to luxury restaurants to satisfy their need for uniqueness (CNFU). As such, it can be theorized that, by stimulating patrons’ CNFU, luxury restaurants can attract more visitors. However, in spite of the importance of CNFU, no previous study has examined the antecedents/consequences of CNFU in the luxury restaurant industry. Therefore, luxury restaurant owners and managers have been under constant pressure to find effective marketing strategies that can stimulate patrons’ CNFU, but lack the practical guidelines to do so.

Therefore, this research aims to examine the potential antecedents and consequences of CNFU in the luxury restaurant industry. Thus, the specific objectives of this study are to examine the antecedents/consequences of CNFU in luxury restaurant settings.

**Literature Review**

**Consumer’s Need for Uniqueness (CNFU)**

Uniqueness indicates a feeling that sets individuals apart from the crowd (Rahman and Cherrier, 2010). Adapting the concept of uniqueness, Tian et al. (2001) defined consumers’ need for uniqueness as “the individual’s trait of pursuing differences relative to others through the acquisition, utilization, and disposition of consumer goods for the purpose of developing and enhancing one’s self-image and social image” (p. 52). For instance, a patron typically visits a luxury restaurant because he/she wants to express his/her difference from other people who cannot visit the restaurant due to the expensive prices. By consuming a luxury brand, the patron feel that his/her uniqueness is achieved and thus develops a luxury-oriented, prestigious self- and social image.

In summary, CNFU is a critical factor that can influence consumers’ purchasing behavior. Consequently, examining the antecedents of CNFU is an issue of great importance. The next section of this research proposes the potential antecedents of CNFU based on the existing theoretical backgrounds.

**Perceived Brand Uniqueness**

Perceived brand uniqueness (PBU) is defined as “the degree to which customers feel the brand is different from competing brands – how distinct it is relative to competitors” (Netemeyer et al., 2004, p. 211). When a brand is perceived as unique, it has special meaning to consumers, and is thus strongly remembered by customers (Mask, 2005). This strong impression maximizes brand marketing effectiveness.

**Perceived Firm Innovativeness**

Perceived firm innovativeness (PFI) is defined as “the consumer’s perception of an enduring firm capability that results in novel, creative, and impactful ideas and solutions for the market” (Kunz et al., 2011, p. 2). For instance, creative managerial strategies enacted by marketers (Subramanian, 1996), technical innovation (e.g. newly developed technology, new manufacturing equipment, or new manufacturing processes) (McNally et al., 2010), or marketing innovation (e.g. incursion into a new product category or new distribution channels) (Danneels and Kleinschmidt, 2001; Garcia and Calantone, 2002) are factors that enhance consumers’ perceptions of firm innovativeness.

PFI is assessed by consumers’ subjective perceptions and attributions based on their information, knowledge, and experience from various sources (Kunz et al., 2011). PFI has a significant effect on overall firm evaluation from the consumer perspective (Mizik and Jacobson, 2008). Consumers are likely to evaluate a firm’s innovativeness as high when its creative efforts have a strong effect on the market (Kamins et al., 2000; Kunz et al., 2011; Mizik and Jacobson, 2008).

Innovative firms are seen as progressive, powerful, and risk-taking (Schumpeter, 1934). Unexpected market penetration, novel attributes and/or design elements, and creative marketing activities over time distinguish a firm from competitors (Brown and Dacin, 1997; Kunz et al., 2011). As such, perceived firm innovativeness is a key determinant of perceived firm uniqueness. When consumers consistently observe a firm’s innovative activities area over time, a unique firm image can be created (Netemeyer et al., 2004). Likewise, PFI is associated with consumers’ general feeling that innovative firms are distinct from their competitors in the market. Based on the theoretical background, the following hypothesis can be derived:

**H1**: Perceived firm innovativeness positively influences perceived brand uniqueness.
A firm’s innovativeness can rouse and motivate consumers to experience new things (Haberland and Dacin, 1992). Consumers satisfy their need for uniqueness by consuming innovative products, making uncommon buying choices, and avoiding the purchase of generally used goods (Rahman and Cherrier, 2010). Thus, it can be theorized that perceived firm innovativeness positively influences consumers’ need for uniqueness. Empirical research conducted by Kamins et al. (2000) showed that perceived firm innovativeness has a significant effect on consumption patterns by stimulating CNFU. More recently, Kunz et al. (2011) asserted that PFI affects consumer behaviors by stimulating their need for uniqueness. Based on the above discussion, this study therefore proposes that PFI has a positive impact on CNFU.

H2: Perceived firm innovativeness positively influences consumers’ need for uniqueness.

Snyder and Fromkin (1977) argued that people constantly seek uniqueness that is appreciated by others. Individuals are concerned about how they appear to others and have a desire for dissimilarity. One of the critical functions of a unique brand is to take on an identification and description role in the construction of consumers’ self-images (Aaker, 1997; Holbrook and Hirschman, 1982). Consuming unique brands is a means of exhibiting uniqueness, since consumers consider their materials possessions as parts of themselves (Albrecht et al., 2011). In this sense, consuming unique products/brands can satisfy the consumer’s desire to form a unique, differentiated self- and social image. Based on this logic, it can be hypothesized that PBU positively influences CNFU.

H3: Perceived brand uniqueness positively influences consumers’ need for uniqueness.

Brand Prestige

Brand prestige refers to the relatively high status of product positioning associated with a brand (Steenkamp et al., 2003). Scholars (e.g. Dubois and Czellar, 2002) mentioned that an intrinsic worth, high price, unique performance, and/or a luxurious image are key criterion for a brand to be judged prestigious. One of the key characteristics of a prestigious brand is to take on an identification and description role in the construction of consumers’ self-images (Aaker, 1997; Holbrook and Hirschman, 1982). In reality, from the perspective of consumers, a high price typically is a standard that can differentiate a prestigious brand from a non-prestigious brand (Truong et al., 2009). Due to their high prices, prestigious brands can be purchased by a limited number of consumers (Vigneron and Johnson, 1999). For this reason, prestigious brands represent a signal of social status, wealth, and/or power (Alden et al., 1999). In this regard, brand prestige should theoretically influence consumers’ perceived brand uniqueness. Based on this logic, the following hypothesis can be derived:

H4: Brand prestige positively influences perceived brand uniqueness.

A prestigious brand is an attractive choice for consumers who seek to create self-image and social image via consumption (Baek et al., 2010; Vigneron and Johnson, 2004). As Alden et al. (1999) stated, consumers tend to recognize prestigious brand as indicators of social status, wealth, or power. Thus, prestigious brands are strongly related to the formation of an individual’s self-concept and social image. Along these lines, Dubois and Duquesne (1993) postulated that consumers acquire luxury goods for what they symbolize rather than for the functional value of the goods. Moreover, numerous researchers have empirically verified that consuming/possessing prestigious brands increase consumers’ pride (Ahearne et al., 2005), self-esteem (Campbell et al., 2004; Yoon et al., 2006), and self-enhancement (Bhattacharya and Sen, 2003). In other words, people tend to maintain their self-enhancement and satisfy their self-esteem by consuming successful, well-known, and prestigious brands. By consuming prestige brands, consumers satisfy their need for uniqueness. Following this logic, it can be hypothesized that purchasing prestigious brand can satisfy CNFU.

H5: Brand prestige positively influences consumers’ need for uniqueness.

Perceived Value

The most widely accepted definition of perceived value is “the customer’s overall assessment of the utility of a product (or service) based on perceptions of what is received and what is given” (Zeithaml, 1988, p. 14). There has been considerable interest among academics and practitioners in providing definitions and measurement methods for and in establishing the dimensions of perceived value. Among them, Holbrook and Hirschman’s (1982) dual sub-dimensional approach (the hedonic versus utilitarian value dichotomy) is
one of the most used classical approaches, along with the acquisition versus transaction value difference (Gallarza and Saura, 2006).

Utilitarian value represents an overall evaluation of product value comprised of a product’s quality, economic value, and usefulness characteristics (Chen and Hu, 2010). According to Bettman (1979), consumers with a utilitarian perspective are rational problem-solvers who are concerned with the functional benefits and practical convenience of items. On the other hand, hedonic value refers to experiential value consciousness derived from the social, emotive, aesthetic, and reputational aspects of a product (Chen and Hu, 2010). Therefore, hedonic value is related to consumers’ levels of fun, entertainment, enjoyment, excitement, and novelty (Ha and Jang, 2010; Park, 2004).

According to Holbrook and Hirschman (1982), when consumption of a product helps to create a positive self-image and/or social image, consumers’ valuation of the product is positive. Many consumers purchase luxury automobile brands (such as BMW and Audi) to satisfy their need for uniqueness (Simon and Reed, 2007), and tend to evaluate the value of such products positively to justify their consumption. For this reason, as CNFU is satisfied, the perceived value of a brand increases. Empirical studies further support this argument. For instance, Tian et al. (2001) conducted an empirical study with 121 student subjects. Their Pearson correlation analysis showed that, when CNFU is satisfied, evaluation of a product is positive. Integrating theoretical and empirical backgrounds, the following hypotheses were thus derived:

H6: Consumers’ need for uniqueness positively influences perceived utilitarian value.

H7: Consumers’ need for uniqueness positively influences perceived hedonic value.

In the history of restaurant marketing, a large number of studies have proposed and verified the causal relationship between perceived value and behavioral intentions. For instance, Park (2004) emphasized the importance of the hedonic aspect of a customer’s experience in buying frequency at a fast food restaurant. Likewise, Ha and Jang (2010) identified hedonic and utilitarian values in American customers’ dining experiences at Korean restaurants in the U.S. The results of their study showed that utilitarian aspects had a stronger effect on American customers’ satisfaction and behavioral intentions when patronizing Korean restaurants than did hedonic aspects. In the chain restaurant setting, Hyun et al., (2011) reported that perceived values, including utilitarian and hedonic values, significantly influenced patrons’ behavioral intentions. They also stressed the greater impact of utilitarian value over the hedonic value on behavioral intentions. A number of studies in hospitality research have supported the notion that consumers’ perceived value is a leading factor in determining customers’ behavioral intentions.

H8: Consumers’ perceived utilitarian value positively influences behavioral intentions.

H9: Consumers’ perceived hedonic value positively influences behavioral intentions.

As stated previously, consumers’ need for uniqueness is one of the key goals of today’s consumers. Therefore, when CNFU is satisfied, consumers tend to exhibit positive behavioral intentions towards a brand/firm. The study results of Amaldoss and Jain (2005) and Zimmer et al. (1999) support this theory and show that consumers’ positive behavior intentions, such as revisit intention and word of mouth, are more likely when CNFU is satisfied. Similarly, Simon and Nowlis (2000) suggested that, when a consumer succeeds in building an idealized self-image via consumption experiences, s/he exhibits positive behavioral intentions. The following hypothesis is therefore derived regarding the relationship between CNFU and behavioral intentions:

H10: Consumers’ need for uniqueness positively influences behavioral intentions.

Proposed Model

Based on the existing theoretical/empirical backgrounds, 10 hypotheses were proposed. Integrating the proposed hypotheses, a theoretical model was created. The proposed model hypothesizes that the three theoretical antecedents (perceived firm innovativeness, perceived firm uniqueness, and brand prestige) can satisfy luxury restaurant patrons’ need for uniqueness. As such, the patrons’ need for uniqueness will impact patrons’ perceived value, thus influencing behavioral intentions.
Methodology

Sample

To empirically test the proposed model, data was collected from the actual luxury restaurant patrons in United States. A consumer panel database was used, which is composed of 27,000 luxury restaurant patrons’ email address and phone numbers who currently live in United States. In the summer of 2011, an Internet survey was distributed to the 27,000 luxury restaurant patrons in the panel database.

Measures

To measure the ten constructs in the proposed model, validated scales from the existing literature were borrowed and then slightly modified to fit the luxury restaurant operation, as follows:

- Perceived firm innovativeness was measured using five items developed by Kunz et al., (2011);
- Perceived firm uniqueness was measured with four items employed by Albrecht, Neumann et al. (2011);
- Brand prestige was measured with three items adapted by Baek et al. (2010);
- Consumers’ need for uniqueness was measured with five items adapted from Armstrong et al. (2009);
- Perceived value was measured using 14 items under two dimensions adapted from Ha and Jang (2010), Hyun (2009), Park (2004);
- Behavioral intention was measured with three items adapted by Zeithaml et al. (1996);

Data Analysis

Descriptive Statistics

The sample (n=379) used for this study was 51.2% male (n=194). In terms of age, the sample was fairly normally distributed from 18 to 90 years old. The mean age was 46.8 years old. Regarding income, the respondents possessed relatively high level of income: more than 70% of respondents reported annual incomes higher than $100,000. The respondents had relatively high level of education level: more than 70% of respondents possessed higher than bachelor’s degree. In summary, overall, the sample is distributed to all the age groups, is well-educated and possesses high level of income.

Confirmatory Factor Analysis

A measurement model using confirmatory factor analysis (CFA) was evaluated before conducting the structural equation modeling analysis (Anderson and Gerbing, 1988). The results of the CFA revealed that the measurement model successfully fit the data: the CFA chi-square was 1498.383; degree of freedom was 501 (p < .001); CFI = .936, IFI = .937, TLI = .929; NFI = .908; a root mean square error of approximation (RMSEA) = .07. The values of CFI, IFI, TLI, and NFI ranged between 0 and 1 with a value close to 1.00, indicating acceptable model fit (Byrne, 1998). The RMSEA should be lower than .10; however, ideally it should be located between .04 – .08 (Turner and Reisinger, 2001).

According to CFA, all the factor loadings were equal to or higher than .627. All of them were significant at p < .001 with the t-values (not shown in the table) ranging from 11.387 to 63.438. Also, convergent validity, discriminant validity, and internal consistency were achieved.

Structural Model

A structural model with a maximum likelihood estimation method was estimated, and fit indices provided by AMOS indicated that the model had an acceptable fit: the chi-square value = 1693.545; df = 510; CFI = .924, IFI = .925, TLI = .917; RMSEA = .07. Figure 1 presents the hypotheses testing results.
Fig. 1. The Results of the Proposed Model

Note: 1. Numbers in parentheses are the t-values. 2. Numbers outside of parentheses are the standardized path coefficients. 3. Dotted lines indicate non-significant paths (p < .05).

**Conclusion**

Data analysis indicates that perceived firm innovativeness has a positive impact on perceived firm uniqueness (.250, p < .05) and CNFU (.312, p< .05). It can be interpreted that, when patrons see a restaurant’s innovative strategies, the patrons tend to create a unique image about the restaurant. It can also be interpreted that innovative features of luxury restaurants can fulfill patrons’ characteristic of pursuing uniqueness to enhance their self-image and social image. For many years, the marketers postulated that innovative strategies can create unique brand image about a company (Kunz et al., 2011; Netemeyer et al., 2004). This research replicated and further expanded the existing theory by empirically testing this argument in the luxury restaurant settings. Therefore, luxury restaurant owners need to create innovative image in patrons’ mind.

Data analysis shows that perceived firm uniqueness has a positive impact on CNFU (.312, p < .05). It can be interpreted that visiting unique-image luxury restaurant can satisfy the consumer’s desire for pursuing uniqueness. It has been widely recognized that consumers satisfy their desire via continuously consuming unique products (Albrecht et al., 2011). This study replicated and further extended the existing literature by testing the argument in luxury restaurant settings. Therefore, luxury restaurant marketers should maximize the uniqueness of their restaurant. Specifically, unique slogans, and mascots should be developed and promoted (Brakus et al., 2009). So, whenever patrons see/think the restaurant, the slogans/mascots should be reminded in their brain. Also, the restaurant’s own color (e.g. red, blue) should be recognized by patrons (e.g., Dubois and Czellar, 2002). Such visual stimuli induce sensory feelings, thus create unique image about the restaurant (McAllister and Pessemier, 1982). Along these lines, companies’ unique marketing strategies or CEOs’ unique success stories (e.g., Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time) can help to create unique image about the restaurant, so publishing such books will help to enhance uniqueness of the restaurant.

The results of the study also revealed that brand prestige has a strong influence on perceived firm uniqueness (.654, P < .05). It can be interpreted that, when a patron eat out at luxury restaurants, the patron feels that he/she achieved a unique value that other people hardly obtain. It has long been discussed that possessing prestigious products (e.g. luxury car, luxury watch, handbag) is a something that makes individual distinct from the others (Vigneron and Johnson, 1999). Therefore, specific positioning strategy focused on brand prestige is necessary. Brand prestige of a restaurant can be achieved via investment into food quality improvement, food presentation improvement, interior/exterior renovation, and service quality.
improvement (Hwang and Hyun, 2012). Specifically, it is critical to recruit well-known chefs and dietitian. So, taste of food and ingredient condition can be significantly improved. Also, it is necessary to receive consulting service from professional food stylist, who has superior food decoration skill. More importantly, to make the interior design prestigious, it is necessary to place luxurious plants/flowers in luxury restaurants (Han and Ryu, 2009).

Data analysis indicates that utilitarian value positively influences behavioral intentions (.124, p< .05). It can be interpreted that, CNFU enhances patrons’ utilitarian value, then utilitarian value directly influences patrons’ behavioral intentions. This finding provides key managerial implications for luxury restaurant managers. For instance, to maximize patrons’ perceived utilitarian value, it is necessary to provide sufficient portion of food to satisfy patrons’ hunger (Ha and Jang, 2010; Park, 2004). In reality, many luxury restaurants provides relative small amount of food on a plate considering its price for some reasons. However, this is bad approach from the perspective of satisfying utilitarian value. Also, due to the recent well-being trend, it is necessary to provide well-being menu (Hyun and Han, 2012). Patrons feel higher value from such well-being menu or organic food. One more thing, it is necessary to have consulting service for professional site selection when opening a new brand of the luxury restaurant (e.g. Soriano, 2002). As the data analysis revealed, convenient location is an important attribute for enhancing utilitarian value of patrons.

Lastly, based on data analysis, it was revealed that hedonic value has strong impact on behavioral intentions (.691, p< .05). This impact (.691) is stronger than any other paths in the proposed model. Thus, luxury restaurant managers need to pay attention for maximizing hedonic value of patrons. Specifically, it is necessary to turn on slow tempo classical music in a restaurant (Yalch and Spangenberg, 1990), which creates exotic mood. To further investigate patrons’ music preference, a short survey needs to be distributed. Also, to create comfortable mood, orange color lighting, which is not too bright, should be used (Lin, 2004). One more thing, to provide fun and unforgettable experience, live concert or event (e.g. birthday surprise event, anniversary event) should be provided (Hyun and Kim, 2011). Even though the food price is expensive in the luxury restaurant, patrons are willing to pay the price if such unforgettable events are provided. Through methods such as these, luxury restaurant marketers can maximize patrons’ perceived hedonic value.

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Saudia Arabia Internet Banking: A Conceptual Framework of the Relationship between E-Banking Service Quality and E-Customer Satisfaction

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Abstract
The objective of this study is to examine the structural relationship between e-banking service quality and e-customer satisfaction in Saudi Arabia. Numerous academics have studied that internet banking service quality plays important role in enhancing customer satisfaction, relatively little research has examined how internet banking service quality contributes to the e-customer satisfaction in Saudi Arabia context. In this study, theoretical framework is based on e-service quality dimensions such as personal need, site organization, user friendliness, and efficiency of website. The rational for using this framework is that it has been used and widely recognized as one of the benchmarks of internet banking service quality. Four prepositions will be established to examine the relationship between internet banking service quality dimensions on customer satisfaction. The findings indicated that the higher levels of e-banking service quality will significant effect to have a high level of e-customer satisfaction.

Keywords E-Banking Service Quality, E-Customer Satisfaction, Internet Banking

Introduction
Internet banking industry has emerged as one of the most dynamic segments of the banking industry. It is also a segment where some of the traditional rules of marketing in the banking industry may not apply. Although there is a difference between internet banks and traditional banks, there are some similarities between the two in terms of offering complementary products and services to customers. Internet banking customers are refers to interaction between customers and technology, whereas traditional banking is based on customer interaction in non-website based settings. In addition, internet banking provides the customers to carry out a range of banking activities electronically at any time and place with less handling fees (Angelakopoulos & Mihiotis, 2011; Weir et al., 2006). In this sense, internet banking plays important role in reducing operating and fixed costs (Weir et al., 2006; Zhao et al. 2010), and helps bank in building relationship with their customers (DeYoung et al., 2007; Ribbink et al., 2004; Rod et al., 2009).

In Saudi Arabia, the development of internet users has a great potential. As of June 2012, the number of internet users and internet population penetration grew by 14.1% and 49% respectively (Internet World Stats, 2013). Despite increasing number of internet banking users, however, customer adoption internet banking has not yet reached the level as expected. One of the common concerns in adopting internet banking is poor service quality and customer satisfaction (Li-hua, 2012; Calisir & Gumussoy, 2008; Zhao et al., 2010), and lack of awareness and understanding of the benefits provided by internet banking (Laforet & Li, 2005). Although the method of customer perceive service quality in website-based settings is different from that of traditional services, however, service quality is still competitiveness of internet banking industry (Ho and Lin, 2010; Parasuraman et al., 2005). The ability of internet banking in providing a good service delivery to the customers will increase customer satisfaction and customer loyalty. Therefore, it is a fundamental for Saudi Arabia banking industry to provide well-perceived service quality and satisfy their customers. A clearer understanding the relationship between e-banking service quality and e-customer satisfaction, it will help internet banking in developing their marketing strategies, especially in Saudi Arabia.
Literature Review

E-Banking Service Quality

Colier and Bienstock (2006) define e-service quality as “customer’s perceptions of the outcome of the service along with recovery perceptions if a problem should occur”. In the context of the internet, e-service quality is defined as a consumer’s overall evaluation and judgement of the quality of the e-service that are delivered through the internet (Santos, 2003; Zeithaml et al., 2002). Based on that, e-service quality has been conceptualized as an interactive information service base (Ghosh et al., 2004). Therefore, Rolland & Freeman (2010) suggested that these conceptualizations of e-service quality must be expanded to be global level and need consideration all aspect of the transaction including service delivery and customer service and support. Consequently, Parasuraman et al. (2005) theorized that the method customer perceive SERVQUAL in website-based settings differs from SERVQUAL in non-website based settings.

Until today, numerous researchers have developed service quality concepts across industries and countries (Aagja and Grag, 2010; Arasli et al., 2005; Angur et al., 1999; Dabholkar et al., 1996; Karatapa et al., 2005). For example, Carlson and O’Cass (2011) highlighted that consumers evaluate different dimensions related to the e-service delivered to form an overall evaluation of e-service quality. The findings conclude that the dimensions of e-service quality in the e-retail domain (i.e. environment quality, delivery quality and outcome quality) as antecedents to a global e-service quality measurement. In online banking industry, for example, Herington and Weaven (2009) found a four-dimensional of E-ServQual represented by personal needs, site organization, user-friendliness, and efficiency, with all factors rated as important. Similarly, Jayawardhena (2004) proposed five dimensions in determining e-service quality of e-banking (access, web interface, trust, attention, and credibility), and concluded that customers espouse the notion that service quality in e-banking is largely determined by web elements. Interestingly, in developed country, Karjaluoto et al. (2002) found that attitude towards online banking and actual behaviour were both influenced by prior experience of computers and technology as well as attitudes towards computers. Furthermore, Parasuraman et al. (2005) used a means-end framework in order to develop a scale for measuring e-service quality. They identified two different scales for capturing electronic service quality: the basic e-quality scale developed consisted of four dimensions: efficiency, fulfilment, system availability, and privacy. Because recovery was considered as a critical aspect of service, a separate scale concerned specifically the aspects of e-service recovery and contained three dimensions: responsiveness, compensation, and contact (Gounaris et al., 2010).

However, there are some criteria has been not reached the level such as performance and security of banking transactions, as well as the confidentiality of personal account data (Aldas-Manzano et al., 2009; Zhao et al., 2010). For example, Zeithaml et al. (2002) explained that the criteria customers use in evaluating web sites and service quality delivery are information availability and content, ease of use or usability, privacy/security, graphic style, and fulfilment. Interestingly, Zeithaml et al. (2000) suggest that personal service is not a critical element in e-SQ, except when problems occur or in situations where customers have to adopt complex decisions. In this sense, customers do not necessarily expect to come across much empathy in an online setting, except when they have queries or problems (Barrutia and Gilsanz, 2009). Therefore, in this study, attributes of e-banking service quality defined as multidimensional construct and adapted from literature based on the perspective of Herington and Weaven (2009). This dimensions more emphasis on the important of technical aspects of web site delivery and contrasts to traditional service quality instruments which focus on the human elements.

E-Customer Satisfaction

Oliver (1980) explained that customer satisfaction is full meeting of customer expectation of the products and services. If the perceived performance matches or even over customers’ expectations of services, they are satisfied. If it does not, they are dissatisfied. Under this theory, consumers obviously will prefer positive disconfirmation than negative disconfirmation. In particular, there is no consensus in marketing literature in defining customer satisfaction whether customer satisfaction defined as transactional or cumulative (Boulding et al., 1993; Cronin and Taylor, 1994; Mittal et al., 1999). In this definition, the cumulative satisfaction is determined by satisfying and dissatisfying with a product or service over time (Parasuraman et al., 1994, Sharma et al., 1999; Zeithaml et al., 1993), and the transactional is defined with a product or service in a single transaction (Cronin & Taylor, 1994; Homburg et al., 2006; Høst and Knie-Andersen, 2004; Oliver, 1993). In the online context, for example Szymanski and Hise (2000) conceptualized e-
satisfaction as the consumers' judgment of their internet experience as compared to their experiences with traditional experience. Similarly, Anderson and Srinivasan (2003) explained that e-satisfaction as the contentment of the customer with respect to his or her prior purchasing experience with a given e-commerce firm. In this study, satisfaction will be viewed as a separate construct from service quality and will be restricted to transaction-specific judgments (Cronin and Taylor, 1992).

Previous research has identified various factors that determine e-customer satisfaction in the online banking sector. Some authors suggest that e-customer satisfaction is driven by website characteristics (Anderson and Srinivasan, 2003; Bansal et al., 2004), and quality attributes (Collier and Bienstock, 2006; Cristobal et al., 2007; Kim and Stoel, 2004; Moon et al., 2011; Szymanski and Hise, 2000). For example, Chen and Wells (1999) suggested three aspects in measuring the attitude to the web site: informativeness of web site, entertainment of web site, and organization of web site. Meanwhile, Yongju and Yongsung (2010) explained that product diversity, tangibles, responsiveness, interaction, and stability have a positive influence on internet customer satisfaction. That is, the way in which the service is delivered through a web site plays a critical role in driving e-consumer satisfaction. Consequently, positive (or negative) consumer perceptions of the quality of the various e-service attributes will result in satisfaction (or dissatisfaction) with the e-service provided via the web site (Carlson and O’Cass, 2010).

Hypothesis Development

E-Banking Service Quality and E-Customer Satisfaction

In the services literature, the causal relationship between banking service quality and customer satisfaction is the subject of great academic debate and no consensus has been reached (Bahia and Natal, 2000). Some researchers and academics described that customer satisfaction is an antecedent of service quality (Parasuraman et al., 1985, 1988, 1991, 1994; Carman, 1990), and others have argued that the service quality as an antecedent of customer satisfaction (Cronin & Taylor, 1992; Anderson & Sullivan, 1993) and that service quality is not equivalent to satisfaction (Oliver, 1993). For example, in the banking sector, Joseph and Stone (2003) highlighted that availability of internet banking services delivery and user friendliness appears to be correlated with high customer satisfaction and retention. Similarly, Rod et al. (2009) found that when overall internet banking service quality is perceived to be high, customers are more likely to be satisfied with their online service and consequently will be more satisfied with their banks. Anderson & Srinivasan (2003) suggests that e-customer satisfaction is likely to be driven by website characteristics (e.g. ease of use), since the web site is the principle interface between the customer and the firm. Consequently, positive (or negative) customer perceptions of the quality of the various e-service attributes will result in satisfaction (or dissatisfaction) with the e-service provided via the web site (Carlson & O’Cass, 2010; Cristobal et al., 2007). Although, customer who have information technology skills is easier to use internet banking services and they will have higher-satisfaction levels and others (Lang and Colgate, 2003). However, the way in which the service is delivered through a web site plays a critical role in driving customer satisfaction. Therefore, this conceptual model starts with e-banking service quality measurement scale, consisting of four dimensional structures: personal need, site organization, user friendliness, and efficiency of websites, to measure Saudi Arabia e-banking service quality and e-customer satisfaction. Then, research preposition are:

P1. Personal need has relationship with e-customer satisfaction.

P2. Site organization has relationship with and e-customer satisfaction.

P3. User friendliness has relationship with and e-customer satisfaction.

P4. Efficiency of websites has relationship with and e-customer satisfaction.

Conclusions and Managerial Implications

The purpose of this study is to examine the structural relationship between e-banking service quality and e-customer satisfaction in the context of Saudi Arabia internet banks. The results proposed that the four dimensions (personal need, site organization, user friendliness, and efficiency of web site) are distinct constructs. The results indicate that e-banking service quality consisting of four dimensions has appropriate reliability and each dimension have a positive significant relationship with e-banking service quality. Clearly, in order to maintain a high level of e-banking service quality, the internet banks should pay
attention to all four dimensions identified in this study. In the context of Saudi Arabia internet banking, efficiency of web site is the key driver of e-banking service quality, followed by site organization, user friendliness, and personal need, respectively. It means that Saudi Arabia customers are looking for banks that provide services that can complete a transaction quickly on web site, and easy to find and get web site anywhere. In other words, Saudi Arabia customers are pay more emphasize on the efficiency of web site dimension than other dimensions as key factor in establishing relationship with their banks. This finding was consistent with Sohail and Shaikh (2008) stated that efficiency of web site was the most influencing factor in user’s evaluation of e-banking service quality and the online banking customers were more focusing on download speed and completing a transaction quickly in Saudi Arabia. Findings of the present study support the results of research by Ho and Lin (2010) in online banking, customers expect to be able to complete their transactions correctly, on time, and have their e-mails response quickly. Therefore, internet banking has to make sure that these expectations are met accordingly. In order to provide a good quality of internet services, internet banking should provide their customers with effective and efficient web site in a suitably presented environment and update the technology development (Jayawardhena, 2004).

References


Comparison of Ethical and Conventional Portfolios with Second-Order Stochastic Dominance Efficiency Test

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Abstract

This paper compares two groups of stocks to analyze the efficiency of having an ethical portfolio in comparison with a conventional portfolio. Therefore, efficiency test by second-order stochastic dominance (SSD) approach is applied on both groups, which consist of 12 stocks. Ethical portfolio is chosen from the stocks complying with the participation banking rules. Conventional portfolio is selected from Borsa Istanbul with choosing the corresponding stocks for each ethical stock according to the sector and market capitalization. All the stocks of both groups are SSD pairwise compared. Both groups of 12 stocks are inefficient portfolios, however a group of 7 stocks constitute an efficient ethical portfolio with the total weight of 69\% among the set of 12 ethical stocks. On the other hand, a group of 6 stocks constitute an efficient conventional portfolio with the total weight of 64\% among the set of 12 conventional stocks. By pairwise SSD comparison of corresponding stocks from both groups; despite none of the conventional stocks dominate ethical stocks, 4 ethical ones dominated the conventional ones.

Keywords: Second-Order Stochastic Dominance, Portfolio Efficiency, Ethical Investment

Introduction

Portfolio efficiency is one of the most important aspects in finance. Main purpose of each investment is to select the efficient portfolio. It is also possible to select portfolios intuitionally, but since Markowitz (1952) invented the mean-variance (MV) theory, portfolio optimization has a more logical approach. It takes mean as an expected return and variance as a measure of risk. The basic objective of Markowitz’ theory is the maximization of investor’s utility.

Although MV theory is accepted and widely used, it has many shortcomings according to Kraus and Litzenberger (1976), Athayde and Flores (1997), Dittmar (2002) and Post et al. (2008). It does not take skewness and kurtosis, third and fourth moments, into account. MV theory also requires normal distribution, which is not the usual case for stock returns.

Hanoch and Levy (1969) invented the stochastic dominance method, which is popular in many fields, such as finance. There are mainly two types of stochastic dominance: First-order stochastic dominance (FSD) and SSD. In practice, SSD is widely used due to its occurrence in pairwise comparisons, however FSD does not occur in pairwise comparisons and stays more theoretical. Advantages of SSD are various: First one is that, SSD does not require another portfolio to compare the efficiency of a chosen portfolio. According to mean-variance theory, Jensen’s (1968) alpha, Treynor (1966) measure and Sharpe (1966) ratio are invented to compare at least two portfolios due to expected return and risk or beta. Another advantage of SSD is that it gives also importance to the third and fourth moments, skewness and kurtosis, respectively. Finally, it does not require normal distribution assumption for stock returns. On the other hand, SSD is only available for risk averse investors. It means that it is valid for all concave utility functions. Although this can be considered as a disadvantage of SSD, risk aversion is taken as an assumption for most of the researches in finance. Therefore, it does not have a serious impact on the appliance of SSD.
Investment can be categorized in two main groups: ethical and conventional. The Participation Index that this paper has taken forward is categorized under ethical investing.

As a global benchmark, Dow Jones Islamic Market Index (DJIMI) follows Sharia rules (i.e. Islamic Laws) that has two screening processes on stocks. The first screening excludes companies, whose primary business is interest-based financing (conventional financing), alcohol, gambling, pork (haram food), entertainment (haram content), tobacco products, and weapons. In addition, investment in derivative securities such as future contracts is not considered as ethical investing by Naughton and Naughton (2000), which is another DJIMI criterion. So far, the first screening process corresponds with the Participation Index in Turkey. The companies that successfully pass the first screening of DJIMI are further analysed in the second screening. The second screening contains financial ratios and rejects firms that exceed:

1. Total debt divided by trailing 24 month average of market capitalization by 33%.
2. The sum of company’s cash and interest-bearing securities dividing by 24-month average market capitalization by 33%.
3. Accounts receivable divided by trailing 24 month average market capitalization by 33%.
4. The ratio of income activities that mentioned in the first screening to total income by 5 %

As it is stated in Table 1, the list of criterions for the second screening shows similarities with the Participation Index. However, in the Participation index financial ratios (1) and (2) should not exceed 30%. The criterion (3) does not exist, and instead number (4) is as the same as DJIMI criterion.

Table 1: Second Screening Process Comparison for DJIMI and Participation Index

<table>
<thead>
<tr>
<th>Financial Ratios</th>
<th>Dow Jones Islamic Market Index</th>
<th>Participation Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Debt to Market Capitalization</td>
<td>$&lt; 33%$</td>
<td>$&lt; 30%$</td>
</tr>
<tr>
<td>2. Cash + Interest Bearing Securities to Market Capitalization</td>
<td>$&lt; 33%$</td>
<td>$&lt; 30%$</td>
</tr>
<tr>
<td>3. Account Receivable to Market Capitalization</td>
<td>$&lt; 33%$</td>
<td>N/A</td>
</tr>
<tr>
<td>4. Income from Activities Specified in First Screening to Total Income</td>
<td>$&lt; 5%$</td>
<td>$&lt; 5%$</td>
</tr>
</tbody>
</table>

In this paper; 12 ethical stocks, which have complied with the participation banking rules for all 12 revising quarters, are compared with 12 conventional stocks, which are the corresponding stocks for each ethical stock according to the sector and market capitalization. By this comparison, SSD pairwise efficiency test is applied. All the ethical stocks are SSD pairwise compared and the efficiency of this portfolio is found. Moreover, the same process is applied on the conventional stocks. It gives the opportunity of having the efficiencies of both groups and knowing the efficient stocks in both groups. Additionally, 12 corresponding stock duos are pairwise compared.

Section 2 gives a literature review. In section 3 methodology, which consists of theoretical background of SSD and, data and preliminary tests, is mentioned. Section 4 gives the results and the last section concludes and suggests for further research.

Literature Review

Stochastic dominance (SD) approach is a portfolio performance evaluation tool which requires fewer restrictions than the MV approach. Traditional MV approach uses the following assumptions: normally distributed stock returns and investor’s quadratic utility functions (Markowitz, 1952; Treynor, 1965; Jensen, 1969). But, stock returns may exhibit skewness and kurtosis and utility functions need not to be quadratic. Thus, in these cases MV would be not appropriate. Rather, FSD approach assumes only non-satiation of investor and SSD also incorporates risk aversion which means investors have concave utility function. Thus, SSD enables researchers to make portfolio evaluation to a wider extent than MV approach.

Khazali et. al. (2011) compares 9 Islamic indexes with their conventional peers by using stochastic dominance approach. They apply SD approach to three separate periods: pre-crises, during crises and past
crises. Their findings suggest that Islamic indexes dominate their conventional peers during recession period.

Güran et al. (2013) apply efficiency test on BIST-30 index. They take 30 stocks from BIST-30 index to create a portfolio. Then SSD approach is applied to this portfolio in order to check whether it is efficient or not. Their findings suggest that 18 stocks are dominated at least by one stock which causes inefficiency of this portfolio. However, 12 stocks which are not dominated by others and have 35% weight on this portfolio can be used to create an efficient portfolio.

Qiao et al. (2014) use FSD and SSD in their research which is conducted by comparing risk averse and risk seekers investors in Taiwan stock and futures market. They find that according to the risk type of the investor SD relationship show differences on these markets. Hence, for risk averse investors spot market dominates futures market. On the other hand, spot market is dominated by futures markets in the case of risk seeker investors. The SD relationship is detected in second-order, but not in first-order.

Clark and Kassimatis (2014) apply SD test for the U.K stock exchange market between 1992 and 2013 in order to check possibility of generating abnormal returns for a portfolio which is constituted by stocks. Their results suggest by forming an arbitrage portfolio to be in short position for the stocks which are dominated and in long position for the stocks which dominates others in second-order case can generate abnormal return.

Fong (2009) asserts that SSD relationship can be obtained in China’s stock market for A-shares and B-shares. Findings suggest that A-shares are preferred to B-shares by a rational investor thanks to the result of A-shares dominate B-share in second-order. However, domination relationship is not caused by risk characteristics but because of market inefficiency during the segmentation period in China’s stock market.

Methodology

In order to determine the stocks that we are aiming to study, we examined twelve revising quarters of Participation Index in Turkish Stock Exchange. The stocks chosen in this study have complied with the participation banking rules for all 12 revising quarters, which is the only stock selection criterion taken forward. A stock that failed to comply with the rules even for a quarter of the period and have missed to remain in the Index would not be included in the sample. In the Turkish Stock Exchange, 63 stocks have managed to appear in the Participation Index at least for a quarter. However, only 12 of these stocks have maintained to remain in this Index continuously for 12 revising quarters. Thus, the portfolio that will be tested includes these 12 stocks with their weights.

After this process; 12 stocks are chosen from Borsa Istanbul, which are one by one corresponding to the group of 12 complying stocks with the participation banking rules. Selection of the corresponding firms is based on two criteria. First one is the sector of the firm and the second one is the market cap. It is aimed to select the firms in the same field with closest market caps. It is mainly taken care of having the corresponding firm in the same sector and market caps of the corresponding firms sometimes varied due to the miss of a close-market cap company.

Original weights of the stocks in Borsa Istanbul is used to obtain the adjusted weights of the stocks in the portfolio of 12 stocks. By this method, weights of each stock are obtained and according to classification of the stocks, total weight of the efficient portfolio is found.

Theoretical Background of Stochastic Dominance

Stochastic dominance concept is explained under the subtitle of comparison of payoff distribution by Mas Colell, Whinston and Green (1995). To follow their definitions and propositions for this concept, FSD and SSD can be identified as the following:

For two different stocks X and Y, there exists FSD relationship if:

\[ X \geq_{FSD} Y \iff F_i(x) \leq G_i(x), \forall x \in \mathbb{R} \tag{1} \]

Where \( F_i(.) \) and \( G_i(.) \) are the cumulative distribution functions (CDF) of two stocks respectively. Thus, if this is the case, a non-satiable investor would never invest in stock Y.

For the same stock pairs X and Y, SSD relationship exists if:
\[ X \geq_{\text{SSD}} Y \iff \int_{-\infty}^{x} F_1(t) \, dt \leq \int_{-\infty}^{x} G_1(t) \, dt, \forall x \in \mathbb{R} \]  

(2)

Thus, there exists a relationship that is defined in equation 2, a non-satiated and risk-averse investor does not prefer to invest in stock \( Y \), rather stock \( X \) would be chosen for investment.

**Data and Preliminary Tests**

Closing values of all the stocks are obtained from Thomson Reuters from 06.01.2011 to 02.12.2013. Daily returns of the stocks are used for 731 working days.

In order to understand the domination relation among series, we need to compare all series with each other. This is why, \( C^2_n \) number of pairwise combinations needs to be constituted. \( N \) is representing number of stocks to be compared. After that, SD method is applied at first and second orders to understand kind of domination relationship among pairs.

There are \( C^2_{12} \) SSD pairwise comparison for both groups. Additionally, 12 more SSD pairwise comparisons are done between corresponding stocks of both groups. Natural logarithmic returns are obtained as it is stated in Equation 3. \( P_t, P_{t-1} \) represent closing price for a stock at time \( t \) and \( t - 1 \), respectively.

\[ r_t = \ln \left( \frac{P_t}{P_{t-1}} \right) \times 100 \]  

(3)

After obtaining the returns for each stock, cumulative distribution functions are constituted. The probability of each observation is equally weighted, which means that the probability of each observation is equal to \( 1/731 \). In Excel, returns of both compared stocks are sorted from the lowest to the highest return with respect to corresponding probabilities.

For SSD case the return difference \( (r_i) \) of series is evaluated in the cumulative distribution functions. Supposed that the first series has the cumulative distribution function as \( f(r_i) \) and the second series has the cumulative distribution function as \( g(r_i) \). Both are discrete functions. Following calculation is needed to check SSD.

\[ \sum_{i=1}^{N} [f(r_i) - g(r_i)] \leq 0 \text{ for all } i = 1,2, \ldots, N \]  

(4)

Since there are always negative terms in this equation, this means that first series second order stochastically dominates second series. In contrast, if only non-negative terms are obtained from the above equation, this means that first series is second order dominated by second series for \( i = 1,2, \ldots, N \). If we obtain both positive and negative terms together which means that there is no second order stochastic dominance association between the first and the second series.

Table 2 and 3 gives descriptive statistics information for daily return series. There is a remarkable point needs to be underlined that all return series have skewness and excess kurtosis.

We check Jarque-Bera Test Statistics to decide whether return series are normally distributed or not. Here are the hypothesis that is tested for the normality check.

- \( H_0: \text{Return series is normally distributed} \)
- \( H_1: \text{Return series is not normally distributed} \)

Results in table 2 and 3 indicate that the null hypothesis can be rejected at 1 % significance level which means that all return series are not normally distributed. This is one of the factor that suggests to use non-parametric methods like stochastic dominance approach.
### Table 2: Descriptive statistics for logarithmic daily return series of conventional stocks

<table>
<thead>
<tr>
<th></th>
<th>AKCNS</th>
<th>ALBR</th>
<th>ASYA</th>
<th>AYGAZ</th>
<th>BIMAS</th>
<th>ENKAI</th>
<th>FROTO</th>
<th>MRDIN</th>
<th>NUHCM</th>
<th>PETKM</th>
<th>PNSUT</th>
<th>TTRAK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.064</td>
<td>0.011</td>
<td>-0.0598</td>
<td>0.0009</td>
<td>-0.0212</td>
<td>0.0524</td>
<td>0.102</td>
<td>-0.0490</td>
<td>-0.0190</td>
<td>0.0277</td>
<td>0.0501</td>
<td>0.1663</td>
</tr>
<tr>
<td>Median</td>
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<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>1.753</td>
<td>1.938</td>
<td>2.101</td>
<td>1.861</td>
<td>3.300</td>
<td>1.989</td>
<td>2.195</td>
<td>1.296</td>
<td>1.889</td>
<td>1.897</td>
<td>1.652</td>
<td>2.487</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.111</td>
<td>-0.233</td>
<td>-0.7504</td>
<td>-1.0409</td>
<td>-1.5910</td>
<td>-0.5268</td>
<td>-0.6796</td>
<td>-0.6703</td>
<td>-0.1721</td>
<td>0.2275</td>
<td>-0.5011</td>
<td>-0.6151</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>416.48</td>
<td>85.997</td>
<td>902.38</td>
<td>1484.84</td>
<td>394.477</td>
<td>346.080</td>
<td>1247.00</td>
<td>1350.54</td>
<td>4306.02</td>
<td>738.588</td>
<td>979.493</td>
<td>1270.69</td>
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<tr>
<td>Probability</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
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<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>Obs.</td>
<td>731</td>
<td>731</td>
<td>731</td>
<td>731</td>
<td>731</td>
<td>731</td>
<td>731</td>
<td>731</td>
<td>731</td>
<td>731</td>
<td>731</td>
<td>731</td>
</tr>
</tbody>
</table>

### Table 3: Descriptive Statistics for Logarithmic Daily Return Series of Ethical Stocks

<table>
<thead>
<tr>
<th></th>
<th>ASLAN</th>
<th>BTCIM</th>
<th>CIMSA</th>
<th>MGROS</th>
<th>OTKAR</th>
<th>PTOFS</th>
<th>SKBNK</th>
<th>TATGD</th>
<th>TAVHL</th>
<th>TOASO</th>
<th>TSKB</th>
<th>TURCS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>-0.055</td>
<td>-0.009</td>
<td>0.063</td>
<td>-0.076</td>
<td>0.166</td>
<td>-0.040</td>
<td>0.048</td>
<td>-0.073</td>
<td>0.097</td>
<td>0.080</td>
<td>0.043</td>
<td>-0.034</td>
</tr>
<tr>
<td>Median</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
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<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>4.139</td>
<td>2.182</td>
<td>1.806</td>
<td>2.473</td>
<td>2.389</td>
<td>2.358</td>
<td>2.058</td>
<td>1.986</td>
<td>2.217</td>
<td>2.567</td>
<td>2.158</td>
<td>2.232</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.965</td>
<td>0.119</td>
<td>-0.660</td>
<td>-1.082</td>
<td>0.283</td>
<td>-0.564</td>
<td>-0.240</td>
<td>-0.789</td>
<td>0.094</td>
<td>-0.614</td>
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<td>-0.641</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>2041.46</td>
<td>7260.47</td>
<td>2762.82</td>
<td>3046.04</td>
<td>1693.80</td>
<td>5829.24</td>
<td>269.17</td>
<td>1281.95</td>
<td>90.5299</td>
<td>877.647</td>
<td>189.43</td>
<td>1090.34</td>
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<tr>
<td>Probability</td>
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<tr>
<td>Obs.</td>
<td>731</td>
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</tbody>
</table>
Results

This paper compares two groups of stocks to analyse the efficiency of having an ethical portfolio in comparison with a conventional portfolio. Therefore, efficiency test by second-order stochastic dominance approach is applied on both groups, which consist of 12 stocks.

Table 4 and 5 give the results of SSD pairwise comparisons of both groups, ethical and conventional ones, respectively. “1” stands for that the stock in the row second order stochastically dominates the stock in the column. Similarly, “2” means that stock in the column second order stochastically dominates the stock in the row and “3” represents that there is no second order stochastic dominance relationship between the stocks. 0 is used for meaningless cells.

All the stocks are classified to 4 groups. Stocks, which are not dominated, constitute a group of efficient portfolio. We follow the classification of Güran et. al. (2013) for the SD relationship which is stated as the following:

A: The stocks, which dominate at least one stock and not dominated by any stock.
B: The stocks, which do not dominate any stock, ant dominated by at least one stock.
C: The stocks, which dominate at least one stock and dominated by at least one stock.
D: The stock, which are neither dominate nor dominated.

It means that stocks in groups A&D are efficient and stocks in groups B&C are inefficient.
Table 4 SSD Matrix of Ethical Stocks

<table>
<thead>
<tr>
<th>SSD</th>
<th>AKCNS</th>
<th>ALBRK</th>
<th>ASYAB</th>
<th>AYGAZ</th>
<th>BIMAS</th>
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<th>FROTO</th>
<th>MRDIN</th>
<th>NUHCM</th>
<th>PETKM</th>
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<tbody>
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<td>AKCNS</td>
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<td>2</td>
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<td>ALBRK</td>
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Table 5 SSD Matrix of Conventional Stocks

<table>
<thead>
<tr>
<th>SSD</th>
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<th>BTCIM</th>
<th>CIMSA</th>
<th>MGROS</th>
<th>OTKAR</th>
<th>PTOFS</th>
<th>SKBNK</th>
<th>TATGD</th>
<th>TAVHL</th>
<th>TOASO</th>
<th>TSKB</th>
<th>TURCS</th>
</tr>
</thead>
<tbody>
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<td>3</td>
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<td>SKBNK</td>
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<td>1</td>
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<td>1</td>
<td>1</td>
<td>1</td>
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<tr>
<td>TAVHL</td>
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<td>3</td>
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<td>3</td>
<td>1</td>
<td>1</td>
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</tr>
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<td>TOASO</td>
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<td>3</td>
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<td>1</td>
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<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
Table 6 shows the number of dominations for each ethical stock and Figure 1 illustrates the SD relationship groups of ethical stocks. Table 7 is about the classification of ethical portfolio and shows the efficient stocks with respect to their weights.

![Fig 6 Groups of Ethical Stocks According to SSD Matrix](image)

**Table 6 Number of dominations for each ethical stock**

<table>
<thead>
<tr>
<th>Stocks</th>
<th>Dominates</th>
<th>Dominated</th>
<th>Neither Dominates Nor Dominated</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>AKCNS</td>
<td>5</td>
<td>0</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>ALBRK</td>
<td>1</td>
<td>0</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>ASYAB</td>
<td>0</td>
<td>7</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>AYGAZ</td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>BIMAS</td>
<td>4</td>
<td>0</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>ENKA1</td>
<td>1</td>
<td>2</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>FROTO</td>
<td>0</td>
<td>0</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>MRDIN</td>
<td>0</td>
<td>0</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>NUHCM</td>
<td>0</td>
<td>2</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>PETKM</td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>PNSUT</td>
<td>5</td>
<td>0</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>TTRAK</td>
<td>0</td>
<td>0</td>
<td>11</td>
<td>11</td>
</tr>
</tbody>
</table>

Ethical stocks, which have complied with the participation banking rules are SSD pairwise compared. Stocks, which are not dominated are the efficient ones, which are AKCNS, ALBRK, BIMAS, FROTO, MRDIN, PNSUT and TTRAK. These stocks constitute the efficient group of 12 stocks. The chosen 7 efficient stocks comprises a 68.84% efficient portfolio based on the weights in BIST.

**Table 7 Classification of Ethical Stocks**

<table>
<thead>
<tr>
<th>Stocks</th>
<th>Original Weights</th>
<th>Adjusted Weights</th>
<th>Groups</th>
<th>Efficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>AKCNS</td>
<td>0.27%</td>
<td>2.45%</td>
<td>A</td>
<td>2.45%</td>
</tr>
<tr>
<td>ALBRK</td>
<td>0.21%</td>
<td>1.94%</td>
<td>A</td>
<td>1.94%</td>
</tr>
<tr>
<td>ASYAB</td>
<td>0.57%</td>
<td>5.29%</td>
<td>B</td>
<td>-</td>
</tr>
<tr>
<td>AYGAZ</td>
<td>0.39%</td>
<td>3.56%</td>
<td>C</td>
<td>-</td>
</tr>
<tr>
<td>BIMAS</td>
<td>5.19%</td>
<td>47.87%</td>
<td>A</td>
<td>47.87%</td>
</tr>
<tr>
<td>ENKA1</td>
<td>1.64%</td>
<td>15.16%</td>
<td>C</td>
<td>-</td>
</tr>
<tr>
<td>FROTO</td>
<td>1.01%</td>
<td>9.35%</td>
<td>D</td>
<td>9.35%</td>
</tr>
<tr>
<td>MRDIN</td>
<td>0.10%</td>
<td>0.96%</td>
<td>D</td>
<td>0.96%</td>
</tr>
<tr>
<td>NUHCM</td>
<td>0.11%</td>
<td>1.04%</td>
<td>B</td>
<td>-</td>
</tr>
<tr>
<td>PETKM</td>
<td>0.66%</td>
<td>6.10%</td>
<td>C</td>
<td>-</td>
</tr>
<tr>
<td>PNSUT</td>
<td>0.16%</td>
<td>1.43%</td>
<td>A</td>
<td>1.43%</td>
</tr>
<tr>
<td>TTRAK</td>
<td>0.53%</td>
<td>4.84%</td>
<td>D</td>
<td>4.84%</td>
</tr>
<tr>
<td>Total Weight</td>
<td>10.85%</td>
<td>100.00%</td>
<td>-</td>
<td>68.84%</td>
</tr>
</tbody>
</table>
Table 8 shows the number of dominations for each conventional stock and Figure 2 illustrates the SD relationship groups of conventional stocks. Table 9 is about the classification of conventional portfolio and shows the efficient stocks with respect to their weights.

![Fig 7 Groups of Conventional Stocks According to SSD Matrix](image)

**Table 8** Number of dominations for each conventional stock

<table>
<thead>
<tr>
<th></th>
<th>Dominates</th>
<th>Dominated</th>
<th>Neither Dominates Nor Dominated</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASLAN</td>
<td>0</td>
<td>6</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>BTCIM</td>
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<td>1</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>CIMSA</td>
<td>3</td>
<td>0</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>MGROS</td>
<td>0</td>
<td>7</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>OTKAR</td>
<td>2</td>
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<td>9</td>
<td>11</td>
</tr>
<tr>
<td>PTOFS</td>
<td>1</td>
<td>2</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>SKBNK</td>
<td>3</td>
<td>0</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>TATGD</td>
<td>0</td>
<td>0</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>TAVHL</td>
<td>4</td>
<td>0</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>TOASO</td>
<td>1</td>
<td>1</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>TSKB</td>
<td>3</td>
<td>0</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>TURCS</td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>11</td>
</tr>
</tbody>
</table>

Conventional stocks, which are corresponding with the participation index’ stocks are SSD pairwise compared. Stocks, which are not dominated are the efficient ones, which are CIMSA, OTKAR, SKBNK, TAVHL, TSKB and TATGD. These stocks constitute the efficient group of 12 stocks. The chosen 6 efficient stocks comprises a 63.79% efficient portfolio based on the weights in BIST.

**Table 9** Classification of Conventional Stocks

<table>
<thead>
<tr>
<th>Stocks</th>
<th>Original Weights</th>
<th>Adjusted Weights</th>
<th>Groups</th>
<th>Efficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASLAN</td>
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<tr>
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<td>0.05%</td>
<td>1.06%</td>
<td>C</td>
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</tr>
<tr>
<td>CIMSA</td>
<td>0.28%</td>
<td>6.28%</td>
<td>A</td>
<td>6.28%</td>
</tr>
<tr>
<td>MGROS</td>
<td>0.38%</td>
<td>8.46%</td>
<td>B</td>
<td>-</td>
</tr>
<tr>
<td>OTKAR</td>
<td>0.26%</td>
<td>5.93%</td>
<td>A</td>
<td>5.93%</td>
</tr>
<tr>
<td>PTOFS</td>
<td>0.07%</td>
<td>1.62%</td>
<td>C</td>
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<td>SKBNK</td>
<td>0.12%</td>
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<td>A</td>
<td>2.69%</td>
</tr>
<tr>
<td>TATGD</td>
<td>0.09%</td>
<td>1.97%</td>
<td>D</td>
<td>1.97%</td>
</tr>
<tr>
<td>TAVHL</td>
<td>1.46%</td>
<td>32.69%</td>
<td>A</td>
<td>32.69%</td>
</tr>
<tr>
<td>TOASO</td>
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<td>-</td>
</tr>
<tr>
<td>TSKB</td>
<td>0.63%</td>
<td>14.23%</td>
<td>A</td>
<td>14.23%</td>
</tr>
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<td>TURCS</td>
<td>0.10%</td>
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<td>-</td>
</tr>
<tr>
<td>Total Weight</td>
<td>4.46%</td>
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<td>-</td>
<td>63.79%</td>
</tr>
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</table>
In one by one SSD pairwise comparisons of participation index’ stocks and corresponding conventional stocks; 4 of the participation index’ stocks second order stochastically dominate the conventional stocks. AYGAZ dominates TURCS, BIMAS dominates MGROS, PETKM dominates PTOFS, and PNSUT dominates TATGD. Table 10 shows the results of pairwise comparison of corresponding stocks. 1 stands for the participation index stock second-order stochastically dominates the conventional stock. 2 stands for the conventional stock second-order stochastically dominates the participation index stock and 3 means that there is no second order stochastic dominance relationship between the stocks.

Table 10 SSD Pairwise Comparison of Corresponding Stocks in Ethical and Conventional Portfolios

<table>
<thead>
<tr>
<th>Stocks of Participation Index</th>
<th>Corresponding Conventional Stocks</th>
<th>SSD Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>AKCNS</td>
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</tr>
<tr>
<td>ALBRK</td>
<td>SKBNK</td>
<td>3</td>
</tr>
<tr>
<td>ASYAB</td>
<td>TSKB</td>
<td>3</td>
</tr>
<tr>
<td>AYGAZ</td>
<td>TURCS</td>
<td>1</td>
</tr>
<tr>
<td>BIMAS</td>
<td>MGROS</td>
<td>1</td>
</tr>
<tr>
<td>ENKAI</td>
<td>TAVHL</td>
<td>3</td>
</tr>
<tr>
<td>FROTO</td>
<td>TOASO</td>
<td>3</td>
</tr>
<tr>
<td>MRDIN</td>
<td>ASLAN</td>
<td>3</td>
</tr>
<tr>
<td>NUHCM</td>
<td>BTCIM</td>
<td>3</td>
</tr>
<tr>
<td>PETKM</td>
<td>PTOFS</td>
<td>1</td>
</tr>
<tr>
<td>PNSUT</td>
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<td>1</td>
</tr>
<tr>
<td>TTRAK</td>
<td>OTKAR</td>
<td>3</td>
</tr>
</tbody>
</table>

Conclusion

This paper compares ethical and conventional portfolios by second-order stochastic dominance efficiency test. Therefore, 12 ethical stocks, which are complying with banking participation rules for all 12 revising quarters, and 12 corresponding conventional stocks are examined. 7 of the 12 ethical stocks constitute a 68.89% efficient portfolio. On the other hand, 6 of the 12 conventional stocks constitute a 63.79% efficient portfolio. It is possible to mention that the group of ethical stocks forms a more efficient portfolio. It is clear that these results are valid only for the selected stocks, however number of the efficient ethical stocks is also one more than the efficient conventional stocks.

Additionally, corresponding stocks of both portfolios are SSD pairwise compared and 4 ethical stocks second-order stochastically dominated the 4 corresponding conventional stocks. With changing stocks, there can be some different results in SSD pairwise comparisons; however it is another argument to suggest that ethical stocks comprise a more efficient portfolio than the conventional ones.

In further researches, probabilities of each return can be changed according to the year of the returns. Another suggestion is that the weights of the stocks in portfolio can be differentiated. Furthermore, returns of both stock groups can be simulated and compared with each other and the BIST-100 index to evaluate the performance of both efficient portfolios.

References


How do credit ratings influence investors’ behavior in Turkish stock markets?

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Adiyaman University, Turkey
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Abstract
Credit rating agencies first appeared in 1900 with Moody’s. Since that time, agencies became one of the most followed companies in the World especially by investors. Their main function is grading countries and/or companies depend on tendency to bankruptcy/ economic crises. It means the grades are being used as a clue for the strength. Therefore, the common sense, people consider the grades before put in money to a country, a company, or a project. Even though undoubted power of the agencies over the business world, it is hard to say they are definitely reliable. Especially after we have experience few false grades which suppose to be higher or lower. Many comments had been made on that situation, its results, and confidence of the agencies. In this study, we will examine investors’ trust towards credit rating agencies and reaction to the rating grades in Turkish stock markets by using behavioural finance.

KeyWords: Turkish Stock Market, Credit Ratings, Behavioural Finance
Quality of Accounting Profession In Accordance With International Standards

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Erciyes University, Turkey
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Abstract

The quality of financial statements is closely related to quality of accounting professions. It’s observed that some financial statements don’t reflect the truth literally because of many internal and external factors (e.g. work overload, unfair competition, grey economy, business culture, professional management, lack of institutionalization, failure of effective implementation of legal regulations). This situation concern both independent and dependent accountants and affect adversely the image of accounting profession in society. Independent accountants are out of firms and keep away from financial highlights, so they do accounting transactions without real information about the firms. Accordingly, this study will provide information on the following issues for accountants; how they perform their job with higher quality, what should be the physical conditions, what features accountants should have to be more qualified, which training should be given to them, how much should be paid for them. Consequently, in this study we will attempt to develop a model for accounting profession by basing on the quality control model of auditors that is ISQC 1-International Standards on Quality Control 1.

Keywords: Accounting Profession, Quality Control, Auditors

Introduction

Education in Turkey has become increasingly career-oriented. There exists today a wide range of job opportunities in the field of accounting. Entry-level jobs are dependent on the extent of your education. Positions of bookkeepers and accounting clerks, for example, require a high school diploma and perhaps a two-year associate degree in accounting. The position of an accountant demands that you have a more thorough understanding of financial concepts and so requires a minimum of a four-year bachelor's degree in accounting. Some accountants go on to become certified public accountants, or CPAs, as this opens up additional job opportunities for them. To become a CPA, you will need to earn college credits over and above your accounting major, gain some work experience, and, most importantly, you will need to pass the CPA Exam.

After becoming a CPA, when you are working, you have to comply with the standards. Some of them are ISA, IFRS and ISQC. In Turkey, there are standards on accounting and financial reports. But these are not enough for a well job. Because CPAs are much occupied with documents and they are generally away from the firms in which the accounting occur. Scope of this study is to form qualification standards for the accountants. So the accountants can do more quality works.

Accounting and auditing profession has entered to the 2000’s process of change and transformation. Developments and decisions taken in the international arena have made the accounting profession compulsory to act in the whole systems and new rules. Because of this, countries should establish national regulations to follow international regulations.

International Professional Accounting Organizations

History of the accounting profession is based on very old times. The AICPA-American Institute of CPAs is the world’s largest member association representing the accounting profession, with more than 394,000
members in 128 countries and more than a 125-year heritage of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. The AICPA sets ethical standards for the profession and U.S. auditing standards for audits of private companies, nonprofit organizations, federal, state and local governments. It develops and grades the Uniform CPA Examination and offers specialty credentials for CPAs who concentrate on personal financial planning; fraud and forensics; business valuation; and information technology. Through a joint venture with the Chartered Institute of Management Accountants, it has established the Chartered Global Management Accountant designation to elevate management accounting globally.63 Another international organization is IAASB. The International Auditing and Assurance Standards Board (IAASB) was founded in March 1978. It was previously known as the International Auditing Practices Committee (IAPC). The IAPC’s initial work focused on three areas: object and scope of audits of financial statements, engagement letters, and general auditing guidelines. In 1991, the IAPC’s guidelines were recodified as International Standards on Auditing (ISAs). In 2001, a comprehensive review of the IAPC was undertaken, and in 2002, the IAPC was reconstituted as the International Auditing and Assurance Standards Board (IAASB). In 2003, IFAC approved a series of reforms designed, among other things, to further strengthen its standard-setting processes, including those of the IAASB, so that they are responsive to the public interest.

In 2004, the IAASB began the Clarity Project, a comprehensive program to enhance the clarity of its ISAs. This program involved the application of new conventions to all ISAs, either as part of a substantive revision or through a limited redrafting to reflect the new conventions and matters of clarity generally.64

The International Federation of Accountants-IFAC was founded on October 7, 1977, in Munich, Germany, at the 11th World Congress of Accountants. IFAC was established to strengthen the worldwide accountancy profession in the public interest by:

Developing high-quality international standards in auditing and assurance, public sector accounting, ethics, and education for professional accountants and supporting their adoption and use;

Facilitating collaboration and cooperation among its member bodies;

Collaborating and cooperating with other international organizations; and

Serving as the international spokesperson for the accountancy profession.

At the first meeting of the IFAC Assembly and Council in October 1977, a 12-point work program was developed to guide IFAC committees and staff through the first five years of activities. Many elements of this work program are still relevant today. Beginning with 63 founding members from 51 countries in 1977, IFAC’s membership has grown to now include 179 members and associates in 130 countries and jurisdictions worldwide.65

FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) is an international non-profit organization based in Brussels that represents 47 institutes of professional accountants and auditors from 36 European countries, including all of the 28 EU Member States. FEE has a combined membership of more than 800,000 professional accountants, working in different capacities in public practice, small and large accountancy firms, businesses of all sizes, government and education, all of whom contribute to a more efficient, transparent and sustainable European economy.66

ACCA-Association of Chartered Certified Accountants is the global body for professional accountants with 162,000 members and 428,000 students in 173 countries. We also have a network of 91 offices and centers across the World. In 1904 eight people formed the London Association of Accountants. Their aim was to provide more open access to the accountancy profession than the two existing accountancy organizations. ACCA went through a number of mergers and amalgamations over the years. In 1984 we became the

63 http://www.aicpa.org/About/Pages/About.aspx [01.07.2014]
64 http://www.ifac.org/auditing-assurance/about-iaasb [01.07.2014]
65 http://www.ifac.org/about-ifac/organization-overview/history [01.07.2014]
Chartered Association of Certified Accountants to reflect the fact that we had been granted a Royal Charter of Incorporation. In 1996 we began to use our current name, the Association of Chartered Certified Accountants (ACCA).  

FCM- the Federation of Mediterranean Certified Accountants / Fédération des Experts Comptables Méditerranéens – FCM represents the accountancy profession in the Mediterranean area. Its membership consists of 21 professional institutes of accountants from 16 Mediterranean countries (Albania, Bulgaria, Cyprus, Egypt, France, Greece, Israel, Italy, Kosovo, Malta, Morocco, Romania, Serbia, Spain, Tunisia, Turkey), plus two associate members, ACCA and FIDEF. FCM member bodies are present in 8 member states of the European Union, and represent more than 320,000 professionals. 19 FCM Member Bodies are IFAC members. FCM is a non-profit association created at the end of 1999 on the initiative of a number of leaders of national accounting institutes in the Mediterranean area. FCM is the only representative organization of the accountancy profession in the Mediterranean and is also the regional organization with the widest representation overall in the area. FCM’s mission is to promote co-operation among the professional accountancy bodies in the region, both in the private and in the public sector, to share knowledge and provide technical assistance to members to help them achieve and maintain high professional and quality assurance standards. In particular, as a regional organization, FCM’s mission is to consider the professional themes in the regional context, with the ultimate goal of contributing to the economic developments of the region and to the implementation of a more integrated and competitive market between the Mediterranean countries. FCM believes that the accountancy profession, in its global dimension and with an advisory responsibility for business around the world, has the possibility to play a key role in addressing the integration and development challenges in the Mediterranean market. Accountants have the privileged position to understand the business’ needs and can act as a facilitator of a fruitful cooperation between the public authorities and the business community. Through FCM, the accountancy profession is deeply committed to play a significant role in the development of a Mediterranean market.

Professional Accounting Organizations in Turkey

The accounting profession in Turkey for many years was carried out without the law profession. Business ties to accounting increased day by day, so the need for law profession for accounting has arisen. Enacted in 1989, Profession Act 3568 held accounting profession under 3 titles; accountant, public accountant, chartered accountant. After the changes in 26.07.2008, accountant title removed so there are 2 titles now. Profession Act 3568 held scope of the accounting profession, entry requirements to profession, vocational training and professional qualification exams, chartered accountants’ approval authority, organizations of unions and chambers, disciplinary provisions.

TÜRMOB, the Union of Chambers of Certified Public Accountants and Sworn-in Certified Public Accountants of Turkey, is the national professional body with the sole authority to award professional license. TÜRMOB was founded in 1989 with the Act 3568 on Certified Public Accountancy and Sworn-in Certified Public Accountancy.

The organizational structure of the TÜRMOB is supported by two distinct Chambers;

Chambers of Certified Public Accountants (SMMM) and
Chambers of Sworn-In Certified Public Accountants (YMM).

81 Chambers form the TÜRMOB, of which 73 are SMMM Chambers and 8 are YMM Chambers.

TÜRMOB is the national umbrella for the local Chambers. The Union renders a public service and is founded primarily to carry out activities to insure the development of the profession and the protection of due interests of the members of the profession and the preservation of professional dignity, ethics, order and traditions. To comply with the aforementioned duties and responsibilities, the Union extends a continuous and intensive effort especially in areas such as practical training, licensing, professional rules

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68 http://www.fcmweb.org/aboutus.asp [01.07.2014]
and regulations, publishing and membership and participates in the activities of international professional organizations.

In order to fulfill its duties such as the development of the profession, protection of interests of its members and the preservation of professional ethics and order, the Union carries out comprehensive efforts in areas like awarding of licenses, practical training, examinations, standard setting, quality control, application and enforcement of professional standards, professional rules and regulations, publications and continuous professional education.

The accounting practices in Turkey have a long history. Accounting practices date back to the period of Ilhanlilar in 13th Century. Until mid-19th century, these activities pertained only to the monitoring of public finance. During the rule of Ottoman Empire, the judges consulted expert persons in the area of accounting practices when deciding on cases of disputes between individuals. However, the understanding of accounting that forms the basis of modern accounting practices and which conforms to those practices in industrialized states began after the establishment of Istanbul Chamber of Commerce in 1881 and the subsequent inauguration of Istanbul Accounting High School in 1882. At the time, some foreign capital companies operating in the Ottoman Empire were reported to use accounting practices as well.

4.306 Sworn-In Certified Public Accountants are registered to YMM Chambers. 78.585 CPA is registered to SMMM Chambers. 70.716 Professional accountants graduate from 4 year college, 3.776 MBA and 456 PhD. 70

KGK- Public Oversight Accounting and Auditing Standards Authority (POA) is established by “Public Oversight, Accounting and Auditing Standards Authority’s Organization and Responsibilities Decree Law” numbered 660, issued on November 2, 2011 and has the authority to set and issue Turkish Accounting Standards compliant with the international standards, to ensure uniformity, high quality and confidence in statutory audits, to set the auditing standards, to approve statutory auditors and audit firms and to inspect their audits, and perform public oversight in the field of statutory audits. 71 Establishment of the POA is a very important achievement for Turkey, in particular for the EU negotiation process and it will make great contributions to the effective implementation of new Turkish Commercial Code (TCC). 72 POA has 3 inspection and supervision departments, 2 standards departments and 1 education, human resources and information technology departments. 73

TMS/TFRS 2013 set was enacted by updating. TDS were published by POA. Especially KKS1 and BDS 220 are related to our study. KKS 1 concerns the auditors from the point of the audit companies. In our opinion, Quality Control Standards for Professional Accounting should be determined for better quality of service of the accounting profession.

International Regulations on Quality

ISQC-1- International Standards on Quality Control; Giancarlo Attolini’s presentation in WCOA states that: Guide to Quality Control for SMP’s are QC Guide, Purpose to help SMP’s apply ISQC 1 cost effectively, first edition March 2009, 2nd edition July 27,2010, Case study, forms, sample QC manuals. 74 QC Guide 2nd Edition; Main changes to 1st edition are; Alignment with 2009 revision of IESBA code, updated for 2010 Handbook (ISA references), improved guidance case study and manuals, color design. 75

ISA 220- Quality Control for Audits of Historical Financial Information is issued by the International Auditing and Assurance Standards Board (IAASB)” and is effective for audits of financial statements for periods beginning on or after July 1, 2009. ISA 220 replaces AS-220 for audits of financial statements for periods beginning on or after July 1, 2009.


WCOA-Giancarlo Attolini (Quality Control Guide—…)slayt 13 [02.02.2014]

WCOA-Giancarlo Attolini (Quality Control Guide—…)slayt 15 [02.02.2014]

70http://www.turnob.org.tr/TurnobWeb/Attachment.aspx?param=2AMEHdHlmk6pVnUExcuw/+Znijl1uArK9bRui DUVGFsPqXYh+j6uvz0z6CYoINzWPzMCX2D5Y1rD5jrQ== [02.07.2014]


72 http://www.kgk.gov.tr/eng/contents/files/Pdf/Public_Oversight_Authority.pdf [02.07.2014]


74 WCOA-Giancarlo Attolini (Quality Control Guide—…)slayt 13 [02.02.2014]

75 WCOA-Giancarlo Attolini (Quality Control Guide—…)slayt 15 [02.02.2014]
In quality control, there are codes of ethics that must be complied with. These codes of ethics can be summarized as; independency, honesty, objectivity, professional attention and care, privacy and secrecy, professional behavior, Technical Standards.

**Regulations on Quality in Turkey**

Auditing firms in Turkey consist of SMMM or YMM firms. The inspections are carried out in Turkey to ensure the quality control; some regulations are located in accordance with the Act 3568. For instance; there are some requirements to be an accountant, because of this, accounting profession should have level of knowledge. The requirement, that is stated in ISA 220 that audit team should have sufficiently level of knowledge, is exactly same in Act 3568.

Additionally, the professional features of auditor are given in ISA 200 are also indicated in regulations on working procedures and principles of CPA and sworn-in CPA. Quality issue is highlighted in detail in KKS1, BDS 200 and BDS 220 which are published by POA.

**Discussion**

The regulations on quality in Turkey are not enough for the accountants. They are affected by many factors. So new regulations should be established by taking into account these factors. Our study led to regulations by affecting factors. Here is a figure that is created by us.

![Fig. 1. Factors affecting the quality of the accounting professional (Daisy Model)](image_url)

Each factors affect accounting profession separately. Quality arrangements can be made with the help of this model. So accountants will have a quality control standard for more quality works.

**Conclusion**

As a result, accountants who work independently should have offices. QC standards may be formed for offices. Offices should be in certain m². Accountants should take training to follow current issues. Accountants’ choosing their job willingly may affect the quality. Working with low wages may affect the quality of job.

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Control units may be formed for checking the work of accounting profession. Dependent accountants should be encouraged rather than independent accountants. Because, independent accountants stay away from the firms and they aren’t informed about the issues of the firms. They keep accounts by the information that is given. Because they are not in the firms, they don’t have opinions if the information given is right or wrong.

In Turkey, although there are ISQC standards of auditors, accountants do not have standards. Because of this, many accountants don’t have offices, workers or time to examine the reports. They generally do many book confirms, i.e. 1000 books per year. In our opinion, the more qualified the accountants are, the more qualified the books are. So, we think that the QC standards for auditors can be edited for accountants.

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https://scholarcommons.usf.edu/anaheipublishing/vol12/iss72014/1
Analysis of Tourism Development in Adiyaman: Social Approach

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Abstract

Community phenomenon can be thought as an umbrella concept of multidimensional socio-economic events such as tourism. This reflects the facts that, social structures can provide important clues for evaluation of some specific fields especially in tourism. In this context, appropriate social structure (such as cultural, developmental etc.) is seen as prior condition for the establishment of tourism idea in the host communities. The main object of this paper is to evaluate the tourism development of Adıyaman/Turkey within the frame of regional social structure. In this sense, considering the social characteristics of Adıyaman, strengths, weaknesses, opportunities and threats analysis (SWOT) is implemented in evaluating of regional tourism development. Thus, SWOT is used for analyzing social situations in order to make a better level of providing detailed view. In accordance with this purpose, self observation and regional actor's opinions have been utilized. The emerging results refer that, locals hope to tourism development but then have a distant attitude to tourism idea culturally.

Keywords: Tourism Development, Social Structure, SWOT Analysis.

Introduction

The term community is an amalgamation of communal living (Beeton, 2006). Based upon meaning of the term, tourism can be assented as an important social fact in any locals more particularly in closed community (Nash and Smith, 1991). However, a known fact that successful tourism is dependent on a condition of understanding host community's social structure (Reisinger and Turner, 2003). Because of tourism and community relationship contains multidimensional issue such as economy, culture and also ideology (Dann and Liebman Parrinello, 2009), it may be regarded that, research subject is related with sociology of tourism and needed deeper and long standing research. But within the scope of this research, just an observational and intellectual opinion has been revealed through SWOT analysis.

Region of Adıyaman

Adıyaman is a city in southeastern Turkey, capital of the Adıyaman Province. It is one of the historical and cultural cities have strategic importance but low-rate growth has. The population rose from 175,647 (1990) to 597,184 (2012) (TUIK, 2013). Adıyaman city is well-known with Nemrut is one of the most ambitious constructions of the Hellenistic period. The syncretism of its pantheon, and the lineage of its kings, which can be traced back through two sets of legends, Greek and Persian, is evidence of the dual origin of this kingdom's culture (www.whc.unesco.org).

Social Structure and Tourism Approach

It's observed that, Adıyaman community have the feature of closed society. But note that, this observed social introversion does not mean of the nonprogressing. It is seen at given mention, a common denominator of these situation is lack of collective consciousness at social scale of economic, ecological and social implementations (Grosskurt and Rotmans, 2005). In order to provide consciousness in a social manner, community needs wide awareness network (Walmsley, 2002). In other words, awareness factor is the key to be engraved development phenomenon in locals' subconscious as well it is the principal driver of regional tourism progress.

Unfortunately, through industrialization and globalization, the standard of living in the developed world has soared from bare subsistence to affluence, while the majority of people in the developing world still are subjected to destitution (Mebratu, 1998). However we face with the same situation in Adıyaman. Adiyaman’s tourism now shows urgent need of social sensitization. Adiyaman thinking about development...
especially on tourism has been dominated by the longstanding social elusiveness. It is likely that, this communal gab may causes to introversion on development. Note that the general feeling regarding conjecture of the Adıyaman makes it necessary to reevaluating about the community mechanisms.

**Methodology**

This study based on SWOT analysis which was constituted by literature review, self observation and also local actors' views. Local actors consist of opinion leaders, academicians, and relevant sector representatives (such as hotels, travel agents etc).

The concept of SWOT is an acronym that symbolizes of strengths, weaknesses, opportunities, and threats (Rizzo and Kim, 2005). Accordingly, SWOT analysis is accepted as a purposive tool for strategic evaluation of any situation (Kangas, Pesonen, Kurttila and Kajanus, 2001).

In order to understand the weaknesses, strengths, opportunities, and threats of Adıyaman as a closed community on various social reflects, the SWOT analysis could be a useful instrument to carry out this appraisal (Tosun and Çalışkan, 2011).

**SWOT Analysis for Tourism Development in Adıyaman: Social Perspective**

Considering the social characteristics of Adıyaman, SWOT analysis is implemented in evaluating of regional tourism development (see Figure 1).

<table>
<thead>
<tr>
<th><strong>Strengths (S)</strong></th>
<th><strong>Weaknesses (W)</strong></th>
</tr>
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<tbody>
<tr>
<td>Hospitality</td>
<td>Social Introversion</td>
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<td>Social Tolerance</td>
<td>Social Instability</td>
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<tr>
<td>Pacifism</td>
<td>Social Gender Inequality</td>
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<tr>
<td>Philanthropy</td>
<td>Slowness in Positive Social Change</td>
</tr>
<tr>
<td>Social Sensitivity</td>
<td>Insufficient Social Consciousness</td>
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<tr>
<td>Public Order</td>
<td>Blurriness in Social Goals</td>
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<tr>
<td>Strong Neighbour Relations</td>
<td>Insufficient Social Life Opportunities</td>
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<tr>
<td>Sense of Belonging</td>
<td>Low Level of Social Expectation</td>
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<td>Cultural Richness</td>
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<tr>
<th><strong>Opportunities (O)</strong></th>
<th><strong>Threats (T)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Young Population Dynamics</td>
<td>High Rate of Young Population Migration</td>
</tr>
<tr>
<td>EU-Supported Social Projects</td>
<td>High Unemployment Rate</td>
</tr>
<tr>
<td>Increasing Social Interaction</td>
<td>Cultural Distance to Regional Change</td>
</tr>
<tr>
<td>Environment of Social Confidence</td>
<td>Inadequate Social Ownership of Investors</td>
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<tr>
<td>Authentic Social Structure</td>
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</tbody>
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**Figure 1. SWOT Analysis for Tourism Development in Adıyaman (Social Context)**

As can be seen in Figure 1, four major situations occur in developmental evaluation of community. In Strengths side, components refer to positive social infrastructure. On the other hand in Weaknesses side, components show us to inconveniences of social appearance predominantly. In the context of Opportunities, it is clearly seen that, regional specificities are an important parameter of developmental chance. Lastly, Threats are mostly related with demographical indicators.

**Results and Discussion**

This study is related with the social approach to the tourism development in Adıyaman. When looking at the results, some critical points are noteworthy. One of these points is philanthropy. It should be noted that, in Adıyaman community, many charitable organizations serve the community. In a sense, this reflects the fact that social structure characterized by strong ties among local people. Moreover, each item of Sense of Belonging, Hospitality, and Social Sensitivity can be evaluated as a characteristic of social structure.

Social Introversion, Social Instability, Slowness in Positive Social Change, Insufficient Social Consciousness, and Blurriness in Social Goals are five main components of Weaknesses. Local actors
noted that, this social picture is chronic problem of the region. This condition is also seen as a barrier to regional improvement especially in tourism.

Young population density is the main social dynamic of the region. Because of it is a basic parameter of the social transformation (Stoneman, 2002), young populations must be considered as a potential driver factor of regional promoting.

On the other side it is observed that, several EU (European Union) supported projects are implemented for social progress. In addition, employability of many unskilled workforces is provided through these projects.

In conjunction with high unemployment rate, young population migration is one of the most important threats for the region. Because of its cruciality, necessary precautions measures must be taken programmatically. By the way, it should be noted that, tourism development has always been a preventive action within such periods (UNWTO, 2014). It also shows us a linear relationship between tourism outputs and social well-being indicators such as employability especially in developing regions (Mathieson and Wall: 1988).

It is obvious that, Adıyaman community have an adaptable social structure that is conducive to tourism. But it is necessary to increase the regional aspect in the direction of tourism idea in particular social awareness. In this context, socio-economic tie between community and tourism needs to be established.

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Experimental Study of Nonprofessional Investors’ Use of the MD&A Disclosures

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Abstract

This study employs an experimental approach to examine investors’ use of information contained in the Management Discussion and Analysis (MD&A) section of a public company’s annual reports, quarterly reports and registration statements. Both the Securities and Exchange Commission (SEC) in the United States and International Accounting Standards Board (IASB) require public companies to provide the MD&A, in which management should provide clear and insightful discussion and analysis of their financial performance in order to help investors judge these companies’ earnings quality and predict their future performance. On the other hand, the SEC and the IASB realize that no two companies are exactly the same and thus intentionally give management flexibility in determining the type and depth of discussion and analysis in the MD&A. Given this mixed mandatory/discretionary nature, the quality and usefulness of the MD&A have been continuously concerned of the SEC and the IASB, which have called for more research on investors’ use of the MD&A disclosures. Based on the theory of correspondent inferences (Jones and Davis, 1965) and the theory on source credibility (e.g., Beach et al., 1978), this study predicts that nonprofessional investors use the MD&A disclosures in two related ways. First, investors consider the clarity of the MD&A disclosures to infer management’s reporting credibility. Specifically, they will perceive management that provides clearer MD&A to have higher reporting credibility. Second, investors’ perception of management reporting credibility and the valence (i.e., positiveness) of the financial information disclosed in the MD&A will jointly influence investors’ investment decisions. Specifically, investors will make favorable investment decisions for a positive management forecast in the MD&A only when they perceive management’s reporting credibility to be high, but not when they perceive management’s credibility to be low. To test these predications, a 2 X 2 between-subjects experiment was conducted among 77 nonprofessional investors. The experiment varied the clarity of a company’s MD&A following the SEC’s guidance and observations (low-clarity MD&A versus high-clarity MD&A). It also varied the valence of the company’s earnings forecasts disclosed in the MD&A (positive vs. mixed). The experiment results provide support to the hypothesized effects. Overall, the results of this study provide direct evidence on nonprofessional investors’ use of the MD&A disclosures. Such evidence may contribute to both practice and research. From a practical point, this study first provides support for the SEC and the IASB to emphasize the clarity of the MD&A disclosures in determining the quality and usefulness of the MD&A. Second, at a time when companies are striving to increase their credibility in the stock market, the present findings suggest that management may enhance its reporting credibility by providing clearer disclosures following the guidance of the SEC. With respect to research, this study adds to the limited literature on investors’ use of the MD&A. More importantly, the present findings suggest that nonprofessional investors are able to see beyond the face value of management’s disclosures, consistent with the predictions from psychology theories. This underscores the importance of applying psychology theories to study investor behavior and its antecedents.

Keywords: MD&A, Financial Information, Management Reporting Credibility, Investment Decisions, Psychological Theories, Regulations
The Effect of Social Media on Buying Decision Process of Tourists

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Abstract

Over the years, social media has played an increasingly significant role in people’s life. Nowadays especially tourists, who mostly purchase intangible products, use social media platforms as information sources in order to assure that they buy right products before they experience them. The objective of this study is to analyze how and when tourists use social media along their buying decision process in order to create a wider understanding on this subject. Also, the study aims to investigate to which extent tourists make use of social media platforms in buying decision process, and which social media platforms are more trusted as information sources and used more. The analysis of the study results shows that social media affect tourists’ buying decision process in different ways according to their demographic characteristics. This study confirms the growing importance of social media marketing in tourism industry. The findings of this study also contribute important information to marketing departments of tourism businesses in order to enhance the understanding of when and how social media should be used.

Keywords: Social Media in Tourism, Buying Decision Process of Tourists, Social Media Marketing

Introduction

Nowadays, technology, which is continuously evolving, affects competition environment and makes consumers more conscious. Companies no longer think that traditional marketing activities are sufficient way to reach consumers (Zarella, 2010). At that point; due to the widespread use of the internet and social media tools within people, companies started to promote their products in social media platforms to reach their consumers with ease. Technology is generally one of the key factors that affect consumer behavior (Kotler and Keller, 2011). Use of social media in tourism sector is gaining more importance day by day. Companies in tourism sector where there is intense competition take part in the social media platforms to have a great advantage (Poynter, 2010). Since, the companies listed on these platforms have more advantages than others in terms of brand awareness, reputation, and customer acquisition (Wheeler, 2009). Tourists affect each other on social media by coming together to share experiences, reviews, comments, opinions and also reveal their travel photos and videos (Xiang and Gretzel, 2010). Contents shared on those tourism platforms have influence on tourists’ travel decisions (Fotis and others, 2012). Tourism companies should communicate with tourist via social media, and build reliable relationships with them.

Literature Review

Consumer Behavior

Consumer is real one who buys or can afford to buy various goods and services to meet his/her individual or household desire, want and expectations (İslamoğlu and Altunışık, 2008: 5). Consumer is generally called as tourist in tourism sector. Tourist is the one who demands touristic goods and services to meet his/her various need, want, and expectations (İçoğz, 2001). Consumer behavior is the study of how individuals and households purchase, when they purchase, what they purchase and why they purchase (Kotler and Keller, 2011). Consumer behavior includes not only buying goods and services, but also consumers’ mental, emotional and behavioral responses (Kardes and others, 2010: 8). Also, consumer behavior contains not only behaviors during purchasing, but also behaviors before and after purchase goods and services (Karalar, 2006). There are a number of consumer behavior models in literature. However, in recent years, EKB (Engel-Kollat-Blackwell) model is one of the most widely used models to examine consumer buying decision process (Hawkins and Mothersbaugh, 2010: 496-497). According to the model,
consumer decision-making process first starts with recognition of the need, then consumer starts collecting information about the product that she/he may buy. After collected information, consumer evaluates the alternatives through information which obtained from internal and external source. In the next stage, consumer makes the purchase decision. Finally consumer makes post-purchase evaluation whether satisfied or not (Blackwell and others, 2006). Analyzing consumer behavior and factors affecting consumer behaviors is very significant in terms of companies in tourism sector. It helps companies to increase the level of customer satisfaction and loyalty. In order to keep current customers and also gain new customers, companies should focus on understanding customer behaviors in the long run.

Social Media

In web 1.0 phase, people could use the Internet as simple information source. After Web 2.0 phase, the Internet has dramatically changed. In this phase, people can create and share their own content. Web 2.0 technology brought social media term into literature. Safko and Brake (2009) defined social media as “activities, practices and behaviors among communities of people who gather online to share information, knowledge, and opinions using conversational media”. According to Kaplan and Haenlein (2010: 61), social media is “a group of Internet-based applications that build on the ideological technological foundations of Web 2.0 and that allow the creation and exchange of User Generated Content”. Social media can be defined as web-based platforms which allow people to generate their own content and share it with others though devices and applications such as smart phones, tablets and so on. Social media also allows people to connect to each other easily anytime and anywhere they want. There are a lot of platforms where people can interact with each other, generate their own contents, and share them with others (Kaplan and Haenlein, 2010; Fischer and Reuber: 2011; Kim and others, 2010; İşlek, 2010). In this study, social media platforms are classified as blogs, microblogs (Twitter etc.), social networks (Facebook etc.), wikis, media sharing sites (Youtube etc.), social marking and labeling (Reddit etc.), online communities (forums etc.), podcasting, and virtual worlds (Second Life etc.). According to Statista, 1.8 billion people use social media platforms as of 2014. It is estimated that in 2017, there will be 2.33 billion social media users. It shows that social media is a part of human life.

Decision Making Process of Tourists

Purchasing a tourism product is a complex process. This process has many sub-decisions containing deciding which destination will be selected, length of holiday, which hotel will be selected, how to travel, and so on (Swarbrook and Horner, 2007). The complexity of the tourism product requires modifying EKB model for tourist’s decision making process. According to modified EKB model; firstly, tourist feels travel/holiday desire. Then tourist starts to collect information about products which they can purchase and then tourist evaluates alternatives to decide better one for their selves. After evaluation, tourist buys touristic product and starts preparing for vacation, and then experiences it. Finally, tourist decides whether it met their expectations or not. Tourist’s decision making process stages can be described as follows (Cooper and others, 2005; Schiffman and Kanuk, 2000):

1- Feeling travel/holiday need
2- Information search
3- Evaluation of alternatives
4- Travel/holiday purchase decision
5- Travel/holiday preparation and experience
6- Evaluation after travel/holiday experience

Research Methodology

Data Collection

This research was applied to the tourism consumers who got any vacation in the past two years. A questionnaire consisting of three sections was used as a data collection method. First section of the questionnaire which consists of 20 questions with five-point Likert scale aims to measure tourists purchasing decision process. The second part of the questionnaire which consists of 11 questions aims to measure social media and travel/holiday habits of participants. Last section of the questionnaire consists of 6 questions aims to gather demographic information of participants. Format of the five-point scale items in the questionnaire form was prepared in the following way: “1= Strongly disagree”, “2=Disagree”, “3=Neutral”, “4=Agree”, “5=Strongly Agree”. 

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https://scholarcommons.usf.edu/anaheipublishing/vol12/iss72014/1
“3=Neither agree nor disagree”, “4=Agree”, and “5=Strongly Agree”. In the research, the main reason of using Likert scale is to see what extent participants agree or disagree with statements. Also, Likert scale is mostly used to measure individuals’ attitudes. Data was collected online via the Internet and social media. 494 questionnaires were collected for this research. However, due to deficiencies found in the questionnaires, 24 of them were excluded from evaluation. Therefore, 470 questionnaires were taken into account.

Data Analysis

SPSS (Statistical Package for Social Sciences) 22.0 Program for Windows was used in the analysis of the data collected for the research. Data was described through calculating frequency distribution tables and percentages, mean and standard deviation values.

Findings

Demographic Information of Participants

Participants of the research had the following demographics (Table 1): half of them were females (235) and half of them (235) males. As per the age, 61.3% were less than 30 years, 37.4% from 31 to 50, and 1.3% 51 or older. As per marital status, 47.2 were single and 52.8 married. As per education, 0.6% has completed primary school, 5.1% high school, 10.2% vocational school, 61.9% were graduated from university, and 22.1% have completed postgraduate. As per income, 15.3% had 0-999 TL salary, 15.1% 1000-1999 TL, 42.6% 2000-2999 TL, 17% 3000-3999 TL, 6% 4000-4999 TL, and 4% 5000 or more. As per profession, 39.8% have been working for private sector, 34% public sector, 0.9% retiree and 8.7% had no job during survey, 3.8% were doing independent business and 12.8% other professions.

<table>
<thead>
<tr>
<th>Groups</th>
<th>f</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>235</td>
<td>50.0</td>
</tr>
<tr>
<td>Male</td>
<td>235</td>
<td>50.0</td>
</tr>
<tr>
<td>Marital Status</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>222</td>
<td>47.2</td>
</tr>
<tr>
<td>Married</td>
<td>248</td>
<td>52.8</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary School</td>
<td>3</td>
<td>0.6</td>
</tr>
<tr>
<td>Vocational School</td>
<td>24</td>
<td>5.1</td>
</tr>
<tr>
<td>High School</td>
<td>48</td>
<td>10.2</td>
</tr>
<tr>
<td>University</td>
<td>291</td>
<td>61.9</td>
</tr>
<tr>
<td>Master Degree</td>
<td>69</td>
<td>14.7</td>
</tr>
<tr>
<td>Doctorate</td>
<td>35</td>
<td>7.4</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-30 year-old</td>
<td>288</td>
<td>61.3</td>
</tr>
<tr>
<td>31-50 year-old</td>
<td>176</td>
<td>37.4</td>
</tr>
<tr>
<td>50 year-old or older</td>
<td>6</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Usage of the Internet and Social Media Platforms

Participants of the research had the following information in terms of usage of the internet and social media (Table 2): 26.6% of participants use the internet 4-6 hours a day, 25.5% 7-9 hours a day, 16.6% 10-12 hours a day, 16.6% 1-3 hours a day, 12.3 13 hours or more a day, and 2.3 less than 1 hour a day. According to that, the vast majority of the participants (81.1%) use the internet more than 4 hours a day. On the other hand, 35.7 of them visit social media sites 1-3 hours a day, 27.2% 4-6 hours a day, 19.1% 7-9 hours a day, 11.7% less than 1 hour a day, 4.7% 10-12 hours a day, and 2.1% 13 hours or more a day. 67.6% of participants spend less than 7 hours a day on social media sites.
Table 2. Daily the Internet and Social Media Usage of Participants

<table>
<thead>
<tr>
<th>Daily the Internet Usage</th>
<th>f</th>
<th>%</th>
<th>Daily Social Media Usage</th>
<th>f</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 hour a day</td>
<td>11</td>
<td>2.3</td>
<td>Less than 1 hour a day</td>
<td>55</td>
<td>11.7</td>
</tr>
<tr>
<td>1-3 hours</td>
<td>78</td>
<td>16.6</td>
<td>1-3 hours</td>
<td>165</td>
<td>35.7</td>
</tr>
<tr>
<td>4-6 hours</td>
<td>125</td>
<td>26.6</td>
<td>4-6 hours</td>
<td>128</td>
<td>27.2</td>
</tr>
<tr>
<td>7-9 hours</td>
<td>120</td>
<td>25.5</td>
<td>7-9 hours</td>
<td>90</td>
<td>19.1</td>
</tr>
<tr>
<td>10-12 hours</td>
<td>78</td>
<td>16.6</td>
<td>10-12 hours</td>
<td>22</td>
<td>4.7</td>
</tr>
<tr>
<td>13 hours or more</td>
<td>58</td>
<td>12.3</td>
<td>13 hours or more</td>
<td>10</td>
<td>2.1</td>
</tr>
</tbody>
</table>

As seen at Table 3, the vast majority (95.32%) of participants of research use social media networks, 75.96% use media sharing sites, 70.85% online communities, 69.15% wikis, 48.94% microblogs, 32.13% blogs, 25.32% social marking and labeling sites, 10.64% virtual worlds, and 8.94% podcasts.

Table 3. Social Media Platforms Used by Participants

<table>
<thead>
<tr>
<th>Social Media Platforms Used by Participants</th>
<th>f</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blogs</td>
<td>151</td>
<td>32.13</td>
</tr>
<tr>
<td>Microblogs</td>
<td>230</td>
<td>48.94</td>
</tr>
<tr>
<td>Social Networks</td>
<td>448</td>
<td>95.32</td>
</tr>
<tr>
<td>Media Sharing Sites</td>
<td>357</td>
<td>75.96</td>
</tr>
<tr>
<td>Wikis</td>
<td>325</td>
<td>69.15</td>
</tr>
<tr>
<td>Social Marking And Labeling Sites</td>
<td>119</td>
<td>25.32</td>
</tr>
<tr>
<td>Online Communities</td>
<td>333</td>
<td>70.85</td>
</tr>
<tr>
<td>Podcasts</td>
<td>42</td>
<td>8.94</td>
</tr>
<tr>
<td>Virtual Worlds</td>
<td>50</td>
<td>10.64</td>
</tr>
</tbody>
</table>

Influence of Social Media Platforms on Decision Making Process

Research aimed to determine what extend tourist is affected from social media platforms during while purchasing touristic product. As seen in Table 4, findings indicate that social media platform which participants have been mostly affected is online communities. Moreover, wikis, social media networks and media sharing sites have influence on tourist while purchasing products. In this context, the ideal social media tool for tourism companies is online communities to use social media marketing. Virtual worlds and podcasting tools generally have slightly influence on tourist. Participants were not affected from these platforms. Especially in virtual worlds, people may create a utopic profile. Therefore, people may not be affected from those utopic profiles.

Table 4. Influence of Social Media on Purchasing Touristic Product

<table>
<thead>
<tr>
<th>While you are purchasing touristic product, how are you affected from the following social media platforms?</th>
<th>Not at all</th>
<th>Slightly</th>
<th>Moderately</th>
<th>Very</th>
<th>Extremely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Media Platforms</td>
<td>f</td>
<td>%</td>
<td>f</td>
<td>%</td>
<td>f</td>
</tr>
<tr>
<td>Blogs</td>
<td>79</td>
<td>16.8</td>
<td>93</td>
<td>19.8</td>
<td>165</td>
</tr>
<tr>
<td>Microblogs</td>
<td>74</td>
<td>15.7</td>
<td>95</td>
<td>20.2</td>
<td>168</td>
</tr>
<tr>
<td>Social Networks</td>
<td>31</td>
<td>6.6</td>
<td>46</td>
<td>9.8</td>
<td>135</td>
</tr>
<tr>
<td>Media Sharing Sites</td>
<td>39</td>
<td>8.3</td>
<td>46</td>
<td>9.8</td>
<td>178</td>
</tr>
<tr>
<td>Wikis</td>
<td>45</td>
<td>9.6</td>
<td>48</td>
<td>10.2</td>
<td>87</td>
</tr>
<tr>
<td>Social Marking And Labeling Sites</td>
<td>94</td>
<td>20.0</td>
<td>65</td>
<td>13.8</td>
<td>169</td>
</tr>
<tr>
<td>Online Communities</td>
<td>50</td>
<td>10.6</td>
<td>54</td>
<td>11.5</td>
<td>80</td>
</tr>
<tr>
<td>Podcasts</td>
<td>141</td>
<td>30.0</td>
<td>98</td>
<td>20.9</td>
<td>192</td>
</tr>
<tr>
<td>Virtual Worlds</td>
<td>294</td>
<td>62.6</td>
<td>85</td>
<td>18.1</td>
<td>69</td>
</tr>
</tbody>
</table>
It is seen at Table 5 that online community sites are most trustworthy social media platform. Furthermore, social marking and labeling sites, social networks and media sharing sites are more trustworthy than others. Podcast tools are not seen as trustworthy for participants while they buy touristic products. Interesting finding is that wikis are seen trustworthy social media tool. Especially, young people frequently use wikis in their daily life. So, wikis can be used as a marketing tool by tourism companies in near future.

Table 5. Trust Towards Social Media Platforms during Purchasing Touristic Product

<table>
<thead>
<tr>
<th>Social Media Platforms</th>
<th>Not at all f (%)</th>
<th>Slightly f (%)</th>
<th>Moderately f (%)</th>
<th>Very f (%)</th>
<th>Extremely f (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blogs</td>
<td>24 5.1</td>
<td>28 6.0</td>
<td>98 20.9</td>
<td>160 34.0</td>
<td>160 34.0</td>
</tr>
<tr>
<td>Microblogs</td>
<td>23 4.9</td>
<td>47 10.0</td>
<td>85 18.1</td>
<td>207 44.0</td>
<td>108 23.0</td>
</tr>
<tr>
<td>Social Networks</td>
<td>24 5.1</td>
<td>38 8.1</td>
<td>76 16.2</td>
<td>161 34.3</td>
<td>171 36.4</td>
</tr>
<tr>
<td>Media Sharing Sites</td>
<td>25 5.3</td>
<td>30 6.4</td>
<td>75 16.0</td>
<td>199 42.3</td>
<td>141 30.0</td>
</tr>
<tr>
<td>Wikis</td>
<td>16 3.4</td>
<td>33 7.0</td>
<td>122 26.0</td>
<td>188 40.0</td>
<td>111 23.6</td>
</tr>
<tr>
<td>Social Marking And Labeling Sites</td>
<td>34 7.2</td>
<td>26 5.5</td>
<td>65 13.8</td>
<td>174 37.0</td>
<td>171 36.4</td>
</tr>
<tr>
<td>Online Communities</td>
<td>13 2.8</td>
<td>27 5.7</td>
<td>58 12.3</td>
<td>150 31.9</td>
<td>222 47.2</td>
</tr>
<tr>
<td>Podcasts</td>
<td>51 10.9</td>
<td>36 7.7</td>
<td>74 15.7</td>
<td>213 45.3</td>
<td>96 20.4</td>
</tr>
<tr>
<td>Virtual Worlds</td>
<td>69 14.7</td>
<td>39 8.3</td>
<td>65 13.8</td>
<td>151 32.1</td>
<td>146 31.1</td>
</tr>
</tbody>
</table>

Table 6 shows that how frequently participants use social media platforms for their travel/holiday plans. According to research, 68.5% of participants stated that they regularly use social media platforms for future travel/holiday plans. On the other hand, 18.5% of them did not use social media platforms for future plans. Also, 10.2% of them expressed that they had no idea whether they use them or not.

Table 6. Frequent Usage of Social Media Platform for Future Travel or Holiday Plans by Participants

<table>
<thead>
<tr>
<th>Regular Usage of Social Media Platforms For Travel/Holiday Plans</th>
<th>f</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>39</td>
<td>8.3</td>
</tr>
<tr>
<td>Disagree</td>
<td>48</td>
<td>10.2</td>
</tr>
<tr>
<td>Undecided</td>
<td>61</td>
<td>13.0</td>
</tr>
<tr>
<td>Agree</td>
<td>178</td>
<td>37.9</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>144</td>
<td>30.6</td>
</tr>
</tbody>
</table>

Conclusion

With technological developments, one of the significant innovations in the field of marketing is social media. Social media providing huge benefits to both customers and companies is now been used all over the world for sharing information and opinions quickly.

Tourists actively use social media at every stage of consumer buying process, and they make research about products and companies. Companies should consider it very well. So, they should share information and promotional content about both company and their products via social media tools.

Tourism consumers are under the influence of shared content on social media platforms. Tourists tend to buy products which are recommended by people who used them before. On the other hand, tourists avoid buying products which are denigrated on social media platforms by other consumers. Therefore, it becomes important for tourism companies to take part in the social media platforms. Social media can provide competitive advantage for companies. Since, Companies can track their customers need and wants via
social media tools. They can utilize their products according to their customers’ needs and desires. It helps companies to strengthen their brand and increase the level of customer loyalty.

Social networks are commonly used more than other social media platforms by participants. In this respect, tourism companies should launch their campaigns via social networks to reach a greater number of customers.

Tourists frequently use social media platforms, and share their experiences in them. In this context, tourism businesses should take part in social media platforms to understand their customers’ attitudes and behaviors towards their products.

Consumers mostly express their opinions in their own profiles instead of sharing in companies’ pages. They usually think that their content shared in companies pages will be removed by companies. In this case, companies should assure that they care about their customers’ opinions. Moreover, companies should follow the profiles of their customers at regular intervals.

References


Turkish Soap Operas’ Impact on Growing Familiarity with Turkish Culture and Language: An Exploratory Study in Examining Motivations of the Travelers’ in Language Learning

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Abstract
Turkish Soap Operas recently became an important tool in promoting the Turkish tourism industry. One should also question if watching these shows makes people to learn about the culture and the language other than its influence on travelers’ selection of making Turkey as their next destination. Upon the completion of this study, one may be able to find out the role of the Turkish Soap Operas impact in examining motivations in growing familiarity with Turkish Culture and Language. Further implications of this study may be used and discussed in creating a superior destination image.

Keywords: Film Tourism, Language Learning Motivations,

Introduction
The concept of visiting a destination after watching a TV show or a movie have been widely discussed in the literature and popular media for many years. Mostly being known as “Film Tourism” is a growing area and being considered as part of “Cultural Tourism” (Hudson & Ritchie, 2006). Many researchers have evaluated the positive impact of film tourism in numerous ways including but not limited to destination promotion, push factor as an increase in number of visitors, product placement, destination image creation and branding (Hudson & Ritchie 2006; Busby et al 2013; Yilmaz & Yolal 2008)

Turkish Soap Operas and well-known characters acting in them are known to be an important promotion tool for Turkish tourism industry and modern image of Turkey. Based on the visitor figures from the Middle East and the number of viewers globally (Sobecki, 2010), Busby et al (2013) in their study found that there is a positive relationship between watching these shows and desire to visit Turkey and addressed many interesting implications that could be used as an effective tool in marketing a destination. Here one should also question whether or not this has an impact on being familiar with the Turkish culture and willingness to learn Turkish language other than visiting the country itself.

Turkish is being known as a widely spoken language especially among the people living in Turkey. But there is a good amount of people speaking and understanding Turkish outside of Turkey including the populations from the former Ottoman Empire territories and migrant workers from Turkey who started to move to Europe beginning from the early 1960’s. (Boeschoten 1998) Taking this into consideration and knowing the popularity of the Turkish Soap operas in those areas, one can at the same time research about the interest and motivations of learning Turkish within populations who are in contact. Dornyei & Csizer, (2005) mentions in their study about “Interethnic” contact underlining that it creates opportunities for developing language skills and acts as a powerful influence shaping the learners’ attitudinal / motivational disposition, which promotes motivated learning behavior. Thus, intercultural contact is referred as both a means and an end in second language studies. Parallel to this, Crookes & Schmidt (1991) identifies “Integrative Motivation” as learner's orientation towards the goal of learning a second language which means learner's positive attitudes towards the target language group and the desire to integrate into the target language community.
Within this scope, the purpose of this study is finding out perceptions of Turkish soap opera watchers in terms of interethnic contact and language learning motivations. This is an ongoing study in the USA and sample will include non-Turkish speaking communities who have recently visited Turkey or have an interest in visiting Turkey in a near future.

Discussion

The findings of this research may exemplify practical applications in cross-cultural communication. For example individuals’ ethnic background, interest in joining an academic student exchange program, global internship/job opportunities and self-motivation could be considered as contributing factors in learning a new culture and language. Furthermore such a situation may have positive effects in Turkish tourism industry. First, if the number of Turkish language learners increases there is a possibility that the number of potential visitors to Turkey will increase accordingly. Second, the popularity of these soap operas could be used as a competitive advantage along with a strategic marketing campaign directed towards Turkish speaking and non-Turkish speaking communities outside Turkey. Even though some examples were seen over the years, a well-planned campaign at the government level could serve in favor of the Turkish tourism industry and may create new travelers’ interests towards Turkey. This would not only help in diversifying the tourism product mix of the country but also may create better occupancies to certain areas during the year in minimizing the effects of seasonality.

References

The Link between Internal and Financial Brand Performance in Hotel Industry: The Role of Brand Affiliation

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Abstract
Starting brand management from inside of the organization has increased its importance in recent research. However, there is still need for further understanding of whether brand really serves for increasing performance of a business and internal brand building activities result in better financial performance. Therefore, the purpose of this study is to link internal branding efforts with financial brand performance as well as to understand brand affiliation result in better financial performance. More specifically, this study investigates both the effect of brand supporting behaviors on financial performance of a company brand in hotel industry and the role of brand affiliation on this relationship. The uniqueness of this study is to link internal brand performance with financial performance and integration of brand affiliation for its moderating effect. It is expected to find that brand supporting behaviors of employees would lead to higher financial brand performance in brand affiliated hotels.

Keywords: Internal Branding, Brand Affiliation, Financial Performance

Introduction
Intangible assets constitute a crucial source of corporate value and brands usually represent an important intangible asset for companies. However, it is still a challenge for organizations to measure their brand performance and link that brand performance with business performance. Since brand is an intangible asset that is difficult to measure, the evaluation of brand performance depends on brand effects assessment which in turn determines brand performance metrics. Throughout the literature, three brand effects that are consumer-based (external) effects, internal effects, and economic effects have been proposed to measure performance of a brand (de Chernatony, 2006; Davis & Dunn, 2002; Keller, 2007; LePla, Davis, & Parker; Munoz & Kumar, 2004; 2007). However, the common agreement of these studies is that there is still little understanding how to link different performance measures in branding and how to measure the effect of brand on business performance.

Like many industries, measuring brand performance has increased its importance in hospitality industry and one of the streams of current research has focused on brand affiliation and its effect on business performance (O’Neill & Mattila, 2004; O’Neill & Xiao, 2006; O’Neill & Carlback, 2011). Therefore, the purpose of this research is to link internal effects of brand with economic effects by looking at the relation between brand fulfillment of employees and financial performance in lodging industry as well as to understand whether brand affiliation affect internal and economic brand performance.

Literature Review
Measuring Brand Performance
The question the operation type whether a hotel is an affiliated or independent affects the performance has been discussed in the last decades (O’Neill & Xiao, 2006; O’Neill & Carlback, 2011). However, the problem of being affiliated with a brand really affects hotel performance and how brand performance might be measures still represent a problem for the lodging industry. Therefore, brand measurement is crucial for hotels because it helps organizations to understand whether affiliation with a brand name affects their performance.

The literature suggests that the brand measurement activity depends on three types of brand effects that influence brand performance. In other terms, brand performance is measured by customer-based performance, internal brand performance as well as financial performance. However, the problem is what the relation among these different metrics is and how they affect each other.
Internal Brand Performance

Internal brand performance is mainly related with perceptions and behaviors of employees regarding company brand. This is especially the case for service industries because compared to branding of products, branding of services is more about internal processes (Free, 1999). Since the service encounter is key for services, and it relies on customer contact employees’ attitudes and behaviors, employees play a major role in the consistent delivery of brand promise (Hatch & Schultz, 2001; Papasolomou & Vrontis, 2006). The fulfillment of brand promise at each service encounter relies on the consistent behaviors of employees during their customer interaction. Based on the crucial role of service employees, Burmann and Zeplin (2005) have introduced the concept of “brand citizenship behavior” to realize the corporate brand promise during service encounters. The construct mainly refers to brand supporting behaviors of employees and helps organization to enhance brand performance by fulfilling the brand promise. In other terms, brand citizenship behaviors help to determine the internal brand performance for organizations.

Economic Brand Performance

For economic brand performance, two types of metrics that are market and financial metrics are proposed in the literature (Munoz & Kumar, 2004; Keller, 2007). However, this study only looks at the financial performance indicators to understand the value of a brand. Therefore, the most common key performance indicators for the hospitality that are occupancy rate, average daily rate (ADR), and room revenue per available room, will be studied to measure the economic performance of the hotel brand (Damonte et al., 1997).

In terms of financial performance of a brand, specifically for lodging industry, Prasad and Dev (2000) have argued that consumers are the source of cash flows and brand performance would lead to higher occupancy rates and daily room rates, resulting in higher RevPar. Further, in their study, O’Neill and Mattila have found that guest satisfaction results in greater revenues per guest room and higher growth rates in room revenues. Therefore, it is reasonable to argue that employees’ brand related behaviors might result in better financial performance of the lodging facility. The reason is that employees’ delivery of the brand as it is expected might lead to the satisfaction of guests with the service and the brand. Moreover, internal branding is relatively a new concept in the literature and it is usually carried out by corporate hotels. Thus, affiliation with a brand name might help organizations to be more focused on internal brand management process.

With the recognition above discussions and theoretical foundations, this study has proposed the following hypotheses:

**H1:** Brand citizenship behaviors of employees will have a direct and positive effect on occupancy rate.

**H2:** Brand citizenship behaviors of employees will have a direct and positive effect on ADR.

**H3:** Brand citizenship behaviors of employees will have a direct and positive effect on RevPAR.

**H4a:** Brand affiliation moderates the link between employee brand citizenship behaviors and occupancy rate.

**H4b:** Brand affiliation moderates the link between employee brand citizenship behaviors and ADR.

**H4c:** Brand affiliation moderates the link between employee brand citizenship behaviors and RevPAR.
Methods

A quantitative empirical causal research design will be employed to test the hypothesized relationships between variables. This study would collect data by selecting a sample through contacting hotels in Istanbul that are either affiliated with a corporate brand name or independent hotel.

This study employed integration of both employee and hotel data in order to understand the effect of employee behaviors on financial performance. Therefore, the unit of analysis in this study is the hotel. As a result, data would be aggregated at the hotel level by taking the average scores of employees for their respective hotel (George & Bettenhausen, 1990).

The moderating effect of operation type on the relationship between employee brand citizenship behaviors and financial performance will be tested using the procedure of multi-group analysis by using AMOS.

References


Electronic Business Models, Adopted by the Hospitality Industry in Bulgaria

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Abstract
The business today has been affected by the advent of ICT. They revolutionized all sectors of business as well as tourism. The paper focuses on the business models, applied in the Bulgarian hospitality industry. In the literature review is presented the influence on ICT on hospitality industry. Business models are presented and how they can be applied by the hospitality industry. The newest business model C2C is being presented in the case of virtual communities. Content analysis of the most used business model B2C in hospitality has been conducted.

Keywords: ICT, E-Business Model, Virtual Communities, Content, Connectivity

Introduction
ICT have been transforming business today. They lead to revolution in the tourism sector. Chung and Buhalis view them as a bridge between the consumer and the producer. (Chung and Buhalis, 2013). ICT give power to consumers to identify, customise, and purchase tourism products, and support the globalisation of the industry by providing tools for developing, managing and distributing offerings worldwide. On the other hand, the organizations are using Internet technologies to increase their competitiveness and to obtain leader’s position on the global market.

Literature Review
The IT technology is extremely important for the hotel industry, due to the fact that the development of software and standard-setting organizations are substantial for the performance, capability and security adoption of every organization. However, the successful implementation and adoption of IT depends not only on the technology aspect but on the exploration of the level of acceptance as a whole and the user adoption of IT, as well.

Shelly and Vermaat (2012) agree regarding the importance of the IT for the hospitality industry by stating that, the information technology systems improve the efficiency of the website among the customers in the hospitality industry.

One of the most important aspects of the information technology, through which information of various types can be distributed, is the Internet. The Internet has become extremely important for specific segments in the lodging industry, especially in the tourism field, where the role of IT continues to develop and to gain importance during the past two decades (Buhalis & Law, 2008). The Internet technologies have changed not only the relationships between producer and consumer, but they affected the whole business process. New business models appeared as a result of the advent of Internet technologies.

Due to the changes in the business development and the growth of the Internet usage in the hospitality industry, the e-business models are another trend that had seriously affected the hospitality industry in Bulgaria.

The business model can be described as tool, through which the strategic purpose and value of a website can be represented. (Shafer, Smith and Linder, 2005; Elbers, 2010).

The first definition of business model was given by Timmers (1999). He defines a ‘business model’ as:

“An architecture for product, service and information flows, including a description of the various business actors and their roles; and a description of the potential benefits for the various business actors; and a description of the sources of revenue”
The business models are Business to business, business to consumer, peer to peer and consumer to business.

One of the reasons why the e-business models are important for an organization is because through them every single business can implement different strategies for changing the core purpose and the value proposition of a company (Osterwalder & Pigneur, 2010). One of the main purposes of the business models is to understand the customer and to meet its expectations. The most common types of e-business models on a worldwide basis are B2B (business-to-business), B2C (business-to-consumer), B2E (business-to-employee) and C2C (customer-to-customer).

The Business-to-business model is focused mainly on conducting sales relationships between two companies or relationship between company and its suppliers (Pride & Hughes and Kapoor, 2009).

In the Bulgarian hospitality industry, the Business-To-Business e-business model represents in most of the cases, relationship between a travel agency and a hotel. Other possible business-to-business relationships can be relationship between a hotel and an airline. Bulgaria's average amount of travel agencies is 1000. Based on this, it can be said that the travel industry is quite developed in the country and this represents huge opportunity for the development of B2B e-business model. Based on the fact that, through almost every single tour agent website, the online users can afford whole packages, including accommodation, flight tickets, it can be said that the B2B e-business model is quite developed.

Buhalis and Law (2008) focus on the importance of the e-business for the travel agencies, by claiming that the e-business is of huge importance for the tour agents because through the e-business technology, the travel agents are not only able to provide single type of service but to sell whole packages, which could really add value and recognition to the travel agents.

Tourist Service Providers (business) like airlines, hotel sells their products to other business like tour operators e.g. www.wizzair.com. To promote tourism, this model works with the collaboration of different businesses (i.e. Airlines, Hotels, Tour Operators, Agents etc.) and can provide dynamic packages to the tourists

In this regard, Kabir & Jahan define the business model as a” the method of doing business - it is the method that allows a company to generate revenue and to sustain itself “(Kabir & Jahan, 2012) On the Internet, services are often realized by huge networks and at the onset it is not always clear who makes the money and how much. This is especially true in the field of E-Tourism where many different companies co-operate in order to produce the final customers' service.

With the advent of Internet technologies, new forms of business models have appeared. One of the most popular remains A. Business to Customer Model (B2C). What is specific for this model is the direct contact of the tourist provider to the tourists. The tourists have the opportunity to make reservation on their own directly from the web-site of the hotel without the assistance of tour agency. B2C business model in tourism gives advantages for both sides. Customers have access to information and can contact directly to the hotel. On the other hand the hoteliers can receive fast feedback about the level of service they provide to the tourists.

The C2C e-business model represents online business relationships between consumers a seller (negotiator) and a buyer. In this model, a tourist can communicate with other tourists through the Internet (forums, blogs and email groups etc.) and can develop a tourist community. Thus a tourist can make his travel plan by discussing with other tourists in the community and also can get help regarding booking hotels, airline tickets, sites etc. (Kabir, M. & Jahan, K. 2012)

In comparison to the other e-business models, this model is all about conducting business and transactions between two individuals.

It can be said that the social commerce is very important part for the C2C business model because through it the individuals are interacting with one another and actually conduct business. (Huang and Benyoucef, 2013). The social commerce is focused mainly on online information sharing and collaboration (Wang and Zhang, 2012). One of the most important aspects of the social e-commerce is the virtual community. However, in the hospitality industry the virtual communities are not developed enough and the social e-commerce is not enforced. Because of this the hospitality industry lacks serious development of C2C
model. This leads to the conclusion that if the C2C e-business is developed enough in the future, the hospitality industry can seriously benefit.

One of the most popular and applied business models of C2C is the virtual community. The definition of the virtual community by Rheingold is “Virtual communities are cultural aggregations that emerge when enough people bump into each other often enough in cyberspace. A virtual community is a group of people who may or may not meet one another face to face, and who exchange words and ideas through the mediation of computer bulletin boards and networks”

Little attention is being paid to the factors that attract travelers in travel communities. Most of the researchers are focusing on increase of profits, travel purchase and information exchange between the members of the travel community (Kim, W & Lee, H., 2014). Few scientists are focusing on the social aspects of the interaction between travelers in the travel community. (Qu & Lee, 2011, Buhalis & Cheng, 2012). It is normal as the primary goal of the hospitality company is gain profit. On the other hand, the desire to share knowledge and exchange useful information between the members of travel communities brings success to Tripadvisor. (www.tripadvisor.com) is amongst the most successful social networking/virtual community in tourism that facilitates the reviewing of all hotels around the world and brings together individuals in discussion forums. (Buhalis, 2012) It provides a powerful platform for interaction between peers (Wang & Fesenmaier, 2004). User satisfaction is a major factor for evaluating a travel organization. By analyzing VTCs’ content, travel organizations can understand their customers’ satisfactions and behaviour, and undertake corrective actions to improve their offering. They can also increase brand awareness and strengthen brand association through the assistance of VTCs. (Buhalis & Cheng, 2012)

As Lee points, the successful travel communities with active member participation and knowledge sharing drive the financial performance of the travel industry. (Lee, 2014)

Sharing information is the main reason for existence of the travel community. The mere process of knowledge sharing is quite complicated as there is no social pressure on its members (Kim, 2014). At the same time, it is quite difficult for the managers of the travel community to understand the reasons why people join the community and why travelers want to share the experience they have with others.

The studies of virtual communities are summarized by Buhalis & Cheng, 2012 and updated by the author. (see table 1)

Table 1 Virtual communities in tourism on the example of virtual travel communities

<table>
<thead>
<tr>
<th>Authors</th>
<th>Field of study of VTC</th>
<th>Type of travelers</th>
<th>Behaviour of the members of VTC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armstrong and Hagel (1996)</td>
<td>An online travel community meets four different consumers’ values: transaction, interest, fantasy, and relationship.</td>
<td>Prospective travellers</td>
<td>Information search behaviour Decision-making</td>
</tr>
<tr>
<td>Wang, Yu, and Fesenmaier (2002)</td>
<td>VTC is composed of three core elements such as place, symbol, and virtual; and four peripheral elements including people, policy, purpose, and computer systems.</td>
<td>Prospective and experienced travellers</td>
<td>Information search Network</td>
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<tr>
<td>Wang and Fesenmaier (2004)</td>
<td>Functional, social, psychological, and hedonic benefits perceived by online travel community members, social and hedonic benefits have a major impact on their level of participation in community activities.</td>
<td>Prospective and experienced travellers</td>
<td>Information search Network</td>
</tr>
<tr>
<td>Kim, Lee, and Hiemstra (2004)</td>
<td>The benefits of knowledge sharing between the members of the community are shown.</td>
<td>Prospective and having experience travelers</td>
<td>Information search network</td>
</tr>
</tbody>
</table>
According to our survey, the most applied business model in Bulgarian hospitality industry is B2C. In this regard, we have conducted content analysis, which consists of analysis of hotel websites based on the 7 customer interface design factors. These are the factors, that are crucial for building relationships with customers. Through the website content analysis, primary information regarding the level of development of the hotel websites was implemented. (see table 2)

<table>
<thead>
<tr>
<th>Hotel</th>
<th>Context</th>
<th>Content</th>
<th>Community</th>
<th>Customization</th>
<th>Commerce</th>
<th>Connectivity</th>
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<tbody>
<tr>
<td><strong>3 star hotels</strong></td>
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<td>Graffit hotel Varna</td>
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<td>4</td>
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<td>Lighthouse, Kavarna</td>
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<td>Hotel Golden tulip, Varna</td>
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<td>Hotel Divesta, Varna</td>
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<td><strong>3 star hotels</strong></td>
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<td>Hotel Izida, Dobrich</td>
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<tr>
<td>Hotel Dobrudja, Dobrich</td>
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<tr>
<td><strong>2 star hotels</strong></td>
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<tr>
<td>Hotel Largo, Golden sands</td>
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<td>2</td>
<td>1</td>
<td>2</td>
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</tr>
<tr>
<td>Hotel Rodopi, Haskovo</td>
<td>3</td>
<td>3</td>
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<td>2</td>
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</table>

Table 2: Online presence of selected hotel web sites. (the ranking varies from 1 to 6)

From the analysis of the websites based on the 7 Design elements of Customer Interface of the 5 star properties, it can be seen that their websites have exquisite, functional and professional layout. This indicates that the managers understand how important is the functionality and aestheticism of the websites.
of their hotels. What is more, speaking content, it can be said that these websites are well-organized, explanatory and provide the information that every single user would most probably need when he or she enters the website. Regarding the community factor, it seems that the websites of the 5 star properties are not developed enough. The user to user type of communication is not enabled enough and there is serious lack of virtual community. Based on this, it can be assumed that the managers don’t pay attention to the community factor of their website and this could lead to serious lack of users and low conversion rate. Moreover, the users can easily lose interest in the online presence of the properties. They aren’t able to create strong sense of membership through sharing knowledge, ideas, experience, etc.

The analysis of the customization element of the websites indicates that the websites of the 5 star hotels don’t provide enough options for personalization to their users. Based on this, it can be said again that the users can lose interest in the websites very quickly. Moreover, the customization is very important for the m-commerce (mobile commerce). The lack of customization can lead to lack of users, low percentage of total sessions and low conversion rate.

On the other hand, the commerce element of the websites of the 5 star hotels in Bulgaria is more developed than the hotels with different ranking. However, it should definitely be improved. Based on the analysis of the commerce element of the websites, it seems that the websites are not developed with the purpose of conducting business, which is a mistake. This indicates that the B2C e-business model is not developed enough in the 5 star properties. However, regarding the connection element it seems that the websites have developed affiliation marketing, which can be quite beneficial. Moreover, based on the various ways for communication that have been implemented in the websites, it seems that the 5 star hotels have effective ways for establishing communication with their users.

The analysis of the websites showed that most of the analyzed 4 star hotels do not rely on attractive design as a part of the value proposition of the hotel. In other words, the conclusion is that management of 4 star properties don’t pay attention to the design of the hotel websites. However, the results of the content analysis proved that that the websites of the 4 star hotels are focusing on providing useful information. However, it’s not accurately put and represented. This again indicates that the impression that the hotel websites leave to their users is neglected by the managers.

Based on the assessment of the community element of the 4 star hotels, it can be concluded that the websites are not designed with the purpose of membership involvement. The fact that the customization element isn’t developed enough indicates that the managers of the 4 star hotels in Bulgaria don’t pay much attention to the users of their websites. However, the level of commerce level is a basic. This shows that the general idea of the web sites is advertisement, not commerce. To sum up, the B2C e-business model is not developed enough in the 4 star properties, as well. The websites of the 4 star hotels in Bulgaria don’t have developed enough connection elements. However, the websites consists of affiliation links, which is good marketing strategy. It seems that the managers of the 4 star hotels are averagely focused on the communication factor of their websites between their business, their users and potential customers.

The analysis of the 7 design elements of a website of the 3 star hotels shows that the managers of the 3 star hotels pay more attention to the design of the hotel websites than the managers of the 4 star hotels. However, they are still a lot of design issues that should be decreased. The analysis of the content element of the websites indicates that the 3 star hotel websites are quite explanatory and consists of good amount of information. However, it seems that amount of information is quite much, which might be complicating for the tourists. On the other hand, the community and the customization elements are not developed enough. This indicates that the managers of the 3 star hotels in Bulgaria don’t pay much attention to the users of their websites. The commerce element is again on basic level. In other words, the main purpose of creating and maintain the web-sites of 3 star properties is not commercial. To sum up, the B2C e-business model is not developed enough in the 3 star properties, as well. Moreover, the analysis indicates that the websites of the 3 star hotels consists of limited amount of links. There is no developed affiliation marketing. The communication element of the websites is averagely developed. The conclusion is that the managers of the 3 star hotels are averagely focused on the communication factor of their websites between their business, their users and potential customers.

From the analysis of the websites of the 2 star hotels based on the 7 Design elements of Customer Interface, it can be seen that the managers of the 2 star hotels don’t invest enough in the internet presence of their hotels. The analysis of the design element indicates that the managers don’t pay much attention on the first
impression that the 2 star hotel websites leave to the users. Moreover, the content element analysis reveals that the websites of the 2 star hotels consists of the amount of the necessary information that the users need. There is no community element developed in the websites, which indicates that the managers of the 2 star hotels in Bulgaria are completely neglecting the user to user involvement in the websites of their hotels. The customization element is also neglected, which again indicates that the hotel managers of the 2 star hotels don’t pay attention to the online users. The commerce element is completely undeveloped, which indicates that the B2C e-business model is not developed by the 2 star hotels, at all. Moreover, the analysis of the connection element of the 2 star hotels websites indicates that they consist of limited amount of links. There is no developed affiliation marketing. The communication element of the websites is averagely developed. This again indicates that the managers of the 3 star hotels are averagely focused on the communication factor of their websites between their business, their users and potential customers.

Conclusion

In the process of research it was found out that the Business-to-customer e-business model is not well-adopted. It was identified that according to the hotel managers, the asset that is most important for the website of their hotel is the virtual community. However, based on the 7 Design elements of customer interface analysis, it turns out that community is one of the website elements that is not developed enough. It was discovered that most of the websites are simple and self-explanatory but they doesn’t have design that fits the value proposition of the hotel. It was also found out that the content is usually well-organized and helpful, supported with a lot of graphics, map and videos. However, it isn’t distributed systematically and precisely. In most of the cases, it appears that the information in foreign language isn’t correct. There are no developed virtual communities. The content analysis of the websites proved that the managers would rather implement their website for differentiating their service in order to gain competitive advantage, instead of focusing on the online users and the factors that would make them loyal users and most probably convert them into buyers. The other aspect that is not undeveloped is the customization. This also indicates that the hotel managers don’t focus their websites on the participation of the users in the website, including user feedbacks, opinions, exchange of experiences, etc. It was also identified that the commerce element of most of the websites is developed either on a basic level or not at all. However, regarding the connection factor, it was found that most of the websites consists of links that lead to other online profiles in the social media or to information centers. The affiliation marketing is not developed enough. All of these factors indicate that the Business-to-customer e-business model is not well-adopted.

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Followership Qualities and Models

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Abstract
Leadership has been investigated through the eyes of leaders. A lot of research has been done for the leaders and what kind of qualities and traits they must possess. In order to become a good leader, one must have good followers. Leaders cannot exist without followers. Followership qualities are also presented. An empirical study of leadership in 2 leading Bulgarian companies has been also conducted. The paper aims to present models of leadership and qualities needed for followers. In this regard, we set the following tasks: to present modern models of followership and to analyze the qualities that good follower must possess.

Keywords: Leadership, Followership

Introduction
Followership can be defined as the willingness to cooperate in working towards the accomplishment of the group mission, to demonstrate a high degree of teamwork and to build cohesion among the group. Effective followership is an excellent building block to effective leadership. There are numerous sources to which one can turn to find helpful information on effective leadership, leadership practices and on becoming the best leader one can be.

Literature Review
Fewer such sources exist on guiding one to be an effective follower, though there are some. Take a look at the following behaviors, which have been identified as those comprising effective followership:

- help company fulfill its goals
- willingness to accept work
- being loyal to the group
- providing support to the group’s decisions, but raising the voice
- Offering suggestions
- staying positive even in hard times for the group
- Working effectively as a team member

Followership is defined by Bjugstad: the ability to effectively follow the directives and support the efforts of a leader to maximize a structured organization. However, the term “followership” is often linked to negative and demeaning words like passive, weak, and conforming.

If a person is not good at carrying out orders, than he will not be a good leader, according to Hackman.

A point of view that represents a modern view of leadership, as explained by J. Richard Hackman and Ruth Wageman, is that leaders are also followers and followers also exhibit leadership. Each boss is also a subordinate, such as a team leader reporting to a middle manager. And each subordinate will often carry out a leadership role, such as heading up a short-term project—or even organizing this year’s holiday party.

In this regard, Dubrin (2010) is focusing on three key aspects of being an effective group member:

- types of followers;
- the personal characteristics of productive followers;
- the importance of collaboration between leaders and followers.

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It is very interesting to understand what makes followers different. They are different as there are completely different people. Some people are more talented than others, and others can serve better. That’s why, Barbara Kellerman presents a typology that helps explain how followers differ from one another. According to her studies, the main difference is the level of engagement. At one end of the continuum is "feeling and doing nothing." At the other end is "being passionately committed and deeply involved." The main types of followers are the following:

1. **Isolates** are completely detached, and passively support the status quo by not taking action to bring about changes. They do not care much about their leaders, and just do their job without taking an interest in the overall organization. Isolates need coaching, yet sometimes firing them is the only solution. They seem not interested much in the company.

2. **Bystanders** are free riders who are typically detached when it fits their self-interests. During a meeting, a bystander is more likely to focus on the refreshments, and taking peeks at his or her personal text messages. The role of the leader is to move and motivate them.

3. **Participants** show enough engagement to invest some of their own time and money to make a difference, such as taking it on their own to learn new technology that would help the group. Participants are sometimes for, and sometimes against, the leader and the company. The leader has to review their work and attitudes carefully to see if the participant is being constructive.

4. **Activists** are considerably engaged, heavily invested in people and processes, and eager to demonstrate their support or opposition. They are always engaged, either positively or negatively, about their leader and the organization and act accordingly. These are people having a strong opinion in every moment. The role of the leader in this case is to study whether the activist is for or against the company.

5. **Diehards** are super-engaged to the point that they are willing to go down for their own cause, or willing to oust the leader if they feel he or she is headed in the wrong direction. Diehards can be an asset or a liability to the leader. Diehards have an even stronger tendency to be whistleblowers than do activists. A diehard, for example, might take it on her own to test the lead quantity of paint in children's furniture sold by the company. Leaders have to stay in touch with diehards to see if their energy is being pointed in the service of the organization.

In the second part of the paper we will analyze the characteristics that good follower must possess. Kelley (1988) proposed that there are four essential qualities that effective followers share. First, effective followers manage themselves well. It means that the good follower knows what are his goals and how can he achieve them. Good followers are loyal and committed to the organization and to a purpose beyond themselves. Thirdly, effective followers build their competence and focus their efforts for maximum impact. They try to do the best performance. Finally, effective followers are brave, honest, and credible. These are people to feel comfortable with, enthusiastic, intelligent and self-confident.

In order to be effective as leaders, important information must be provided to them. That’s why, the ability to tell the truth is very important for the effective follower. Good followers speak up even to the point of disagreeing with their leaders. According to Bennis (2000), the irony is that the follower who is encouraged and is willing to speak out shows what kind of leadership the company has instituted. Not only is it important for the organization to know what followers think, but effective leaders also need to respect followers who will speak up and share their points of view rather than withhold information. Ineffective followers fail to give honest opinions. They cover up problems and are inclined to become ‘yes men.’ If a company is going down the wrong road, it can get there faster if there are no followers informing the leaders that they took a wrong turn.

Chaleff (1995) claims that effective followers are cooperative and collaborative, qualities that are essential to all human progress. They think for and manage themselves and carry out duties with assertiveness and energy. For example, championship-level sports teams are composed of followers who know when to
follow the game plan and when to innovate and think for themselves. Effective followers are well-balanced and responsible human resources who can succeed without strong leadership because they are committed to a purpose, principle, or person outside themselves. Kelley’s (1988) research also found that many followers believe they offer as much value to organizations as leaders do.

Effective followers are distinguishable from ineffective followers by their enthusiasm and self-reliant participation in the pursuit of organizational goals. According to Blackshear (2003), “the ‘ideal’ follower is willing and able to help develop and sustain the best organizational performance”. Ineffective followers are often critical, cynical, apathetic, and alienated; many will only do what is specifically requested of them. Instead of figuring out what they can do, ineffective followers focus on what can go wrong and what is beyond their control (Helmstetter, 1998). They tend to doubt themselves and, because they dwell on problems rather than solutions, they most often see their fears materialize. According to Nelson (2001), they become experts at the “the blame game,” blaming everybody around them for problems. These attitudes gradually spread to other departments, and the result is low morale, lack of production, and lost human potential.

The categorization of followers just presented adds a touch of realism to understanding the challenging role of a leader. Not everybody in the group is supercharged and eager to collaborate toward attaining organizational goals. As observed by Robert E. Kelley, effective followers share four essential qualities:

1. **Self-Management.** The key to being a good follower is to think for oneself and to work well without close supervision. Effective group members see themselves as being as capable as their leaders.

2. **Commitment.** Effective followers are committed to something beyond themselves, be it a cause, product, department, organization, idea, or value. To a committed group member, the leader facilitates progress toward achieving a goal.

3. **Competence and Focus.** Effective followers build their competence and focus their efforts for maximum impact. Competence centers on mastering skills that will be useful to the organization. Less effective group members rarely take the initiative to engage in training and development.

4. **Courage.** Effective followers establish themselves as independent, critical thinkers and fight for what they believe is right. A good follower, for example, might challenge the company's policy of taking ninety days to make good on accounts payable, or of recruiting key people almost exclusively from people with demographic characteristics similar to those of top management.

This list is illustrative, since almost any positive human quality would contribute directly or indirectly to being an effective group member or follower. Another way of framing the qualities of effective followers is to say that such followers display the personal characteristics and qualities of leaders. Although leaders cannot be expected to change the personalities of group members, they can take steps to encourage these qualities. Interventions such as coaching, empowerment, supportive communication, and frequent feedback would support effective followership. Followers are the people who have the power to influence leaders.

Although there are numerous models for leadership, for followership are not so many. The first model is developed by Kelley. The dimensions in the model are thinking and acting. The second model is drawn from Hersey and Blanchard’s (1982) situational leadership theory which categorizes leadership style based on the degree of relationship-oriented and task-oriented behavior displayed by the leader.

Kelley (1992) categorized followers according to the dimensions of thinking and acting. Followers who are independent, critical thinkers consider the impact of their actions, are willing to be creative and innovative, and may offer criticism. Dependent, uncritical thinkers only do what they are told and accept the leader’s thinking. The second dimension, acting, is used to determine what sense of ownership the follower demonstrates. An active follower takes initiative in decision making, while a passive follower’s involvement is limited to being told what to do.

The second model of followership is proposed by Hersey and Blanchard’s (1982). According to them, the successful leadership is achieved by selecting a style based on follower readiness. The leader is directed to
adopt one of four styles based on the degree of relationship- and task-oriented behavior required by the situation. For the purposes of this paper, the four styles will be viewed as static within the quadrants of this two dimensional model, although they are often treated as a continuum of sorts. The four leadership styles consist of Telling, Selling, Participating, and Delegating.

Leadership styles with regard of the followers are the presented below: (Hersey, 1984):

**Telling** should be used in situations in which followers lack the training, confidence, or desire to complete a task. If the followers are with low qualification, this style should be used. In this case, the leader is giving exact instructions and closely watches the performance.

**Selling** is the style to use with followers who are confident. Followers are confident but not enough capable of doing the things right. In this case, are useful High levels of both task- and relationship-oriented behaviors. Leaders can guide follower behavior by clarifying decisions and giving followers the chance to ask questions.

**Participating** should be used to boost the motivation of followers who have the capabilities to achieve goals, but who lack confidence in themselves. In this situation, Relationship-oriented leadership is recommended. Leaders encourage followers to participate in decisions and support their efforts.

**Delegating** is the style to use when followers are able, confident, and motivated. The followers are very qualified, confident. In this case, the leader can trust them fully and delegate the task. He is giving full responsibility to the follower to make decision on his own.

Third model of followership has been developed by Bjugstad, Thompson. This is an integrative one. The models shows how followership and leadership research can be combined for practical purposes, most specifically to increase follower productivity.

The participating style, in which a leader shares ideas and facilitates the decision making process, seems to fit best with alienated followers. The idea is to get these disillusioned followers to take a more active role, so they feel more involved in the organization. Alienated followers are capable, but need more consideration to create mutual respect and trust and to eliminate some of their cynicism. The selling style is arguably a good match for the passive follower, who needs direction and guidance. With the leader’s support, passive followers can enhance their production, as well as receive encouragement. Conformist followers with their “will do as told” attitude can be placed in the telling style quadrant, which characterizes a leadership style that focuses on providing specific instructions and closely monitoring performance. Exemplary followers can be positioned in the delegating style quadrant where the leader turns over responsibility for decisions and implementation. Exemplary followers are up to the challenge of this category and should flourish to the benefit of the organization. By meshing the styles of leaders and followers, organizations can maximize the strengths and minimize the weaknesses of leader-follower relationships.

**Empirical Study of Followers in GLOBUL Mobile Service Company Offices**

GLOBUL is one of the most popular Mobile and internet connection service in Bulgaria which provides numerous services regarding any type of connection. When reaching their office, their staff is most of the time extremely friendly and helpful. It gives clear understanding that the way they are lead by leaders, the way their managers operate have to do something with great effective leadership skills and effective followership skills as well. So by making this empirical research based on my personal experience I concluded following characteristics for the company’s followers:

- **The followers are interested** in what they are doing and they act their best of capabilities when it comes to solve problems. They have effective leader who helps with problem solving and who motivates the followers with his influential abilities. The followers work and seem very motivated on interacting with people. To achieve this atmosphere, the leader takes friendly and direct approaches with the followers.

- **The followers possess an excellent team working abilities.** They are good communicators and share the work they do with each other. The employees show a very high performance motivation. To create such a team, the leader must have selected the staff very carefully and with good HR abilities.
Great listener skills. The followers were able to show great listening skills to each and every customer, in order to take the numbers right and to know the needs of the customers. This shows an excellent example that their leader is skillful enough to give importance to good listening skills in his followers.

The followers had trust in what their leader said. I had a problem with my internet connection, which the employees could not fix it, but the manager came up and suggested something in Bulgarian, the followers actualized what he said and my internet had started working. Here the trust of the followers in their leader demonstrated a cause for successful customer service. So the successful leader made them feel confident and valuable within the organization.

Overall the leaders in GLOBUL company can be described as effective, because they are able to build great Followers and follower skills which creates excellent customer services.

### Table 1 - GLOBUL

<table>
<thead>
<tr>
<th>Variables/Degree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
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<tbody>
<tr>
<td>Empl.-centered Leadership</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Positive emotions</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negative emotions</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job engagement</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover intentions</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

Empirical Study of Followers of Oriflame Company in Bulgaria

Oriflame – one of the most successful cosmetic lines for women all over the world. Originally had been founded in Sweden in 1967, by brothers Robert and Jonas. Their leadership skills had spread and got popular worldwide and had globalised with its unique strategy of leading the followers and spreading the product.

These days, however the strategy of leaders to rule the followers had a bit changed and their popularity among the nation had decreased. The quality of customer service as well had diminished.

- The employee had no intention to sell the product. She looked unhappy and unmotivated, as if she was doing something really hard for customers. It shows that the leader of this company doesn’t motivate the followers enough to feel excited about the job and the product.
- The follower had no trust, respect or dignity on her leader. She was doing what she thought was right, lacked communication skills and could not benefit from the product because of lack of trust in her product. For leaders, profit, progress and intelligence is supposed to be the main goal on the first place, so this was a result of unsuccessful leadership.
- The follower had a feeling of “I am doing this job just because my leader wants it”, she wasn’t motivated enough to participate and think actively to sell the product, her mind was closed and no creativity was coming out in selling the product.

A successful leader has to find ways of motivating the follower to try different approaches and not to feel like in a cage. A leader needs to show a real goal of the company to a follower so that he/she may have a chance to feel responsibility and contribute in to the common goal.

So this gave me an example of unsuccessful leadership practice in the Modern company and the overall impression of the empirical study can be shown like below:

### Table 1 - Oriflame

<table>
<thead>
<tr>
<th>Variables/Degree</th>
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<td>Positive emotions</td>
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<td></td>
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<tr>
<td>Negative emotions</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
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<tr>
<td>Job engagement</td>
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<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover intentions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>
Conclusion

Good followers are important for successful leadership. If a person is not good at accepting and fulfilling orders, then he is not appropriate to become a leader.

References

Ehrhart, M.G., & Klein, K.J. (2001). Predicting follower’s preferences for charismatic leadership: The influence of follower values and personality. Leadership Quarterly, 12, 153-179
The Impact of Brand Personality on Brand Experience: A Comparison between the Perceptions of Facebook, Twitter and Instagram Users

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Abstract
In the new business era, brands are widely considered as the most important assets of a firm (Keller, 1993). The proliferation of a large number of brands in the market has increased the importance of brand positioning and differentiation strategies for firms. This focus has increased the attention on the concept of brand personality as it plays a crucial role in consumer attitudes. The branding literature over the past decade has showed that consumers are not only buying simply products and services but also they buy the experience around what is sold (Morrison and Crane, 2007, p.410). For this reason, an effort to measure the brand experience perception of consumers has raised. The aim of this paper is primarily to apply the brand personality model of Aaker (1997) to the social networking sites context and to assess the effects of brand personality dimensions on the users’ perceptions of brand experiences regarding these sites. The three most popular networking sites (Facebook, Twitter and Instagram) in Turkey are subject to this study. The EFA and CFA findings revealed that brand personality construct had seven dimensions (sincerity, up to date, leadership, attractiveness, social, clever and vivid) regarding the social networking sites. The results showed statistically significant differences among the brand personalities of the networking sites. Brand personality did not show statistical significant effect on brand experience.

Keywords: Brand Personality, Brand Experience, Social Networking Sites (SNS), Facebook, Twitter, Instagram

Introduction
Due to the high competition, there is a high proliferation in the number of the brands globally. In order to have sustainable success and brand loyalty in this competitive environment, companies should differentiate their brands and should develop convenient positioning strategies for their brands. Both the increasing industrialization and globalization have made it difficult for managers to differentiate their brands on the basis of functional attributes alone (Siguaw et al., 1999). For this reason, symbolic and emotional meanings of brands have also become crucial in terms of positioning strategies. In other words, companies should incorporate the symbolic attributes of their brand while developing their differentiation and positioning strategies. One of the constructs that the symbolic attributes of the brands reflect in is known to be as brand personality in marketing literature. The concept of brand personality has been increasingly discussed within the branding literature during the last decades as personification of a brand has gained strategic importance given the positive effect it can have over positioning (Guzman and Sierra, 2009, pp.210).

Besides brand personality, creating distinctive brand experiences for their customers is another tool used to differentiate by companies. Brand experience has become an important area of research in marketing. Most of the brands are developing projects on improving their processes and consumer experiences. Experience has become one of the most important criteria for consumers in their brand attitudes, preferences, purchasing and repurchasing decisions and effect customer loyalty. Therefore, consumers look for brands that provide them with unique and memorable experiences (Şahin et al., 2011, p.1289). For this reason, as well as developing valuable experiences for customers, understanding how these experiences are perceived by them is also very important for brands in order to achieve long term success.

Social networking sites have become dynamic platforms that engage millions of internet users every day. By the end of 2014, it is estimated that there will be around 1.82 billion social network users around the globe (www.statista.com, June 7, 2014). The recent proliferation in the use of social networking sites has resulted in new research examining these sites from various perspectives. This study handles the social
networking sites from a marketing perspective as these sites also have become substantial indispensable brands in their users’ lives. Therefore, as with the other brands, identifying its users’ characteristics, perceptions and expectations is crucial for these brands to endure the competition.

This study aims to apply the brand personality model of Aaker (1997) to the social networking sites context and to examine the brand personality characteristics of Facebook, Twitter and Instagram. The secondary aim of this research is to assess the effects of brand personality dimensions on the users’ perceptions of brand experiences regarding these sites. The study is presented as follows. First, in the context of theoretical background, brand personality, brand experience and social networking sites are encapsulated. As part of the research methodology, both the exploratory and descriptive research processes are explained. Finally, the paper concludes with the discussion and conclusion section.

Brand Personality

Among the brand associations set, one important construct is known to be as brand personality. Brand personality is defined as the “set of human characteristics associated with a brand” (Aaker, 1997). The consumers’ knowledge regarding the brands they use consists of functional and symbolic brand associations (Zentes et al., 2012, pp.168). Brand personality is highly related with the symbolic benefits a brand offers to its consumers. Product related attributes refer to the utilitarian function for consumers whereas brand personality serves a symbolic and self-expressive function (Keller, 1993; Aaker, 1997). The personalities of the brands serve ways to consumers for self-expression (Aaker, 1997) and known to enhance the positive attitudes towards brands and the preferences (Batra et al., 1993).

The brand personality concept is derived from human personality theory (Arslan et al., 2008, p.4) and known to have been based on the Big Five Model framework in psychology literature (Mulyanegara et al., 2009, p.237). Big Five Model was developed by McCrae and Costa in 1990 and “it describes an individual’s personality by emotional, cognitive and behavioral elements that are idiosyncratic in their particular combination” (Mulyanegara et al., 2009, p.358). Big Five Model has allowed unifying the rich effort on personality features in literature and has become the most widely used model (Achouri and Bouslama, 2010, p.3). According to Big Five Model, the personality traits will proceed from the five fundamental factors which are known as the abbreviation OCEAN (Azoulay and Kapferer, 2003, p.148): openness, conscientiousness, extroversion, agreeableness and neuroticism (Guzman and Sierra, 2009, p.210).

Originally before Aaker’s seminal study on the development of an instrument to measure brand personality, this construct was measured by using two types of scales as first group the ad-hoc scales which were composed of 20 to 300 traits developed for the purpose of a specific research study and the second group of scales which were based on human personality traits. Both types of scales were lacking in terms of validity, and reliability (Aaker, 1997, p.348).

In her seminal work, Aaker developed a 42 item 15 facet brand personality scale based on human personality scales used in psychology, personality scales used in the previous marketing studies and qualitative research (Aaker, 1997, p.349). The dimensions of Aaker’s scale are sincerity, represented by personality attributes such as family-oriented, honest, sincere, sentimental and friendly; excitement, represented by attributes such as trendy, exciting, imaginative, young and independent; competence, represented by attributes such as hard-working, corporate, leader, intelligent and reliable; sophistication represented by attributes such as glamorous, upper class, good looking, and charming; ruggedness represented with attributes such as tough, masculine, western and outdoorsy (Aaker, 1997).

Despite some criticisms mostly on its generalizability (Austin et al., 2003; Azoulay and Kapferer, 2003), in most of the brand personality studies conducted after 1997, Aaker’s (1997) framework and scale were used. The scale was applied in different fields such as tangible goods, services brands, country brands and websites (Valette-Florence and De Barnier, 2012, p.1) and used in other cultures than US such as Russian culture (Suphellen and Gronhaug, 2003), US-Korea cross-cultural context (Sung and Tinkham, 2005), Indian culture (Purkayastha, 2009), French culture (Valette-Florence and De Barnier, 2012) and the Turkish culture (Aksoy and Özsomer, 2007; Özcêlik and Torlak, 2011; Aysen et al., 2012; Dölarşlan, 2012; Torlak and Doğan, 2011; Akin, 2011; Kurtuluş, 2008; Özgüven and Karataş, 2010; Arslan et al., 2008). Examining the brand personality literature, it may be seen that dimensions of the construct may vary between different cultures and context (Valette-Florence and De Barnier, 2012).
Brand Experience

According to consumer research, experiences occur when consumers seek out brand information, promotions and events, use the brand; talk to others about the brand and so on (Ambler et al., 2002). The long-lasting brand experiences are stored in consumer memory and affect consumer satisfaction and loyalty (Brakus et al., 2009, p.53). Brand experience is conceptualized as sensations, feelings, cognitions and behavioral responses evoked by brand-related stimuli that are part of a brand’s design and identity, packaging, communications and environments (Brakus et al., 2009). “The marketing activities associated with the brand, effects the consumer’s ‘mind-set’ with respect to the brand—what they know and feel about the brand” (Şahin et al., 2011, p.1290). Experience with a brand has more effect than the product features and benefits as it can produce a deeper meaning and be more memorable which directly increases customer trust in brand (Ha and Perks, 2005, p.450).

The brand experience construct used in this study is based on the conceptualization of Brakus et al. (2009). Using the recommended scaling procedures, the authors developed a four dimensional, 12-item brand experience scale. The dimensions validated in their study were sensory, affective, behavioral and intellectual. The results showed that brand experience was directly related to brand personality (Brakus et al., 2009).

Methodology

The aim of this research is primarily to examine the brand personality model of Aaker (1997) in a social networking site context and to investigate the brand personality characteristics of the three most popular social networking sites (Facebook, Twitter and Instagram) in Turkey. The secondary aim of this research is to assess the impacts of brand personality dimensions on brand experience perceptions of users regarding these sites. Depending on the specified aims the hypotheses developed in the study are as follows:

H1: There are statistically significant differences among the three social networking sites of Facebook, Twitter, Instagram in terms of the brand personality dimensions

H2: Brand personality dimensions have a significant effect on brand experience

The research process consisted of two parts: exploratory and descriptive. As part of the exploratory research process, a pre-test, class discussions and a focus group session were carried out in order to generate additional adjectives for personality traits concerning social networks.

As part of the descriptive research process, the brand personality variables of Aaker plus the ones achieved as a result of the exploratory research process were subjected to exploratory factor analysis (EFA) in order to explore the dimensional structure of the adapted scale of Aaker. Following the EFA, the brand personality scale was subjected to confirmatory factor analysis (CFA) in Lisrel 8.72 in order to assess the scale’s dimensional structure and to test for its reliability and validity.

Following the CFA, descriptive statistics, One-Way Anova and Welch analysis were conducted in order to determine the brand personality characteristics of the three social networking sites and to explore whether there were statistically significant differences among these three sites in terms of brand personality perceptions.

Eventually, Regression Analysis was conducted in order to see the effects of brand personality dimensions on the users’ perceptions of brand experiences regarding these sites.

Pre-Test, Class Discussions and Focus Group Discussion

A pre-test was conducted using convenience sampling on 75 (student and non-student) respondents. Respondents were asked five questions: “If Facebook/Twitter/Instagram were a person, what personality characteristics would describe him/her?”; “Which of these three social networking sites do you use?” and “Which one of these social networking sites is the one you most frequently use?”. The results of the pre-test generated 38 candidate adjectives to describe social networking sites’ brand personalities. Besides, most frequently social networking sites were found to be Facebook, Twitter, Instagram and Linkedin.

Following the collection of the open-ended questionnaires, the most repeated adjectives were subjected to class discussions in four post-graduate and two undergraduate classes at Istanbul University (N=115).
During the class discussions students were required to rate the new adjectives that were generated in the pre-test in terms of how descriptive they were of the three social networking sites. The adjectives with ratings above 50% were selected. At the end of the class discussions, 16 of the adjectives were eliminated due to ratings below 50%. As a result of both the pre-test and the class discussions a total of 22 adjectives were added to the original Aaker scale (Appendix 1).

As a next step of the exploratory research process, a focus group was held in order to “enable the respondents to share their insights and produce data which would be less accessible without group interaction” (Kumar et al., 2006, p.16) on April 11, 2014 at Istanbul University, Faculty of Political Sciences. As known from literature, focus groups are used widely during the preliminary phase of the research studies in order to develop items for inclusion in questionnaires and for the purpose of developing and refining research instruments (Barbour, 2007, p.16). A focus group discussion is mostly expected to include six to eight people (Hennink, 2014, p.37) in order to be “small enough for everyone to have an opportunity to share insights and yet large enough to provide diversity of perceptions” (Krueger and Casey, 2000, p.10). Accordingly, eight participants were invited to the focus group discussion that lasted for 2 hours. The group consisted of 5 females and 3 males aged between 20 and 37 years old, who were students and working in different sectors; one participant was a housewife. Due to the discrete nature of the subject, a projective technique (collage development) was applied in order to help the respondents to tap into different ways of thinking as in such situations, “participants may have feelings about the topic but they cannot express them in words” (Krueger, 1998, p.71). As a result of the focus group session, seven adjectives that were mentioned to describe Facebook, Instagram and Twitter were added to the brand personality scale in addition to the 22 adjectives added before (Appendix 1).

Measurement of Constructs

A questionnaire composed of four parts was used to collect data in this study. The first part consisted of a nominal scale question used to find out which social networking sites the respondents most frequently used. The second part consisted of the 5 point Likert type “brand personality” scale that included 71 personality traits which was based on the seminal study of Aaker (1997) anchoring from 1=strongly non-descriptive to 5=strongly descriptive. Among the 71 traits, 42 were taken from Aaker’s study (1997) and 29 traits were generated as a result of the exploratory research process (Appendix 1). The third part of the questionnaire consisted of the 5 point Likert type 13-item “brand experience” scale adapted from the study of Brakus et al. (2009), anchoring from 1=strongly disagree to 5=strongly agree. It should be noted that in order to avoid complexity, one of the items of the original scale was divided into two parts and for this reason the number of items increased to 13 (original scale consists of 12 items). The final part of the questionnaire contained nominal scale questions to determine the respondents’ demographic characteristics (Appendix 1). The negative adjectives and statements on both scales were reverse coded before analysis.

Sample and Data Collection

For the main study, data were collected in Istanbul between April 21, 2014–May 30, 2014, with the use of 4 graduate students in turn of extra points in their final examinations. The students were trained on the aim of the study and the surveying method. Convenience sampling and face-to-face survey method were used. A total of 339 usable questionnaires were collected. The incorrectly filled and incomplete ones were discarded. Prior to subjecting the data to statistical analysis, data were analyzed in terms of missing values and outlier analysis (Mahalanobis distance method) and as a result 290 usable questionnaires remained for further analysis.

Findings

Respondent Profile

As may be seen from Table 1, the total sample consists mainly of males (60.3%), bachelors (93.5%), with ages between 18-24 (67.2%), who are high school graduates (74.1%), with an income level below 1000 TL (57.9%). The demographic profiles for each social networking site (Facebook, Twitter and Instagram) are also presented in Table 1.
Table 1: Respondent Profile

<table>
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<tr>
<th>Demographic Characteristics</th>
<th>Total (N=290)</th>
<th>Facebook (N=90)</th>
<th>Twitter (N=106)</th>
<th>Instagram (N=94)</th>
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<tr>
<td></td>
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<td>Freq.</td>
<td>Valid%</td>
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</table>

Descriptive Statistics

As part of the descriptive statistics, the mean scores and standard deviations for the 71-item brand personality scale and 13-item brand experience scale were examined (Appendix 1). Assessing the results, it may be seen that for the total sample, the brand personality adjectives with the highest mean values are elderly (Mean= 4.38; Sd.=0.841) and sharing (Mean=4.33; Sd.=0.767). Analyzing each social networking site separately, it may be seen that for Facebook, the brand personality adjectives with the highest mean values are glamorous (Mean=4.18; Sd.=0.967) and masculine (Mean=4.18; Sd.=0.801) whereas they are frank (Mean=4.72; Sd.=0.548) and spirited (Mean=4.72; Sd.=0.548) for Twitter. As for Instagram, the highest mean values were achieved for the adjectives rebellious (Mean= 4.36; Sd.=0.637) and daring (Mean=4.36; Sd.=0.637).

Among the 13 items of the brand experience scale, the one with the highest mean value was found to be “This brand stimulates my problem solving” for the total sample (Mean= 3.82; Sd.=1.003) and also for each social networking site separately (Facebook: Mean=3.56; Sd.=1.072; Twitter: Mean=3.90; Sd.=0.975; Instagram: Mean=3.99; Sd.=0.922). Regarding the overall brand experience variable, the mean value for the total sample is 3.17 (Sd.=0.529) whereas it is 3.10 (Sd.=0.594) for Facebook, 3.19 (Sd.=0.498) for Twitter and 3.23 (Sd.=0.493) for Instagram.

Reliability Analysis

Before any further statistical analysis, the scales were subjected to reliability analysis. Cronbach’s Alpha values were calculated for both the brand personality and brand experience scales separately. Among the 71 items of the brand personality scale, 28 items with corrected item-to-total correlation values below 0.40 were eliminated (Appendix 1). The reliability analysis was repeated for the remaining 43 items after the elimination and the Cronbach’s Alpha value for the final refined scale was found to be 0.944.

As a result of the reliability analysis conducted on the 13-item brand experience scale, the Cronbach’s Alpha value was found to be 0.715. Assessing the achieved Cronbach’s Alpha scores, it may be said that the internal consistency estimates of both scales are above the cutoff point of 0.70 as recommended by Nunnaly and Bernstein (1994).
Exploratory Factor Analysis (EFA)

Brand Personality Scale

For the 43-item brand personality scale EFA was conducted and repeated until no items showed factor loadings below 0.50. The results of the final EFA using principal component analysis and varimax rotation resulted in a total of seven factors which was supported by the scree plot solution as well. The Kaiser-Meyer Olkin (KMO) results showed that sampling adequacy was suitable for conducting EFA (KMO = 0.867; χ² = 3263.689, df = 325; p = 0.000). The final seven factor structure consisted of 26 items with Total Variance Extraction of 65.505%. The seven factors were labeled as F1: Sincerity (R² = 30.466, α = 0.844); F2: Up to date (R² = 8.730, α = 0.799); F3: Leadership (R² = 7.027, α = 0.738); F4: Attractiveness (R² = 6.042, α = 0.819); F5: Socialness (R² = 4.879, α = 0.778); F6: Cleverness (R² = 4.317, α = 0.726) and F7: Vividness (R² = 4.044, α = 0.633).

Brand Experience Scale

EFA was conducted and repeated for the 13-item Brand Experience Scale. The results produced a three factor solution which was supported by the scree plot as well (Total Variance Extracted = 66.051%; KMO = 0.758; χ² = 481.783, df = 28; p = 0.000). The three factors which consisted of a total of seven items (after the elimination of items with loadings below 0.50) were labeled as F1: Sensory (R² = 35.450, α = 0.756); F2: Intellectual (R² = 16.969, α = 0.585) and F3: Behavioral (R² = 13.632, α = 0.814). It should be noted that the “Affective” brand experience dimension of the original brand experience scale was completely eliminated in this study.

The items, their corresponding factors and factor loadings for both scales are presented in Appendix 1.

Confirmatory Factor Analysis (CFA)

Both the Brand Personality and Brand Experience Scales were subjected to CFA using Lisrel 8.72 with Maximum Likelihood Estimation in order to test for reliability and validity (Jöreskog and Sörbom, 1993). For the Brand Personality Scale, the data showed acceptable fit to the seven factor model (Table 2). As for the Brand Experience Scale, the t-values of the two items comprising the F3 (Behavioral) were found to be lower than 1.96 which showed that the corresponding parameters were not significantly different from zero (Diamantopoulos and Siguaw, 2009, p.60). After eliminating these items from the study, only one item was left under F3 (Behavioral). Therefore, F3 (Behavioral) was excluded from the study. After the elimination, the CFA was repeated for the two factor model of Brand Experience Scale and data showed acceptable fit (Table 2).

Table 2: Goodness of Fit Statistics for the Scales Used in the Study

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>χ² (df)</td>
<td>545.33 (278)</td>
<td>9.63 (3)</td>
<td></td>
</tr>
<tr>
<td>χ²/(df)</td>
<td>1.96</td>
<td>3.21</td>
<td>1-5</td>
</tr>
<tr>
<td>p value</td>
<td>0.000</td>
<td>0.022</td>
<td>&lt; 0.05</td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.058</td>
<td>0.087</td>
<td>RMSEA≤0.08</td>
</tr>
<tr>
<td>NFI</td>
<td>0.82</td>
<td>0.97</td>
<td>NFI ≥0.90</td>
</tr>
<tr>
<td>CFI</td>
<td>0.89</td>
<td>0.98</td>
<td>CFI ≥0.90</td>
</tr>
<tr>
<td>SRMR</td>
<td>0.058</td>
<td>0.032</td>
<td>SRMR≤0.08</td>
</tr>
<tr>
<td>GFI</td>
<td>0.87</td>
<td>0.99</td>
<td>GFI≥0.90</td>
</tr>
<tr>
<td>AGFI</td>
<td>0.84</td>
<td>0.93</td>
<td>AGFI≥0.90</td>
</tr>
<tr>
<td></td>
<td>162.24</td>
<td>339.07</td>
<td></td>
</tr>
</tbody>
</table>

Reliability and Validity

Assessing the standardized loading estimates achieved through CFA, it was found that all items loaded significantly on to their respective constructs providing evidence for convergent validity. The standardized loadings were found to be between 0.59-0.90 for the Brand Personality Scale items and between 0.45-0.89 for the Brand Experience Scale items which provides adequate evidence of convergent validity (Bagozzi
and Yi, 1988). As a further step, Average Variance Extracted (AVE) values were calculated for each factor of both scales. As known from literature, AVE scores of 0.5 or greater suggest adequate convergent validity (Fornell and Larcker, 1981). Inspecting the AVE scores for the seven factors of Brand Personality Scale (F1=0.59; F2=0.46; F3=0.43; F4=0.62; F5=0.57; F6=0.49; F7=0.45), it may be seen that four factors show AVE scores slightly below 0.50, therefore it may be said that convergent validity is achieved. As for the two factors of Brand Experience Scale, AVE scores were found to be 0.72 (F1) and 0.43 (F2) respectively which shows evidence of convergent validity. In addition, the correlation scores between the factors of each scale were inspected and found to be below 0.70 which is below the cut-off point of 0.85 (Kline, 2005).

Reliabilities of both scales were assessed using composite reliability (CR) measures. The composite reliability scores for the seven factors of the Brand Personality Scale were found to be between 0.45 - 0.85 and 0.60 - 0.88 for the two factors of the Brand Experience Scale which indicate that the construct reliabilities of both scales are high as the scores are higher than the threshold level of 0.6 (with only one exception of 0.45 for F5 of the Brand Experience Scale) as indicated by Fornell and Larcker (1981).

Regarding the results of CFA, it could be said that the Brand Personality Scale consisting of seven factors and the Brand Experience Scale consisting of two factors show adequate reliability and validity and therefore could be subjected to further analyses.

### Brand Personality Characteristics of Facebook, Twitter and Instagram

In order to examine the brand personality characteristics of Facebook, Twitter and Instagram, the mean values and standard deviations regarding the seven dimensions of Brand Personality scale were analyzed for each social networking site (Table 3).

#### Table 3: Mean Scores and Differences for the Three Social Networking Sites

<table>
<thead>
<tr>
<th></th>
<th>Facebook</th>
<th>Twitter</th>
<th>Instagram</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Std. Dev.</td>
<td>Mean</td>
</tr>
<tr>
<td>F1:Sincerity</td>
<td>2.3556</td>
<td>.91797</td>
<td>3.0401</td>
</tr>
<tr>
<td>F2:Up to date</td>
<td>3.6444</td>
<td>.81766</td>
<td>4.3396</td>
</tr>
<tr>
<td>F3:Leadership</td>
<td>3.3733</td>
<td>.82008</td>
<td>3.4849</td>
</tr>
<tr>
<td>F4:Attractiveness</td>
<td>3.4667</td>
<td>.89777</td>
<td>3.4371</td>
</tr>
<tr>
<td>F5:Social</td>
<td>4.0889</td>
<td>.76241</td>
<td>4.3742</td>
</tr>
<tr>
<td>F7:Vivid</td>
<td>3.6889</td>
<td>.66253</td>
<td>4.0283</td>
</tr>
</tbody>
</table>

*p≤0.05

Considering the mean scores given in Table 3, the major brand personality characteristic identified with all of the three social networking sites is found to be social (F5). However, some differences were spotted in the dimensions that achieved the second highest mean scores for each social networking site. For Facebook, the next personality characteristic with the second highest mean score was clever (F6), for Twitter it was up to date (F2) and for Instagram it was vivid (F7). Taking into account the results given in Table 3 it may be assumed that, besides being identified with being social, Facebook was perceived to be clever whereas Twitter was perceived to be up to date and Instagram was perceived to be vivid.

In order to see whether there were any statistical significance differences between the three social networking sites in terms of brand personality dimensions One-Way Anova and Welch tests were conducted. As may be seen from Table 3, except for one dimension (F3: Leadership; p=0.516), statistically significant differences were spotted for six dimensions of brand personality. **Thus, H1 is accepted.**
Upon inspection of the results of the Post Hoc (Scheffe and Tamhane) multiple comparison tests, the groups between which differences were spotted are as follows: F1 (Sincerity): Twitter - Facebook and Instagram-Facebook; F2 (Up to date): Twitter–Facebook and Instagram–Facebook; F4 (Attractiveness): Instagram–Facebook and Instagram-Twitter; F5 (Socialness): Facebook-Twitter; F6 (Cleverness): Instagram-Twitter and F7 (Vividness): Facebook-Twitter and Instagram Facebook. The mean values of each social networking site regarding each factor may be seen on Table 3.

The Effects of Brand Personality Dimensions on Brand Experience

The results of the Regression Analysis that was conducted in order to see the effects of brand personality dimensions on the respondents’ perceptions of brand experience regarding the three social networking sites are given in Table 4. Table 4 presents the results of the regression analysis with the overall brand experience score as the dependent variable for the total sample and each social networking site separately.

Table 4: Results of Multiple Regression Analysis (Dependent Variable: Overall Brand Experience Score)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Facebook</th>
<th>Twitter</th>
<th>Instagram</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.997**</td>
<td>1.192**</td>
<td>-0.072</td>
<td>1.600**</td>
</tr>
<tr>
<td>F1:Sincerity</td>
<td>0.236**</td>
<td>0.061</td>
<td>0.190*</td>
<td>0.293**</td>
</tr>
<tr>
<td>F2:Up to date</td>
<td>-0.054</td>
<td>-0.189</td>
<td>0.139</td>
<td>-0.002</td>
</tr>
<tr>
<td>F3:Leadership</td>
<td>0.087</td>
<td>0.330*</td>
<td>-0.037</td>
<td>0.075</td>
</tr>
<tr>
<td>F4:Attractiveness</td>
<td>0.090</td>
<td>0.038</td>
<td>0.110</td>
<td>0.162</td>
</tr>
<tr>
<td>F5:Social</td>
<td>0.142*</td>
<td>0.131</td>
<td>0.120</td>
<td>0.078</td>
</tr>
<tr>
<td>F6:Clever</td>
<td>0.230**</td>
<td>0.287*</td>
<td>0.271*</td>
<td>0.139</td>
</tr>
<tr>
<td>F7: Vivid</td>
<td>0.065</td>
<td>-0.016</td>
<td>0.119</td>
<td>-0.071</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.307</td>
<td>0.284</td>
<td>0.391</td>
<td>0.166</td>
</tr>
</tbody>
</table>

*p≤0.05; **p≤0.01; VIF: 1,325-1,695

As may be seen from Table 4, regarding the total sample, only three dimensions (Sincerity, Socialness and Cleverness) out of seven were found to be statistically effective on the brand experience perceptions of the respondents. Thus, H2 is rejected. For Facebook, the brand personality dimensions that showed statistically significant effect were Sincerity and Clever; whereas for Instagram, only one dimension (Up to date) showed statistically significant effect on brand experience perception. Besides the effects of the brand personality dimensions on the overall brand experience score, the regression analysis were repeated to examine the effects of these dimensions on the two brand experience factors, Sensory and Intellectual separately (Table 5).

Table 5: Results of Multiple Regression Analysis (Dependent Variable - Brand Experience Dimensions: Sensory and Intellectual)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Facebook</th>
<th>Twitter</th>
<th>Instagram</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensor</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intellectual</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Beta (β)</td>
<td>Beta (β)</td>
<td>Beta (β)</td>
<td>Beta (β)</td>
</tr>
<tr>
<td></td>
<td>0.595**</td>
<td>1.599**</td>
<td>1.228*</td>
<td>1.138*</td>
</tr>
<tr>
<td>F1:Sincerity</td>
<td>0.216**</td>
<td>0.167**</td>
<td>0.078</td>
<td>0.019</td>
</tr>
<tr>
<td>F2:Up to date</td>
<td>0.006</td>
<td>-0.117</td>
<td>0.044</td>
<td>-0.437**</td>
</tr>
<tr>
<td>F3:Leadership</td>
<td>0.067</td>
<td>0.080</td>
<td>0.274*</td>
<td>0.302*</td>
</tr>
<tr>
<td>F4:Attractiveness</td>
<td>0.170**</td>
<td>-0.061</td>
<td>-0.039</td>
<td>0.128</td>
</tr>
<tr>
<td>F5:Social</td>
<td>0.132*</td>
<td>0.098</td>
<td>0.097</td>
<td>0.136</td>
</tr>
<tr>
<td>F6:Clever</td>
<td>0.082</td>
<td>0.346**</td>
<td>0.264</td>
<td>0.229</td>
</tr>
<tr>
<td>F7: Vivid</td>
<td>0.145*</td>
<td>-0.073</td>
<td>-0.076</td>
<td>0.068</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.310</td>
<td>0.159</td>
<td>0.205</td>
<td>0.265</td>
</tr>
</tbody>
</table>

*p≤0.05; **p≤0.01; VIF: 1,247-2,533
The results indicate that for the total sample, *sincerity, attractiveness* and *social* were effective on the sensory dimension of brand experience whereas only *sincerity* and *clever* were effective on the intellectual dimension of brand experience. Regarding Facebook, except for *leadership*, none of the brand personality dimensions showed a statistically significant effect on the sensory dimension of brand experience whereas *up to date* (negative effect) and *leadership* showed statistically significant effect on the intellectual dimension. As for Twitter, *sincerity* and *clever* were found to be effective on the sensory dimension whereas none of the brand personality dimensions showed statistically significant effect on the intellectual dimension of brand experience. Lastly, for Instagram, *sincerity* showed a statistically significant effect on the sensory dimension of brand experience, whereas for the intellectual dimension, *sincerity* and *clever* showed statistically significant effects.

**Discussion and Conclusion**

This study addressed the brand personality construct in the social networking sites context. The aim of the study was to apply the brand personality model of Aaker (1997) to the social networking sites context and to examine the brand personality characteristics of Facebook, Twitter and Instagram besides assessing the effects of brand personality dimensions on the users’ perceptions of brand experiences regarding these sites.

Upon inspection of the demographic characteristics of the sample, it could be seen that the total sample was consisting mainly of bachelor males who were high school graduates with ages between 18-24 years, and with an income level of below 1000 TL. These findings are in parallel with the recent industry analysis (Social Media Developments, Maxus Turkey, 2013, www.sosyalmedya-tr.com, July 5, 2014). According to the social media analysis conducted in the end of 2013, Facebook had 32.1 million users who were mostly males (63%). Similarly, most of the Twitter users were found to be males (53%) (Social Media Developments, Maxus Turkey, 2013, www.sosyalmedya-tr.com, July 5, 2014). According to the results of a research conducted on 2057 social media users in 26 cities of Turkey, the results showed that the majority of the users were aged between 15-29 years old who were mostly single and high school graduates (www.gsb.gov.tr, July 5, 2014).

Depending on the results of the exploratory research process, 29 adjectives that were found to be used in describing the social networking sites’ brand personalities were added to the 42 items of the original Aaker (1997) brand personality scale. As for the measurement of brand experience construct, the 13-item scale developed by Brakus et al. (2009) was adapted. Both scales were subjected to exploratory (EFA) and confirmatory (CFA) factor analysis in order to test for dimensionality, reliability and validity.

For the social networking sites, the brand personality dimensions were found to be *sincerity*, *up to date*, *leadership*, *attractiveness*, *social*, *clever* and *vivid*. This dimensional structure is partially in parallel with the Aaker’s brand personality model (1997). Besides the *sincerity* dimension which is the same as Aaker’s (1997) *sincerity*, the *leadership* dimension achieved in this study may be thought as corresponding to the competence; the *vivid* dimension may be thought as corresponding to the excitement, and *up to date* may be corresponding to the sophistication dimensions of Aaker’s (1997) brand personality model when they are considered both with the facets and the items forming them. As social networking site is a totally different medium and Facebook, Twitter and Instagram are substantially distinct and unique in nature; the differences between the dimensional structures are quite lucid.

Considering the brand personalities of the three social networking sites, all three sites were found to be *social* as their primary personality. This finding is understandable as individuals mostly use these sites to get socialized. In a recent study on social media usage, findings show that the users get online in social media mostly for being in connection with friends (Solmaz et al., 2013). Accordingly, it is not surprising to find out that the social networking sites are mostly identified with being social. Considering the second highest scores received for the brand personality dimensions, Facebook was found to be perceived as being clever, Twitter was perceived as being up to date and Instagram was found to be perceived as being vivid. These findings are highly similar to the focus group discussion findings of this study conducted in the exploratory process. During the focus group discussion, most of the participants mentioned that they used Twitter to stay up to date and get the latest news and developments. Furthermore, it was mentioned in the focus group session that, Instagram was the medium where arts, dynamism and originality forgather. Among the three sites, Instagram was the one which was mentioned as being “young” when compared to Facebook and Twitter. As to the identification of Facebook mostly with being clever, it may be said that
this may be due to the reason that Facebook is the mostly used social networking site (Sarıkaya, February 02, 2014, www.technotoday.com.tr, July 05, 2014). 34 million people are known to be using Facebook with different demographic characteristics (Sarıkaya, February 02, 2014, www.technotoday.com.tr, July 05, 2014). Besides the aim of socializing, Facebook is known to be used for getting information about miscellaneous subjects shared by others and declaring one’s own ideas about social and personal issues. It may easily be seen that, any issue discussed on the national and international agenda is immediately discussed with all kinds of sharing on Facebook. For this reason, besides being social it may be understandable for Facebook to be perceived as being clever.

Among the three social networking sites, significant differences were obtained for six personality dimensions. Investigating the post hoc tests in detail it is found that, both Twitter and Instagram were found to be more sincere, more up to date, more vivid than Facebook. These results are highly in parallel with the focus group discussion findings as most of the participants mentioned that they perceived Facebook as being old and less trendy than the other two sites. In the personification projective test, Facebook was mostly mentioned as an old and conventional person while Twitter and Instagram were mentioned as being dynamic, young and trendy. As for the clever and social dimensions, Instagram was found to be cleverer than Twitter. Furthermore, Instagram was found to be more attractive than both Facebook and Twitter as well. During the class discussions, most of the students mentioned that, Instagram was getting more popular among young people as its artistic and aesthetical context was more than that of Facebook and Twitter.

The EFA and CFA produced a two-dimensional structure of brand experience scale. Examining the dimensions, it was found that, they were highly similar to the brand experience model of Brakus et al. (2009). The original scale of Brakus et al. (2009) resulted in four dimensions which were sensory, affective, behavioral and intellectual. In this study, only two dimensions were confirmed in terms of reliability and validity which are sensory and intellectual.

The findings of the regression analysis indicate that the brand personality traits that are significantly effective on the overall brand experience perceptions of the users regarding the total sample are sincerity, being social and being clever. For Facebook, the traits that are found to be effective on brand experience are leadership and being clever whereas they are sincerity and being clever for Twitter. As for Instagram, only sincerity was found to be effective on brand experience. The results indicate that, in order to improve the brand experience perceptions of users, Facebook should place more importance on being hard-working, professional, successful, leader, and tough which will enhance its perception of being a leader. Twitter should work more on being perceived as down-to-earth, honest, sincere and real besides placing importance on being perceived as clever. Regarding, Instagram, for increasing the brand experience perceptions of its users, it should place more importance on being perceived as sincere.

Brand personality is a widely researched area in marketing. As the number of the social networking sites are increasing day after day, positioning strategies become more of an issue for these sites as well. In order to have sustainable success, the social networking sites should also develop branding strategies with distinctive characteristics. As seen from the results, brand personality is one of the effective issues on brand experience perceptions of users. Therefore, screening the brand personality and brand experience perceptions of users periodically and repositioning the brand if necessary is strategically crucial for social networking sites as it is for other brands. In this respect, this study is expected to contribute to literature as it is known to be the first study handling social networking sites from the brand personality perspective.

This study has its own limitations. First of all, the sampling method used in this study is convenience sampling. Therefore, the results are valid for the sample and not representative of the whole population. Besides, only three social networking sites are included in the study and respondents are recruited only in Istanbul. Considering that this study was one of the pioneer studies in Turkey, for further research, studies on different samples and using higher number of social networking sites are encouraged.

References


Arslan, F. M., Konuk, F.A. & Altuna, O.K. Online versus Offline Brand Personality: Implications for Brick-and-Click Brands. *17th Recent Advances in Retailing and Services Science Conference* Istanbul, Turkey, July 2-5, 2010


APPENDIX 1. Mean Values, Standard Deviations, Factor Dimensions and Loadings

<table>
<thead>
<tr>
<th>Brand Personality Scale Items</th>
<th>TOTAL SAMPLE</th>
<th>FACEBOOK</th>
<th>TWITTER</th>
<th>INSTAGRAM</th>
<th>Factor Dimensions / Loading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Down-to-earth (a)</td>
<td>2.87</td>
<td>1.135</td>
<td>2.56</td>
<td>1.040</td>
<td>3.07</td>
</tr>
<tr>
<td>Family-oriented (a)*</td>
<td>2.59</td>
<td>1.094</td>
<td>2.04</td>
<td>1.080</td>
<td>2.84</td>
</tr>
<tr>
<td>Small-town (a)*</td>
<td>2.16</td>
<td>1.088</td>
<td>2.43</td>
<td>1.264</td>
<td>3.31</td>
</tr>
<tr>
<td>Honest (a)</td>
<td>2.62</td>
<td>1.240</td>
<td>2.39</td>
<td>1.242</td>
<td>2.94</td>
</tr>
<tr>
<td>Sincere (a)</td>
<td>3.09</td>
<td>1.314</td>
<td>3.34</td>
<td>0.938</td>
<td>3.65</td>
</tr>
<tr>
<td>Real (a)</td>
<td>2.73</td>
<td>1.323</td>
<td>3.62</td>
<td>1.077</td>
<td>3.92</td>
</tr>
<tr>
<td>Wholesome (a)</td>
<td>3.48</td>
<td>0.967</td>
<td>3.64</td>
<td>0.798</td>
<td>3.83</td>
</tr>
<tr>
<td>Original (a)</td>
<td>3.83</td>
<td>1.052</td>
<td>3.72</td>
<td>1.132</td>
<td>3.75</td>
</tr>
<tr>
<td>Cheerful (a)</td>
<td>3.91</td>
<td>0.901</td>
<td>3.21</td>
<td>1.222</td>
<td>3.96</td>
</tr>
<tr>
<td>Sentimental (a)*</td>
<td>3.31</td>
<td>1.023</td>
<td>3.76</td>
<td>0.928</td>
<td>4.09</td>
</tr>
<tr>
<td>Friendly (a)</td>
<td>3.85</td>
<td>0.951</td>
<td>3.17</td>
<td>1.063</td>
<td>3.80</td>
</tr>
<tr>
<td>Daring (a)</td>
<td>3.63</td>
<td>1.131</td>
<td>3.80</td>
<td>0.939</td>
<td>4.34</td>
</tr>
<tr>
<td>Trendy (a)*</td>
<td>4.12</td>
<td>1.001</td>
<td>3.73</td>
<td>0.897</td>
<td>4.39</td>
</tr>
<tr>
<td>Exciting (a)</td>
<td>3.98</td>
<td>0.926</td>
<td>2.82</td>
<td>1.045</td>
<td>3.26</td>
</tr>
<tr>
<td>Spirited (a)*</td>
<td>3.99</td>
<td>0.972</td>
<td>4.03</td>
<td>0.930</td>
<td>4.72</td>
</tr>
<tr>
<td>Cool (a)</td>
<td>3.67</td>
<td>1.049</td>
<td>3.46</td>
<td>1.113</td>
<td>4.29</td>
</tr>
<tr>
<td>Young (a)</td>
<td>4.18</td>
<td>0.833</td>
<td>3.79</td>
<td>1.065</td>
<td>4.34</td>
</tr>
<tr>
<td>Imaginative (a)</td>
<td>4.05</td>
<td>0.871</td>
<td>2.37</td>
<td>1.126</td>
<td>2.61</td>
</tr>
<tr>
<td>Unique (a)</td>
<td>3.11</td>
<td>1.139</td>
<td>3.03</td>
<td>1.126</td>
<td>3.12</td>
</tr>
<tr>
<td>Up-to-date (a)</td>
<td>4.25</td>
<td>0.920</td>
<td>2.43</td>
<td>1.227</td>
<td>2.74</td>
</tr>
<tr>
<td>Independent (a)</td>
<td>4.00</td>
<td>0.972</td>
<td>3.20</td>
<td>1.008</td>
<td>3.68</td>
</tr>
<tr>
<td>Contemporary (a)</td>
<td>4.13</td>
<td>0.877</td>
<td>4.17</td>
<td>0.903</td>
<td>4.23</td>
</tr>
<tr>
<td>Reliable (a)</td>
<td>2.64</td>
<td>1.098</td>
<td>3.72</td>
<td>0.983</td>
<td>3.68</td>
</tr>
<tr>
<td>Hard working (a)</td>
<td>3.06</td>
<td>1.059</td>
<td>3.62</td>
<td>0.955</td>
<td>3.95</td>
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<tr>
<td>Secure (a)</td>
<td>2.63</td>
<td>1.097</td>
<td>3.42</td>
<td>1.132</td>
<td>3.61</td>
</tr>
<tr>
<td>Intelligent (a)</td>
<td>3.42</td>
<td>1.020</td>
<td>3.59</td>
<td>1.037</td>
<td>3.76</td>
</tr>
<tr>
<td>Technical (a)</td>
<td>4.24</td>
<td>0.835</td>
<td>3.34</td>
<td>0.996</td>
<td>3.32</td>
</tr>
<tr>
<td>Corporate (a)</td>
<td>3.76</td>
<td>0.958</td>
<td>3.62</td>
<td>0.967</td>
<td>3.66</td>
</tr>
<tr>
<td>Successful (a)</td>
<td>3.89</td>
<td>0.927</td>
<td>3.43</td>
<td>1.092</td>
<td>3.33</td>
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<tr>
<td>Leader (a)</td>
<td>3.47</td>
<td>1.029</td>
<td>3.07</td>
<td>1.159</td>
<td>3.06</td>
</tr>
<tr>
<td>Confident (a)</td>
<td>3.67</td>
<td>0.903</td>
<td>3.41</td>
<td>1.101</td>
<td>3.77</td>
</tr>
</tbody>
</table>
This brand 
senses (d) 
not appeal to my 
This sensory way (d) 
interesting in a 
other senses (d) 
visual senses or 
impression on my 
a strong 
Items 

- Well 
- Motor mouth (b)* 
- Exhibitionist (c)* 
- Open 
- Unmannerly (c)* 
- Enterprising (b) 
- Charismatic (b) 
- Popular (b)* 
- Elderly (b)* 
- Frank (b) 
- Charismatic (b) 
- Erotic (b)* 
- Insolent (b)* 
- Out-of-turn (b)* 
- Open-minded (b) 
- Sharing (b) 
- Exhibitionist (c)* 
- Unmannerly (c)* 
- Creative (c) 
- Rover (c)* 
- Intellectual (c) 
- Nice-to-talk-to/Well-spoken (c) 
- Repartee (c) 

Brand Experience Scale Items | Mean | Std. Dev. | Mean | Std. Dev. | Mean | Std. Dev. | Factor Dimension / Loading |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>This brand makes a strong impression on my visual senses or other senses (d)</td>
<td>3.39</td>
<td>1.020</td>
<td>3.26</td>
<td>.931</td>
<td>3.25</td>
<td>1.178</td>
<td>3.68</td>
</tr>
<tr>
<td>I find this brand interesting in a sensory way (d)</td>
<td>3.51</td>
<td>.946</td>
<td>3.34</td>
<td>.914</td>
<td>3.43</td>
<td>1.005</td>
<td>3.77</td>
</tr>
<tr>
<td>This brand does not appeal to my senses (d)</td>
<td>3.45</td>
<td>1.974</td>
<td>3.32</td>
<td>3.232</td>
<td>3.37</td>
<td>.979</td>
<td>3.66</td>
</tr>
<tr>
<td>This brand</td>
<td>2.82</td>
<td>1.242</td>
<td>3.12</td>
<td>1.262</td>
<td>2.85</td>
<td>1.293</td>
<td>2.51</td>
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</table>

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<table>
<thead>
<tr>
<th>Induces feelings and sentiments(d)</th>
<th>2.91</th>
<th>1.078</th>
<th>2.78</th>
<th>1.003</th>
<th>2.93</th>
<th>1.157</th>
<th>3.01</th>
<th>1.052</th>
<th>FL&lt;0.50</th>
</tr>
</thead>
<tbody>
<tr>
<td>I do not have strong emotions for this brand (d)</td>
<td>2.87</td>
<td>1.081</td>
<td>2.92</td>
<td>1.114</td>
<td>2.85</td>
<td>1.145</td>
<td>2.83</td>
<td>.980</td>
<td>FL&lt;0.50</td>
</tr>
<tr>
<td>This brand is an emotional brand (d)</td>
<td>2.74</td>
<td>1.199</td>
<td>2.79</td>
<td>1.241</td>
<td>2.47</td>
<td>1.097</td>
<td>3.00</td>
<td>1.218</td>
<td></td>
</tr>
<tr>
<td>I engage in physical actions and behaviors when I use this brand (d)**</td>
<td>3.44</td>
<td>1.011</td>
<td>3.43</td>
<td>1.039</td>
<td>3.60</td>
<td>1.011</td>
<td>3.26</td>
<td>.961</td>
<td></td>
</tr>
<tr>
<td>This brand results in bodily experiences (d)**</td>
<td>2.63</td>
<td>1.124</td>
<td>2.44</td>
<td>1.123</td>
<td>2.40</td>
<td>1.110</td>
<td>3.09</td>
<td>1.012</td>
<td></td>
</tr>
<tr>
<td>This brand is not action oriented (d)**</td>
<td>3.36</td>
<td>1.020</td>
<td>3.34</td>
<td>1.007</td>
<td>3.69</td>
<td>.960</td>
<td>2.99</td>
<td>.978</td>
<td>F2/0.749</td>
</tr>
<tr>
<td>I engage in a lot of thinking when I encounter this brand (d)</td>
<td>3.61</td>
<td>1.040</td>
<td>3.43</td>
<td>1.112</td>
<td>3.67</td>
<td>1.102</td>
<td>3.72</td>
<td>.873</td>
<td>FL&lt;0.50</td>
</tr>
<tr>
<td>This brand does not make me think (d)</td>
<td>2.71</td>
<td>1.042</td>
<td>2.58</td>
<td>1.027</td>
<td>3.06</td>
<td>1.085</td>
<td>2.45</td>
<td>.899</td>
<td>F2/0.832</td>
</tr>
<tr>
<td>This brand stimulates my curiosity (d)</td>
<td>3.82</td>
<td>1.003</td>
<td>3.56</td>
<td>1.072</td>
<td>3.90</td>
<td>.975</td>
<td>3.99</td>
<td>.922</td>
<td>F1/0.704</td>
</tr>
<tr>
<td>This brand stimulates my problem-solving (d)</td>
<td>3.17</td>
<td>.529</td>
<td>3.10</td>
<td>.594</td>
<td>3.19</td>
<td>.498</td>
<td>3.23</td>
<td>.493</td>
<td></td>
</tr>
<tr>
<td>OVERALL BRAND EXPERIENCE</td>
<td>3.17</td>
<td>.529</td>
<td>3.10</td>
<td>.594</td>
<td>3.19</td>
<td>.498</td>
<td>3.23</td>
<td>.493</td>
<td></td>
</tr>
</tbody>
</table>

(a) Adapted from Aaker (1997)
(b) Generated in the pre-test (open-ended questionnaire)
(c) Generated in the focus group discussion
(d) Adapted from Brakus, Schmitt and Zarantello (2009)
* Items that have been removed from the research due to the Corrected Item-to-Total Correlation scores <0.40
** Items that have been removed from the research as a result of CFA
The Impact of Social Media on Hotels in Bulgaria

Elena Zheynova
Bulgaria International University College
elena.zheynova@vumk.eu

Abstract
Social media are playing an increasing role in people’s lives nowadays and have become an important marketing tool for companies. They have changed the marketing landscape and the way hotels do business. Social media give companies the opportunity to interact with customers and gather consumer information. This paper aims to review the impact of social media on hotels in Bulgaria. The discussion is mainly focused on Facebook as the most popular social media platform in the country. This topic is new and has remained relatively unexamined by researchers. The paper analyses to what extent Bulgarian hotels apply social media marketing. It also identifies some strategies on how hotels in Bulgaria could improve their effectiveness on social media and gives suggestions for future research in the field.

Keywords: Social Media, Facebook, Hospitality, Bulgaria

Introduction
Social media are playing an increasing role in people’s lives nowadays. According to Curtis (2014), social media are web sites where “people interact freely, sharing and discussing information about each other and their lives.” Facebook, Twitter, YouTube and other social media platforms are part of everyday life. They have changed the way people communicate today.

Social media have also transformed the marketing landscape as they have changed the way companies interact with their customers. Social media have become an important marketing tool for businesses since they allow for authentic and direct communication. They could help companies develop better relationships with their customers. Thus, hotels need to consider the many opportunities that social media present and incorporate them into their marketing strategies.

A number of studies have analyzed the advantages and drawbacks of social media marketing. The main objective of this paper is to review the impact of social media on hotels in Bulgaria. The discussion is mainly focused on Facebook as the most popular social media platform in the country. This topic is new and has remained relatively unexamined by researchers. The paper analyses to what extent Bulgarian hotels apply social media marketing. It also identifies some strategies on how hotels in Bulgaria could improve their effectiveness on social media and gives suggestions for future research in the field.

The Impact of Social Media
According to Ryan and Jones (2009), “Consumer 2.0” is able to express their opinion online and to consult other people before making purchase decisions. Bronner and de Hoog (2014) argue that social media are important for consumer decisions, especially high-involvement ones (such as leisure travel). Thus, it could be said that customers tend to read online reviews when looking for a hotel. Word-of-mouth is still considered the most powerful marketing tool. According to Kotler and Keller (2011), when selecting a provider, service buyers rely more on word-of-mouth than on advertising. Social media amplify word-of-mouth communication. According to the results from Nielson survey (2009), consumers mostly trust recommendations from friends and opinions posted by strangers online.

According to E-Consumer Report (2010), 79% of Bulgarians search for information about products and services online. Moreover, 53% of people have bought products after reading information about them online. These statistics show that social media present many opportunities and businesses in Bulgaria should consider incorporating them into their marketing strategies.

Ryan and Jones (2009) argue that social media could improve online exposure and company reputation. Stelzner (2014) has also identified that the top benefits of social media marketing are increasing exposure and traffic. However, many companies are reluctant to utilize social media because they have less control over the communication compared to traditional marketing communications. Some companies are afraid...
that presence on social media would make them more vulnerable. Hotels have little control over what customers post online and bad word-of-mouth could spread very quickly. According to E-Consumer Report (2010), 65% of Bulgarians would retain from buying a product if they read a negative review online. Nevertheless, some argue that negative opinions should not be considered a threat, rather an opportunity. According to Kotler and Keller (2011), 95% of dissatisfied customers do not complain and just stop buying. This is why it is important for hotels to encourage electronic word-of-mouth by allowing people to post comments online and responding to them. According to Kotler and Keller (2011), 95% of customers are willing to buy again if their complaint is resolved quickly. Thus, social media could enhance the customer experience and improve the service level.

Another benefit of social media, identified by Stelzner (2014), is related to market insight. Social media allow for user-generated content where consumers are active contributors (Heinone, 2011). Social media make it easy for customers to ask questions, write reviews, complain and give recommendations. The Facebook page, for example, can be a very good way to find out more about customers and what they think about the hotel. This data gives companies the opportunity to constantly track customers’ satisfaction and has important implications for marketing managers. It could help them offer customers more relevant and valuable content. Moreover, it could assist in new product development and effective promotion and distribution of products and services.

In addition to increasing exposure and generating market insight, social media allow for developing loyal fans (Stelzner, 2014). While traditional media are “one-way streets”, social media allow for two-way direct communication between the company and the customer (Chaffey et al., 2009). Thus, it might be argued that social media are more about developing relationships with customers rather than selling to them. According to Chung and Austria (2010), social media provide marketers with an interactive communication environment where they could get closer to customers and involve them with the brand. Divol et al. (2012) highlight that businesses can use social media to engage customers and stay competitive.

Another advantage of social media is cost-related. According to Kirtis and Karahan (2011), social media represent the most convenient and cost-efficient marketing strategy. They allow marketers to reach many customers at a very low cost and could provide a good ROI for hotels. However, social media marketing requires a lot of time and efforts. Lanz (2010) argues that each hotel marketing team needs a Social Media Manager – a person who “facilitates ongoing conversation with online customers, bloggers, friends and foes, and influencers.” The next section will review the use of social media marketing and to what extent Bulgarian hotels apply it.

The Use of Social Media Marketing

According to a study conducted by Stelzner (2014), 97% of marketers participate in social media marketing and 92% of them consider social media important for their business.

There are a lot of social media web sites that vary in significance around the world. Undoubtedly, the most popular social media platform worldwide is Facebook with 1.28 billion monthly active users. 72% of online adults visit Facebook at least once a month (Ajmera, 2014).

According to Internet World Stats (2013), the figures for Bulgaria correspond to the worldwide trends. Facebook is the most popular social media platform in Bulgaria with 2 522 120 subscribers and 35.8% penetration rate. According to E-Consumer Report (2010), 71% of Bulgarians visit Facebook at least once per day. This is a large audience for any company doing business in Bulgaria. According to Social Bakers (2014), a social media analytics platform, Facebook users in Bulgaria are 49% male and 51% female. The largest age group is 25-34 (28.6%), followed by the users in the age of 18-24 (23.9%).

According to Stelzner (2014), Facebook is the top social media platform used by marketers, followed by Twitter, LinkedIn, YouTube, blogging, Google+ and Pinterest. According to the same study, Facebook is also considered the most important platform by 54% of marketers.

There are more than 50 million Facebook pages worldwide (Ajmera, 2014). According to Social Bakers (2014), Facebook pages are mostly created by businesses and brands so that they could share interesting stories and connect with people. However, most marketers are not sure their Facebook marketing efforts are effective. Only 43% of marketers think that their Facebook marketing is working (Stelzner, 2014).
According to the latest Social Marketing Report for Bulgaria (Social Bakers, 2014), the top five industries based on the number of local fans on Facebook are: Food, Alcohol, Fashion, E-commerce, and Beauty. Apparently, the Hospitality industry is not amongst the most popular ones on Facebook in Bulgaria.

According to Social Bakers (2014), the top Facebook page in Bulgaria has more than four million fans. The top Facebook page tagged as “Accommodation” in Bulgaria has 17,780 fans and is ranked 456th out of all pages. These figures show a poor performance of Bulgarian hotels on Facebook, compared to other industries in the country. Table 1 lists the top 10 “Accommodation” pages on Facebook in Bulgaria (as of 4th July 2014). It includes the total number of fans, as well as the number of local fans (from Bulgaria).

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Hotel name</th>
<th>Facebook page</th>
<th>Number of fans</th>
<th>Number of local fans</th>
<th>Percentage of local fans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hotel Bozhentsi</td>
<td><a href="https://www.facebook.com/hotelbozhentsi">https://www.facebook.com/hotelbozhentsi</a></td>
<td>17,783</td>
<td>16,910</td>
<td>95.1%</td>
</tr>
<tr>
<td>2</td>
<td>Hotel Extreme</td>
<td><a href="https://www.facebook.com/hotel.extreme.pamporovo">https://www.facebook.com/hotel.extreme.pamporovo</a></td>
<td>14,086</td>
<td>13,412</td>
<td>95.2%</td>
</tr>
<tr>
<td>3</td>
<td>Guest house Vesko &amp; Suzi</td>
<td><a href="https://www.facebook.com/KushtataNaVeskoSuzi">https://www.facebook.com/KushtataNaVeskoSuzi</a></td>
<td>11,715</td>
<td>11,106</td>
<td>94.8%</td>
</tr>
<tr>
<td>4</td>
<td>Grand Hotel Sofia</td>
<td><a href="https://www.facebook.com/pages/Grand-Hotel-Sofia/124123547636562">https://www.facebook.com/pages/Grand-Hotel-Sofia/124123547636562</a></td>
<td>11,589</td>
<td>4,085</td>
<td>35.2%</td>
</tr>
<tr>
<td>5</td>
<td>Costa Bulgara Chernomoret</td>
<td><a href="https://www.facebook.com/costa.bulgara">https://www.facebook.com/costa.bulgara</a></td>
<td>9,755</td>
<td>9,377</td>
<td>96.1%</td>
</tr>
<tr>
<td>6</td>
<td>Platinum Casino and Hotel</td>
<td><a href="https://www.facebook.com/PlatinumCasinoandHotel">https://www.facebook.com/PlatinumCasinoandHotel</a></td>
<td>9,470</td>
<td>6,846</td>
<td>72.3%</td>
</tr>
<tr>
<td>7</td>
<td>Winery Complex Starosel</td>
<td><a href="https://www.facebook.com/WineryComplexSTAROSEL">https://www.facebook.com/WineryComplexSTAROSEL</a></td>
<td>6,115</td>
<td>5,523</td>
<td>90.3%</td>
</tr>
<tr>
<td>8</td>
<td>Sofia Hotel Balkan</td>
<td><a href="https://www.facebook.com/SofiaHotelBalkan">https://www.facebook.com/SofiaHotelBalkan</a></td>
<td>6,075</td>
<td>4,158</td>
<td>68.4%</td>
</tr>
<tr>
<td>9</td>
<td>Kempinski Hotel Zografski</td>
<td><a href="https://www.facebook.com/kempinskizografski">https://www.facebook.com/kempinskizografski</a></td>
<td>4,475</td>
<td>3,408</td>
<td>76.2%</td>
</tr>
<tr>
<td>10</td>
<td>Hilton Sofia</td>
<td><a href="https://www.facebook.com/hiltonsofia">https://www.facebook.com/hiltonsofia</a></td>
<td>4,064</td>
<td>2,739</td>
<td>67.4%</td>
</tr>
</tbody>
</table>

Although the simplest metrics on Facebook is the number of fans, Stephens (2014) argues that businesses on social media should rather measure engagement. Thus, other useful metrics could be considered when analyzing the effectiveness of social media marketing. An online monitoring software, provided by Meltwater Group, was used to analyze the same ten hotel Facebook pages. The analysis is based on different metrics, related to presence, dialogue, action and information. Table 2 summarizes the results (as of 5th July 2014).

The figure “likes growth” shows the percentage of new fans that the page has received in the last month. “PTAT” (People talking about this) is a measurement of the number of users who have interacted with the page – liked the page, posted on the page, liked a post, commented on a post, shared a post, checked-in at the place, etc. “Engagement rate” is calculated by dividing the total number of “people talking about this” by the total number of fans. The other results (“Likes, comments and shares per post”, “Posts per day” and Percentage of posts per type – photos, videos and links) are based on the 25 most recent posts.

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**Table 1.** Top 10 Facebook pages tagged as “Accommodation” in Bulgaria

**Table 2.** Top 10 Facebook pages tagged as “Accommodation” in Bulgaria

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Table 2. Review of the effectiveness of ten hotel Facebook pages

<table>
<thead>
<tr>
<th>Hotel name</th>
<th>Likes growth</th>
<th>P T A T</th>
<th>Engagement rate</th>
<th>Likes, comments and shares per post</th>
<th>Posts per day</th>
<th>Photos %</th>
<th>Videos %</th>
<th>Links %</th>
<th>Check-ins</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel Bozhentsi</td>
<td>0.12%</td>
<td>103</td>
<td>0.58%</td>
<td>62</td>
<td>0.54</td>
<td>95.8%</td>
<td>0%</td>
<td>4.20%</td>
<td>0</td>
</tr>
<tr>
<td>Hotel Extreme</td>
<td>0.41%</td>
<td>379</td>
<td>2.69%</td>
<td>37</td>
<td>0.77</td>
<td>54.2%</td>
<td>4.2%</td>
<td>41.7%</td>
<td>428</td>
</tr>
<tr>
<td>Guest house Vesko &amp; Suzi</td>
<td>0.15%</td>
<td>2</td>
<td>0.02%</td>
<td>14</td>
<td>0.18</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
</tr>
<tr>
<td>Grand Hotel Sofia</td>
<td>2.85%</td>
<td>289</td>
<td>2.49%</td>
<td>25</td>
<td>0.85</td>
<td>50%</td>
<td>8.3%</td>
<td>41.7%</td>
<td>2616</td>
</tr>
<tr>
<td>Costa Bulgara Chernomorets</td>
<td>0.3%</td>
<td>26</td>
<td>0.27%</td>
<td>15</td>
<td>0.17</td>
<td>92.9%</td>
<td>0%</td>
<td>7.1%</td>
<td>0</td>
</tr>
<tr>
<td>Platinum Casino and Hotel</td>
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<td>228</td>
<td>2.4%</td>
<td>4</td>
<td>3.44</td>
<td>54.2%</td>
<td>0%</td>
<td>45.8%</td>
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<td>3.54%</td>
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<td>Sofia Hotel Balkan</td>
<td>5.97%</td>
<td>278</td>
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<td>Kempinski Hotel Zografski</td>
<td>5.29%</td>
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<td>2.93%</td>
<td>23</td>
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<td>82.6%</td>
<td>4.3%</td>
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<tr>
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The analysis shows that some of the hotels on the list of the top Facebook pages have managed to considerably increase the number of fans during the last month. While, as previously mentioned, the number of “likes” is not a precise measurement of Facebook success, having more fans means a larger audience (Stephens, 2014). One way to gain more likes is by allowing online check-ins, a strategy that is employed by six of the hotels (the same hotels that have registered the highest growth). Another strategy to increase the fan base could include creating different Facebook campaigns, using hashtags, etc. It is notable that all of the top hotels on Facebook are mainly focused on Bulgarian audience. Hotels could also concentrate their efforts on foreign tourists if they are to increase online exposure. Only four of the hotels on the list have recently published posts in English, rather than Bulgarian.

All of the most liked Facebook pages of hotels in Bulgaria have a low number of “people talking about this.” There is also a low percentage of engagement rate. The average number of likes, comments and shares per post also indicates the low engagement of people. Having such a number of fans, these pages should be able to engage more people and gain greater visibility. Thus, more interesting posts could be useful. For example, posting about current and exciting events, rewarding fans with different discounts, entertaining them with funny posts, etc.

The analysis shows that photos are the most popular type of content provided by hotels on their Facebook pages. Few of the hotel pages provide variety by publishing videos, links or other content. It could be useful to concentrate on delivering new and exciting posts so that fans do not get bored. It is also important to make the page interesting by publishing posts more often. Fans should be engaged on a daily basis, which is not practiced by many hotels in the list. As discussed above, it could be useful to hire a Social Media Manager to communicate with people online since the task could be very demanding and time-consuming (Lanz, 2010).

It should be noted that two of the hotels on the list ("Sofia Hotel Balkan" and “Kempinski Hotel Zografski”) have banned people from posting on their Facebook pages. They are probably afraid not to lose control over their online reputation. However, as it was already discussed above, social media could help hotels gather important information about customers and develop better relationships with them. Facebook gives companies the opportunity to get closer to customers and involve them with the brand (Chung and Austria, 2010). Thus, hotels could stimulate discussions - ask questions to fans, encourage fans to ask questions, comment and share ideas. Heionen (2011) has identified “enabling interaction between users”
and “inviting customers in the development of new offerings” as social media strategies that could be effectively used by companies.

Conclusion

Overall, social media have changed the way people communicate and the way companies interact with their customers. Social media also have an impact on the hospitality industry and could be effectively used as a marketing tool by hotels. It could be concluded that Bulgarian hotels generally use social media marketing. However, they have a poor performance in some aspects. Hotels need to implement new strategies in order to take full advantage of all the opportunities social media provide – improving online exposure and company reputation, engaging customers and developing better relationships with them, gaining market insight, and effectively promoting and distributing products and services.

Further research is necessary on the topic of the impact of social media on hotels in Bulgaria. Quantitative research among marketers in the hospitality industry in the country could be conducted in order to assess their attitudes towards social media and to examine their social media marketing efforts. Other social media platforms, such as Twitter, LinkedIn, YouTube and Pinterest, could also be explored. Moreover, it could be particularly interesting to examine the integration of social media into the marketing communications mix of hotels.

References


The Impact of Foreign Direct Investment on Economic Growth

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Abstract

The study examines the impact of foreign direct investment on economic growth in selected countries. The inflows of FDI to host countries raise the question of how these inflows affect their economies and the interaction between FDI and growth. This study tests the effect of FDI on the economic growth of the host country based on the cross-country panel regression framework over the span of 10 years for 30 countries. The results show that the effect of FDI on economic growth in emerging market economies is greater than the developed market economies. But, in emerging market economies the coefficient on FDI is higher but less significant than the developed economies. Furthermore, the effect of FDI on economic growth, given eleven control variables in the model, show that the coefficient on FDI is positive and subsuming to the result that one percent increase in FDI will have approximate increase of 0.12% of economic growth in developing economies and 0.1% in developed economies. Our results are in line with priori-assumptions that the effect of FDI in emerging markets is higher than developed economies given the higher marginal returns to capital plus other positive spillover effects such as technology transfer, skill transfer and knowledge transfer.

Keywords: Foreign Direct Investment, Economic Growth, Emerging market Economies

Introduction

Foreign direct investment (FDI) is a key driver of international economic integration and improvement. With the right policy framework, FDI can provide financial stability, promote economic development, boost economic growth, and enhance the well-being of society. In late 20\(^{th}\) century, policymakers in developing countries have realized that the FDI is needed to boost the growth in their economy. FDI plays a very prominent part in the uplifting of standard of life in the host country through investment in capital goods and in human capital which otherwise is not possible for the developing host country to attain. FDI, it is believed, is a leading factor in creation of employment in the developing and emerging country. Of all the other favors of globalization, i.e. market liberalization and deregulation, FDI has so far been the celebrated one for the developing and under developed countries in terms of its benefits to the masses of people. A survey by OECD (2002) underpins these observations and documents that 11 out of 14 studies have found FDI to contribute positively to income growth and factor productivity. In developing countries, inadequate resources to finance long term investment are a major problem. This lack of investible funds is a big setback to economic growth (United Nations 2005:2). And FDI is seen as a major source of getting these required funds for gross capital formation.

FDI is an important source of development financing, and contributes to productivity gains by providing new investment, better technology, management expertise and export markets. Given resource constraints and lack of investment in developing countries, there has been increasing reliance on the market forces and private sector as the engine of economic growth (Pravakar Sahoo, 2006). While as its most basic level, foreign direct investment is a dollar of capital crossing an international border, FDI is essentially a package of potentially wealth creating assets that can have a significant impact on home and host countries (Bijit Bora 2002). Generating revenue for the home and increasing productivity of the host countries.

In addition to the direct capital financing it supplies, FDI can be a source of valuable technology and know-how while fostering linkages with local firms, which can help jumpstart an economy (Alfaro 2003). Apart from making investible funds available, FDI inflow to developing countries is assumed to produce positive
world investment report of 2012-2013 states that in 2012 – for the first time ever – developing economies absorbed more FDI than developed countries, with four developing economies ranked among the five largest recipients in the world. UNCTAD also forecasts FDI in 2013 to remain close to the 2012 level, with an upper range of $1.45 trillion. As investors regain confidence in the medium term, flows are expected to reach levels of $1.6 trillion in 2014 and $1.8 trillion in 2015. However, significant risks to this growth scenario remain. Besides other factors behind this increase in the FDI flows to developing countries, the primary factor can be the rate of return though which is commensurate with the inherent risks. UNCTAD report quotes that the rates of return on FDI are 7 per cent globally, and higher in both developing (8 per cent) and transition economies (13 per cent) than in developed ones (5 per cent). Nearly one third of global FDI income was retained in host economies, and two thirds were repatriated (representing on average 3.4 per cent of the current account payments). The share of retained earnings is highest in developing countries; at about 40 per cent of FDI income it represents an important source of financing. Existing empirical evidence shows mixed results about the relationship between FDI and economic growth of the host countries (Argiro and Dimitrios 2009). In this study we aim to test for the causal relationship between FDI flows and economic growth for a set of countries and then for the two different groups of countries i.e. developed and emerging countries. The idea is to compare the empirically identified relationship between these two different country groups.

**Literature Review**

In 1983, the OECD adopted a new "Benchmark Definition of Foreign Direct Investment" which provided a comprehensive set of rules to improve statistical measures of foreign direct investment. (OECD: 2008) According to OECD, direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. In our work we will use FDI as described by OECD.

Economic growth in any country is dependent on levels of savings and investments. Since developing countries lack required level of saving and hence investments, there is a need for investment coming into the developing country. In this regard study done by Prasad, Raghuram Rajan, and Arvind Subramanian (2006) find that aggregate capital appears to flow “upstream,” i.e., from poor to rich countries, while FDI does go “downstream,” from rich to poor countries. So we hypothesize that, since FDI is flowing downstream, FDI must be having positive impact on the economic growth of the country. Studies by Rodan (1961) and Chenery and Strout (1966) showed that FDI had a favorable impact on productivity and growth in developing countries. Further, Barro and Sala-i-Martin, (1999) and Helpman and Grossman (1991) argue that FDI has long term positive impact by generating increasing returns through technology and knowledge transfers. But on the other hand, some of the previous studies on the relationship between FDI and growth postulated a negative association for developing countries. Alfaro et al (2006) in their findings indicate that a) holding the extent of foreign presence constant, financially well-developed economies experience growth rates that are almost twice those of economies with poor financial markets, b) increases in the share of FDI or the relative productivity of the foreign firm leads to higher additional growth in financially developed economies compared to those observed in financially under-developed ones, and c) other local conditions such as market structure and human capital are also important for the effect of FDI on economic growth. They also found larger growth effects when goods produced by domestic firms and MNEs are substitutes rather than complements. Based on a disaggregate analysis, Wang (2002) finds that FDI in manufacturing has a significant positive impact on growth. Bende-Nebende and Ford (1998) find that the output of less developed countries responds more positively to FDI. Borensztein et al. (1995) explain that because of the transfer of technology, FDI contributes more to growth than domestic investment. The potential benefits of FDI are realized only if the local firms have the ability to absorb the foreign technologies and skills (Blomstrom and Kokko, 2003). As regards the labor surplus countries, as in case of south Asian economies, FDI can augment growth by providing additional employment. Further, FDI boosts the demand for intermediate goods from domestic firms leading to more entry of new firms, an increase in competition, industrial growth and an increase in national welfare (Markusen and Venables, 1999; Haaland and Wooton, 1999). Another study on the granger causality test of FDI and Economic growth (Argiro and Dimitrios,
investigate three possible cases. 1) Growth-driven FDI, is the case when the growth of the host country attracts FDI, 2) FDI-led growth, is the case when the FDI improves the rate of growth of the host country, and 3) the two way causal link between them. Empirical results obtained indicate that regarding the EU countries, the results support the hypothesis of GDP-FDI causality (growth driven FDI) whereas regarding the ASEAN there is evidence that there is a two ways causality between GDP per capita and FDI and FDI is host country GDP growth motivated.

Model Specification

Using OLS Panel regression analysis the following model examines the relationship among variables of interest. The fundamental estimating equation in linear form is as follows:

\[ GDP_{it} = \beta_0 + \beta_1 FDI_{it} + \epsilon_i + \epsilon_{it} \quad t = 1, 2, \ldots, T \]  

where, GDP growth is the Gross Domestic Product growth rate, FDI growth is the growth rate of foreign direct investment. The error term, \( \epsilon_i \) is assumed to be independent and identically distributed and \( t = \) time subscript. In line with Pravaker Sahoo (2006) the following model is used to examine the relationships among variables such as FDI, economic growth and other control variables such as follows:

\[ Y_{it} = \alpha + \beta_{1it} X_{it} + u_{it} \]  

Where \( X_{it} \) is vector of fundamental determinants of growth include the standard variables in growth regression such as: Demographic development (population growth); Investment in physical capital (growth of saving as a percent of GDP); Macroeconomic stability (inflation rate); Government consumption (government expenditure as a percent of GDP); and Openness (Share of external sector to GDP) and \( i = 1, \ldots, n \) cross section units (countries), and period \( t = 1, \ldots, T \). In addition, the step wise regression model is used such that the model starts with no predictors then at each step along the way the model either enters or removes a predictor based on the partial \( F \)-tests — that is, the \( t \)-tests for the slope parameters — that are obtained. It stops when no more predictors can be justifiably entered or removed from the stepwise model, thereby leading to a "final model." This methodology is used to extract the best subset for use in your forecasting model from some set of potential independent variables.

Data

The data set refers to a panel of 30 countries observed from year 2002 to 2012. In our study we select the countries based on the benchmark indicator of ‘FDI-highest net inflows’ recipient countries which had the highest FDI net inflows in 2012 according to World Development Indicators 2012 data published by World Bank. All the variables on interest are as the percent of GDP so as to smooth the data as per its GDP effect. Since our data selection criterion included the benchmark based on highest recipient FDI, so Luxembourg is the highest recipient of FDI in 2007 as well as the lowest recipient of FDI in 2007.

Estimation and Conclusion

As the economic theory and common sense tells us that the macroeconomic variables are non-stationary in nature which means the data is having unit root so out results will not be robust and reliable if we do not cleanse the data of its unit root before we run the econometric model. So we dropped three countries i.e. Luxembourg, Argentina, and United Arab Emirates. Our unit root test shows that after dropping the countries which were influencing the data, we found that the data is stationary in second lag whereas the data in UAE was stationary in first lag. To begin with, the effect of FDI on economic growth is estimated while keeping the other 11 control variables in the model as appended in Table 1. The results show that the coefficient on FDI is positive and significant where a one percent increase in FDI will have approximate increase of 0.2% in economic growth.

Going forward, we want to check which variables of interest are important for the growth beside FDI so we run the step wise regression to let the model check itself as to what control variables to include in the model based on sequence of F-test. Further stepwise model also fits better in sample data rather than out of sample data. Since our data is sample data we use Stepwise regression. To this, our regression results in

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79 The list of countries included in our sample are China, United States, Brazil, Hong Kong, Singapore, Australia, United Kingdom, Russian Federation, Canada, Ireland, Spain, Chile, Luxembourg, Germany, India, Norway, Indonesia, Colombia, Kazakhstan, Portugal, Turkey, Peru, Saudi Arabia, Argentina, Thailand, Czech Republic, Malaysia, United Arab Emirates.
Table (2) shows that it includes openness, government expenditure, savings, and institutional quality as additional control variables besides FDI. The regressions show FDI to have a positive and significant effect on growth. Furthermore, given that FDI is assumed to be endogenous, instrumental variable regression is used in Table (3). The table shows a summary of all the regressions with lags of dependent variables and confirming the prior result that the FDI coefficient is positive and significant. It is important to note that the first and the second lags of the regressors are used as potential instrumental variables which. Using the IMF classification of developed and emerging market economies as per their per capita income level, a dummy variable is added to the regression. The results shows the effect of FDI on economic growth in emerging market economies is greater than the developed market economies as given in Table (5).

Employing the stepwise model for the complete data set including developed and emerging economies gives us result with coefficient on FDI positive and significant as presented in Table (2). Whereas when we divide the data between developed and emerging countries with the dummy variable, the stepwise model does not pick up the coefficient on FDI for developed countries, but picks up the FDI variable for emerging countries which is positive and significant as in Table (3). From therein we can infer that the growth in our sample of developed countries is mainly not due to the FDI and other more significant factors are contributing to the economic growth or we can say that the economic growth is not FDI driven, but on the contrary the FDI is playing a central stage role in the economic growth of the developing countries.

Conclusively, our results show that the effect of FDI on economic growth in emerging market economies is greater than the developed market economies. But, in emerging market economies the coefficient on FDI is higher but less significant than the developed economies. Furthermore, the effect of FDI on economic growth while keeping the other 11 control variables in the model show that the coefficient on FDI is positive and significant subsuming to the result that one percent increase in FDI will have approximate increase of 0.12% of economic growth in developing economies and 0.1% in developed economies. Our results are in line with priori-assumptions that the effect of FDI in emerging markets will be higher because of higher marginal returns to capital beside other positive spillover effects of technology transfer, skill transfer and knowledge transfer.

References


## Table 1: Regression with All Control Variables

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Notes: Numbers between parentheses are standard errors.* p<0.05, ** p<0.01, *** p<0.001.
### Table 2: Stepwise Regression Results

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<td>0.000</td>
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<td>-0.000**</td>
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<tr>
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<td></td>
<td></td>
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<tr>
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</tr>
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<td>0.002***</td>
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<td></td>
</tr>
<tr>
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<tr>
<td>Institutions</td>
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<td>Constant</td>
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Notes: Numbers between parentheses are standard errors. * p<0.05, ** p<0.01, *** p<0.001.

### Table 3: Stepwise Regression Results for developed and emerging economies separately

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</tr>
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<tr>
<td>Openness</td>
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| R-sqr    | 0.236         | 0.447        |
| dfres    | 65            | 74           |
| BIC      | -314.8        | -338.5       |

Notes: Numbers between parentheses are standard errors. * p<0.05, ** p<0.01, *** p<0.001.
### Table 4: Regression Results (With Lags and Random and Fixed Effects)

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</tbody>
</table>

Notes:
- Numbers between parentheses are standard errors.
- * p<0.05, ** p<0.01, *** p<0.001.

### Table 5: Regression Results
(Comparative with Emerging and Developed Countries)

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Notes:
- Numbers between parentheses are standard errors.
- * p<0.05, ** p<0.01, *** p<0.001.
Gauging the Ethicality of Students in Turkish Institutions of Higher Education

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Istanbul Commerce University
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Abstract

We investigated the ethical behavior of Turkish university students from different areas of studies in order to explicitly (a) compare the difference in ethical behavior between business students and non-business students, (b) investigate further the process underlying the ethical behavior of Turkish students, and (c) look at the potential impact of several key moderator variables on their decisions such as peer pressure, gender, level of education and marital status. Data were collected from business students (n = 158) at a major private university state in Western Turkey. Results indicate that (a) in contrast to similar studies done in the USA (e.g., McCabe, 1998), there was no difference in one’s intention to act between business and nonbusiness students, and (b) ethical judgments based on justice, utilitarianism and relativism were significantly related to whether students majored in business-related areas or not, what type of degree they were receiving and their marital status. Peer pressure also had a major impact on how Turkish university students behaved when faced with an ethical dilemma. This research has important implications for the future of higher education as a whole in Turkey and stresses the need to create a more ethical climate within Turkey as a whole.

Keywords: Business ethics, College students, University students, Higher education, Turkey, Peer pressure, Education level, marital status.

Introduction

Turkey has become a global economic powerhouse over the last decade. According to the Christian Science Monitor (Peter, 2013), “the per capita gross national income and the gross domestic product have both tripled in the past 10 years. Foreign investment has dramatically increased, with the number of foreign companies with expanding from 6,700 in 2003 to nearly 30,000 in 2011. A.T. Kearney’s 2012 Foreign Direct Investment Confidence Index placed Turkey as the world’s 13th most attractive place to invest.” In spite of its dynamic and growing economy, Turkey still faces a major issue with respect to its business climate. According to Transparency International 2013 Corruption Perceptions Index (CPI), Turkey ranked 53\textsuperscript{rd} in the world after ranking 64\textsuperscript{th} in 2002 and 58\textsuperscript{th} in 2012 respectively -- with little enforcement of the OECD’s (Organization for Economic Co-operation and Development) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. While this ranking is an improvement, Turkey has a long way to improve its ethical climate for business. Similarly, according to the World Bank’s 2014 report, Turkey ranked 69\textsuperscript{th} in terms of ease of doing business moving up by six in one year alone.

For this country, the recent decrease in business corruption has translated into potentially greater flows of Foreign Direct Investment—as has happened for many countries, including South Korea and Singapore (Elliott, 1997; Wei, Shang-Jin, 2001). Better governance is often associated with better economic performance at the macro level, while a micro perspective on a country’s business efficiency is very much related to the business climate and ethicality, in particular.
One possible way of improving the overall ethical climate in a country’s business community is through the teaching of ethics to students especially at the higher education level (AACSB, 2009). Since several studies have uncovered a strong link between students’ cheating behavior in college and their later unethical behavior at work (Crown and Spiller, 1998; Lawson, 2004; Nonis and Smith, 2001; Sims, 1993; Swift et al., 1998), the hope is that a stronger foundation in business ethics will lead to more ethical behavior in future business participants.

**College Students’ Ethical Perceptions: Do Nationality or Gender Make A Difference?**

A number of studies seem to indicate that national cultural differences among college students do affect their ethical perceptions—as indicated by their varying responses by nationality. In a comparative study of 1100 business students from Egypt, Finland, China, Korea, Russia and the US, Ahmed et al. (2003) analyze students’ general attitudes towards business ethics along with the effect of nationalities and cultural habits on their attitudes. Based on four different scenarios in the business life, Ahmed et al. (2003) find students from China and Russia, countries once governed under economic planning, exhibited “a low priority for ethics in the pursuit of firm profits”. Simultaneously, Egyptian students refer to religious/spiritual values more than other nationalities when in pursuit of business although students from the US do not see any contradiction between ethical behavior and profit seeking in business (Ahmed et al., 2003: 99). In a repeated sample based study conducted in 1989, 1990 and 1991 consecutively, Moore and Radloff (1996) assess whether South African students differ in their answers to those questionnaires when compared to students from the US, Israel and Western Australia. What Moore and Radloff (1996) find is that answers by South African students are most similar to those from Western Australian students give but diverge the most from those given by Israeli students. By contrast, when the work ethics values of Turkish and Canadian undergraduate students were compared, Unal and Celik (2008) found that Turkish students seem on average to have stronger work ethics than Canadian students. Overall, then Moore and Radloff (1996: 868) suggest that the diversity of answers from students from a multiplicity of countries can partly be attributed to cultural differences (i.e., Western vs. Middle Eastern).

In addition to the impact of cultural differences, other researchers also look at the impact of spiritual/religious values and gender differences on ethical decision making. For example, a recent study of Teck-Chai and Kum-Lung (2010) examined the role of religiosity, gender and education levels on attitudes towards business ethics. Teck-Chai and Kum-Lung conclude that intrapersonal religiosity and education levels are significant determinants towards business ethics while there is no significant difference between genders. This finding is supported by Sedmak and Nastav’s (2010) study which also find no evidence for significant difference between genders in terms of ethical perceptions of business undergraduate students over business life.

In comparison to ethics research involving other countries, few studies have been carried out investigating Turkish college students’ perceptions over and attitudes towards business ethics. Coşkun and Karamustafa (1999) analyzed business students’ ethical behavior in different hypothetical positions in their business lives. Their results indicated that to the extent that these students hold an administrative position in an organization, they are likely to behave more ethically, compared to what they would do when they are regular workers. Atakan et al. (2008) suggest that female Turkish students from business and industrial engineering departments are more ethically concerned than their male counterparts. By contrast, Čmar and Kazanci (2010) find no evidence of significant difference based on gender regarding their concerns over professional ethics, among ‘Office Services and Administrative Assistance’ program students in a Turkish state university.

One of the most recent papers to examine ethical behavior in Turkey focused on faculty versus student perceptions of in-class and out-of-class cheating behaviors (Yazici, Yazici and Erdem, 2011). 4 schools were looked at: the schools of economic and administrative sciences (EAS), sciences and arts, education and agriculture. They found that faculty and students differed very little in their attitudes towards cheating in college, but significant differences were found among the mean scores for ethical perceptions of members of faculty from the faculty of education and of agriculture with respect to out-of-class cheating. Similarly, significant differences were found between schools for ethical perceptions of students towards out-of-class cheating. Most importantly, there were significant differences between the mean scores of the in-class cheating behaviors among schools, specifically between the EAS and the other three schools. In
general, Yazici et al (2011) also found that women’s attitudes were significantly more ethical and had fewer self-report cheating occurrences than men for both in-class and out-of-class cheating.

Our paper will attempt to build on the research from Yazici et al by (a) explicitly comparing the difference in ethical behavior between business students and non-business students, (b) examining the process underlying the ethical behavior of Turkish students, and (c) by looking at the impact of several key moderator variables.

**Cheating and Business College Students**

In the USA as well as in the UK, cheating at the undergraduate level has now reached epidemic proportions (Clark, 2012; Simkin and McLeod, 2010). In a meta-analysis of research in this area, Whitley (1998) indicates that an average of 70.8% of college students have cheated during their college stay. More importantly, the advance of technology, including the ease of plagiarizing via the internet and the difficulty of monitoring on-line courses, seems to have compounded cheating at the college level (Simkin and McLeod, 2010).

As reported in a *US News and World Report* 2008 article entitled “Which Types of Students Cheat Most?”, students from colleges of business tend to cheat the most.

So, which field of study faces the most problems with cheating? Business, according to research by cheating expert Donald McCabe of Rutgers University. A majority of grad students in business—56 percent—acknowledged that they had cheated at least once, compared with 47 percent in other fields. "Some business students have developed a bottom-line mentality," explains McCabe. “Getting the job done is what matters; how you do it is less important.” McCabe's data from a sample of 15,904 students at 54 colleges and universities, were designed to measure cheating behaviors on tests and written work across fields. Engineering students took second place with 54 percent. Law school students clocked in at just 45 percent.

Nevertheless, one should note that the difference between 56% in business and 54% in engineering potentially indicates that business students cheat just as much as some non-business students. In fact, a study by Bracey (2005) indicates that 75% of high school students admitted to cheating on a test. As these students move into universities, one could also expect a proportionally similar amount of cheating, and hence no difference across students whether they are business or non-business. Based on the potential differences in behavior between business and non-business students, our literature review would suggest the following competing hypotheses:

**H1a:** When faced with an ethical dilemma, business students will behave less ethically than non-business students.

**H1b:** When faced with an ethical dilemma, there will be no difference between business and non-business students in how ethically they behave.

Beyond inquiring into potential cheating differences within the university student population, our study seeks to investigate further the cheating process itself.

**Why do College Students Cheat?**

Several reasons have been advanced for why students cheat (Simkin and McLeod, 2010). Opportunity may be a first reason when students are not taking exams in a proctored setting. For example, Abdolmohammadi and Baker (2008) and McLafferty and Foust (2004) indicated that students cheated by copying from online sources. Another reason may be the “you snooze, you lose” approach; which is, in other words, winning at any costs, especially in pre-professional programs such as pre-med or pre-law. A third reason may be that those caught cheating receive a small slap on the wrist or no punishment at all partly because the burden of proof rests with the instructor. A fourth reason for cheating is what Bazerman and Tenbrunsel (2012) have called “bounded ethicality” or what Hartman and Desjardins (2011) have termed “normative myopia“... What this means is that students may not even aware that they are cheating when they are copying from the internet or shooting a quick look at somebody else’s homework or test. One final reason why students cheat may be because of the potential influence of several contingency variables on their ethical decision making process. To better understand the ethical decision-making process of students, we will now discuss several such variables.
Peer Pressure and Ethical Decision-Making

As indicated by Westerman, Beekun, Stedham and Yamamura (2007), social identity theory would suggest that an individual internalizes the norms and duties of the group or community with which he/she associates into his or her own identity (Kekes, 1983). These norms then have an impact on that individual’s ethical behavior (Hunt and Vitell, 1992). Social identity theory further contends that individuals feel the inner need to gauge their opinions and abilities, and will look for relevant others to benchmark themselves. The relevant others which form their defining communities are often from their peers, race, religion, families or organizations they may be a member of (Festinger, 1954). A person’s self-definition or identity can therefore never be aloof from that of his/her defining community. Hence, who a person chooses to associate with can often influence significantly one’s mode of behavior, including ethical decision-making.

The choice of the referent other has been looked at by several researchers (Jones and Kavanagh, 1996; Keith et al. 2003; Westerman et al. 2007, Zimbardo, 2010). Typically, research in this area has considered the potential influence of peers and supervisors on an employee’s intention to behave ethically. In general, peers have been shown to have a greater impact than managers on an employee’s ethical behavior. Westerman et al. (2007) have also demonstrated that the influence of peers on ethical decision-making supersedes that of the national culture from which an individual originates.

Based on the above, the following hypothesis can be advanced:

H2: Intention to behave ethically will be significantly influenced by peer referents.

Differences in Education Level and Ethical Decision-Making

Previous research looking at the relationship between education and ethical decision making has been relatively mixed. Jones’ (1990) study was inconclusive as to whether there was any difference between undergraduate and graduate students. Again, Bernardi et al. (2011) examined whether having attended a public, private or religious affiliated grade and/or high school influenced a college student’s ethical decision making process, but found no differences associated with either grade or high school education. Similarly, Motlagh et al. (2013) found that journalism education did not make any difference in journalists’ ethical decision making. However, Kraft and Singhapakdi (1995) in comparing undergraduate to MBA students found that MBA students rated the legal/ethical criterion higher than did undergraduate students, and that education may therefore be having a positive impact on ethical behavior. Similarly, Giacalone et al. (1988) found that less educated respondents tended to behave less ethically than more educated students, and that even in non-profitable situations: more highly educated respondents were more likely to avoid unethical behavior. Finally, Yücel and Çiftci (2012), using a sample of Turkish civil servants, Erurhan and Filizöz (2011) as well as Bozkurt and Doğan (2013) found out that as the level of education of respondents increased, their business conduct also became more ethical.

Based on the preponderance of studies indicating that ethical decision-making is positively correlated with more education, we will hypothesize the following:

H3: More educated students will behave more ethically than less educated students when facing an ethical dilemma.

Differences in Marital Status and Ethical Decision-Making

Previous studies have found that marital status affected how ethically respondents behaved. For example, Hernandez and McGre (2012) examined attitudes on the ethics of bribe taking in four European countries—France, Great Britain, Italy and Germany and found that married and widowed respondents were the ones most opposed to bribe taking as compared to divorced or single/never married respondents. By contrast, in a similar study in Egypt by Hernandez and McGee (2012b), marital status had no effect on ethical behavior. However, studies by Erurhan and Filizöz (2011) as well as Bozkurt and Doğan (2013) in Turkey indicated that being married had a positive effect on ethical behavior. Based on the above studies, we will hypothesize the following:

H4: Married students will behave more ethically than single students when facing an ethical dilemma.

In further investigating why students behave the way they do, we will focus now on several key ethical decision-making criteria that are commonly used in the literature (Reidenbach and Robin, 1988; Beekun et al, 2010; Westerman et al, 2007).
Differences in Ethical Criteria and Ethical Decision-Making

To understand the criteria by which students assess an ethical dilemma, we will refer to several ethical perspectives. Our study focuses on using a diverse sample of students to examine differences in the use of four ethical perspectives: justice, utilitarianism, relativism and egoism. The ethics literature reviewed below suggests potential differences for these perspectives with respect to business vs. non-business students.

Justice and Ethical Decision Making

The justice perspective emphasizes fair treatment according to either ethical or legal criteria. It suggests that society enforces rules to safeguard all from the selfish desires of others. Trompenaars & Hampden-Turner (1998) describe two views of justice: particularistic and universalistic. Particularism proposes that moral standards may be subjective and vary among groups within a dominant culture, among cultures, and dynamically over time. As indicated by Beekun et al. (2010), judgment of the ethical content of an action is not based primarily on rules, but results from the subjective experiences of individuals and groups. Universalism is the opposite of particularism: it focuses on the equal treatment of others, and suggests that rules and procedures direct one’s ethical behavior. Trompenaars and Hampden-Turner (1998) indicate that universalistic behavior tends to be abstract and to resist exceptions that may weaken rules.

Utilitarianism

Utilitarianism is a consequentialist moral doctrine which suggests that whether an action is right or wrong depends on the consequences of that action. Thus, actions are right if they promote the greatest good for the largest number of people (Shaw, 1999: 49). Individual rights and responsibilities are overridden by collective rights and responsibilities. According to utilitarianism, the interests of the many are given more emphasis than the interests of the few.

Relativism

According to Hartman & Desjardins (2011), ethical relativists contend that “ethical values are relative to particular people, cultures, or times”, and do not believe that there can be objective ethical judgments. Should there be any ethical disagreement among people, then relativism would suggest that these cannot be resolved; since there is no way of proving that one side is more correct than the other.

Egoism

By contrast, another consequentialist ethical perspective, egoism, suggests that the only moral guideline for one’s behavior is whether one advances one’s interests above everyone else’s (Beauchamp and Bowie, 1997). Self-advancement becomes the primary valid motivation for one’s actions. “Egoism contends that an act is morally right if and only if it best promotes the agent’s long term interest” (Shaw, 1999: 46). As a result, one becomes totally self-focused, and one owes to other stakeholders. Given previous research by McGabe (1998) and anecdotal statements by business students in his research, one could, on average, expect business students to emphasize egoism more than non-business students when confronted with an ethical dilemma.

Based on the above ethical criteria, we would propose that

H5: Whether a student’s focus is business or non-business will affect the ethical decision-making criteria he/she utilizes when faced with an ethical dilemma.

Methodology

Sample

Data were collected from 158 respondents (76 male and 69 females) at a major foundation university state in the largest city in Western Turkey. Please see Table 1 for some key descriptive statistics related to our sample of students. As can be seen from this table, these participants included both business and non-business students from different age groups, different degree areas and different stages of their education.
Table 1. Sample Descriptive Statistics

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<th>Male Non-Business</th>
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</tr>
<tr>
<td>25-29</td>
<td>16</td>
<td>19</td>
<td>17</td>
<td>7</td>
</tr>
<tr>
<td>30-34</td>
<td>7</td>
<td>4</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>35-39</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>40-49</td>
<td>9</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>50-59</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>60 and above</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Marital</th>
<th>Male (business)</th>
<th>Female (business)</th>
<th>Male (non-business)</th>
<th>Female (non-business)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-- Single</td>
<td>18</td>
<td>15</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>-- Married</td>
<td>15</td>
<td>10</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>-- Other</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education:</th>
<th>Male (business)</th>
<th>Female (business)</th>
<th>Male (non-business)</th>
<th>Female (non-business)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-- Undergraduate</td>
<td>21</td>
<td>15</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td>-- Masters</td>
<td>21</td>
<td>12</td>
<td>19</td>
<td>17</td>
</tr>
<tr>
<td>-- Ph.D</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Departments (Science):
- Industrial Eng.: 0 8 0 7
- Computer Eng.: 2 0 6 6
- Industrial physics: 2 0 3 3
- Statistics: 1 0 2 2
- Math: 9 0 1 1
- Mechatronics Eng.: 1 1 0 0
- Jewelry eng: 0 1 0 0

Departments (Social Science):
- Male (business): 24 1 10 0
- Male (non-business): 1 0
- Female (business): 0 11 0 1
- Female (non-business): 0 0 20 0

Data Collection
The instrument we used to measure ethical decision-making was Reidenbach and Robin’s (1988) pre-validated, multi-criteria instrument. We chose to use this instrument because it includes the core dimensions that underlie several ethical perspectives. As a result, it will enable us to assess all four abovementioned
ethical dimensions simultaneously. As indicated by Beekun et al (2010), this instrument utilizes several items to gauge each ethical philosophy and therefore is relatively more reliable than single item instruments (Kerlinger, 1986). Reidenbach and Robin’s instrument includes an initial set of scales that has shown initial evidence of high reliability and modest convergent validity with respect to US respondents. The scales correlate highly with a univariate measure of the ethical content of situations. Since its initial development, the instrument has been used across more than a dozen countries, and can therefore be said to have high construct validity across multiple countries. Additional reliability and validation efforts for the Turkish sample are reported below.

Using a seven-point Likert scale (1 = ethical, 7 = unethical), respondents were asked to rate the action in three scenarios (described in Table 2) using the criteria (items) described in Table 3.

**Table 2. Scenarios Used in Ethics Survey**

<table>
<thead>
<tr>
<th>Scenario 1: Retail—Automobile</th>
</tr>
</thead>
<tbody>
<tr>
<td>A person bought a new car from a franchised automobile dealership in the local area. Eight months after the car was purchased, he began having problems with the transmission. He took the car back to the dealer, and some minor adjustments were made. During the next few months he continually had a similar problem with the transmission slipping. Each time the dealer made only minor adjustments on the car. Again, during the thirteenth month after the car had been bought the man returned to the dealer because the transmission still was not functioning properly. At this time, the transmission was completely overhauled.</td>
</tr>
<tr>
<td><strong>Action</strong>: Since the warranty was for only one year (12 months from the date of purchase), the dealer charged the full price for parts and labor.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scenario 2: Retail—Neighborhood Store</th>
</tr>
</thead>
<tbody>
<tr>
<td>A retail grocery chain operates several stores throughout the local area including one in the city’s ghetto area. Independent studies have shown that the prices do tend to be higher and there is less of a selection of products in this particular store than in the other locations.</td>
</tr>
<tr>
<td><strong>Action</strong>: On the day welfare checks are received in this area of the city, the retailer increases prices on all of his merchandise.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scenario 3: Retail—Salesman</th>
</tr>
</thead>
<tbody>
<tr>
<td>A young man, recently hired as a salesman for a local retail store, has been working very hard to favorably impress his boss with his selling ability. At times, this young man, anxious for an order, has been a little over-eager. To get the order, he exaggerates the value of the item or withholds relevant information concerning the product he is trying to sell. No fraud or deceit is intended by his actions, he is simply over-eager.</td>
</tr>
<tr>
<td><strong>Action</strong>: His boss, the owner of the retail store, is aware of the salesman’s actions but has done nothing to stop such practice.</td>
</tr>
</tbody>
</table>

The perception of and the criteria emphasized in evaluating the ethical content of a decision or situation depend on the nature of the decision or the situation. In accordance with previous research, scenarios will be used in this study to provide the contextual stimulus and to motivate the evaluation process (Alexander and Becker, 1978). We adopted the three scenarios developed and validated by Reidenbach and Robin (1988, 1990) and described in Table 2. Table 3 presents the three scenarios used in this study.

**Table 3. Ethical Perspectives Instrument Scales (Reidenbach & Robin, 1988)**

<table>
<thead>
<tr>
<th>Ethical Perspective</th>
<th>Items (Seven-point Likert scale – 1 to 7)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justice</td>
<td>Fair/Unfair</td>
</tr>
<tr>
<td></td>
<td>Just/Unjust</td>
</tr>
<tr>
<td>Utilitarianism</td>
<td>Produces greatest utility/produces the least utility</td>
</tr>
<tr>
<td></td>
<td>Maximizes benefits while minimizes harm/minimizes benefits while maximizes harm</td>
</tr>
<tr>
<td></td>
<td>Leads to the greatest good for the greatest number/leads to the least good for the greatest number</td>
</tr>
<tr>
<td>Relativism</td>
<td>Culturally acceptable/Unacceptable</td>
</tr>
<tr>
<td></td>
<td>Individually acceptable/Unacceptable</td>
</tr>
<tr>
<td></td>
<td>Acceptable/Unacceptable to my family</td>
</tr>
</tbody>
</table>
Data were collected by means of the above-mentioned instrument administered to Turkish participants (in Turkish) and provided via website access to U.S. participants (in English). The Turkish instrument was back translated to ensure equivalence. Efforts were made to establish the reliability and validity of the instrument in this comparative context and are reported below.

We next examined the reliability of the instrument by assessing its internal consistency through the use of Cronbach’s alpha. Since we used three different measures (one for each of the scenarios), we calculated three inter-item coefficient alphas. The standardized Cronbach Alpha coefficient was .83 for the first scenario, .79 for the second scenario and .85 for the third scenario. The coefficients for the items relating to each of the three scenarios indicate that the scale items are internally consistent and refer to the same domain (Nunnally, 1967, pp. 226-227). Hence, the reliability of the instrument is considered reasonable for our research in Turkey.

Models

Two models are being tested in this paper. Model 1 relates to competing hypotheses 1a and 1b whereas Model 2 relates to the remaining hypotheses. In Model 1, the dependent variable is Intention to behave in the same way as the protagonist in each of the instrument’s scenario and the independent variables are whether the student was business or non-business, their peers’ intention to behave, their marital status and their level of education. A control variable was the type of business scenario in our instrument.

Intention to Behave = f (Peers’ Intention to Behave, Business focus, Marital status, Education Level and Scenario type)

The dependent variable in our second model was the degree to which the decision contained in each of three business scenarios was judged to be ethical based on four ethics theories, i.e., justice, utilitarianism, relativism and egoism. The independent variables in our model were whether the student was business or non-business, their marital status and their level of education. Since each of the three different scenarios used in our analysis described a different situation and since prior research (Cohen, Pant, and Sharp, 1996; Reidenbach and Robin, 1988) indicates that judgments may depend on the setting in which they occur; we included scenario type as a control variable. Accordingly, we tested the following model:

Ethical Dimension Used = f (Peers’ Intention to Behave, Business focus, Marital status, Education Level and Scenario type)

where ethical judgment is based on either justice criteria (JUSTICE), utilitarian criteria (UTILITARIANISM), relativistic criteria (RELATIVISM) or egoistic criteria (EGOISM), marital status is based on whether the respondent was single, married or other, where the education level was either high school, undergraduate, masters, doctoral or professional/specialist. The type of scenario (SCENARIO) is also included as a control factor.

Analysis

For Model 1, a Repeated Measures ANOVA was used because the respondents were asked the same question three times (once for each scenario). For Model 2, a Repeated Measures MANOVA analysis of the model was conducted. The multivariate F-test was considered more appropriate because the four dependent variables, justice, utilitarianism, relativism and egoism, were significantly correlated. Tables 5a-5c summarize the correlations among these variables.

### Table 5a. Correlations between Ethical Perspectives

<table>
<thead>
<tr>
<th></th>
<th>Justice</th>
<th>Utilitarianism</th>
<th>Relativism</th>
<th>Egoism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justice</td>
<td>0.5359***</td>
<td>0.7815***</td>
<td>0.3444***</td>
<td></td>
</tr>
<tr>
<td>Utilitarianism</td>
<td></td>
<td>0.4547***</td>
<td>0.4376***</td>
<td>0.2518***</td>
</tr>
<tr>
<td>Relativism</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** p < .001, ** p < .01, * p<.05
Table 5b. Correlations between Ethical Perspectives for Men

<table>
<thead>
<tr>
<th></th>
<th>Justice</th>
<th>Utilitarianism</th>
<th>Relativism</th>
<th>Egoism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justice</td>
<td>0.4514***</td>
<td>0.8011***</td>
<td>0.2869***</td>
<td></td>
</tr>
<tr>
<td>Utilitarianism</td>
<td>0.4451***</td>
<td>0.4212***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relativism</td>
<td></td>
<td>0.2633***</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5c. Correlations between Ethical Perspectives for Women

<table>
<thead>
<tr>
<th></th>
<th>Justice</th>
<th>Utilitarianism</th>
<th>Relativism</th>
<th>Egoism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justice</td>
<td>0.5825***</td>
<td>0.7613***</td>
<td>0.4232***</td>
<td></td>
</tr>
<tr>
<td>Utilitarianism</td>
<td>0.4757***</td>
<td>0.4629***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relativism</td>
<td></td>
<td>0.2669***</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Both models’ overall stability was first gauged through multivariate criteria, such as Wilk’s Lambda. Subsequently, univariate F-tests (ANOVAS) were used to test all the hypotheses. Finally, mean comparisons and t-tests were used to compare the results for business vs. non-business students by ethical orientation and by gender.

Findings and Results

Table 5 (a) summarizes the correlations across all three scenarios for the whole sample. In general, we should note that the correlations among the four ethical dimensions were all significant at the .001 level for the whole sample. Tables 5 (b) and (c) summarize the correlations among the four independent variables for men and for women. When the correlations were segmented by gender, the correlations between justice and utilitarianism as well as between justice and egoism were higher for women than for men.

Table 6. Repeated Measures ANOVA with Intention to Behave as Dependent Variable

<table>
<thead>
<tr>
<th>Source</th>
<th>DF</th>
<th>Sum of Squares</th>
<th>Mean Square</th>
<th>F Value</th>
<th>Pr &gt; F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>8</td>
<td>474.65</td>
<td>59.33</td>
<td>52.42</td>
<td>&lt;.0001</td>
</tr>
<tr>
<td>Error</td>
<td>393</td>
<td>444.83</td>
<td>1.13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corrected Total</td>
<td>401</td>
<td>914.48</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R-Square</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coeff Var</td>
<td>0.516</td>
<td></td>
<td>17.07</td>
<td>1.063</td>
<td>6.23</td>
</tr>
<tr>
<td>Root MSE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INTACT Mean</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A Repeated Measures ANOVA analysis of the model was conducted because the respondents were asked the same question three times (once for each scenario). The model’s F-test results (see Table 6) indicate that the overall findings are significant and stable ($F_{8, 401} = 52.42$, $p < .0001$) with respect to our ability to understand what drives intention to act in a similar way to the protagonist in each scenario. The R-Square for the overall model is .516 and the multivariate results (Wilks’ Lambda) for two of the independent variables (Peer and Level of Education) in the model were significant and consistent with the pattern reported in Table 6. Competing hypothesis 1a was rejected while competing hypothesis 1b was not rejected. Based on these results and Hypothesis 1b, there is no significant difference between the way business and non-business students. The impact of peers, however, on the ethical decision making of
Turkish students was extremely large and significant ($F_{1, 401} = 330.44, p < .0001$), thus supporting hypothesis 2. Hypothesis 3 was also supported in that whether a student is pursuing a BA, a Masters’ Degree or a Ph.D. significantly affected his/her ethical decision making ($F_{2, 401} = 25.73$, $p < .0001$). Hypothesis 4 was marginally supported in that marital status affected ethical decision making ($F_{2, 401} = 2.91, p < .055$). The results for the remaining hypotheses are summarized in Table 7.

Table 7. Repeated Measures ANOVA by Ethical Perspective

<table>
<thead>
<tr>
<th>Source</th>
<th>DF</th>
<th>Sum of Squares</th>
<th>Mean Square</th>
<th>F value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(a) Repeated Measures ANOVA with Justice as Dependent Variable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall Model</td>
<td>8</td>
<td>266,318</td>
<td>33,289</td>
<td>24.46</td>
<td>&lt;.0001</td>
</tr>
<tr>
<td>Error</td>
<td>321</td>
<td>362,68</td>
<td>1.13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corrected Total</td>
<td>329</td>
<td>628,99</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peer</td>
<td>1</td>
<td>174.99</td>
<td>174.99</td>
<td>154.88</td>
<td>&lt;.0001</td>
</tr>
<tr>
<td>Business</td>
<td>1</td>
<td>18.305</td>
<td>18.305</td>
<td>16.2</td>
<td>&lt;.0001</td>
</tr>
<tr>
<td>Marital</td>
<td>2</td>
<td>12.857</td>
<td>6.428</td>
<td>5.69</td>
<td>&lt;.01</td>
</tr>
<tr>
<td>Degree</td>
<td>2</td>
<td>9.73</td>
<td>4.866</td>
<td>4.31</td>
<td>&lt;.05</td>
</tr>
<tr>
<td>Scenario Type</td>
<td>2</td>
<td>21.35</td>
<td>10.67</td>
<td>9.45</td>
<td>&lt;.001</td>
</tr>
<tr>
<td>R-square</td>
<td>.42</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **(b) Repeated Measures ANOVA with Utilitarianism as Dependent Variable** | | | | | |
| Overall Model | 8 | 181.27 | 22.67 | 13.94 | <.001 |
| Error | 321 | 521.8 | 1.625 | | |
| Corrected Total | 329 | 703.09 | | | |
| Peer | 1 | 102.39 | 102.39 | 62.99 | <.0001 |
| Business | 1 | 9.37 | 9.37 | 5.76 | <.05 |
| Marital | 2 | 14.46 | 7.23 | 4.45 | <.05 |
| Degree | 2 | 15.1 | 7.55 | 4.64 | <.05 |
| Scenario Type | 2 | 29.78 | 14.89 | 9.16 | <.0001 |
| R-square | .26 |

| **(c) Repeated Measures ANOVA with Relativism as Dependent Variable** | | | | | |
| Overall Model | 8 | 311.3 | 38.91 | 32.53 | <.0001 |
| Error | 321 | 384.01 | 1.963 | | |
| Corrected Total | 329 | 695.31 | | | |
| Peer | 1 | 215.5 | 215.5 | 180.1 | <.0001 |
| Business | 1 | 6.79 | 6.79 | 5.68 | <.05 |
| Marital | 2 | 12.3 | 6.15 | 5.14 | <.01 |
| Degree | 2 | 2.64 | 1.32 | 1.10 | NS |
| Scenario Type | 2 | 26.41 | 13.20 | 11.04 | <.0001 |
| R-square | .448 |

| **(d) Repeated Measures ANOVA with Egoism as Dependent Variable** | | | | | |
| Overall Model | 8 | 101.69 | 12.71 | 6.89 | <.0001 |
| Error | 321 | 591.8 | 1.844 | | |
| Corrected Total | 329 | 693.5 | | | |
| Peer | 1 | 41.67 | 41.67 | 22.6 | <.0001 |
| Business | 1 | 35.33 | 35.33 | 19.16 | <.0001 |
| Marital | 2 | 6.56 | 3.28 | 1.78 | NS |
| Degree | 2 | 1.20 | 0.60 | 0.33 | NS |
| Scenario Type | 2 | 18.825 | 9.41 | 5.11 | <.01 |
| R-square | .147 |

($F_{2, 401} = 2.91, p < .055$). The results for the remaining hypotheses are summarized in Table 7.

As can be seen in Table 7, hypothesis 5 was supported significantly by the multivariate $F$ for Wilks’ Lamda ($F_{4, 318} = 7.21, p < .0001$). Thus, the students’ decision making process was significantly affected by whether one was a business or a non-business student for all 4 ethical perspectives: justice ($F_{1, 329} = 16.2$, $p$
< .0001), utilitarianism (F(1, 329) = 5.76, p < .05), relativism (F(1, 329) = 5.68, p < .05) and egoism (F(1, 329) = 19.16, p < .0001). Further t-tests were conducted to investigate whether business and non-business students differed significantly with respect to their ethical stance on these 4 dimensions. As shown in Table 8, only the t-test results for egoism indicated a significant difference between business and non-business students. This would seem to suggest that ethical decision making for students is the result of multiple variables working concurrently and not necessarily separately.

Table 8. Summary of T-Test results for Hypothesis 2 all 3 scenarios

<table>
<thead>
<tr>
<th></th>
<th>Business</th>
<th></th>
<th>Non-Business</th>
<th></th>
<th>T-score</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Mean</td>
<td>S.D.</td>
<td>N</td>
<td>Mean</td>
</tr>
<tr>
<td>Justice</td>
<td>208</td>
<td>6.118</td>
<td>1.54</td>
<td>213</td>
<td>6.29</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilitarianism</td>
<td>200</td>
<td>5.29</td>
<td>1.52</td>
<td>202</td>
<td>5.35</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relativism</td>
<td>209</td>
<td>5.96</td>
<td>1.52</td>
<td>214</td>
<td>6.06</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Egoism</td>
<td>189</td>
<td>4.24</td>
<td>1.46</td>
<td>199</td>
<td>4.82</td>
</tr>
</tbody>
</table>

* Significant at p < .0001

Conclusion

This study was carried out to fill a significant gap in the literature on Turkish university students’ ethical behavior of different fields. We tested five hypotheses using Repeated Measures ANOVA methodology. In our first group of hypotheses (Hypotheses 1a and 1b), results indicated that there was no significant difference between the way business and non-business students behaved when they faced with an ethical dilemma. When we examined the degree to which Turkish University students influence each other’s intention to behave ethically, we found that peers exerted a significant influence on students’ intention to behave ethically (Hypothesis 2). Apparently, then, Turkish students pay more attention to their peers’ ethical perceptions than their own individual position towards ethical dilemmas. The fact that students tend to take position based on the reactions of their close friends is not surprising given one key characteristic of their national culture that was uncovered by Hofstede (2002), Turks are collectivists, and therefore tend in general to rely more on their peers’ advice.

We then looked at the descriptors of the individual students themselves. In studying the relationship between education level and students’ ethical decision making (hypothesis 3), we confirmed previous research (Erterhan and Filizöz, 2011; Bozkurt and Doğan, 2013) that indicated that the more students are educated, the more they behave ethically. Given the variation in our sample, master students tend to pursue a graduate degree for the sake of professional career advancement while PhD students mostly intend to seek an academic career. Thus, we could expect doctoral degree students to behave more ethically due to their awareness of ethical standards in academia. Results also suggest that marital status affect ethical behavior marginally. Based on these findings, one could expect that married graduate students assess unethical behavior riskier than single ones, since they bear more responsibility over possible outcomes within their close networks. Hypothesis 5 examined whether a student’s focus on business or non-business will affect the decision-making criteria he/she uses when confronted with an ethical dilemma, and was not rejected when all four criteria are considered together. However, when was rejected, we applied t-tests for each ethical perspective we found a significant difference between business and non-business University students for only egoism. Considering business major curriculum and job market requirements, one could find it intuitive that business University students shape their ethical perceptions in a more self-centered manner than non-business majors. In general, business students are taught to focus on profit maximization and their total compensation is usually a function of how they perform individually. As a result, the fact
that egoism would be the primary decision making criteria differentiating a business versus a non-business university student is not surprising.

Note to Ali, Mehmet and Dr. Nihat: We need to add two paragraphs here: A first paragraph about the caveats of this paper (i.e. one university, not enough observations in each cell, a cross-sectional study, etc.) must be added here. A second paragraph that describes the future research implications of this paper must also be added here before we conclude in the next paragraph.

Based on the results reported in our paper, we expect that our study will have important policy implications for higher education in Turkey especially since students’ ethical behavior is very much alike, regardless of their major (business or non-business). When their ethical judgments are examined in light of justice, utilitarianism and relativism, our findings suggest that students’ majors, degree pursued, and marital status are likely to significantly their ethical decision-making process. Most importantly we also found that business students tend to be significantly more egoistic than non-business students. All these findings imply that designing new educational policies become critical to assure conformity between one’s intention to act ethically and his/her ethical perceptions. This is especially true for business-related majors since they are expected to hold significant positions in their future career in the business world. Should they focus primarily on their own interests (high egoism) instead of the overall interests of Turkey, we may face the types of financial chaos that the US and other countries have encountered over the last decade. Stressing the importance of more ethicality might be useful to increase convergence between intentions and perceptions toward ethical behavior of future business people. We believe that once it is achieved, Turkish business climate will then improve its ethical foundations, creating better economic performance in the country.

References


Appendix

<table>
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<th>Table 4a. Descriptive Statistics</th>
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(Higher mean is more ethical)

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<th>Table 4b. Descriptive Statistics</th>
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<td>Utilitarianism</td>
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<tr>
<td>Relativism</td>
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<td>Egoism</td>
</tr>
</tbody>
</table>

(Higher mean is more ethical)
Impact of Cash Conversion Cycle on Corporate Performance

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Abstract

This Paper Reports An Empirical Analysis On The Correlation Of Profitability Of Companies And Cash Conversion Cycle As Well As Its Components, Using Data From Companies Listed In China’s Stock Markets. Based On Reviewing The Literatures Of Research On Cash Conversion Cycle And Financial Supply Chain Management, This Paper Proposes Four Basic Hypotheses. The Authors Investigated The Relationships Between Cash Conversion Cycle And The Profitability Of Companies, Between Days Of Accounts Receivable And The Profitability Of Companies, Between Days Of Inventory And The Profitability Of Companies, And Finally Between Days Of Accounts Payable And The Profitability Of Companies. Regression Model Was Used To Obtain The Results.

Keywords: Cash Conversion Cycle, Inventory Turnover, Supply Chain, Corporate Performance, Tobin’s Q.

Introduction

In a sense, the rise of the supply chain is actually “always exists,” and things once within the enterprise have moved to the supply chain. For example, innovation has moved from cross-functional within the enterprise to cross-functional across supply chain (Cash et al., 2008), meanwhile customer orientation moved from a enterprise focus to supply chain focus (Mello and Stank, 2005), and the economies of scale once at the core of vertical integration have given way to supply chain-based economy of scale (Walters, 2004). The rise in collaboration shows that the days of "going it alone" in business are over. Companies now rely on global partners to enhance core competencies and maintain competitive advantages. It is unlikely they would go back to the "old way" (Gunasekaran et al., 2008). The increasing complexities of the modern market encourage the companies to cooperate to compete. In this evolution from companies to supply chain, financial management presents an area that is ready for inter-enterprise collaboration. Adopting a supply chain financial management perspective has potential to increase profits, reduce risk and enhance competitiveness (Aberdeen-Group, 2006).

U.S. consulting firm REL and CFO Magazine carried out the nation's largest 1,000 companies working capital surveys and publish an annual report every year since 1997. In addition to rank the surveyed enterprises in accordance with the performance of working capital management by sectors, they comment the hotspots and trends of working capital management (Wang, 2007). Since 2001, REL and CFO magazine has been advocating the supply chain business relationships as working capital management focus, the 2002 survey is more based on "Do not let the supply chain break" as the title which indicates the importance of supply chain and customer relationship management.

Hager (1976) proposed "cash-cycle model" concept combining the operation of the process, explored how the cash flow in the enterprise, and propose measures to improve cash management, shortening the cash cycle. Cash cycle model is not consistent with the definition. Schilling (1996) described the cash cycle as "reflecting the company's operating cycle, which measure the time span from consumption of cash for production and inventory to sell the final product for cash. This indicator can be calculated in days which is equal to average inventory period plus average accounts receivable period, minus accounts payable period ". Currently the most widely accepted academic concept is this definition.

There are many ways to assess the efficiency of working capital management of companies, such as the current ratio (current assets / current liabilities), quick ratio (liquid assets / current liabilities), etc. However, these indicators do not give enough details. The cash cycle is perhaps the best way to evaluate the ability of working capital management (Richards & Laughlin, 1980), because it clearly describes the key factors related to working capital. Nobane & Hajjar (2009) proposed to determine the optimal inventory levels, accounts receivable and accounts payable and other working capital management efficiency, minimizing...
the opportunity cost of holding costs, and recalculate the optimal operating cycle (inventory turnover period + accounts receivable turnover period), and net operating cash cycle period ((inventory + accounts receivables - accounts payables) * 365 / Sales), they found that the optimal cash cycle was more accurate and comprehensive than the other two indicators.

The proposed cash-cycle model was of great significance. It helps improving the cost management of supply chain logistics and integrated performance. It can measure the capacity and value of the asset discount in terms of cost of financial management, and in the terms of supply chain performance, measure the flow of internal and external conditions, and establish a comprehensive, systematic supply chain logistics cost management system (Farris and Hutchison, 2002). But can the cash cycle correctly measure the corporate performance? Domestic and foreign scholars have done related researches. In most cases, foreign scholars used empirical methods. Manual Jose (1996) collected 2718 listed company's financial data in United States from 1974 to 1993, using the cash cycle as an indicator of working capital management, the return on total assets (ROA), return on net assets (ROE) as an indicator of corporate performance. He found that apart from some enterprises and special industry, the shorter cash cycle was, which take a more aggressive working capital management strategy, the more earnings firms can make. Shin and Soenen (1998) studied the relationship between net operating cycle and corporate profitability using the 58,985 annual samples of U.S. companies from 1975 to 1994. They found that net operating cycle of companies had a strong negative correlation with corporate performance. So shortening the net operating cycle to a reasonable minimum level can be able to create greater value for shareholders. Among the many studies in the future, there tended to be the same conclusion, that is, the cash cycle is significantly related to corporate performance. Lyroudi & Lazaridis (2000) studied the relationship between cash cycle and asset liquidity in Greek food industry and found that the company's cash cycle has a significant correlation with traditional current ratio, quick ratio. Farris & Hutchison (2003) classified various industries using cash cycle model. He proved that shorter cash cycle corresponds to the better performance. Deloof (2003) investigated the 1009 listed companies in Belgium from 1992 to 1996, making regression analysis on the 5045 samples data, once again, a similar conclusion was made: total operating earnings had a significant negative correlation with cash cycle, as well as days of inventory, days of accounts receivable and days of accounts payables. Lazaridis & Tryfonidis (2006) selected 131 companies listed in Athens from 2001 to 2004. The survey suggested that corporate profits significantly negatively correlated with cash cycle and days of accounts receivable, days of accounts payable was significantly positively correlated with corporate profits. Raheman & Nasr (2007) collected financial data of 94 Pakistan-listed companies from 1999 to 2004 as sample, and found that corporate profits had a significant negative correlation with cash cycle, days of inventory and days of accounts receivable. Lazaridis & Tryfonidis (2006) selected 131 companies listed in Athens from 2001 to 2004. The survey suggested that corporate profits significantly negatively correlated with cash cycle and days of accounts receivable, days of accounts payable was significantly positively correlated with corporate profits. Raheman & Nasr (2007) collected financial data of 94 Pakistan-listed companies from 1999 to 2004 as sample, and found that corporate profits had a significant negative correlation with cash cycle, days of inventory and days of accounts receivable.

However, there are uncertain perspectives of relationship between working capital management efficiency and corporate performance. When inventory levels is high, it can reduce the losses caused by interruption in production processes, reduce supply costs, against price fluctuations, etc. (Blinder & Maccini, 1991). Gill et al (2010) selected 88 U.S. companies listed in the New York Stock Exchange to analyze their financial data from 2005 to 2007. He found that the cash cycle was positively correlated with corporate profits. Debasis Sur, etc. (2011) collected data from Indian pharmaceutical industry from 1996 to 2008, and found no significant relationship between corporate profits and liquid assets. Sonia, etc. (2011) investigated 5862 Spanish SME data from 2002 to 2007. Unlike previous research findings, the article found an inverted U-shaped relationship between the cash cycle and corporate performance.

**Research Methodology**

The research tries to study the impact of cash conversion cycle on corporate performance in China’s stock market. Multiple regression and correlation analysis has been used to study the relationship between independent variables (cash conversion cycle and its components) and dependent variables (ROA, ROE, Tobin’s Q).

Corporate performance metrics can be divided into two types: one is the market value index, the other is the book profit index. Tobin's Q is always used to measure corporate performance as the market value index, while return on total assets (ROA) and return on equity (ROE) are the book profit index. So-called company’s market value refers to equilibrium value of an enterprise under the state of balance market. Tobin's Q is one of the enterprise’s market value indicators. Tobin's Q value index is defined as the ratio of corporate market price and replacement cost. The higher Tobin's Q is, the more likely a company can make.
more profit in the future, and the investors will be more optimistic about the company's future growth prospects. Independent variables are listed as follows:

**Cash Conversion Cycle (CCC):** It was first propounded by Hager (1976) and was used by many scholars. Usually the firms first have credit transactions buying and selling the goods in credit and then they recover accounts receivable. CCC is calculated in this way: Days of Inventory + Days of Accounts Receivable – Days of Accounts Payable.

**Days of Inventory (INVDAYS):** is the average required time to change the materials into the product and then sell the goods. It is calculated in this way: 365×Inventory/Cost of Goods Sold.

**Days of Accounts Receivable (ARDAYS):** is the average required time for changing the firm’s accounts receivable into cash. It is calculated in this way: 365×Accounts Receivable/Sale.

**Days of Accounts Payable (APDAYS):** is the average time between buying materials and using lab our force and cash payment relates to them. It is calculated in this way: 365×Accounts Payable/Cost of Goods Sold.

**The Firm Size (LNSALE):** The firms which have more sales naturally have more profitability too. So the firm size variable is used to control the effect of this issue. The firm size is: natural logarithm (sale).

**Liquidity (CR):** The firms with more liquidity have more profitability, so liquidity variable has been used as control variable in order to make its effect on profitability neuter. Current ratio has been used as liquidity criterion.

**Liquid Assets Structure (CATAR):** It refers to the proportion of current assets to total assets. If the proportion is large, then it is called conservative assets structure, if the proportion is small, then it is called risky assets structure. Various assets structures will affect the level of risk and return, so this will be one of the control variables.

**Liquid Financing Policies (CLTAR):** It refers to the proportion of current liabilities to total assets, indicating the company's financing policy is radical or conservative. It will also affect the level of business risk and profitability.

**Debt Ratio (DR):** used as proxy for leverage and is calculated by dividing total debt by total assets.

In order to find out the impact of cash cycle on corporate performance, WE develop an empirical framework according to previous literatures as:

**Model 1:**
\[
\text{Value}_{it} = \beta_0 + \beta_1 \text{CCC}_{it} + \beta_2 \text{LNSALE}_{it} + \beta_3 \text{CR}_{it} + \beta_4 \text{CATAR}_{it} + \beta_5 \text{CLTAR}_{it} + \beta_6 \text{DR}_{it} + \varepsilon_{it}
\]

**Model 2:**
\[
\text{Value}_{it} = \beta_0 + \beta_1 \text{INVDAYS}_{it} + \beta_2 \text{LNSALE}_{it} + \beta_3 \text{CR}_{it} + \beta_4 \text{CATAR}_{it} + \beta_5 \text{CLTAR}_{it} + \beta_6 \text{DR}_{it} + \varepsilon_{it}
\]

**Model 3:**
\[
\text{Value}_{it} = \beta_0 + \beta_1 \text{ARDAYS}_{it} + \beta_2 \text{LNSALE}_{it} + \beta_3 \text{CR}_{it} + \beta_4 \text{CATAR}_{it} + \beta_5 \text{CLTAR}_{it} + \beta_6 \text{DR}_{it} + \varepsilon_{it}
\]

**Model 4:**
\[
\text{Value}_{it} = \beta_0 + \beta_1 \text{APDAYS}_{it} + \beta_2 \text{LNSALE}_{it} + \beta_3 \text{CR}_{it} + \beta_4 \text{CATAR}_{it} + \beta_5 \text{CLTAR}_{it} + \beta_6 \text{DR}_{it} + \varepsilon_{it}
\]

Where, Value is used as a measure of corporate performance. It may be ROA, ROE or TQ. \(\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6\) are regression model coefficient.

**Results**

Impact of working capital management on corporate performance is also estimated using panel data analysis. The estimated results of panel data using fixed effect model for 1057 companies are presented in following Tables.
When the dependent variable is ROA, the $R^2$ of model one to model four are 15.0%, 14.7%, 18.7% and 15.1% respectively, and all models pass the F test at the 1% level, we can draw the following conclusions:

First, for Model 1, the $R^2 = 15.0%$. The cash cycle is significantly negatively associated with corporate performance, which is consistent with the hypothesis 1. The coefficient of cash conversion cycle is -0.0000179, indicating that cash cycle increase 100 days, the company's ROA will decrease 0.179%. The shorter cash cycle is, the better corporate performance is.

For model 2 and model 3, the $R^2$ are 14.7% and 18.7%, both of them pass the F test at the 1% level. The ROA is significantly negatively correlated to INVDAYS and ARDAYS respectively at the 1% level, which is consistent with the hypothesis 2 and 3, indicating that if firm's management would like to increase profitability, they can shorten the number of days of inventory and accounts receivable. The coefficient of ARDAYS is -0.000278, indicating that ARDAYS extends (or shortens) 100 days, the total return on assets will reduce (or increase) 2.78%. Although the extension of customer payment terms may increase revenues, it will also waste more investment opportunities and profitability, which is not conducive to corporate performance improvement. So the more stringent credit policy enabling enterprises to improve corporate performance is.

For the model 4, the $R^2 = 15.1%$, it pass the F test at the 1% level of significance. The coefficient of APDAYS is -0.0000934, it is significantly negatively correlated to ROA at 1% level, indicating APDAYS extends (or shortens) 100 days, return on total assets will reduce (or increase) 0.934%. This result is not consistent with hypothesis 4. Companies will determine the payment time for suppliers according to their profitability. Companies with better corporate performance will be much earlier in payment time. In
addition, enterprises tend to give relatively high cash discount to suppliers in order to return the funds as soon as possible and reduce the risk.

The current ratio (CR) is significantly negatively associated with ROA at the 1% level in the 4 models respectively, indicating that the higher the CR is, the worse the corporate performance is. The current ratio, defined as current assets to current liabilities, will increase if there is too much cash, or too much inventory. Inventory backlog means that product inventory problem may exist; cash holdings too much, suggesting the enterprise is weak in financial management.

CLTAR and CATAR were considered the company’s working capital financing and investment policies. It can be seen from Table 6 that the coefficients of CLTAR in the four models are negative at the 1% level, indicating that the radical extent of working capital financing policy is negatively correlated with corporate performance. Improving corporate performance needs to reduce CLTAR, which means reducing short-term debt, as well as increasing long-term liabilities and adopting conservative financing policy. The coefficients of CATAR in the four models are positive at the 1% level, indicating that the radical degree of working capital investment policy is negatively correlation with corporate performance. CATAR increases, means adopting the more conservative investment policy, the total return on assets is higher.

The firm size (LNSALE) in all four models is positively significantly correlated with the total return on assets (ROA) respectively at the 1% level, suggesting that business performance will be better with the expansion of firm scale. The debt ratio (DR) in four models is negatively significantly correlated with the total return on assets (ROA) respectively at the 1% level, indicating that increasing the debt ratio will lead to corporate performance decline.

### Table 2 Empirical Results 2

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>ROE</th>
</tr>
</thead>
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<tr>
<td><strong>Regression Model</strong></td>
<td>Fixed Effect model</td>
</tr>
<tr>
<td>Model 1</td>
<td>Model 2</td>
</tr>
<tr>
<td>CR</td>
<td>-0.0309*** (-13.65)</td>
</tr>
<tr>
<td>CLTAR</td>
<td>-0.308*** (-14.93)</td>
</tr>
<tr>
<td>CATAR</td>
<td>0.245*** (17.29)</td>
</tr>
<tr>
<td>LNSALE</td>
<td>0.0382*** (20.63)</td>
</tr>
<tr>
<td>DR</td>
<td>-0.118*** (-6.60)</td>
</tr>
<tr>
<td>CCC</td>
<td>-0.0000417*** (-6.20)</td>
</tr>
<tr>
<td>INVDAYS</td>
<td>-0.0000236*** (-3.65)</td>
</tr>
<tr>
<td>ARDAYS</td>
<td></td>
</tr>
<tr>
<td>APDAYS</td>
<td></td>
</tr>
<tr>
<td>_cons</td>
<td>-0.625*** (-16.69)</td>
</tr>
<tr>
<td>N</td>
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<td>R²</td>
<td>0.111</td>
</tr>
<tr>
<td>F</td>
<td>198.3</td>
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</table>

When the dependent variable is ROE, the R² of model one to model four are 11.1%, 10.9%, 14.0% and 11.4% respectively, and all models pass the F test at the 1% level, we can draw the following conclusions:
For model 1, the $R^2 = 11.1\%$, it pass the F test at the 1% level. The cash cycle is significantly negatively correlated to ROE, which is consistent with the hypothesis 1. The coefficient of cash cycle is -0.0000417 that cash cycle extends (or shortens) 100 days, ROE will reduce (or increase) 0.417 %, the shorter cash cycle is, the better corporate performance is.

For model 2, 3 and 4, although the $R^2$ is smaller, they have passed the 1% level of significance testing. The empirical results are also consistent with the above results. The three components of cash cycle are significantly negatively associated with ROE at the 1% level, whose coefficients are -0.000643, -0.0000236 and -0.000271 respectively, indicating the shorter ARDAYS, INVDAYS and APDAYS are, the higher corporate performance is. Coefficients of other control variables have passed the 1% level of significance test, and the result is consistent with the above results.

### Table 3 Empirical Results 3

<table>
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<th>Dependent Variable</th>
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<tr>
<td>CR</td>
<td>0.0402*</td>
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<tr>
<td></td>
<td>(1.75)</td>
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<tr>
<td>CLTAR</td>
<td>-1.386***</td>
</tr>
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<td></td>
<td>(-8.37)</td>
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<tr>
<td>CATAR</td>
<td>-0.389***</td>
</tr>
<tr>
<td></td>
<td>(-2.71)</td>
</tr>
<tr>
<td>LNSALE</td>
<td>0.223***</td>
</tr>
<tr>
<td></td>
<td>(12.23)</td>
</tr>
<tr>
<td>CCC</td>
<td>-0.000197***</td>
</tr>
<tr>
<td>INVDAYS</td>
<td>-0.0000700</td>
</tr>
<tr>
<td>ARDAYS</td>
<td>-0.00251***</td>
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<tr>
<td>APDAYS</td>
<td>0.000186</td>
</tr>
<tr>
<td>_cons</td>
<td>-1.757***</td>
</tr>
<tr>
<td></td>
<td>(-4.63)</td>
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<td>N</td>
<td>10287</td>
</tr>
<tr>
<td>r2</td>
<td>0.0332</td>
</tr>
<tr>
<td>F</td>
<td>63.54</td>
</tr>
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</table>

Because Tobin’s Q is calculated as: (Equity market price + long and short-term debt Total book value) / total assets, the formula contains the debt ratio. So debt ratio (DR) is deleted in the regression model. When the dependent variable is TQ, the $R^2$ are 3.32%, 3.24%, 3.75% and 3.23% respectively, and the four regression models all pass the F test at the 1% level.

We can see from the model 1, the cash cycle is significantly negatively correlated to Tobin’s Q at the 1% level, which is consistent with hypothesis 1, indicating that investors are more optimistic about the company’s future earnings prospects whose cash cycle is shorter. For model 2, the INVDAYS is negatively correlated with Tobin’s Q, but not significantly. For model 3, the coefficient of ARDAYS is -0.00251, it is significantly negatively correlated with TQ at the 1% level which is line with expectations, indicating that the shorter ARDAYS is, the better corporate performance is, the more favored by investors. In model 4, the APDAYS is positively correlated with Tobin’s Q, but not significantly.
When the dependent variable is the Tobin’s Q in the next year, the empirical results are similar to the above results. All the independent variables are negatively correlated to the TQ(t+1), which means that the cash conversion cycle and its components affect the investors’ assessment of the firm’s prospect.

**Conclusion**

First, there are significant negative correlations between China's listed company's cash cycle and ROA, ROE and Tobin's Q, which accepts hypothesis 1. The better performance corresponds to a shorter cash cycle. In order to create greater value, companies must try to keep the cash cycle at the minimum level. Second, there are significant negative correlations between China's listed company's days of accounts receivable, days of inventory and ROA, ROE. ARDAYS is significantly negatively correlated to Tobin's Q, which accept the hypothesis 2 and 3. Accelerating recovery of accounts receivable and inventory turnover can reduce the corporate capital occupied, obtain funds to invest in the higher interests of the assets which help improve overall profitability. Better corporate performance corresponds to shorter days of accounts receivable and shorter days of inventory. So, reasonable and effective accounts receivable and inventory management can improve corporate performance. Third, there are significant negative correlations between China's listed companies’ days of accounts payable and ROA, ROE, TQ(t+1), but positive correlation with TQ, which is not significant. Delay in payment can reduce the cost of financing, but affect their credit record. It will be difficult to get more preferential purchase. Or the firms with bad performance cannot pay their suppliers in time, so the worse corporate performance corresponds to longer days of accounts payable. Fourth, this paper adds research for relationship between working capital investment policies, financing policies and corporate performance. There is a significant positive correlation between CATAR and ROA, ROE, indicating that the more proportion of current assets to total assets in a firm, the more conservative investment policies is, the greater profits the firm will make. And there is a significant negative correlation between CLTAR and ROA, ROE, indicating that the less proportion of current liabilities to total assets in a firm, the more prudent financing policy is, the higher proportion of long-term liabilities, the greater profits the firm will make.

<table>
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<th>Dependent Variable</th>
<th>TQ(t+1)</th>
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<td>Model</td>
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<tr>
<td>CR</td>
<td>0.0474**</td>
</tr>
<tr>
<td></td>
<td>-2.1</td>
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<tr>
<td>CLTAR</td>
<td>0.323**</td>
</tr>
<tr>
<td></td>
<td>-1.98</td>
</tr>
<tr>
<td>CATAR</td>
<td>-0.967***</td>
</tr>
<tr>
<td></td>
<td>(-6.83)</td>
</tr>
<tr>
<td>LNSALE</td>
<td>0.0967***</td>
</tr>
<tr>
<td></td>
<td>-5.37</td>
</tr>
<tr>
<td>CCC</td>
<td>-0.000194***</td>
</tr>
<tr>
<td></td>
<td>(-2.92)</td>
</tr>
<tr>
<td>INVDAYS</td>
<td>-0.0000898</td>
</tr>
<tr>
<td></td>
<td>(-1.41)</td>
</tr>
<tr>
<td>ARDAYS</td>
<td>-0.00282***</td>
</tr>
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<td></td>
<td>(-8.11)</td>
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<tr>
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<td>-0.00115***</td>
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<tr>
<td>F</td>
<td>20.86</td>
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</table>

When the dependent variable is the Tobin’s Q in the next year, the empirical results are similar to the above results. All the independent variables are negatively correlated to the TQ(t+1), which means that the cash conversion cycle and its components affect the investors’ assessment of the firm’s prospect.
References


Transgenerational Entrepreneurship through Knowledge Transfer in Family Business Context

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Abstract

This study tries to answer the following research questions in the context of family-owned firms: How is knowledge management related to entrepreneurship? How are knowledge management and entrepreneurship related to business performance? How does the family influence the above relationships? To answer these questions we performed a study to firms belonging to Family Business Regional Associations. The methodology used to analyze these relationships is based on a structural equation approach (SEM), specifically Partial Least Squares (PLS). The main value of this study is the proposition of two models. The first model analyzes the relationship among Knowledge Transfer (KT), Entrepreneurial Orientation (EO) and Performance (PERF). The second model studies the Family Influence (FI) as a moderating variable of such relationships. As conclusion, in these family firms KT has a significant positive effect on EO, and the latter on PERF. FI strengthening moderates the relationship between KT and EO and PERF. The implications for managers are clear. Our study provides a theoretical and empirical basis for further study of firms’ KT and EO in family business.

Keywords: Entrepreneurship, Entrepreneurial Orientation Knowledge Management Knowledge Transfer Family Firms Structural Equation Modeling

Introduction

The importance of family firms in the economy of a country is an indisputable fact, even more if the consequences of their business activities in the integral development of a society are analyzed (Basco, 2010). Studies in different countries have shown that family businesses play a key role in terms of economic growth and employment generation (Anderson and Reeb, 2003). It is estimated that these kinds of companies account for 85 percent of all companies worldwide, 65 percent of the GDP and employment in Europe, and 50 percent of US GDP and 60 percent of its employment.

Research concerning the family firm has increased significantly in recent years. Some works try to explain the high death rate of family businesses (Lansberg and Astrachan, 1994). One of the reasons of the failure of family businesses from the second generation is due to the lack of ability or willingness of the family involved in the succession process of creating, sharing and transferring knowledge from one generation to another (Chirico, 2008). Knowledge-based view suggests the importance of transferring the tacit knowledge, networking and social capital, passion and entrepreneurship in order to obtain competitive advantages. In fact, knowledge transfer is gaining increasing recognition by researchers because of its potential benefits both to individuals and organizations, and it is fundamental to the company success (Barroso, Sanguino y Banegil, 2013). However, despite its importance, existing studies on knowledge management in family businesses are scarce (Mazzola, Marchisio and Astrachan, 2008).

Moreover, to grow and survive in the current environment characterized by markets globalization, technological developments, advances in information and communication technology, it is necessary that founders’ entrepreneurial behavior is transmitted to subsequent generations (Kellermans, \textit{et al}, 2008). Consequently, entrepreneurship is also seen as an important element in the survival and growth of family firms. Nevertheless, it is necessary to develop more knowledge about the conditions under which family businesses are able to maintain and increase the transgenerational entrepreneurial behavior to survive and grow (Casillas, Moreno and Barbero, 2010). It is essential to promote the entrepreneurial orientation through knowledge transfer to support the family businesses continuity, whose survival depends in part on the efforts made towards the formation of the whole set of people involved in the family firm.
On the basis of these arguments, this paper aims to test whether knowledge transfer influence entrepreneurial orientation and therefore performance. In this sense, this study tries to answer the research questions below: How is knowledge management related with transgenerational entrepreneurship? How are knowledge management and entrepreneurship related with business performance? How does the family influence the above relationships?

The remainder of the paper is organized as follows. First, the theoretical background of the research is reviewed. Based on the literature review, the research model and hypotheses are developed. Next, the research methodology is described, and the results are analyzed. Finally, implications and limitations of the research are discussed, and future research directions are suggested.

**Theoretical Framework**

**Family Firms**

Like any other, a family business strives to grow and generate income while maintaining business continuity. However, there is one important difference: the involvement of family (Vallejo, 2011). Family businesses are described as a system consisting of interacting sub-systems, which is depicted in two-circle model as family and enterprise (Gersik, *et al.*, 1997). Due to the interaction of the two sub-systems (family and enterprise) the system family business emerges. This dual systems approach interprets the family as the intervening variable which has an effect on the firm and the firm’s performance.

Regarding the concept of family business, it is a question posed that remains open after decades studying and researching family businesses (Astrachan, Klein, and Smyrnios, 2002), yet no clear consensus exits among the scientific community on what are the parameters that define the concept (Abdellatif, Amann and Jaussaud, 2010). Although a wide variety of definitions can be found, most of the definitions include at least two dimensions: ownership and management or control. As regards the former, usually the majority company’s capital is considered necessary (Lansberg, Perrow and Rogolsky, 1988), but some researchers establish more restrictive limits (Brun de Pontet, Wrosch and Gagné, 2007). Nonetheless, other definitions consider that family members have to legally own a percentage of ownership sufficient to control the company, does not require that this ownership percentage exceeds 50% (European Commission, 2009). On the other hand, the discussion on management is similar. Some researchers consider that to define a family business is necessary that the organization is managed by the family (Chua, Chrisman and Sharma, 1999). However, for others it is sufficient that one of the family members is part of the management team (Lansberg and Astrachan, 1994).

Furthermore, although ownership and management are the criteria more used to conceptually define the term family business, some authors also use other criteria or dimensions such as the number of generations of the owning family (Davis, 1983), the influence of the family in the company (Chua, Chrisman and Sharma, 1999), the continuity of company ownership by family member -transgenerational succession- (Fahed-Sreih and Djoundourian, 2006) or the existence of a strong sense of identity and a remarkable family culture in a the business (Pertusa and Rienda, 2003). And even for others, it is the combination of the above dimensions (Barroso, Sanguino and Bafiégil, 2012).

**Knowledge Transfer**

The growing importance that knowledge has acquired suggests the need to think about how organizations process their knowledge bases, that is, how organizations create and develop new knowledge, and how they share and transmit it (Hendriks, 1999; Wong and Aspinwall, 2004). The success of many companies can be based on their ability to transfer the knowledge embodied in organizations and people which will provide the basis for the organizations’ competitive advantage (Kumar and Ganesh, 2009; Wong and Aspinwall, 2004). Therefore, it is crucial to ensure performance and sustainable growth (Chirico, *et al.*, 2011). Kumar and Ganesh (2009:163) define knowledge transfer as “a process of exchange of explicit or tacit knowledge between two agents, during which one agent purposefully receives and uses the knowledge provided by another.” In family businesses context, knowledge transfer is the communication process from one generation to another or among the same generation (Barroso, Sanguino and Bafiégil, 2013).

In organizations members can learn from each other and benefit from new knowledge developed by others. Transferring knowledge provides opportunities for mutual learning and cooperation, which in turn
stimulates the creation of new knowledge (Marouf, 2007). Similarly, in family firms knowledge transfer from one generation to another is important to manage the business efficiently; in turn, new generations have to add new knowledge and offer new perspectives to the family business. Just as it is necessary to share knowledge among different generations it is also necessary to share it among members of the same generation (Chirico, 2008). Within family businesses knowledge transfer should be easier than in other organizations. These firms have a common family language that allows them to communicate more efficiently and exchange more information in greater privacy (Hoffman, Hoelscher and Sorenson, 2006). In addition, knowledge transfer often begins at the dining table, builds up during summer jobs at the company, and continues though a career at the family firm (Le Breton-Miller, Miller and Steier, 2004). However, this facility to transfer knowledge is not always given in family businesses; since transfer is facilitated when there is a close relationship between family members as Barroso, Sanguino and Bañegil (2013) point.

Entrepreneurial Orientation

A crucial aspect of entrepreneurship involves the recognition of emerging business opportunities, which are often exploited through the creation of new firms (Aldrich and Cliff, 2003), being a very important socio-economic reality, because generates a huge amount of employment in the society. Audretsch et al., (2008) suggest that entrepreneurship is not only determined by the creation of new businesses, but also by the ability and willingness of innovative entrepreneurs to develop new products and processes based on new knowledge. Entrepreneurship is a useful concept that leads to companies on how to participate in the change and in the processes renewal in order to maintain and improve their competitiveness (Cruz, et al., 2006).

Entrepreneurial orientation is one of the most studied concepts in the literature of entrepreneurship, which focuses on decision-making styles, practices related to the entrepreneurial activity of business (Nordqvist, et al., 2008). One of the main authors who have studied entrepreneurship has been Miller (1983:771) which defines it 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". He suggests that the degree of entrepreneurship in a firm can be viewed as the extent to which it innovates, takes risks and acts proactively; being the main dimensions of entrepreneurial orientation. Although Lumpkin and Dess (1996) added two more dimensions (autonomy and competitive aggressiveness), in this paper we focus on Miller’s dimensions because have been used in several studies (e.g. Casillas, et al., 2010; Naldi et al., 2007). These studies suggest that these scales of measurement are a viable tool for analyzing firm-level entrepreneurship (Wiklund, 2006).

Miller (1983) suggests that researchers should take into account the unique characteristics of different types of companies to study the firm-level entrepreneurship. Thus, the strength of entrepreneurship and the possible results may vary depending on the context of the enterprise, and the type, size, ownership and age of the company (Nordqvist, et al., 2008). This leads us to think that family businesses are going to influence the force and results. Family firms constitute a unique context for entrepreneurship and to expand their knowledge to the next generations (Casillas, et al., 2010), because they provide a particularly fertile ground for the essential entrepreneurial behavior that is needed for start-ups and growth (Aldrich and Cliff, 2003).

Hypotheses

Knowledge Transfer, Entrepreneurial Orientation, and Performance

Transferring tacit knowledge is important to preserve and extend competitive advantage, since the success of a family business is often based on the unique experience of predecessors, being important to extend this experience to all the family firm members (Cabrera-Suarez, et al., 2001). An effective knowledge transfer is considered as the key to the organizational processes and outcomes, including the best practices transfer, new product development, speed learning and organizational survival (Zhang et al., 2008). Moreover, it is important to know how and when family members are able to use their own knowledge and the knowledge acquired through its predecessors and other family members in order to increase their entrepreneurship, and in turn to convert them into positive outcomes (Chirico et al., 2011). Hence, we propose the following hypotheses:

$$H_1: \text{Knowledge transfer positively influences entrepreneurial orientation.}$$
**H2**: Knowledge transfer positively influences family firm performance.

**H3**: Entrepreneurial orientation positively influences family firm performance.

**The Interaction Effect of Family Influence in Knowledge Transfer, Entrepreneurial Orientation, and Performance**

In addition, the previous relationships might be moderated by family influence. Liu (2010) indicates that knowledge transfer is moderated by individual’s cultural behavior and cognitive styles. In family firm context, knowledge transfer may be moderated by family’s influence and behavior in the firm; as a result, entrepreneurial orientation and business performance will be affected by such moderated effect. Similarly, as said earlier, entrepreneurship may vary depending on the unique characteristics of the enterprise (Miller, 1983), and in our case of the family influence in the company (Nordqvist, *et al*., 2008). Therefore, depending of the family influence companies more entrepreneurial than others can be found, influencing in turn in their performance (Kellermans, *et al*., 2008; Naldi, *et al*., 2007; Casillas, *et al*., 2010). Thereby, we propose that family influence influences the above relationships. Formally:

**H4**: Family influence moderates strengthening the relationship between knowledge transfer and entrepreneurial orientation.

**H5**: Family influence moderates strengthening the relationship between knowledge transfer and performance.

**H6**: Family influence moderates strengthening the relationship between entrepreneurial orientation and performance.

Figure 1 shows a synopsis of the above hypotheses; while in the first model (Model 1) the constructs is not strengthened through family influence (direct model), in Model 2 the impact of the constructs are potentially strengthened by the extent to which family influence exist (moderating model).

**Methodological Approach**

**Procedures**

The population used in this study consists of Spanish firms associated to Family Business Regional Associations. In Spain there are 16 Associations with approximately 1100 family businesses in total. However, due to the data confidentiality, we only had information from 8 of them. A total of 480 family firms were identified from web pages of Associations and invited to participate. The information was collected via online survey. The collection of information took place over four months, from September to December 2012. The unit of analysis for the study was a successor of the firm, that is, a member of second or later generation. In total, 93 questionnaires were returned, yielding a response rate of 19.38%. This is within the 10-20% range that is the average response rate for surveys involving senior management.
Measures
The study mainly used existing scales taken from the literature, where the items and responses appeared on a seven-point Likert scale ranging from “I completely disagree” to “I completely agree”. The following constructs were used:

a) Knowledge Transfer (KT): this scale consists of five items based on the measurement scale from Bartol, Liu, Zeng and Wu (2009). This scale has been adapted to the specific context of family business to capture the degree to which the knowledge gained by a member of the company is easily transferred to another member of the firm. KT was modeled as reflective first-order construct.

b) Entrepreneurial orientation (EO): we relied on the nine-item scale developed by Miller (1983), which has dominated research on EO (also see Naldi et al., 2007; Chirico et al., 2011). We modeled EO as formative second-order construct, using three first-order dimensions: innovation (INNO), practiveness (PROAC) and risk taking (RISK).

c) Performance (PERF): was measured by asking respondents to compare the performance of their firm with the performance exhibited by their two main competitors in terms of profit, sales growth, cash flow, and growth of net worth. The scale has been validated in previous research (Wiklund, 2006; Naldi et al., 2007). PERF was modeled as reflective first-order construct.

d) Family influence (FI): this construct measures if several generations are involved in the management, the generation in which the firms is, if the top management team is mainly formed by family member and if the family possesses the majority of company ownership. These four items are based on the scales used by Kellermans et al., (2008); Casillas, et al., (2010). FI was modeled as formative first-order construct.

Data Analysis
The questionnaire was validated simultaneously using partial least squares (PLS), a structural equation modeling (SEM) technique employing a principal-component-based estimation approach (Chin, 1998). PLS was selected because of the characteristics of our model and sample. Our model uses formative indicators and our data is non-normal. Other techniques of structural equation modeling (e.g. the covariance-based model performed by LISREL or AMOS) cannot be applied in these circumstances. For the hypothesis testing, we used the bootstrapping procedure recommended by Chin (1998).

This study uses SMART-PLS software Version 2.0.M3. Using PLS entails a two-stage approach (Chin, 2010). The first step requires the assessment of the measurement model. This allows the relationships between the observable variables and theoretical concepts to be specified. The analysis is performed in relation to the attributes of individual item reliability, construct reliability, average variance extracted (AVE) and the discriminant validity of the indicators of latent variables (Roldán and Sanchez-Franco, 2012). In the second step, the structural model is evaluated. This is in order to test the extent to which the causal relationships specified by the proposed model are consistent with the available data (Cepeda-Carrion, Cegarra-Navarro and Jimenez-Jimenez, 2012).

Results
First Step: Measurement Model
The measurement model for reflective constructs is assessed in terms of individual item reliability, construct reliability, convergent validity, and discriminant validity. In this respect, we would like to point out that the FI and EO variables are constructs specified with formative indicators. A latent variable with formative indicators implies that the construct is expressed as a function of the variables. The variables observed form, cause, or precede the construct. For this reason, traditional reliability and validity assessment have been argued as inappropriate and illogical (Roldán and Sanchez-Franco, 2012).

Individual item reliability is considered adequate when an item has a factor loading that is greater than 0.7 on its respective construct. This is applicable to variables with reflective indicators (KT, INNO, PROAC, RISK, and PERF) (Table 1). Notwithstanding, the assessment of formative measurement models at the indicator level is based on testing potential multicollinearity among items, as well as the analysis of weights. A high collinearity among indicators would produce unstable estimates and would make it difficult to separate the distinct effect of the individual manifest variables on the construct. Consequently, a
collinearity test was performed using the SPSS programme. Petter, Straub, and Rai (2007) indicate that a variance inflation factor (VIF) statistic greater than 3.3 signals a high multicollinearity. The maximum VIF value for our formative indicators was well below this threshold (Table 1).

Next, we assess the weights of the formative indicators. Weights provide information about how each formative indicator contributes to the respective composite construct (Chin, 1998). Hence, they allow us to rank indicators according to their contribution. Also, a significance level of at least 0.05 suggests that a formative measure is relevant for the construction of the composite latent construct. Consequently, we have checked the significance of the weights with a resampling procedure (bootstrap with 500 resamples) to obtain statistic values. We observe the presence of non-significant formative indicators in Table 1. Nevertheless, we decide to keep these indicators because removing a formative indicator would imply the eliminating of a part of the composite latent construct.

The measures for construct reliability and convergent validity represent measures of internal consistency and, as discussed earlier, are only applicable for latent variables with reflective indicators. From an examination of the results, shown in Table 1, we can state that all of the reflective constructs are reliable. Their values for both the Cronbach alpha (CA) coefficient and composite reliability (CR) are greater than the value of 0.7 required in the early stages of the research and the stricter value of 0.8 required for basic research. To assess convergent validity we examine the average variance extracted (AVE) measure. AVE values should be greater than 0.50. Consistent with this suggestion, all our constructs exceed this condition (Table 1). To assess discriminant validity AVE should be greater than the variance shared between the construct and other constructs in the model (i.e., the squared correlation between two constructs). For adequate discriminant validity, the diagonal elements should be significantly greater than the off-diagonal elements in the corresponding rows and columns. This condition is satisfied for each reflective construct in relation to the rest of the variables (Table 2). For the variables with formative indicators we cannot analyse their situation because of the non-availability of AVE values.

To assess the formative dimensions of second-order construct (EO), we similarly evaluate the multicollinearity among items and the weights. Results of the collinearity test show that the VIF scores of the second-order construct for all dimensions (INNO, PROAC and RISK) are far below the commonly accepted cut-off of 3.3 (Table 1). Next, we assess their weights and significances. We also observe the presence of a non-significant formative indicator (RISK). Nevertheless, we decide to keep it because is a part of the entrepreneurial orientation construct.
Table 1. Measurement model

<table>
<thead>
<tr>
<th>Construct/Indicator</th>
<th>VIF</th>
<th>Loading</th>
<th>Weight</th>
<th>t-stat</th>
<th>CA</th>
<th>CR</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge Transfer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(reflective)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KT1</td>
<td>0.8716</td>
<td>0.2022</td>
<td>6.6565</td>
<td></td>
<td></td>
<td></td>
<td>0.9255</td>
</tr>
<tr>
<td>KT2</td>
<td>0.9111</td>
<td>0.1954</td>
<td>5.7689</td>
<td></td>
<td></td>
<td></td>
<td>0.9434</td>
</tr>
<tr>
<td>KT3</td>
<td>0.8491</td>
<td>0.2226</td>
<td>6.4600</td>
<td></td>
<td></td>
<td></td>
<td>0.7693</td>
</tr>
<tr>
<td>KT4</td>
<td>0.9002</td>
<td>0.2296</td>
<td>9.8330</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KT5</td>
<td>0.8516</td>
<td>0.2936</td>
<td>4.0405</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Entrepreneurial Orientation (second-order formative construct)</th>
<th>n.a.</th>
<th>n.a.</th>
<th>n.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation (reflective)</td>
<td>1.2817</td>
<td>0.7963</td>
<td>0.4985*</td>
</tr>
<tr>
<td>INNO1</td>
<td>0.8132</td>
<td>0.4658</td>
<td>4.8448</td>
</tr>
<tr>
<td>INNO2</td>
<td>0.8576</td>
<td>0.4331</td>
<td>6.3564</td>
</tr>
<tr>
<td>INNO3</td>
<td>0.8034</td>
<td>0.3109</td>
<td>4.0379</td>
</tr>
<tr>
<td>Proactiveness (reflective)</td>
<td>1.3929</td>
<td>0.8833</td>
<td>0.7139*</td>
</tr>
<tr>
<td>PROAC1</td>
<td>0.9112</td>
<td>0.3903</td>
<td>9.5231</td>
</tr>
<tr>
<td>PROAC2</td>
<td>0.8892</td>
<td>0.3604</td>
<td>7.6119</td>
</tr>
<tr>
<td>PROAC3</td>
<td>0.8552</td>
<td>0.3787</td>
<td>8.1049</td>
</tr>
<tr>
<td>Risk taking (reflective)</td>
<td>1.1294</td>
<td>0.1459</td>
<td>-0.1892</td>
</tr>
<tr>
<td>RISK1</td>
<td>0.9707</td>
<td>0.7690</td>
<td>2.4782</td>
</tr>
<tr>
<td>RISK2</td>
<td>0.8083</td>
<td>0.3136</td>
<td>1.2588</td>
</tr>
<tr>
<td>Performance (reflective)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERF1</td>
<td>0.6904</td>
<td>0.2395</td>
<td>2.7140</td>
</tr>
<tr>
<td>PERF2</td>
<td>0.7362</td>
<td>0.3690</td>
<td>3.5362</td>
</tr>
<tr>
<td>PERF3</td>
<td>0.8388</td>
<td>0.3525</td>
<td>5.5111</td>
</tr>
<tr>
<td>PERF4</td>
<td>0.8206</td>
<td>0.3257</td>
<td>3.9202</td>
</tr>
<tr>
<td>Family Influence (formative)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F1</td>
<td>1.0162</td>
<td>-0.1685</td>
<td>-0.2700</td>
</tr>
<tr>
<td>F2</td>
<td>1.0185</td>
<td>0.4242</td>
<td>0.3527</td>
</tr>
<tr>
<td>F3</td>
<td>1.0683</td>
<td>0.8839</td>
<td>0.8108*</td>
</tr>
<tr>
<td>F4</td>
<td>1.0606</td>
<td>0.3864</td>
<td>0.2285</td>
</tr>
</tbody>
</table>

n.a.: non-applicable.

* p < 0.05 (based on t(499), two-tailed test); t(0.05; 499) = 1.964726835.

<table>
<thead>
<tr>
<th>Construct/Indicator</th>
<th>INNO</th>
<th>KT</th>
<th>PERF</th>
<th>PROAC</th>
<th>RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td>INNO</td>
<td>0.825</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KT</td>
<td>0.440</td>
<td>0.877</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERF</td>
<td>0.284</td>
<td>0.229</td>
<td>0.774</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROAC</td>
<td>0.467</td>
<td>0.439</td>
<td>0.380</td>
<td>0.885</td>
<td></td>
</tr>
<tr>
<td>RISK</td>
<td>0.190</td>
<td>-0.014</td>
<td>0.099</td>
<td>0.336</td>
<td>0.893</td>
</tr>
</tbody>
</table>

Diagonal elements (bold) are the square root of variance shared between the constructs and their measures (AVE). Off-diagonal elements are the correlations among constructs.

Second Step: Structural Model

The evaluation of the structural model is based on the algebraic sign, magnitude and significance of the structural path coefficients, the R^2 values (variance explained), and the Q^2 (redundancy) test for predictive relevance (Roldán and Sanchez-Franco, 2012).

Model 1 (Table 3) comprises the main three direct connections. In this case, whereas the relationship between knowledge transfer (KT) and performance (PERF) (H2) is not supported (β2 = 0.028; t-value = 0.203), the positive effect of KT on entrepreneurial orientation (EO) (H1) is highly significant (β1 = 0.518; t-value = 5.242). The other relationship between EO and PERF (H3) is also significant (β3 = 0.383; t-value = 3.315).
Indeed, the presence of three moderation hypotheses (H₄, H₅ and H₆) on the links that form the direct effect of KT on EO, KT on PERF and EO on PERF, leads to the emergence of an interaction effect. This means such direct effects are dependent upon the value of the moderating variable family influence (FI). Consequently, we have to test the moderating effects.

Hypotheses 4, 5 and 6 have been tested using the Two-Stage PLS Approach. This technique is recommended by Henseler and Fassott (2010) for estimating moderating effects when formative constructs are involved. Whilst in the first stage the latent variable scores are estimated, these are used in the second stage to determine the coefficients of the regression function in the form of formula. Results show that the coefficients both of KT × FI → EO (H₄), and KT × FI → PERF (H₅) are statistically significant (β₄ = 0.140; t-value = 2.355 and β₅ = 0.272; t-value = 2.752, respectively) (Table 3, Model 2). However, the coefficient of EO × FI → PERF (H₆) is not statistically significant and, even, has a negative effect (β₆ = -0.129; t-value = 1.041).

**Table 3. Structural models results**

<table>
<thead>
<tr>
<th>Relationships</th>
<th>Model 1 without interaction effect</th>
<th>Model 2 with interaction effects</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₁: KT → EO</td>
<td>R² EO = 0.347, Q² EO = 0.131</td>
<td>R² EO = 0.366, Q² EO = 0.321</td>
<td></td>
</tr>
<tr>
<td>H₂: KT → PERF</td>
<td>R² PERF = 0.157</td>
<td>R² PERF = 0.209</td>
<td></td>
</tr>
<tr>
<td>H₃: EO → PERF</td>
<td>0.383*** (3,315)</td>
<td>0.272** (2,752)</td>
<td>Yes</td>
</tr>
<tr>
<td>H₄: KT x FI → EO</td>
<td>0.518*** (5,242)</td>
<td>0.502*** (5,246)</td>
<td>Yes</td>
</tr>
<tr>
<td>H₅: KT x FI → PERF</td>
<td>0.028** (0.203)</td>
<td>0.022*** (0.174)</td>
<td>Not</td>
</tr>
<tr>
<td>H₆: EO x FI → PERF</td>
<td>0.387** (2,695)</td>
<td>0.140** (2.355)</td>
<td>Yes</td>
</tr>
<tr>
<td>H₇: EO x FI → PERF</td>
<td>0.129** (1.041)</td>
<td>0.185</td>
<td>Not</td>
</tr>
</tbody>
</table>

*** p < 0.001; ** p < 0.01; * p < 0.05; ns: not significant (based on t(4999), one-tailed test)

On the other hand, the R² values for Model 2 are compared to the R² for the Model 1. The difference in R² assesses the overall effect size f² for each interaction effect. The effect size f² can be calculated as f² = (R² included - R² excluded) / (1 - R² included). Values of 0.02, 0.15 and 0.35 indicate the interaction term has a low, medium, or large effect on the criterion variable. It is important to understand that a low f² does not necessarily imply an unimportant effect. If there is a likelihood of occurrence for the extreme moderating conditions and the resulting β changes are meaningful, then it is important to take these situations into account (Hernández-Mogollón, et al., 2010). In our case, the results are shown in Table 3. In model 1 (without interaction effect) the R² EO = 0.347 and the R² PERF = 0.157. The inclusion of interaction effect (model 2) shows an increase the R² in both cases (R² EO = 0.366 and the R² PERF = 0.209). Consequently, the interaction terms achieve an f² value of 0.03 (EO) and 0.07 (PERF), which in turn both represent a low effect.

Finally, we also evaluate the models with the cross-validated redundancy index (Q²) for the endogenous variables. Chin (2010) suggested this measure to examine the predictive relevance of the theoretical/structural model. A Q² greater than 0 implies that the model has predictive relevance. Our results (table 3) confirm that both structural models have satisfactory predictive relevance for EO and PERF variables (Model 1: Q² EO = 0.131; Q² PERF = 0.088 and Model 2: Q² EO = 0.321; Q² PERF = 0.185).

**Figure 2. Structural models results**
Discussion Model

The purpose of this study has been to examine the relationships between knowledge management, entrepreneurship, performance and family influence. Accordant to our initial expectation, the empirical results of this study indicate that KT has a significant positive effect on EO (H1). Although many authors have studied empirically the effect of KT on EO, they have ignored investigate how company internal characteristics moderate this relationship. In our study, FI strengthening moderates this relationship (H4).

The non-confirmation of H2 may be due to, in our case, companies value more the pursuing of non-economic or non-financial results. These results are mainly related to issues linked to the family, such as the desire to maintain control of the company in the hands of the family, family relationships, family dynasty, family lifestyle, company image identified with the family, and so on. These non-economic goals recently are known as socioemotional wealth. These assumptions are corroborated with the confirmation of H5, because when we introduce the family influence construct the relationship between KT and PREF is reinforced and significant.

Whilst the relationship between EO and PERF (H3) is positive and significant as many studies demonstrate, the FI moderating effect in such a relationship (H6) is negative although not significant. These results may be due to family businesses have features that can restrict their entrepreneurial behavior as the aversion the risk, different perception of environment depending on the level of family generations involved, higher levels of ownership concentration, intentions to maintain family control of the business, and so on (Nordqvist et al., 2008; Kellermans et al., 2008).

Conclusions, Limitations and Future Research

Our main conclusions are in line with the last research and findings related with knowledge transfer in different contexts: Based on the knowledge transfer process interpretation, an analysis framework aimed at investigating the characteristics of knowledge transfer in the firm relationships (Albino et al., 1999). Barriers and knowledge governance may provide a new understanding for organizations seeking effective knowledge transfer strategies in organizational context (Fang, et al., 2013). The SME owners, rather than the employees, are the key source and the creators of knowledge and the sole drivers of the knowledge management processes (Wee and Chua, 2013).

In this research we have focused on a different context, that is, to analyze how family businesses can promote behaviors, through relationships among its member, to transfer knowledge in order to improve their entrepreneurial orientation. Therefore, this research has determined that, although entrepreneurship depends on many factors at different organizational levels, the willingness of people to share their knowledge plays an important role in the entrepreneurial capacity. We conclude that the entrepreneurial orientation is explained by an extensive process of transferring knowledge among family members, who will contribute to the implementation of new ideas, processes, products or services.

There are various limitations to the study that warrant mention. First limitation is focused on the overall fit of the model, because although it is appropriate, we cannot forget that its explanatory power is limited to the variables involved in it. Second, only subjective information relating to the measurement of our different variables was solicited, therefore objective measure should be used to supplement subjective information. Finally, the study was carried out in a particular inter-firm network (Family Business Associations). We must therefore be cautious about generalizing the results to other family firms.

Future research needs to continue to develop a better understanding about family influence among the variables studied in this paper. Several researchers note that family businesses have higher entrepreneurial orientation in the founder stage, and this orientation decreases as the next generations are involved in the company (Kellermans, et al., 2008). Other studies show that family businesses in second generation or multigenerational show greater entrepreneurial behavior than family businesses in first generation (Casillas, et al., 2010). Thereby, it would be interesting to disaggregate the family influence construct and to perform multigroups with the four items that making up this construct.
References


The Effects of Employee’s Adversity Quotient, Emotional Intelligence and Creativity on the Employee’s Counterproductive Work Behavior

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Abstract
This Research tries to clarify the relationship between adversity quotient (AQ), emotional intelligence (EI or EQ), creation quotient (CQ) and counterproductive work behaviour (CWB). According to the research evidence, AQ, EQ and CQ can predict the behaviour of future employees and can improve the efficiency of recruitment, find the right employee and reduce employee’s CWB, and which benefit the company a lot.

Keywords: Adversity Quotient, Emotional Intelligence Creation Quotient Counterproductive Work Behaviour

Introduction
The reason that enterprises emphasize great importance to human resource management is that they need talents to survive in this highly competitive era. Counterproductive work behaviour (CWB) is a commonly seen phenomenon and has a great impact on all types of business organizations. 1/3 ~3/4 of employees have deviance behaviours of theft, fraud, intentional damage to public property, sabotage, and absence (Harper, 1990), slow work efficiency, improper language or behaviour which results in serious financial and productivity losses (Sackett and DeVore, 2001).

From 1990, there were many new relevant quotients literatures discussing about individual’s future development predictions, such as adversity quotient (AQ), emotional intelligence (EI or EQ) and creation quotient (CQ). Adversity quotient is used to test the ability and the attitude the individual deal with things in adverse circumstances. According to the empirical evidence, in the personal aspect, the relationship between AQ and EQ, CQ and EQ had been identified. The relationship between AQ and CQ still less.

Hollinger and Clark (1983) proposed the conceptual structure of CWB, and Robinson and Bennett (1995) concluded it into two major dimensions and four types, which are respectively the organizational and interpersonal deviance behaviour dimension, and production deviance, property deviance, political deviance, and personal aggression. Most of the CWB related studies focus on organizational factors (Hartel et. al., 2006) and personal factors (Ho, 2006). Angry personalities have a significant correlation with organizational and personal CWB. While facing frustration, employees with the external locus of control personality trait will more possibly show the CWB than employees with the internal locus of control personality trait (Spector and Fox, 2002). People with high creativity personality traits usually do others that cannot do, not obey someone else, and not think like others, to question the reasoning and assumptions of social norms (Sternberg and Lubart, 1995). What will the AQ, EQ and CQ predict the employee’s counterproductive work behavior? It is an interesting problem for the HR manager.

Method
The research uses questionnaire to survey the employees in the international tourist hotels because of the special industry characteristics (high customer contact and high emotion need). The AMOS 18.0 software is the data analysis tool.
The study applies the deviance scale developed by Bennett and Robinson (2000) and Ho (2006). The AQ scale is based on Paul Stoltz (1997). The EQ scale is from Wong, Law and Song (2004). Employee creativity scale is based on Amabile (1996, 1997), Zhou and George (2001), Huang (2002) and Zhou and Shalley (2003). All scales are revised according to the characteristics of international tourist hotel industry and have the validity confirmation of experts. All scale applied Likert’s five-point scale. The research raises hypothesis as followed.

H1: Employees’ AQ will have significant negative effect on CWB.

H2: Employees’ EQ will have significant negative effect on CWB.

H3: Employees’ CQ will have significant positive effect on CWB.

H4: Employees’ AQ will have significant positive effect on EQ.

H5: Employees’ AQ will have significant positive effect on CQ.

H6: Employees’ EQ will have significant positive effect on CQ.

Results

The Cronbach’s α of the scale are between 0.70 and 0.97. After three times model adjustment by AMOS 18.0 ($\chi^2 = 446; df = 61; p < .00; CFI = .87; GFI = .91; RMR = .08; RMSEA = .09$), the final model fit matches the statistics requirement ($\chi^2 = 263.99; df = 59; P < .00; RMR=0.04, GFI=0.94, AGFI=0.91, NFI=0.92, CFI=0.93$). Complete model is shown as Figure 1. All hypotheses are supported.

The results support hypotheses and echo some empirical evidences as (Turner, 2001; Zhou and George, 2001; Colbert et al., 2004; Law et al., 2004; Jian, 2009). It shows that the more the employees who can control the adversity situation, the more they can show a healthy behavior in the workplace and life, and therefore, it is less for them to have CWB and the more they can control their emotion (Clifford, 1988; Paul...
Stolt, 1997; Chen, 2009); the more creative ability they have (Paul Stolt, 1997; Hsiang, 2008). The more positive emotional attitude the employee has, the more active and healthier behavior they performs and less CWB (Tyrrell and Becky, 2000; Ashkanasy, Hartel and Hooper, 2001; Law et al., 2004); the more creative ability they have (Isen, 1999; Gasper, 2004; Chou, 2009). The more creativity the employee has, the easier they questions the rules and norms of the organization and may perform deviance behavior to harm the organization without on purpose, and then, performs more CWB (Garnder, 1993; Sternberg and Lubart, 1999; Zhou and George, 2001; Jung, 2008).

Conclusion

Due to the highly stressing environment in the hotel industry, conflicts happen between employees during the cooperation and interaction between people. According to this research, if the employee cannot control his/her AQ, EQ, CQ, it is possibility resulted as bad circulation around his/her work situation and then crushes and make him/her choose the bad solution: performing CWB.

To avoid the happening of the CWB of hotel employees, the hotelier can start from the function of the human resource management in the level of individual, especially employee recruitment, selection and training. The ability attribute of job seekers can be understood through the talent selecting process. The ones who are suitable for the department and position should be selected, and the possibility of them having CWB should be predicted. CWB has a direct conflict with the enterprise organizational policy and regulations. Therefore, hotel managers should try to reduce the occurrence of CWB by finding out what is the key factor (organization level, such as job satisfaction, salary benefits, job design, management style, coworker harmony, and manager recognition to improve the relationship with the employees) trigger employees’ CWB. And this will be another worthy research problem for the academic in the future.

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Inappropriate Recreational Behaviors of Visitors at Leisure Farms

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Abstract
This study was aimed to investigate the inappropriate recreational behaviours of visitors at leisure farms to create a foundation for future studies on tourism, environmental sustainability, and leisure farm business operations. The hope is that by upgrading the overall environmental ethics of our nation’s citizens in order to achieve the goals of “Environmental Sustainability, Economic Sustainability, and Social Sustainability.” Due to the lack of former studies related to the subject of inappropriate behaviours of visitors in the perspective of Leisure Farms, there is truly a need for relevant studies about the type and status of inappropriate behaviours of the visitors at leisure farms based on the importance of the development of recreational agriculture tourism. This study had employed the Qualitative Research Method and conducted in-depth interviews with 20 leisure farm owners. The findings of this study are to be applied as references and recommendations on leisure farm sustainable development strategies for the governmental and educational institutes, as well as for business operators in the industry.

Keywords: Leisure Farm, Improper Recreation Behaviour, Qualitative Research

Introduction
Recent climate changes resulting from global warming are jeopardizing the lives of both living creatures and mankind on Earth. The environmental issues had been officially recognized as political ones since United Nations Conference on the Human Environment was held in Stockholm, 1972; whereas the term “Sustainable Development” was first applied in 1980 with the need for “Global Sustainable Development, based on the basic relationship between the development processes of natural, social, ecological, economical, and natural resources” (Wu, 2008). However, in order to fulfil the increasing demands of the tourism industry, the government and the industry have been pursuing great developments on natural resources which might have caused impacts or calamities to the environment and natural resources in the meantime. Along with the change of people’s life values and the rise of international ideas for ecological conservation, we now tend to start questioning ourselves in the aspect of natural environmental protections. Environmental protection and sustainable development have become great issues for the survival for more and more countries throughout the world.

According to Chen (1981), there are two types of recreational behaviours, positive and negative recreation behaviours. Positive recreational behaviours are referred to those that bring psychological satisfaction to the recreationists by accomplishing activities such as mountain climbing, camping, swimming, barbecuing, and boating; whereas negative recreational behaviours are referred to those behaviours conducted by the recreationists, carelessly or deliberately, that may cause unpleasant experiences, such as littering, aimless drawing, or picking flowers, for others. The negative recreational behaviours not only have negative impacts on environmental resources, but also diminish recreational quality and customer satisfactions. Even though some direct and indirect prevention measures may have be taken (Manning, 1985), still, the overall solution relies on the environmental awareness and respect of visitors (Chu, 2002). According to Downing and Clark (1976), effective preventions may be achieved by taking the necessary management measures corresponding to the causes behind the visitors’ misconduct. Therefore, we need to learn what those inappropriate recreational behaviours in the field of leisure farms are before digging into the causes behind. Thus, this paper will study the types and impacts of those inappropriate recreational behaviours conducted by visitors at leisure farms based on the farm owners’ experiences.
Since there have only been a few academic articles on the topics related to the inappropriate recreational behaviours of visitors at leisure farms, this paper will aim to fill the gap and as a reference and recommendation for sustainable development strategies for leisure farms for the governmental and educational institutions as well as business operators in the industry. The purposes of this paper are the following: (1) Understanding the current status of the inappropriate recreational behaviours of visitors at leisure farms (2) Reinforcing citizens’ Environmental Ethics by stipulating effective education strategies toward it (3) Providing recommendations and references about sustainable tourism development for leisure farm business operators.

Literature Review

Profile of Leisure Farms in Taiwan

The development history of leisure farms in Taiwan may be traced back from the 1970’s when the diversity of agricultural resources broadened the scope of leisure agriculture into leisure farms, tea plantation and promotion services, holiday flower markets, citizen farms and other recreational activities.

Since 1990, the government has been aggressively developing leisure agriculture by opening fruit farms and farms for citizens’ experiential participation during holidays or slack farming seasons; amongst which, leisure farms provided a variety of recreational activities and facilities due to their relatively bigger area and scope. The farming activities include: fruit picking, fishing (for rivers or ponds, animal feeding, farming (with farms for rent), and farm product processing and selling; recreational activities include footpaths, grass-skiing fields, KTV, physical training fields, playgrounds (for activities such as potato baking, water wheel stepping, flying kites, and badminton); as for catering facilities, there are restaurants, food courts or BBQ areas; with respect to the natural landscapes, there are forests, mountains, rivers and lakes, and grass lands (provided by pastures). Moreover, due to the large coverage of the farm areas and a variety of recreational activities, most of the leisure farm business operators may apply local features as advantages for attracting visitors. According to the data on the Recreational Agriculture Service Website, Council of Agriculture, Executive Yuan (Visit Taiwan Enjoy Farm), up till the End of November, 2012, there are a total of, 360 leisure farms in Taiwan and another 467 ones that are applying for preparations; whereas amongst which 268 of them having successfully acquired registration certificates and 39 having been awarded with leisure farm quality certifications.

This industry of integrating tourism and agriculture has been growing at a rapid pace since citizens’ recreational demands have increased along with the governmental policy of a two-day weekend for the past three decades. However, due to its comprehensiveness and complexity, the development process has been encountering many problems to overcome such as laws and regulations, citizens’ poor recognition of recreational agriculture, and the establishment of the common ground of mutual understandings…. However, in addition to hardware facilities and software services, good recreational quality still relies mostly on behaviours of the visitors after all.

Reference Article Related to Inappropriate Recreational Behaviours

Matthews (1982) considers recreation as a consumption activity away from a settlement. According to Kraus Richard G. (1984), it would be a volunteering activity of joy; whereas according to Kundson (1980), it is referred to as static and dynamic activities in one’s free time. Martin &Esther (1958) indicated that recreations should be activities of happiness and attractions without payment restrictions in leisure hours. George (1967) and Chou (1991) considered that recreational activities might help release the pressures from our bodies and souls. Based on George (1967), Chen, S.Y., Yu, C.C., and Chang, C.Y. (1998), recreational activities should be related to the cultivation of creativity while no payment be involved. Tsao (1979) considered recreational activities as behaviours for the recovery and enjoyment of the body & soul. According to Dattilo & Murphy (1991), recreational activities were meant for joy and satisfaction. Hutchinson John (1951) indicated that recreational experiences should be valuable and socially acceptable for timely and permanent satisfactions. Furthermore, Driver & Tocher (1974) considered that participations of recreational activities should only be means for the achievement of our goals, whereas the core was mainly for recreational experiences. Based on Lin, M.H. (1988), the recreational activities mostly carried out were less time consuming and at a shorter distance with the phenomenon of centralized time and spaces.
Chu (1996) defined inappropriate recreational behaviours as acts of sabotage, referring to visitors’ inappropriate recreational behaviours causing damages to the social environments and local living creatures (for example: violating rules and regulations, making noises, damaging facilities, or harassing other visitors) (Clark, Hendee, & Campbell, 1971). In addition, some researchers might refer to the inappropriate behaviours (Wu, Y.L., Lin, C.C., 2010) as any behaviour conducted by visitors that would have an impact or harm the local environment or its management; known as disorder behaviour in criminology science. While Chang and his colleagues (2004) claimed that any misconducts of visitors causing environmental damage, the reduction of tourism and public safety concerns should be taken as acts of sabotage. (Cheng, Y.Y., 2007).

In Clark’s point of view (1978), inappropriate behaviours might range from the picking of flowers to starting fires. Christiansen (1983) thought it would be an issue of diversity with different damages and harm done by different individuals. However, does it relate to disorderly behaviours? McDonough (1986) reflected that it should be judged by the conductor’s state of mind. According to McHercher (1993) tourists and visitors, as ordinary consumers, tended to concentrate more on their joys of body & soul rather than on their ethics and discipline; therefore, an effective improvement on the inappropriate behaviours of visitors can only be achieved by improving their perceptions and attitudes.

The causes behind visitors violating the rules may be classified as follows : 1. Unawareness, ex: poor comprehension of environmental resources; 2. Releaser-cue, ignorance of restrictions; 3. Lack of information, poor comprehension of the consequences of their misconduct; 4. Responsibility denial, ignorance of visitors’ ethics and responsibilities; 5. Status-confirming, influences of reference groups; 6. Wilful, many possible reasons for deliberate violations (pressure releases, funs…) (translated by Huang, M.R., Gramann 1990). Moreover, Yan, C.H. (1989) classified the inappropriate behaviours of visitors based on whether or not any traces or marks to their motivations were left in the environments; where “traces left in the environment” included such events as vegetation damage or loss, careless writing or painting on facility surfaces, marking and carving, facility breakage and disassembly, burning and littering. (Christiansen, 1983) There were also some other inappropriate behaviour that might leave no traces in the environment and tend to be ignored by most visitors, these include activities such as: noise, BBQ, smoke from fires and the violation of the rules. Some of these might even be based on personal motivation, such as misconducts of ignorance, misconducts for fun, and deliberate misconducts.

In summary, most inappropriate behaviours of visitors result from their lack of awareness of the consequences of their behaviours. (Harding et al., 2000; Marion & Reid, 2007).

**Methodology**

This study first referred to the “National Park Law”, “City Park Management Rules”, and “The Forestry Act” as the resources for research items. Later, 20 leisure farms with double certifications (Leisure Farm Service Quality Certification, Registration Permit) were chosen based on their legitimate status, scales, recreational function completeness, regional distributions, and brand awareness. In-depth interviews with the farm owners were completed by the researchers to sort out all the inappropriate behaviours of the visitors at the leisure farms. Moreover, this paper also referred to the related articles by McCool et al.(1984), Ho, C.H. (1990), Liu, Y.N., Lin, Y.C.(1993), Wang, H.L.(1998)and Lin, C.F.(2004), Lin, Y.D. (2004), Chang, J.F. (2005), Lai, F.S. (2003), Li, T.H. and Cheng, F.M. (2007), Chang, H.M., Lin, Y.S. (2007), Robert et.al (2010), Hsu, J.M., and Cheng, Y.C. (2011). The scale of Inappropriate Recreational Behaviours of the Visitors at Leisure Farms had been established based on the attributes of the items in four dimensions, including: the Environmental Facility, the Information Service, the Activity Experience and the Natural Environment. Finally, upon a questionnaire survey on the 20 farms, a structural and descriptive analysis was conducted based on the inappropriate recreational behaviours of visitors that had happened in those leisure farms.

**Results**

The basic data analysis showed that the male respondents accounted for the majority with 55%; whereas the respondents aged 40-49 yrs. old accounted for 75% as a majority group; the university or graduate school graduates accounted for 30%; while those who had not graduated from related departments or
majors accounted for 65% as the dominant group; with aspect to marriage status, those who were married accounted for 70%; as for the department, those from administration departments had a percentage of 40%; in respect to current positions, 35% of the respondents were business owners; while the ones who used to be Interns accounted for 40% as the majority group.

Amongst them, in the dimension of Information Service, the Top Three Items with the most “Yes” are Item 6”Smoking outside of the designated areas” accounting for 60%, Item 1”Parking their vehicles outside of the designated area “accounting for 55%, and Item 4”Scattering tables, chairs, cabinets, or plates” accounting for 35%; whereas the Top Three Items with the most “No” are Item 7”Taking banned drugs in the park area “accounting for 95%, Item 8”Biking, roller skating, in-line skating, playing scooter, or golf outside of the designated areas” accounting for 90% and Item 5”Carrying hazardous objects “accounting for 85%.

In the dimension of the Environmental Facility, the Top Three Items with the most “Yes” are Item 9”Littering with fruit skins, paper trashes, or other garbage” accounting for 80%, Item 13”Misusing amusement facility against regulations causing dangers to life” accounting for 45% and Item 14”Building campfires, staying overnight, cooking, firing firecrackers, or setting tents without permissions” accounting for 30%; whereas the Top Three Items with the most “No” are Item 12”Burning plants or setting fire for soil preparation” accounting for 90%, Item 10”Writing, carving or posting on park facilities or tress without permissions” accounting for 85% and Item 11”Relieving oneself in public or other disorderly manners” accounting for 75%.

In the dimension of the Activity Experience, the Top Three Items with the most “Yes” are Item 21”Spitting saliva, gum, or betel nut juice in public place” accounting for 60%, Item 16”Carrying pets or other animals without proper protectors” accounting for 50%, Item 19”Violating public peace by making noises” accounting for 35% and Item 20”Conducting sexual offenses or gambling” accounting for 35%; whereas the Top Three Items with the most “No” are Item 22”Flying kites in restricted areas” accounting for 90%, Item 17”Selling merchandises, leasing leisure equipment, or Conducting any profitable business without permissions” accounting for 85%, Item 18”Violating public orders by drinking wine or fighting” accounting for 85% and Item 15”Stripping naked in the park areas” accounting for 80%.

In the dimension of the Natural Environment, the Top Three Items with the most “Yes” are Item 24”Picking flowers and plants” accounting for 75%, Item 25 “Damaging lawns outside of pathways” accounting for 40% and Item 27”Polluting the water or air quality(for both Red and Blue)”accounting for 15%; whereas the Top Three Items with the most “No” are Item 26”Carving texts or graphics on trees, rocks, and sign boards” accounting for 95%, Item 28”Collecting specimens” accounting for 95%, Item 27”Polluting the water or air quality” accounting for 85% and Item 25”Damaging lawns outside of pathways” accounting for 60%.

**Conclusion and Recommendations**

Based on the findings of this research, the conclusions and recommendations are made as follows:

**Upgrade of Overall Environmental Ethics**

According to this research, the farm owners seemed to consider that the inappropriate recreational behaviours of visitors might result from their lack of regulations, as well as not having the correct attitudes and ideas with respect to the Information Service (Smoking outside of the designated areas, Driving vehicles outside the designated areas), the Environmental Facility (Littering fruit skins), the Activity Experience(Spitting saliva, gum, or betel nut juice in public places), and the Natural Environment(Picking flowers and plants). Therefore, when stipulating the regulations for the enhancement of the visitors’ environmental ethics, the following three principles may be helpful (Paul, Stephen, & Christopher, 2002):

1. The rules and principles should relate to the contents of Affection, Behaviours, and Education; What are the key messages to the visitors? What are the visitors’ perspectives and behaviours? 2. The rules should be written with common language rather than jargon and in forms that are easy to carry and read for more effective communications. 3. Examples and Illustrations of Diagrams or Tables explaining the causes and effects may be applied for the easy comprehension and encouragement of correct behaviours for the visitors; finally, guidance for better observations, warning signs, and information sources should be implied in the appropriate locations. Engel J. R. (1993) mentioned that the important concepts for developing
visitors’ environmental ethics were their awareness of environmental values and the inspiration for their environmental maintenance. The hope is that by applying the methods mentioned above we can to upgrade visitors’ environmental ethics.

**Reduction of Visitors’ Inappropriate Recreational Behaviours**

Gramann & Vander Stoep (1987) & McDough (1986) reckoned that the increasing hazards to natural resources were resulting from the inappropriate recreational behaviours of visitors. Bultena (1972) had even indicated that the damages to our natural environment was caused by negative behaviours might increase at the burden expense of the operators and the management parties. Most of the past studies were related to the issues of management strategies, including Direct and Indirect Strategies over visitors’ behaviours as tools for reducing the environmental impacts. (Hendee, Stankey, & Lucas, 1978; Knopf & Dustin, 1992; Hendricks, Ruddell, & Bullis, 1993; Paul, Stephen, & Christopher, 2002), shown in Table 1; whereas the substantial effects shown in Fig 1.

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<th>Item</th>
<th>Goal</th>
<th>Substance</th>
<th>Attribute</th>
<th>Application</th>
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<tr>
<td>Item</td>
<td>Direct Strategy</td>
<td>Through Power restrictions and regulations for control and management to force the visitors to obey without any options. (regulating behavior)</td>
<td>Quick solutions to problems, yet it may arouse visitors’ resistances for increasing their burdens.</td>
<td>Compulsory Regulations, Restrictions on activity areas and spaces, Direct Specifications</td>
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<tr>
<td></td>
<td>Direct Strategy</td>
<td>Through non-compulsory means to influence the visitors to correct their behaviors spontaneously, (influencing or modifying behavior)</td>
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<td>Environmental descriptions, Promotions, Information Provisions</td>
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**Table 1. Strategy Attributes of Direct and Indirect Management over Visitor’s Behaviours**


According to the findings of this study, most of the inappropriate behaviours of visitors resulted from their lack of relevant experiences and poor comprehension of the environments and rules(ex: carrying hazardous objects, writing on the park facilities or plants, carving and posting, jeopardizing public orders, and polluting air or water quality). Therefore, in order to effectively correct their behaviours, the owners are suggested to provide more resources and information about the environments for the visitors’ better awareness and the changing of their attitudes for subsequent changes of behaviours (Wu, Y.L., Lin C.C.,
Due to the visitors lacking spontaneous participation, experiences, and comprehension of their environmental resources, according to Gramann (translated by Huang M.R., 1990), their inappropriate behaviours may be corrected by enhancing their understanding and awareness with education regarding the environmental resources. The deeper the visitors’ understanding of the natural environmental resources, the more positive their attitudes and the higher level their environmental behaviours will be. Therefore, the degree of inappropriate recreational behaviours of visitors may be effectively reduced by enhancing their identification with the natural environment and reducing their ignorance toward it in the meantime.

**Promotion of Environmental Sustainability Development**

According to the above, it is rather important to make sure the visitors understand that these rules and regulations are crucial for the sustainability of our natural environmental resources, so that they may learn to improve their behaviours spontaneously, or alternatively, passively follow the rules. Marion & Reid (2007) indicated that the education and promotion might effectively reduce the negative impacts on the natural environment. Therefore, besides building up the visitors’ understanding of environmental sustainability, educators should also mark themselves as good examples for demonstrating the importance of environmental protection. However, the keys to environmental sustainability are the visitors’ overall comprehension and perception toward their environmental resources, their spontaneous participation, experiences, and learning, as well as assistance with environmental protection. Therefore, the foundation of environmental sustainability truly relies on the promotion, execution, and participation of visitors’ ecological perception.

**Recommendations for the Future**

Environmental ethics are involved with a variety of senses of different role values; therefore, the derived perceptions and attitudes may affect the inappropriate recreational behaviours of visitors differently, including Visitor Perceptions (Manning, 1999), Perceptions of Recreation Impact (Farrel, Hall, & White, 2001), Crowding Perceptions (Cole, 2001), and Visitor Contacts (Cronn & Christensen, 1998); the way to promote and educate (Yuan & Lue, 2006) the way to evaluate (Hendrick & Watson, 1999); as well as the development of environmental sustainability and science and technology (Pohl, 2006). They could all be good issues to tackle for future studies about our leisure environmental resources. Moreover, for the long term sustainable development of leisure farms, the management parties, leisure farm operators, residents, and visitors should all be educated, regulated, and managed. This study had been conducted on the behaviours of visitors from the perspective of the farm operators only; whereas, the rules and evaluations of other relevant management parties and groups may be recommended as good directions for future studies.

**References**


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Ethnocentricity and Consumer Animosity: How different are consumers in the Middle East?

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Abstract

Political decisions or actions by foreign government representatives or leaders in international organizations often unintentionally offend consumers in foreign markets. At times, these consumers react by avoiding the purchase of products “made in” the offending country. Our study examines consumer animosity and consumer ethnocentrism as they relate to Lebanese and Tunisian consumers’ willingness to buy imported products from offending countries. In particular, the impact of demographic variables on willingness to buy is studied with the goal of developing a profile of ethnocentric and animus consumers in the Middle East. Results of detailed analysis reveal both similarities and differences by age, gender, and education level, and socio-economic status. Important implications of these findings for international managers are discussed.

Keywords: Consumer Animosity, Ethnocentrism, Boycott
A Study on Reporting Comprehensive Income in Performance-Based Financial Statements and Its Usefulness

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Abstract

In this study, opinions of accountants working in the firms listed in Borsa Istanbul (BIST) Equity Market with regard to whether or how comprehensive income should be reported in performance-based financial statements and whether such reporting provides more useful information compared to net income or not, are investigated. Among descriptive statistics methods, frequency analysis and arithmetic mean as well as single sample t test and independent two-sample t test have been employed in analysis of the data obtained from the survey-based study hereby. Majority of the accountants involved in the study support reporting comprehensive income. Nearly half of the accountants who support this opinion, also think that comprehensive income can be reported anywhere, that is, the reporting place is not important. Accountants think that reporting comprehensive income in performance-based financial statements provides more useful information compared to net income. There is no significant difference between opinions of accountants working in financial institutions and working in firms belonging to other sectors with regard to reporting comprehensive income in performance-based financial statements and its usefulness. However, results show that opinions of the accountants change depending on whether their firm reports comprehensive income or not.

Keywords: Comprehensive Income (Loss), Financial Reporting, IAS/IFRS-based Financial Statements

Introduction

Two different views come forward with regard to measuring financial performance of enterprises, namely current operating performance view and comprehensive income (all-inclusive) view. A long-term discussion exists between the abovementioned views within the accounting profession (Dhaliwal, Subramanyam & Trezevant, 1999, 44; Biddle & Choi, 2006, 2; Cheng & Lin, 2008, 4). This has been one of the most prominent discussions with regard to creating accounting standards since 1930s (Dhaliwal et al., 1999, 44; Dastgir & Velashani, 2008, 124). Current operating performance view, which is known as the conventional view, suggests that financial performance is measured using income presented in the conventional income statement (profit or loss statement). Profit, based on realization principle and matching principle, is the difference between realized income and historical cost incurred to obtain such income within a specific period, and it is widely used due thanks to its highly reliable and verifiable nature. However, as a result of developments in business and investment environments such as improvements in information technology, universalization of capital markets, formation of multinational firms, increase in utilization of advanced derivative products and other complex financial instruments, said performance measure has been unable to satisfy emerging requirements in rapid developing economy of the present day, and so comprehensive income view has been pronounced as a solution to the problems caused by such developments (Liu & Liu, 2009, 74).

In 1990s, a strong movement began driving enterprises to report comprehensive income in their basic financial statements (Fernández & Arana, 2010, 118). Arguments of accounting professionals, researchers as well as standard-setting authorities focus on comprehensive income with regard to improvement of the financial performance reporting process (Pascan, 2010, 186). Because of the need for financial statements to provide more transparent and relevant information, accounting standard setters have accepted or attempted to accept the comprehensive income view in an increasing number of countries (Wang, Buijink & Eken, 2006, 388; Kanagaretnam, Mathieu & Shehata, 2009, 353). Those who support reporting
comprehensive income in performance-based financial statements claim that such income will make the accounting information provided in financial statements more useful (Kaewprapa & Ussahawanitchakit, 2011) and that such view is superior to the current operating performance view in terms of the following aspects:

- It is a better measure of operating performance (Dhaliwal et al., 1999, 45; Saedi, 2008; Dastgir & Velashani, 2008, 124; Goncharov & Hodgson, 2008; Turen & Abbas Al Hussiny, 2012, 97).
- It has the power to better reflect (estimate) future profitability and cash flows of the enterprise (Goncharov & Hodgson, 2008; Kanagaretnam et al., 2009, 352).
- It is a better indicator of stock prices and stock returns (Dhaliwal et al., 1999, 45),
- It provides a more accurate estimation of firm value.
- It explains the underlying fact of the earning power of the enterprise in a more comprehensive manner (Kanagaretnam et al., 2009, 352).
- It provides a more consistent measure allowing comparison of financial performance at international level.
- It provides a more transparent reporting framework (Lau Ka Pik & Lee Kam Ha, 2010, 6).
- It forces managers and analysts to be well-disciplined (Chambers, Linsmeier, Shakespeare & Sougiannis, 2007, 561), and
- It is exposed to manipulation less (Biddle & Choi, 2006, 2).

Those who object to reporting comprehensive income in performance-based financial statements argue focusing on the current operating income measure rather than comprehensive income measure (Chambers et al., 2007, 561). They claim that other comprehensive income items may measure the operating performance and value incorrectly and they make it easier for the managers to manipulate the profit (Lin, Ramond & Casta, 2007, 3). Therefore, they claim that the profit of the current operating performance view is a better measurement of the operating performance (Bamber, Jiang, Petroni & Wang, 2010, 103) and future profitable of the enterprise has a better power of reflecting cash flows (Biddle & Choi, 2006, 4; Chambers et al., 2007, 561; Turen & Abbas Al Hussiny, 2012, 97-98). Besides, they suggest that allowing reporting other comprehensive income items in performance-based financial statements may increase variability of the reported profit thus reducing its predictive power (Kanagaretnam et al., 2009, 352) and that such items are both less reliable and less understandable (Lin et al., 2007, 3). Because other comprehensive income items occur as results of events occurring outside the firm, they are not results of the success of the firm management (Kaval, 2011, 13). Basically, they represent changes in fair values of assets and liabilities and therefore they are temporary (Zülch & Pronobis, 2010, 2).

Standard-setters demand usage of comprehensive income in practice as a significant performance indicator, whereas financial statement preparers and users currently prefer the conventional income concept and they do not mention any need for redefinition of the income concept. Furthermore, they require empirical verification of superiority of the comprehensive income to income (Manh, 2010, 2). In other words, whether comprehensive income provides useful information today is controversial and there exist people who argue that reporting such income in performance-based financial statements makes accounting information provided in financial statements more useful and people who claim the opposite view.

In this study, we made a research to find out whether or how comprehensive income should be reported in performance-based financial statements, namely statement of comprehensive income (profit or loss and statement of other comprehensive income) or statement of other comprehensive income (statement of other comprehensive income or loss) which are in accordance with International Accounting - Financial Reporting Standards (IAS / IFRS) or local standards in harmony with these standards, prepared by the firms listed in Borsa Istanbul (BIST) Stock Exchange, and we aimed to provide evidences whether its reporting in such statements provide more useful information compared to net income (income after tax). The research has been carried out through asking opinions of accountants in this subject as preparers of financial statements. Within this framework, we tried to determine whether there is any difference between opinions of accountants working for financial institutions and for firms in other sectors, accountants of
firms which report and do not report the comprehensive income in performance-based financial statements, and accountants who think and do not think that comprehensive income should be reported in performance-based financial statements. There is not any study made regarding the subject in Turkey and there are a limited number of studies in the international literature. Therefore, this study is important in terms of contributing to the accounting literature.

Rest of the study has been organized as follows. In Section 2, comprehensive income view that is against the current operating performance view, and the comprehensive income in Turkish Accounting - Financial Reporting Standards (TMS / TFRS) which is in harmony with IAS / IFRS are discussed. In Section 3, the literature regarding empirical studies made about the comprehensive income is summarized. Section 4 includes research questions. Section 5 is about design of the research. Results of the research are addressed in Section 6 and conclusions of the study are summarized in Section 7.


Profit in current operating performance view is measured as the positive difference between income realized in a specific period and historical costs incurred. As to comprehensive income view, the increase in equity caused by all changes in values of assets and liabilities including carrying gains and losses is considered as profit (Kanagaretnam et al., 2009, 352). When compared to current operating performance view, comprehensive income view is characterized by the following aspects.

- Comprehensive income view adopts the approach that considers profit as increase in wealth of the investor, whereas current operating performance view adopts the approach that considers the profit as the performance measure of the enterprise and management in measuring financial performance (Newberry, 2003, 327-328). Those who evaluate the performance-based on current operating performance view and support such view tend to measure performance of the managers only through limiting by elements that can be controlled by managers (Dumitrana, Jianu & Jinga, 2010, 28).

- With regard to the performance measurement, comprehensive income view is based on assets - liabilities point of view (balance sheet approach) instead of incomes - expenses point of view (income or matching approach) which is adopted by the current operating performance view (Liu & Liu, 2009, 75; Manh, 2010, 4-5).

- Valuation of assets and liabilities basis according to comprehensive income view cannot be limited to only historical cost. In this view, assets and liabilities causing revenue and earnings are measured by their current values. Consumed assets or value changes leading to expenses and losses are measured by either historical cost or current values (Liu & Liu, 2009, 75).

- Comprehensive income adopted by comprehensive income view represents total performance, that is profit creation potential of the enterprise (Örten, Kaval & Karapınar, 2007, 31) and it is more inclusive than the measured profit according to current operating performance view.

- In comprehensive income view, financial performance is reported according to the 'clean surplus view' (Dhaliwal et al., 1999, 44; Andersson & Karlsson, 2011, 5). Yet, current operating performance view is based on reporting in accordance with the 'dirty surplus view' (Kanagaretnam et al., 2009, 352; O’Hanlon & Pope, 1999, 359-460).

In TMS 1 Presentation of Financial Statements, paragraph 7, which serves as Turkish translation of IAS 1 Presentation of Financial Statements, comprehensive income adopted by the comprehensive income view is defined as “the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners”. In the same paragraph, comprehensive income is stated to have comprised all elements of profit or loss and other comprehensive income. In TMS 1 paragraph 7, profit or loss is defined as “the total of income less expenses, excluding the components of other comprehensive income” and other comprehensive income is defined as “comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other TFRSSs”. According to TMS / TFRS, other comprehensive income items recorded in equity within the current period consist of changes in revaluation surplus of tangible and intangible assets, gains or losses arising from fair value differences of investments in financial instruments.
based on equity, actuarial gains or losses in defined benefit plans, gains or losses arising from translation of financial statements of the affiliated enterprise in foreign countries, effective parts of gains or losses that arose depending on hedging instruments related to cash flow risk, and the amount of change in fair value that can be associated with changes in credit risk of a financial loan that has been classified as 'fair value difference is reflected on profit or loss'.

Comprehensive income presented in performance-based financial statements prepared according to TMS 1 consists of realized or unrealized income and expense items. However, it should be kept in mind that valuation differences related to some assets according to TMS 1 are reported in profit or loss part of the statement of comprehensive income even though such assets have not been disposed of. Therefore, it can be said that the income that is reported in performance-based financial statements prepared under IAS / IFRS or local standards, which are in harmony with IAS / IFRS, does not match up with the income adopted by the current operating performance view in full.

Literature Research

In accounting literature, we found studies investigating different aspects of the comprehensive income subject empirically. Most of the empirical studies are related to value relevance of the comprehensive income and evaluation of information content of comprehensive income explanations (Choi & Zang, 2006, 1; Choi, Das & Zang, 2007, 1). Most of the studies about value relevance of the comprehensive income are USA based (Lin et al., 2007, 6) and they investigate the relationship between comprehensive income and / or other comprehensive income items with stock return and price against other performance measures (see Lau Ka Pik & Lee Kam Ha, 2010). Previous studies in this field have provided mixed evidences or could not come to a conclusion (Choi & Zang, 2006, 1). Value relevance of the comprehensive income and evaluation of information content of comprehensive income explanations has been researched empirically by Dhaliwal et al. (1999), O’Hanlon & Pope (1999), Cahan, Courtenay, Gronewoller & Upton (2000), Dehning & Ratliff (2004), Bramble & Hodgson (2005), Biddle & Choi (2006), Wang et al. (2006), Cihangir (2006), Chambers et al. (2007), Kubota, Suda & Takehara (2007), Lin et al. (2007), Goncharov & Hodgson (2008), Saeedi (2008), Kanagaretnam et al. (2009), Mitra & Hossain (2009), Roberts & Wang (2009), Lau Ka Pik & Lee Kam Ha (2010), Manh (2010), Kabir & Laswad (2011), Turen & Abbas Al Hussiny (2012), Demir, Bahadır & Öncel (2013) and Ulusan & Ata (2014).

The number of empirical studies regarding predictive power of comprehensive income and its elements - particularly when it is reported in accordance with IAS / IFRS, is less than the number of studies regarding value relevance, though the latter also amounts to a considerable level. In studies regarding predictive power of comprehensive income and its elements, predictive power of comprehensive income regarding profits and cash flows of enterprises compared to other performance measures is researched. Studies regarding this subject made by Dhaliwal et al. (1999), Choi & Das (2003), Choi & Zang (2006), Biddle & Choi (2006), Choi et al. (2007), Goncharov & Hodgson (2008), Saeedi (2008), Roberis & Wang (2009), Zülch & Pronobis (2010), Kabir & Laswad (2011), Turen & Abbas Al Hussiny (2012) and Demir et al. (2013) provide mixed evidences similar to studies regarding value relevance.

King, Ortegren & Reed (1999), Jordan & Clark (2002), Pandit & Phillips (2004), Lee, Petroni & Shen (2006), Chambers et al. (2007), Roberts & Wang (2009), Mitra & Hossain (2009), McCoy, Thompson & Hoskins (2009), Dumitrana et al. (2010), Ferraro (2011), Kabir & Laswad (2011), Sarıoğlu & Türel (2012), Ulusan (2013), Turktaş, Georgakopoulos, Sotiropoulos & Vasileiou (2013) and Company Reporting (2013) have researched reporting the comprehensive income and its effect. A study closely related to purpose of our study was made by King et. al. (1999). King et al. (1999) investigated which of the three reporting methods the 234 accounting (financial) manager and 291 financial analyst preferred for reporting comprehensive income, as well as their opinions about usefulness of the reported comprehensive income information. Results obtained from this survey-based study can be summarized as follows:

While majority of the accounting managers (67.09%) stated that they planned to report comprehensive income in the statement of changes in equity, 82% of the analysts preferred reporting it in one of the two performance-based financial statements (50% of them preferred a separate statement of comprehensive income, 32% of them preferred a single statement of comprehensive income). Majority of the accounting managers thought that reporting the comprehensive income is useless for users (35.90%) or misleads the users (38.46%). 34% of the analysts considered comprehensive income information as very useful while
59% of them considered it as somewhat useful. Analysts thought that the comprehensive income provides additional useful information, but such income is not one of the most important financial statement items in evaluation of the firm's performance. However, 38% of the analysts stated that they would use the comprehensive income to calculate equity profitability ratio and 31% of them stated that they would it to calculate earnings per share. 40% of the analysts thought that the comprehensive income is difficult to understand and only 4% of them considered net income as difficult to understand. King et al., identified that there is no relation between reporting method preference of accounting managers and direction (positive or negative) of other comprehensive income items, however, there exists a significant statistical relation between their reporting method preferences and their perception regarding usefulness of other comprehensive income items. Those who think that other comprehensive income information is somewhat useful or very useful are likely to prefer reporting in a single statement of comprehensive income, whereas those who think that other comprehensive income information is misleading or somewhat misleading are likely to prefer reporting in the statement of changes in equity. Accounting managers working in finance, insurance, real estate sectors think that comprehensive income information is more misleading than those working in other sectors do. There is no statistically significant difference between the firm size and reporting method preferences of accounting managers. However, the study shows that accounting managers of large firms are more likely to describe comprehensive income information as misleading or somewhat misleading compared to accounting managers of smaller firms. Besides, the study suggests that method of reporting the comprehensive income affects probability of analysts' using the comprehensive income in calculating their conventional firm performance measures.

In addition to the aforementioned empirical studies, Hirst & Hopkings (1998) investigated whether reporting comprehensive income and its items facilitates financial analysts to reveal earnings management and affects their common stock price judgments; Duangploy & Penkar (2000) investigated operating income, net income and comprehensive income variability; Maines & McDaniel (2000) investigated whether and how comprehensive income reporting method affects judgments of nonprofessional investors regarding operating and management performance; Schröder (2009) investigated importance and variability of comprehensive income in non-financial firms; Shuto, Otomasa & Suda (2009) investigated the relationship between other comprehensive income items presented in the balance sheet (statement of financial position) and cost of borrowing of Japanese firms; Fernández & Arana (2010) investigated effect of the comprehensive income on equity return in crisis environment; Kabir & Laswad (2011) researched characteristics (stability, variability, predictive power, value relevance) of the comprehensive income and net income in New Zealand and whether value relevance of comprehensive income depends on the reporting place or not; Kaewprapa & Ussahwanitchakit (2011) investigated the effect of reporting comprehensive income on quality of decision taking by means of usefulness of its accounting information and whether voluntarily explanation and environmental dynamism moderate the effect between the relationship between reporting comprehensive income and quality of decision making, and Turktaş et al. (2013) investigated whether comprehensive income reporting method has been affected from a number of factors adopted by the Positive Accounting Theory and whether investors evaluate their preferences through examining stock returns measured in different ways.

Research Questions

Since January 1, 2009, BIST listed firms have been reporting their other comprehensive income items in not only within their equity in the balance sheet, but in performance-based financial statements as well. For comprehensive income view was taken into consideration in IAS 1, which was revised in 2007, and therefore in TMS 1, which was revised in 2008, and such standards required financial performance to be reported in accordance with the 'clean surplus view' (Ferraro & Veltri, 2012, 588). In this study, our purpose is to find evidences about opinions of accountants working in BIST Equity Market listed firms as financial statement preparers regarding reporting the comprehensive income in performance-based financial statements as well as its usefulness compared to the net income and answers of the following questions are sought.

- Should comprehensive income be reported in performance-based financial statements? If yes, which reporting method should be used?
- Does reporting comprehensive income in performance-based financial statements provide useful information?
Is there any difference between opinions of accountants of financial institutions and other firms with regard to reporting the comprehensive income in performance-based financial statements and its usefulness?

Is there any difference between opinions of accountants of firms that report and do not report comprehensive income with regard to reporting the comprehensive income in performance-based financial statements and its usefulness?

Is there any difference between opinions of accountants of firms who think and do not think that comprehensive income should be reported in performance-based financial statements with regard to usefulness of reporting the comprehensive income in such financial statements?

Research Design

Sample Selection and Data Collection

The universe of the research consists of accountants working in 405 BIST Equity Market listed firms in 2012 and the sample consists of accountants working in 398 such firms. With regard to the sample, 120 accountants work in financial institutions and 278 accountants work in firms operating in sectors other than financial institutions. Insurance and pension firms are not required to prepare comprehensive income statement or other comprehensive income statement and do not report comprehensive income. These firms present their other comprehensive income items in their statements of changes in equity just like the practice before year 2009. Therefore, six insurance firms and one life pension firms listed in BIST Equity Market are excluded from the sample. Besides, since holding firms are deemed as financial institutions in sector classification in BIST web site (http://www.kap.gov.tr/), they are treated as financial institutions in this study.

There are six questions in the first part of the survey that is used to collect data and the purpose of these questions is to obtain information regarding the accountants, the sector in which their firms operate and whether the firm reports comprehensive income in performance-based financial statements. There are three questions in the second part seeking answers for research questions. Survey forms were sent to the accountants through e-mail. Face-to-face interview method was also used in the study.

Statistical Analysis and Tests

Among descriptive statistics methods, frequency analysis and arithmetic mean as well as single sample t test and independent two-sample t test have been employed in analysis of the data obtained from the survey form. Besides, Cronbach's Alpha coefficient has been used for reliability analysis of the scale developed for this survey. SPSS 20.0 software, a statistical software package, has been utilized in analysis of the data.

Limits of the Research

Scope of the research is limited to accountants working in BIST Equity Market listed firms in 2012. This is because in Turkey these firms have prepared statement of comprehensive income or statement of other comprehensive income since 2009 (since 2007 for banks), thus we thought that accountants working in such firms have sufficient knowledge about the subject. Since we considered that accountants working in BIST Equity Market listed companies in 2013 and 2014 are not sufficiently familiar with the subject, they are excluded from the scope of the research.

In this study, we tried to determine whether reporting comprehensive income in performance-based financial statements provides useful information compared to net income reported in performance-based financial statements that are prepared in accordance with IAS / IFRS or local standards in harmony with them. Whether it provides useful information compared to other income items is excluded from scope of the research. Participation to the survey was less than the desired level and this is another limitation of the study. This fact prevented us from carrying out analysis that is more detailed.

Results of the Research

Out of 398 BIST Equity Market listed firms, which constitute sample of the research, accountants working in 68 of them provided answers for the survey. Respond rate is approx. 17%. Cronbach's Alpha coefficient
has been calculated to be 0.858 according to the reliability analysis results of the scale used in the survey. Accordingly, we can say that the used scale is reliable and valid.

Information about Accountants Involved in the Survey, the Sector to Which Their Firms Belong and Whether They Report Comprehensive income

Of the accountants participating in the survey, 16.2% of them are female and 83.8% of them are male. With regard to positions of the participated accountants, 52.9% of them are accountant managers or deputy accountant managers, 25% of them are head of accounting department and 22.1% of them are accountants. With regard to the participated accountants, 5.9% of them have less than 1 year, 14.7% of them have 1-5 years, 17.6% of them have 5-10 years, 29.4% of them have 10-15 years, 16.2% of them have 15-20 years and 16.2% of them have more than 20 years of professional experience. With regard to their education levels, 2.9% of them have high school, 4.4% of them have two-year, 70.6% of them have Bachelor's and 22.1% of them have Master's degree.

22.1% of them work in financial institutions and 77.9% of them work in firms operating in sectors other than financial institutions. Besides, since 2009 firms of 72.1% of them have reported the comprehensive income in performance-based financial statements and 27.9% of them have not.

Analysis Results

Six options are offered to the accountants working in BIST Equity Market listed firms regarding reporting the comprehensive income and they are asked to select one of them. Frequency analysis results with regard to the answers provided by participating accountants, overall sample and sub-groups are presented in Table 1.

Table 1. Frequency Analysis Results with regard to Reporting Comprehensive income

<table>
<thead>
<tr>
<th>Options for Reporting Comprehensive income</th>
<th>OS</th>
<th>Sector</th>
<th>Reporting</th>
<th>Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>f</td>
<td>%</td>
<td>f</td>
<td>%</td>
</tr>
<tr>
<td>Should be reported in SCI</td>
<td>17</td>
<td>25.0</td>
<td>5</td>
<td>33.3</td>
</tr>
<tr>
<td>Should be reported in SOCI</td>
<td>11</td>
<td>16.2</td>
<td>4</td>
<td>26.7</td>
</tr>
<tr>
<td>Should be reported in SCI or SOCI</td>
<td>23</td>
<td>33.8</td>
<td>3</td>
<td>20.0</td>
</tr>
<tr>
<td>Should be reported in SCE</td>
<td>4</td>
<td>5.9</td>
<td>1</td>
<td>6.7</td>
</tr>
<tr>
<td>Should be reported only in footnotes</td>
<td>9</td>
<td>13.2</td>
<td>2</td>
<td>13.3</td>
</tr>
<tr>
<td>Should not be reported</td>
<td>4</td>
<td>5.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>100</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Sector = The sector in which participating accountant's firm operates; Reporting = The status of reporting comprehensive income in performance-based financial statements by participating accountant's firm since 2009. Opinion = Opinions of participating accountants regarding whether comprehensive income should be reported in performance-based financial statements or not.

OS = Overall sample; FS = Finance sector; OTS = Other sectors; R = Reports comprehensive income; NR = Does not report comprehensive income; O = Comprehensive income should be reported; NO = Comprehensive income should not be reported.

SCI = Statement of Comprehensive Income, SOCI = Statement of Other Comprehensive Income, SCE = Statement of Changes in Equity

75% of the participating accountants stated that comprehensive income should be reported in performance-based financial statements (25% of them mentioned statement of comprehensive income, 16.2% of them mentioned statement of other comprehensive income and 33.8% of them mentioned both financial statements). Percentage of accountants who think that comprehensive income should not be reported in performance-based financial statements (comprehensive income should be reported in the statement of changes in equity or only in footnotes and should not be reported at all) is less (25%). Only 5.9% of the accountants think that comprehensive income should not be reported at all. The findings show that majority of the participating accountants support reporting comprehensive income in performance-based financial statements.
statements. The findings also reveal that nearly half of the accountants (45.1%) who support reporting comprehensive income in performance-based financial statements think that place of reporting comprehensive income is not important.

When frequency analysis results of answers of accountants working in financial institutions and in firms operating in other sectors are compared, we see that there is no significant difference between opinions of these two groups except the fact that there is no accountants working in financial institutions who stated that comprehensive income should not be reported at all. However, the findings show that there is a significant difference between opinions of accountants working in firms that have reported comprehensive income in performance-based financial statements since 2009 and opinions of accountants who work in firms that have not reported comprehensive income. Percentage of the accountants working in firms that have reported and have not reported comprehensive income in performance-based financial statements prefer reporting comprehensive income in such financial statements is 92.8% and 31.6% respectively. For accountants working in firms that report and do not report comprehensive income in performance-based financial statements, percentage of accountants who do not support reporting comprehensive income in performance-based financial statements is 8.2% and 68.4% respectively. There is no accountants working in firms that report comprehensive income in performance-based financial statements who think that comprehensive income should not be reported at all.

18 expressions in accordance with 5-level Likert scale were presented to the accountants working in BIST Equity market listed firms with regard to whether reporting comprehensive income in performance-based financial statements provides useful information compared to net income. 68 accountants ranked the 1st expression, 66 of them ranked the 7th expression and 67 accountants ranked the remaining 16 expressions. Arithmetic mean and independent two sample t test results according to the overall sample and subgroups of answers provided for expressions are given in Table 2.

As seen in Table 2, arithmetic mean of answers provided by participating accountants for positive expressions (expressions 1-13) regarding whether reporting comprehensive income in performance-based financial statements provides more useful information compared to net income ranges between 2.93 and 3.94. This shows that opinions of the accountants with regard to positive expressions range between 'neither agree nor disagree' and 'agree'. The accountants mostly agree with the expression stating that comprehensive income provides a more transparent reporting framework compared to net income. Opinions of the accountants with regard to negative expressions (expressions 14-18) about whether reporting comprehensive income in performance-based financial statement provides more useful information compared to net income range between 'disagree' and 'neither agree nor disagree'. For mean of the answers provided by accountants for negative expressions ranges between 2.10 and 3.00. The negative expression with which accountants disagree most is that comprehensive income is less reliable than net income. Given means of answers provided for both positive and negative expressions, we can say that accountants think that reporting comprehensive income in performance-based financial statements provides a little bit more useful information than net income does.
Table 2. Results of Arithmetic Mean and Independent Two-Sample t Test Regarding Whether Reporting Comprehensive Income Provides More Useful Information Compared to Net Income

<table>
<thead>
<tr>
<th>Expressions</th>
<th>OS n=68</th>
<th>Sector Reporting</th>
<th>Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. It is a better measure of the firm performance.</td>
<td>3.65</td>
<td>3.60</td>
<td>3.66</td>
</tr>
<tr>
<td></td>
<td>3.921</td>
<td>2.951</td>
<td>3.961</td>
</tr>
<tr>
<td></td>
<td>2.711</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. It is a better measure of the firm managers’ performance.</td>
<td>3.48</td>
<td>3.53</td>
<td>3.46</td>
</tr>
<tr>
<td></td>
<td>3.771</td>
<td>2.741</td>
<td>3.921</td>
</tr>
<tr>
<td></td>
<td>2.181</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. It reflects future profitability of the firm better.</td>
<td>3.72</td>
<td>3.73</td>
<td>3.71</td>
</tr>
<tr>
<td></td>
<td>3.85</td>
<td>3.37</td>
<td>3.37</td>
</tr>
<tr>
<td></td>
<td>3.942</td>
<td>3.062</td>
<td></td>
</tr>
<tr>
<td>4. It reflects future cash flow of the firm better.</td>
<td>3.69</td>
<td>3.53</td>
<td>3.73</td>
</tr>
<tr>
<td></td>
<td>3.77</td>
<td>3.47</td>
<td>3.882</td>
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<tr>
<td></td>
<td>3.122</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. It is a better indicator of stock prices of the firm.</td>
<td>3.48</td>
<td>4.132</td>
<td>3.292</td>
</tr>
<tr>
<td></td>
<td>3.751</td>
<td>2.791</td>
<td>3.801</td>
</tr>
<tr>
<td></td>
<td>2.531</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. It is a better indicator of stock returns of the firm.</td>
<td>3.34</td>
<td>3.873</td>
<td>3.193</td>
</tr>
<tr>
<td></td>
<td>3.581</td>
<td>2.741</td>
<td>3.701</td>
</tr>
<tr>
<td></td>
<td>2.291</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. It is a better indicator of earning per share of the firm.</td>
<td>3.67</td>
<td>3.47</td>
<td>3.73</td>
</tr>
<tr>
<td></td>
<td>3.911</td>
<td>3.051</td>
<td>4.001</td>
</tr>
<tr>
<td></td>
<td>2.711</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. It is a better indicator of equity profitability of the firm.</td>
<td>3.82</td>
<td>4.133</td>
<td>3.73</td>
</tr>
<tr>
<td></td>
<td>4.101</td>
<td>3.111</td>
<td>4.081</td>
</tr>
<tr>
<td></td>
<td>3.061</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. It is a better indicator of profitability of firm investments.</td>
<td>3.66</td>
<td>3.73</td>
<td>3.63</td>
</tr>
<tr>
<td></td>
<td>3.833</td>
<td>3.211</td>
<td>4.041</td>
</tr>
<tr>
<td></td>
<td>2.531</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Value of the firm can be estimated more correctly.</td>
<td>3.67</td>
<td>3.73</td>
<td>3.65</td>
</tr>
<tr>
<td></td>
<td>3.853</td>
<td>3.211</td>
<td>3.981</td>
</tr>
<tr>
<td></td>
<td>2.761</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. It explains the underlying fact better with regard to the earning power of the firm.</td>
<td>3.52</td>
<td>3.40</td>
<td>3.56</td>
</tr>
<tr>
<td></td>
<td>3.733</td>
<td>3.003</td>
<td>3.821</td>
</tr>
<tr>
<td></td>
<td>2.651</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. It provides a more transparent reporting framework.</td>
<td>3.94</td>
<td>4.00</td>
<td>3.92</td>
</tr>
<tr>
<td></td>
<td>4.191</td>
<td>3.321</td>
<td>4.321</td>
</tr>
<tr>
<td></td>
<td>2.821</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. It reduces probability of earnings management.</td>
<td>2.93</td>
<td>3.20</td>
<td>2.85</td>
</tr>
<tr>
<td></td>
<td>3.02</td>
<td>2.68</td>
<td>3.063</td>
</tr>
<tr>
<td></td>
<td>2.533</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. It is more variable; therefore, it causes a more risky appearance of the firm.</td>
<td>2.81</td>
<td>2.67</td>
<td>2.85</td>
</tr>
<tr>
<td></td>
<td>2.77</td>
<td>2.89</td>
<td>2.86</td>
</tr>
<tr>
<td></td>
<td>2.65</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. It confuses users of financial statements with regard to the real earning.</td>
<td>3.00</td>
<td>2.93</td>
<td>3.02</td>
</tr>
<tr>
<td></td>
<td>2.792</td>
<td>3.533</td>
<td>2.822</td>
</tr>
<tr>
<td></td>
<td>3.533</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. It is less reliable.</td>
<td>2.10</td>
<td>2.40</td>
<td>2.02</td>
</tr>
<tr>
<td></td>
<td>2.23</td>
<td>1.79</td>
<td>2.10</td>
</tr>
<tr>
<td></td>
<td>2.12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. It is less understandable.</td>
<td>2.69</td>
<td>2.93</td>
<td>2.62</td>
</tr>
<tr>
<td></td>
<td>2.79</td>
<td>2.42</td>
<td>2.56</td>
</tr>
<tr>
<td></td>
<td>3.06</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. It is difficult to determine other comprehensive income items and to calculate comprehensive income.</td>
<td>2.88</td>
<td>2.87</td>
<td>2.88</td>
</tr>
<tr>
<td></td>
<td>2.83</td>
<td>3.00</td>
<td>2.76</td>
</tr>
<tr>
<td></td>
<td>3.24</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sector = The sector in which participating accountant’s firm operates; Reporting = The status of reporting comprehensive income in performance-based financial statements by participating accountant’s firm since 2009. Opinion = Opinions of participating accountants regarding whether the comprehensive income should be reported in performance-based financial statements or not.

OS = Overall sample; FS = Finance sector; OTS = Other sectors; R = Reports comprehensive income; NR = Does not report comprehensive income; O = Comprehensive income should be reported; NO = Comprehensive income should not be reported.

1 = Difference between means is statistically significant with a level of significance of 1%.

2 = Difference between means is statistically significant with a level of significance of 5%.

3 = Difference between means is statistically significant with a level of significance of 10%.

Means of answers for positive and negative expressions provided by accountants working in financial institution and in firms belonging to other sectors are close to the means of the overall sample except a few expressions. Opinions of accountants in such groups differ only for 5th and 6th expressions. While accountants working in financial institutions agree that comprehensive income is a better indicator of stock prices and returns compared to net income, accountants working in other sectors neither agree nor disagree. This result may suggest that financial institutions such as banking and insurance firms of which assets and liabilities mainly consist of financial instruments did not or will not show the same negative reaction against reporting comprehensive income in performance-based financial statements as they did against application of full fair value accounting to financial institutions.
When we compare means of answers provided by accountants working in firms that have and have not reported comprehensive income in performance-based financial statements since 2009, we realize that amount of discrepancy is a little bit more than amount of similarity. Means of answers provided by accountants working in firms that report comprehensive income for positive expressions with regard to whether reporting comprehensive income provides more useful information compared to net income is approx. 4 for the greater part of positive expressions, whereas such values is approx. 3 for accountants working in firms that do not report comprehensive income. Accountants working in firms that report comprehensive income agree with the expressions that comprehensive income is a better measure of the firm and their managers’ performance and a better indicator of stock prices, stock returns and earning per share of the firm as well as equity and investment profitability, more than the accountants working in firms that do not report comprehensive income do. Besides, compared to net income they agree to a larger extent with the expressions that when comprehensive income is used, value of the firm can be estimated more accurately, it explains the underlying fact better with regard to the earning power of firm and it provides a more transparent reporting framework. Mean of the answers provided by accountants working in firms that report comprehensive income for the negative expression that reporting comprehensive income confuses users of financial statements with regard to the real earning, is 2.79. This mean is less than the mean of answers provided by accountants working in firms that do not report comprehensive income, which is 3.53.

When we compare means of answers provided by accountants who think that comprehensive income should be and should not be reported in performance-based financial statements, we realize that their opinions differ regarding all expressions except 4 negative ones. The findings show that accountants who think that comprehensive income should be reported in performance-based financial statements agree with positive expressions regarding whether reporting comprehensive income provides more useful information compared to net income, to a larger extent compared to accountants who think comprehensive income should not be reported in such financial statements and to a smaller extent for negative expressions. Means of the answers provided by accountants for positive expressions who think that comprehensive income should be reported in performance-based financial statements is approx. 4 except the expression that information provided by reporting comprehensive income and other comprehensive income items reduces probability of earnings management. Means of the answers provided by accountants for positive expressions who think that comprehensive income should not be reported in performance-based financial statements ranges between 2.18 and 3.12. The only negative expression for which opinions of the both groups differ is the one that reporting comprehensive income confuses users of financial statements with regard to the real earning. Mean of the answers provided for the abovementioned expression by accountants who think that comprehensive income should be reported in performance-based financial statements is 2.82, whereas this value is 3.53 for accountants who do not support reporting it.

Seven financial statement items that can be used in evaluating firm performance have been presented to the participating accountants as a control question and they are requested to rank these items from most useful to least useful (1) to least useful (7) in terms of their usefulness in evaluating firm performance. Besides, they are instructed not to include item(s) in the ranking, which they think as useless in evaluating firm performance. Arithmetic mean, frequency analysis and single sample t test results of answers provided by participating accountants to this question are given in Table 3.

**Table 3. Results of Arithmetic Mean, Frequency Analysis and Single Sample t Test with Regard to Usefulness Degree of Financial Statement Items Used in Evaluating Firm Performance**

<table>
<thead>
<tr>
<th>Financial Statement Items</th>
<th>X</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>0</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income on sales</td>
<td>2.75</td>
<td>2.81</td>
<td>15.6</td>
<td>15.6</td>
<td>18.8</td>
<td>10.9</td>
<td>4.7</td>
<td>1.6</td>
<td>4.7</td>
<td>100</td>
</tr>
<tr>
<td>Operating income</td>
<td>2.42</td>
<td>26.6</td>
<td>34.4</td>
<td>17.2</td>
<td>9.4</td>
<td>7.8</td>
<td>3.1</td>
<td>-</td>
<td>1.6</td>
<td>100</td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td>2.97</td>
<td>10.9</td>
<td>21.9</td>
<td>17.2</td>
<td>21.9</td>
<td>10.9</td>
<td>6.3</td>
<td>1.6</td>
<td>9.4</td>
<td>100</td>
</tr>
<tr>
<td>Net income</td>
<td>3.23</td>
<td>17.2</td>
<td>14.1</td>
<td>26.6</td>
<td>14.1</td>
<td>10.9</td>
<td>10.9</td>
<td>3.1</td>
<td>3.1</td>
<td>100</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>4.23</td>
<td>4.7</td>
<td>6.3</td>
<td>6.3</td>
<td>20.3</td>
<td>25.0</td>
<td>15.6</td>
<td>12.5</td>
<td>9.4</td>
<td>100</td>
</tr>
<tr>
<td>Undistributed income</td>
<td>5.06</td>
<td>1.6</td>
<td>3.1</td>
<td>1.6</td>
<td>1.6</td>
<td>10.9</td>
<td>26.6</td>
<td>39.1</td>
<td>15.6</td>
<td>100</td>
</tr>
<tr>
<td>Net cash flows from operating activities</td>
<td>4.22</td>
<td>10.9</td>
<td>3.1</td>
<td>14.1</td>
<td>7.8</td>
<td>12.5</td>
<td>15.6</td>
<td>25.0</td>
<td>10.9</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: 1 = Difference between means is statistically significant with a level of significance of 1%.

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0 column shows percentage share of item(s), which is/are deemed as useless in evaluating firm performance by participating accountants, and therefore excluded from ranking.

As Table 3 denotes, participating accountants think that the most important financial statement item in evaluating firm performance is operating income. Net income ranks 4th and comprehensive income ranks 5th or 6th. This finding reveals that accountants consider net income as more useful in evaluating firm performance compared to comprehensive income. Yet, as Table 2 reveals, mean of the answers provided by participating accountants for the expression that comprehensive income is a better measure of the firm performance compared to net income is 3.65. This causes doubts about reliability of the results. However, consistency and rationality of the results with regard to subgroups shows that the results are reliable. Therefore, the inconsistency can be explained by the fact that knowledge and experience of accountants with regard to reporting comprehensive income and other comprehensive income is insufficient.

**Conclusion**

In this study, opinions of accountants working in BIST Equity Market listed firms are investigated with regard to whether or how comprehensive incomes should be reported in performance-based financial statements and whether such reporting provides more useful information compared to the net income or not. The results achieved can be summarized as follows:

- Majority of the accountants involved in the study support reporting comprehensive income in performance-based financial statements. Nearly half of the accountants who support reporting of comprehensive income in such financial statements think that place of the reporting is not important.

- Except the fact that no accountant working in financial institutions stated that comprehensive income should not be reported in performance-based financial statements at all, there is no significant difference between opinions of accountants working in financial institutions and in firms belonging to other sectors regarding whether and how comprehensive income should be reported. On the other hand, opinions of accountants working in firms that report and do not report comprehensive income in performance-based financial statements differ.

- Accountants think that reporting comprehensive income in performance-based financial statements provides more useful information compared to the net income.

- There is no significant difference between opinions of accountants working in financial institutions and in firms belonging to other sectors with regard to whether reporting comprehensive income in performance-based financial statements provides more useful information compared to the net income. Opinions of the accountants in both groups are similar to opinions of the accountants within the overall sample.

- Accountants working in firms that report comprehensive income regard reporting comprehensive income in performance-based financial statements as more useful compared to accountants working in firms that do not report comprehensive income.

- Accountants who support reporting comprehensive income in performance-based financial statements think that doing so provides more useful information compared to net income than accountants who do not support such reporting do.

The results support the view that comprehensive income should be used in practice as an indicator of an important performance measure of standard-setters. The fact that the differences between opinions of accountants of firms that report and do not report comprehensive income, and opinions of accountants who support and do not support reporting comprehensive income in performance-based financial statements occurred with regard to almost the same expressions, can be interpreted as the fact that why other comprehensive income items do not arise in firms that do not report comprehensive income is because of influence of opinions of firm accountants.

Due to limited time, we only investigated opinions of accountants as preparers of financial statements in this study. A similar study can be made to reveal opinions of financial analysts as users of financial statements or other users regarding the subject. By this way, healthier results can be achieved clarifying decisions of standard-setters with regard to reporting comprehensive income and other comprehensive income.
income items. Furthermore, the results of this study give an idea with regard to which income concept stakeholders should use regarding the decisions they make.

References


Microenterprises Innovation in Baja California, Mexico: A Case of Study in Mexicali Valley

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Abstract

This paper tests the management of innovation in small businesses located in Mexicali Valley, Baja California, Mexico, according to its conditions and processes, these companies do not consider innovation as a key element in maintaining its competitive position or avoid to lose market share, but if they how to make innovations that help them to continue holding a business environment and to provide opportunities as entrepreneurs and entrepreneurs to consolidate in the region taking advantage of the large national and international companies are scarce in the Mexicali Valley. This research was conducted with a sample of 981 firms surveyed for 5 years and a maximum of 5 employees. The results indicate that innovation in companies is very low and it takes the interaction of other factors such as those that arise in the triple helix model since it can be a useful tool to make micro-entrepreneurs acquire the learning and knowledge that lack them since they cannot get it from a medium and large enterprise in the absence of are in the Mexicali Valley.

Keywords: Microenterprises, Economic Growth, Innovation.

Introduction

This document has the objective to provide backgrounds about the conditions and processes of innovation in micro-enterprises, according to the National Institute of Statistics and Geography (INEGI) in 2009 it was considered that in Mexico microenterprises constitute a 95.7% and employed persons represent a 41.56% nationally, while the State of Baja California reaches the level of 91.59%, and in terms of employed persons make up a 28.41%, which makes relevant any study on innovation, (INEGI, 200).

Innovation is a key word for companies in crisis times or when you have a long-term vision about a product or service. Therefore, it is necessary to consider that the research and the human capital are crucial to eradicate poverty, to fight against hunger, to improve people’s health and combating climate changes. As well as to achieve a development and a sustainable growth, integrated and equitable in outcast urban and rural areas. Hence the need for public innovation policies are a central pillar of development strategies and must be designed to meet the major challenges from the technical, social and economic scope.

The first elements of innovation were observed with Adam Smith who observed that the technological innovation is a key to explain the increases in workers’ productivity, for Adam Smith the flow of innovations was promoted by the division of labor element (ie, the way how workers organized). Later, Karl Marx justified that the main asset of capitalism was its ability to combine capital accumulation with a constant flow of technological innovation, there for he argued that capitalism could not survive without changing constantly their production means.

During the twentieth century, Schumpeter in his Theory of Economic Unfolding introduced five relevant topics to the concept of innovation issues. Innovation referred to new combinations of productive means: 1) The introduction of a new good or a new quality good. 2) The introduction of a new production method. 3) The opening of a new market. 4) The conquest of a new source of supply of producer goods or semi-manufactured goods. 5) The creation of a new organization as a monopoly, or the cancellation of an existing monopoly previously positioned, (Schumpeter, 1944).

Innovation occurs for a reason, but requires many acts of entrepreneurial efforts to break with economic stagnation. So the successful innovations displace inferior technologies, this process is called by Schumpeter as “creative destruction.” Likewise, by making evident other positions about this issue
emphasizing in technological innovation as a means of “competitive positioning”. Where companies innovate to maintain their competitive composition and get competitive advantages.

These companies can also innovate to avoid losing market share with innovative competitors or to invest in innovation by searching for income to enable them to generate greater profit competitors.

In Mexico, Baja California State stands out because its economic leadership in manufacturing activities in electronics, aerospace, automotive and other activities which are located in three townships: Tijuana, Tecate and Mexicali, the last has an agricultural area known as Mexicali Valley which is primarily engaged in the production of cotton, wheat, onions, etc... Besides that, in Mexicali Valley proliferates the trade and services sectors through microenterprise.

This document focuses on the situational analysis of microenterprises located in Mexicali Valley that are crucial for its local development. Although, a few companies stay in the market for a long period of time because they do not have the necessary knowledge neither with the experience to plan, organize and develop the growth of their business.

Considering that microenterprises play a key role not only in generating jobs, but to ensure the dynamism of a market and to strengthen the social and economic stability of any country. Due to their size and flexibility they can be competitive and opened to specialize with cost advantage and innovation.

In Mexicali Valley there are great opportunities for micro entrepreneurs and entrepreneurs to consolidate and to form in the region due to large national and international companies are insufficient. Thus the question settle is how do the microenterprises survive without learning from big businesses? Is innovation a key factor in their survival? What type of innovation is used to stay in the market? It is important to analyze the factors that drive entrepreneurs to follow on the market without cooperation schemes with medium and large enterprises.

**Objectives**

To analyze the innovation used by Mexicali Valley’s microenterprises to keep them updated, competitive and ensure their permanence in the market through the application of tools.

**Theoretical Framework**

Innovation is the process in which from an idea, invention or recognition of a product needed, service or useful technique is developed to be commercially accepted (Escorsa, 2003).

Also it is conceived as a set of activities done in a determined period and place, leading to the successful entry into the market for the first time an idea of new or improved products, processes, services or technical management or organization.

According to the above mentioned to innovate in a changing environment, the company must be as flexible as possible, and to be market-driven. By other hand, functional business develops structure process to later move towards companies by projects and networks (Foray 2002). Also, to manage innovation it is considered the following aptitudes: a) creativity, b) problem solving, c) knowledge management, and d) the economic value of innovation, (Foray 2002).

Thus microenterprises have a little development in the domestic market due to the large size of the domestic market that tends to concentrate its efforts only on marketing which generates low performance that can be part of the lack of planning, or an inadequate marketing strategies application, the attitudes towards risk and the uncertainty in the market.

Murillo mentioned that innovation is strategically important for business and provides three innovation elements: first, knowledge that the companies have which is an important source of competitive advantage, and from this arises the second element that is the organizational learning which requires a good working environment, and the third element is creativity.

Regarding to knowledge Murillo scores three principles concerning to the knowledge that companies should have: they must first be aware of how much is known and not know; understand the location of knowledge (where it is, how it can be obtained and develop skills for more knowledge), the third principle is regarding to the care taken with the workers to understand the process.
The organizational learning that Murillo books require a good working environment in which learning begins with members of the organization who are the main actors in this process. It is important to first be perceptible to processes and the management of organizational changes in cultural aspects that will impact on the management of new knowledge generated from organizational integration process after changes in practices or organizational structures. So Murillo states that "learning has a character as a social construction that is generated in interaction contexts."

Murillo stated two factors that are considered in the study of organizational creativity: the first ones are the members’ organization characteristics, the second ones are the organization features.

And finally, by incorporating the learning, the knowledge and the creativity, then you can talk about innovation. It is therefore necessary for the company to know and understand in what place it is, learn from it, and to be creative to encourage innovation in your business either organizational, environmental, field communications, among others.

A way for increase increasing the knowledge, learning and creativity for microenterprises is Associated with universities for training, help for get learning, knowledge and creativity. Unlike Murillo, the National Directorate for Science, Technology and Innovation of Uruguay mentions different types of innovation which are as follows (Murillo, 2009).

- **Product innovation** is considered the market introduction of a new technological good or service, whose characteristics in technology or intended uses differ significantly from the existed or improved. The new product developing is an element of innovation in the enterprise and it has to communicate with the customers and suppliers, allowing have a better relation and get better products. Microenterprise has to use technology and that will be permit innovation in communication.

- **Innovation in processes**, it is considered as the adaptation of methods of new or significantly improved production. And they can aim to produce or deliver technologically new or improved products, which cannot be produced or delivered using conventional production methods.

- **Innovation in organization**, are the changes in organization and management of the establishment or local; which implies changes in company procedures, changes in the workplace, with the purpose of improving outcomes or reducing internal productivity transaction costs for customers and suppliers.

- **Green / Environmental Innovation** involves processes, products, techniques, systems or new modified practices to prevent or reduce environmental impact. It includes all measures that conserve energy and materials that minimize environmental burden.

- **Innovation in Marketing**, considering the introduction of new methods for the marketing of goods or services not used before in the company that may involve significant changes in design, packaging, positioning, promotion or pricing, always aiming to increase sales.

Likewise, it is considered that innovation requires other factors derived from the Triple Helix implying an orientation to innovation policies based on three factors: industry, school and government. The industry factor that refers to the businesses forms the business network of a country, (Etzkowitz, 1998).

School refers to the activity undertaken by higher educational institutions in a country where their contribution to business innovation is through the increase in graduated students and researchers and knowledge offered. The last factor is made by the government, as it plays a role of collector-benefactor directly supporting innovation in countries, (Martin, 2007).

**Environmental Responsibilities and Social Companies**

One way to protect the environment around us is through environmental responsibilities with the objective of agreeing solutions and preservation measures. Regarding to the social business responsibility is to do various activities and nonprofit actions towards society and the environment.

Companies associate responsibility with sustainability (ie, the company needs are covered) with the idea to continue doing tasks by being aware of the effects. In addition, companies are important sources of environmental impact, as they are responsible for providing products and services to society, using
technology; this requires that companies get involved through green innovation in order to support the sustainability of these by contributing to the environment.

Companies may be responsible for many polluting activities: noise pollution, water, air and soil pollution by causing ecological problems. Therefore, it is necessary for companies to have a greater awareness of environmental issues by making contributions to environmental education in the community.

The environmental impact is any human activity that affects or alters the environment permanently. Therefore, it is important to state that an environmental impact is caused when an ecosystem is altered, i.e., if environmental aspects exceed the capacity level, (Raufflet 2012).

We must also learn to innovate in institutional terms, and regarding to values and attitudes. This includes entrepreneurship to dialogue with the actors and social groups. And also to generate a message and practices that justify the company into many social actors. The actions that the company makes towards the environment are widespread in marketing campaigns benefiting its employees, customers and community with the aim of obtaining recognition or national and international recognition.

By lowering the energy costs, waste disposal, reduce inputs, decontamination expenses and lower the intake of producer goods, benefit companies led to increased profitability and competitiveness. As part of its social responsibility, it is expected that companies try to offer products effectively and efficiently with less waste by taking advantage of its production factors and promoting the values and culture on environmental care. Companies are expected to maintain quality of their services or products where customers benefit and the environment is not altered, (Bé, 2002).

Methodology

This research is cross-sectional and the information used is provided by the Developmental Business Center - Autonomous University of Baja California (CEDEM-UABC) and consists of 981 micro-companies and additionally was made a sample of 276 from 01 to 10 employees from the trade sector, services and manufactures, which were assisted by the center during the period 2009-2013 and 2014. Noting that during these years CEDEM-UABC has come to rural and urban areas in Mexicali Valley to provide assistance and training to micro entrepreneurs.

Likewise, businessman and entrepreneurs look for the support provided by the CEDEM-UABC University, through the students in the Bachelor in Business Administration, with professional social service students advised by the faculty in the same area. Finally the key questions to determine the innovation process are settled as:

1. Product Innovation
   • Has the company made improvements to its product?
   • Number of times that the company has improved its product.

2. Innovation Process
   • Has the company made changes to its production machinery or equipment?
   • Number of times that the company has changed the machinery or equipment.

3. Organizational Innovation
   • Has the company implemented changes in its organizational system?
   • Number of times that the company has changed its internal organization.

4. Green or Environmental Innovation
   • Have you replaced any harmful materials to the environment for other friendly material environment?
   • Number of times that the company has implemented a friendly material environment.
To calculate the sample, the following formula was used for finite populations (less than 500,000 elements):

\[ n = \frac{\sigma^2 \nu pq}{e^2 (\nu - 1) + \sigma^2 pq} \]  

where: \( n = \) sample size, \( \sigma = \) degree of confidence with which it will work, \( \nu = \) universe size, \( p = \) odds in favor, \( q = \) Probability against, \( e = \) estimated error.

The confidence grade is the interval estimated percentage (obtained from repetitive samples, each one size \( n \), taken from a given population), which can be hoped that it should contain the real value from the estimated parameter.

It is determined for \( \sigma \) and adopts the following value: 1.96 when it comprehends 95% of the cases. And then the population proportion is estimated. Now when precedents are not included values a 50% is assigned so the case studied is realized, so \( p \) stands for odds in favor and, as a result, the value of \( q \), which is determined by 1-\( p \), would bring up a value of 50%.

\[ n = \frac{1.96^2 \times 981(0.50 \times 0.50)}{0.05^2(981 - 1) + 1.96^2(0.50 \times 0.50)} \] 

\[ n = 276 \]  

**Results**

Although microenterprises have the opportunity to apply various types of innovation, not all are significant for them, according to the activity and to the conditions of the micro and considering that in Mexicali Valley microenterprises are the livelihoods of many families that are located in traditional sectors and face up a great resistance to changes because of their customs or traditions of the town however there is a new generation of young people looking to start new businesses in non-conventional sectors.

Through the CEDEM-UABC during 5 years it has been shown that more than 75% of the microenterprises and entrepreneurs attended have been women, which are highlighted by the interest of improving their microenterprises, to the appearance of their enterprise learning and acquiring the skills to apply them in their business, with the lack of experience from a previous business and lack of training by a government program that comes directly. Another aspect to consider is that the level of education from the micro-entrepreneurs that answered the survey is between elementary and junior high school deeply rooted from family traditions that now face up problems to innovate.

In relation to the marketing micro-entrepreneurs are unaware of the meaning that has for their company because they only considered advertising from a local source, so it is checked that they do not accomplish any type of innovation. Another element in the micro-enterprises in the Valley is its strategy to sell which is based on the treatment of the client and not in the usage of strategies to ensure sales which are fundamental to increase their business.

In table 1 reflects the results obtained on the different types of innovation that have implemented the micro-entrepreneurs in Mexicali Valley that can be seen that the innovation processes in micro-enterprises are very low, in spite of this it can be appreciated that the most noticeable innovation was related to their product.

<table>
<thead>
<tr>
<th>Chart 1. Improvements in their process, product and organizational</th>
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</thead>
<tbody>
<tr>
<td><strong>Type of innovation</strong></td>
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<tr>
<td>-----------------------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Process innovation</td>
</tr>
<tr>
<td>Product innovation</td>
</tr>
<tr>
<td>Organizational innovation</td>
</tr>
</tbody>
</table>

Source: Elaborated from CEDEM-UABC data.
The following chart 2 is shown the amount and the percentage of companies who have deployed more than once some sort of innovation, highlighting again the innovation of product with the 38.43% (377), on the other hand the rest do not present a significant percentage. And it demonstrates that there is much work by the Government and higher education institutions to encourage micro-entrepreneurs in the advantages that offers innovation in the personal and business development.

Employers are aware of the importance of working on the green innovation, with the idea of contributing to its customers on a society where it is established companies and continue carrying out its activities. Working with the image of their company under a Green Shield is a very valuable company asset, since the image of the company is one of the key factors in the decision of the client and a difference from the competence.

The participation of enterprises in environmental programs, maintains a positive attitude toward its customers, as well as to implement new pro-environmental technologies, increases competitiveness and innovation inside the companies, opening up the way for new markets that currently tend to restrict products that do not contribute to the care of the environment, generating confidence.

The care and the preservation of the environment does not give up, to construct a better future for the oncoming generations, therefore it is needed to implement an environmental program that is one of the steps to achieve the sustainable development.

There was realized a sampling of 276 companies of different sectors, where a survey was applied to them with the target to know what companies are involved by the green innovation and organizational. With the interest to determine the contribution of the companies with the environment it was found that 45.9 % of the companies support the preservation of the green areas in the community where they are established, demonstrating interest to participate, 89.2 %, in a cognitive way is thought that to take part of an environmental program would stimulate the image of the company. About its product or service the businessman has contributed to the environment in 13.5 % by having replaced the harmful materials for another acceptable one. Shown in chart 3.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you think that participating in an environmental program would enhance the image of your company?</td>
<td>89.2 %</td>
</tr>
<tr>
<td>Does your company support the preservation of green areas in your community?</td>
<td>45.9 %</td>
</tr>
<tr>
<td>Have you replaced any environmental harmful material by another acceptable?</td>
<td>13.5 %</td>
</tr>
</tbody>
</table>

Source: Elaborated from CEDEM-UABC data.

Finally the results obtained about the importance that have communication in microenterprise and it was determined that a 70.3% of respondents believe that it is very important in a company and the way they communicate with their suppliers is directly in person with a 42.25%, the second option was by phone with a 39.44%, and only in 9.86% the communication is online or by Facebook. And with employees the communication percentages was directly in person 63.04%, by phone 26.09% and Facebook 4.35%.

Conclusions

The results indicate that innovation in companies is very low and it takes the interaction of other factors such as those that arise in the triple helix model since it can be a useful tool to make micro-entrepreneurs acquire the learning and knowledge that lack them since they cannot get it from a medium and large enterprise in the absence of are in the Mexicali Valley. Therefore, educational institutions can meet the need using bonding and continuous education, etc.

On the other hand, the government provides financial resources that strengthen research at institutions of higher education and can be a major part of the generation of knowledge for the purpose of providing support to micro-enterprises in the most disadvantaged sectors. Therefore, it is important to foster a corporate culture that considers not only the internal factors, but also the external as are the environment.
It is also important to mention that the government should encourage the manufacturing development sector in the valley due to the fact that 99% of the companies concentrate on the trade and services sectors, which are micro-enterprises. At the same time, the survival of the companies in the valley is constrained in the medium and long-term by the traditionalist attitude (due to the fact that they do not accept the changes), the lack of interest in finding new markets and the generational changes since the majority of these are family firms.

Regarding to green micro-enterprises innovation, micro-entrepreneurs perform minimal contributions due to the fact that these use technology of second hand. And the government focuses more on big companies to spread the programs in favor of the environment, and there is a campaign to encourage the entrepreneurs at the national level, state, or local.

References


The Effects of Transformational Leadership Behaviors on Organizational Identification: An Application in Hotel Enterprises

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Abstract

The aim of this study is to determine the effects of Transformational Leadership (TL) on Organizational Identification (OI) at hotel enterprises. Data was obtained from 432 hotel employees by a questionnaire form. And, results pointed out that transformational leaders enhance OI by identifying & articulating vision and high performance expectation behaviours while providing appropriate model behaviours which have non-linear correlation with OI. On the other hand, fostering the acceptance of group goals, providing individualized support and intellectual stimulation behaviours of transformational leaders have not positive/significant effect on OI.

Keywords: Leadership, Transformational Leadership, Organizational Identification, Hotel Enterprises.

Introduction

Today’s business environment is getting more indefinite especially through the great changes and transformations of external environment which increases the importance of psychological interaction between the employees and the organisation (Meydan et al. 2010: 42). Though contemporary organisations expect from their employees not only enjoy and have loyalty or fidelity to their job, but furtherly have devotion that they take their membership as a piece of their ego; in other words, these organisations expect from their employees to unify their individual identity with the organisation to form an identification (Epitropaki and Martin, 2005:570). Organisational identification, described as an individual’s internalization of the whole properties of the group as a member or integration with their organisation, is the eligibility of the personal values with the organisation as a cognitive structure and employee’s feeling of belonging (Ashforth and Mael, 1989: 34). The individuals who identify themselves with the organisation would feel themselves as the representatives of their organisation, voluntarily present supporting behaviours for their organisations and always take part within voluntary efforts for the benefit of their organisation (Işcan, 2006:161).

Employees’ identification with their organisation is not a coincidental situation. Organisational identification can be achieved by effective planning and application of managerial practices. The leaders’ most deterministic role over the enterprises and the practices within the enterprises makes leadership the main determinant leading to organisational identification. As one of the leadership approaches developed recently, TL, seems to be one the most effective leadership approaches to form an identification by providing inspiration for the employees, encouraging them from an intellectual perspective and developing strong individual relations (Berson and Avolio, 2004: 631; Epitropaki and Martin, 2005: 572).

In this study, the effect of TL over OI will be evaluated from the point of hospitality enterprises. As it is not possible to have direct control over the employees during the customer-employee interaction in hospitality enterprises which produce services, this makes employees’ identification with their organisation important for the organizational success. Additionally, the activity structure of hotel enterprises essentially requires managers and other administrative staff to have TL skills (Tracey and Hinkin, 1994: 21, Padron, 2011: ii). In this context, the basic aim of this study is determine the effects of high level executive staff’s TL behaviours on the level of employees’ organisational identification.
Literature Review

**Transformational Leadership (TL):** Today’s competitive environment which requires long term strategic planning (Bennis and Nanus: 1985: 14), enforces managers to employ new and creative methods for achieving competitive advantage (Tichy and Ulrich, 1984: 59) and transform their enterprises following the direction of the changes and consequently compels them to be more transformative (Bass, 1999: 9). Within today’s business environment, the leaders who act as an agent of change and take more responsibility, encourage continuous change, let their followers to take more responsibility, provide opportunities for their followers to improve themselves, increase their followers level of needs and prompt the administration to satisfy their followers’ needs are called as “Transformational Leaders” (Avolio, Waldman and Yammarino, 1991: 9).

TL had first been defined in Burns’ (1978) *Political Leadership* researches and later became popular through the studies conducted by the management researchers as Bass (1985), Bennis and Nanus (1985), Tichy and Devanna (1990), Yukl (1994), Bass and Avolio (1994), Bass and Riggio (2006). Bass (1985: 17-20), who developed the TL approach and applied it to organisational leadership, defines transformational leaders as the individuals who motivate the employees in his team by vision, self confidence and moral power to achieve better performance beyond their own expectations and improve their employees leadership capacity. According to Bass, transformational leaders, arouse interest among their followers by their assessing the job with a new point of view, raise awareness about the mission and vision of the team/organisation, improve the skills and talents of the followers (empowerment), and lead the followers to specialize their proper field of interest conforms with the aims of the organisation (Bass and Avolio, 1994: 2; Bass and Riggio, 2006: 4).

According to the Transformational Leadership Approach claimed by Bass, transformational leaders exhibit four patterns of distinctive behavioural types; Idealized Influence (Iı) within the organisation or among the organisations, Inspirational Motivation (IM), Intellectual Stimulation (IS) and Individualized Consideration (IC) (Bass, 1985: 32; Bass and Avolio, 1994: 4-5; Avolio and Bass, 2002: viii, Bass and Riggio, 2006: 5-7). *Idealised influence* expresses that Transformational Leaders form a role model for the followers by gaining their followers’ admiration, esteem and trust (Bass and Avolio, 1994: 3). Transformational leader’s exchange of ideas about substantial values and beliefs with the followers, creating an effective communication with the followers in accordance with the aims, encouraging them to acquire mutual benefits (Grant, 2012: 459), exhibiting dedicated efforts for the benefits of the organisation, setting an example of behavioural patterns for the others and forming high level of ethical standards refer to *idealised influence* (charisma) (Li and Shi, 2008: 572, Li, Arvey, Zhang and Song, 2012: 235, Eisenbeiß and Boerner, 2013: 55). *Inspiration* refers to inspiring people around the leader by explaining the importance of jobs performed and making it meaningful (explaining jobs in a simple way even they are complex ones), improving team spirit, making enthusiasm and optimism possible within the organisation, letting the members to visualize the future, creating expectations to be achieved, creating common targets and providing royalty for the shared vision (Bass and Avolio, 1994: 3). Transformational leaders utilize persuasive language, symbols and descriptions to inspire their followers and get them concentrate on mutual efforts (Bass, 1997: 21; Hoffmann, Bynum, Piccolo and Sutton, 2011: 780). *Intellectual Stimulation (IS)*; refers to transformational leader’s ability to stimulate followers’ ability to recognise the problem and problem solving skills, their mentality and imagination, their values and beliefs and create a change from all these dimensions. As transformational leaders encourage their followers for some more efforts by their Idealised Influence (Iı) and Individualized Consideration (IC) behaviours, they use Intellectual Stimulation (IS) to mobilize these efforts (Bass, 1985: 98-99). The leader questions the basic assumptions in this stage, re-evaluate the problems, approach present/old working methods and conditions from new perspectives, help the followers to be innovative and creative by demanding new and creative solutions from the followers and encourages the creativity within the organization. (Avolio and Bass, 1995: 208; Dubinsky, Yammarino and Jolson, 1995: 318; Northouse, 1997: 136; Avolio, Bass and Jung, 1999: 444; Bass and Riggio, 2006: 7). *Individual Stimulation*: is leader’s undertaking the roles of coaching and mentorship in order to satisfy the needs of each follower to be successful and improve themselves further. In this way, a successful increase in the followers’ potential would be achieved (Bass and Avolio, 1994: 3; Bass and Riggio, 2006: 7). As the TLs are exhibiting individual stimulation behaviours, they evaluate each employee within the organisation as a single individual and pay individual attention for their needs, desires and apprehensions (Dubinsky, Yammarino and Yolson, 1995: 318). Although this classification of Bass (1985)
is used in numerous studies as MLQ (Multifactor Leadership Questionnaire) scale and accepted as a basis for TL studies, there are other classifications regarding TL behaviors. In this context, TLB (Transformational Leadership Behaviour) scale developed by Podsakoff, et al. (1990) was applied for the research. The meanings of expressions used in the scale are explained as follows; Vision Determination sub-dimension refers to leader’s determination of new opportunities for the unit/department/enterprise and sharing the future vision with the followers; Forming a Role Model dimension refers to leader’s being a behavioural model for the followers; Approval of the Aims of the Group sub-dimension refers to leader’s stimulation of co-operation between the employees and persuading them to work focusing on a common aim; High Performance Expectation sub-dimension refers to leader’s behavioural patterns demonstrating that he expects excellence, quality and/or high performance from employees, Individual Stimulation sub-dimension refers to leader’s being respectful to the followers and concerning their individual needs; Intellectual Stimulation sub-dimension refers to leader’s interrogation of the employees’ style of doing their jobs and improvement of the employees in order to develop new ideas (Podsakoff, et al., 1990: 112-113).

Organisational Identification: OI, defined as an individual’s identification to all features of his group or integration of the employee with the group (Ashforth and Mael, 1989: 34), relies on the Social Identity Theory when it’s historical development is taken into consideration. OI, is one of the most important notions of Social Identity Theory (Hortaçsu, 2007: 65, Akt. Meydan, et al., 2010: 42). OI derived from Social Identification is defined by most of the researchers as “the emotion of forming unity (oneness) or belonging (Ashforth and Mael, 1989: 34; Ashforth and Mael, 1992: 104; Sammarra and Biggiero, 2001; Kırkbeşoğlu and Tüzün, 2009: 3). As a cognitive organization, OI is compliance of organisational and individual values or individual’s feeling himself as a part of an organisation or feeling himself belonging to the same organisation (Ashforth and Mael, 1989: 34). The individuals who identify themselves with the organisation would feel themselves as the representatives of their organisation when they interact with the people from external environments. Additionally, these employees give priority to organisation’s interests when strategic and business decisions opportunity emerges, discrete themselves from the employees who indicate behaviour against organizational values and aims (Miller et al., 2000) and affected positively from the positive mood in the organisation (Kreiner and Asforth, 2004). When the members identify strongly with the organisation, they believe that the behaviour in favour of the organization is in fact also in favour of them (Dutton vd., 1994: 255), they will behave more effectively in accordance with the organisation’s point of view and they will exhibit more efforts in the name of the organisation (Mael and Ashforth, 1992: 109).

Taking membership as an important part of employee’s ego and having the employees feel proud of defining themselves as a member of the organisation are critical factors of success for long term achievement (İşcan, 2006: 161; Turunç, 2011:147). When the external environmental factors make the survival of the organization difficult, greater need will emerge for employees whose level of identification is considerably high to be able to survive. In contrast, in situations where absence of identifaction is experienced, the probability of failure increases (Rossel, 1971: 316; Polat and Meydan, 2010: 150). Organizations have been effective on the OI levels (Polat and Meydan, 2011:155) by assimilating individual identity of employees and the organization and having employees love more their place of work, being more loyal and having lack of desire to leave the organization.

Transformational Leadership and Organisational Identification Relationship

Leadership is a phenomenon that can only be observed by its effects on the followers. Though to evaluate the efficiency of the leadership, its effect over the employees should be examined. In other words, to understand the leadership, the psychological process which transforms the leader’s behaviours into the follower’s action should be known (van Knippenberg et al. 2004). The relationship between leadership and identification should be evaluated in this scope. There are many studies in the literature claiming that organizational identification would be achieved if employee confidence exists and psychological security needs is met (Walumbwa et al. 2011: 206). The determinants for the employees’ feeling themselves secure within an organisation or satisfaction of their needs for the feeling of confidence or psychological needs are the factors defined by the leader or the manager as structure, policy, strategy formed within the organisation. Therefore, leader’s behaviours, evaluated as trustable at the conceptual level by the followers, are accepted as behaviours increasing and improving identification. Because, the relationship between the leader and the followers let the followers to feel themselves more precious and regardful (Walumbwa et al. 2011: 206).
Relationship between leadership and identification are evaluated in two dimensions basically through the researches on leadership within the organisations and organisational identification. These are self with leader (Personal identification), and their collective self with organization or group (Social identification) (Kark and Shamir, 2002; Kark et al. 2003; cited: Lui et al. 2010). Kark et al. (2012) states that in the theories of leadership, one of the basic determinants of the achievement of leadership is the identification of the followers with the leader and identification occurs when the trust in the leader is self-referential or self defining. In his article in which he studied the social identity of leadership, Hogg (2001:194) reviews leadership as an influential process to achieve the general aims, and emphasizes that it is not a kind of compulsory process. According to the researcher making a definition of prototypical leader, these leaders do not need to exercise power to have influence; they are influential because of their position and the depersonalization process that assimilates members behavior to the prototype. Social Identification occurs when the individuals define themselves as a member of an organisation or a group (Mael and Ashforth, 1992: cited Liu et al. 2010).

As it is emphasized in the literature, TL, with its basic aspects, is one of the leadership approaches effecting the organisational identification in a positive way. Bass (1998) implies that follower’s identification with the organisation is strengthened by the transformational leaders. Berson and Avolio (2004) states that transformational leaders attracts the attention of his followers by primarily emphasizing on how each organisational mission will make a contribution to the strategic mission. Thus, by having followers to obtain greater information about the mission and vision of the organisation they state that a higher level of identification is achieved between the mission and the follower. Hogg (2001), mentions about transformational leaders as proactive, change-oriented, innovative, identification prompters with their adoptive effect of motivating the followers to identify themselves better with the organisation (Walumbwa et al, 2008: 797). Transformational leaders are those improving followers’ personal competence as a role model and verbal persuasion (Walumbwa et al, 2008: 799). Two basic hypothesis were developed in this study which aims to identify the relationship between TL and OI and its effects in the light of the literature.

\[ H_1: \text{There is a significant relationship between TL behaviours and OI} \]
\[ H_2: \text{TL behaviours significantly-positively affect OI of employees} \]

Methodology
This study which is primarily aimed to reveal the effects of TL behaviours on OI consists a positivist scientific approach. Thus, the basic principles of this study are to use quantitative research methods and to verify results with cause & effect relationship. Within this context, the basic phase of research and analysis procedure is given below.

Population and Sample
With regard to aim of the study, employees working at 5 star hotels that operating in Antalya in Turkey accepted as the population in the study. Besides, the Ministry of Culture and Tourism (2014) indicates that there are approximately 289 five star hotels operating in Antalya, and this fact cause some difficulties in reaching out all employees of those hotels. Thus a sample was calculated by a formula given below.

\[ n \approx \frac{\sigma^2.Z_{\alpha}^2}{H^2} = \frac{1^2}{0,1^2} \approx \frac{1.3446}{0,01} \approx 384,16 \]

In the formula which is generally use for unrestricted populations, \( n \) refers to sample size, \( H \) refers to standard error percentage (10%), \( \sigma \) refers to standard deviation of population and \( Z_{\alpha} \) refers to 1.96 for \( \alpha \) at 0.05 significance level. And, we calculated that necessary data should be obtained from at least 385 employees. As a result 385 employees working at 5 star hotels in Antalya was accepted as a sample of this study by considering convenience sampling.

Data Collection
Data was collected by questionnaire technique due to obtain a great number of data in a short period by taking for time and cost convenience. Questionnaire form mainly consists of three sections that quantify demographic variables and scale TL behaviours &OI perceptions of participants. Items referring TL behaviours was adapted from TLB scale which was developed by Podsakoff et all (1990) and items related
with OI was adapted from Mael and Asforth’s study conducted in 1992. A pilot study was carried out between 20 February 2013 and 20 May 2013 with 60 hotel employees working in 5 star hotels in Afyonkarahisar. And, it is assigned that two control questions located in TLB scale cause reliability reduction as a result of ambiguity. Thus two items excluded from the questionnaire form. Eventually, necessary data was obtained from 432 employees between 01 June 2013 and 30 August 2013, with the redesigned questionnaire form.

**Data Analyses**

This study mainly consists reliability analyses, descriptive analyses, correlation/regression analyses and discriminant analyses. In the context of reliability analyses we used internal consistency reliability which is generally measure by Cronbach’s Alpha ($\alpha$) coefficient. Cronbach’s $\alpha$ indicates the overall reliability of questionnaire/scale and values around 0.70 are good for the studies conducted in the field of social sciences (Field, 2005). Hence, reliability analyses showed that Cronbach’s $\alpha$ was 0.914 for the overall items, 0.921 for the TLB scale and 0.734 for the OI scale (see Table 1). Thus, this study’s data could be accepted as reliable.

<table>
<thead>
<tr>
<th>Table 1. Reliability Analyses</th>
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<tbody>
<tr>
<td>N of items</td>
</tr>
<tr>
<td>Questionnaire Reliability (Whole Likert items)</td>
</tr>
<tr>
<td>Organizational Identification scale</td>
</tr>
<tr>
<td>Transformational Leadership Behaviours scale</td>
</tr>
</tbody>
</table>

The second phase of data analyses consists of descriptive analyses in which frequency, percentage, mean techniques are used. Frequency and percentage techniques are chosen to present some demographic variables of participants in a summarized table. And, mean which refers the sum of a collection of numbers divided by the number of numbers in the collection is preferred to exhibit the degree of TL behaviours and OI that observed in related hotels. At this phase we also indicate the mean of factors so as to compare the degree of TL behaviours (sub-factor) in general.

The third phases of data analyses consist of correlation analysis which aims to execute the relationships between TL behaviours and OI. Simple and multiple regression analyses is used to predict which TL behaviours have positive effect on OI and what the effect size of those behaviours is. To determine whether there is a significant difference among participants’ perceptions about TL behaviours and OI, we performed discriminant analysis. Within this context, the distribution of data is tested with Kolmogorov-Smirnov test and Shapiro Wilks test to determine the data set has normal distribution or not. Since, the test results showed that data set has not normal distribution; non-parametric tests (Mann Whitney U and Kruskal Wallis H tests) were used in this study. Also, Many Whitney U tests were performed by applying dual combinations of groups where the difference among groups was statistically significant at Kruskal Wallis H test results. And the Spearman correlation coefficient ($r$ value) was calculated in order to determine the effect size when the significance level is less than 0.05. At this stage, $r$ value was calculated by dividing $z$ value obtained from Manny Whitney U test to square root of $(n)$. Cohen (1998) states that the effect size of $r$ value is small if $r=0.10$, and it is medium if $r=0.30$ and finally if $r$ value is equal or above than 0.50 the effect size is large (Field, 2005: 532). In this study, ($r$) value has been interpreted based on Cohen’s $r$ value criteria.

**Findings**

Descriptive analyses of demographic variables indicate that 58% of participants are male and, nearly half of the participants are married. Participants who are at 25 to 34 of ages constitute the major group in ages. Besides this major group is followed by 102 participants whose age group is 35-44 with the 24.9% percentage. It is notable that 49.5% of participants have secondary education while 18.5% of the rest have associate degree at least (see table 2).
According to the results in Table 2, 36.8% of participants can be accepted as new comers for the tourism industry since they have less than four years’ experience. And, 103 participants (25.1) have experience from 4 to 7 years in tourism while other major group constituted from 57 participants have at least 8 years’ experience. Results also indicate that a big majority of 410 employees working at housekeeping (38.0%), this department is followed by F&B (32.7%), front office (11.7%) and kitchen (7.8%). Another interesting point of the analyses is the quantities of participants who have not notify their position. They constitute the 20.2% of total, while 278 participants notified their position as employee. At last, in parallel with the results of working period in tourism, 270 participants are the new comers for their current hotels with the percentage of 68.8.

Second phase of descriptive analyses contains the measurement of participants’ perceptions about TL behaviours which is presented in Table 3. We can easily assume that hotel employees considerably
perceive TL behaviours which are exhibited by managers as leaders (x̄: 3.51). And, those TL behaviours are measured by six sub-factors in this study, as mentioned before. Descriptive analyses results prove that the most exhibited TL behaviours are the fostering acceptance of group goals (x̄: 3.73). Those behaviours are followed by individual support behaviours (x̄: 3.58). And, behaviours devoted to providing an appropriate model are the least perceived TL behaviours in the context of TL sub-scales.

Table 3. Employee perceptions about TL behaviours

<table>
<thead>
<tr>
<th>Factor</th>
<th>Items</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Mean of Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>HPE</td>
<td>HPE1</td>
<td>3.47</td>
<td>1.379</td>
<td>3.57</td>
</tr>
<tr>
<td></td>
<td>HPE2</td>
<td>3.69</td>
<td>1.193</td>
<td></td>
</tr>
<tr>
<td></td>
<td>HPE3</td>
<td>3.56</td>
<td>1.210</td>
<td></td>
</tr>
<tr>
<td>PAM</td>
<td>PAM1</td>
<td>3.22</td>
<td>1.346</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PAM2</td>
<td>3.55</td>
<td>1.211</td>
<td>3.46</td>
</tr>
<tr>
<td></td>
<td>PAM3</td>
<td>3.61</td>
<td>1.159</td>
<td></td>
</tr>
<tr>
<td>IAV</td>
<td>IAV1</td>
<td>3.23</td>
<td>1.232</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IAV2</td>
<td>3.50</td>
<td>1.204</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IAV3</td>
<td>3.52</td>
<td>1.168</td>
<td>3.47</td>
</tr>
<tr>
<td></td>
<td>IAV4</td>
<td>3.49</td>
<td>1.149</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IAV5</td>
<td>3.62</td>
<td>1.200</td>
<td></td>
</tr>
</tbody>
</table>

When each TL behaviours evaluate separately, it is seen that encouraging employees to be “team players” is the most perceived behaviour among others. On the other hand, the results indicates that fostering collaboration among work groups, insisting on only the best performance and stimulating employees to rethink the thing they do are other most perceived TL behaviours. The least perceived TL behaviour is leading by doing rather than simply by telling with 3.22 mean.

After determining the perceptions about TL behaviours, employee perceptions about OI were analysed with mean and standard deviation scores (see Table 4). Mean score for OI scale expresses that participants are considerably identify with their organization (x̄: 3.72). Results show that feeling like a personal compliment when someone praises the hotel (x̄: 3.98) and considering hotel’s successes as his/her own successes (x̄: 3.92) are the most influential factors of OI among all. And, feeling like a personal insult when someone criticizes the hotel (x̄: 3.34) is the least expressed perception in the context of the OI factors.

Table 4. Employee perceptions about OI

<table>
<thead>
<tr>
<th>Items</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>OI1</td>
<td>3.34</td>
<td>1.372</td>
</tr>
<tr>
<td>OI 2</td>
<td>3.54</td>
<td>1.262</td>
</tr>
<tr>
<td>OI 3</td>
<td>3.92</td>
<td>1.160</td>
</tr>
<tr>
<td>OI 4</td>
<td>3.98</td>
<td></td>
</tr>
<tr>
<td>OI 5</td>
<td>3.76</td>
<td></td>
</tr>
<tr>
<td>OI 6</td>
<td>3.75</td>
<td></td>
</tr>
</tbody>
</table>

In the ongoing process, the first hypothesis (H1) of the study which refers that “There is a significant relationship between TL behaviours and OI” was tested with correlations analyses. Results shown in Table 5 refers that the relationship between TL behaviours and OI is statistically significant (p: 0.000) and the relationship level could be accepted as intermediate (r: 0.378). Thus H1 hypothesis is accepted.

The results in Table 5 also demonstrates the relationships between OI and sub-factors of TL behaviours. Within this context, it is seen that HPE behaviours have highest-significant relationship with OI (p: 0.000, r: 0.396). And, the second important determiner of OI of participants is IS (p: 0.000, r: 0.352). So, we can assume that the more employees perform high performance the more they identify with the organization. Additionally, the more transformational leaders intellectually stimulate the employees, the more they help...
the employees at OI. Otherwise, fostering acceptance of group goals is the least influential TL behaviours on OI.

Table 5. Correlation Analyses

<table>
<thead>
<tr>
<th></th>
<th>HPE</th>
<th>PAM</th>
<th>IAV</th>
<th>FAGG</th>
<th>PIS</th>
<th>IS</th>
<th>OI</th>
<th>TL behaviours</th>
</tr>
</thead>
<tbody>
<tr>
<td>HPE</td>
<td>R</td>
<td>1</td>
<td>P</td>
<td>0.000</td>
<td>0.572**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAM</td>
<td>R</td>
<td>0.572**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IAV</td>
<td>R</td>
<td>0.600**</td>
<td>0.722**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAGG</td>
<td>R</td>
<td>0.537**</td>
<td>0.575**</td>
<td>0.629**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PIS</td>
<td>R</td>
<td>0.529**</td>
<td>0.658**</td>
<td>0.626**</td>
<td>0.467**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IS</td>
<td>R</td>
<td>0.602**</td>
<td>0.710**</td>
<td>0.792**</td>
<td>0.613**</td>
<td>0.634**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>OI</td>
<td>R</td>
<td>0.396**</td>
<td>0.223**</td>
<td>0.371**</td>
<td>0.246**</td>
<td>0.291**</td>
<td>0.352**</td>
<td>1</td>
</tr>
<tr>
<td>TL behaviours</td>
<td>R</td>
<td>0.760**</td>
<td>0.840**</td>
<td>0.896**</td>
<td>0.807**</td>
<td>0.749**</td>
<td>0.882**</td>
<td>0.378**</td>
</tr>
</tbody>
</table>

**: Correlation is significant at the 0.01 level (2-tailed). \( r \): Pearson Correlation, \( p \): Sig. (2-tailed).

Table 6. The Effect of TL Behaviours on OI (Univariate Regression Analyses)

<table>
<thead>
<tr>
<th>Regression Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Independent Variables</th>
<th>( \beta )</th>
<th>( S (\beta) )</th>
<th>Beta</th>
<th>( t )</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.000*</td>
</tr>
<tr>
<td>TL Behaviours</td>
<td></td>
<td></td>
<td></td>
<td>0.381</td>
<td>0.046</td>
<td>0.378</td>
<td>8.241</td>
<td>0.000*</td>
</tr>
</tbody>
</table>

\( R^2=0.378 \)

In relation to acceptance of \( H_2 \) hypothesis, next phase includes multi-linear regression analyses which aimed to assign whether TL behaviour sub-factors affect OI. Result in Table 7 concludes that TL behaviours through high performance expectation, and identifying and articulating a vision are significantly-positively affect OI, while providing an appropriate model behaviours significantly-negatively affect OI. Thus, the valid regression model for the sub hypothesis of \( H_2 \) is “\( OI=2.359 + 0.381 \times TL \) behaviours”.

The regression model basically point outs that HPE and IAV behaviours of TL are the most important predictors of OI, while neither PIS behaviours nor IS of TL don’t have any significant/positive effect on OI. In other words, each increments of HPE behaviours provide 0.242 contribution to OI, while each increments of IAV behaviours strengthen OI of employees at the rate of 0.228. Meanwhile, non-linear correlation between PAM and OI is another notable result which refers that each increments on PAM behaviours of TL, reduce OI of employees with the percentage of 0.202.
Table 7: The Effect of Each TL Behaviours On OI (Multivariate Linear Regression Analyses)

<table>
<thead>
<tr>
<th>Factors of TL</th>
<th>β</th>
<th>Standard Error</th>
<th>Beta</th>
<th>t</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>2.231</td>
<td>0.165</td>
<td>----</td>
<td>13.501</td>
<td>0.000*</td>
</tr>
<tr>
<td>HPE</td>
<td>0.242</td>
<td>0.050</td>
<td>0.288</td>
<td>4.817</td>
<td>0.000*</td>
</tr>
<tr>
<td>PAM</td>
<td>-0.202</td>
<td>0.062</td>
<td>-0.238</td>
<td>-3.282</td>
<td>0.001*</td>
</tr>
<tr>
<td>IAV</td>
<td>0.228</td>
<td>0.077</td>
<td>0.242</td>
<td>2.969</td>
<td>0.003*</td>
</tr>
<tr>
<td>FAGG</td>
<td>-0.030</td>
<td>0.043</td>
<td>-0.041</td>
<td>-0.686</td>
<td>0.493</td>
</tr>
<tr>
<td>PIS</td>
<td>0.061</td>
<td>0.047</td>
<td>0.081</td>
<td>1.279</td>
<td>0.202</td>
</tr>
<tr>
<td>IS</td>
<td>0.119</td>
<td>0.073</td>
<td>0.130</td>
<td>1.622</td>
<td>0.106</td>
</tr>
</tbody>
</table>

R=0.458  R²=0.210  Adjusted R²=0.198  F= 17.833  Sig.= 0.000*

*: Correlation is significant at the 0.05 level.

The last phase of data analysis consist of discriminant analysis that performed to observe whether some demographic variables of participants have an effect on the employee perceptions about TL behaviours and OI level. Gender, age group, educational background, position and the working period at the hotel of participants were used as demographic variables in analysis. And, it is determined that there are no significant differences on the perception of TL behaviours and OI level of participants regarding to their educational background or working period at the hotel.

Table 8: The Effects of Gender on TL Behaviours and OI

<table>
<thead>
<tr>
<th>Gender</th>
<th>N</th>
<th>Mean Rank</th>
<th>Mann-Whitney U</th>
<th>Wilcoxon W</th>
<th>Z</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>OI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>238</td>
<td>191,57</td>
<td>17152,000</td>
<td>45593,000</td>
<td>-2,537</td>
<td>0,011*</td>
</tr>
<tr>
<td>Female</td>
<td>169</td>
<td>221,51</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>238</td>
<td>183,64</td>
<td>15264,500</td>
<td>43705,500</td>
<td>-4,145</td>
<td>0,000*</td>
</tr>
<tr>
<td>Female</td>
<td>169</td>
<td>232,68</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Differences are significant when significance value (p) is less than 0.05.

Meanwhile, Table 8 refers that participant perceptions differ on both TL behaviours and OI level according to their gender (p<0.05). Also detailed results imply that female participants perceive TL behaviours more than male ones. Similarly the OI level of female participants is higher than others (See Table 8). Discriminant analyses also reveals that, participant perceptions about TL behaviours are similar (p: 0.059 and p>0.05) regarding to their age group. However their OI level vary (p: 0.032) according to their age group (see Table 9).

Table 9: The Effects of Age on TL Behaviours and OI

<table>
<thead>
<tr>
<th>Group of Age</th>
<th>N</th>
<th>Mean Rank</th>
<th>Chi-Square</th>
<th>df</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>OI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 25 of age</td>
<td>85</td>
<td>187,11</td>
<td>8,772</td>
<td>3</td>
<td>0,032*</td>
</tr>
<tr>
<td>between 25-34 of ages*</td>
<td>181</td>
<td>177,25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>between 35-44 of ages*</td>
<td>102</td>
<td>214,38</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>between 45-54 of ages</td>
<td>13</td>
<td>224,46</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TL behaviours</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 25 of age</td>
<td>85</td>
<td>171,29</td>
<td>7,447</td>
<td>3</td>
<td>0,059</td>
</tr>
<tr>
<td>between 25-34 of ages*</td>
<td>181</td>
<td>188,64</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>between 35-44 of ages*</td>
<td>102</td>
<td>204,82</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>between 45-54 of ages</td>
<td>13</td>
<td>244,19</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Differences are significant when p is less than 0.05.

In depth analysis about age group imply that the difference about OI level originated from the different OI levels among the participants who are 25-34 of ages and 35-44 of ages. And, participants’ OI level who are between 35 to 44 ages is higher than the participants who are between 25 to 34 ages. Also, the influence
degree of this difference observed about OI statistically minor, since the r value less than 0.30 (See Table 10).

Table 10: The Resource of Differences about OI perceptions According to Age Groups

<table>
<thead>
<tr>
<th>Group of Age</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
<th>Mann-Whitney U</th>
<th>Wilcoxon W</th>
<th>Z</th>
<th>p</th>
<th>r</th>
</tr>
</thead>
<tbody>
<tr>
<td>between 25-34 of ages</td>
<td>181</td>
<td>132.44</td>
<td>23971.00</td>
<td>7500.00</td>
<td>23971.00</td>
<td>-2.626</td>
<td>0.00</td>
<td>0.1</td>
</tr>
<tr>
<td>between 35-44 of ages</td>
<td>102</td>
<td>158.97</td>
<td>16215.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Differences are significant when p is less than 0.05, \( r = \frac{z}{\sqrt{n}} \).

Discriminant analysis also demonstrates that employees’ position is another important determiner on the OI level. According to the test results in Table 11, participants OI level vary regarding to their position at the hotel (p: 0.000, p<0.05). Thus we can assume that executives, mid-level managers, junior administrative officers and employees of hotel enterprises have different OI levels. To verify whether our assumption is valid or not, in depth analysis were performed and results shown in Table 12.

Table 11: The Effects of Position on TL Behaviours and OI

<table>
<thead>
<tr>
<th>Position</th>
<th>N</th>
<th>Mean Rank</th>
<th>Chi-Square</th>
<th>df</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>OI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive</td>
<td>5</td>
<td>268.60</td>
<td>18,855</td>
<td>3</td>
<td>0.00*</td>
</tr>
<tr>
<td>Mid-level manager</td>
<td>14</td>
<td>212.11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior administrative officer</td>
<td>30</td>
<td>207.90</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee</td>
<td>278</td>
<td>154.96</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TL behaviours</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive</td>
<td>5</td>
<td>130.40</td>
<td>7,655</td>
<td>3</td>
<td>0.054</td>
</tr>
<tr>
<td>Mid-level manager</td>
<td>14</td>
<td>229.64</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior administrative officer</td>
<td>30</td>
<td>157.35</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee</td>
<td>278</td>
<td>162.02</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Differences are significant when p is less than 0.05.

Results in Table 12 consequently confirm that participants who are employees significantly have higher OI level comparing to others (executives, mid-level managers and junior administrative officers). On the other hand, detailed analysis also posits out that OI levels of executives, mid-level managers and junior administrative officers are similar to each other. Thus, another important finding of this study is that OI level shows similarity at managerial positions, while it is different comparing to employees.

Table 12: The Resource of Differences about OI perceptions According to Position

<table>
<thead>
<tr>
<th>Position</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
<th>Mann-Whitney U</th>
<th>Wilcoxon W</th>
<th>Z</th>
<th>p</th>
<th>r</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>5</td>
<td>239.20</td>
<td>1196.00</td>
<td>209,000</td>
<td>38990,00</td>
<td>-2.686</td>
<td>0.00</td>
<td>0.1</td>
</tr>
<tr>
<td>Employee</td>
<td>278</td>
<td>140.25</td>
<td>38990.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mid-level manager</td>
<td>14</td>
<td>192.46</td>
<td>2694.50</td>
<td>1302,500</td>
<td>40083,500</td>
<td>-2.093</td>
<td>0.03</td>
<td>0.1</td>
</tr>
<tr>
<td>Employee</td>
<td>278</td>
<td>144.19</td>
<td>40083,50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior administrative officer</td>
<td>30</td>
<td>200.63</td>
<td>6019.00</td>
<td>2786,000</td>
<td>41567,00</td>
<td>-2.994</td>
<td>0.00</td>
<td>0.1</td>
</tr>
<tr>
<td>Employee</td>
<td>278</td>
<td>149.52</td>
<td>41567.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Differences are significant when p is less than 0.05, \( r = \frac{z}{\sqrt{n}} \).

**Conclusion**

This study which is conducted 5 star hotels in Antalya pointed out that TL behaviours exhibited by hotel managers as leaders are important predictor at increasing OI level. Thus \( H_1 \): There is a significant
relationship between TL behaviours and OI and H$_2$: TL behaviours significantly-positively affect OI of employees’ hypothesis are accepted. Furthermore it is observed that high performance expectation and identifying/articulating a vision behaviours of managers are the most important sub factors to enhance OI. And, some demographic variables such as gender, age group and position are also important determiner of OI level. Although this study reveals that gender of participants effect perceptions about TL behaviours while other demographic variables were not found significant.

When the results obtained through this study compared with the literature, it is seen that similar results with the similar researches have been obtained. First of all, it is stated by the authors of many other studies (van Knippenberg et al, 2004; Epitropaki and Martin, 2005, Walumbw et al. 2008; Wang Rode, 2010; Lui et al. 2010) that a relationship between TL and OI exists. For instance, Epitropaki and Martin (2005) states that transformational leaders through empowerment trust building, and genuine consideration for employee needs, are likely to create organizational identity. The authors also indicate that TL on identification is crucial in the case of employees who tend to have a listless or negative perspective towards organizational phenomena. In their study in the banking sector, Walumbw et al (2008) identified a strong correlation between TL and OI in terms of business unit and personal competence. Wang ve Rode (2010) have found in their study investigating TL and creativity of followers that identification with leader, TL and innovative climate affects followers’ creativity positively.

In the same research, it is found that although environmental factors eliminate certain leadership behaviors in some cases where followers not identified to their leaders exist, in other cases where leader-follower identification is high, innovative climate increase the effects of TL behaviour on employee’s creativity. Lui et al (2010) have found in their study, investigating employee’s voice, employee identification and TL relationship, that there is a direct positive impact of TL on employees’ extra-role behaviour. According to the results of the research TL is more affective on personal identification rather than social identification.

Another important result of the study is that transformational leaders in hotel enterprises affects the level of organisational identification. It is determined that high performance expectations and vision determination behaviours are important on this effectiveness. Shamir, et al. (1993) suggested that transformational leaders effect OI via enhancing followers perception of self efficacy by articulating positive vision and communicating high performance expectations (cited, Walumbw et al. 2008). Işcan (2006) also found that transformational leaders increase the identification through integrating followers within the framework of organizational vision and mission. In the study, it is identified that the role model behaviours of transformational leaders affect the level of identification in a negative manner. This finding indicates similarity with the results of Wang and Rode’s (2010) study which shows that the effectiveness of leader’s behaviours decreases in cases where leader follower identification is lower, in other words leader’s behaviours are substituted.

This study assessing the TL and OI relationship from the hotel enterprises perspective contains several limitations. Primarily due to lack of adequate studies in the related field, intra-industry comparison of the results obtained could not be made. Because the study sample is limited to 432 employees, it does not let researchers to generalize the results of this study. Collection of data only through questionnaires has caused to fail to obtain relevant specific information. In this context, researchers in the future have to conduct studies which assess hotel enterprises in more detail, use qualitative and quantitative methods together, make comparative studies comprising different periods of time. As leadership and OI correlation is affected by different determinants (organizational climate, personal competence, organizational culture, etc..), qualified studies should be introduced by employing multi-dimensional modeling.

References


The Impact of Digital Advertising on Consumer Purchase Decisions

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Abstract

Today, companies and brands use different media channels and different offers to consumers to promote their products and services, to differentiate from their competitors and to increase their purchasing preference. Technological developments create new mediums that consumers get different and various information. Before consumers buy the products and services, they can view the product reviews, they can make price and feature comparison between products through the online environment and they can able to choose accordingly these. Today, digital advertising is one of the current, rapid and remarkable method that create to purchase desire as a result of the different and various offers through ads. The main purpose of this study is to examine consumer attitudes towards digital ads that is rapidly advancing in today’s world of advertising and to investigate the factors which effect consumers by digital ads. The data were collected through an online questionnaire with a sample 478 people and SPSS used for the evaluation of the data.

Keywords: Digital advertising, Consumer attitudes, Purchase decision.

Introduction

The rapid and widespread expansion usage of internet and social media has changed the company insights, brand communication and consumer purchasing reactions. New advertising formats affect consumer responses and play role on purchase decisions. In today’s consumption world, more and more consumers getting information and other requirements online and begin to realize their needs more quickly through internet. New technological developments create new delivery platforms to both marketers and advertisers. In parallel with technological changes digital advertising has grown rapidly throughout the years as it is virtually used in all sectors.

Digital advertising is a effective way to deliver promotional customized offerings and relevant marketing messages to targeted consumers. Digital advertising play an important role to effect consumer preferences, build a positive consumer attitude and influence their purchase decisions about the products/services offered in advertisements. Digital ads are increasingly appealing marketing communication tools to reach targeted consumers in different ways and in different locations. Digital advertising not only include search or display advertisements, but also any type of marketing communication that executed with the use of web, social media and/or mobile technology (Takemura,2012). Advertisements play a major role in changing the behavior and attitude of consumers towards the products shown in the advertisements.

The advertisements not only change the way of product is consumed by user but alter the attitude with which they look at the product. Consumer attitude and behavior hugely influenced by advertisements. Purchase attitude and behavior is influenced by variety of advertisements which cover product evaluation and brand recognition (Rai,2013). As the advertising format landscape continues to change, marketers and advertisers must gain insights into what types of advertising work better to reach and gain consumers.

Digital Advertising Concept

Digital advertising is a form of promotion that uses the internet for the expressed purpose of delivering marketing messages to attract customers (Kim, Park, et al., 2012). According to Miller (2012) digital advertising has various kinds with various technologies. Digital advertising can contain video, animation and audio and is at least as compelling as television ads. Today as consumers use digital tools and networks...
more than before, digital advertising is the most suitable way to reach and effect them. Digital advertising has distinguishing features and advantages: (Gao, Sheng et all, 2013).

- Digital advertisements provide dual communication between advertisers and users that makes these advertisements more effective.
- Digital advertising supplies a direct connection to products.
- To promote both static and dynamic advertisement choice, representation and display, digital advertisers can use to customer targeting methods.
- The other distinctive feature of digital advertisements is related to globally accessible and available in 24/7/365.
- Digital advertisements can be easily transmitted, exhibited, preserved and modernized because of their online nature.
- Digital advertisements are extremely monitorable and evaluable.

Types of Digital Advertising

In today’s digital environment, digital advertising formats rapidly emerging and target consumers in different ways. Although digital ads have many different types, the most basic and common five of them discussed here.

Banner Advertising

Banner is an advertising type on www, delivered by an ad server. Banners entail embedding an advertisement into a web page. The aim of the banners are to attract traffic to a website by linking to the website of the advertiser. There are different kinds of banner applications and their occurrence can be different from static, animated and interactive. Banners differ in that the results for advertisement campaigns may be monitored real-time and may be targeted to the viewer's interests. Banner ads offer several advantages. They are often less expensive than traditional forms of advertising. Second, when a consumer clicks on the ad, the consumer’s web browser goes directly to the advertiser’s web pages where a variety of products and services may be presented (Li & Bukovac, 1999). According to some researches (Briggs & Hollis, 1997; Luo, Cook, & Karson, 2011), banner advertising types create brand awareness. Drèze and Husssherr (2003) report that while click-through rates (the percentage of times an ad was clicked upon divided by the percentage of times the ad was shown) are low and consumers often avoid looking directly at banner ads, ads still have effects on brand awareness and brand recognition. Briggs and Hollis (1997) stated that exposure to banner ads for clothing increases the appeal of the clothing brand as well as its perceived value. Consumers also report that they are more likely to look for the brand when they shop for type of product next time. These studies suggest that banner ads may affect consumer attitudes. (Flores, Chen & Ross, 2014).

E-Mail Marketing

E-mail marketing messages are delivered using a range of approaches – such as web page in the mail box, product catalog, and newsletter – and depending on the chosen format, the e-retailer may elect to include a broad range of interactive features and hyperlinks in order to sustain prospective customers’ attention. Developing sustained attention or "engagement" with an e-mail message, personalization, interactive features, and hyperlinks to web pages seem to be the most effective tactics. Comparatively, the verbal text, especially the body copy, seems to be less important for e-mail marketers who choose to adopt a catalog approach, where body-copy text is often reduced to a brief description of each product. Personalization also influences the style and layout of e-mail marketing messages. Some retailers design short, snappy, anonymous promotional messages designed to elicit an immediate response, whereas others develop long, complex, sender-identified messages aimed at engaging the prospective customer in a more involving interaction. (Chadwick & Doherty: 2012). Contact and protect closer relationships with consumers, e-mail marketing is a substantial tool of marketing communication. Companies deliver any knowledge about to their services, newscasts and proposals to existing and potential customers quickly and gather consumer information on new product development process (Chaffey et al., 2003,Pavlov 2008).

Social Media Advertising

Social media have become a major factor in influencing various aspects of consumer behavior including awareness, information acquisition, opinions, attitudes, purchase behavior, and post-purchase
communication and evaluation. Consumers are more likely to buy something that is recommended to them, rather than when it is marketed to them; this is even more likely when the recommendation comes from someone that they trust. While the economy has changed the way consumers shop, and how they spend, what has not changed is that consumers trust the opinions of friends and family, as well as people they do not know, usually more than anything the retailer has to say about the company or their products. The challenge for retailers is to identify how this digital word of mouth influences, as well as who the influencers are (Kunz, Hackworth & Osborne, 2011).

Social networks have become a new place for online advertising. Businesses can lead to greater recognition with products and brands of network user and with the acquaintances advice by applying more than viral marketing (Zuckerberg, 2007, Hensel and Deins, 2010). The rise in social media advertising, marketers establish more intimate relationships with their customers. Many social networking sites give consumers the ability to personalize their preferences and information, thus segmenting consumers for marketers. Social Media allow companies to engage in timely and direct end-consumer contact at relatively low cost and higher levels of efficiency than can be achieved with more traditional communication tools. This makes social media not only relevant for large multinational firms, but also for small and medium sized companies (Kaplan & Haenlein, 2010). Companies are leveraging social media not only for digital advertising and promotions, but also to handle customer service issues, innovation ideas, and engage with customers. There is considerable diversity across the types of social media, which compasses formats such as blogs, social networking sites and content communities. User-generated content is an important means through which consumers express themselves and communicate with others online; it is what is produced in the moment of being social, as well as the object around which sociality occurs. User-generated content takes on many different forms, such as Twitter tweets, Facebook status updates, and videos on YouTube, as well as consumer-produced product reviews and advertisements. Importantly for marketers, much user-generated content across various media is brand-related and has the potential to shape consumer brand perceptions. Better understanding these differences is potentially important for marketers who are concerned with the co-creation of their brands in different social media platforms (Smith, Fischer & Yongjian, 2012).

**Mobile Advertising**

The rapid expansion of the use of all kinds of mobile devices, developments in mobile technology and increase in mobile penetration have created new delivery platforms to both marketers and advertisers. Consumer adoption of digital mobile telecommunications has in most countries been even faster than that of the Internet. New mobile applications and services linked to mobile phones, such as multimedia messaging (MMS), games, music, and digital photography, have emerged and are already being used by marketers. As the popularity of mobile devices increases, Short Messaging Service (SMS) has become more important to access potential customers. SMS messages were the dominant format of mobile messaging (MMS), games, music, and digital photography, have emerged and are already being used by marketers. As the popularity of mobile devices increases, Short Messaging Service (SMS) has become more important to access potential customers. SMS messages were the dominant format of mobile marketing communication. The main disadvantage of SMS is its 160-character text-only format, while MMS messages can include pictures or video clips. Nevertheless, both SMS and MMS channels can have positive effects on consumers’ brand relationships. Since mobile phones are very personal devices, mobile advertising can often be regarded as intrusive, although relevance and added value (e.g., discounts or special offers) can increase consumer acceptance. Consumers carry their mobile phones almost everywhere, which creates new opportunities for marketers. This can be useful to both marketers and consumers. It has been suggested that when using mobile services or receiving mobile advertising messages, consumers perceive value in relation to the utilization of time and place. For example, with location-based mobile services, the location of a single consumer at a given time can be identified and mobile advertising made contextually valid can provide more value for the consumer (Merisavo et al., 2007, Bauer et al., 2005).

The high penetration rate of mobile phones has resulted in the increasing use of mobile devices to deliver advertisements for products and services. Mobile advertising is the transmission of a message related to products, services and opinions for promotional purposes via mobile devices (Li and Brian, 2007, Yang, 2007). Mobile advertising is interactive and can be used to target an individual. Since the mobile phone is a very personal device that allows an individual to be assessed virtually any time and anywhere, mobile advertising must be more personalized and may take different forms. Based on different strategic applications, wireless marketing can be permission-based, incentive-based, or location-based. Permission-based advertising differs from traditional advertising in that messages about specific products, services, or
content are sent only to individuals who have explicitly indicated their willingness to receive the message. Consumers often impatiently ignore the message when interrupted by an advertisement. Incentive-based advertising provides specific financial rewards to individuals who agree to receive promotions and campaigns (Chowdhury, et al, 2006, Tsang, Ho & Liang, 2004).

Driven by the ongoing evolution in mobile technologies and the high penetration rate of mobile handhelds, the popularity and importance of mobile advertising has increased rapidly. Mobile advertising is unique in terms of establishing direct, pervasive, and individualized links with customers due to several inherent characteristics of mobile handsets such as being “exceptionally personal,” “always on,” “always connected,” and “always with the user”. Its relative novelty, unique features, and growing business potential have made mobile advertising a stimulating area of interest for both practitioners and researchers. (Varnalı, et al, 2012)

Advergaming

Branded entertainment is becoming more popular as the effectiveness of traditional advertising formats declines. Advergames are, digital games specifically designed to function as advertisements to promote brands, service or products through entertainment. Advergaming is defined as, the use of interactive gaming technology to deliver embedded advertising messages to consumers (Cauberghe&Pelsmacker, 2010, Chen & Ringel, 2001). Advergaming is a branded entertainment and includes both featuring brand in the gaming environment and creating more elaborate virtual experiences with that brand (Wallace & Robbins, 2006). Most advergames, specifically designed to promote a company’s brand or products, are created with fun as the main objective to build consumer relationships with the game and the brand. Researches on advergames have found an overall positive influence of playing the game on brand attitudes (Waiguny, Nelson &Marko, 2013). Industry experts call the online advergames a form of “immersive advertising” and they are becoming more prevalent as broadband access becomes more accessible. These interactive brand-centered games reinforce a brand image and can be tailored to the needs and capabilities of different target markets, such as by age and gender (Mallinckrodt & Mizerski, 2007). Firms take advantage of the advergames, which are usually created customized, for the unique aim of promoting their brands and they are also reached via their corporate or brand websites brand. Game context captivates and keeps customers and for that reason positive relations and feelings earned from game play should transfer to the sponsored brand (Okazaki and Yagüe, 2012). When compared to other web types, games are less irritating that is why customers undertake them for entertainment, social gathering, social relationship and relaxation.

Methodology

Measures

The variables for measuring the digital ads attitude used in the survey were collected from similar, previous researches and developed according to aim of this research. Respondents were measured on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). To measure attitudes about digital ads, a 22 item scale was adapted from prior studies (Brackett & Carr, 2001; Ducoffe, 1996, Elliot & Speck, 2005, Yang 2004, Mehta,2000). The scale consisted of different items for digital ads including informativeness, annoyance, customization and motivator. Informativeness was defined as the ability to provide necessary information to target customers, help online customers to make better decisions. Items for measuring informativeness were adapted from previous studies (Ducoffe, 1996, Elliot & Speck, 2005, Ranganathan & Ganapathy 2002). Annoyance is another variable which influences attitudes towards online advertising and items for measuring annoyance were adapted from previous studies (Burns&Luts,2006, Ducoffe, 1996). Customization items were adapted from the scales developed by Xu,2006.

The following hypotheses developed:

H1: There is a significant difference between consumer's gender and attitude toward digital ads.

H1a: There is a significant relationship between age and attitude toward digital ads.

H1b: There is a significant relationship between income and attitude toward digital ads.

H2: Attitudes towards digital ads have an impact on consumers' purchase decisions.
Data Collection and Sample

The research data were collected through an online questionnaire with a sample 478 people. A survey method was used to collect data for this study. Total 22 variables were measured by questionnaire. In the first part of the survey, the respondents were asked about the factors about digital ads and their reactions on purchase decisions. In the second part of the survey, the respondents were asked about their demographics and other personal information. First a pilot test was conducted with 60 questionnaires to pretest the questionnaire. SPSS software was used for the evaluation of the data for the research.

Findings

In order to understand the consumer preferences and effects of consumers’ purchase decisions by digital ads, online surveys was conducted in March 2014. 478 respondents participated in the online survey.

The study was designed to investigate the effects of digital ads. The demographic characteristics were measured in terms of gender, age, education and income level. Table 1 presents the demographic profile of respondents in this study. Out of 478 usable surveys, 53.8% of the sample was female and 46.2% of the sample was male. 43.5% of the sample was between 29-40 years old and more than half of the respondents who answered the survey indicated education as university degree (52.1%). According to the income level distribution, 64% of respondents have monthly income between 1000-4999TL.

Table 1. Demographic Characteristics of the Sample

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENDER</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>221</td>
<td>46.2</td>
</tr>
<tr>
<td>Female</td>
<td>257</td>
<td>53.8</td>
</tr>
<tr>
<td>Total</td>
<td>478</td>
<td>100</td>
</tr>
<tr>
<td>AGE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-28</td>
<td>168</td>
<td>35.2</td>
</tr>
<tr>
<td>29-40</td>
<td>208</td>
<td>43.5</td>
</tr>
<tr>
<td>41 and older</td>
<td>102</td>
<td>21.3</td>
</tr>
<tr>
<td>Total</td>
<td>478</td>
<td>100</td>
</tr>
<tr>
<td>EDUCATION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary School</td>
<td>8</td>
<td>1.7</td>
</tr>
<tr>
<td>High School</td>
<td>177</td>
<td>37.0</td>
</tr>
<tr>
<td>University</td>
<td>249</td>
<td>52.1</td>
</tr>
<tr>
<td>Graduate</td>
<td>44</td>
<td>9.2</td>
</tr>
<tr>
<td>Total</td>
<td>478</td>
<td>100</td>
</tr>
<tr>
<td>INCOME LEVEL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below 999 TL</td>
<td>57</td>
<td>11.9</td>
</tr>
<tr>
<td>1000-2999 TL</td>
<td>157</td>
<td>32.8</td>
</tr>
<tr>
<td>3000-4999 TL</td>
<td>149</td>
<td>31.2</td>
</tr>
<tr>
<td>5,000-6999 TL</td>
<td>74</td>
<td>15.5</td>
</tr>
<tr>
<td>7000 and above</td>
<td>41</td>
<td>8.6</td>
</tr>
<tr>
<td>Total</td>
<td>478</td>
<td>100</td>
</tr>
</tbody>
</table>

In this study, respondents were asked to mention the categories that digital ads prompt to unplanned purchases. The results of the analysis for the top categories of product/service that are purchased by consumers after they got/saw digital ads are different for female and male consumers.

Female consumers stated that they make unplanned purchases mostly for fashion/apparel items, cosmetics and discount coupons. Male consumers stated technological products, food and tickets for sport and entertainment.

Respondents were asked to list the most effective contents that digital ads lead them to make unplanned purchases. These contents are; Real-time offers (34.7%), Price Discounts (28.8%), Location-based
campaigns (19.2%), Customized e-mails and SMS (17.3%).

Table 2. Independent samples t-test for female and male consumers' digital advertising attitude

<table>
<thead>
<tr>
<th></th>
<th>F</th>
<th>Sig.</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean Difference</th>
<th>Std. error difference</th>
<th>95 confidence internal of difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Ads Attitude</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equal variances assumed</td>
<td>.076</td>
<td>.814</td>
<td>2.241</td>
<td>452</td>
<td>.008</td>
<td>.316</td>
<td>.132</td>
<td>.079 - .481</td>
</tr>
</tbody>
</table>

H₁ hypothesis explored whether there is any significant difference between female and male consumers attitude towards digital ads. Independent samples t-test was conducted to compare digital ads attitude of men and women. Levene's test results shows that there are equal variances between the two groups, F=0.076 , sig= 0.814. As shown in Table 2, Sig=0.008 < 0.05 and H₁ hypothesis accepted, there is a significant difference between female and male consumer attitudes towards digital ads. Gender is a significant factor towards digital ads and female consumers are more effected by digital ads than male consumers.

The hypothesis H₁ₐ was proposed a relationship between age and attitude towards digital ads. Correlation analysis results states that (r=0.682, p=0.006<0.05) there is a positive relationship between age and digital age attitude and H₁ₐ accepted. The hypothesis H₁ₐ also accepted, (r=0.577, p=0.00<0.05). All of the two results for H₁ₐ and H₁₈ hypothesis indicates that there is a significant relationship between age and income level and digital ads attitude.

Factor Analysis and Reliability

To determine the independent variables that the factors effecting purchase decisions of the study, factor analysis was used. Factor analysis is used for the validity and cronbach alpha scale is used to estimate the reliability of the scales. Attitude towards digital ads scale Cronbach Alpha value was measured as 0.873. For the scale reliability Cronbach Alpha value (0.873) for the attitudes scale is greater than 0.70, this proved the scale to be reliable. KMO value was determined as 0.819 and significance value (p=0.00) shows that our sample is suitable for the factor analysis. Principal component by varimax rotation performed to figure out the factor structure. Some variables were below 0.50 or are having collinearity with more than one factor. 5 items were removed, rest of the items revealed 4 factors. The factor analysis resulted with 22 items categorized under 4 factors. Respondents' attitudes towards digital ads' features presented in Table 3.

Table 3. Factor Analysis

<table>
<thead>
<tr>
<th>Factor Loads</th>
<th>% of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor 1: Informativeness</td>
<td>21.419</td>
</tr>
<tr>
<td>Digital ads provide updated information</td>
<td>,811</td>
</tr>
<tr>
<td>Digital ads offer time based campaigns</td>
<td>,782</td>
</tr>
<tr>
<td>Digital ads remind sales promotions</td>
<td>,764</td>
</tr>
<tr>
<td>Digital ads offer instant deals</td>
<td>,641</td>
</tr>
<tr>
<td>Recommends new product</td>
<td>,628</td>
</tr>
<tr>
<td>Provides a competitive advantage</td>
<td>,570</td>
</tr>
<tr>
<td>Leads to search on the internet</td>
<td>,563</td>
</tr>
<tr>
<td>Factor 2: Annoyance / Invasive</td>
<td>20.293</td>
</tr>
<tr>
<td>Give unwanted information</td>
<td>,844</td>
</tr>
<tr>
<td>Give information at inconvenient times</td>
<td>,737</td>
</tr>
<tr>
<td>Become irritating</td>
<td>,693</td>
</tr>
<tr>
<td>Distract attention</td>
<td>,674</td>
</tr>
</tbody>
</table>
As shown on Table 3, there are 7 items for Informativeness, 7 items for Annoyance /Invasive, 6 items for Motivator and 2 items for Customization. The factor analysis shows that four factors captured %63,256 of the total variance.

Multiple Linear Regression

In order to determine the most important factors of digital ads in purchase decision, multiple linear regression model constructed. The four independent variables (informativeness, annoyance, motivator, customization) and the dependent variable (purchase decision) were analysed using multiple regression analysis to test the hypothesis H2. The value of is R2 = 0.612 and illustrates that 61 % of the variation of purchase decision is explained by the variation in the independent variables. 3 independent variables (Informativeness, Motivator, Customization) are positively associated with the dependent variable.

Table 4. Multi linear regression results for purchase decisions

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>β</td>
<td>Std.Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>Informativeness</td>
<td>.398</td>
<td>.060</td>
<td>.262</td>
<td>6.258</td>
</tr>
<tr>
<td>Annoyance</td>
<td>.083</td>
<td>.074</td>
<td>.058</td>
<td>0.027</td>
</tr>
<tr>
<td>Motivator</td>
<td>.261</td>
<td>.082</td>
<td>.246</td>
<td>1.379</td>
</tr>
<tr>
<td>Customization</td>
<td>.184</td>
<td>.041</td>
<td>.153</td>
<td>4.522</td>
</tr>
<tr>
<td>R² =0.612</td>
<td>Dependent Variable: Purchase Decision</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As shown in Table 4, according to regression coefficient indicate a significant relationship for only three of four variables. Informativeness, motivator, customization features of digital ads have an impact on consumers’ purchase decisions. Based on overall analysis H2 accepted. (sig=0,000<0,05). A comparison of the values clearly indicates that the factor informativeness has the most influence on purchasing decision, followed by motivator and customization.

Conclusion

Digital advertising is rapidly increasing worldwide. Newspapers and television ads used to be dominant mediums for reaching consumers but now internet and digitalization changes mediums to reach consumers. Digital ads are one of the important information tools for sharing news, informing consumers about new products, services or campaigns. They can reach consumers anytime, anywhere with different contents. Consumers’ beliefs and attitudes toward ads are important indicators of advertising effectiveness.

This purpose of this study is to determine consumers’ evaluation about digital ads. The results of this study show what consumers think about digital ads and the effect of digital ads on consumer purchase decisions.
In this research most of the consumers evaluate digital ads as informative tool, but at the same time they evaluate digital ads annoying and distracting. The demographic variables (age, income, gender) had a significant influence on consumers’ attitude toward digital ads. Especially in comparison to gender differences, female consumers have more positive attitude toward digital ads, they affected by ads and they buy much more products/services after they saw or got digital ads then male consumers.

Limitations

This study and their results have several limitations. The primary limitation of this research is that it aims to explore digital ads as a whole. Further research should focus on each of the digital ads consequences. Also, the factors investigated were limited to informativeness, annoyance, motivator, customization. Future research should be conducted to focus on to examine the other impacts of digital ads, additional measures should be developed.

References


Effects of Corporate Entrepreneurship Orientation on Export Performance: Three Cases from a Traditional Turkish Company

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Abstract

Corporate entrepreneurship strategy has been widely used for gaining and keeping competitive advantages. Entrepreneurs have discovered its power on company performance. They lead their employees by initiating corporate entrepreneurship orientation in their thinking and acting styles. They provide funds to inspire for innovation in team projects for new products and services. Corporate entrepreneurship has several dimensions. This study focuses on autonomy, innovativeness, proactiveness, competitive aggressiveness and risk-taking dimensions of corporate entrepreneurship. Company export performance can be measured by increase in sales volume, sales value, market share, profits, growth, employee and customer satisfaction, and number of newly innovated products included into the current product portfolio. The purpose of this paper is to reveal the effects of corporate entrepreneurship orientation on export performance by presenting three cases from Traditional Turkish Company (TTC) in the food sector. This study has a unique perspective to discuss the corporate entrepreneurship orientation on export performance through the cases in the Turkish food sector.

Keywords: Corporate Entrepreneurship Orientation, Export Performance, Turkish Food Sector

Introduction

Nowadays, companies need to rejuvenate their products and services to survive in a global competition. It is impossible for companies to sustain their competitive advantages due to globalization. Many companies search new regions to gain resources and promote their products. They specialize on products which they have cost advantages to export. They invest in R&D, achieve innovations to gain and sustain a substantial market share. Efforts of entrepreneurs are not having and sustaining global competitive advantages. Thus, entrepreneurs have discovered the power of corporate entrepreneurship. Corporate entrepreneurship can be defined as inspiring employees to think and act entrepreneurially in an established organization to work on innovations to develop new products and services to have competitive advantages.

Companies need to have entrepreneurial orientation to expand into the world and struggle with uncertainty. Nowadays, companies can try to improve their competence by applying differentiation strategy, seeking opportunities for being innovative to find new products, services and markets which are elements of entrepreneurial spirit. Several researches have been conducted on dimensions of entrepreneurial orientation (EO) since 1980s. There are also studies which present the effects of entrepreneurial orientation on company performance. If companies do not have entrepreneurial competence, they can not adapt to change and succeed in innovations to survive.

Corporate Entrepreneurship

According to Cowling (2009: 3), entrepreneurial talent of the population could create social and economic benefits to the society. Gautam and Verma (1997: 2) believe that entrepreneurial stance improves financial and non-financial results such as increasing value of the company, creating value, getting rid of competition, increasing employee motivation and task involvement, retaining the best and the most talented employees by providing opportunities and creating positive organizational culture. Nath (2005: 2) adds that entrepreneurship theory has shifted towards corporate entrepreneurship which boosts entrepreneurial spirit.
in a company. Belousova et al. (2010: 4) state that corporate entrepreneurship is classified into levels based on the literature review such as organizational level, venture level and individual level.

Pinchott (1985) defined intrapreneurship/corporate entrepreneurship as entrepreneurial activity inside the corporation where intrapreneurs will champion ideas from development to complete profitable reality. Vesper (1984) developed three types of corporate venturing: (1) new strategic direction, (2) initiative from below, (3) autonomous business creation. Corporate entrepreneurship caused due to changes, improvements and innovations in the market, weaknesses of traditional management methods, and turnover of innovative-minded employees in bureaucratic organizations (Kuratko and Welsch, 1994: 357-358)

There are several definitions for corporate entrepreneurship (Nath, 2005: 2):

- Schollhammer (1982) states that new product developments, product improvements, new methods or procedures are key elements for internal entrepreneurship.
- Burgelman (1983) believes that it is the process which is used by companies for development. It requires new resource combinations related with competence and corresponding opportunity set.
- Schendel (1990) states that new businesses and transformation on the current business is a clue for corporate entrepreneurship.
- Guth and Ginsberg (1990) classify the term in two definitions: (1) the new business development; (2) the transformation of the organization.
- Covin and Slevin (1991) refer that the company’s ability to compete to corresponding oppotunity via inner and new resource combination is a proof for corporate entrepreneurship.
- Zahra (1991) considers corporate entrepreneurship as the sum of a company’s innovation by introducing products, production processes and organisational systems.
- Chung and Gibbons (1997) state that it is an organisational process for transforming ideas into collective actions through management of uncertainties.

Since 1980s, several authors have discussed the importance of corporate entrepreneurship (Schollhammer, 1982; Miller and Friesen, 1983; Rule and Irwin, 1988; Kuratko, Montagno, Hornsby, 1990; Guth and Ginsberg, 1990; Covin and Slevin, 1991; Zahra, 1993; Stopford and Baden-Fuller, 1994; Covin and Miles, 1999; Antoncic, 2000; Antoncic and Hisrich, 2001, 2003; Morris and Kuratko, 2002).

Entrepreneurial orientation profiles of companies show that product innovativeness dimensions can be the sign of different performance potentials. It may determine company’s adaptation to global competition. Product innovation is one of the aspect of entrepreneurial orientation. Miller and Friesen (1982) believe that entrepreneurial companies innovate regularly while they are taking risks in their product market strategies (Avlonitis and Salavoub, 2007: 566-568). Drucker (1993: 60) believes that organizations have to create the new products. They have to improve everything they do continously, learn innovating and develop new applications from their success. They have to learn that innovation can be a systematic process.

**Dimensions of Corporate Entrepreneurial Orientation**

First, entrepreneurial orientation (EO) was defined by Miller (1983). Then, the definition was augmented by Covin and Slevin (1989) and Lumpkin and Dess (1996). EO refers to the strategy-making practices which are used by companies to identify and launch corporate ventures. Miller (1983) explained that an entrepreneurial company “engages in product-market innovation, undertakes somewhat risky ventures and is first to come up with ‘proactive’ innovations, beating competitors to the punch”. He was describing the innovativeness, risk-taking, and proactiveness dimensions of EO respectively. Lumpkin and Dess (1996) suggested competitive aggressiveness and autonomy dimensions for EO. These dimensions can be summarized as follows (Dess and Lumpkin, 2005: 148):

- **Autonomy** is independent action of an individual or team to bring forth a business concept or vision and carry it through to completion.
• **Innovativeness** is willingness to introduce newness and novelty through experimentation and creative processes to develop new products, services, and processes.

• **Proactiveness** is forward-looking perspective characteristic of a marketplace leader which has foresight to seize opportunities to anticipate future demand.

• **Competitive aggressiveness** is an intense effort to outperform rivals of the industry. It can be a combative posture or an aggressive response to improve position or overcome a threat in a competitive marketplace.

• **Risk-taking** is making decisions and taking action without knowledge of probable outcomes. It may require making substantial resource commitments in the venturing process.

According to Drucker, innovation is a change that creates a new performance dimension due to being entrepreneurial tool. He mentions the following sources of innovative opportunity: (1) unexpected events; (2) incongruities between the expected and the actual; (3) new process requirements; (4) unanticipated changes in industry or market structure; (5) demographic changes; (6) changes in perception, mood, or meaning; (7) new knowledge (Morland, 1985; 2). Dess and Lumpkin (2005) discuss the role of EO to stimulate corporate entrepreneurship. They focus on autonomy, innovativeness, proactiveness, competitive aggressiveness and risk-taking dimensions of corporate entrepreneurship. They reveal that companies which apply corporate entrepreneurship strategy can pursue growth through new venture opportunities and strategic renewal. They can gain and sustain sustainable competitive advantages and above-average returns.

Ripollés-Meliá, Menguzzato-Boulard and Sánchez-Peinado (2007: 65) focused on innovation, proactiveness, competitive aggressiveness and risk taking dimensions of entrepreneurial orientation to determine its effects on internationalization. Ağca, Topal, Kaya (2012) conducted a study to figure out the effects of corporate entrepreneurship on company performance. They considered innovativeness, new business venturing, self-renewal, risk taking, and proactiveness as dimensions of corporate entrepreneurship.

<p>| Table 1. Recent Studies Searching Effects of Corporate Entrepreneurial Orientation (EO) on Company Performance |</p>
<table>
<thead>
<tr>
<th>Authors</th>
<th>EO Dimensions</th>
<th>Performance Dimensions</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colton et al. (2010)</td>
<td>Covin and Slevin (1989)</td>
<td>Revenue Growth, performance against objective</td>
<td>E-commerce retail</td>
</tr>
<tr>
<td>Du et al. (2010)</td>
<td>Proactiveness</td>
<td>Sales Growth, Market Share Growth, Profit Growth</td>
<td>SMEs</td>
</tr>
<tr>
<td>Helm et al. (2010)</td>
<td>Risk Taking Propensity, Proactiveness</td>
<td>Subjective Indicators Reflecting Sales Growth, Cash Flow, Profitability</td>
<td>Spin-offs</td>
</tr>
<tr>
<td>Fis &amp; Cetindamar (2009)</td>
<td>Covin and Slevin (1989)</td>
<td>Growth, Profitability</td>
<td>Heterogeneous</td>
</tr>
<tr>
<td>Li (2009)</td>
<td>Lumpkin and Dess (1996)</td>
<td>Satisfaction with Efficiency, Growth, Profitability</td>
<td>Heterogeneous</td>
</tr>
</tbody>
</table>


**Effects of Corporate Entrepreneurship on Export Performance**

Export performance of companies can be evaluated based on increase in sales volume, sales value, market share, profits, growth, employee and customer satisfaction, and number of newly innovated products or services included into their product or service portfolio.

Robertson and Chetty (2000) conducted a research to determine the effects of corporate entrepreneurship on export performance. Guan and Ma (2003) conducted a research to find out effects of innovation capability on export performance of Chinese companies. They determined learning, R&D, manufacturing, marketing, organizational factors, resource allocation and strategy planning as dimensions of innovation capability whereas market share, size and productivity growth rate as dimensions of export performance. Zahra and Garvis (2000) conducted a study to find out the effects of international corporate entrepreneurship on corporate performance. They focused on profitability and growth in foreign markets as corporate performance indicators. Mostafa, Wheeler, and Jones (2005) conducted a study to figure out effects of entrepreneurial orientation on export performance of SMEs. They found out that show all 3 companies with high entrepreneurial orientation have better export performance than firms with low entrepreneurial orientation. Kropp, Lindsay and Shoham (2006) conducted a study to examine interrelationships between entrepreneurial, market, and learning orientations, and international entrepreneurial business venture (IEBV) performance. They found out that IEBV performance is positively related to the innovativeness component of an entrepreneurial orientation, a market orientation, and a learning orientation. Okpara and Kabongo (2009: 34) conducted a research on Nigerian SMEs. They found out that high entrepreneurial orientation companies were more engaged in the export market than low entrepreneurial orientation companies. They added that companies which adopted proactive orientation achieved higher performance, profitability, and growth than companies which adopted a conservative orientation.

Ağca, Topal, Kaya (2012) focused on profitability, growth, customer and employee satisfaction as company performance dimensions in their study which tried to determine effects of corporate entrepreneurship on company performance. According to Antoncic and Scarlat (2005: 72) growth and profitability are performance consequences of corporate entrepreneurship. According to a study conducted on 155 Spanish companies, entrepreneurial orientation positively influences a company’s propensity to internationalize its activities. The findings confirm that fast entry into foreign markets is positively related to the development of an entrepreneurial orientation in established companies which have higher relative international sales and operate in a greater number of foreign countries (Ripollés-Meliá, Menguzzato-Boulard, & Sánchez-Peinado, 2007: 65). Raymond (2003) developed the following framework which inspired authors to analyze three cases in this paper. First of all, entrepreneurial environment and strategic environment affect organizational development in this model. Then, organizational development cause performance in terms of profitability, productivity and growth.

![Figure 1. Research Model of SME Development](image-url)

Source: The research model was revised by authors.

Three Cases from a Traditional Turkish Company (TTC)

The Traditional Turkish Company (TTC) was founded by a chemist in 1956 to provide products to Turkish Chemical Industry. The company’s early mission was producing the first products in Turkey such as the first thinner, scale resolvent, cleanser, epoxy type adhesive and flavoured powder instant drink. The main reason to conduct R&D on powder instant drink, especially Apple Tea, was to provide an alternative, cheap, easy-to-carry product which would substitute Coca-Cola which was a popular and expensive drink at that time. The brand became very popular in Turkey. Also, it became a well known brand in several countries especially with its Apple Tea via exports. The Apple Tea was believed to be a traditional Turkish drink after Turkish coffee. TTC operates in Turkish food industry with several products such as powdered soup, bullion cube, pudding and whipped cream. It has started corporate entrepreneurship activities due to most of its products have reached to the maturity stage in their product life cycle. The current owner of the company works a general manager of the organization. He tries to inspire employees for corporate entrepreneurship activities by leading them as an entrepreneurial role model, providing opportunities to explore different products and niche markets, providing resources to conduct R&D for promising products, and forming teams to consider each product and market as a project helping the company rejuvenate.

Hot drink market has grown in the World between 2007-2012. Tea has substantial and growing market share in this market. However, Turkish tea market is growing in a declining rate (5%) in 2013. Fruit/herbal tea is one of the most dynamic sub segment in this segment. Commercially packaged and branded fruit/herbal tea sales are expected to increase. Supermarkets have become popular distribution channel. Changing lifestyles of Turkish customers, increasing young population, urbanisation, health and wellness consciousness are expected stimulate growth of fruit/herbal tea sub segment. (http://webcache.googleusercontent.com/search?q=cache:dgfeYxzLzOkJ:www.marketresearchworld.net/index2.php%3Fpoption%3Dcom_content%26id%3D1%26id%3D208+%&cd=1&hl=tr&ct=clnk&gl=tr, Retrieval Date: 7/1/2014; http://www.euromonitor.com/tea-in-turkey/report, Retrieval Date: 7/1/2014; http://www.companiesandmarkets.com/MarketInsight/Food-and-Drink/Global-Hot-Drinks-Market/N17908, Retrieval Date: 7/1/2014; http://go.euromonitor.com/rs/euromonitorinternational/images/Updated-%20Top%20Industry%20Trends%20in%20Turkey.pdf?mkt_tok=3RkMMJWW9F9wsoRqlqXfZKXonjHpsxX6uQuXKag3431UFwcdcjKPmjr1YEHT8J0aPQAgobGp5I5FESAxy169rt61MUg%3D%3D, Retrieval Date: 7/1/2014)

First Case: Australian Tea Chain (ATC)

The leading Australian Tea Chain (ATC) is in Australian market more than 18 years with a retail network of 50 outlets. It has stores in UK and USA. It offers Australia's largest range of loose leaf tea, herbal tisanes and amazing tea wares. It supplies them from China, England, Holland etc. Styles of their packaging and presentation are based on fancy and elegant details. Design and colors of their packages are unique. ATC has grown fast in premium tea market and had 57 million USD sales revenue in the 12 month period ending June 30, 2013. ATC applied TTC company to purchase apple tea in 2006. According to the market research, they found out TTC was the founder of the apple tea in Turkish market. The general manager of TTC evaluated the demand of ATC. First of all, the requested product was in the standard product portfolio. The production capacity was available. The requested batch could be produced in 3 hours including the packaging. Thus, there was no considerable risk to start exporting at the beginning. Yearly export sales volume of TTC to Australian Market is presented in Table 2.

<table>
<thead>
<tr>
<th>YEARS</th>
<th>SALES VOLUME (BOXES)</th>
</tr>
</thead>
<tbody>
<tr>
<td>07/2010</td>
<td>952</td>
</tr>
<tr>
<td>07/2011</td>
<td>2,799</td>
</tr>
<tr>
<td>07/2012</td>
<td>4,694</td>
</tr>
</tbody>
</table>
ATC requested TTC to handle final packaging due to increasing labor cost in Australia. It expected TTC to import cardboard boxes to put apple tea sachets and export as final products to Australia. ATC also asked for more products to be exported. The general manager and production manager of TTC hesitated to accept this request due to the following reasons:

- New packaging required to add an import operation to the current business. Orange cardboard boxes should be imported from another country.
- New packaging required trained production team who will follow the procedures and guidance to fill the boxes for shelf presentation by protecting its elegancy. This process would increase labor costs.
- TTC needed to increase production capacity due to increased amount of production request of ATC.

TTC’s main concern was ATC’s growing market share in Australian market. If their cooperation continue, TTC can explore Australian market and increase its sales steadily. The entrepreneurial orientation of the general manager would lead TTC can accelerate its growth with export operations. TTC could get involve this export operation by:

- Hiring a new import expert who can handle import procedures and operations
- Develop and train a production team for final packaging
- New packaging machinery investment can be made for meeting the demand of ATC. Modern packages can be provided for export operations.

ATC was acquired by Unilever in 2014. This acquisition could provide different opportunities and bigger market to TTC for growth. Since the beginning of 2014, TTC has been providing products to US market due to reference of its current cooperation with ATC. TTC expects 30% increase in sales volume to ATC for next year and hopes to continue the cooperation. This expected sales growth can increase TTC’s total exports 8%, productivity 5% and profitability 10%. The following figure summarizes the effects of entrepreneurial orientation of TTC on its export performance:

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Implementation</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Orientation + Environment + Leader + Team + Training</td>
<td>Production Development&lt;br&gt;New Production Team Formation&lt;br&gt;New Market Development&lt;br&gt;Getting Advantage to Global Networks for Global Expansion&lt;br&gt;New Export Operations</td>
<td>5% Productivity Increase&lt;br&gt;8% Export Sales Increase&lt;br&gt;10% Profitability Increase</td>
</tr>
</tbody>
</table>

**Figure 2. Summary of TTC’s Expansion Strategy into Australian Market**

TTC started to conduct R&D and market research to use its learning. It has benefited from this cooperation. TTC improved its production quality, had more trained and skilled labor. It realized that it needed to focus the best quality products for specialization. TTC inspired from packaging styles of ATC and decided to launch a new product line with elegant packages to focus on HORECA market in touristic destinations in both national and international markets. It has widen its vision to focus on the touristic market in order to develop a new distribution channel for its export operations. It has started to apply a differentiation strategy to build and sustain a competitive edge. The new vision and strategy facilitated the sales and profitability growth of the company. These changes accelerated the conditions for the second case.

**Second Case: Specialization on Apple Tea**

TTC have included different types of powder food to its portfolio for many years. Since it started to focus on different products, it couldn’t compete with different brands in apple tea subsegment. After a market
research, TTC found out that all apple tea packages are similar to each other showing a big apple figure on the front side. TTC decided to differentiate its apple tea packages by designing elegant packages with apple tree figure with gilded colors on the front side for getting attention of customers on its unique speciality. It also developed 2 new product lines with new flavors: (1) fruit based flavors from several apple species such as red apple, green apple etc. for individual use; (2) apple flavors with spices such as apple cinnamon, apple ginger, apple peppermint etc. for individual use. TTC targeted HORECA market in touristic destinations in Turkey. The main purpose of this decision is presenting these flavors for acceptance of foreign tourists coming to Turkey to establish new export channels. TTC believed that foreigners might be requesting the same products in their own country when they went back. The new products with attractive packages and flavors have replaced the old ones on the shelves quickly. The company is keeping the record of sales of new product lines to expand abroad by establishing new export operations. The sales of new product lines have reached satisfying levels for TTC to continue export operations. The yearly sales volume of elegant product lines of apple tea is presented in Table 3.

<table>
<thead>
<tr>
<th>YEARS</th>
<th>SALES VOLUME (BOXES)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>403</td>
</tr>
<tr>
<td>2013</td>
<td>1,064</td>
</tr>
<tr>
<td>2014/7</td>
<td>1,477</td>
</tr>
</tbody>
</table>

**Table 3. Yearly Sales Volume of Elegant Product Lines of Apple Tea**

Third Case: New Flavour- Pomegranate Tea

A company from Kuwait requested to purchase Pomegranate Tea from TTC recently. TTC is producing classic apple tea as hot drink and pomegranate tea as cold drink in bulk packages for HORECA market. This request required company to conduct R&D to produce a new formula to be consumed as a hot drink and change its production process from bulk packages to small packages for individual consumption. TTC was achieved to develop a winning formula with an elegant packaging which was ordered aggressively from Kuwait market in a short time. Thus, it decided to form another elegant product line with this product to enrich its elegant product portfolio for HORECA market. This idea has became very successful and shown high sales volumes in HORECA market. The sales volume of pomegranate tea is presented in Table 4.
Table 4. Yearly Sales Volumes of Red Apple, Green Apple and Pomegranate Tea

<table>
<thead>
<tr>
<th>YEARS</th>
<th>RED APPLE TEA SALES VOLUME (BOXES)</th>
<th>GREEN APPLE TEA SALES VOLUME (BOXES)</th>
<th>POMEGRANATE TEA SALES VOLUME (BOXES)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/7</td>
<td>142</td>
<td>144</td>
<td>181</td>
</tr>
</tbody>
</table>

Figure 4. Summary of TTC’s Expansion Strategy into both Kuwait Market and HORECA Market in Touristic Destinations with Pomegranate Tea Product Line

Conclusion

TTC has improved its entrepreneurial orientation by the leading of its owner and team who have entrepreneurial spirit. Although, it is in maturity stage in its life cycle, it is trying to rejuvenate itself by conducting R&D to develop new products and find new nich markets. TTC has a proactive approach to develop and sustain competitive advantages. It is getting the advantage of global networks to develop new products and expand into new global market. The owner works as a general manager and is leading strategies and operations. He tries to transfer his entrepreneurial spirit into his employees by providing training and resources, motivating, delegating, and facilitating. He and his team do not hesitate to take calculated risks if they see a growth opportunity in domestic and global markets. They can focus on R&D for innovation and improvements. They are expanding their visions and conducting flexible operations. Thus, they can succeed and survive in the Turkish food market with a rejuvenated profile with a global competitive edge.

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The Regulatory, Logistical and Economical Impacts of International Ballast Water Policies

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Abstract

It is well established that marine transportation is a vital element in commodities transportation. An important aspect of this transportation is ballast water. The discharge or exchange of ballast water is essential in the unloading of cargo, and has the potential to significantly affect the ecosystem of a port and connected waterway, resulting from the discharge of organisms in the ballast water. This negative impact is a particular concern for freshwater ports, which account for a significant amount of shipping in the United States of America. Recent regulations by the United States Coast Guard address the concerns of ballast water discharge vis-à-vis protection of the freshwater ecosystem. This article reviews legal and practical issues of ballast water transfer, including the treatment of ballast water prior to discharge, and addresses methods of incentivizing attainment of, and exceeding, established regulatory standards.

Keywords: Transportation, Regulations, Ballast water, Logistics, International
Innovative Subjective Evidence-Based Ethnography Applied to Food Consumer’s Behavior: The Case of Wine

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Abstract
Consumers’ behavior in food industry is a key point of investigation for marketing. Widely studied in different manners including the use of videos, the recent technological progresses allow now the use of miniaturized video facilities. This pilot study showed, for consumers shopping wines, how subjective video analysis of consumers’ activity could greatly contribute to refine investigations whereas consecutive interviews of consumers lied on explicitation technique and goal-oriented verbalization. This was illustrated by comparative data analyses of Russian, Belarussian and French consumers shopping wines in Belarus and Russia. This paper highlighted the effective behavior put in light through subjects’ motives analysis. Fundamental differences appeared through subjective analysis whereas this could not be seen through external observations. The findings may be of interest for food producers looking for criteria in order to have the adapted packaging when exporting their products. These results may be of great implication for food marketing in order to adapt the offer in stores.

Keywords: Behavior; Consumer; Food Industry; Video; Wine

Introduction
Consumers’ behavior in food industry is obviously a key point of investigation for marketing. It has been widely studied in different manners including the use of videos and their analysis. If ethnographic approach of the topic is applied since long (see for example Wells & Lo Sciuto, 1966), its combination with the use of video for consumers’ behavior analysis is more recent. Very few examples are available in the literature and most of them concern external views of consumers in their shopping environment (see for example: Heisley & Levy, 1991; W5, 2007) or in restaurant (Wijk & Mojet, 2010) using even surveillance facilities (Popa et al., 2010).

The recent technological progress allowing the use of miniaturized cameras and camcorders helps researchers nowadays to reach a deeper layer of the consumers’ behavior analysis using subjective recordings without disturbance due to heavy and bulky equipment. This was suggested by Belk & Kozinets (2005) and applied by very few researchers in different ways. Basil (2011: 252) described the potential uses of photography and video in observational research, their strengths and weaknesses, highlighting that “marketing researchers may be able to employ images that allow us to reveal aspects of human behavior that we would otherwise miss”. Starr & Fernandez (2007) presented a miniaturized video system applied to the study of consumers’ behavior, but their paper remained at a technical description of the device.

Hui et al. (2013) applied subjective videos analysis to study consumers’ intention in a statistical frame. Few considerations addressed the subjective material of videos. On the contrary, Saarela et al. (2013) combined wireless audiovisual observation technology and verbal analysis protocol to collect information about consumer’s behavior in stores. They could show how qualitative data on extrinsic and intrinsic factors affected consumers’ choices. In the same line the present study investigated consumers’ behavior in their purchasing environment using subjective camera combined to the Subjective Evidence-Based Ethnography (SEBE) approach (Lahlou, 2011) to capture and analyze the subject’s behavior during shopping. More recently, Gobbo (2014) applied the SEBE approach to shoes consuming (videos are available on line: ethnoshoes.com). This allowed him to extract a continuous timeline of action divided in significant phases (orientation, exploration, consideration, involvement).
The present experiments covered comparison of practice of choice of sparkling white wines in a shop in two different countries, Belarus (Gorky) and Russia (Moscow). These conditions were selected because the sponsor of the study wanted to have better understanding of the way consumers could make their choice on the East-European market regarding this kind of products.

They involved three different subjects: Belarusian, Russian and French. This choice was done for behavioral comparison between a subject used to selecting a French wine in France and a subject not used to doing it in East-Europe. The assumption made and leading to this sample of subjects was that the studied product could be suitable by its packaging on the West market according to the West culture but could need adaptation to fit the East market and the East culture.

The study thus addressed the motives and the consecutive actions of different socio-cultures subjects aiming at choosing a given food product on the basis of its packaging in the same environment. The objective was to characterize the resulting behavior and the associated subjective attitude in order to better understand motives and use the findings as a mean to adapt the commercial offer.

**Method**

The selection of the shopping environment was oriented towards medium and big stores in order to know the products offered for consumption regarding the wider clientele, unlike spirituous shops.

In Gorky (Belarus), the store was Ievrohopt (Yakoubovskogo yl.) with a surface area of approximately 300 m². Alcohols were presented side exit of the store with some expensive alcohols in the window locked including sparkling white wines.

In Moscow (Russia), the store was Azbouka (Mira pr.) with a surface of approximately 300 m². The store occupied a particular area on the floor: all in length. Ends were equipped with airlocks for entering, but only one was equipped with cash desks. This one was assumed to be the main entrance. Opposite the main entrance were arranged alcohols in rows: first seen over the main entrance were sparkling white wines to the right hand side and, in front, left hand side of main entrance, champagnes.

The area of these store were comparable to those of West-European ones in big towns, as it can be seen in the fifth arrondissement of Paris in France (e.g. “Monoprix” stores) or in Bloomsbury arrondissement in London in UK (e.g. “Waitrose” stores). In these places as well as in Minsk or Moscow, these stores are surrounded by other shops of grocery type. For example, on a block of 5 x 5 streets in Moscow, there may be more than 10 "groceries" for 2 medium surfaces in the district Mira pr.

The subjects were all graduates at least Bachelor + 5 years, male, French, Russian and Belarusian, between 20 and 45 years. The subjects were individually brought in front of the store and were equipped with the camera. Recording was started just before entering the store. For the Belarussian shop, French and Belarussian subjects took the test. For the Russian shop, the same French subject and a Russian subject took the test.

The equipment operated and the related protocol of analysis for the study were based on the Subjective Evidence-Based Ethnography or SEBE (Lahou, 2011). This method using recordings of the subjects’ activity was shown to be more objective than the method based on interviews or meetings during which the analyst cannot know to what extend the narratives might transform or distort the activity. In addition, the SEBE used subjective videos rather than external videos operating with mini camera which gave more accurate insights of how the subjects acted and thereafter, through interviews, how they made their choice. Le Bellu and co-workers (Le Bellu et al., 2010) demonstrated the efficacy of such method by obtaining a refined description and comprehension of professional gestures in the aim to improve professional training. More recently, Fauquet-Alekhine & Daviet (2014), on the same basis, developed a protocol aiming at detecting and characterizing tacit occupational knowledge through speech and behavior analysis.

The equipment consisted of a pair of glasses with a mini cylindrical camera mounted on the right branch of glasses, connected by cable to a mini camcorder worn on the belt. A lavaliere microphone wired on the camcorder provided audio recording (Fig. 1a & b).

Just before entering the store, the subject received the following prior advice: find a bottle of sparkling white wine, French or resembling a French wine, behave naturally, act as if going to buy such bottle.
When the subject came out of the store, the recording was stopped and the subject was interviewed. Interview of ten minutes consisted for the subject to answer the main following questions completed by additional questions aiming at making the subject to give more descriptive answers to the main questions:

- Did you find what you were looking for?
- On which criteria this opinion?
- How did you perform the task?

Interviews were conducted applying explicitation technique (Vermersch, 1994), a descriptive words implementation of action experienced by the subject. This was undertaken in the frame of a goal-oriented verbalization as done by other researchers (Le Bellu et al., 2010) and used in a previous work. The added value of goal-oriented verbalization was to access motives, goals and sub-goals, and intentions of the subject whilst performing the activity. These motives, goals, sub-goals and intentions shaped the subject’s ways or trajectories chosen to reach the final result according to the Activity Theory (Rubinstein, 1946; Leontiev, 1975; Barabanschikov, 2007).

All the videos (lasting less than 3 min.) of each subject were then analyzed for comparison.

Results & Discussion

All subjects believed having reached the main goal. The criteria for their wine selection are compared in the following for the French and Belarussian subjects. About the Russian subject, information is restricted for commercial purpose and only few features are presented here. These data are derived from interviews with subjects and analysis of subjective videos.

The French subject found a French sparkling white wine in Moscow (import: Vouvray). In Gorky (as well as in Minsk (Belarus) but no comparison was done there), he found bottles that presented themselves as a French wine but were Italian, or of a country probably Eastern Europe but whose origin was difficult in his opinion to establish for someone who does not read Russian: “Baron of Arignac” and “Avenue de Paris”.

The French subject proceeded in moving toward the alcohol rows, found bottles whose form was champagne type, and eliminated all those whose label was Cyrillic or included only a few words in Latin alphabet, and then read the bottle tag to define the content and provenance.

The Belarusian subject did not found any French wine because there was not any but opted for a bottle which the wine name contained the word “Paris”. The Belarusian subject proceeded by elimination of Russian bottles while the Russian subject had many Western European bottles that allowed him to target at the outset the search area.
The French subject had done the same by elimination in Minsk and Gorky, but he was directly oriented in Moscow due to the large offer of Western European bottles.

The Russian subject could choose a bottle of French wine but opted for an Italian.

The three subjects paid attention to the type of cap, but only the French paid attention to the shape of the bottle.

For the Eastern European subjects, the sobriety of the tag appeared important, and the possible recognition of a French word (such as “Paris”) facilitated the orientation of the choice compared to the prior advice.

The question of the price has not been addressed except by the French subject complaining in Moscow of the excessive level of the prices.

French and Belarusian subjects were apparently in the same way when the subjective film of their research was viewed. They even chose the same bottle. But the interview indicated that what motivated their apparently identical behavior was very different. Concerning the subject of Russia, external observations showed he was moving initially as the French subject but then managed differently.

The synopsis of each Belarussian and French subject regarding their general strategy of choice could be summarized as follows, after video analyses and interviews.

For both subjects, from the external observation standpoint:

- Enter the shop.
- Find the aisle of alcohols.
- Stop in front of wine bottles.
- Move to white sparkling wines.
- Check the bottles (without touching) and soon focus on bottles with Latin writings on the tag.
- Take some bottles in the hand (one by one if several) and read the front tag, then backside tag.
- Choose a bottle of wine.

At this step of analysis, one could think that both subjects made their choice the same way. But subjective analysis gave additional elements. The difference between subjects is emphasized with italics in the synopsis.

For the Belarussian subject, from the subjective standpoint:

- Enter the shop.
- Find the aisle of alcohols.
- Stop in front of wine bottles.
- Move to white sparkling wines. Find them due to the specific caps like champagne (sealed by wrapped wire and aluminum foil).
- Read tags on the selves trying to find the provenance of the wines.
- Check the bottles (without touching). Eliminate bottles with Cyrillic writings. Soon focus on bottles with Latin writings on the tag.
- Check color of the wine and presence of bubbles (written somewhere on the tags).
- Take some bottles in the hand (one by one if several) and read the front tag, then backside tag. Look for words recalling France.
- Choose a bottle of wine on the basis of aforementioned features and also with regards to the sobriety of the tag.

The Belarussian subject explained that the main feature for him to identify the kind of wine was the cap. The main feature for him to make the choice was a word recalling France and sobriety of the tag.

For the French subject, from the subjective standpoint:

- Enter the shop.
- Find the aisle of alcohols.
- Stop in front of wine bottles.
- Move to white sparkling wines. Find them due to the specific shape of bottles and caps like champagne.
• Check the bottles (without touching). Eliminate bottles with Cyrillic writings. Soon focus on bottles with Latin writings on the tag.
• Check color of the wine.
• Take some bottles in the hand (one by one if several) and read the front tag, then backside tag. Look for words proving the provenance of France.
• Choose a bottle of wine on the basis of aforementioned features.

The French subject explained that he did not check the presence of bubbles because, in his opinion, such shape of bottle and cap could just be sparkling wine. For the French subject, the main feature for him to identify the kind of wine was the bottle shape. The main feature for him to make the choice was the absence of Cyrillic words combined to words recalling France.

The criteria for their wine selection are summarized for easy comparison in the following table 1.

The comparative analysis showed that for the East-European consumer, the wine producer had to care of the cap and the tag of the bottle. The cap had to present the standards of champagne (sealed by wrapped wire and aluminum foil) and the tag had to look sober with words recalling France. This was more important than the shape of the bottle as for the West-European consumer.

**Concluding Remarks**

This pilot study contributed to show how subjective recordings analyses and associated interviews using explicitation technique and goal-oriented verbalization could give a clear account and a refine description, and therefore understanding, of a consumer’s way purchasing food in a store. This study shows the huge benefit of an in-depth investigation of the subjective dimension of consumption, and the way this can easily be done using subjective cameras.

When investigating the subjective aspect of the consumption through the consumer’s motives that lead the food choice, the analysis reached indeed a deep layer of consumers’ behavior. The proof was done here for wine consumption using weightless video facilities combined with ethnographic observations and interviews through the Subjective Evidence-Based Ethnography approach (Lahou, 2011).

The present study showed that the general structure for the choice of a bottle of wine could be made quite differently from one culture to another.

These results may be of great implication for food marketing when seeking improvement of the offer in stores through packaging.

**Table 1.** Criteria for the selection of wines by subject; data from interviews and video analysis with the subjects

<table>
<thead>
<tr>
<th>Criteria \ Subject</th>
<th>French</th>
<th>Belarussian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shape of the bottle</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Cap sealed by wrapped wire and aluminum foil</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Label in Latin alphabet</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Label not in Cyrillic alphabet</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Name of the French wine</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Word that recalls France</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Bottle/label that reminds a wine of France</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Sobriety of the tag</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Wine color</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Announced presence of bubbles</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
References


Acknowledgements

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Profiling the Turkish Anti-Consumers

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Abstract

Consumption has been a much more popular research topic than non-consumption or anti-consumption in marketing literature for many decades. However anti-consumption have been a rapidly increasing trend in the world promoting a contemporary challenge for governments and international firms. Many people recognize anti-consumption as an alternative lifestyle choice due different reasons. Voluntary simplifiers, political consumers, boycotters, frugal consumers, environmentalists, boycotters are some of the groups who prefer to downshift their consumption because different motives. This study aims to explore the meaning and the definitions of anti-consumerism, along with anti-consumers’ life styles, concerned issues and motivations behind them. In a world conquered by consumer power, it is crucial to explore any possible consumer action. Companies have to be attentive to how consumers may react to a firm’s response to political, social and economic issues. Consumers may become encouraged to overstate their concerns by boycotting the firm. In other words consumers may have an incentive to signal high level of concern by terminating, reducing consumption and even creating negative word-of-mouth about the products of the firm. The discussion of the study also includes a proposal of a research framework (including the variables of social anxiety, consumer confidence index and national happiness index) in profiling the Turkish anti-consumers and its impact on employing these results into emerging, nontraditional and sustainable business models.

Keywords: Anti-Consumption; Green Consumers; Voluntary Simplifiers; Boycott Behavior; Emerging Market

“Simplicity is the ultimate sophistication”
Leonardo da Vinci

Introduction

Throughout marketing literature much research concentrate predominantly on consumption behavior. Since the late 1970s, marketers have been started to discuss the existence of consumer groups who restrict their consumption and who make market decisions for lifestyle, ethical, political and/or ecological reasons. In this century the rising trends such as environment, overconsumption, consumer rights, abuse of developing nations, extensive advertising, unethical production and marketing activities, financial crisis, lowering incomes, reducing consumer confidence index and increasing social interaction available with social media have been major driving forces behind the interest for researching anti-consumption. Fisk (1973) has been one of the first scholars addressing the potential role of consumption reduction in marketing area. The early debates on the subject mainly focused an environmentally oriented stance, taking into account the welfare of society as well as the interests of consumers and shareholders (Peattie & Peattie, 2009).

Contemporary Western oriented consumer culture is materialistic and focuses on the trends to increase consumption. The lack of interest in studying anti-consumption or non-consumption lies in the fact that most 20th century marketing people have focused on the economic returns from customer segments. The anti-consumer groups are ignored because they were regarded as not profitable economically, however, with the recent rising trends their existence is seen as potential threat even for the survival of organizations and brands.

The need to understand anti-consumption movement has recently been recognized, with more research being taken in areas such as sustainable consumption, mindful consumerism and political consumerism. Cherrier (2007) mentions that “in the Journal of Business Research special issue which dedicated to anti-consumption a diversity of researches on consumer rebellion (Dobscha, 1998), consumer resistance

Resistance for consumption is not easy since refusing purchasing products and brands can be emotionally and economically costly in many cultures (Cherrier & Murray, 2007). As Ewen (1988) points out consuming provides comfort, satisfies needs, helps to develop self-image and enables communication with others. The product and brand proliferation also increases the possibility to choose the best one among many alternatives and pursue individual identities. Thus, this study aims to explore the alternative motivations behind anti-consumerism. In the first part of the study different anti-consumer groups will be defined and their motivations will be examined by referring to exiting literature. In the second part possible research model will be introduced and research questions that need to be answered will be discussed.

**Literature Review**

According to Craig Lees (2006) although anti-consumption movement can be traced back to the 18th century, anti-consumers have not formed a monolithic movement. From the beginning of the interest in the field the term anti-consumption research focused on consumers reasons for avoiding a product or a brand. There are several different motivations behind rejecting products, therefore research on anti-consumption behaviors have become widespread and diversified throughout the marketing literature.

In literature, although studies lack the categorization of anti-consumers, Iyer and Muncy (2009) presented a two by two matrix depicting four forms of anti-consumption research (Figure 1).  

<table>
<thead>
<tr>
<th>Object of Anti Consumption</th>
<th>Purpose of Anti-Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>General (all consumption)</td>
<td>Societal Concerns</td>
</tr>
<tr>
<td>Global Impact consumers</td>
<td>Personal Concerns</td>
</tr>
<tr>
<td>Specific (Individual Brands and products)</td>
<td>Market Activists</td>
</tr>
<tr>
<td>Anti-Loyal Consumers</td>
<td></td>
</tr>
</tbody>
</table>

*Figure 1. Iyer and Mucy (2009) Four types of anti-consumers*

In this study depending on the limited studies in the field, different categories of anti-consumers will be elaborated.

**Environmentalists**

The rapid growth and advancements of technology and manufacturing, which begin with the industrial revolution, creates problems over the earth’s natural resources inevitably. Natural resources are either run out or degraded by industries feeding the expanding population. Besides the depletion of natural resources, the manufacturing processes and the wastes that are created by these processes deteriorate and pollute the natural resources such as air, water and soil (Alınaçık, 2009). In the past, it was thought that the natural resources are limitless. Also the undesired consequences of production processes with the environment were not taken into account. Sustainability is an important attitude in today’s world. The existing resources must be transferred to future generations in order to sustain humankind on earth, too (Kotler, 2011).

In the recent years, the consumers are becoming more aware of the environmental degradation. They are trying to be more cautious and alter their lifestyles in order to protect the environment (Alınaçık, 2009). The consumers are searching for more environmentally friendly alternatives and changing in their lifestyles for environmental sustainability. Consumers are more interested in alternative transportation methods such as bicycles or public transports rather than using their cars in order to protect environment. (Polonsky et al., 2010). Polonsky et al. (2010) mention that “More consumers are choosing reusable shopping bags rather than plastic bags. In another example, when replacing electric goods, consumers purchase those that are more energy efficient, thus reducing their contribution to greenhouse gases.”
To attract the attention of the environmentally conscious consumers, the companies must follow environmentally friendly practices. Kotler (2011) says that as time goes, consumers will prefer environmentally conscious companies therefore the companies must respond to the consumers’ demands. “Companies need to make drastic changes in their research-and-development, production, financial, and marketing practices if sustainability is to be achieved” (Kotler, 2011). Funaru and Baranov (2012) assert that “The market success can be achieved in the present context through the companies’ concern to achieve superior performance. These achievements lead to improved company image, with direct economic effects, by using environmentally friendly technologies with reduced material and energy consumption, by reducing costs for depollution.” Kotler (2011) mentions “Major pressure for changing marketing practices may come from consumers themselves. Consumers are the ultimate power brokers. Marketers have viewed consumers as choosing among brands on the basis of functional (Marketing 1.0) and emotional (Marketing 2.0) criteria. But many of today’s consumers are adding a third dimension namely, how the company meets its social responsibilities (Marketing 3.0). Consumers today carry new concerns, doubts, and fears. Will they keep their jobs? Can they save enough for retirement? Will the road traffic get much worse? Will the air get more polluted? Will products be made in ways that are environmentally clean?”

Some companies are following environmental practices for decades, but in the recent years the concepts of “green” and “environmentally friendly” started to show up in the advertisements in order to attract environmentally conscious consumers. In these promotions some of these companies try to hide their undesired environmental profiles and deceive their consumers as if they are eco-friendly. This disinformation strategy is called as Greenwashing. Oxford Dictionary defines the Greenwash as “Disinformation disseminated by an organization so as to present an environmentally responsible public image”. The activists expose these companies to public and motivate the consumers to boycott these companies (Lyon & Maxwell, 2011).

Voluntary Simplifiers

Voluntary simplicity which sometimes has been called as ‘the quiet revolution’ (Elgin, 2000) is a way of life rejecting high consumption, materialistic lifestyles of consumer cultures and affirms downshifting. This approach to simple living pursues the values of economical awareness, material simplicity, self-sufficiency, small scaleness and personal development (Carlson, 2008). Craig-Lees and Hill (2002; cited in Ballantine and Creery, 2010) identify five themes of voluntary simplicity: freedom of choice to lead a simpler life; a reduction in material consumption; access to resources like wealth, education and unique skills which can be traded for a high income; control and personal fulfillment and being driven by values as humanism, self-determination, environmentalism, spirituality and self-development.

The idea of voluntary simplicity was first introduced by Gregg (1936), who was inspired from the great spiritual leaders (Buddha, Moses, Sufis, etc.), many artists, scientists and leaders (Lenin and Gandhi), and defined it as having “singleness of purpose, sincerity and honesty within, as well as avoidance of exterior clutter, or many possessions irrelevant to the chief purpose of life.”

Voluntary simplicity is theoretically important because, unlike other consumer resistance behaviors that target an element of the production, marketing, or consumption process (i.e. brand boycotts), it is a rejection of consumerism en masse (Gopaldas, 2004). Aggregating into a lifestyle of minimal, ecological, and ethical consumption, Gopaldas (2004) stated that “voluntary simplicity has been conceptualized primarily as a lifestyle (Leonard-Barton 1981; Craig-Lees and Hill 2002; Bekin, Carrigan, and Szumig 2005; McDonald et al. 2006; Miller and Gregan-Paxton 2006), but also as a behavioral index (Leonard-Barton 1981), consumer segment (Shama 1981; Huneke 2005), and social movement (Grigsby 2004).”

Etzioni (1998) identified voluntary simplicity as an emergent social trend, and Grigsby (2004) noted that voluntary simplicity had shifted to a cultural movement that had created a group consciousness about the negative aspects of consumerism (Cherrier, 2007).

Frugal Consumers

Merriam-Webster Dictionary defines the frugal as “careful about spending money or using things when you do not need”. Frugality is a way of acting, identified by the customer’s discreet attainments and use of resources attentively in goods and services in order to actualize their longer-term objectives (Lastovicka et al., 2005). The thrifty expenditure of the frugal does not arouse by the torment of spending but due to the gratification of the savings (Rick et al., 2007). The frugal consumption behavior may be relevant for the
people who do not willingly choose frugality due to “security concerns” (Pepper et al., 2009). Lastovicka et al. (2005) also points out that religious, economical and various literatures about frugality propose the behavior as abstention from immediate pleasure in order to reach long-term goals. Religious consumers are more inclined to become frugal consumers. It is considered that they are more attentive and conserving in consumption (Pepper et al., 2010). According to the study conducted by Lastovicka et al. (2005), the frugals are insensitive to social impact, abstemious, unenthusiastic in acquiring, more price sensitive and appraise the value of goods. Besides there is no connection between the frugal behaviors and “being eco-centric”, thus protection of the environment and the earth are unassociated with frugal behavior. An experiment investigating the link between frugality and income level demonstrated that only less frugal can be influenced to consume more. The study points out the fact that the frugal “uses products and services resourcefully”; from being aware of the time spent in shower to consuming leftovers. Goldsmith (2014), discusses that in order to capture the attention of frugal consumers “marketers could create new brands or position existing ones to express frugal virtues and values. Consumers might be persuaded to adopt these brands as meaningful symbols of their wise consumer behavior.”

Political Consumers, Boycott or Buycott

As a way of protesting, boycotts punish the companies for their unfavorable actions, whereas buycotts support the companies that demonstrate favorable behaviors (Neilson, 2010; Copeland, 2014). Both boycotts and buycotts aim to change the behavior of the companies. People may boycott a company due to its disobedience of minimum-wage laws in a country, or may buycott a company that it does not test its products on animals (Copeland 2014). The actions that are originated by political, ethical or ecological reasons are called political consumerism, and these actions include boycotting and buying (Ferrer-Fons et al., 2014). Political consumption is a kind of civil behavior, which targets companies rather than state (Copeland, 2014). According to Stolle (2005), “political consumerism focuses less directly on influencing the governments of democracies and more on changing corporations, international organizations, and general labor and production prices”. Copeland (2014) relates political consumerism with post-materialism. She discusses that post-materialist values tend to increase in the cases of political consumerism while materialist values tend to decrease. Various factors such as demographics, education, political participation, income level, social status, and profession affect the consumers’ likelihood to participate in political consumption. The higher the level is increased in these factors the more likely is the consumers’ consciousness of the goings-on and their participation in political consumption (Ferrer-Fons et al., 2014). The political consumers are expected to be more democratic citizens, too. They give importance to solve political and social problems by boycotting and buying, where the state and laws fail to do so (Baek, 2010). Traditions, habits, morals, conscience and religion in a society also affect people’s decision-making process (Majic, 2013). In the case of gender, women are more participative in boycotts whereas there is not any significant difference between genders in boycotting. The female buycotters are persuaded by their trust in others and males are persuaded by their participation’s significance (Nielsen, 2010). Also according to Sen et al. (2002), “likelihood of participating in a boycott is influenced by their preference for the boycotted product and the availability of the substitutes.”

The roles of social networks are noticeable in Western countries for political consumption promotions, campaigns and awareness created by these channels (Ferrer-Fons et al., 2014). Digital media and social media users are expected to be more participative in boycotts and buycotts (de Zuniga, 2014). Various studies examined the effect of Internet use in political affiliation; Internet increases the participation rates by its swift structure, diverse information availability and ease of access (Boulianne, 2009). People influence and persuade their peers by sharing their opinions, preferences and lifestyles in social media. This information exchange consequently inflames the behavior of people in terms of consumption beyond image created by the mass media (de Zuniga, 2014). The perception about brand may also cause confusions during the boycotts and buycotts. A famous French yoghurt company that is a joint venture with a reputational Turkish Conglomerate is given as an example. Although the company produces all of its products in Turkey with Turkish workforce and Turkish capital, it was the target of boycotters who boycotted France due to a political crisis. Also another Turkish company whose name sound like an Italian
word was boycotted after the political crisis between Turkey and Italy. Both companies published full-page proclamations in order to restrain the boycotters (Balıkcıoğlu et al., 2012).

In 2013 Gezi Protests in Istanbul caused a loss of 10.5% which is the biggest one-day loss in a decade. Protestors enforced a boycott of businesses which closed their doors to protestors seeking refuge from tear gas and water cannon. A study done by Yolbulan Okan (2013) mentioned that the consumer preference for coffee brands changed as a result of these boycotts. In their study 713 people were surveyed and 84 percent of the respondents declared that they were about to change their coffee house preferences depending on the brands’ support for the protestors. Although 85 percent of the respondents mentioned that their primary coffee brand was Starbucks before Gezi Park protests, only 16.8 percent declared that they would continue to buy from Starbucks.

Religion and Anti-Consumption

The religion affects the perspective of consumers about materialistic life. Even some religious practices require refrainment from certain kinds of goods and services; in Islam consumption of pork and in Hinduism consumption of beef is forbidden (Essoo & Dibb, 2004). The religion’s effects on consumption were kept outside of the study area of economics for many years, but recent studies show that its impact on consumption cannot be ignored. (Cukur et al. 2004). Essoo & Dibb (2004) study the effects of religion on consumption, whether religion affects the shopping behavior of Hindus, Muslims and Catholics. According to their research, commitment to a religion affects the behavior of the consumer. At the social level these may affect the clothing preferences of women and facial hairstyles of the man; hence creating a sub community or an identity space. Within this community peers not only influence each other’s opinions but also create a community that directs their consumption behaviors (Karataş & Sandıkçı, 2013). Pace (2012) points out “religions commonly pursue positive human traits and discourage negative tendencies”. The Koran, central religious text of Islam, precisely defines the foods and drinks that are forbidden for consumption. Also in the Hadith, deeds and sayings of Muhammad, “frugality, sharing food with others and taking care of unprivileged members of society” are mentioned (Nicolaou et al., 2009).

Al-Hyari et al. (2012) studies the relationship between religious beliefs and consumer boycotts by searching the reasons beneath the consumer boycotts. Their study confirms that, especially in the Arabic countries, religiosity is an important factor that affects customers’ purchase behaviors and there are also some other factors such as, conspicuous consumption, culture and collectivism. Choi et al. (2009) suggest that as the religiosity increases the collectivist tendencies also increase. The halal concept, which means suitable for use according to Islamic law, is one of the important factors in Islamic consumption; it is pursued by devout in various different sectors from food industry to service sector such as banks, insurance companies and hotels. If you consider the size of the Islamic community, which constitutes the 20% of the world population, of which more than 50 million Muslims reside in Europe, fulfilling the requirements of halal concept seems important (Majic & Kustrak, 2013). Al-Hyari et al. (2012) investigates the attitudes of the consumers toward multinational companies. Due to the drawings of the Prophet Muhammad that are published by a Danish newspaper, many of the consumers in the Middle Eastern countries boycotted the Danish products although they believe the quality of the products. Karataş and Sandıkçı (2013) discusses the shifts toward brand’s acceptance. They give an example from a Turkish bus company in which the driver of the bus did not allow passengers to fulfill their religious practices during the journey. As a result religious people boycotted the company. Also they mention that if a product is produced by a company that is owned by an Islamic community member then its products are boycotted against the alternatives which are seen as of outsiders. (Balıkcıoğlu et al., 2012).

Research Recommendation and Conclusion

Consumers are more powerful than ever and their responses to political, social, environmental and economic issues are harsher in the new world order. With its complex relationship with politics, globalization and consumerism itself, anti-consumerism is becoming increasingly prominent in communicating environmental-aware proposals that are translated into policy, program or project level responses, as well as actions by firms, within the Turkish socioeconomic, technological and political context.
Turkey being a predominantly Muslim, yet secular and democratic country, religion has started playing a more important role in Turkish consumption culture after 1980s (Sandıkcı and Ger, 2009). Thus in Turkey more than economic necessities cultural or political changes can be examined in terms of motivations for anti-consumption.

A larger (more representative), quantitative or cross cultural studies may be warranted. Further research may explore the disposition activities of anti-consumers using a series of in-depth interviews and/or structured questionnaires with informants who self-identify themselves as anti-consumers (the members of freecycle.org (Turkish version), a grassroots “gift economy” community, Slow Food Movement in Turkey, Buğday Derneği, Eco-villages and etc.).

In order to investigate the anti-consumers and alternative consumption communities in Turkey, as well as identifying their profile as means of their motivations, civic participation, consumer culture, ‘simple and post materialist’ life style and attitudes, a research model (Figure 2) which aims to use the following scales and methodology is developed:

a. In order to profile the downshifting consumers, the variables (a. criterion variables, b. consumption values, c. online and offline civic participation and political consumption, demographics) of Nelson, Rademacher, Paek (2007) will be used.

b. National Happiness Index (GNH) survey will be carried out with representative samples at city and regional levels of Turkey in order to gather date on a comprehensive picture of the wellbeing of Turkey. Bhutan Gross National Happiness is a term coined by Jigme Singye Wangchuck, the Fourth King of Bhutan in the 1970’s. GNH concept implies sustainable development taking a holistic approach towards notions of progress and giving equal importance to non-economic aspects of wellbeing whilst explained by its four pillars and nine domains: good governance, sustainable socio-economic development, cultural preservation, and environmental conservation, along with the domains of psychological wellbeing, health, education, time use, cultural diversity and resilience, good governance, community vitality, ecological diversity and resilience, and living standards.

c. Liebowitz (1987)’s Social Anxiety Scale (LSAS) will be used in order to propose and assess the range of social interaction and performance situations feared by consumers.

![Figure 2. The Anatomy of a New Trend: Anti-Consumerism in Turkey](image)

The review and discussion of the Turkish anti-consumers’ profile may help international firms in formulating new incentives and approaches to their strategies in creating, communicating, and delivering value to their stakeholders. The paper may also help communicating environmental-aware proposals that are translated into policy, program or project level responses, as well as actions by firms, within the Turkish socioeconomic, technological and political context.

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Food, Travel and the Capturing of Mindshare and Heart Share: A Study on Japan’s Domestic Food Tourism

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Abstract
While food tourism is undeniably an integral aspect of tourism contributing to the building of place brands, it varies in terms of its strength in being the motivating factor in getting travelers to specific destinations as well as capturing the traveler’s share of mind and share of heart. This paper explores the extent of contribution of food tourism in acquiring the share of mind and share of heart of travelers. It focuses on Japan’s domestic tourism sector and the different regional destinations and the corresponding foods that are heavily advertised in guidebooks, magazines, and television programs as well as word-of-mouth. Two studies were conducted; a word association test and survey were conducted with the same set of subjects. While subjects showed a strong awareness and share of mind when it came to identifying and associating certain main domestic travel destinations and the specific foods, there was no relationship found between heart share, and regional foods when examined. Results showed that destinations were not influenced as strongly by regional foods in spite of the breadth of information available. The study raised several gaps identified between current existing efforts and the results of the study. This paper also raises the issues of low awareness of foods in fairly major destinations and provides future research.

Keywords: Regional Food, Japan, Domestic Tourism, Share of Mind, Share of Heart

Introduction
If someone asked you to name a fast food brand what would it be? While some would immediately name the Golden Arches, others may state Burger King. Essentially, companies want to attain a high level of awareness among the consumers, meaning the more the company or brand gets cited first the better and higher the level of awareness is. That is the essence of mind share. Mind share or share of mind has the goal of making consumers think of the brand or company more than its competitors.

Now if someone asked you if you wanted to have fast food, which restaurant would you go to? Sometimes consumers may provide a different company name when asked to recall brands, products or services in a certain industry versus that of which they want to actually purchase or consume. This basically translates to the difference between share of mind and share of heart. Share of heart is all about creating and maintaining an emotional bond (Sterischic, 2012). Emotions basically play an important role in share of heart, or brand love, while Kotler and Keller (2011) define share of heart as the percentage of customers who would buy specific brands.

Emotional branding is about tapping into the heartstrings and emotions of the consumer to create lasting bond, loyalty and relationships. Feelings and the emotions evoked are the basis in creating successful, smashing brands as consumers form relationships with brands, not products, not corporations (Decker, 1998). Emotional branding brings a new layer of credibility and personality to a brand by connecting powerfully with people on a personal and holistic level; it enables brands to carry a personal dialogue with consumers on the issues, which are most meaningful to them (Gobe, 2001). For a brand to be effective in the service industry, it needs to make emotional connections to employees and through them, to customers (Simmons, 2004; Papadatos, 2006).

Brands have been focusing on achieving share of heart as positive emotional bonds and share of heart is seen as effective defense against competitors (Pitta & Franzak, 2008). While various studies have been focusing on brands, this study examines domestic regional foods and the extent of both share of mind and share of heart among university students in Japan due to the Japanese culture where students are able to travel easier versus working adults. Food was the focus of this study as it has been neglected in most
studies (Hjalager & Corigliano, 2000; Ardabili et al., 2011; Tefler & Wall, 1996). The purpose of this paper is to explore whether regional foods possess strong share of mind and more importantly share of heart when it comes to the selection of domestic travel destinations among a set of various factors that motivate travel and influence destination selection across five different domestic destinations. The concept of regional food in this study only covers cuisine that is prepared or cooked using local produce. The researcher presents two studies with the first study examining the share of mind of regional food association with specific destinations. The second study examined both the share of mind and share of heart. In both studies, the researcher shows that regional foods possess a low share of mind and share of heart with participants making travel destination choices based on other factors where all the null hypotheses are accepted.

Emotions and Share of Heart

Emotions drive purchase decisions and lead to brand loyalty, playing an essential role in marketing (Geuens & DePelsmacker, 1998; Bagozzi, Gopinath & Nyer, 1999; Mattila & Enz, 2002; Papadatos, 2006). Consumers are found to be emotionally involved with their purchases and feel empowered from the act of shopping (Pooler, 2003). Cacioppo et al. (2001) states that emotions provide meaning to everyday existence, rendering the valuation placed on life and property. According to Underhill (1999), shopping is a means of therapy, reward, bribery and entertainment, making it an emotional and spiritual process. Lerner, Small and Loewenstein (2004) examined the impact of specific emotions and the carryover effects on economic decisions. The findings demonstrated that emotions influence decisions even when money is at stake, as emotions can have dramatic effects on economic transactions. O’Neill and Lambert (2001) too found that emotions can influence people’s reaction to the prices of products. Price would have less of an influence when consumers are experiencing positive emotions. This explains impulsive purchase decisions where rational and logic, the cognitive aspects are weaker than the affective factors. Geuens and DePelsmacker (1998) found that positive feelings, especially interest, cheerfulness, and lack of irritation, are associated with higher ad and brand recognition scores, whilst non-emotional ads lead to the least favorable affective reactions.

Previous studies have focused on emotions and it being a crucial determinant in consumer purchase decisions (Sherman, Mathur & Smith, 1997; Underhill, 1999; Barlow, & Maul, 2000; Pooler, 2003). Emotions adopted in advertising also displayed positive results (Alexander & Judd, 1979; Aaker & Bruzzone, 1981; Aaker, Stayman, & Hagerty, 1986; Aaker & Stayman, 1989; Latour, 1990; Latour, Pitts, & Snook-Luther, 1990; Latour & Henthorne, 1994). At the same time brand loyalty is attained from forming emotional bonds with consumers (Roberts, 2004; Lury, 2004; Lindstrom, 2005).

The concept of share of heart, or also known as brand love was introduced as the positive emotional connection between consumers and brands (Day, 1989). Based on the Consumer Response Model, consumers move from Share of Mind (product awareness) to Share of Heart (liking and preference) to Share of Market (actual purchase) (Belch & Belch, 2001; Day, 1989; Pitta & Franzak, 2008; Wood et al., 2008). Brand love is linked to higher brand loyalty and positive word of mouth (Pitta & Franzak, 2008), at the same time demonstrating consumers’ emotional commitment, connection and relationship with brands; leveraged by companies as a method to sustain competitiveness (Pitta & Franzak, 2008; Thompson et al., 2005; Wood et al., 2008).

The Role of Food in Tourism

Food is an effective positioning and promotional tool of a destination (Hjalager & Richards, 2002). The importance of food has led to the growth of food tourism where tourists travel to specific locations to enjoy the region’s cuisine, for instance France and Italy have long been associated with excellent wine and exquisite food (Boyne, Williams and Hall, 2002; Corigliano, 2002; Frochot, 2003; Santich, 2004). Food tourism embodies not only the culinary colors and flavours of the region but also showcases cultural or national identity (Corigliano, 2002; Rand, Heath, & Alberts, 2003). It appeals to cultural tourists who are interested and taken with learning and experiencing the different cultures, giving them unique experiences and enjoyment as well as understanding the social and economic lifestyle of the different destinations (Reynolds, 1993; Richards, 1996; Quan and Wang, 2004).

Based on previous research food has been found to take a major part in opting for destination (Ardabili, 2011). Countries and cities have been expanding their unique culinary attract to engage more travelers...
In fact, Hu and Ritchie (1993) stated that food holds the fourth position in making a destination attractive. Food tourism enhances prominence and the value of the destination and is proven to be an appealing factor in the marketing of different destinations (Boniface, 2003; Cohen & Avieli, 2004; Du Rand, Heath and Alberts, 2003; Hall, & Mitchell, 2000; Hjalager and Richards, 2002).

Japan has a wide array of regional foods known as ‘kyodo ryori’ (郷土料理). These regional foods differ in the usage of main ingredients according to the different regions. The importance placed on culture, heritage and foods is demonstrated in the number of television programs dedicated to foods and domestic travels on a daily basis across all tv channels, introducing new and old regional foods as well as encouraging domestic tourism. Magazines featuring local foods as well as detailed sections in travel guides further reinforce the priority placed on regional foods and its place in the Japanese culture.

Based on the findings of previous studies where foods play a crucial role in destination selection and the immense resource and public exposure that is available regarding regional foods in Japan, the following hypotheses were formulated.

**H1**: Those having regional food knowledge, places importance on food in making travel choices and who make destination decisions based on regional foods would have had their past vacation destinations strongly determined by regional foods.

**H2**: Those having regional food knowledge, places importance on food in making travel choices and who make destination decisions based on regional foods would have their future vacation destinations strongly determined by regional foods.

**H3**: If the future and past vacation choices were made based on regional foods, food play an important role in shaping destination choices, and in-depth knowledge on regional foods is possessed, then there is a high importance placed on regional foods.

**H4**: Regional food will be the main factor in vacation decision if high importance is placed on regional foods, together with in-depth knowledge of regional cuisine, and both past and future travel destinations were selected based on regional foods.

**Study 1**

In this study, we aim to test whether college students were able to associate domestic travel destinations with regional foods. The researcher provided the same group of participants with five different destinations (metropolis and prefectures) in Japan; namely Tokyo, Kyoto, Osaka, Hokkaido, and Aomori written on plain white cards. Participants were asked to write down the first thing that comes to mind upon seeing the destination. Participants were informed that they were given ten seconds to write the first thing that they identify with the respective destinations. Participants were similarly given a ten second break between each destination.

**Results**

The researcher ran simple descriptive statistics and examined the word associations and frequency for each of the five destinations in Table 1 – 5 below. Osaka ranked the highest in terms of regional food association with 61.4% of the participants feedback displayed regional food. Kyoto came in second with 23.9% however more than half of the participants associated man made attractions such as temples and shrines with Kyoto. Hokkaido’s results saw an equal split between regional food and nature associations with 14.8%. While local produce such as potato and seafood took first place with 51.1%. Aomori prefecture recorded the highest association made with local produce, in this case apples. A staggering 87.5% of the participants cited apples while ironically at the same time recording 0% for Aomori’s regional foods association. Tokyo on the other hand recorded 86.6% associations being made with man made attractions, namely Tokyo Sky Tree and Tokyo Tower. Only 1.1% made regional food associations with Tokyo.
### Table 1

<table>
<thead>
<tr>
<th>Association</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
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<tr>
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<td>1.2%</td>
</tr>
<tr>
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<td>1.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Man made Attractions</td>
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<td>88.6%</td>
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<td>95.2%</td>
</tr>
<tr>
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<td></td>
</tr>
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<td></td>
</tr>
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### Table 2

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</tr>
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<td>Local Produce</td>
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<td>92.9%</td>
</tr>
<tr>
<td>Events &amp; Festivals</td>
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<td>1.2%</td>
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<td>People</td>
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<td>98.8%</td>
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</tr>
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<td>64.3%</td>
<td>64.3%</td>
</tr>
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<td>29.8%</td>
<td>94.0%</td>
</tr>
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<td>1.2%</td>
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<td>3.4%</td>
<td>3.6%</td>
<td>98.8%</td>
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<tr>
<td>Other</td>
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<td>1.2%</td>
<td>100.0%</td>
</tr>
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<td><strong>Total</strong></td>
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<td>95.5%</td>
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### Table 4

<table>
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</thead>
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<tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Foods</td>
<td>13</td>
<td>14.8%</td>
<td>15.5%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Nature &amp; Outdoor Activities</td>
<td>13</td>
<td>14.8%</td>
<td>15.5%</td>
<td>31.0%</td>
</tr>
<tr>
<td>Man made Attractions</td>
<td>2</td>
<td>2.3%</td>
<td>2.4%</td>
<td>33.3%</td>
</tr>
<tr>
<td>Local Produce</td>
<td>45</td>
<td>51.1%</td>
<td>53.6%</td>
<td>86.9%</td>
</tr>
<tr>
<td>Events &amp; Festivals</td>
<td>7</td>
<td>8.0%</td>
<td>8.3%</td>
<td>95.2%</td>
</tr>
<tr>
<td>Other</td>
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<td>4.5%</td>
<td>4.8%</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
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<td>95.5%</td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td><strong>Missing</strong></td>
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<td>4.5%</td>
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</tr>
<tr>
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Table 5

<table>
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<th>Main Association</th>
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</tr>
</thead>
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<td>Nature &amp; Outdoor Activities</td>
<td>2</td>
<td>2.3</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Local Produce</td>
<td>77</td>
<td>87.5</td>
<td>91.7</td>
<td>94.0</td>
</tr>
<tr>
<td>Events &amp; Festivals</td>
<td>5</td>
<td>5.7</td>
<td>6.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
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<td>95.5</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
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<td>4.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>88</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Study 2

In this study we aim to test whether college students choose domestic travel destinations based on wanting to consume regional foods than other activities such as visiting theme parks and shrines. The participants were provided with a questionnaire that composed of five parts. The first part focuses on travel history; up to the last three vacations. This section poses questions regarding past travel including topics such as past activities undertaken during vacations, and vacation selection drivers, is measured using both, a five-point Likert scale (ranging from 1 = “strongly agree” to 5 = “strong disagree”) and open-ended questions. The second section examines future domestic travel plans, also measured using both, a five-point Likert scale (ranging from 1 = “strongly agree” to 5 = “strong disagree”) and open-ended questions.

Section three using open-ended questions addresses domestic travel destination selection process and factors that effect decision-making. In section four using open-ended questions, respondents were given names of different domestic travel destinations and asked to list one or two regional foods associated with the specific places. The final section focuses on opinions regarding travel selection and choices as well as participants’ perception of their knowledge of regional foods, measured using a five-point Likert scale (ranging from 1 = “strongly agree” to 5 = “strong disagree”).

The questionnaire was administered to a sample of 84 college students between the ages of 19 – 21 (35.71 percent male; 64.29 percent female) from different prefectures across Japan using convenience sampling. The participants consisted of students from 15 different prefectures and a foreign student from China with only 5 participants from the cities given as destinations in the study, as illustrated in Table 6.

Table 6: Participants’ Hometowns

<table>
<thead>
<tr>
<th>Prefecture</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aichi</td>
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<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Akita</td>
<td>1</td>
<td>1.1</td>
<td>1.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Aomori</td>
<td>1</td>
<td>1.1</td>
<td>1.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Chiba</td>
<td>37</td>
<td>42.0</td>
<td>44.0</td>
<td>47.6</td>
</tr>
<tr>
<td>China</td>
<td>1</td>
<td>1.1</td>
<td>1.2</td>
<td>48.8</td>
</tr>
<tr>
<td>Gifu</td>
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<td>1.1</td>
<td>1.2</td>
<td>50.0</td>
</tr>
<tr>
<td>Gunma</td>
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<td>1.1</td>
<td>1.2</td>
<td>51.2</td>
</tr>
<tr>
<td>Hokkaido</td>
<td>1</td>
<td>1.1</td>
<td>1.2</td>
<td>52.4</td>
</tr>
<tr>
<td>Ibaraki</td>
<td>20</td>
<td>22.7</td>
<td>23.8</td>
<td>76.2</td>
</tr>
<tr>
<td>Kyoto</td>
<td>1</td>
<td>1.1</td>
<td>1.2</td>
<td>77.4</td>
</tr>
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<td>Miyagi</td>
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<td>Nagano</td>
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<tr>
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<td>Tokyo</td>
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<td>Yamaguchi</td>
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</tr>
<tr>
<td>Valid</td>
<td>88</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Results

First, we ran an analysis of importance placed on regional foods, regional foods knowledge and vacation choices made based on regional foods as the independent and future vacation driven by regional foods as the dependent. Table 8 shows the ANOVA showing the value of p > .05, determining that the three independent variables do not predict future vacation choices that are made based on regional foods, rejecting H2 and accepting the null hypothesis accordingly.

Similarly as shown in Table 9, we examined the relationship between the importance placed on regional foods (dependent) and future vacation destination based on regional foods (independent), regional foods playing the main role in determining vacation choices (independent), past vacations determined by regional foods (independent) and regional food knowledge (independent). The results once again reflected p > .05 therefore the independent variables were found not useful in predicting the dependent variable. In this case, H3 is also rejected and the null hypothesis accepted.

We ran an analysis of regional food as the main vacation decision as the dependent, and the importance of regional foods, strength of regional food knowledge, past travels driven by regional foods and future travel selection made due to regional foods, four independent variables. Table 10 shows that the p value is greater than .05, supporting the null hypothesis and rejecting H4 accordingly.
We then performed a factor analysis on the answers provided by the participants on the factors that determine travel destination choices and selection. From the analysis we identified three components that accounted for approximately 60% of the variation of the original 7 variables, as illustrated in Table 11.

Table 11

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvectors</th>
<th>Total Variance Explained</th>
<th>Extraction Sums of Squared</th>
<th>Rotation Sums of Squared</th>
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<tbody>
<tr>
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<td>24.152</td>
<td>1.691</td>
<td>24.152</td>
</tr>
<tr>
<td>2</td>
<td>1.023</td>
<td>18.898</td>
<td>1.023</td>
<td>18.898</td>
</tr>
<tr>
<td>7</td>
<td>.291</td>
<td>4.150</td>
<td>.291</td>
<td>4.150</td>
</tr>
</tbody>
</table>

Based on the Rotated Component Matrix (Table 12), the highest component loading are as follows

Component 1: F, I, A, E, P (A combination of food, attractions, nature, events and price)

Not determined by family and friends

Component 2: Nature and outdoor activities

Natural produce

Not events and festivals

Component 3: Regional foods

Not attractions

The components are indicators that no single factor plays the sole role in vacation choice but rather a combination of different factors though there is a stronger importance placed on nature including foods.

Discussion

The results of the study supported the null hypotheses and suggested that while participants seem to believe that they place importance on regional foods when making travel and destination selection decisions, in reality the choices their destination choices have been and are being made based on a various factors with regional foods being a contributor but not the sole or major influencer. The results of the factor analysis further supported the null hypotheses and showed that participants did not select destinations merely based on foods. While the third factor identified was that of regional foods, it only accounted for approximately 17% of the variance. Interestingly, ‘nature-based’ reasons such as hot springs, skiing, snowboarding, camping and farm visit that includes fruit picking and buffet, and consuming local produce such as fruit and seafood (uncooked) play a stronger role in influencing destination choices and decision-making. While regional foods are constantly marketed in the media, as a whole the effectiveness in terms of awareness and attractiveness has been found to be at its infancy stage.
Intriguingly participants apart from Osaka the other destinations were not immediately associated with specific regional foods. Local produce and man made attractions such as theme parks, modern architecture, temples and shrines were associated strongly with the other destinations. While in Study 2 participants indicated that they were well versed regarding certain regional foods, the actual awareness proved otherwise. On the contrary as reflected in Study 1, participants thought of local produce such as seafood, fruit and vegetable as regional foods. The gap demonstrated the lack of clarity and understanding of the actual scope of regional foods, and proving that the participants’ self-evaluation of their knowledge regarding regionals foods was rather inaccurate.

While regional food association for Osaka appeared to be the strongest, the past and future travel destination choices still did not reflect selection based on food. This reinforces the fact that while share of mind is high specifically for Osaka share of heart is still low in terms of getting people to travel specifically to Osaka just for the regional foods. This sets the basis for future research in finding ways to build and enhance share of heart.

The findings from both studies show that a more organized and concerted effort must be undertaken in order to ensure the success of regional food tourism. There is a need to develop an effective program that involves not only educating the society about regional foods but also gain share of mind and subsequently share of heart. From the results of the studies, it is evident that even if the product possesses the participant’s share of mind; shown by the participants ability to associate the regional food to specific destinations such as ‘okonomiyaki’ and Osaka, the choice of future holiday destination reflected that regional foods was not a strong enough factor in deciding destination choice.

Education and building awareness would form the foundation in informing the public of the variety of regional foods that exists in different areas across this island nation. Ingraining the concept of regional foods and the establishing as well as strengthening the association between destination and regional foods to the point that regional foods become the reason for travel destination choice is crucial in bolstering both share of mind and share of heart. From the results of both studies we have accepted the null hypotheses that showed the weakness in both share of mind and share of heart, paving the way for future research in examining and uncovering effective methods in educating and disseminating information about regional foods. Food tourism in Japan appears to still have a lot of room for growth and we hope that this study will start to lay the basics in understanding the association and perception of regional foods.

At the time when this study was conducted domestic travel guidebooks have already long been devoting an extensive section to regional foods and products. In terms of media, television programs as well as the evening news feature regional foods on a daily basis. The breadth of information on regional foods that is made widely available from the study demonstrates disconnect when the participants displayed fairly week food-destination associations. This raises the question of the effectiveness of media choice in reaching out to the young adults. Further research should be undertaken to measure the impact of media channels use as well as the effectiveness. Another theme that can be considered for future research would be to explore the appropriate both efficient and effective use of media channels in disseminating information, acquiring and retaining customers.

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Quality Improvement of Hair Mask Product Using Quality Method at Home Industry in Bandung Regency

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Abstract

Bandung Regency is one of the area in the State of Indonesia. The population of Bandung Regency in 2010 reached 3,215,548 peoples and makes Bandung regency as a potential market. But the incessant foreign products, competition makes the hair care business is becoming more competitive. Based on the results of L'Oreal of Research and Innovation South East Asia, from 300 respondents aged 18-50 years, most of all said that only rely on shampoo in hair care. This is caused by a lack of knowledge about the use of shampoo and conditioner that is coupled with a hair mask. That's the one factor of hair damage in Indonesia. Safier is a brand of beauty products are grown locally in Bandung regency. Hair mask is one of the products offered Safier. To be able to enter the market, Safier making products from herbs, fruit extracts and natural ingredients. There are nine variants hair mask for sale. The product is packaged in the form of packaging and refill. This research was conducted by using quality then analyzed to determine the market behavior of the Safier’s hair mask. Results are expected to give a proper description to improve and develop the potential of Safier.

Keywords: Hair Mask, Shampoo, Brand, Home Industry
Feasibility Analysis of “Kuliner Nusantara” Restaurant in Indonesia

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Abstract
Indonesia is a country which consists of 7,870 inhabited islands and is divided into 34 provinces. Recorded more than five thousand varieties of distinctive dining spread throughout in Indonesia. Kuliner Nusantara is the first restaurant brand in the world that aims to increase the selling in Indonesia, especially for high society. This restaurant features traditional food in Indonesia are presented in accordance characteristic of native region, both in terms of presentation, the design and layout space, and also in terms of the servant. Waitress in Kuliner Nusantara restaurant are people from various regions according to the origin of the food. The goal is to make consumers who come to the restaurant to get a sense typical of the area where the food originated. Kuliner Nusantara restaurant will work closely with the culinary entrepreneurs throughout Indonesia. In the early stages, this restaurant will only accommodate between 10-15 regional food. The target market is high society in big cities in Indonesia. This restaurant has a great potential to develop quickly because people love culinary native Indonesia and Indonesia's economy continues to grow from year by year. In addition, because Indonesia is a country of tourism and always crowded of visitors from abroad.

Keywords: Culinary, Traditional Food, Restaurant, Feasibility Analysis
Online Marketing Using Data Mining Based Website to Learn the Food Tastes Telkom University Students Based Time Ordering

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Abstract

Telkom Universities located in Bandung, West Java, and is one of the largest University in the field of Information and Communication in Indonesia. Students have many schedules for study, so often use food delivery services. Sometimes, students feel difficult to choose what the menu will be selected because of many options available in the website provider. Therefore, the use of Data Mining on the website is very useful to know what the food tastes suitable for the customer based on time of ordering. Customers will choose the taste criteria of the food, then the website will display on the screen in accordance with the data foods chosen by the customer. The data used as input data in data mining is obtained by filling the questionnaire which contains criteria and taste of food chosen by the three divisions of time; morning, noon, and night. Website marketing online culinary field previously existed as laperbanget.com, foodpanda.co.id, and kulineran.com. But on the website does not take advantage of available features Data Mining. Use of Data Mining will be an attraction and uniqueness on the website to be created so as to attract more visitors in the online marketing of culinary provided on this website.

Keywords: Data Mining, Online Marketing, Delivery, Website
Long-Term Capital Market Effects of Strategic Divestments

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Abstract

In the aftermath of the 2007/09 capital market slump shareholders call for sustainable corporate management. Previous research suggests that strategic divestments can be a remedy to organizational inefficiency and enhance competitiveness in global markets. Divestments can abolish disergies and unbundle hidden organizational resources. Focussing on core competencies avoids integration efforts and transactions costs. Information asymmetry is reduced and transparency from an investors’ perspective is enhanced. In short, divestment seems to be a successful strategy of deleveraging. So far, no reliable and coherent methodology has been developed to measure long-term market value creation of divestments reliably. Studies assessing abnormal stock returns after divestments so far are limited to post-deal observation periods of less than one year (Lambertides, 2009, Bartsch, 2005; Brauer, 2006, Brauer & Wiersema, 2012), since the CAR approach has not been adapted to time-varying beta and alpha factors. This study closes this research gap on capital market reactions after divestments and develops a modified CAR approach integrating time-varying capital market risk. Applying this method, it calculates the cumulative average rate of returns for a period of 706 trading days after a divestment referring back to a time period of 720 trading days before the event. Short-term stock market reactions during the first fortnight after the divestment are exempted from analysis. Then CARs are calculated at seven 100 days intervals after the event. Time dependence of CAR results is analysed by year of deal conclusion, quarter of deal conclusion and by pre and post crisis deals. The approach is applied to global telecommunication companies with divestments exceeding 300 million USD during 2005 and 2011. The study finds that after a CAR decline 100 to 200 days after the deal, post-deal CARs peak at 300 to 400 days after the event. The positive CAR effect is lost about 700 trading days after deal conclusion. For the whole observation period, post-deal CARs significantly exceed pre-deal CARs. There are no significant annual patterns. However pre- and post- deal CARs differ by quarter of deal conclusion. Firms underperforming before the deal tend to divest in quarter 4 and tend to turn into over-performers about one year after deal conclusion. Firms over-performing before the divestment tend to schedule the deal in Q1 or Q2 and loose in performance in the second year after the deal. Pre-crisis divestments do not significantly differ from post-crisis deals concerning post-divestment returns. Pre-crisis deals though perform significantly better in the pre-divestment period than post crisis deals. These results are of interest to managers planning strategic divestments. Divestments have to be devised and scheduled effectively to succeed. Further research on a larger sample and comparisons to short-term market reactions are of interest to extend the results.

Keywords: Strategic Divestments, Shareholder Value, Long-Term Market Effects, Event Study, and Cumulative Average Rate of Returns (CAR).

Introduction

In the aftermath of this global economic break down calls for economically sustainable entrepreneurial development are pervasive. Instead of loan-financed, short-term economic expansion generating bonuses, option gains, reputation and power for the management elite only, shareholders now expect a business policy holding for future generations and granting steady entrepreneurial development and independence. Serious managers and entrepreneurs seek to regain investors’ trust by presenting sustainable enterprise programs designed to last beyond market turbulence as experienced in 2008. A recent oekom research
survey among 199 firms from 30 countries and 34 business branches finds that 58% consider sustainable development important. About 65% indicate that a changed shareholder conscience has made them reconsider their strategic orientation (Oekom Research, 2013, 24-26). Strategic divestments are part of this strategy and allow diminishing liabilities and focussing on entrepreneurial core competencies (Federico & Lopez, 2012, 12). Instead of expanding on loan basis divestments, mean focussing on entrepreneurial core competencies, which – it is argued reduces exposure to economic crises and ensures sustainable entrepreneurial development (Ostrowski, 2008, 75-79).

Nevertheless, do strategic divestments really create sustainable value from the perspective of the divesting firm’s shareholders, or are expectations connected to divestments disappointed frequently, or more concretely: What are the long-term capital market effects of strategic divestments? This is the key question of this study. This paper focusses on strategic divestments i.e. refers to a particular divestment type to be specified more precisely: Strategic decision making following Mintzberg et al. (1976, 246) and Eisenhardt & Zbaracki (1992, 17) implies that a decision is “important in terms of the actions taken, the resources committed or the precedents set” i.e. in contrast to operational decision making is unique and has got long term effects. Strategy is based on the differentiate analysis of the firm and its environment and implies future oriented logical planning (Ansoff, 1988, 163-164). Hence, this paper is on sustainable value creation, i.e. focusses on a particular type of value effects: “Sustainable” has become an omnipresent buzz-phrase and is connected to a novel holistic consciousness of and demand for economic growth and simultaneous social progress and environmental protection (Meins, 2010, 279). The term sustainability though originates in forestry and implies a balanced economic development maintaining natural variety and productivity over generations (Hasel & Schwartz, 2002, 138). This definition is fundamental to the economic understanding of sustainability according to the three-column model: Sustainability refers to an effective economic development maintaining and augmenting values for the future without consuming their essence (Ree & van Meel, 2007). Referring this conception to the topic of this study, sustainable market value creation implies future-orientation and long-term value effects beyond short-term speculative outbreaks.

Literature Review

Perspectives on motivations for strategic divestments. The issue of long-term value creation of divestment frequently is addressed from a fundamental perspective asking, “Why do firms divest and what do they hope to gain from divestments?” Expected and realized effects of divestments have been analysed from the perspective of diverse research strands. The following sections refer to new industrial economics and new institutional economics. After briefly explaining the underlying theories, the sections explain the arguments made in corresponding divestment literature.

Neoclassical economic theory represented by the market and the resource based view focusses on the points concerning products and competitiveness immediately. Both perspectives are complementary: Market based arguments in favour of divestment point out that specialization allows a concentration in focus markets, the development of specialized knowledge and the adaptation of particular and partly niche products to customers. A strategy of focussing from the perspective of the resource-based view abolishes inner-firm disergies and brings forth hidden synergetic effects in core products. Resources are freed to concentrate on core competencies and simultaneously debt capital is reduced.

Neo-institutional economics point out the relevance of divestment to indirect costs. The three addressed theoretical strands equally are complementary. Evaluating the arguments summarized in figure 1 line by line, essentially four points are made:

Divestments can diminish bureaucratic costs since the management of the divested unit is motivated to act more responsibly and avoid fringe benefits when they self-reliantly manage the divested section. Integration efforts resulting from inner firm interest conflicts are avoided when after the split-off the firms act independently. These advantages at the firm level are rewarded in the capital market: Divestments improve transparency and market control and mean a concentration of property rights. Divestments create managerial competition and contribute to discarding technically inexperienced and ineffective management teams, which enhances firm competitiveness.

Basically both theoretical strands - neoclassical and new institutional perspective - find arguments in favour of long-term value creation of strategic divestments, when specialization appears a successful market.
strategy, disergies are observed at the conglomerate level and significant transaction and agency costs exist that can be diminished by selling off inefficient parts of the firm.

**Fig. 1. Motivations for strategic divestments (own elaboration)**

### Summary of Achievements and Limitations of Long-Term Success Measurement after Divestments

This part evaluates to what extent long-term value creation of strategic divestments has been observed empirically in previous studies. Simultaneously the effectiveness of established methods of divestment success measurement is analysed. This review has grouped studies on value creation due to divestments into three groups: survey’s representing a managerial perspective, studies based on accounting figures and market performance based studies. Bringing achievements and limitations by category, each provides some particular insights and disposes of idiosyncratic limitations. Virtually all discussed studies suggest that strategic divestments usually evoke positive value effects and cause positive capital market reactions. Though this result is not representative, Madhavan’s meta-analysis of 94 empirical studies concordantly purports that the broad majority of reported value effects after divestments is positive (Madhavan, 2010, 1363). Still so far, no reliable and coherent methodology has been developed to measure long-term market value creation of divestments reliably:

- Few studies from a management perspective intend to measure long-term market value created by divestments at all. Managerial surveys usually provide a topical management assessment of the respective firm and taken together can provide practical insights on branch and business trends. The fundamental problem concerning management studies is that they always represent a management perspective, which, as Vaara (2002, 214) points out tends to be “overly optimistic” on divestment success (when the participating management has decided on the divestment) and tends to overemphasize environmental and market-related difficulties (to justify management action).

- Surveys usually evaluate processes that have happened in the past based on personal experience and provide future estimates based on hope and prognosis. Objective performance results are hard to compare in a survey, since answers usually are coded in nominal or ordinal categories to standardize across firm sizes and market conditions. None of the management-survey studies identified here provides objective, quantitative performance figures after divestments.

- Quantitative studies based on balance sheet evaluation and stock market performance face the inverse difficulty. Kahlert (2010, 20) explains that accounting and market valuation based studies are problematic since a causal relationship between the value development and the process of divestment is frequently ambiguous. Further factors like the competitive situation or global macroeconomic trends could influence value development. For this reason, quantitative evaluations alone do not explain reasons for divestment success reliably. On the other hand, balance and market key figures based
performance assessment provide objectively comparable performance data that can reliably be juxtaposed to compare performance development in time.

- The market-model and CAR approach proven for the analysis of short-term market reactions has not consistently been transferred to the long-term perspective. The question under which conditions an application of the CAR model to long-term market reactions is useful has not been answered reliably. Lambertides (2009, 655-656) attempts to use the CAR model in its standard form for an analysis of 202 days after the event of a CEO change, but operates on constant beta and alpha factors. This strategy assesses CARs incorrectly, since beta and alpha factors vary over time.

Brauer’s & Schimmer’s (2010) as well as Brauer’s and Wiersema’s (2012) results for the short run suggest, that the timing of the divestment is another important point with regard to venture success. The impact of timing on the long-term market value effect of divestments though has not been analysed quantitatively at all so far.

There has been some discussion on whether market or accounting based performance measures should be preferred. While studies using accounting based key figure analysis differ strongly concerning methods, targets and results, market-valuation based studies rely on the CAR approach as an established standard. The CAR method on the one hand, makes market-value based studies comparable immediately, on the other hand it so far is inadequate for an analysis of extended time spans, since beta- and alpha factors of the CAR model usually are assumed stable which in the long-run is an unrealistic assumption.

Another point of critique concerning market valuation, usually based on stock returns is that it cannot eliminate speculative effects inherent in the prices. Speculation does not always mirror facts precisely but tends to predict and partly overestimate future developments. On the other hand, to some extent market based evaluations are more topical and not subject to accounting bias: Balance sheet figures are prepared after conclusion of a business cycle and hence mediate historical perspective. Within the frame of accounting rules, they are subject to interpretation and manipulation (Madhavan, 2010, 1350). Market based measures are more topical and not biased by management interest. In practice, stock prices are available in a standardized form on the web and need not be extracted from balance sheets. Hence stock price based evaluation are better apt for large samples. In practice stock price based performance evaluation is a reliable and efficient method for handling long data series and performance comparisons in different time periods. Capital market analysis hence should ideal for the assessment of long-term value effects of divestments, provided a method to handle time-varying beta- and alpha factors is developed.

**Empirical Research Method**

Bringing the points of critique on previous studies together so far research does not answer the question on the quantitative sustainable i.e. long-term market-performance effect of divestments:

The core objectives of the following empirical study derive from these research gaps: It develops and tests a dynamic market model to analysing long-term market value effects and time-dependence of divestments based on the CAR approach. Performance results thus can be classified by time of deal completion i.e. periodical patterns determining market success can be determined quantitatively. To concretize this research objective two research hypotheses are formulated as follows:

- **H1:** The CAR in the two post-divestment years exceeds the CAR in the two pre-divestment years significantly.
- **H2:** Abnormal returns differ significantly depending on the timing (deal year) of the divestment.

To resolve this research task, first a statistically founded methodology based on the CAR model for short-term analysis is developed. The market model as defined by Markowitz (1959) and Sharpe (1963) has established as a common reference standard for the assessment of fair returns of a stock as compared to a reference index. It is employed by Bartsch (2005, 139), Brauer & Wiersema (2012), for instance and its empirical relevance has been proven in many empirical studies (Armitage, 1995, 33).

The market model estimates the expected return $E(R_{it})$ of stock company $I$ in time point $t$ as a linear function of the return $R_{mt}$ of the reference index $M$ in $t$ as follows:

$$E(R_{it}) = a_i + b_i R_{Mt} + \epsilon_i$$  \hspace{1cm} (1)
• $a_i$ describes a constant development of $R_t$ independent of the stock index, $b_i$ measures the sensitivity of the stock return to the development of the return of the market index, i.e., represents the systemic risk the stock is exposed to.

• The residual variable $\epsilon_i$ describes an idiosyncratic risk component of the stock, dependent on firm specific influences only which by expectation equals zero in the long run (Francis & Kim, chapter 12.5).

• For the observation of long-term performance patterns after divestments the methodology of CAR evaluation applied in short term analyses has to be adapted to consider time-varying beta- and alpha-factors. To this end the parameters $a$ and $b$ of the market model are calculated on the basis of the previous 200 trading days for each observation day, a time frame which has been found sufficiently short in previous short-term studies to obtain reliable $a$ and $b$ factors (Bartsch, 2005, Rustige & Grote 2008, Brauer & Schimmer 2010, Brauer & Wiersema 2012). The calculation of time-varying parameters is performed in excel as exemplified for a reference period of 4 days in the following (table 1) exemplary excel evaluation.

Table 3: Method of calculating a time varying reference market model for long-term analysis (own elaboration)

<table>
<thead>
<tr>
<th>Date</th>
<th>$x$-values</th>
<th>$y$-values</th>
<th>Slope</th>
<th>$y$-intercept</th>
<th>Formula slope</th>
<th>Formula intercept</th>
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<td></td>
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<tr>
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<td>0.00</td>
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</table>

This method results in a modified market model where $a_i$ and $b_i$ are not constant but time-varying with a lag 1. It describes the horizon before the measurement of $R_i$ and $R_m$ that is considered to determine the factors. Mathematically the time-varying market model results as: $E(R_{it}) = a_{i,l} + b_{i,l}R_{Mt} + \epsilon_{i,l}$ with $E(\epsilon_{i,l}) = 0$

To calculate discrete returns from stock rates on a daily basis the following formula is applied:

$$R_{it} = \frac{K_t - K_{t-1}}{K_{t-1}}$$  \hspace{1cm} (2)

Where $K$ are the stock rates cleared by dividend and adjustments (clean price). The abnormal return is the extent to which the observed return exceeds the expected return:

$$AR_{it} = R_{it} - E(R_{it})$$  \hspace{1cm} (3)

Entering the time-varying market model now a dynamic formula for abnormal returns results as:

$$AR_{it} = R_{it} - [a_{i,l} + b_{i,l}R_{Mt}]$$  \hspace{1cm} (4)
Dynamic abnormal returns by stock can be calculated on a daily basis for a certain reference index and a reference period of lag l. Dynamic abnormal returns, in contrast to conventional abnormal returns, are adequate for the assessment of infinitely long periods of time since $b_i$ and $a_i$ are not fixed but adapt dynamically with progressing time. Cumulated abnormal returns for a period starting at day $t = u$ and ending at day $t = z$ now can be calculated by just adding up daily returns from $u$ to $z$ (compare Bartsch, 2009, 139-140):

$$\text{CAR}_{[u; z]} = \sum_{t = u}^{z} \text{AR}_{it}. \quad (5)$$

To test H1 and accordingly find out on the degree of sustainable market-value creation due to divestments now two CAR series have to be compared: The CAR for the two-year period in advance of the divestment and the CAR for the two-year period after the divestment. In practice, the result of the CAR calculation is a data set containing two values per stock a CARv (before the divestment) and a CARn (after the divestment) as follows:

Table 2: Conceptual Structure of Resulting Data Set (Own Illustration)

<table>
<thead>
<tr>
<th>Company</th>
<th>Deal year</th>
<th>2 years period before divestment</th>
<th>2 years period after divestment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm 1</td>
<td>2001</td>
<td>CARv1999</td>
<td>CARn2003</td>
</tr>
<tr>
<td>Firm 2</td>
<td>2004</td>
<td>CARv2002</td>
<td>CARn2006</td>
</tr>
<tr>
<td>Firm 3</td>
<td>2010</td>
<td>CARv2008</td>
<td>CARn2012</td>
</tr>
</tbody>
</table>

To avoid that short term stock market reactions resulting from speculative effects in the immediate environment of the divestment affect the results and to provide that only sustainable value effects are considered, a period of 100 days before and 14 days after the day of divestment contract conclusion is omitted from analysis.

This range is chosen in accordance with previous studies of short-term market reactions to divestments. These studies omit a period of two to five days in the immediate environment of the divestment and consider periods of 100 to 200 days before and 5 to 14 days after the deal (e.g. Bartsch, 2005, Rustige & Grote 2008, Brauer & Schimmer 2010, Brauer & Wiersema 2012). Omitting the said short-term period of 100 to + 14 days allows comparing the long-term data to short-term results for the omitted period later.

To evaluate H1 in more detail, the research period marked in green in figure 3 is subdivided into seven sub-periods, comprising 100 days each as follows.
CARs for each of these sub-periods CARn1 to CARn 7 now are compared to the CARvalue in the pre-divestment phase. Since CARv comprises 620 days, it has to be standardized on a 100-day basis to be comparable to the CARn sub-periods. CARv is standardized by dividing by 620 and multiplying by 100. To make the whole CARn period, comprising 700 days comparable to the standardized CARv period, CARn is divided by 700 and multiplied by 100. In this way, the average abnormal return values of the total CAR-v and CAR-n period become comparable to the 100-day intervals.

H1 now can be subdivided in seven part hypotheses: CAR n value 1 to 7 for the consecutive seven 100-day periods n1 to n7 beginning at day 14 after the divestment and ending on day 714 after the divestment each exceed the standardized CAR (on a 100 day basis) for the two pre-divestment years significantly.

To concretize the analysis of H2 the timing of the deal is specified in more detail applying the following time categories:

- H2a: The CARn values for periods 1 to 7 and as a whole differ significantly depending on the year of divestment deal conclusion. To test this assumption a year dummy is applied.
- H2b: The CARn values for periods 1 to 7 and as a whole differ significantly depending on the quarter of divestment deal conclusion (inconsiderate of the year). To test H2b a quarter dummy coded 1 to 4 is introduced.
- H2c: The CARn values for periods 1 to 7 and as a whole differ significantly depending on whether the divestment deal was concluded before or after the financial crisis of 2008 (compare introduction to this paper). To test H2c a dummy coded 1 for deal conclusions before December 31, 2008 and coded 2 for deal conclusions after December 31, 2008 is introduced.

Empirical Data. To test and apply the developed methodology of long-term market-value analysis the following elaboration focusses on the telecommunication business. The data set of underlying the following evaluations refers to divestments in the global telecommunication business from 2005 to 2011. This range ensures the topicality of the analysis and guarantees that continuous stock prices are available for the whole period of analysis.

The data set is limited to transactions exceeding 300 million US$. This minimum size has been chosen to ensure stock market relevance of the transaction. Divestment events are identified in a web-research applying the key words “divest*” AND telecommunication”. The company names mentioned in the resulting search protocol are then evaluated for concrete events referring to annual reports and press releases. In this way altogether 62 divestment-events exceeding 300 million US$ have been identified for the period 2005 to 2011. In a second step, the stock rates for the concerned divesting firms are gathered on yahoo finance considering a range of 720 days before to 720 days after the divestment event as detailed above. Unfortunately, not for all 62 events data are available. Some companies are not listed with yahoo at all. Some companies do not publish stock rates for the whole period. 10 divestment events have to be dropped and a final sample of 52 data sets remains.
To obtain the final data set for statistical evaluation, the basic data are managed as follows: The stock rates are listed by trading day for each firm and applying the excel-function sverweis() the rates of the reference index ishares global telecom are assigned to each stock by trading day. Then daily arithmetic stock and index returns are calculated and missing values for the index i.e. days on which the stock was traded while the index was not, are closed by filling in a zero-return. Then $b_i$, $a_i$, $E(R_i)$ and $AR_i$ are calculated as detailed in section 3.2.2. Average daily abnormal returns are cumulated into the periods CARv, CARn1 to 7 and CAR-n-total as detailed in figure 3.

**Empirical Results**

The data are exported to SPSS to conduct the tests of H1 and H2, which provides further information on the quantitative relationship of divestment and success.

**H1: Comparative CARs before and after the divestment**

H1 tests the assumption that the CAR in the two pre-divestment years (v-period) is significantly lower than the CAR in the two post-divestment years (n-period). The following chart summarizes the comparative CAR values by sub-period and indicates the significances of the T-test. Higher mean values by period and significant results are printed in green. Comparing the pre-divestment period (v) to the total post-divestment period (n), CAR values on average have significantly improved from a standardized mean abnormal return on a 100 day basis of -0.7% to + 0.84%.

The analysis of the part time-frames is of interest: It illustrates that for the initial two post-divestment part periods N1 and N2 i.e. from day 14 to day 114 after the divestment, the pre-divestment return by tendency exceeds the post-divestment return. From post-divestment period N3 to N6 (i.e. from day 215 to 614) this relationship inverts - that is the post-divestment return exceeds the pre-divestment return now. In N4 i.e. from day 315 to 414 after the divestment, this post-divestment success is significant. In N6 another CAR peak is observed which though is not significant. In period N7 the relationship again pre-divestment returns by tendency are higher than post-divestment returns. H1 is accepted, but for the majority of interim periods -the part hypotheses are not tested significant. The following chart illustrates the development of CARs over the observation period (The dotted line indicates that range of 100 days before to 14 days after the event has not been evaluated in this study).

![Smoothed development of CARs in the prolonged post-divestment period (own draft)](https://scholarcommons.usf.edu/anaheipublishing/vol12/iss72014/1)

This observation suggests that sustainable value creation after divestments needs time to develop. However, over the whole observation n-period of two years, strategic divestments definitely bear positive value effects, initial barriers have to be overcome first, to put efficiency gains into effect. These reach a statistical apex about one year after the divestment (period N4 and N6). For observation period N7 the efficiency effect of divestments possibly is diluted due to other market influences.
H2: ANOVA analysis of CAR time dependence- Impact of divestment year on divestment value creation

Do the long-term CAR values depend on the timing of contract conclusion, as suggested by H2? H2a tests to what extent post-divestment as compared to per-divestment CARs depend on the year of contract conclusion. Table 3 illustrates the mean values by year of contract closure and observation period. Values marked in green are highest for the respective observation period, values marked in red are lowest.

The following table 3 illustrates that highest and lowest CARs occur in the years 2005 to 2008 most frequently, indiscriminate of the observation time. For observation period, N4 and N5 highest CARs are found for deal year 2011. By tendency, CAR volatility after divestments has diminished after the global economic crisis.

Table 4: CARs by year of divestment contract conclusion (own draft)

<table>
<thead>
<tr>
<th>deal year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>total ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>V-total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>stand.</td>
<td>[-720,-100]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N1</td>
<td>[+14,+114]</td>
<td>-0.07939</td>
<td>-0.10976</td>
<td>-0.09534</td>
<td>-0.04727</td>
<td>-0.02736</td>
<td>-0.0629</td>
<td>-0.02584</td>
</tr>
<tr>
<td>N2</td>
<td>[+115,+214]</td>
<td>-0.01558</td>
<td>-0.05691</td>
<td>-0.08705</td>
<td>-0.00598</td>
<td>-0.05768</td>
<td>-0.01217</td>
<td>-0.03778</td>
</tr>
<tr>
<td>N3</td>
<td>[+215,+314]</td>
<td>-0.09575</td>
<td>-0.09439</td>
<td>-0.04228</td>
<td>-0.02440</td>
<td>-0.02957</td>
<td>-0.03047</td>
<td>-0.00771</td>
</tr>
<tr>
<td>N4</td>
<td>[+315,+414]</td>
<td>-0.0551</td>
<td>-0.03014</td>
<td>-0.05144</td>
<td>-0.07959</td>
<td>-0.02561</td>
<td>-0.01973</td>
<td>-0.00469</td>
</tr>
<tr>
<td>N5</td>
<td>[+415,+514]</td>
<td>-0.0405</td>
<td>-0.07318</td>
<td>-0.00278</td>
<td>-0.08976</td>
<td>-0.03838</td>
<td>-0.08709</td>
<td>-0.09164</td>
</tr>
<tr>
<td>N6</td>
<td>[+515,+614]</td>
<td>-0.07692</td>
<td>-0.05544</td>
<td>-0.13657</td>
<td>-0.05571</td>
<td>-0.05205</td>
<td>-0.04338</td>
<td>-0.08604</td>
</tr>
<tr>
<td>N7</td>
<td>[+615,+714]</td>
<td>-0.03922</td>
<td>-0.25904</td>
<td>-0.02213</td>
<td>-0.02806</td>
<td>-0.00099</td>
<td>-0.02477</td>
<td>-0.07542</td>
</tr>
<tr>
<td>N-total</td>
<td>[+14,+714]</td>
<td>-0.01577</td>
<td>-0.01872</td>
<td>-0.02427</td>
<td>-0.00800</td>
<td>-0.00947</td>
<td>-0.00126</td>
<td>-0.01904</td>
</tr>
</tbody>
</table>

The ANOVA tests conducted to assess H2a are not significant for any observation period. H2a has to be denied. The year of deal conclusion is not apt to predict sustainable market value creation due to strategic divestments reliably.

This conclusion explains, why underperformers (scheduling late) turn out to be over performers later, while deals concluded in Q1 to Q3 show excess post-divestment performances much less frequently. When the divestment decision is connected to the urgent need for a change of business policy, firms are likely to take serious action in the year to come and improve their business strategy in the following year. Simultaneously, investors perceive a reduction of debt capital or balance sheet change resulting from a divestment at the end of the year more directly than a divestment that takes place in Q1 to Q3, and decide in favour of Q4-divestors for the new period, which drives stock prices. From a principal-agent perspective divestment contracts concluded in quarter 4 are perceived as a signal in the capital market and are more information-efficient than deals concluded earlier in a year.

Discussion

Bringing the insights of the empirical analysis together, the initially posed research questions on sustainable market value creation by strategic divestments now can be answered: First, it was asked, how models, established for short term divestment research, can be adapted for the analysis of long-term divestment value creation. This study has developed a statistical method of analysis for long-term cumulated average abnormal returns, by modifying the CAR-approach proven for short-term analysis. The conventional CAR model as applied by Brauer & Schimmer (2010) Brauer & Wiersema (2012) and Bartsch (2009) for instance, is apt for the (very) short run only since it operates on the assumption of constant beta-factors. In fact, the risk exposure of stocks as compared to the diversified market portfolio changes over time, which means that this assumption is not correct for the long run. For this reason all but one (Lambertides, 2009, 656) available previous studies use the CAR-model for an observation period of no more than 10 days after the event.
Here a novel method of CAR calculation has been developed that operates based on gliding alpha and beta factors. A lag of 200 trading days is chosen for which the capital market line is calculated in advance of each observation day. This strategy makes the CAR model applicable to arbitrarily long observation time spans. This study tests the approach for an event window of 720 days before to 720 days after a divestment event, omitting 100 days before and 14 days after the event, to exempt the influence of short term market reactions. The observation range after the event is subdivided into tranches of 100 days each (compare figure 2 and 3).

Applying this methodology the study provides novel objective insights on the sustainable market value creation after divestments and answers research question 2, whether divestments result in positive abnormal returns in the long run: Previous long run studies usually applied management surveys (Kahlert, 2008; Schiereck & Stienemann, 2004, Anslinger et al., 2003) or accounting figures (Hanson & Song, 2003, Cristo & Falk, 2006, Chen and Guo, 2005). Neither method represents the perspective of a prospective investor asking for the market value after divestments. Further, management surveys are biased by the perspective of the participating managers concerning the performance assessment after the divestment. Accounting based studies suffer from the information bias inherent in any firm balance and do not include market expectations. Both types of analysis cannot analyse detailed time frames after the event.

This evaluation has closed these research gaps: Applying the modified CAR approach post-divestment returns have been analysed for seven consecutive 100- intervals and the whole 700-day period after the event and have been compared to the 700-day period before the event. Briefly, the test of hypothesis 1 has shown:

- For each part period the share of over- and under performers after divestments as compared to the expected fair return is around 50 % (compare figure 4). Over-performers though show significantly higher absolute returns than under-performers.
- Comparing post-divestment CARs to pre-divestment CARs, considering the whole post-divestment period, divesting firms perform significantly better than before (compare table 3).
- Sustainable positive market value needs time to develop: While in the first 200 days after the divestment – exempting technical course reactions in the first fortnight after the deal – post-divestment CARs are negative by tendency, they are significantly positive from day 315 to 414 (part period N3). The average positive effect disappears in period N7 (compare figure 4).
- The economic theories of the market based and resource-based view reviewed suggest that efficiency gains after divestments need some time to develop and markets need time to react to changes.

The evaluation of H2 answers research question 3, concerning the dependence of post-divestment returns on the timing of the divestment deal. While Brauer & Schimmer (2010) and Brauer & Wiersema (2012) have found cycles for the short run no previous study has analysed the long run so far:

- Post-divestment returns do not significantly depend on the year of deal conclusion.
- The quarter of deal conclusion has a significant impact on post-divestment returns: Deals concluded in quarter 4 perform significantly better than deals concluded in quarter 1 to 3 in the period N4 (315 to 414 day after contract conclusion) and in the post -divestment period as a whole.
- Pre-crisis divestments do not significantly differ from post-crisis deals concerning post-divestment returns. Pre-crisis deals though performed significantly better in the pre-divestment period than post crisis deals, which suggests that between 2005 and 2007 equally well performing firms found divestments attractive, while after the crisis, capital shortage and the need for consolidation were major reasons for strategic divestments.

To some extent, long-term as well as short-term market value development after divestments depends on the timing of the sales act. The broad span of performance results though suggests that firm-specific factors have an important impact on the sustainability of value creation.
References


Education System Seen as an Organization

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Abstract

An Education system viewed under the principles of business theories can give a strategic perspective focused on value creation and lead to a constant redefinition and innovation of the system. Drucker’s eight business principles were applied in the Colombian education system to analyze its performance as an organization and then a Canvas model was built, and one by one its nine components were studied and the relations between them. After analyzing and studying, it was found that the Colombian education system has three critical points: pattern model focus, value creation clarity and disarticulation and incoherence of the model, all of them consequence of the absence of a strategic direction which results in synergy problems. With this work administrative science was directly put under social service, to give a new perspective that helps to rethink the way Colombia is approaching to the improvement of one of its most prior and urgent themes.

Keywords: Education System; Business theories, Canvas Model, Drucker’s business principles

Introduction

According to Bertalanffy (1976) a system is a set of related units capable of transforming inputs into outputs that interact with the environment. The inputs of the education system are the economic resources provided by public or private investors and the expected outputs, after transforming processes, are citizens with intellectual, technical, human and social skills that should work to address issues such as development, life quality, violence, and inequality among others.

In the Colombian education system, seen in a general way, inputs are represented by the public investment and outputs can be measured according to some indexes and the results of international tests, as it is shown by the figure below.

![Current Colombian Education System](image)

As it is indicated by Fig. 8 something is not working properly in the transformation process because despite the Colombian investment in education is higher than that of other Latin-American countries like Peru,
Ecuador, Venezuela and Chile (The World Bank, 2013), the results do not have the same performance and are not the expected ones. Management theories and business tools can be a way to assess why the process is not working and which are the critical points of the system that are throwing such bad results. However, to apply those theories and tools to the education system, it is necessary to first homologate it as an organization.

Drucker exposes eight principles that every organization should respond to, to be understood as one of them and additionally be functional and structured. On the other hand Osterwalder and Pigneur (2009) propose a tool for business model construction (Canvas), to comprehend/analyze which activities the organization does to transform its inputs into outputs, satisfying its clients’ needs and generating value. Canvas is also an analysis tool to be considered, for existing organization to determine or identify its weaknesses and critical points.

The purpose of this paper is to identify those critical points and weaknesses in the Colombian education system, using Drucker’s theories and Canvas as analysis tools.

**Background**

**Drucker's Theory and the Education System as an Organization**

Drucker was chosen in this study not only for his strategic and structural conception of organization but also for the importance he gives to keeping things simple and flexible in order to be able to adapt to continuous changes and specially because he understands an organization as a social institution that must be economically viable and also respond to social needs. To Peter Drucker (1992, p.67) an organization is a human group working together for a common task, and its characteristics are:

1. It is focused and specialized on one task
2. It has a common, clear and well-focused mission
3. Its results are always outside, inside there are only costs
4. It has clearly defined and measurable results
5. It is always competing with their most determinant resource: prepared, educated and dedicated people, then organizations must keep their staff motivated and satisfied
6. It must be structured as a team where everyone is equally important
7. It should be administered; there should be someone to make decisions
8. It should work autonomously despite of government dependence, “If they are used to carry out government policy, their yield immediately stop”

Under those characteristics the education system can be considered as an organization specially because it is composed by a human group working together, looking for doing the knowledge productive and taking social action. Also because its results are oriented to outside, its key resource are professors, teachers and knowledge, because it requires a constant adaptation to the cultural changes and because, in general, it has a clear and common task and its results can be measured. In that way business tools such as Canvas model can be applied.

**Canvas Business Model**

A business model explains the way an organization operates. One of the business models most commonly used is the Canvas model, which was designed by Osterwalder & Pigneur (2009). This model allows to design, describe, evaluate (purpose of this paper), invent and pivot the organization business model through a set of elements and their relationships that express the logic of how a company works. Given that the Canvas has a holistic and synergic vision needed to approach the educational subject and it is also a simple and a clear tool that allows to test and redefine the business model, as Drucker recommends, it is chosen as the tool to analyze the Colombian education system. The Canvas consists in nine blocks that, as Osterwalder & Pigneur (2009, p.15) say, “cover the four main areas of a business: customers, offer, infrastructure, and financial viability”. These blocks are:

1. **“Customer segment:*** Group of people or organizations an enterprise aims to reach and serve”
2. **“Value proposition:*** Bundle of products and services that create value for a specific customer segment”
3. **“Channels:*** How a company communicates with and reaches its customer segment to deliver a value proposition”
4. “Customer relationships:” Types of relationships a company establishes with a specific customer segment
5. “Revenue Streams:” The cash a company generates from each customer segment
6. “Key Resources:” The most important assets required to make a business model work
7. “Key Activities:” The most important things a company must do to make its business model work
8. “Key Partnerships:” Network of suppliers and partners that make the business model work
9. “Cost Structure:” Describes all costs incurred to operate a business model

Procedures

Having the theory and the tool for conducting this study, a methodology is designed and divided into two main stages: The searching and bibliographic review and the assessment which in turn is divided into the assessment under the light of Drucker’s theory and the assessment using the Canvas model as a tool.

Fig 2. Methodological procedure

Results

Colombian Education System Performance as an Organization. under the Light of Drucker’s Theory

To analyze the first and second characteristics of an organization according to Drucker’s point of view, it is necessary to have clear the Mission Statement of Colombian education system, which is: “Achieve a quality education that forms better human beings, citizens with ethical values, competent, respectful of the public, exercising the human rights, fulfilling their duties and living in peace; an education that generates progress and prosperity opportunities for the country. Achieve a competitive, relevant education that closes the inequity gaps and in which all the society participates” (Ministry of National Education, 2013). Having clear where Colombian education system leads to, it is possible to analyze the aforementioned characteristics.

1. About the degree of the task concentration: even though education is a complex activity that includes many aspects, it is important to define one central axis that articulates all activities. At first appearance the focus of Colombian education system is on achieving a quality education but quality is not the only focus. The Ministry of National Education also defines as priority achieving progress and prosperity opportunities through education and a competitive and relevant schooling. Clearly there is not a focus or a single task that concentrates the efforts, there are isolated objectives.

2. About the mission: as it can be seen in the mission statement, the Colombian education system mission is an unfocused one, and as the expert in education Carlos Giraldo (2013) says, there is no clarity about what the government wants in terms of society and education development, and if that is not clear all paths can be proposed without knowing which one is the right one.
3. **About externality of the results:** as it can be seen in Figure 1, The investment in education (input) generates outside results, which directly impact the society and are clearly visible as much in the professional exercise as in the social one. The problem of these results is not about their directionality but the kinds of the results that are emerging, which are not satisfactory as it can be seen in Figure 1 too. Additionally it is observed that despite recognizing some outside needs, such as the need of English as a second language, the need of a bet in technical and technological education and the need to give importance to investigation, innovation, entrepreneurship, science and technology, the work in those issues is not visible as Figure 3 shows.

![Fig 3. Advancement and indicators of improvement](image)

4. **About measurability of the results:** from national government there are some objectives that are called of mission. According to the Ministry of National Education (2013) some of these are:
   - To give elementary education framed on integral attention.
   - To improve education quality in all levels through the strengthening of the competencies development, the evaluation system and the assurance of quality system.
To minimize the urban and rural gaps between diverse populations, vulnerable and for regions, providing equal conditions of access and permanence in a quality education in all levels.

To educate with pertinence and include innovation for a more competitive society.

To strength the educative sector to be a model of efficiency and transparency.

It can be noticed that the difficulty to measure is given in two perspectives. The first one is the capacity of being objectively measured and the absence of indexes or scales to measure. The second one is the fact that the mission is not clearly defined; which does not make possible to determine the performance of the results to help in that purpose.

5. About the most essential resource: One of the most important experiences of a student depends on teachers. This human resource, in charge of being an active tool to accomplish the education objectives, must be a priority, prepared, instructed and dedicated and its retention and encouragement must also be a strategic concern. However, in Colombia the reality is different. The deputy of the Antioquia departmental assembly Jorge Ivan Montoya (2013) expresses that on the contrary it is one of the major weaknesses because “the assigned teachers are not formed at their best” which results in didactics and methods totally outdated in the current context. Mireya Ossa (2013), expert in education, confirms the necessity of educating teachers and that they should have a dignified salary and access to health, which in her perception is not happening, affecting their motivation and performance.

6. About structuration of the associated team: Montoya (2013) comments that “the system is unarticulated, there are not strategies of knowledge construction and the different actors (schools, families and society in general) go in different directions”. Also the principal of EAFIT University affirms that “a difficulty is to think that law transforms reality instead of thinking that law must be created to respond to education needs of integrating all the system” (Mejía, 2013). Having said this, it is evident an unarticulated system regarding to the actors and the relationships among them and also regarding to the legal system that governs it. It is not clear whether education should serve the legal system or vice versa.

7. About managing and direction: If the Ministry of National Education organigram is observed, it can be seen that in its head is the minister office in charge of making decisions and managing. The query arises whether the person who holds this position really addresses from what managing means. According to Drucker (2006) the specific tasks of a manager are: to establish objectives, to organize, to motivate and communicate, to measure results and to develop human resource, all this to guarantee a MBO (management by objectives) that is defined as the process to be agreed about the organization objectives, which imply to the objectives to be common, to be clearly defined and to be known for everyone to grab them, are agree with and are oriented to them. To achieve the objectives the managers must avoid being busy on daily tasks forgetting to be focused on the purpose (Drucker, 2004). According to that, education in Colombia is not being managed by objectives because those are dispersed and ambiguous and do not refer to a common ground or focus, hence the manager (ministry) probably is not exercising judiciously the specific tasks that Drucker mentions.

8. About autonomous work: From the perspective of an organizational structure, the Ministry of National Education directly depends on the President and as it is supposed to be articulated to state policies as the big permanent frame, it must also be coherent with the development plans, which implies to have an adequate balance between political control and use. Education must respond, as mandated by the constitution, to the citizens’ development and, in consequence, of the country, and that is why education must be oriented to accomplish with the state policy, not to particular interests or favors. With regard to that, Montoya (2013) says that “today personal interests are more important than the common wellbeing” and that “the service vocation, in the biggest majority of politicians, does not exist”. Besides that “the state has the whole responsibility in the matter of education and this should be the main public policy as the constitution consecrates”. According to this, it is the state that must be at service of education not education at service of political machinery because it could conduct to what Drucker warns: having an end leading to

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80 [http://www.mineducacion.gov.co/1621/w3-article-151216.html](http://www.mineducacion.gov.co/1621/w3-article-151216.html)
governmental policy threatens with making education work as an organization fails, and that is exactly what is happening in the Colombian case (Drucker, 1992).

Under the light of these eight characteristics, it can be said that Colombian education system is not having a good performance as an organization.

**Canvas Business Model of Education System in Colombia**

Osterwalder & Pigneur (2009) define five business patterns, but the most accurate regarding the educational system is the Unbundling business model. This model is used for organizations that execute three different activities (costumers’ relationship, products innovation and infrastructure) and which must define where, in one of these three activities, will establish the focus that will lead to the other two. The Colombian education system has a set of attributes that correspond to this business pattern but specifically with a focus in infrastructure due to the fact that it is framed on a traditional education model. The attributes that evidence this focus are:

- It is a standardized and predictable education: the first characteristic of traditional education is to teach everything to everybody (Comenio, 1998), additionally the Colombian curriculum defines a very structured and detailed scheme that describes contents, pedagogical activities, time, procedures, assessment, among others (Ministry of National Education, 2002).
- It is an industrial education: the current model was designed to satisfy the needs of an industrial society that does not work anymore (Robinson, 2013).
- It is a crowded education: in elementary education it is possible to find groups with around forty students and in high school around forty five where the teacher does not have time enough to personalize the education (Caracol News, 2009).
- It is a repetitive education: under the current model students are taught to pass exams, not to think by themselves. Exams are not design to measure comprehension but to measure the capabilities of repeating. (Naranjo, 2011).
- It is an education based on cost and efficiency: Colombian law states that the educational institutions must guarantee, at the end of the year, a 95% minimum promotion (Ministry of National Education, 2002), it does not matter if they are adequately prepared for the next grade.

Even though the three activities of this pattern are important for the education system, a mechanistic focus, like infrastructure focus, is not the most appropriate when the value proposition, as the mission shows, is oriented to the human complexity in a local and global context. A neoclassical focus as the one defined by Drucker (1992) can provide flexibility and simplicity to the pattern and can direct it to the important objectives, yielding to a new unbundling pattern where the infrastructure is a lighter, agile and adaptable axis that supports the customer relationship before jumping to the innovation, which requires a more advanced system. Having its pattern specified the business model can be built, as it is shown in Figure 4, where a summary of each Canvas block for Colombian education system is made.
As it is shown in Figure 4 the nine blocks can be grouped in four axes, value proposition, infrastructure, interaction with students and cost and revenue. Value proposition explains, as the name says, the value that the organization is willing to give, in this case according to what the system defines in the objectives and in the six fields where the Colombian education should be relevant (Normative, The country vision, global, contextual, political and pedagogical and didactic) (Pérez, 2009). Infrastructure is formed by key resources, key activities and key partners as UNICEF (United Nations International Children’s Emergency Fund), UNESCO (United Nations Educational, Scientific, and Cultural Organization), national institutions for education, Ministry of National Education, Secretary of Education and ICBF (Colombian Institute of family welfare). Interaction with students covers the market segment(s), the channels and the students relationships; and finally, costs and revenue frame the revenue streams and the system costs that in this particular case some of them are: 4.49 % of GDP in 2012, which is over Peru, Ecuador, Venezuela and Chile, 22% of GDP per capita invested in each basic education student in 2011 which is also over Latin American average and 14.89% of GDP per capita invested in each secondary student in 2011 (The World Bank, 2013), additionally there are another costs like enrollments, transportation, feeding, materials, fees and others payments that the government makes to maintain the system.

One of the proposed strategies to evaluate the Canvas model given by Osterwalder & Pigneur (2009) is the SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. In this case just the strengths and weaknesses of each block are analyzed.
As is shown in Figure 5 the weakest axes are value proposition, infrastructure and interaction with the students, and the strongest one is cost and revenue. Each one of them is discuss below.

Each Axis Critical Points

1. **Value proposition:** Even though this axis only includes the value proposition its importance lies in two fundamental aspects, the first is that it determines the others axes management and the second is the fact that it is the only one perceived by the customer, so the impact on environment relies on it, meaning that in the system this is the most critical axis. The weaknesses rely on the fact that the education is not established according to the needs of the students and one of the reasons is that it is based on an overcrowded model. [11:19:21] Ana Maria Restrepo: According to experts, the children’s motivation is minimum because of the methodology and pedagogy used (Vásquez, 2013) and one of the strongest causes of dropout is the lack of interests and relevance given to study (DANE, 2012). The value proposition performance can be seen as an effect in the environment, ergo, the society transformation. This transformation is not occurring in a good way because according to the peace indicator Colombia is the most violent country in Latin America (El País, 2012). Finally as a global difficulty there is the fact that the government and the academy are not in the same page which affects how the value proposition is defined and focused (Giraldo, 2013).

2. **Cost and Revenue:** It is the strongest axis of the system, one of the reasons is the fact that the incomes are fixed because they are given by the government steadily, meaning that these incomes are recurring and sustainable. The financial statements for 2013 showed that the incomes covered the operational expenses and made a profit of 1.29% (Ministry of National Education, 2013), however it also has some weaknesses such as the fact that even though the system is taking advantage of the scale economy, sometimes it is at the expense of the quality (Gil, 2013). Additionally the scholar dropout affects the public expense efficiency, since one child education cost between $1.098.000 and $3.395.000 COP (General Comptroller of Colombia, 2013).
3. **Infrastructure**: The main function of the infrastructure is to support the value proposition; delivering the key resources and developing the key activities to the value can be given. Infrastructure also creates a network with key partners to ensure the fulfillment of this value. In the case of the key resources some of the experts declare that the teachers and professors are not well prepared for the job (Giraldo, 2013) and that and that they are not being appreciated as they should, not only in payment but in social recognition (Montoya, 2013), besides teachers and professors prefer the traditional and obsolete pedagogies over the new ones (Pérez M.P, 2013) and sometimes the economic resources are not sufficient to maintain an institution in good conditions (Rivera, 2013). About the key activities the expected advance of the education decadal plan was 64.4% and the obtained was 47.8%, besides 17 of 25 measured indicators of this activities fell below target (Decadal education plan, 2012). Finally, regarding the key partnerships it can be seen that there is a problem with the articulation among the partners, the families are not as involved as they should be (Vásquez, 2013) and nor the government (Pérez, M.P, 2013). At the end the net is not synchronized or it is not working for the same objective.

4. **Interaction with students**: The contact points determine the interaction with the students and they are responsible for their experience. Most of these contact points are managed by the channels and in those channels education is not being given through a close relation since in Colombia the average of students in a classroom is about forty five students (Caracol News, 2009). Additionally it can be observed that approximately 219.615 boys and 215.491 girls do not have access to education (The World Bank, 2013) being outside of the interaction. Meanwhile the didactic and methodological problems are evidence of the inconsistence of the channels with the value proposition (Giraldo, 2013). The customer segmentation is becoming an inequity mechanism, the lower the strata is, the lower is the quality of the education, and the relationships with students (Ossa, 2013). The performance of interaction with students is measured by reputation of the system and Colombian people do not believe that education is key to improve quality of life (Giraldo, 2013).

As it is evident, none of the elements involved in the education system model are synchronized one and other, nor articulated with the value proposition, ergo, they are not helping to produce a valuable experience for the student. The delivered value is not being effective, and additionally it is not being equitable for all segments, increasing the gap between rich and poor and minimizing the opportunities to narrow it.

**Axes Relations Critical Points**

The relationship between the axes is circular, starting from the cost structure supporting the infrastructure, which in turn guarantees the value proposition that interacts with the student who represents the revenue stream that supports the cost structure, closing the circle. In this structure the system performance is given from the cost, which is normal in an unbundling pattern with infrastructure focus, but according to Colombian education system objectives the center should be the value proposition focused on the relation and all other blocks should be articulated to respond to that and support it.

**Conclusion**

The first critical factor is the selected pattern model focus to which are added to the second critical factor, the mission focus difficulties and the clarity of the value proposition that directly impact on the third critical point, the disarticulation and coherence of the model. There are then three big problems in the education system, the first one is conceptual, the second is prospective and the third one is strategic. These problems should be addressed first by solving the prospective, understanding where is Colombia going and how education can help to, so pattern focus can be defined and the strategy and the management model are determined allowing an articulation and coherence regarding the vision defined from the prospective.

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Effective Supply Chain Management: A Review of Wal-Mart

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Abstract
Supply Chain Management (SCM) is one of the new business systems emerging with the development of cooperation between businesses and intensive use of information and communication (IT) technologies, has been applied extensively in recent years to increase customer satisfaction and to remain competitive in order to achieve such purposes by enterprises. SCM also includes the management of international trade, the relationship between suppliers. Small mistakes can be very costly to the companies in international trade. Therefore, the giant retailers like Wal-Mart, they use information systems used to increase the performance and efficiency is consistently great introduction to investing. This study is a review of Wal-Mart’s effective supply chain management which is one of the largest and powerful retailers in the world and they have expended their business all over the world by having logistic systems that is comparable from any other retailers. This study examined Wal-Mart's supply chain management (SCM) process, cross-docking, (IT) information technologies, Scanner-Technology and the use of RFID and sales and pricing as cost dimension.

Keywords: Wal-Mart, Supply Chain Management, Cross-Docking, (IT) Information Technologies, RFID

Introduction
Enterprises are obliged to remedy deficiencies in the supply chain ranging from manufacturing to the customer at the end in order to achieve a flexible production in accordance with changing customer demands in the competitive conditions. Especially the intensive competition and free market economy in the market, revival or stagnation in domestic market and the idea of opening foreign markets lengthen the supply time of the product. In the last 20 years, the supply chain management (SCM) evolved as a management concept, as recently, with the increase in intensive use of information and communication technologies and the development of inter-firm collaborations it is seen that SCM is one of the emerging business system. Figure 1 shows the evolution of supply chain collaboration the years between 1980's to 2000's.

Fig. 1. Evolution of Supply Chain Collaboration
It is seen that SCM became an important competitive advantage used recently by most of the enterprises in order to achieve the purpose to increase customer satisfaction and to remain competitive. Enterprises must provide the resources with the highest efficiency, highest quality, lowest cost to achieve competitive advantage, with the aim of surviving under competitive conditions and increasing competitor in this field. Fast moving consumer goods are a manufacturing sector which started globalization. Like Wal-Mart the most successful companies today know that to provide continuously being the dominance of market depends on how they keep under control on evolutionary processes located within their supply chain. It is observed that Wal-Mart is the best retail brand in 2013 and the success behind it became worth to examine. Wal-Mart has one of the most effective SCM in the world and in this respect this study reviews the SCM process of Wal-Mart as; cross-docking (as logistic technique), inventory (stock) management and (IT) information technologies.

Issues

Supply chain management is defined as creating value systems to provide a high level of information-sharing and sustainable competitive advantage member organizations high performance within the organization and integration of supply chains, collaboration within organizations relations and effective business process (Handfield and Nichols, 2002). SCM is the management of money, information material/product between supplier, manufacturer, distributor, retailer and customers to achieve raw materials for production and deployment of obtaining final customer as much of an asset located in a value chain. The company provides integrated internal resources to work efficiently with external sources. The goal is to increase the values that make up all of the company’s performance, such as improved production capacity, market sensitivity and customer/supplier relationship.

Companies are required to achieve these objectives by increasing the communication and sharing of information with suppliers and customers, their suppliers and their customers in the entire of supply chain. Recently in the changing world competition will be no longer among stand-alone companies there will be competition within the supply chain of the companies (Kehoe, Boughton, 2001). Everyone in the organization needs to understand and support the concept of SCM. The supply chain structure makes it necessary that creating a successful SCM needs the support of other functions in the enterprise. SCM requires the coordination of activities distributed over a wide area and with the functional boundaries it transcends the boundaries of organizations.

The basic condition for success of SCM is effectively sharing the fast and accurate information among procurement, production, marketing and logistics et. al. (Lancioni, Smith & Oliva, 2000). Wal-Mart has demonstrated the opportunities to combine lean supply chains with high levels of customer service. Wal-Mart adapted a new technology to meet retail industry needs. Retailers provide labour-intensive services and have quite high employee turnover rates, so hiring is a substantial burden.

Wal-Mart established in 1962 by Sam Walton with the perfectionism mentality, opened the first store in Rogers, Arkansas, United States. Wal-Mart was America’s Top Retailer By 1990, as the Wal-Mart supercenter redefined convenience and one-stop shopping; "Every Day Low Prices" went international. Wal-Mart rose to the position of the largest employer in the U.S. in 1997. By the year 2014, the company employs 2.2 million associates worldwide and serves more than 200 million customers each week at more than 11,000 stores in 27 countries (http://corporate.walmart.com/, [Jan.10, 2014]). The Interbrand of the year 2013 is Wal-Mart, it delivered its best top-line results in the last five years and continues to be the dominant retailer in the U.S. with 10 percent of all retail sales more information can be found on http://www.interbrand.com/en/ BestRetailBrands/2013/ [Jan.10, 2014].

Wal-Mart still continues to grow and expand into the international arena and this phenomenal growth of company is attributed to its continued focus on customer needs and reducing cost through efficient supply chain management practices. Wal-Mart is one of the world’s most high-tech companies and the most important factor of the company's success is undoubtedly its effective SCM. Wal-Mart is having the industry's most sophisticated inventory control and electronic data interchange system by investing in technology and better logistics systems as well as improving the investment of stores.
Procedures

This study is a review of Wal-Mart’s cross-docking as logistics technique, information technology (IT), scanner and RFID Technology, Electronic Data Interchange (EDI) to internet based supply chain systems and sales and pricing as cost dimension.

Simchi-Levi, Kaminsky and Simchi-Levi (2003) define that cross-docking is a supply chain strategy which can bring significant savings in supply and supply chain cost. In the late 1980’s to make the distribution process more efficient Wal-Mart began using this logistic technique in the retail sector. In Wal-Mart's cross-docking, goods are continually transmitted to company's distribution centers where after the selection, repack and consign to the stores they are crossing from one loading dock to another in less than 48 hours, instead of waiting useless in the warehouses (Stalk, Evans and Gulman, 1992). In this system cross-docking facilities are operated as transfer points where the purpose of eliminating the storage of materials they are not used as stores like in traditional shipping (Simchi-Levi et. al, 2003). While in the traditional supply chain retailers put the products into the stores, but cross docking system works when the customer takes the product from the shelf. In addition to that Wal-Mart has its own transportation system beside its competitors. This gives an advantage to company to lower the transportation costs.

Wal-Mart has used information systems to enlarge many operating advantages. Wal-Mart gains a cost advantage by using (IT) technologies and makes it better to control orders and inventory. The company cautiously manage store inventories with the informations come from seizing and monitoring costumer demand. This control is extended through the distribution system, as Wal-Mart uses its capabilities to coordinate the flow and inventories its distribution centers, can be seen also in Figure 2 (Leenders, Fearon, Flynn, Johnson & Flynn, 2006).

Leenders et. al. (2006) mention that the use of (IT) for inventory management has the obvious effect of improvement efficiency and inventory turns, which reduces cash-to-cash cycle times. But it also allows for increased variety. Wal-Mart gained competitive advantage through superior inventory management, enabled by its investments in sales and inventory tracking. Accounting and human resources management systems are as a core and they make inventory management context.

Wal-Mart has done rationalistic investments in support systems and developed its own private satellite-communication system that sends daily point-of-sale data directly to its 4,000 suppliers to operate cross-docking (Stalk et. al, 1992) as can be seen in Figure 2 Wal-Mart’s Supply Chain. By satellite communications between the suppliers, distribution centers and stores Wal-Mart Headquarters gets all the information of chains in SCM. Distribution centers work as a transfer points crossing from one loading dock to another, suppliers directly get the information from the stores by satellite communications and prepare the products for the needs of the stores.


Wal-Mart's eventual use of scanner technology has been fundamental for the company. With this system
Wal-Mart constantly knows about the selling information from where and when happens. This technology helps to replenishment what needs in the stores. Wal-Mart's products remain on the shelves as consignment by the manufacturers and the use of scanner made it possible to create and manage larger inventories (Hair, Wolfinbarger, Ortinau & Bush, 2008). Wal-Mart now requires its top 100 suppliers to use RFID technology in shipping cases and pallets (Attaran, 2007). RFID is a system consisting of RFID tag, receiver and antenna by these reads the radio frequency data and transmits a processor and contains the information to be transported RFID tag. FID tags also provide the informations of customer behaviors which can be used by retailers and suppliers.

Electronic Data Interchange (EDI) provides data transferring among the companies in the supply chain in a to increase the speed and accuracy of data streams, to eliminate multiple datas to be entered in different systems and same data in different places (Lambert, Stock & Ellram, 1998). A fundamental strategy to reduce supply chain costs is cooperating with the rings in the supply chain and as a result sharing benefits to be obtained. Electronic Data Interchange Systems (EDI) replaced by the internet data based supply chain systems where exchange of information and managing the supply chain process much faster and cheaper (Brockmann, 1999).

Lancioni, Smith & Oliva (2000) defined that internet based supply chain management is a system which is established in internet to supply raw materials used in production, to move these substances to production areas and to reach the products performed to the customer. Internet based supply chain management will make a significant contribution to reduce the costs and provide optimal use of resources within the organization of inventories, production and logistics plans according to the conditions of reaction of changes in market. Wal-Mart settled internet based system among Procter & Gamble (P&G), within this P&G watched the stocks in Wal-Mart's distribution centers and stores and provided its own products ready for customers to buy (Koch, 2002).

More than ten years after the Wal-Mart and Procter & Gamble meeting, their desire to work together more collaboratively has spawned a new business model, new business processes and practices, and new technology to support trading information among supply chain partners. For Wal-Mart, supply chain collaboration has been part of a transformational strategy that has enabled it to eliminate waste from its supply chain and pass along the savings to its customers. Wal-Mart has been rewarded for its effort with sales revenues that have risen nearly 15 percent per year (Ireland, 2004). Wal-Mart's financial performance can be seen Figure 3 and Wal-Mart inventory as a percent of revenue can be seen in Figure 4.

![Graph](https://scholarcommons.usf.edu/anaheipublishing/vol12/iss72014/1)

**Fig. 3.** Wal-Mart Financial Performance (Ireland, 2004)
Changing the business rules has also provided opportunity for Wal-Mart’s suppliers to improve their companies’ financial performance. For Procter & Gamble, the new way of doing business has bolstered its footing in the extremely competitive consumer goods industry. Procter & Gamble has also used its leverage in the market place to convince its other retailer customers to adopt supply chain collaboration (Ireland, 2004, p.54). Wal-Mart focuses on providing goods at the lowest possible cost to the customer. Wal-Mart in particular has developed network-based capabilities that allow it to achieve low cost performance throughout its supply chain. Managers of the local Wal-Mart store had the freedom and flexibility in determining the purchase, price adjustment and product issues to respond to local rivals and to the changing needs of customers (Leenders et. al, 2006). "Every day low price" strategy offers to the customer with a better deal and provides savings in merchandising and advertising costs (Stalk et. al, 1992). Because of the high amounts of purchasing power for the company has a good bargain. Wal-Mart's sales growth can be seen in Figure 5.

Wal-Mart's US sales have been growing at more than 6%, while overall retail sales over that time have grown at just a 3.2% rate, from about $1.6 trillion in 2001 to $2.3 trillion last year. Wal-Mart Share of US
Sales (US Store+Sam's) of total US Retail Sales can be seen in Figure 6.

![Figure 6. Wal-Mart Share of US Sales (US Store+Sam's) of total US Retail Sales](http://www.scdigest.com/ASSETS/FIRSTTHOUGHTS/12-07-26.php?cid=6047)

Wal-Mart operates more than 10,000 retail units in 27 countries. The customers who have the annual income which is less than $30,000 shop at Wal-Mart stores and this constitutes approximately 65% of American consumers (Tekinay, 2005). Wal-Mart price policies to earn more with making the price increases on drop and increased volume. Wal-Mart, carried out the amount of the sales within an hour is $38 million. In this sense, Wal-Mart becomes one of the world's most efficient company. Wal-Mart transmitted over the Annual Report (2014) that can be seen in Table 1, the total revenues of activities inside and out of America the years between 2012-2014 (http://walmart.com/, [Apr. 25, 2014]).

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Total Incomes of Wal-Mart the Years between 2012-2014</th>
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<td></td>
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<td>U.S (in) activities</td>
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<tr>
<td>$338,681</td>
<td>$332,788</td>
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<tr>
<td>U.S. (out) activities</td>
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<tr>
<td>$137,613</td>
<td>$135,863</td>
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<tr>
<td>Total Incomes</td>
<td></td>
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<td>$476,294</td>
<td>$468,651</td>
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As shown in Table 1 Wal-Mart's total incomes continuing to increase with US (in) and US (out) activities for the last years. The company's system of online sales Wal-Mart to go pursues a strict competition policy also in the digital world as well as in the physical store.

**Results**

Cross-docking provides significant savings of racking in the ways of storage, materials replenishment, order picking, preparing and packing for shipment are eliminating functions. Instead of using a large fraction of distribution centers for storage as waiting stops, by converting them to transfer points companies can provide a competitive advantage in macro level. Wal-Mart's success in reducing the storage, distribution and logistics costs was to be settled every Wal-Mart store to the distribution center in one day distance. Mol(2013) draws attention to Wal-Mart's lower transport costs because of its own transportation system which is making delivery to different stores in less than 48 hours. Transport costs of Wal-Mart is 3% of total costs, competitive transport cost is 5% of their total costs. To have company's own transportation system provides Wal-Mart to fill the store shelves four times faster than the competitors.

Some of the potential benefits of the RFID technology include the following manual counting and bar counting and bar coding of incoming and outgoing material are eliminated; readers can automatically track
inventory levels; identifying and picking inventory would be faster, easier, and more accurate; and spoilage could be reduced through improved stock rotation. Zhu and Thonemann (2009) report that using the RFID technologies Procter & Gamble and Wal-Mart lowered their stocks 70%, developed their level of service from 96% to 99% and at the same time reduced their management cost in this way.

**Fig. 7.** Stock Time Period in Suppliers, in Distribution Centers and in the Stores.

Wal-Mart's stock management significantly has resulted effectively after the use of cross-docking, (IT) information technology and RFID Technology. As can be seen in Figure 7, with the use of these technologies stock time period in the supplier reduced from 30 days to 3 days. The stock time period in the distribution centers reduced from 30 days to 2 days and in the store reduced from 14 days to 3 days. All of these provided suppliers to answer the product need more faster. Wal-Mart see the benefits of effective inventory management in this way according to the competitors that Wal-Mart stores are filled the distribution centers 2 times a week, but the speed of the overall sector is repeated 1 time per 2 weeks. Within the Wal-Mart's stable sales with prices becoming more predictable, in that case, thus reducing stock-outs and excess inventory is avoided. Low price policy provides that always a high level of sales volume is to be ensured and this brings easy profit sharing (Stalk et. al, 1992).

**Conclusions**

This study reviewed Wal-Mart to examine supply chain management system which is considered to be one of the vital for the companies-business system. In this sense, today, in developed countries is thoroughly understood that the necessity to implement in enterprises and this study may lead the enterprises in order to understand the importance and benefits of the most effective supply chain management company in the world. The Wal-Mart's effective supply chain management system consisted of cross-docking, (IT) information technology, RFID Technology, and Internet based supply chain systems and the sales and pricing strategies supported this system in order to get success. Wal-Mart's effective supply chain management system benefits are seen as; shortening of delivery times, faster inventory turns, and increasing inventory levels more precise estimates, storage areas, a reduction in the replacement stock and better use of capital. In addition to these, due to reduce dependence on distribution center managers which made training costs reduce and minimize the errors, however the risk of nonstock and its harms were also eliminated.

In developing inter-enterprise integration and cooperation is seen that the value spreaded in creative ways with the help of information and communication technologies. Today's world of business will be competitive in the environment of each companies own supply chain rather than the individual competition. This sense, enterprises in our country should create an environment of trust and move business processes required to open to each other for to stay competitive and transfer their businesses to the next generations. The opportunity to earn more benefits will arise for all supply chain members who practice in the way of businesses through the whole chain with the coordination of the management. It has been indicated in this study that to have a superior SCM and e-supply applications are the important roles behind the Wal-Mart's succeed in world markets.

Wal-Mart’s supply chain management system has provided the company with many competitive benefits such as lowering product costs, reducing the stock transportation costs and highly competitive pricing for
the customers. This strategy has helped Wal-Mart to become a leading power in the competitive global market. As technology develops Wal-Mart carry on improving its supply chain to have much more efficiency by focusing on the inventive SCM processes and systems.

References
On the Optimal Selection Problems with Monotone Thresholds

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Abstract
As a class of optimal selection problems with monotone thresholds, we define candidate-choice problem (CCP) and derive two formulae for calculating the expected payoff of the CCP attained by the optimal selection rule. We apply the formulae to the best-choice duration problem and give an explicit expression for its optimal payoff, because Ferguson, Hardwick and Tamaki (1992) found this problem to be a CCP, but left unsolved the expected payoff. The similarity between this problem and the best-choice problem with uniform freeze studied by Samuel-Cahn (1996) is recognized. As an interesting comparison, we also give the optimal expected payoff of the best-choice duration problem with recall.

Keywords: Secretary Problem; Optimal Stopping; Planar Poisson Process;
The Influence of Emotional Intelligence on the Adjustment and Performance of Exchange Students

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Abstract

Stemming from the concept of social intelligence (Thorndike & Stein, 1937), emotional intelligence involves four interrelated abilities: perceiving, utilizing, understanding, and managing emotional information in oneself and in others (Salovey & Mayer, 1990; Mayer & Salovey, 1997). Therefore, the construct has been defined as “the ability to perceive and express emotion, assimilate emotion in thought, understand and reason with emotion, and regulate emotion in the self and others,” (Mayer, Salovey, & Caruso, 2000, p. 88). Daniel Goleman brought emotional intelligence to the forefront of research and practice when his pivotal book titled “Emotional Intelligence” was published in 1995 (Goleman, 1995). Since its inception, emotional intelligence has proven to be an important indicator of success in a variety of work and life situations. Research on emotional intelligence has shown that the interrelated abilities predict a broad range of desirable work outcomes (See Lopes, Cote & Salovey, 2005 for review). For example, emotional intelligence has been associated with enhanced ability to manage stress on the job (Caruso & Salovey, 2004), it has been associated with better overall work performance (Van Rooy & Viswesvaran, 2004), and increased supervisor ratings of worker’s interpersonal sensitivity (Lopes, Grewal, Kadis, Gall, & Salovey, 2006). It has also been associated with the ability to adjust to new situations. For instance, emotional recognition improves one’s capacity to identify others’ mood states, allowing them to adjust more successfully to various social situations (Engelbert & Sjoberg, 2004). Emotional intelligence has predicted successful adjustment to new cultures in global work assignments, leading to greater satisfaction among international managers, better performance on the job, and less propensity to leave an international assignment (Gabel, Dolan, & Cerdin 2005). The authors attribute these results to the ability of emotionally intelligent workers to adjust to new work and societal contexts, allowing them to fit in better to their surroundings and interact with local people in meaningful ways. International students are defined in this paper as students who are attending an institution of higher education on a temporary visa and are not citizens of the host country. These students face many issues when adjusting to new universities. One of the most significant challenges these students encounter is not finding enough social support in the host country (Andrade, 2006). Being far removed from their family and friends, exchange students do not have the built in social support of other students. Hechanova et al. (2002) found that exchange students adjusted to new schools better when they had more interactions with individuals in the host country. Students that were able to seek out and develop relationships found it easier to connect with the local culture and traditions, making their exchange program more enjoyable and successful. Their study also revealed that only a small fraction of exchange students actually seek out and befriend students in the host country. This may be caused by the propensity to affiliate with other exchange students who share similar ethnic backgrounds rather than becoming friends with someone from who is from the country they are visiting. Similarly, another study showed that cultural connectivity was a significant factor in reducing acculturative stress associated with exchange programs (Yeh & Inose, 2003). The research suggests that students’ ability to adapt to new cultural surroundings is a critical component of a successful student exchange program, yet it remains unclear why certain individuals are better at making this adjustment than others. This study proposes that emotional competencies will assist exchange students in the adjustment process, leading to greater performance and satisfaction in their exchange program. Specifically, it is predicted that emotionally intelligent exchange students will show better performance in their host schools, higher satisfaction with the exchange program, and will be less likely to want to leave the exchange. The next section identifies how the emotional intelligence competencies help students adjust to the various demands of an exchange program. Then, the research methodology and implications are discussed in relation to the current study.

Keywords: Emotional Intelligence, Exchange Student, Acculturation
Global Readymade Garment Supplier Selection Practice: A Cloud Computing Technology Based Framework

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Abstract

Most of the global Ready-made Garment (RMG) manufacturers are highly dependent on outsourcing their finished products from suppliers of different developing countries. In this process the entire brand image of the companies also depends on their suppliers. As a result, it is very important to choose appropriate suppliers in this sector. Most of the suppliers are based on some developing countries for example, China, Bangladesh, India, Vietnam, Cambodia and so on. On the other hand, global buyers are based on some first world countries from North America, European Union (EU) and Asian region. Currently, in RMG sector, middlemen or ‘buying houses’ play a major role in connecting buyers and suppliers and in this process they make a handful profit out of that. As a result, the supplier selection process is also highly depending on these buying houses. On the other hand, potential RMG suppliers do not get selected because of not having proper connections with the buyers, unawareness of global market and trends, lack of information, technological resources, capital, skills and knowledge. Buyers are also unaware of the fact that there might be a lot of potential suppliers available those who can produce the same quality product in relatively cheaper price. There is need of a common platform for both the buyers and suppliers of this sector for initial stage connectivity to supplier selection. It aims to develop a common platform where all the potential buyers and suppliers can join and contact with each other by using Cloud Computing Technology (CCT). They can also conduct initial bidding, share information for tender notice, technical know-how with each other in this sector and finally buyers can select the appropriate supplier by using CCT. This platform will eradicate operations of buying houses in the long run.

Key Word: Readymade Garment (RMG), Supplier Selection, Cloud Computing Technology (CCT), Buying House.

Introduction

Ready Made Garment (RMG) sector has been one of the fastest growing sectors especially in the emerging economies. Now-a-days the global buyers are highly depending on the suppliers from some emerging economies for example India, China, Bangladesh, Vietnam, Pakistan, Thailand, and Cambodia. C O’Neal (1993) argues that the fast escalation of global competition is demanding dramatic cutbacks in the time-to-market cycle, along with higher quality products in lower costs. Competition has always been so high as a matter of fact the global brands are paying particular attention to the identification and selection of appropriate one among alternative suppliers. They usually invest a lot of time and financial resources in order to select the appropriate supplier. The main reason behind this issue has been inappropriate supplier selection, which has a direct effect on the brand image of the company. If the quality of the product provided by a particular supplier is not found up to the mark, then it is obvious to have some adverse effect on the sales, brand image and over all services provided by the company. Quality has always been a big issue in this sector. On the other hand, this sector can be considered as the classical example of global outsourcing as most of the buyers of this sector outsource the finished goods from the suppliers where buyers hardly have any interference in production process. An efficient supplier selection process which is capable to handle this complex situation is needed in order to avoid inappropriate selection of suppliers.

Some significant research works have been conducted on RMG supplier selection. S. Gary Teng and Hector Jaramillo (2005) conducted a research for the development of a simple, flexible, and easy to use evaluation model that includes the consideration of five main clusters to reflect the performance of a global supplier in a textile/apparel supply chain. On the other hand Jin Su, Carl L. Dyer, Vidyaranya B. Gargeya (2009) only concentrated on strategic supplier selection of US apparel industry. Chan and Chan (2010).

One of the major obstacles of this sector has been the information gap between buyers and suppliers or in other words buyers’ and suppliers’ excessive dependency on buying houses. These buying houses act as middle-men between buyers and suppliers. As a result, supplier selection of this sector is also highly dependent on the buying houses. Consequences have been like this where potential suppliers did not get selected due to the immoral interventions of the buying houses and their harsh motives of earning additional commission. A common platform of buyers and suppliers could eradicate this problem in a great extent.

In global RMG sector, CCT will help buyers in initial screening of suppliers through the proposed Software as a Service (SaaS) concept. In this way firstly, the amount of time that buyers spend in supplier selection will be saved and secondly buyer’s financial expenditures will also be minimised as it will eradicate the buying house commissions in the long term. In return, buyers will get significant benefit in terms of contacting vast number of suppliers who are offering high quality products at competitive prices while maintaining all the required standards.

**Objective of the Paper:**

Cloud based global supplier selection for RMG sector makes the following processes easy in both short and long term:

- Strategically, selection of supplier will be easier and faster as all suppliers will be on central platform;
- Initial screening process by using SaaS will rule out all the suppliers who are not meeting the minimum benchmark set by the buyers;
- Buyer can contact the potential suppliers directly which will eradicate the dependency on the buying houses in the long run;
- Small and Medium sized suppliers located in different geographical locations approach the global buyers without spending extra time and financial resources;
- Will provide the suppliers specially the Small and Medium Enterprises (SMEs) a guideline regarding the variables of supplier selection set by the global buyers;
- Will provide both buyers and suppliers an opportunity to share knowledge as they will be connected to central platform; and
- Will minimise the financial expenditure on Information Technology (IT) used by both buyer and supplier.

**Concept of Cloud Computing Technology:**

This section describes the fundamental attributes of Could Computing Technology (CCT). Hutchison et al. (2009) argues that CCT is having an architecture that is easily adoptable in terms of easy deployment and maintenance. In CCT, Information Technology (IT) services are paid in terms of usages (Sean et al., 2011). Al-Hudhaif et al (2011) argues that CCT is already underway impacting businesses and speared many areas starting from banks, automobile sector, education, logistics, wholesale, retail to health care. CCT has the potential to transform the traditional business models into modern ones, support it with product innovation, business strategy and create collaboration among companies in an easier way (Xun Xu, 2012). Some of the main benefits of CCT are hardware and software cost reduction, better information visibility, faster deployment and computing resources are managed through software as a service.
CCT have three service delivery models, which are Software as a Service (SaaS), Platform as a Service (PaaS) and Infrastructure as a Service (IaaS). These services are delivered through industry standards such as service-oriented architecture (SOA). SaaS is a service which is hosted as application. This service is provided to customers by using internet. Providers of SaaS provide technical support for software maintenance. Examples of applications provided as SaaS are CRM, Google Office, Salesforce, Netsuite etc. PaaS provides computing platform as a service for example networks, servers, storage and other services. Consumer creates the software and also controls software deployment and configuration settings. The hardware those are used for software deployment is provided by PaaS provider. Examples of PaaS are Facebook F8, Salesfor e App Exchange, Google App Engine, Joyent, Azure etc. IaaS provides complete infrastructure including storage, network capacity, and other computing resources on rent basis. Customer uses the infrastructure to deploy their service and software. They can manage or control the Operating System (OS), storage, apps and network components. Examples of IaaS are OpSource, Blizzard, Terremark, Gogrid and so on.

**Supplier Selection Framework by Using CCT for Global RMG:**

The following proposed framework shows how buyers and suppliers will put their details over the cloud by using SaaS and how supplying companies make use of SaaS for bidding purpose in RMG sector. Finally how buying company will select the potential supplier.

As it has been discussed earlier that there is a need of a common platform for buyers and suppliers of RMG sector for initial stage connectivity. The framework has been proposed keeping the same thing in mind. The buyers will create their profiles by providing the information related to the variables they are looking in a
supplier. On the other hand, the supplying companies will also use SaaS to create their online profile in the same platform where all the leading buyers are available and become a part of the global cloud.

At first the buying companies (most likely large companies or any popular brand of RMG) will be asked few questions regarding the selection variables they are looking in a supplier during their time of signing up on cloud. These questions will include different supplier selection variables related to ethical standards, environmental issues, quality, order delivery, supplying company back ground, and other associated risk factors. These variables have been discussed in details in later part of this section. Once the variables will be set by the buyers it will be open to the listed suppliers for initial stage bidding.

![Cloud Based Supplier Selection Variables](image1)

Fig.3. Information related to Ethical Standard will appear like this to the suppliers

On the other hand, the supplying companies (most likely SMEs or any supplier of RMG product and accessories) will also be asked series of questions by the SaaS, on particular variables. The supplying companies have to answer those questions before signing up their profiles on cloud. For example they might be asked questions regarding the ethical standard they maintain within their RMG factories or quality of the product they produce. After answering the series of questions suppliers will be allowed to create their profile over the cloud. Thereafter, cloud will perform necessary steps and will move this profile into the list of potential supplier.

After filling in the initial information by the buyers and suppliers related to the above mentioned variables, in next step they will get the response straight away from the cloud. At the buyers end, when they will put up the tender notice for a particular product, different suppliers will start expressing their interest on that. At the time when the buyers will search for their potential options they will be able to see three different lists of suppliers which has been generated by the cloud automatically.
The whole range of interested suppliers will be divided into three different zones named as Green, Yellow and Red. If one supplier is placed in Green zone it means that the supplier is meeting almost all the variables (80%-100%) set by that particular buyer and on the other hand if one supplier is placed in Yellow zone that indicates that the supplier is meeting most of the variables (50%-79%) with some minor lacking in some of the variables. However if the placement is in Red zone, it means that supplier is not meeting the minimum variables (0%-49%) set by the particular buyer. If the system shows Green signal regarding a supplier that means the buyer can move for further discussion with the supplier as it is meeting almost all the variables set by that buyer. This will increase the efficiency of the buyers as it will reduce the time of searching for a potential supplier. On the other hand, while dealing with the Yellow zone suppliers, the buyers should be aware of the fact that the suppliers lack in some variables where they should work on in order to improve, before signing up any contract with them.

On the other hand, the suppliers will also get the whole range of potential buyers divided into three different lists named as Green, Yellow and Red. After getting Green signal regarding a buyer, the supplier will get the message that they might go for further discussion for future businesses with that particular buying company. That means they are meeting almost all the variables (80%-100%) set by that particular buyer. After getting Yellow signal, the supplier will get the message that they can target that company if they improve in some of the variables they are lacking in. Although they are meeting most of the variables (50%-79%) however they would have some places to improve and if they improve those lacking they might be shifted to Green zone from the Yellow zone in near future. On the other hand, after getting the red signal, the supplier will get the list of companies which are unbearable to work with their current compliance standing. They need to improve a lot to match the variables of those Red listed companies. They should not hope to conduct business with those companies in near future. Other than these, suppliers will receive a guidance regarding the selection variables of different buyers operating globally in this sector. Using this platform, they will get the opportunity to be connected with the global buyers, gaining awareness of global market and trends, industry information, technological resources, skills and
knowledge. The proposed framework will increase the efficiency of the supplier as it will save time and financial resources for getting connected with the global buyers.

![List of potential supplier at the buyer’s end](image)

**Fig.4.** List of potential supplier at the buyer’s end

The proposed cloud based framework will help both buyers and suppliers simultaneously. It will increase their efficiency and flexibility, save financial resources. On the other hand it will provide a platform of knowledge sharing and improving the quality of the product. If this proposed framework is introduced in global RMG sector, all the potential buyers and suppliers of this sector can meet each other virtually; where middlemen or buying houses will hardly have any role.

**Conclusion**

Global supplier selection has always been an agile process in any sector especially for the controversial sectors like RMG where it is highly dependent on middle men or buying houses. In this open market economy buyers and suppliers should work closely in order to achieve organisational sustainability. Keeping the same thing in mind, the work described herein proposed a Cloud Computing based framework where buyer and supplier can work together in the same platform. On the other hand, suppliers can be selected without the interference of the buying houses. This framework is beneficial in both suppliers and buyers perspective. This will save time, reduce financial expenditures, smoothen the overall supplier selection process. This will not only work in order to connecting buyers and supplier or select the right buyer but also it will provide a guideline towards both the parties for their future activities in supplier selection. This approach can be used in any sectors especially in the businesses those depend on global outsourcing. CCT provides a unique platform where middlemen business can be eradicated to a large extent. Thus the potential suppliers would get more opportunities to work with global buyers and global buyers will get more option while selecting the suppliers as their outsourcing partner. This study also shows how the framework can be beneficial for the RMG sector in appropriate supplier selection.

**Acknowledgement**

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**References**

The Mediating Effects of Career Satisfaction in Relationship between Work Family-Family Work Conflict and Life Satisfaction: Research on Employees Working in Turkish Travel Agencies

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Abstract
The relationship between family-work conflict (FWC), work-family conflict (WFC), life and career satisfaction has been investigated in various studies in management literature. This study is focused on the mediating role of career satisfaction in the relationship between FWC-WFC and life satisfaction. The hypotheses of the study were tested based on data obtained from 148 employees working in Turkish travel agencies. For determining the mediating effects of the career satisfaction between life satisfaction and WFC respectively, 3-step regression analyses were examined. For relationship between life satisfaction and WFC, regression analysis showed that the effect of WFC on life satisfaction is significantly less than when controlling for career satisfaction, β in step-3 (-0.154), is significantly less than β in step-1 (-0.290). Thus, career satisfaction is accepted as a partial mediator of the relationship between WFC and life satisfaction. The results revealed that there is no effect of FWC in step-3 while β in step-1 (-0.276) on life satisfaction when controlling for career satisfaction. Thus, career satisfaction is accepted as a full mediator. Career satisfaction has a reducing effect of WFC on life satisfaction and career satisfaction has suppressed the effect of FWC on life satisfaction.

Keywords: Work-Family Conflict, Family-Work Conflict, Life Satisfaction, Career Satisfaction

Introduction
Employees in the hospitality industry work in difficult conditions owing to long working hours, high rate of turnover, unorganized vacation facilities, low social security (Yanardag and Avcı, 2012). These types of problems in professional life inevitably affect employees’ family life and work-family conflict (WFC) and/or family work conflict (FWC) might be experienced. Tourism and hospitality literature have diverse empirical researches on the relationship between WFC/FWC and the several organizational outcomes such as job stress, family satisfaction, turnover intention, job satisfaction, career satisfaction, life satisfaction (Karatepe and Baddar, 2006; Karatepe and Sökmen, 2006; Özdevecioğlu and Aktaş, 2007; Karatepe and Uludağ, 2008; Zhao and Qu, 2009; Zhao et al., 2011). The negative effect of WFC/FWC on life satisfaction is found in some empirical studies (Adams et al., 1996:416; Dixon and Sagas, 2013:243; Özdevecioğlu and Çakmak Doruk, 2009:87). Career satisfaction as a positive manner is predicted to be one of the mitigating circumstances in this negative relationship. In this context, the present study aims to investigate the mediating role of career satisfaction in the relationship between WFC/FWC and life satisfaction. For this purpose, an empirical research was conducted among employees working in travel agencies in Turkey.

Theoretical Framework
WFC/FWC and Life Satisfaction
Work-family and family-work conflicts have been an attractive research subject due to its impacts on organizational outcomes such as performance, satisfaction, intention to quit (Eby et.al., 2005; Parayitam, 2008). WFC is defined “a form of interrole conflict in which the role pressures from the work and family domains are mutually incompatible in some respect” by Greenhaus and Beutell, 1985:77). The general
demands of a role can be responsibilities, expectations and duties related to given role (Netemeyer et al., 1996:401)

Researchers are increasingly interested in subjective well being. The number of subjective well being studies have increased 131 to 12000 from 1981 to 2012. Three components of subjective well being are life satisfaction, positive experiences and negative experiences (Diener, 2013:663). Life satisfaction is a cognitive and judgmental process (Diener et al., 1985:71) and can be defined as “an assessment of a person’s quality of life according to his own chosen criteria” (Shin and Johnson, 1978:478). Life satisfaction is an evaluative judgment and these judgments are based on temporarily acquirable information (Pavot and Diener, 2008: 138).

The negative effects of WFC and FWC on life satisfaction have been proved in various industries and worker types. Earlier research’s results (Wiley, 1987:470; Judge et al., 1994:775; Ahmad, 1996:105; Kossek and Ozeki, 1998:145; Mesmer-Magnus and Viswesvaran, 2005:227) support that WFC and FWC affect life satisfaction negatively. Schjoedt (2013:55) found a negative relationship between WFC-FWC and life satisfaction among 429 entrepreneurs. Naz et al. (2011:478) showed that WFC is negatively related to life satisfaction within high-tech industrial employees and Adams et al. (1996:416) found also that WFC’s negative relationship with life satisfaction among employees from different occupations. Zhao and Qu (2009) conducted a research within hotel sales managers and revealed that FWC has more effect on life satisfaction than WFC. In Zhao et al. (2011:51)’s another study revealed that WFC, especially FWC, have both indirect and direct effect on life satisfaction. Heringshausen et al. (2010:232) and Dixon&Sagas (2013:243) showed also this negative relationship between WFC and life satisfaction. However, Mazerolle et al. (2008:516) found non-significant relationship between WFC and life satisfaction.

In Turkish cases, WFC and FWC’s negative effects on life satisfaction have also been pointed out in the studies of Özdevecioğlu and Çakmak Doruk (2009:87), Özdevecioğlu and Aktas (2007:11) and Taslak (2007:72). Öcal (2008: 69) found a negative effect of WFC on life satisfaction but FWC has no significant effect. However, only FWC’s negative effect found in Tabuk’s study (2009:98). An interesting result in Karatepe and Uludağ (2008:127)’s study was found. This study showed that WFC has a significant positive relationship with life satisfaction while FWC has a negative relationship.

The Role of Career Satisfaction

According to the study of Karatepe and Uludağ (2008:127), FWC has a significant negative effect on career satisfaction. Martins et al. (2002: 403) found WFC’s negative effect on career satisfaction. Thurairajah (2013:9) found that lower level of WFC can cause higher level of career satisfaction

Career satisfaction can be supposed as an antecedent of an individual’s overall quality of life, or life satisfaction (Lounsbury et al., 2004:396). Thus the positive relationship between career satisfaction and life satisfaction is expected by the researchers. Beutel and Wittig-Berman (1999:899) and Lounsbury et al. (2004:402) revealed that career satisfaction is positively related to life satisfaction. In their comprehensive research, Beutel and Wittig-Berman’s study (1999:899) revealed that FWC’s negative effects on career satisfaction and career satisfaction’s positive effect on life satisfaction. So the effect of FWC on life satisfaction might decrease with the effect of career satisfaction.

On the other hand, Yüksel (2005:309) conducted a study with nurses and has not found a significant relationship between career satisfaction and neither WFC nor FWC.

Methodology

In this research survey method has been used. Data has gathered via online research tools. Descriptive, relational and comparative statistical models conducted for investigating the mediating effects of career satisfaction in the relationship between family-work conflict (FWC) and work-family conflict (WFC) on life satisfaction. The objective of research, conceptual schemes and research hypotheses are given in the following sections.

The objective of this study is to determine the mediating effects of career satisfaction in the relationship between family-work conflict (FWC) and work-family conflict (WFC) on life satisfaction respectively. Firstly, career satisfaction is examined as a mediator in the relationship between FWC and life satisfaction then in the relationship between WFC and life satisfaction.
Sample Working Group

This research was conducted on a group of individuals who have been working in travel agencies in Turkey. Participants are officially affiliated in “Association of Turkish Travel Agencies” organizationally. Research was announced by Association of Turkish Travel Agencies to the employees of travel agencies. Data collected via online research tools on the internet. Participants were informed about the research and voluntarily accepted 157 individuals joined the study.

Conceptual Scheme

The conceptual scheme of mediation effect of career satisfaction in the relationship between work-family conflict a with life satisfaction is illustrated in Figure 1 below.

![Figure 1: Conceptual Scheme-1](image1)

The conceptual scheme of mediation effect of career satisfaction in the relationship between family-work conflict with life satisfaction is illustrated in Figure 2 below.

![Figure 2: Conceptual Scheme-2](image2)

Research Hypotheses

In this research the role of career satisfaction is examined in the relationship between work-family conflict and family-work conflict, respectively, with life satisfaction. This research focuses on these hypotheses:

1. $H_1$: Career satisfaction has a mediating role in the relationship between work-family conflict (WFC) and life satisfaction.

2. $H_1$: Career satisfaction has a mediating role in the relationship between family-work conflict (FWC) and life satisfaction.

Research Instruments

WFC, FWC, career and life satisfaction scales were used with five-point Likert type scales from 1 (strongly disagree) to 5 (strongly agree).

Demographic Data Form

This form includes gender, age, education, marital status, and job status, occupational and organizational seniority.

Dependent Variable

Life Satisfaction: This variable was measured on a scale developed by Diener, Emmons, Larsen and Griffin (1985) and adapted into Turkish by Durak, Senol-Durak and Gençöz (2010). Scale consists of five items.
Independent Variables

Work-Family and Family-Work Conflict: WFC and FWC were measured on a scale developed by Netemeyer, Boles and McMurrian (1996) and adapted into Turkish by researchers Aktaş and Gürkan (2014). Scale has two dimensions as work-family and family-work conflict of five items each.

Mediator

Career Satisfaction: Career satisfaction was measured a scale which was developed by Greenhaus et.al. (1990) and which has 5 items. This scale adapted into Turkish by Avcı and Turunç (2012).

Results

For reliability of the scales used in this research, data were analyzed by Cronbach Alpha method. For structural validity confirmatory factor analysis was used. Factor analyses were conducted by principal components and varimax rotation methods. Data set was controlled by Kaiser-Meyer-Olkin (KMO) sample adequacy and Bartlett test of sphericity for factor analysis.

Reliability and Validity of Instruments

Life Satisfaction: Data set values calculated as for KMO=0.835 and X2 Bartlett test (10)=419.356 p=0.000. Total explained variance is %68.55. One-dimensional factor structure has been obtained. Cronbach Alpha reliability coefficient is calculated as 0.883.

Work-Family and Family-Work Conflict: Data set values calculated as for KMO=0.826 and X2 Bartlett test (45)=726.094 p=0.000. Total explained variance is %65.39. Two dimensional factor structures have been obtained as WFC and FWC. Cronbach Alpha reliability coefficient is calculated as 0.837.

Career Satisfaction: Data set values calculated as for KMO=0.796 and X2 Bartlett test (10)=395.706 p=0.000. Total explained variance is %66.77. One-dimensional factor structure has been obtained. Cronbach Alpha reliability coefficient is calculated as 0.873.

Descriptive Statistics

Participants

The sample working group was consisted of 148 participants. 50% of the participants were men and 49% were women (2 missing). Their ages ranged from 34% at 20 to 30, 26% at 31 to 40, 39% at 41 and above. In terms of educational levels, 18% of the participants had graduated from secondary school, 18% of the participants had graduated from secondary school, 16% had graduate associate degree from university and 66% were undergraduate degree. The number of years that the participants had been involved in the job was 28% at 1 to 5 years, 28% at 5 to 10 years, 19% at 11 to 15 years and 24% at 15 years and more. The number of years that the participants has been involved in their organization ranged from 57% at 1 to 5 years, 25% at 6 to 10 years, 17% at 11 years or longer.

Regression Analysis

The work-family conflict, family-work conflict and career satisfaction were regressed on life satisfaction scores of employees in travel agencies. As suggested by Baron & Kenney (1986), in order to measure the mediating effect of career satisfaction, regression analysis was applied in three steps.

Mediating Effects of Career Satisfaction in the Relationship between the WFC and Life Satisfaction

For mediating effect of career satisfaction in the relationship between the work-family conflict and life satisfaction in the first step life satisfaction is taken as a dependent variable and work-family conflict as an independent variable. In the second step career satisfaction is considered as a dependent variable, whereas work-family conflict is as an independent variable. In the last step of the regression analysis, the dependent variable is life satisfaction and independent variables are career satisfaction and work-family conflict. The coefficients of the regression analysis are given in Table 1.
Table 1: Regression Analysis

<table>
<thead>
<tr>
<th>Hypotheses 1-First Step of Regression Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Variable: Life Satisfaction</td>
</tr>
<tr>
<td>Independent Variable: β</td>
</tr>
<tr>
<td>Work-Family Conflict</td>
</tr>
<tr>
<td>t = -0.290; p = 0.000</td>
</tr>
<tr>
<td>R = 0.320; Adjusted $R^2$ = 0.103; F = 16.707; p = 0.000</td>
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<table>
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<tr>
<th>Hypotheses 1-Second Step of Regression Analysis</th>
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<tbody>
<tr>
<td>Dependent Variable: Career Satisfaction</td>
</tr>
<tr>
<td>Independent Variable: β</td>
</tr>
<tr>
<td>Work-Family Conflict</td>
</tr>
<tr>
<td>t = 0.195; p = 0.006</td>
</tr>
<tr>
<td>R = 0.226; Adjusted $R^2$ = 0.051; F = 7.829; p = 0.006</td>
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<tr>
<th>Hypotheses 1-Third Step of Regression Analysis</th>
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<tbody>
<tr>
<td>Dependent Variable: Life Satisfaction</td>
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<tr>
<td>Independent Variable: β</td>
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<tr>
<td>Career Satisfaction</td>
</tr>
<tr>
<td>t = 0.698; p = 0.000</td>
</tr>
<tr>
<td>R = 0.723; Adjusted $R^2$ = 0.523; F = 79.530; p = 0.000</td>
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</table>

As shown in Table 1 in order to accept $H_1$, in all 3 steps of regression analysis must be significantly meaningful (Baron & Kenney 1986:1176). In the first step there was a significant correlation between life satisfaction and work-family conflict (p = 0.000). In the second step, correlation between the mediating variable, career satisfaction, and independent variable, work-family conflict, was significant (p = 0.006). For the third step, while controlling for work-family conflict, there was also a significant correlation between life satisfaction and work-family conflict. In order to determine the mediating role of the career satisfaction according to the relationship between work-family conflict and life satisfaction, both steps were examined. The results revealed that the effect of work-family conflict on life satisfaction when controlling for work-family conflict ($\beta$ in step-3 (-0.154) is significantly less than $\beta$ in step-1 (-0.290); thus, $H_1$ is supported and career satisfaction is accepted as a partial mediator.

Mediating Effects of Career Satisfaction in the Relationship between the FWC and Life Satisfaction

For mediating effect of career satisfaction in the relationship between the family-work conflict and life satisfaction in the first step life satisfaction is taken as a dependent variable and family-work conflict as an independent variable. In the second step career satisfaction is considered as a dependent variable, whereas family-work conflict is as an independent variable. In the last step of the regression analysis, the dependent variable is life satisfaction and independent variables are career satisfaction and family-work conflict. The coefficients of the regression analysis are given in Table 2.

Table 2: Regression Analysis

<table>
<thead>
<tr>
<th>Hypotheses 1-First Step of Regression Analysis</th>
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<tbody>
<tr>
<td>Dependent Variable: Life Satisfaction</td>
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<tr>
<td>Independent Variable: β</td>
</tr>
<tr>
<td>Family-Work Conflict</td>
</tr>
<tr>
<td>t = -0.276; p = 0.010</td>
</tr>
<tr>
<td>R = 0.212; Adjusted $R^2$ = 0.045; F = 6.860; p = 0.010</td>
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<th>Hypotheses 1-Second Step of Regression Analysis</th>
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<tbody>
<tr>
<td>Dependent Variable: Career Satisfaction</td>
</tr>
<tr>
<td>Independent Variable: β</td>
</tr>
<tr>
<td>Family-Work Conflict</td>
</tr>
<tr>
<td>t = -0.267; p = 0.009</td>
</tr>
<tr>
<td>R = 0.215; Adjusted $R^2$ = 0.046; F = 7.042; p = 0.009</td>
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<tr>
<th>Hypotheses 1-Third Step of Regression Analysis</th>
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<tbody>
<tr>
<td>Dependent Variable: Life Satisfaction</td>
</tr>
<tr>
<td>Independent Variable: β</td>
</tr>
<tr>
<td>Career Satisfaction</td>
</tr>
<tr>
<td>t = 0.738; p = 0.000</td>
</tr>
<tr>
<td>R = 0.704; Adjusted $R^2$ = 0.496; F = 143.450; p = 0.000</td>
</tr>
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</table>

As shown in Table 2, to accept $H_2$, in all 3 steps of regression analysis must be significantly meaningful (Baron & Kenney 1986:1176). In the first step there was a significant correlation between life satisfaction
and family-work conflict (p=0.010). In the second step, correlation between the mediating variable, career satisfaction, and independent variable, family-work conflict, was significant (p=0.009). For the third step, while controlling for career satisfaction, there was a significant correlation between life satisfaction and career satisfaction. To determine the mediating role of the career satisfaction in the relationship between family-work conflict and life satisfaction, both steps were examined. The results demonstrated that the effect of family-work conflict on life satisfaction when controlling for career satisfaction, in step-3, \( \beta \) coefficient of family-work conflict is not statistically meaningful (drops from regression equation) and \( 2H_j \) is supported and career satisfaction is accepted as a full mediator.

**Discussion**

This study aims to state the relationship between WFC/FWC and life satisfaction and the mediating role of career satisfaction in this relationship. For this purpose, a survey was executed with travel agency employees in Turkey. 148 participants’ data were evaluated.

The results of the study showed that both WFC and FWC have significantly negative effects on life satisfaction. This result is compatible with the studies of Wiley, (1987:470); Judge et al., (1994:775); Ahmad, (1996:105); Kossek and Ozeki, (1998:145); Mesmer-Magnus and Viswesvaran, (2005:227), Schjoedt (2013:55). The analysis for the mediating role of career satisfaction in the relationship between WFC and life satisfaction revealed that career satisfaction is a partial mediator in this relationship. However, in the relationship between FWC and life satisfaction, career satisfaction has a full mediator role. If an employee experiences career satisfaction, the negative effect of WFC on life satisfaction decreases. Furthermore, analysis showed that career satisfaction can eliminate the negative effect of FWC on life satisfaction.

Preventing WFC and FWC of employees can provide positive consequences such as life satisfaction, job satisfaction, But if an organization cannot prevent WFC or FWC, it is possible to support applications for increasing career satisfaction of employees. These career-focus efforts might decrease WFC/FWC or their negative effects on employees’ life satisfaction.

The study has some limitations like difficulties in applying a research in hospitality industry, lack of interest to the survey because of excessive workload of travel agency employees. Additionally, the other antecedents of life satisfaction should be comprised for more generalized consequences and solutions.

**References**


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The authors would like to thank Aziz Ciga (Counselor of Association of Turkish Travel Agencies’ President) for his invaluable support and assistance for this research.
Impact and Red Flags in Fraud in Inventories Applicable to Small and Medium Manufacturing Enterprises in Colombia

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Abstract

The purpose of this paper is to generate some possible red flags in fraud in inventories, which are applicable to small and medium manufacturing enterprises in Colombia as a tool to improve the competitiveness of the sector. In order to comply with this objective the document is organized into four sections, the first by a description of the manufacturing sector in Colombia, composition, evolution and behavior in recent years, and a characterization of it based on financial aspects proprietary information of general purpose financial statements taken as a source database provided by Dinero Magazine. It draws on this sector because this is where we find the largest component inventory and therefore where management has maximized fraud risk. It is also demonstrated by competitive weaknesses that this sector has shown in recent years that may be exacerbated by the risk of fraud. In the second section a brief theoretical framework on fraud, structured on general concepts, typologies and pointing at fraud will be exposed in inventories. Later we review six cases of companies with fraud in inventories, three of which are of Colombian companies and three international. In the first instance will be a summary of the same description and subsequently make a characterization of those cases, identifying those practices considered inadequate, the type of fraud that is committed and the consequences thereof in such organizations. These cases serve as a source to generate the red flags mentioned in the following paragraph and which in turn constitute an input to show the impact of the fraud risk in inventories for Colombian manufacturing industry. Based on the first three paragraphs and with a view to generating first conclusions of the paper, which of course are not absolute or totalizing, we will review, first the impact of fraud inventories in manufacturing companies and hence in the sector, and moreover few red flags on the likelihood of fraud risk in inventory.

Keywords: Fraud in Inventories, Colombian Manufacturing Industry, Red Flags of Fraud in Inventories
The Evaluation of Onboard Advertising as an Outdoor Advertising Media in Turkey

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Abstract

Outdoor advertising is increasing its efficiency in marketing. Marketing experts start using this media more than the past for attracting their target segments. Outdoor as an advertising tool is the fourth most important media in advertising expenditures market in Turkey. It has bigger market share than radio and it comes after digital media advertising in the market. Onboard advertising doesn’t give the only common advertising but also sponsorship and promotion opportunities. Onboard advertising is getting more popular in Turkey which has started building its third airport in Istanbul. Turkey and Istanbul is one of the most important growing centers of Europe in air transportation. The direct and indirect flights cause millions of people use Istanbul’s airport. These millions who use this transportation vehicle come up against the facilities of onboard advertising. The aim of this paper is to give a detail explanation of onboard advertising and to point out to the advantages of this advertising type. The paper analyze the expansion of outdoor advertising market in Turkey. It examples and concentrates to the advantages of onboard advertising as an alternative growing advertising tool based on the specialists ideas in Turkey.

Keywords: Advertising, Outdoor Advertising, Onboard advertising, Ad Expenditures, Turkey

Introduction

Advertising is crucial for institutions to exist in ever-increasing competitive conditions of nowadays. Intensity of advertisements used for assisting consumers to choose besides making sales of products easy started to become directly in relation with advertisement means used. Companies take advantages of some means while conducting their advertisements. One of these means is outdoor advertising.

Outdoor advertising is an advertisement type which is exposed without making an effort. In order to expose other advertisements, television or radio should be turned or printed media like newspapers or magazines should be bought. For outdoor advertising, there is no such need. Outdoor advertisements literally accompany daily lives of consumers and may always face with them.

Outdoor advertising once made by stretching giant tarps on buildings or painting them shown great improvement in years and became diversified. Outdoor advertising especially in latest years showed a swift improvement with partnership of foreign advertisement agencies at sector. One of the most important advertisement types recently added to swift-diversifying outdoor advertising is onboard advertising. Onboard advertising used in airline travel made aircraft not only a transportation device but also an advertisement means and brought advertiser and passenger together.

Airline transport becoming cheaper and widespread also increased the penetration level of airline transport. As of 2014, world airline fleet has a size of 45 thousand aircrafts. Airline transport has been showing improvement every year in this world having daily 15 thousand aircrafts travelling throughout the world. According to Eurocontrol report, Europe airline transport will grow by 1.2 % in 2014 and 2.7 % in 2015. (Ergin, 2014). City of Istanbul having two airports became the 17th biggest city of the world in terms of airline transportation. Istanbul in which 52 million 105 thousand 96 people have made an air travel from February of 2013 till February of 2014, has increased passenger transportation levels by 12.4 % in last year. This increase made Istanbul as the third fastest-growing city in airline transportation after K. Lumpur and Dubai. Third airport of Istanbul which will be opened in 2018 is going to increase yearly passenger capacity up to 150 million. This airport will make Istanbul one of the most important airline transport centers of Europe. Increasing capacity of airline transportation will contribute to abroad and domestic travels to become widespread. This potential which has been increasing and surely will increase in future, made outdoor advertising during airline transportation essential. Onboard advertising applied on aircrafts became an important advertisement tool thanks to advantages provided by features of aircrafts.
Concept of Advertisement

Marketing science has so far taken advantages of a lot of communication style. Most important of these communication styles is advertisement. Advertisement having an ancient history plays important roles in achieving marketing aims and solving problems encountered. Therefore, it is possible to say that advertisement has a quite functional structure in today which lead by open market conditions.

In Updated Turkish Dictionary of Turkish Language Society, advertisement is defined as all kind of means tried for introducing, recommending something to people and thus providing circulation of it. Concept of advertisement developed in time because of alterations in both media and communication technologies and its definition and context is constantly being updated.


According to American Marketing Association (AMA), advertisement has previously been defined as impersonal presentation form in which ideas, goods or services are introduced for a certain fee. Nowadays, it has been extended as emplacement of convincing messages and announcements of companies, non-profit organizations, public institutions and individuals willing to inform individuals or audience of a certain target market about products, services, organizations or ideas by buying place or time from mass communication devices (Gürel and Bakır, 2007: 44).

Institute of Advertisement Applicators defined concept of advertisement as presentation of product or service to accurate customer with most impressive and convincing sales suggestion providing that lowest expenditure by emphasizing importance of cost and message efficiency of advertisement (Güz et al. 2002: 291).

According to Elden and Kocabas, advertising is a marketing activity conducted by certain organization, company, individual or institution for drawing attention of certain mass and moving them in an impersonal way through communication devices by paying the price of message about a product, service or an idea (Elden and Kocabas, 2004: 16).

While expressing his opinions about advertising, famous American copywriter Luke Sullivan stated that advertisement is the mutated form of capitalism. He also advocated that it is one of the most important gears of giant economy wheel. According to Sullivan, most of the beers taste nearly the same and it is obvious that even an expert could not perceive the difference between them after the second glass, it is not beer what consumers drink and it is advertising. At this point, advertisement became the brand (Sullivan, 2002: 33).

Kotler described advertising by referring the mix called as 5M in literature. Those are (2000: 153):

- Mission: What is the purpose of advertising campaign? Is it applied for informing, convincing, reminding and creating awareness, interest, desire or action?
- Message: Target market of brand is formed with previously-made decisions on it. It is important to present value suggestion in a creative way.
- Media: It is essential to give same, consistent message on entire media channels. However, contents vary according to media used.
- Money: Decision of spending Money should be made carefully. If the Money spent for advertising is low, advertisement would not draw attention and turn to dust. Companies should decide number of people they want to reach in target market, how frequent they want to reach them and which media type they will use.
- Measurement: Increase in brand preference ratio after advertising campaigns should be measured. However, companies have been measuring reminding or recognition rates rather than brand preference ratios.

Although advertising is an important factor for building a strong brand most of the time, it is never enough by itself. Creating a strong brand requires a long process ranging from R&D phase, production to after sales services.
Historical Development of Advertising

Communication devices have been constantly changing and developing thanks to influence of improving technology. Correspondingly, advertising industry has also been constantly making progress. In this part of the study, improvement of advertising in the world and Turkey will be examined.

It is possible to say that, advertising has started before Christ. Papyrus plant in 3000 B.C. promising a reward for the one who captured the prisoner escaped from Egypt, prices and features of prisoners written on walls, gladiator fights engraved onto stones along the road of Rome and Greek cities, announcements of goods and circuses, same scripts in Egypt engraved onto stones along the road at intervals may be shown as first examples of advertising. Referring the point reached by advertising industry today, origin of advertising defined in nowadays conditions dates back the invention of printery in Middle Age Europe. Written, sketched and pictured posters becoming widespread after invention of printery, using these posters on market places and downtowns may be shown as first commercial examples of advertising (Elden and Kocabas, 2004: 17).

Gaining importance and industrialization of advertising throughout the world have started with industrial revolution. Along with industrial revolution started in the middle of 1700’s in England and in 1800’s in United States, mass production has become widespread and immigrations from rural to cities have started. Besides, transportation became easier by means of industrial revolution. Thanks to improvement of transportation opportunities, producers started to transport their products to more distant regions by using especially railroads. As a result of that, target market expanded and number of people to be reached has increased (Arens, 2002: 29).

Advertising in printed media first started in 1704 with a real estate agency ad on Boston Newsletter published in United States. (Akbulut and Balkaş, 2006: 24). After the invention of photograph in 1839, visuals have started to be used in advertisements. As of 1840, number of producers giving advertisements on newspapers and magazines about their products has increased (Arens, 2002: 30).

Invention of mass communication devices after industrial revolution added a whole different dimension into advertising. After the invention of radio in the beginning of 1900’s founding of first commercial radio in 1920 lead radio to be used for advertisement purposes. Thus, radio means have contributed to development of advertising industry after printed media.

First steps of advertising in Turkey have been taken in the beginning of 1900’s. Organization named “İlancılık” founded in 1909 was the first organization in Turkey having the features of an advertising agency. This organization could not have completed its works because of wars and crises encountered. Organization couldn’t make efficient works until 1919.

In 1915’s, advertising has experienced a period of recession after the negative effects of I. World War into economy. This recession period continued until proclamation of republic. Advertising started to develop again after proclamation of republic. In 1936, newspaper circulations have reached up to 150 thousand and 300 thousand liras of commercial and 200 thousand liras of official ads have been placed yearly. In this era, newspapers have earned an advertisement revenue of 3 thousand liras in average as a monthly basis (Çakır, 1996:253).

Development of advertising sector in Turkey happened on 1950’s. İlancılık Advertisement Agency has continued its existence until 1950’s. “Faal Reklam Ajansı” founded in 1944 passed into history as the biggest advertisement agency of Turkey which also known as Manajans today (Çetinkaya, 1992: 43).

Years passed by stationary under the influences of 1920 great depression and II. World War have slowed down the development of advertising industry in Turkey. Television and radio broadcasts under the government monopoly also caused advertising industry to progress slowly until 1980’s. Changing the social state understanding of Turkey into neo-liberal economic system especially after 1980 has had positive contributions into advertising industry. Adopting economic policies promoting consumer society especially after 1980 has contributed the growth of advertising industry of Turkey.

After the end of Cold War occurred in 1990’s and speed-up of globalization, United States based advertisement agencies have created advertisement networks by merging with local corporations and became advertisement giants. (Arens, 2002: 35). Private capital radio and television channels starting their broadcast in that era contributed to enhancement of means in media and helped advertising sector to grow.
Advertisement expenditures which were 20 billion TL in 1981 reached up to 150 billion TL in 1986 (Çakır, 1996:255). While an advertisement expenditure of gross 620 billion TL have spent in 1989, this amount have reached to an endorsement of 1.3 trillion TL in 1990. This represents a growth of 32.8% and is the biggest growth ratio of sector achieved in the last decade (Yavuz, 2006:171). While advertisement expenditures in Turkey increased up to 700 million dollars in 1995, it has increased to 1.430 billion dollars in 2000 (Advertisers Association, 2014).

Table 1. Advertisement Expenditures of Turkey (2000-2010) (Sözeri and Güney, 2011:40)

<table>
<thead>
<tr>
<th>Year</th>
<th>Advertisement Market (Mio USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1.430</td>
</tr>
<tr>
<td>2001</td>
<td>761</td>
</tr>
<tr>
<td>2002</td>
<td>957</td>
</tr>
<tr>
<td>2003</td>
<td>1.178</td>
</tr>
<tr>
<td>2004</td>
<td>1.287</td>
</tr>
<tr>
<td>2005</td>
<td>1.676</td>
</tr>
<tr>
<td>2006</td>
<td>1.926</td>
</tr>
<tr>
<td>2007</td>
<td>2.541</td>
</tr>
<tr>
<td>2008</td>
<td>2.507</td>
</tr>
<tr>
<td>2009</td>
<td>1.789</td>
</tr>
<tr>
<td>2010</td>
<td>2.408</td>
</tr>
</tbody>
</table>

Turkey is ranked as the 22nd in advertisement expenditures per capita ratios, according to data of 2013. Turkey spending 43 dollars per capita for advertisements in 2013 is ahead of Mexico and China in ranking. While Switzerland is the number one country spending for advertisement with 734 dollars per capita, Australia with 556 dollars per capita, and USA with 529 dollars per capita follow it. (MediaCat, 2014:22).

Outdoor Advertising

Advertisement means covering the ads performed in outdoor places rather than indoor places are defined as outdoor advertising. One of the oldest means of advertising, outdoor advertisements are the advertisements to which consumers are exposed without making any effort or struggle.

Today, outdoor advertisements constitute an important part of advertising industry and have been growing day by day. Outdoor advertisements, as are evident from the name, are means involving stationary or mobile creative advertisement messages which are utilized in places other than indoor places like subway stations, traffic, malls, road and streets that are used by people densely throughout the day. Stationary means are poster-bulletin boards, banners, bus stops, side ads, electronic boards, billboards etc. Mobile means are: flags attached behind the planes, vehicle wrappings, advertisement balloons, cab-top mascots, cardboard characters etc. Outdoor advertisement are produced with materials like metal, plastic, foil, paper, paint, canvas and reproduced with offset, serigraphic and digital prints.

Outdoor advertising most preferred means by companies after the television advertisements is one of the most consumer-influencing means besides it is a means that can reach consumers in quickest and fastest way. Consumers are exposed to these places in every hour of the day and every time they are in outdoor areas. One of the most important features of these means is the idea of advertisement. The idea to be used should be creative, remarkable, understandable and recollective. Design of advertisement should be made in a way that almost everyone can understand without making any level, class, coterie discrimination. Because outdoor advertising consumers are not exposed to these places for long time periods. While consumer has no chance to avoid these places, the time they see the ad could be limited. (http://acikhava.reklam.com.tr/yazilar/acik-hava-reklam-ortamlarinin-ozellikleri/205/#ixzz1TC1VIJAY, 02.06.2014)

Considering direct contact of outdoor advertisements between consumer and their features that they cannot be overlooked, they should be used by supporting good ideas and feeding different and brand new applications. Outdoor advertisements have much more influence on consumer than everybody think. Therefore, advertisers have to represent new products and means alternative to previous ones by constantly using their creativity and chasing innovations. As a mass communication device, purpose of outdoor
advertising is nothing but efficient and lasting transmission of message desired to be transmitted through means to target audience (Yıldız, 2006).

Outdoor advertisements which have started to be used in United States in 1830’s begun to become widespread in barely 1980’s through billboard advertisements. Although United States started to use outdoor advertising nearly 200 years ago, it is a quite new advertisement means for our country. However, it has been growing every passing day.

Increasing time of individuals spent in outdoor areas in modern city lives may be shown as the underlying reason of this kind of sectoral growth of outdoor advertising. Individuals who have to leave their home and travel from some place to other place for various reasons spent important part of their daily lives except sleeping in outdoor areas. People increasing their mobile lives, going out more and spending more time outside their homes brought outdoor advertising in prominence. People going home, job or different places face with outdoor advertising types all time they are out and face with message given with these advertisements.

Types of Outdoor Advertising

History of outdoor advertising dates back the very old times. Therefore, it has been divided into various types by showing progress in time. Technically, rapidly-increasing opportunities and efforts of outdoor advertisements in being effective and more remarkable brought along a lot of outdoor application. Major methods and means used for outdoor advertising are as follows:

Billboards: Mostly used outdoor advertising application. Mediums providing the transmission of advertisement messages to target audience through billboards in certain sizes (Avşar and Elden, 2005: 61).

Posters: Outdoor advertising applications having design and art concerns in equal weights. Posters may be hanged both in indoor and outdoor environment. Posters have three types as advertisement posters introducing a products or service, cultural posters introducing cultural events like festivals, seminars etc. and social posters having educational or cautionary features in health, transportation or civil defense. Techniques like photographs, illustrations, collages and computer visuals are used for posters (Eroğlu, 2001: 59).

Placards and Showcards: They are smaller in comparison to posters. Include short messages or slogans. Outdoor advertising materials printed on cloth or hardened nylon which announce opening of places.

Lightened Announcements: Lightened announcements are consisted of lightening of boards having advertisement messages on them. They are advantageous in providing visibility especially at night time. They are especially designed for drawing attention of consumers. Besides they make great contribution to aesthetic of advertisement. This technique which has started to be used as of 1990’s, is a more expensive advertisement means. Nowadays, it is possible to see that kind of advertisement applications in entrances of malls located in- and outside of city (Eroğlu, 2001: 60).

Mega Boards: Outdoor advertising means which are usually located across highways or places close to big shopping centers.

Wall and Roof Advertising (On-Wall Advertising): Outdoor advertising applications which are applied outdoor areas or roofs of buildings like apartments or business centers. They are usually applied with painting method. In recent years, some 3D applications are also placed.

Station Advertisements: Outdoor advertisements used in station and bus stops where people wait for public transportation vehicles like buses, subway, trains. Main purpose is enabling consumers waiting for public transports to expose to advertisements and drawing their attention.

Surface Graphs Used in Indoor and Outdoor Areas: Surface advertisements are applications like shopping carts, shelf advertisements, grocery sliders, illuminated and un-illuminated boards in market, foils making noise when pushed. They are being used in places like shopping centers, subway stations and malls
Glass Graphs: Dressing type advertisements applied on glass surfaces of buildings by means of a special foil. First glass graph application in Turkey has been made on glass surface of Milliyet Newspaper building in 1996.

Home Board: Applications made with posters and boards hanged in indoor areas of home and offices. Purpose is to catch target audience in place where they spend their time (Avşar and Elden, 2005: 62).

Current Situation of Outdoor Advertising in Turkey

According to research made by COG assigned by England-based Outdoor Media Centre, awareness of people is higher in outdoor places in comparison with indoor places. Since higher awareness plays an important role for perception and reminding of advertisements, these results set proof for efficiency of outdoor advertisements. According to results of conducted research, 7 out of 10 people remind the advertisement they see in outdoor places. People seeing outdoor advertisements react more than people who didn’t see them. According to results of research again, 2 out of 3 people seeing outdoor advertisements made research on internet and 1 out of 3 people bought what they see in outdoor advertisements. Besides, social media usages of people seeing outdoor advertisements are higher. (http://www.ared.org.tr/index.php?Sayfa=AnaSayfa&HaberDetay=514).

According to Kantar Media research conducted in USA, advertising sector of United States grown by 0.9 % in 2013. Last year, digital outdoor advertising corresponding to industrial advertisement products in our country grown by %13 and outdoor advertising grown by 4.4 %. According to research measuring contact of consumers with digital outdoor advertisements conducted by PQ Media in 15 countries between 2007-2013, contact with digital outdoor advertisements would continue to grow with an annual compound growth of 8.6 % until 2017, while outdoor advertisements will increase this level up to 4.1 %. (http://www.ared.org.tr/index.php?Sayfa=AnaSayfa&HaberDetay=514).

In 2013 advertisement investment report prepared with data of media agencies being member of Advertisers Association, advertisement investments in Turkey reached to 5.08 billion TL by showing an increase of 9.2% in 2013 and 6.85 % of these investments have been made in outdoor advertising. According to report, investments made in outdoor advertising is 347 million 900 thousand TL (164.430.000 $).

Considering progress of outdoor advertising investments, only 57 million TL of investment has been made in 2000, while this amount reached to 328 million TL in 2012 and approximately 348 million TL in 2013.

Biggest growth in outdoor advertising investments in Turkey has been observed in 2007. Global economic crisis occurred in 2008 and 2009 have affected advertising sector just like every other sector and growth level has been measured as negative in comparison with previous year.

Fig 1. Outdoor Advertising Investments in Turkey
Considering the share of outdoor advertising in total advertisement expenditures, it has been observed that outdoor advertisement having a share of 5.2% in 2004 increased its share up to 7.1% in 2012 and decreased it to 6.85% in 2013.

Outdoor advertising in Turkey shown a serious growth from 2005 till 2013. According to ZenithOptimedia’s global advertisement expenditures report, share of outdoor advertising expenditures which were 6.6% throughout the world in 2005 increased to 6.9% in 2013. In Turkey, this amount has increased from 4.9% to 6.8% in same period and became a share equal to the world’s.

Table 2. Outdoor Advertising Expenditures in the World and Turkey (Mediacat, 2014: 8).

<table>
<thead>
<tr>
<th>Year</th>
<th>World (%)</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>6.6</td>
<td>4.9</td>
</tr>
<tr>
<td>2013</td>
<td>6.9</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Onboard Advertising as a Type of Outdoor Advertising

Onboard advertising includes advertisement activities applied in aircrafts transporting passengers. Onboard advertising which uses aircrafts and inside of them as an advertisement medium may be considered as outdoor advertising type providing advantages for brands willing to transmit messages during airline transports about their products and services.

Onboard Advertising and Advantages

There are a lot of reasons for advertisers to prefer onboard advertising which is an ideal medium for companies willing to transmit messages to target audience of high socio-economic status preferring airline transportation. Most important feature of this medium making it advantageous is its ability to offer entire advertisement types which can be offered by television, magazine and even radio mediums. Sniperchannel making onboard advertising applications summarizes advantages of this medium in four basic headings (Snipperchannel, 2014):

- Easily reaching to target audience
Establishing faster connection with target audience
Transmitting the message correctly
100% measurability and remembrance
Opportunity to offer more advantageous budget in comparison with other mediums

One of the two organizations actively working about onboard advertising in Turkey Snipperchannel expresses advantages of these advertisement type as follows Şakir,2013):

“A and B class target audience fastened to their chairs tightly and away from daily routine are waiting for you in aircraft with an open mind. They will spend more than 1 hour in aircraft even for a flight of 45 minutes. Considering this time period, you may realize that onboard advertising areas have very long communication time periods and thus, they are the most accurate mediums for transmitting the message correctly”.

Biggest advantage of onboard advertising comes from the diversity it harbors. Therefore, it is positioned differently from other indoor and outdoor mediums. Transmitting the message to target audience travelling in aircraft becomes easier because there are advertisement areas within aircraft suitable for every budget and perception. Target audience stays in aircraft for one hour minimum and sees the onboard advertisement objects within the aircraft even if they don’t want to see. Target audience not having much alternatives inside the aircraft accordingly establish a direct communication with LCD displays, insert magazines, promotions distributed by flight crew and similar advertisement means inside the aircraft.

Considering onboard advertising which is an advertisement means having high visual quality addressing directly to target audience and having the ability to give desired message in various forms, advantages of it in terms of marketing communication may be summarized as follows:

<table>
<thead>
<tr>
<th>Table 3. Advantages of Onboard Advertising</th>
</tr>
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<tbody>
<tr>
<td>Features of Target Audience</td>
</tr>
<tr>
<td>Prisoner Audience</td>
</tr>
<tr>
<td>Comprehensive Marketing Opportunity</td>
</tr>
<tr>
<td>Flexible Marketing</td>
</tr>
<tr>
<td>Measurable Medium</td>
</tr>
<tr>
<td>Opportunity to offer multiple advertisement formats</td>
</tr>
<tr>
<td>Experimental Advertising</td>
</tr>
<tr>
<td>Low competitions – alternative free ad</td>
</tr>
<tr>
<td>Multiple presentation advantage</td>
</tr>
<tr>
<td>Cross Marketing</td>
</tr>
<tr>
<td>The best competitor of new media</td>
</tr>
</tbody>
</table>

**Features of Target Audience**: One of the most important advantages of advertisement applications shown during airline travels is socio-economic status of target audience travelling through aircrafts. Individuals preferring air transport which is more expensive than other transportation forms have higher economic status. This may be defined as a target audience “having more money to spend” for brands willing to sell their products and services. Passengers of airline travels especially travelling in business class confront us as a niche target. Business class passengers buying two sometimes three times more expensive tickets than people travelling economy or standard classes of airline transport which is also more expensive transportation means than land transport, have higher economic status. In terms of especially expensive and niche products, target airline passengers travelling in business class may be very effective to transmit desired message.

**Prisoner Audience**: Airline travel is a moment when freedom of people is limited. It is not possible to miss any on board advertisement application for passengers who have no connection with daily life during the flight. Reaching target audience being prisoners limited with seats or aircraft is easier than reaching them in streets or another place by using other mediums.

**Comprehensive Marketing Opportunity**: Advertisements, promotions and sponsorship activities applied within the concept of onboard advertising may be offered in a comprehensive way. Flight crew promoting
an advertisement of a product which is already placed in waiting room may be shown as an example of this comprehensiveness.

**Flexible Marketing:** Medium provides important advantages in terms of regional marketing. Desired target audience may be reached by adjusting geographical segmentation according to place of airline travel. Airline travels made in national and international places enable brands willing to advert local, national and global to choose target audience according to geographical regions. Advertiser may conduct flexible planning by using this feature of medium according to its product. This feature of medium may also provide contribution not only to local products but also to global brands. A hotel advertising on mainstream media and addressing everyone may directly reach target audience travelling that geographical region by means of onboard advertising.

**Measurable Medium:** Onboard advertising has the advantage of giving specific information about the number of people travelling and how many people did the advertisement reach. Thanks to these information, advertisement agencies and advertisers may calculate per capita cost of their campaigns easier. Having demographical information of passengers also is an advantage for measuring this advertisement type in comparison with other mediums. For instance, Onur Air stated that they carried 600 thousand passengers per month in 2013 and 7 million passengers in average.

**Fig 4.** Demographic Status of Onur Air Passengers (Onur Air, 2014)
Offering Multiple Advertisement Format at the Same Time: In comparison with other outdoor applications, onboard advertising provides opportunity to reach target audience with more advertisement formats. Medium offering to utilize all kind of means of traditional media simultaneously, is also one of the richest mediums in terms of advertisement format diversity. Aircraft is an ideal tool for commercial films shown on LCD displays, leaflet distribution and product promotion. It offers both visual, auditory and experimental marketing opportunities.

Experimental Advertising: Medium enabling target audience to try the product by means of on-board promotional distribution of product also provides advantages in experimental marketing. Experimental marketing which is an important advantage for especially cosmetics and food products enables target audience to establish one-to-one interaction with product.

Low Competition – Unrivalled Ad: Individual travelling inside the aircraft becomes distant from millions of advertisement messages encountered throughout the world. Passengers who have to follow the aircraft and related rules may only see the advertisement messages located inside the aircraft. This provides onboard advertising to be a monopoly on target audience during the flight. Brand having onboard advertisements only compete with other onboard advertisements. While individual on street sees tens of advertisement simultaneously, passengers may only see onboard advertisements. Since there is no other advertisement medium like radio and television, passenger would only see the onboard advertisement. While this feature of aircraft medium passivates advertisements of radio, television and cinema mediums, it also enables outdoor advertising to be applied only with onboard advertising.

Cross Marketing: Another advantage of onboard advertising is its cross marketing opportunity. A discount coupon given inside the airplane may lead the passenger to choose mentioned brand after arrival.

The Best competitor of New Media: Internet challenging the traditional media and affecting communication activities has not yet shown its force only in aircrafts throughout the world. Airline companies provide internet connection service in their high-segment planes for flights over ten hours, but do not provide this service for their short- and medium-term flights. For long flights providing internet service, this service is only provided for passengers bought business or Premium class tickets and on a couple of certain airplane models. Passengers are not allowed to use individual internet service. Airplanes provide most advanced-technology travel of the world, on the other hand it prevents the internet, the most rapidly-growing technology of the world. Internet having the ability to provide alternatives for all kind of activities of traditional marketing is up against the wall when it comes to onboard advertising and could not be an alternative for this advertisement type. When considered from this point of view, onboard advertising becomes more active than every other medium.

Onboard Advertising Applications

Onboard advertising applications started to develop recently in Turkey, they mostly used by advertisement agency of Onur Air, Onur İletişim and outdoor agency named Snipperchannel entered into sector in 2013. Media and Human Relations Department of Onur İletişim Media owned by Onur Air evaluates demands of companies willing to have advertisement or sponsorships from Onur Air. (http://www.onuriletisim.com/hakkimizda.asp Access Date: 11.06.2014). Company takes advertisements on Onur Air airplanes and maintains onboard advertising under the corporate roof of Onur Air. Applications and examples about this subject made in Turkey are as follows:

Product Distribution: This is the most suitable example for the new advertising concept called as guerilla marketing. Having the chance to reach the target audience directly by having hostesses distribute insert for products to each passenger on all domestic flights.
**Fig 5.** Product Distribution Examples of Onur Air and Aegean Airlines in Turkey

**Seat Trays:** Both the front and back surface of seat trays can be used as an advertising medium. Seat trays are one of the most effective points to reach to target audience. Passengers will see the brand in front of them for the duration of the flight and the desired message will reach them directly. This kind of advertising can be divided into different pieces according to the area of the seat trays. These are:

<table>
<thead>
<tr>
<th>Table 4. Onboard Advertising Types in Seat Trays</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tray Tables</td>
</tr>
<tr>
<td>Seat Belt Buckle</td>
</tr>
<tr>
<td>Cabin Luggage Tags</td>
</tr>
<tr>
<td>HeadRest Covers</td>
</tr>
<tr>
<td>Stow Bins</td>
</tr>
</tbody>
</table>

**Fig 6.** Onboard Advertising Examples in Seat Tray Area (Sniperchannel)

One of the largest and most visible advertising space within the craft is the overhead baggage and compartments. Creative advertising implementations can be applied to compartment doors dependent on the advertiser’s preference. It’s a unique and innovative advertising implementation.
LCD Screens: LCD displays turned on during the flight are used for publishing spots broadcasted in television advertisements. These LCD displays located inside the plane provide visual and auditory spot usage opportunity for brands willing to traditionally introduce their products and advertisements. LCD displays are located on seat heads for flights over one hour and provide multimedia-content access advantage to passengers. During the flight passenger may choose anything he/she desires from LCD display located in front of him/her. This multimedia content also provides content marketing for onboard advertising applications.

LCD displays located inside the airplanes provide individual television broadcast for long flights and general television broadcast for shorter flights. LCD televisions appeared across the hallways in flights lasting for one or two hours create a cinema function and appeal passengers as a community. LCD displays located on the seat heads provide multimedia-based contents in flights lasting more than two hours. Passenger may choose any content he/she would like to watch. Passengers who especially are used to internet and high-technology media utilization may eliminate their technology addiction by means of these LCD displays. In this multimedia screens, brands have been making their promotions by showing commercial films introducing their product and services. Radio and VOD systems included in these multimedia systems are prepared with different sponsorships and offered to passengers. Turkish Airlines compiles these kind of advertisements under the “invest on board” menu and offers to passengers. Commercial films about various products and services are also shown in mentioned menu. Content of multimedia screens are prepared by the system named Planet worldwide entertainment.

The Planet digital system and individual touch-screens are used for in-flight entertainment on our international flights on B777, A330, B737-900, A340 and some A321 & B737-800 aircraft. Depending on the type of aircraft, passengers may choose their program either on their touch-screen or by using the remote control device attached to their seat. The Planet digital system offers the latest releases, Classics, Drama, Family, A-Z, International, Romantic, Comedy, Action, Turkish cinema and Children’s films as well as television series, dramas, documentaries, sports, travel, food, fashion and technology programs and cartoons; CD albums including Pop, Pop&Rock, Jazz&Blues, Classical, Latin, New Age, Oldies, World Music, Classical Turkish Music, Turkish Spiritual, Traditional Turkish Folk; and various radio channels. An individual and multiple player Game channel, a Children’s channel and an Audio Book channel are also available (http://www.turkishairlines.com/en-int/travel-information/frequently-asked-questions/on-board/in-flight-entertainment, Reached at 11.06.2014).
Figure 9. Advertisement of Bank Asya and Posta Newspaper on Airplanes of Pegasus Airlines

Table 5. Advertisements Shown on Multimedia Displays of Turkish Airlines (January-2014)

<table>
<thead>
<tr>
<th>Product – Brand</th>
<th>Ad Type</th>
<th>Ad Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usersports.com</td>
<td>Video + Text</td>
<td>01:58</td>
</tr>
<tr>
<td>Shopkrowd.com</td>
<td>Video + Text</td>
<td>02:17</td>
</tr>
<tr>
<td>Pembepanjur</td>
<td>Video + Text</td>
<td>02:29</td>
</tr>
<tr>
<td>Oyuncakdenizi.com</td>
<td>Video + Text</td>
<td>01:51</td>
</tr>
<tr>
<td>Indirdik.com</td>
<td>Video + Text</td>
<td>01:28</td>
</tr>
<tr>
<td>Ganipara</td>
<td>Video + Text</td>
<td>02:25</td>
</tr>
<tr>
<td>ehil.com</td>
<td>Video + Text</td>
<td>01:45</td>
</tr>
<tr>
<td>dekorako.com</td>
<td>Video + Text</td>
<td>01:59</td>
</tr>
<tr>
<td>Clovergamestudio</td>
<td>Video + Text</td>
<td>02:09</td>
</tr>
<tr>
<td>Evalalim.com</td>
<td>Video + Text</td>
<td>02:40</td>
</tr>
</tbody>
</table>

Magazine and Leaflets (Inserts): There are magazines in aircrafts which may be taken away by passengers free of charge. These magazines are published by airline companies and distributed to passengers during the flight. “On Air” of Onur Airlines, “JetLife” of Atlas Jet, “Blue” of Aegean Airlines and “Skylife” of Turkish Airlines may be shown as examples of those magazines. These magazines are not only put in seat pockets but also distributed to flight and advertisement agencies online via internet free of charge. Ads published on these magazines are used for marketing or products and services.

Fig 10. The Board Magazines that are Delivered in the Aircraft

Ads published on these magazines which are definitely glanced by passengers during the flight provide desired messages to passengers in a written way. These advertisements are both cheaper in comparison with mainstream media magazines and provide wider reach area. For instance, full page advertisement price on magazine named “On Air” published 65 thousand issues per month is 3.750 TL (1.800 $), cover page advertisement price is 7.500 TL (3.604 $) (OnurAir, 2014).
Panels: Panels are placed in the front entrance facing the passenger within the aircraft. All passengers can see them easily.

Boarding Pass Cards: The boarding pass is what indicates the passenger’s seat on the plane and what enables a passenger to board a flight after passing the final control point. The back side of this card can be used as an advertising field. The consumer by this board card can be directed to online web site of the product with the use of QR code and Blippar. Since this card is safeguarded until the end of the journey and in fact even afterwards, it is one of the most effective advertising platforms. It may contain an online coupon with discount and a promotion code which will be applied with QR code. The passenger may use this code after his/her journey when he/she opens his/her mobile phone and benefit from the opportunity the advertiser provides.

Blankets and Pillowcases: Advertisement type applied by using product visuals like logo and similar on blanket and pillowcases. While it helps brand and passenger to establish an emotional bond, it also provides brand to easily affect the perception of passenger.

Concept Aircraft: One of the most assertive advertisement types of onboard advertising is to cover the airplane with brand visual. In outdoor advertising, automobiles, buses, buildings and various vehicles and places are transformed into advertising media by wrapping them with brand visuals. These applications are made with “concept aircraft” in onboard advertising. The advertiser puts its logo on the aircraft and makes the brand name the tip name of the aircraft. Once the brand is put on the aircraft all the flights made by this plane are announced with the name of the brand and slogan of the brand. In this advertising type, mentioned brand becomes the prime sponsor of all flights of this plane.
Conclusion

Advertising is some kind of announcement represented by means of buying time or place from communication means in order to convince people to voluntarily behave in a particular way, direct them to a certain idea, try to attract their attentions to particular product, service or idea, inform them about those and make them change their opinions and behaviors.

Advertising is the concept having the broadest area in marketing network. It plays an important role in process starting from the birth of product to the release. Advertising is used for adding value to brand, positioning the brand, creating brand recognition and helping to create corporate image.

Brands have been using various communication means for transmitting their advertisement messages to target audience. Innovations in technology and alterations in social life also affect advertising industry. People socializing more in recent years and spending time outside their homes because of various reasons like work – school etc. increased importance of outdoor advertising.

After the discovery of effect of outdoor advertising means, investment made in outdoor advertising has increased every year. In 2013, outdoor advertising investment of Turkey reached to 348 million TL (162.2 m. $). It is expected to reach to 380 million TL (182.62 m. $) in 2014 with an increase of %10.

First means coming to mind when it comes to outdoor advertising means are billboards, posters, vehicle wrappings, placard and banners, illuminated ads, mega boards, wall and roof ads, station ads, surface graphs used for indoor and outdoor environment, glass graphs, excavations and home boards. In addition thanks to recently wide spreading airline transport, onboard advertising enabling airplanes to use it as an advertisement medium during the flight has been added to these.

Onboard advertising draws attention as an unrivalled method for advertisement applications inside the airplane. While consumer is isolated from outside world inside the plane, is also isolated from every advertisement message presented in outside environment. This let consumer and advertiser to stand alone in a brand new world. Advertiser giving visual and auditory messages to the passenger inside the plane may also apply experimental advertising. Onboard advertising in which all kind of methods of advertisement like spot – sponsorship – promotion may be used also leaves consumer alone with the advertisement. Consumer seeing this message even if he/she refuses it, interacts with the brand. These messages offered to consumer who left inside the aircraft like nearly a prisoner and spent at least one hour inside it, are short and sweet by contrast with crowded advertisement bombardment of the outside world. Onboard advertising offering different advertising options in an isolated medium may be alone with consumer than radio, television, printed media and even other outdoor mediums couldn’t ever be. In an air travel managed by a host system passengers may use media and communication systems as much as that host system allows. Amongst communication systems inside the airplanes, onboard advertising draws attention as a modern advertising type offering direct messages to consumer with traditional methods.

This advertisement type especially becoming active in last three years in Turkey, has been becoming popular every passing day and will be more important advertisement medium after the tripling of airline transport capacity in 2018 when the third airport will be opened.

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Developing New Market Entry for ABOFARM SMEs (Small and Medium Enterprises) in Indonesia

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Abstract
Modern market in Indonesia continues to grow rapidly and it has provided new opportunities for entrepreneur both large and small. Based on Nielsen research in 2010, the growth of the modern market in Indonesia continues to increase significantly. In 2004, market share approximately 18.3 percent and by 2008 had reached 24.4 percent. One of the SMEs in Indonesia, which has been prepared in entering the modern market is the ABOFARM SMEs. During this time, ABOFARM is only able to penetrate the local market because not optimal in exploiting or improving their market access to the modern market. Benchmarking and in-depth interview is method measurement process to know what are the things that must be developed and managed by SMEs in developing markets and enters the modern market. The data used in this study is primary data and secondary data. Primary data were obtained from direct observation and interviews to determine the shape of the activities carried on ABOFARM SMEs. And secondary data were obtained from the literature in the library, the internet, the previous thesis and some related literature. With new market entry strategy for SMEs is expected to enter the market modern and maximizing profits earned by the SMEs.

Keywords: Market Development Strategies, SME, Modern Market
How do different kinds of personal goods on the dest influence perceptual competency characteristics?

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Abstract

We may put different kinds of personal goods carelessly on our desks and drawers in the offices of enterprise organizations. Is it possible not only showing our habits and personality but also passing on some informal messages to cause some images or effects for our professional competence perception and job involvement by colleagues and directors? Therefore, this research will proceed to the relevant discussions. The results are followings: (1) It will cause effect for job involvement and professional competence perception when putting photos, foodstuffs on desk, and cosmetics into drawer or putting specific goods such as peppermint by female staff, (2) From the interaction between subjects’ personality and goods on office desk we can learn that photos for Emotional stability, cosmetics for Agreeableness, Conscientiousness, foodstuffs for Openness, which will interfere in subjects’ job involvement and professional competence perception. However, when female staff put cigarettes into drawer, the openness personality of subjects will interfere in the effect of professional competence perception.

Keyword: Desk, Job Involvement, Professional Competence, Personality Traits
Analysis of the Tourism Image in the Turkish Series ‘Magnificent Century’

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Abstract

Firstly, we pay attention relationship among communication, media and Tourism. Many academics and industry employees have concerned the relationship between media and tourism, since the 1990. Screen-tourism is very important understanding relationship between media and tourism. Although various terms have been used to refer to this new form of tourism; film-induced tourism, movie-induced tourism, media-related tourism, popular media-induced tourism, and media pilgrimage, (Couldry, 1998), it can be literally named as screen-tourism (Connell and Meyer, 2009;). In our research, the survey method was used. We have selected the type of the question list. We have delivered the list of questions in Topkapı Palace which is the Place of Ottoman Empire from 02.06.2014 to 08.06.2014. There are 50 list of the questions. We have gathered the list of questions. Total of 47 surveys were useful for our research. One of the tourists lost the list of the question and two tourist didn’t write answer for the list of the question.

Keywords: Screen-Tourism, Image, Hiper-Image

Introduction

Firstly, we pay attention relationship among communication, media and Tourism. Many academics and industry employees have concerned the relationship between media and tourism, since the 1990. Screen-tourism is very important understanding relationship between media and tourism. Although various terms have been used to refer to this new form of tourism; film-induced tourism, (Beeton, 2005;) movie-induced tourism, media-related tourism, (Busby and Klug, 2001;) popular media-induced tourism, and media pilgrimage, (Couldry, 1998), it can be literally named as screen-tourism (Connell and Meyer, 2009;).

While quantity does not necessarily denote quality, with more time it does allow a richer storyline to encompass various and multifarious events in TV drama. What is even more important is that TV drama often puts the everyday lives of tourist and their problems, however big or small, at the centre of storylines. The domestic and personal narratives and dialogues focus on the major themes touching on tourist beings’ common interests, such as love, jealousy, hatred, ambition, death, friendship, marriage, divorce, travel, trip, tour and the lust for money. Furthermore, the serialization of TV drama can generate a deeper sense of tourists involvement that is identifiable, empathetic and discursive to the tourists as the story develops over time (Lawson, 2000).

Audience want to be the same place when audience is watching 3D movie effect. When audience is watching 3D movie than the plays (for. Ex.; Eco-place, famous-place, historical-place and other.) is attracted future tourist’s interest. Especially, our research is affirmed to role the serials. We are able to research ‘Magnificent Century’ for analysis tourism image in the Turkish Series.

Literature Review

The audience watched the movie, drama, soap opera the same time audience identified with the movie’s character. If the character goes to famous plays or historical place and the audience want to be this place. Growing new technologies or visual screen is helped to feel by audience. (Kim; 2003) When audience is
changed reality than audience acts as a virtual tourist. (Shim; 2006) Audience watch Turkish serials and want to be the same place. In the end audience turn into a tourist. Actually this is called the metamorphose of tourism.

Series and media are very important for the tourism industry. Because, series and media are created new tourist. There are psychological effects of the media. Media influences audience’s subconscious. For example; we can say C.G.Yung and Z.Freud psychoanalysis. Yung uses the concepts of the collective unconscious. (Yung; 2002) Media actually sends specific messages to the subconscious of the society by means of the screen. At the same time pictures audio, visual view is sent to brain by visual screen. Media constitutes the image of the tourism. Tourism is actually an image.

**Metodology**

In our research, the survey method was used. We have selected the type of the question list. We have delivered the list of questions in Topkapı Palace which is the Place of Ottoman Empire from 02.06.2014 to 08.06.2014. There are 50 list of the questions. We have gathered the list of questions. Total of 47 surveys were useful for our research. One of the tourists lost the list of the question and two tourist didn’t write answer for the list of the question.

**Conclusion and Implication**

The result of the 47 surveys are shown in a table. Our research focus on the effect of the series to tourism. Our hypothesize is showed the social subconscious orientation of the media and its contribution to the tourism industry versus.

Turkish series are watched 102 countries of the world. In particularly, ‘Magnificent Century’ is affected to Balkans and Arab countries tourists. According to statistic, 35,000 Arab tourists visited to Eastean Black Sea two years ago, but the number of the Arab tourists were 170,000 in 2013.

% 83 of surveyed tourists believed the impact of media.

**References**

Busy G. And Klug J. (2001) Movie-induced tourism; The challenge of measurement and other issues. Journal of Vacation Marketing 7 (4);
Kim H, and Richardson SL. (2003) Impacts of a popular motion Picture on destinations perseqptions. Annals of Tourism Research 30 (1);210
An approach to Inequalities beyond Gini Coefficients in Case of Turkey

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Abstract
The paper primarily aim to focus on inequality measurement on the basis of Gini coefficient following 2001 in case of Turkey. Although the Gini coefficient indicates some specific improvements in Turkey, there is a need to investigate in real terms the approaches to inequalities in the Turkish case. Simply the paper aim to investigate inequalities drawing upon TurkStat, OECD and World Bank Development Indicators data related to Turkey. In doing so the Palma ratio (2011), the share of top 10 percent income to the bottom 40 percent income (D10/D1-D4) approach to inequality is applied to the balance sheet of Turkey in the last decade, after which, the relationship with related social and redistributive policies will be analysed. The paper strongly suggest that since the Palma ratio focuses on the top-, bottom- and middle-income groups, it will permit a deeper analysis of the inequalities and neoliberal policies of the last decade. Under these circumstances, following 2001 period, the political roots of the JDP and this particular phase of neoliberal policies in Turkey warrants further analysis, with a definition made of the relationship between the two. To this end, the paper begins with an analysis of the specific characteristics of the neoliberal era under the JDP.

Keywords: Income Distribution and Inequalities, Poverty, Development

Introduction
This paper focuses on the decade following the 2001 financial crisis in Turkey, making an analysis of the distribution of income through an investigation of Gini data mainly obtained from the Turkish Statistical Institute (TurkStat). In addition to Turkstat data World Development Indicators(WDI) and OECD reference data related with Turkey would be included to the analysis.

There are two main factors that characterize the Turkish economy over the last decade under the prevailing global conditions: The 2001 crisis, defined as one of the deepest in Turkey since 1980; and the changing power relations among the different social classes. This period represents the third phase in the neoliberal transformation of Turkey that started in 1980, when, with the 24th January 1980 decisions, a new model of capital accumulation came into effect.

Defining itself as a conservative democratic party, the JDP came to power during the third phase of the neoliberal transformation of Turkey with promises to achieve strong economic growth and stability, and with emphasis on respect of socio-economic values in a “Muslim country on the basis of conservative and liberal principles. “At the time, socio-economic conditions had hit rock bottom, and the decision to continue with the implemented policies may be understood as a strong political will to maintain the continuity of the neoliberal agenda, keeping also big capital happy. With the aim of creating new ruling elites and comprehensive mass politics, the “neoliberalism adjustment with a human face“ provided suitable conditions for the JDP.

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81 Gini figures in WDI is derived from Povcal net. These datas are based on primary household survey data obtained from government statistical agencies and World Bank country departments. Povcal net is the online poverty analysis tool of World Bank.

82 Within this period, the 2008 global financial crisis affected the Turkish economy in many ways, and it was inevitable that the path taken by the Turkish economy in the following period would be affected by the changes in the world economy in which there was increased fragility due to macroeconomic imbalances.

83 http://www.akparti.org.tr/english/akparti/2023-political-vision
The success of the JDP, especially in its first period (2003–2006), may be attributed to the implementation of policies in the aftermath of the 2001 crisis, and the strong political will and positive conjecture in the world economy (2002–2007) that is characterized by record capital and trade flows (Onis and Guven, 2011, Boratav, 2011). Under these conditions, the JDP achieved rapid rates of economic growth (Boratav, 2011:465), and through the application of contractionary fiscal and monetary policies, the double digit inflation rates were reduced to single digits for the first time in Turkey since 1970 (Onis and Guven, 2011).

The decade following the 2001 crisis saw a return to rapid growth and an increase in GDP per capita and the economic growth ratios that were achieved indicate a “concrete “improvement. It is apparent that the witnessed growth has been based on consumption and foreign sources, accompanied by increases in foreign and short-term private external debt.

Furthermore this type of growth without creating employment is referred to as “jobless growth” (BSB, 2010), in which the achieved growth rates have not been reflected on the employment figures. It is apparent that the increases in productivity have resulted rather from decreasing labor costs per unit in the private sector, without any technological improvement.

During this period functional income distribution is tilted strongly towards profits. With exports highly dependent on imports, the recent real depreciation of the Turkish Lira may lead to a further downward pressure on wages (Senses, 2012:25). According to Boratav (2013) calculations it is suggested that in 2010 real wages in manufacturing were 12.5 percent below their 1998 levels, while labor productivity increased by a massive 70 percent in the same period, due in part to labor shedding. Besides the value added in the manufacturing sector has increased as a consequence of increase in profits.

Some Notes on the Methodology

Since value judgments are implicit in inequality comparisons, and there are a number of ethical and practical questions associated with the use of an inequality measure (Cowell, 2000:8), it is possible to define and measure inequality in various ways. Given that functional income distribution should not be ignored as a measurement of inequality, this study claims that the use of Gini coefficients leads to limited and sometimes misleading results related to the inequalities. That said, by using a detailed analysis that goes beyond the Gini coefficients with alternative measurements, it is possible to come up with different results.

As Atkinson states, the Gini coefficient is more sensitive to changes in the middle of the distribution (Atkinson 2003 cited by Cowell, 2000), and less sensitive to changes in income in the top and bottom income groups. Rather than comparing the income share for the 20 percent quintiles (P20) for both cross-sectional and inter-country analysis, comparing the income distribution for the decile groups (10 percent, from D1 to D10) gives a new perspective to inequality and growth.

Using the World Bank, World Development Indicators datasets for 1985 and 2005, which include observations of 133 countries with information on Gini coefficients and income shares, Palma came to a result that was reflected in the title of his paper: “Homogeneous Middles vs. Heterogeneous Tails, and the End of the ‘Inverted-U’: It's all about the Share of the Rich (2011)". According to this study, the end to the upwards side of the “Inverted-U” comes at a statistical cost: the relationship between inequality and income per capita is not homogeneous across regions and countries. As income per capita increases, some regions/countries move in one direction, others in the opposite. So, the homogeneity restrictions that are required to hold for ‘prediction’ are visibly not fulfilled. (Palma, 2011:13)

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84 Privatization revenues and and increase in public budget revenues plays a critical role in the determination of the fiscal balances.
85 Palma underlines that from a cross-sectional perspective at least, recent developments in household surveys have improved substantially the quantity and quality of data (for example, LIS, 2010; SEDLAC, 2010; WIDER, 2008; World Bank, 2010).
86 Botswana and Namibia as two extreme sample is excluded from the cross-sectional analysis.
87 For the debates on Kuznets inverted U: relationship between income distribution and income per capita see Kanbur(2000).
88 In this study Turkey is not included to one region.
Based on the evidences it is observed that, the middle income groups (D5 to D9) for almost every country tend to share nearly half of the Gross National Income (GNI), making it possible to speak of more homogenous middle income groups. The other half of the GNI is shared among the richest – D10 (top 10 percent) – and poorest 40 percent quintiles (D1–D4), and these two groups can be considered as more heterogeneous when compared to the middle income groups. In addition to these as Palma states for 133 countries, the difference between D10 and D9 is also reflected in their coefficient of variation: that of D10 is more than four times larger than that of D9. Therefore it is possible to suggest that, there is a major (and totally unnecessary) loss of information if distributive data are reported only in terms of quintiles, as the top quintile is made by the aggregation of two very different deciles (Palma, 2011:7).

For the bottom and the top, the share of income varies among countries, and, as Palma underlines, this means that there is a conflict among these groups in terms of distribution policies (Palma, 2011). Palma (2011) claims that there are two opposing forces at work in distribution: one “centrifugal”, leading to increased diversity in the shares of the top 10 percent and bottom 40 percent; and the other “centripetal”, leading to a growing uniformity in the income share appropriated by the “middle“ 50 percent (D5–D9) (Palma, 2011:23). Based on these figures, one could argue that half of the world’s population (the middle and upper-middle classes) have acquired strong “property rights“ as Palma puts it, over half of their respective national incomes, while there may be more flexibility in the distribution of the other half of this income between the “rich“ and the “extremely poor“ (Palma, 2011; and Abham and Summer, 2013).

In arguments for more equal distribution, the income share of the top 10 percent quintile (D10) and the bottom income share of 40 percent (D1–D4) play a critical role. Focusing not only on the change in Gini coefficients, but also on the change in the share of income among the D10, D1–D4 and the D5–D9 groups would lead to greater accuracy in the effects of income distribution. Palma (2011:23) argues that the higher degree of heterogeneity at the very top and bottom of the income distribution makes simple income ratios, particularly those of ‘D10/D2’ and ‘D10/(D1–D4)’, more statistically-sensitive indicators of distributional disparities across the world.

Based on these, the Palma ratio, named by Abham and Sumner (2013), refers to the ratio of national income shares among the top 10 percent and the bottom 40 percent of households, reflecting Palma’s (2011) observation regarding the stability of the “middle “ 50 percent share of income across countries, meaning that distribution is largely a question of the tails.

Following these studies (Palma, 2006, 2011, Abham and Sumner, 2013) the debate on inequality and economic growth has gained a new dimension. Regarding with poverty reduction new approaches based on Palma ratio has been discussed. According to this approach it is a clear fact that global inequality has increased. The incomes of the world’s top 1.75 percent earners now exceed those of the bottom 77 percent (Milanovic, 2010 cited by Post2015.org). As a result it is suggested that Palma ratio could provide a more policy relevant indicator of the extent inequality in each country, and may be particularly relevant to poverty reduction policy (see, Post2015.org, 2013). According to this approach in more equal societies the Palma ratio will be one or below, meaning that the top 10 percent does not receive a larger share of national income than the bottom 40 percent. In very unequal societies, this ratio may be as high as seven. A potential target could be to halve national Palma ratios by 2030, compared to 2010, and dramatically reduce the global “Palma ratio", which is currently 32 (for 2010)(Post2015.org,2013).

In the case of Turkey, it has been stated that income inequality has been reduced significantly over the last decade, and this Gini coefficient data is being used as proof of recovery. From this perspective, the Gini data may be investigated on the basis of the Palma ratio to ascertain whether recovery can be found in the income distribution data.

Related to the Gini coefficients, there are some specific facts that should be underlined for the case of Turkey. Gini coefficient data is derived from TurkStat, which has announced figures regularly only since 2002, and the absence of regular data prior to 2002 means that a comparison for a longer time period is not possible. TurkStat started to produce statistics on income distribution following a Household Income and Consumption Expenditure Survey in 1987, and carried out an independent survey on income distribution in 1994. Income distribution statistics were produced from the household budget survey between 2002 and 2005; and since 2006, TurkStat has been conducting an “Income and Living Conditions Survey “. 
As stated by the OECD (2012a), the change in surveys from 2007 onwards means that the data between 2004 and 2007 is not strictly comparable. Since 2006, TurkStat has been calculating income distribution data based on household disposable income and equivalized household disposable income. It should be noted that especially for the cross-country comparisons, it is mostly disposable household income surveys that are used, so one should be careful to understand which class of data is given by TurkStat. As OECD underlines, TurkStat communicates its results based on the Gini coefficients of equivalized household disposable incomes. Under these circumstances, according to the OECD, Turkey’s reference OECD data overlaps with equivalized household disposable income, but after 2004 there is a gap between the household disposable income data and Turkey’s OECD reference data.

Since 2004, income inequalities have been decreasing among the total population. According to TurkStat, the Gini coefficient declined from 0.44 in 2002 to 0.38 in 2011, and while this general trend is confirmed both by OECD database and by TurkStat Office, there are discrepancies in the figures. In 2004, the Gini coefficient is 0.03 higher for OECD (0.43) than for TurkStat (0.40), although it is interesting to note that the Gini coefficient of the non-equivalized incomes published by TurkStat match the OECD reference series in 1994, but is lower in all further years. In later years, the Gini coefficient of equivalized incomes published by TurkStat matches the OECD series.

Furthermore since Palma ratio is calculated based on WDI that is derived from Povcal data, these dataset would be included to the paper. As it would be seen in the following chapter it is observed that Povcal data of Turkey don’t match with those given by Turkstat. In spite of this, within the framework of this paper while comparing Turkey’s position against to other countries this data set would be used in order to provide consistency.

Besides, the relevancy of the income distribution statistics for Turkey has been questioned by some economists in Turkey. As Sonmez (2013) and Boratav (2006) claim, Gini coefficient data may be misleading, since it is based on “declared“ household incomes, and a comparison of the figures with income-based GDP figures reveals discrepancies. As the income-based GDP has not been calculated by TurkStat since 2006, a comparison is not possible. Boratav (2006) compared the figures for 2004, highlighting the gap between the declared income and GDP-based income, and found that according to Forbes data, the income of the 100 richest families in Turkey was equal to the income of the poorest 15 percent of the population, equating to approximately 2.5 million families (Boratav, 2006). This clarifies that the gap between the richest and the poorest income groups is still huge, indicating that the results garnered from the Gini coefficient data should be accepted as an “illusion”.

**Palma Ratio of Turkey**

Given the methodological problems associated with the use of the Gini data calculated by TurkStat and OECD, within the framework of this paper, it is preferred to consider both equivalized and disposable household incomes data(especially for after 2005) given by Turkstat and Povcal data when calculating the Palma ratio for Turkey. As stated above mainly Turkstat data reference set will be used. However when the Palma ratio for Turkey is compared with other countries the Povcal reference data would also be considered for the consistency.

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89TurkStat (2008) claims that the reason for calculating equivalized household income is that it results in better data related to individual welfare, in which the number of households is critical, although families at the same income level but of different size may not have the same level of welfare. Household income is recalculated taking into account only the number of adults living in the household, given that the children consume less, according to an equivalized scale. The use of equivalence scales allows for the fact that the effective value of economic resources depends on how many people, of what age, live in a household(Atkinson,2013)

Briefly, equivalized household income calculated divided by the number of household members converted into equalized adults. Household members are equalized or made equivalent by weighting each according to their age, using equivalized scale.(TurkStat, 2008). OECD applies an equivalence scale of 1 for the first adult, 0.3 for all children under 14, and 0.5 for additional persons aged 14 and over (the so-called OECD “modified” scale).
As can be seen in Figure 1 in spite of the recovery trend, there is a significant difference between Gini coefficients, with the household disposable income Gini of Turkey being higher than the equivalized household income adding that Povcal Gini data of Turkey own a different trend from Turkstat data.

\[ \text{Fig 1: Gini Coefficient (TurkStat 2013, Povcal 2013)} \]

In accordance with the given Gini data, the overall result is a tendency of a reduction in the Gini coefficient. In 2012, the disposable household income Gini coefficient is 0.38, compared to 0.402 for the equivalized household disposable income. According to Povcal data, the latest figure given for 2010 is 0.40 that is significantly higher than household income Gini coefficient (0.382) in 2010.

Comparing the position of Turkey with other OECD countries, in spite of the recovery in Gini coefficients, the achieved improvement has not been satisfactory, and Turkey still presents a higher inequality than most OECD countries (see Figure 2). According to OECD data, the Gini coefficient of Turkey in the mid-1980s was 0.434, but had reached 0.490 by the 1990s, with the average for the 2000s being recorded as 0.430 (OECD Factbook 2011: Economic, Environmental and Social Statistics, 2011). Between 1994 and 2007 the Gini coefficient saw a percentage change of -0.0081.

\[ \text{Fig 2: OECD Countries Growth of Real GDP Growth and Gini Coefficient (OECD, 2012b)} \]

In addition to this, as can be seen from Figure 3, Gini coefficient data is more volatile when compared with the growth of the real GDP per capita, and it should be noted that inequality varies despite the growth in GDP. In this case, Turkey is also among the most unequal of countries among the OECD countries. This specific fact for Turkey for the 2002–2011 period (following the 1994 and 2001 crises) is also evident in Figure 3, in which the change in log per capita and the log Gini coefficient data is considered. Although high growth rates the inequality rank (on the basis of Gini) is still persistent (see fig. 2). As it is seen from figure 3 the change in the Gini coefficient is more volatile, it can be seen that the increase in GDP per capita is more linear for the 2012–2012 period. The covariance between log pc and log household

90 Latest figure is given for 2010.
91 See that UNDP human development report datas use the same Gini datas with World Bank Development Indicators.
Disposable income is weak although the correlation between these two parameters is found to be strong and negative. Another interesting fact is related with the crisis year (2009). Gini coefficient for the household disposable income has increased while Gini coefficient for equivalized household disposable income has decreased meaning that during that period Gini coefficients for both series had different trend (see fig. 3). It should be noted that 2008-2009 period is the crisis years where the economic growth fell to negative levels and unemployment rose to 14 percent so that increase in Gini coefficient would not be surprising but in this case for both series we have observed different results.

![Fig 3: GDP pc ($) log and Gini Coefficient (TurkStat,2013)](image)

Under these given conditions, one further step may be taken, in which the ratios of incomes for the quintiles and deciles for the bottom-, top- and middle-income groups are considered.

For Turkey, P80/P20 ratio (between the poorest 20 percent and the richest 20 percent) is decreasing over time. Whereas this ratio was 9.45 in 2002, it decreased to 6.92 (for household disposable income) in 2012, and to 7.89 for equivalized disposable household income. As the OECD states, from 2004 onwards the P80/P20 ratio witnessed a steady decline from 9.13 in 2004 to 8.14 in 2007. Based on Povcal data this ratio was calculated as 8 in 2010 that was higher from Turkstat figures for household disposable income. The TurkStat figures are more volatile, but a similar trend of declining figures can be identified from 2004 onwards. It is important to note that the TurkStat figures on the income quintile share ratio are lower than the OECD figures in 2004 (9.12 versus 7.7), while being similar in 2007 (8.1 in both surveys) (OECD, 2011). Moreover, the change in income share of the bottom 20 percent is lower than that of the top 20 percent. The poorest 20 percent had an income share of 5.3 percent in 2002, increasing by only 0.5 percent to 5.8 percent. In contrast, the top 20 percent had a 50.1 percent share of in 2002, but dropped to 46.7 percent in the same period. In summary, the income of the richest 20 percent has decreased by a greater percentage than the income of the poorest 20 percent has risen.

Under these circumstances this paper strongly suggests that it is more important to focus on decile groups comparatively rather than quintiles since the quintiles may hide rate of income change among the decile income groups. It is possible to claim that this case as cited above from Palma (2011) is also valid for Turkey. Based on calculations it is seen that there is a huge difference in standard deviation (from 2002 to 2012) of these deciles and the covariance of D10 is also larger than D9.

The other point is about difference between D1, D2 and D1-D4. While comparing the change in D1 and D2 during 2002-2012 it is possible to suggest that the rate of change is greater in D1. On the other hand standard deviation of D1-D4 for that period is greater than D1 and the covariance is smaller than D1. Since D1 mostly represents the daily paid workers or unemployed households to focus on bottom income groups (regular waged workers etc.) would consist of more accuracy on the tendency of inequalities. Due to these results the share of income deciles would be investigated in detail.

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92 Author’s calculations.
Figure 4 presents a calculation of the ratio between the richest and poorest deciles, in which it is seen that the \((D_{10}/D_{1})\) ratio is higher when compared to the \(P_{80}/20\) ratio. In 2012 the \(D_{10}/D_{1}\) ratio was recorded as 11.84 for disposable household income and 14.27 for equivalized household income. In case of Povcal data this ratio is calculated as 14.47 in 2010.

The OECD average ratio incomes at the top (the 90th percentile-\(D_{10}\)) and bottom (the 10th percentile-\(D_{1}\)) is 9.4, corresponding to 15.1 for Turkey (2009), putting Turkey in third rank among all OECD countries as the most unequal country and fourth rank in case of \(D_{10}/D_{1}\). Despite the increase in the real GDP per capita, even above the average for OECD countries, the Gini coefficient still remains high below the OECD average (0.313 for Gini, 9.4 for \(D_{10}/D_{1}\)).

Based on these facts it is possible to suggest that for the last decade three significant turning points are observed related with income distribution data. As 2003-2006 period is called as the heydays of the JDP period by means of economic growth, this trend is reflected to income distribution data in limited scale. The second period starts from 2006 till 2008-2009 (crisis years) and following the crisis years recovery trend has been realized since 2010 till 2013.

\(^{93}\) OECD uses \(D_{90}/D_{10}\) ratio. In this study this is equivalent to \(D_{10}/D_{1}\).

\(^{94}\) Data refers to 2009 for Hungary, Ireland, Japan, New Zealand and Turkey; 2011 for Chile. Data based on EU-SILC for 2010 are still provisional for Austria, Belgium, Czech Republic, Estonia, Finland, Greece, Iceland, Italy, Luxembourg, Poland, Portugal, Spain, Slovak Republic and Slovenia.
Related with figure 4, the change between 2005 and 2006 may be explained from the fact that the income share of the richest 10 percent has changed with a greater ratio compared to D1. Oppositely the change from 2002 to 2003 was due to change in the ratio of poorest 10 percent. In 2009, during the crisis year, it is seen that the share of the richest D10 has increased while D1 has decreased (from 2008 to 2009).

Focusing on the bottom 40 percent (D1–D4) income groups (figure 6), in 2012 the ratio was 17.5 for household disposable income and 16.48 for equivalized household disposable income. It is worthy of note that the bottom 40 percent receives only 17.5 percent of the total income, and while this is up from the 2001 figure of 15.7, it indicates a recovery of only 1.8 percent for disposable household income and 1.58 percent, for equivalized household disposable income. Compared with Povcal data set it is seen that this ratio is smaller than Turkstat data. The highest value for this ratio was calculated in 2009 as 16.03 and later on lastly 16.09 in 2010: Based on Palma’s study this ratio seems to be lower than 133 countries averages (16.6). In 2005 Turkey’s ratio was 15.3 adding that it was similar with harmonic mean of 133 countries.

![Fig 6: Bottom Poorest (D1-D4) Share in Income (TurkStat, 2013, Povcal, 2013)](image)

For the middle income groups, that is, from D5 to D9, the calculated ratios are similar to the cross-sectional data analysis of Palma, which indicate that the middle income groups have the greatest share of the total income, and are more homogenous. In this study the average of D5-D9 is 51.7 and harmonic mean is 51.2. In 2005 D5-D9 for Turkey is calculated as 51.05. (see figure 6)

In case of D5-D9 ratio the figures for both data set is more closer to each other. On the other hand Povcal data reflects significantly higher share for the middle groups. For 2010 it was calculated as 54.14.

In case of Turkey, in 2002, the D5–D9 ratio was 50.3 percent, increasing by 2012 to 52.9 percent for the disposable household income group, and 52.8 percent for equivalized income, with the ratio of change within this period being 2.6 (for household disposable income). After D10, the second highest standard deviation belongs to D5-D9. Although there is a decline in this ratio during crisis year, 2009, a comparison of the change in the share of the bottom income group with that of the middle income groups reveals a higher ratio of change when compared to other income groups. It may be claimed at this point that an increase in welfare was realized during the JDP period among these groups.

![Fig 7: Middle Income Groups (D5-D9) (TurkStat, 2013, Povcal, 2013)](image)
Lastly, in Figure 7, the Palma ratio is calculated for both sets of income data. In 2002, this ratio was 2.2, and is calculated as 1.69 for household income groups and 1.88 for the equivalized household income groups for 2012. This ratio is lower than Latin American countries average but higher than higher income OECD countries (Cobham and Sumner 2013, Povcal data, 2012).

The results obtained from the calculation of the Palma ratio and comparisons of the income share ratios according to deciles serve as a different means of identifying inequalities on the basis of the Gini coefficients for Turkey. In the case of the Palma ratio for Turkey, the gap between the top and bottom still exists, although it is possible to speak of a relative recovery. Although it is seen that during the crisis period this ratio has increased while the share of D10 and D5-D9 has increased. During the last decade the recovery in this ratio reflects a weak recovery. The standard deviation of this ratio is lower than D1/D10 ratio. This trend is also valid for covariance.

![Fig 8: Richest 10 Percent to the Bottom 40 Percent- The Palma Ratio (D10/D1-D4)(Turkstat,2013 Povcal,2013)](image)

In Figure 8, which presents the ratios of household disposable income, one can observe the change in the income share ratios for different deciles groups – specifically for the richest, bottom, middle and poorest 10 percent. The assumption of “D1-D4 is the mirror image of D10” is also valid in case of Turkey but also the covariance between D10 and D5-D9 is found to be strong. As D10 has decreased in 2005 the rate of increase for D5-D9 has been faster than D1-D4.

By summarizing these ratios for the four main decile groups (see figure 9), the dimensions of change for each group can be understood. For the bottom income group, the ratio of change was found to be less when compared with the upper income group. The middle income groups were seen to have had among the greatest benefit in terms of income increase, whereas the decrease in the income share of the top 10 percent can be seen to be greater than that of the other income groups. For the bottom group, the share of income has increased by less than the other groups. The effects of the 2008–2009 crisis can be seen in the increases of the ratios of the P80/P20 and D90/D10 groups, when it can be seen that the Gini figures changed for the bottom income groups, and this is another critical point that needs to be considered. Accordingly, it can be claimed that aside from in the heyday of the JDP tenure, welfare increases have been reflected mostly in the upper income groups. During this period the highest rate of change is observed for D5-D9, D10 and D10/D1 but for the bottom (D1-D4) and Palma ratio it is not possible to suggest the same trend.
When the average income and median income for the related deciles is compared with GDP per capita in dollar terms\textsuperscript{95}, it is possible to suggest that the gap between average income of the deciles and the GDP per capita reflects that inequality in distribution could not be eliminated. Besides the average incomes of D1, D2 and D3 income groups are lower than the median income level, differently from other deciles. The difference between average income level and median is biggest for D1 income group.

In addition to these results, it would be useful to compare the distribution of annual incomes according to income types in the analysis. According to Turkstat data set the household income distribution according to income is given for only 2002-2005 period and following 2006 it is given for equivalized household income groups(for 20 percent income groups). Based on this it is seen than the share of transfers and wage and salary is increasing by the time (it was 40.8 percent in 2006 and increased to 46.5 percent in 2012). The casual payments has more volatile trend that decreased from 4.1 percent in 2008 to 3.5 percent in 2009 and later on it has continued to decrease to 3.4 in 2012 which was 3.7 in 2006. Although during 2002-2005 period there is a decrease in the share of these income groups later on by 2007 property income share has increased to 7.0 percent and rental income to 4.1 percent. In 2009, the share of the rental and property income has increased compared with the previous year and later decreasing tend for both income groups has been observed. Only transfers (pensions and survivor benefits plus other transfers) has increased regularly during that period. On the other hand clearly the share of agricultural entrepreneurial is also decreasing by the time. Summing up in general the entrepreneurial shares has decreased and the wage and salary payments, transfers shares has increased.

Kose and Bahce (2010) analyzed household income distribution following a class approach, and calculated that a higher proportion of society was “proletarianized” in the 2002–2006 period (2010:498). The proportion of urban and rural laborers among all working households was 57.2 percent in 2001, and increased to 64.3 percent in 2006. One specific finding of their study was that the wealth of the property income of the urban household increased from 13.4 to 17 percent, and that agricultural/rural-sector laborers were among the groups that saw a decrease in their income. These results are consistent with studies that emphasize that rents and interest-related income have increased, while inequality between the urban and rural areas could not be eliminated in this period (Boratav, 2010: 470, Sonmez, 2009).

**Conclusion**

According to Forbes (2013), by 2013 the number of dollar billionaires in Turkey had increased to 44, up from 35 in 2012. This reflects that there is a real background for debate regarding the new riches – the new wealth creation – of the JDP period. In addition to this, the result of decline in D10 share contradicts with this fact arising question of validity of given data. The gap between declared data and the achieved GDP per capita need to be investigated in more detail. On the other hand the case of informal income should also be examined.

\textsuperscript{95} Author’s calculation, average income is converted to dollars and compared with GDP per capita in dollar terms.
Briefly the results of the Palma ratio for Turkey show that the share of the bottom income groups has increased with limited effects. The rate of increase is smaller compared to decrease in the rate of Gini coefficient.

For the bottom income groups, it is apparent that the new social policy tools have worked with temporary results, especially in targeting only “a portion of D1-D4”. It is not possible to suggest that these policies cover all bottom income groups. In addition to these, regressive transfer policies related with taxation have been applied alongside progressive.

Without any doubt less people are living on the poverty line (of 4.3 dollars a day), meaning there has been reduction in poverty ratios, and so the political influences of these policies cannot be ignored. Since these policies don’t target to eliminate the causes of the poverty meaning that the problem still exists. Poverty reduction was one of the specific development strategies of the third phase of the neoliberalism, and would continue to be thereafter.

The JDP period concentrated on the application of transfers policies for the bottom (D10) and top income groups; but when considering the increasing debt ratios of households, it can be understood that consumption is driven by debt, which increases the vulnerability of the households themselves.

Besides the limited effect of social policies at the time, the jobless growth process may also be said to have been a specific characteristic of the period. Distribution left to market forces and social policies adjusted with a human face is only part of proactive state policies with limited effects, and high unemployment and associated poverty will be one source of fragility in the future.

In addition to these, the welfare of the D5-D9 groups has increased significantly when compared to the other groups, indicating that the D5-D9 income groups warrants further investigation with a comparison of the rate of change between D10 and other income groups.

In short, the growth process has deepened the macroeconomic fragility of the economy by creating inequalities, and so the overall focus on the Gini coefficient has clearly an illusionary effect, and using the Palma ratio, a comparison of the income deciles and relative share among these income deciles brings different results. Briefly, inequality and growth relations mean different things for different income groups, and income policies are driven by different transfer policies.

References


Storytelling in Tourism: Opportunities for the Marketing and Branding of Adana Destination

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Abstract

Storytelling research enables holistic views on how initial balanced states become unbalanced and the steps taken to achieve the old or a new balanced state. Visitor own storytelling about their own experiences often describe myth enactments/climaxes uniquely relevant to specific destinations. Such storytelling closes with advocating future visitors by oneself and others, or the avoidance of such visits—the present article examines this fundamental proposition. People have always needed myths—simple stories with compelling characters and resonant plots, myths help us make sense of the world. They are powerful because they deliver myths to us in a tangible form, thereby making them more accessible. Icons of stories are not just brands, of course. More often, they are people (Marilyn Monroe, Elvis Presley). When a brand creates a myth, most often through advertisements, consumers come to perceive the myth as embodied in the product. So they buy the product to consume the myth and to forge a relationship with the author: the brand. This article reports an exploration of the stories about Adana city by Adanians and other visitors. In the end of the research it is aimed to present how to build a brand icon. As a method, sampling of Adanians and visitors’ stories provides the interpretive data for this report. The method includes mapping each of the stories according to relationships from one concept to the next that appear in the stories. The concepts include persons, places, acts, outcomes, beliefs, and the linkages reflect positive/negative sentiments or states of unit versus not unit relationships. The findings include a summary of the iconic myth Adana city presents over several decades and centuries as found in popular literature and tourism marketing websites.

Keywords: Storytelling; Tourism; Branding; Destination; Marketing

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A Model of Consumers’ Impulsive Ordering Behaviors in Luxury Restaurant Business

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Abstract

Impulsive decision making behavior is a pervasive aspect of consumer behavior, which is derived from individuals’ emotional instincts. Especially, in the luxury restaurant business, patrons’ impulsive ordering behaviors are a major driver influencing a luxury restaurant’s total revenue and shareholder values. However, our understanding of the factors that influence impulsive menu ordering is relatively weak in the luxury restaurant industry. The purpose of this research was to develop and test a model of consumers’ impulsive ordering behaviors in the luxury restaurant business. Based on a literature review, it was theorized that two factors (menu browsing time and patron trust in the restaurant) stimulate patrons’ impulsive ordering behaviors. The existing literature supported that ten theoretical antecedents influence menu browsing time and trust. During the model development process, two psychological moderators in impulsive ordering behavior were proposed: (1) hedonism and (2) materialism. Consequently, 15 theoretical hypotheses were proposed, resulting in a structural model. The proposed model was tested using empirical data collected from 379 luxury restaurant consumers. Based on data analysis, all of the proposed hypotheses were supported. The theoretical/empirical interpretations of these findings are discussed for the restaurant business.

Keywords: Restaurant business, revenue management, impulsive ordering behaviors, menu browsing, trust, hedonism
How do income elasticities of exports and imports explain trade performance? A Panel Data Analysis for Turkish Manufacturing Industry

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Abstract

This study intends to examine the demand-side determinants of the trade performance of Turkey and to analyze the long-run elasticities of the exported and imported items classified as low, medium & high technology products according to the International Standard Industrial Classification (ISIC) system. By conducting a commodity-specific analysis, it is expected to have a better understanding of whether the increased volume of exports could be an engine of the economic growth in Turkey when compared with the import elasticities of the same product groupings with different technology levels. In order to analyze Turkey’s trade performance, export and import demand functions are estimated in a panel data setting for Turkey’s 46 trade partners and for the period covering 1992-2012. The model is also tested for sub-groups of developed countries as well as developing ones in order to compare gains from trade with these country groups. The empirical results of the study will give insight on the trade performance of Turkey for both different product and different country groupings.

Keywords: International Trade, Income Elasticities, Panel Data Analysis
Does the euro really need political union to survive?

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Abstract

Debates on the future of the euro have been widening, ever since its launch. The severe debt crisis created a broad consensus that the collapse of the euro area is inevitable without political union. The aim of this study is to challenge this view by some lessons from history, theoretical analysis and the euro area experience. Some historical examples of monetary unions and the evolution of the international monetary system, which constitute the roots of the Economic and Monetary Union are analyzed. Most of the monetary unions were accompanied by political union, which provides sustainability for common currencies. However, there is no evidence to conclude that any monetary union will collapse without political union. The theory of optimum currency areas does not suggest that political union be a precondition for a successful monetary union. The euro area has been subjected to many challenges such as adverse shocks, but it has survived. Political union is not a realistic objective to achieve in the short run and doesn’t prevent all adverse shocks. Instead, the member states’ political will to sustain the euro area keeps the euro alive. As long as they have it and continue reforming for a deeper integration level, the euro will survive.

Keywords: Euro; Euro Area; Economic and Monetary Union; Political Union; Optimum Currency Area.

Introduction

The European monetary integration has both political and economic roots. The idea of unification rose after the emergence of the nation states in Europe as part of European cultural heritage. There were attempts to create a united Europe by military force. In 1923, Count Coudenhove Kalergi, who is the founder-leader of the Pan-European Movement, proposed a United States of Europe. Also, in 1929, the French Foreign Minister Aristide Briand and German Foreign Minister Gustav Stresemann proposed creating a union in Europe within the framework of the League of Nations. They intended to promote cooperation among European countries holding national sovereignty. However, all efforts for peaceful political unification failed (Clough and Cole, 1952).

Economic interests played a more important role in European integration. During the Great Depression, countries started to follow protectionist trade policies. The costs of these policies on European countries were high. In order to cope with economic problems, countries found international cartels. One of them was International Steel Cartel (ISC), which collapsed during the Great Depression. The International Steel Export Cartel was found in 1933. After the World War II, European countries were in a period of reconstruction. The recovery of coal and steel sectors was slow. These were the main elements of industrial production and at the same time of war equipments. Germany was still considered as a potential threat to peace. These motivations led to the creation of the European Coal and Steel Community (ECSC), which is accepted as the beginning of the European integration. In the meantime, new proposals of political union were declared (Barbezat and Neal, 1998: 25-30).

Today, there, still, is an ongoing discussion about achieving political union; however no real progress towards it was made. Europe is a unique form of monetary union with a common currency as Bordo and Jonung (2000) stated. The euro area is a multinational monetary union, which characterized with a centralized monetary policy conducted by an independent central bank and decentralized fiscal policy with fiscal coordination under certain fiscal rules. The monetary policy in the euro area is defined as the one-size-fits-all policy. It is criticized for not being appropriate for all member countries at the same time because they are at different level of economic development and have different monetary policy needs.

There have always been doubts about the sustainability of the euro area ever since the introduction of the euro. Every challenge to the euro increased the number of economists who questions the future of the euro. The severe debt crisis in the euro area created the expectations of the collapse. Some authors like Bordo, Markiewicz and Jonung (2011) argue that the euro needs a fiscal union while some others like De Grauwe
convertibility of the banknotes to gold without any restriction (Bordo, 1981). Britain was the leading country and had an industrial and commercial power at that time. Moreover, monetary stability was maintained due to the gold standard. The gold standard became attractive to the countries, which are Britain’s trade partners and borrowers. Some authors also refer to the silver discoveries for the movement towards the gold standard. World second largest power, Germany adopted the gold standard in 1871. The member countries of the Latin Monetary Union and the United States followed it. Soon after that, the classical gold standard was born as an international monetary system (Eichengreen, 2008: 6-42). An international monetary system requires elimination of international trade barriers and obstacles to gold and foreign exchange controls; and, then, conversion rates of currencies should be fixed. The classical gold standard system qualified these conditions. The countries established convertibility of the banknotes to gold without any restriction (Bordo, 1981). Britain was the leading country in the system. There was a strong commitment to maintain convertibility during this period.

Lessons from the History of International Monetary Systems

Since monetary union is a type of international monetary system, which depends on a fixed exchange rate, a brief review the evolution of the international monetary systems might shed light on how monetary unions can be successful.

Before the classical gold standard, for centuries, silver and gold were minted and circulated simultaneously in many countries. This system is known as bimetallic standard. Countries had a mint ratio of the two metals. It was not easy to sustain monetary stability on bimetallism because the changes in the supply of gold or silver affect the relative prices. Countries tried to maintain stability by changing the ratios, but they experienced many difficulties to operate bimetallic standard.

At last, international monetary stability was provided by the classical gold standard until the World War I. Britain formally adopted the gold standard in 1816 and established the convertibility in 1821 (Benati, 2006). Britain was the world’s leading country and had an industrial and commercial power at that time. Moreover, monetary stability was maintained due to the gold standard. The gold standard became attractive to the countries, which are Britain’s trade partners and borrowers. Some authors also refer to the silver discoveries for the movement towards the gold standard. World second largest power, Germany adopted the gold standard in 1871. The member countries of the Latin Monetary Union and the United States followed it. Soon after that, the classical gold standard was born as an international monetary system (Eichengreen, 2008: 6-42). An international monetary system requires elimination of international trade barriers and obstacles to gold and foreign exchange controls; and, then, conversion rates of currencies should be fixed. The classical gold standard system qualified these conditions. The countries established convertibility of the banknotes to gold without any restriction (Bordo, 1981). Britain was the leading country in the system. There was a strong commitment to maintain convertibility during this period.

There are different views on what the success of it depend on. One of those views is that the system was not subjected to any serious shock. However, there is no evidence that under an adverse shock it would be failed. On the contrary, an empirical study proves the opposite and indicates that national economies can adapt to shocks rapidly (See Bayoumi and Eichengreen, 1995). There are a few arguments to explain the stability. There were standards for international trade and payments among the countries within the system; so, the countries benefited from less uncertainty. That is why, they maintained convertibility. Monetary authorities could only issue banknotes and coins as much as the country’s reserve of gold, not causing inflation. Deflationist pressures reduced due to that new gold discoveries increased the gold supply of the world and that the prices were rigid toward downwards (Gosh, Gulde and Wolf, 2003). Moreover, growth and employment were not taking into consideration enough (Eichengreen and Sussman, 2000).

By the beginning of the World War I, the gold standard had transformed into a gold exchange standard, because, especially large amount of gold could not be transported, and the world supply of gold was limited (Eichengreen and Sussman, 2000). In the classical gold standard system, instead of gold, banknotes are circulated; however, the central banks maintain the convertibility of banknotes to gold. In the gold exchange standard system, central banks hold gold and foreign currencies, which are convertible to gold. The countries issued a large amount of banknotes and coins with very limited gold reserves to finance their defense expenses. The War produced a confidence problem. The countries suspended convertibility and imposed strict foreign exchange controls. Therefore, the classical gold standard ended.

After the War, convertibility was established. However, issuing money without backing gold reserves caused hyper-inflation, exchange rate instability and high unemployment. In order to re-establish the pre-war stability, the gold exchange standard was created with a few changes. The pre-war system was among...
industrial countries with the British leadership. Many other countries join the new system, and the leader was the US this time. The pound was still an important reserve and reference currency in the system. This system collapsed in 1931 by the effects of the Great Depression and Britain’s leaving the gold standard. There are a few reasons that the system was short-lived. The member countries established convertibility with the pre-war values, so some currencies were overvalued, and some others were undervalued. Wages and prices were more rigid than before because labor unions and unemployment insurances were established during the inter-war period. Moreover, protectionist trade measures, foreign exchange controls and bilateral trade agreements created significant inequalities on countries’ balance of payments. By the collapse of the gold standard and the effects of the Great Depression, all countries, especially the US, implemented competitive devaluations as a beggar-thy-neighbor policy. In the end, all countries were affected by this adversely.

Economic situations of the countries deteriorated after the World War II. These circumstances forced 44 countries to create a new international monetary system by signing the Bretton Woods Agreement in 1944. The main objectives of the Agreement were to avoid instability in floating exchange rates and competitive devaluations, which are followed by barriers on trade and exchange rates and bilateral agreements. Main advantage of the classical gold standard was the exchange rate stability while the main advantage of the flexible exchange rate system is independent national monetary policy. By the Bretton Woods system, it was aimed to bring these two advantages together (Bordo, 1993). International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) were also set up by this agreement in order to provide short-term liquidity assistance and to monitor the operations of the system.

The Bretton Woods is a fixed-but-adjustable exchange rate system. The participating countries fixed their currencies to the US dollar, having a significant amount of dollar reserve in order to keep their currencies’ values in a certain fluctuation band. On the other hand, the US dollar was fixed to the gold with the ratio of “1 dollar = 35 ons”. They were allowed to devalue or revalue their currencies only after a period of fundamental disequilibrium in the balance of payments. They were also responsible for convertibility of their currencies. The US was responsible for convertibility of the dollar to the gold. The US experienced an increasing unemployment and current account deficits in 1960s and 1970s. Its monetary policy became more expansionary than the participated countries’. Then, speculative pressures against the dollar increased leading a devaluation of the dollar. In 1971, the US declared that it abandoned the convertibility of the US dollar into gold. Inconvertibility resulted in the collapse of the system. There were many flaws of the Bretton Woods system. Participating countries did not coordinate their macroeconomic policies. Each participating country tended to keep their currencies against the dollar overvalued to reduce the import costs. Klein (1998) argues that such a fixed exchange rate system requires a common monetary policy. In the Agreement, there was no clause about the barriers to international trade and exchange rate controls. So, the US applied protectionist trade policies firmly, and many participating countries signed bilateral trade agreements. Within the system, a deficit in the balance of payments of a country could not be compensated by a surplus in the balance of payments of another country. Such a system prevented the automatic stabilizers from working properly. There were also significant differences between the US economy and the other countries’ economies. Another weakness of the system was a lack of political will to sustain the system. As Bordo and Jonung (2000) stated, major countries like the US were not willing to subject their domestic policy autonomy to that of another country, nor to a supranational monetary authority they cannot control.

After the collapse of the Bretton Woods system, in the same year, the Group of Ten (G10) set new exchange rate parities with temporarily wider bands under the Smithsonian Agreement. In the meanwhile European countries were trying to establish their monetary system. The snake in the tunnel – where the snake is fluctuation band between the European Economic Community members and the tunnel is the fluctuation band under the Smithsonian Agreement – emerged, experiencing similar problems with the Bretton Woods system, but European countries took steps towards a common currency. The system of the Smithsonian Agreement broke down in 1973, because of wide fluctuation bands, lack of an anchor, differences in macroeconomic policy preferences of the participating countries and the other weaknesses like in the Bretton Woods system. Then, many countries adopted flexible exchange rate system.

In Europe, the tunnel was ended, but the snake continued to float until the establishment of the European Monetary System (EMS) in 1979. Although there was neither an anchor currency nor a leading country in
the system in the beginning, Germany became the leading country in practice because of its relatively better economic performance and the success during the oil crises. Furthermore, the European countries followed German monetary policy. However, there were a limited convergence among those countries and Germany. The road to the collapse of the Bretton Woods system and to the crisis in the EMS in 1992-93 was similar to each other. German monetary policies were not suitable for the other countries’ economic needs. In 1991, Germany began to raise its interest rates because of the costs of the reunification. Financial agents saw that the level of the interest rates was not sustainable for some countries. There was also political uncertainty about the objectives of the Maastricht Treaty signed in 1992 because of the Danish rejection in the referendum. Then, the speculative attacks forced the member countries set a new and too wide fluctuation band. After the crisis, European integration process continued to create an economic and monetary union with a common currency. The crisis proved that a higher degree of economic integration and policy coordination and central monetary authority were crucial. The European countries adopted the euro making significant progress in these issues (Suner-Cecan, 2007).

Lessons from the History of Monetary Unions

Although it is easy to increase the number of historical examples of monetary union, some notable examples are reviewed in this part of the study.

In early 19th century, France, Belgium and Switzerland accepted the each other’s currencies in payments. Italy joined them partially. This arrangement depended on the French bimetallic standard. After a fall in the price of gold, Switzerland and Italy reduced the silver content in most coins. These coins entered in circulation in France and Belgium. Therefore, Switzerland and Italy obtained seigniorage benefits. As a response, France reduced the silver content in its coins too and suspended the acceptance of Swiss coins (Bordo ve Jonung, 2000: 23-24). In order to solve these problems, international monetary conference was held in 1865. By this conference, Latin Monetary Union was established; the contents of coins are set at the same percentages, and minting coin was restricted. Proposal for adopting the gold standard was rejected due to the French opposition, and the union continued on the bimetallic standard (Morys, 2007). However, issuing banknotes was not restricted, and no measures were taken about convertibility of the banknotes. Only two months after the conference, Italy suspended the convertibility of its banknotes to coins and introduced large amount of banknotes into the market. Then, France introduced inconvertible banknotes into the market too (Chown, 2003: 49). In a conference held in 1874, the member countries decided to maintain the bimetallic standard and restricted the minting of silver 5-franc coins. In another conference held in 1878, they decided to end issuing silver 5-franc coins leaving those in the market circulate. This system is known as the limping gold standard (Redish, 2000: 201). The member countries could not move to the gold standard, because of the high costs of the system change. During the World War I, the member countries issued banknotes for military expenditures, melted coins and exported them. The banknotes were not accepted in any other country except the issuing country; as a result, the union dissolved 1927 (Bordo ve Jonung, 2000: 26-27).

Nordic or Scandinavian Monetary Union was established in 1873. The member countries were Denmark, Sweden and Norway. There was a monetary union between Norway and Sweden, but Norway signed the agreement in 1875 because of some political reasons. Like the Latin Monetary Union, Scandinavian Monetary Union consisted of the countries, which accepted each other’s currencies as a means of payments. The union depended on the gold standard. The member countries’ main trade partners were Britain and Germany, which are the countries on the gold standard (Chown, 2003: 152-159). They could keep the money supply under control depending on their gold reserve. Unlike the Latin Monetary Union, the Scandinavian Monetary Union did not face any problem until the World War I. Then, the member countries suspended the convertibility of their currencies to gold, and the export of gold was prohibited. Under these circumstances, the union could not be sustained. Although some measures were taken to prevent the collapse, the union dissolved in 1924 (Bordo ve Jonung, 2000: 26-30).

Latin Monetary Union and Scandinavian Monetary Union were the examples of multinational monetary unions like the European Economic and Monetary Union. Nevertheless, most of the examples in history are national monetary unions. The US, Italian Monetary Union and German Monetary Union are reviewed very briefly here.

The formation process of the United States as a monetary union started by the Constitution came into force in 1787. The Constitution prohibited issuing different banknotes and coins in the states and gave the sole
power of issuing money to the Congress. Taxes on trade between the states were also prohibited, and free movement of human and capital was ensured. The first US dollar was issued in 1792 by An Act Establishing a Mint, and Regulating the Coins of the United States, and the US adopted bimetallic standard. Convertibility was suspended by the Civil War, but it was re-established by the adoption of the gold standard. The movement to create a central bank started in 1791 by the establishment of First Bank of the US. However, modern central bank cannot be created until the establishment of Fed (Federal Reserve) in 1913 (Rockoff, 2000). In 1951, the Fed became an independent institution. After the Civil War, the mobility of the factors of production and the degree of integration between the states significantly increased. Moreover, there is a fiscal federal system in the US and, therefore, a federal budget. Federal government invested in the whole country speeding up the process of integration. The expenditures from the federal budget and fiscal transfers played a significant role forming a monetary union. As an advantage of national monetary union, there were little or no differences between the states in terms of language and culture. Therefore, labor mobility increased rapidly. The US should be considered as a monetary union since the establishment of the Fed in 1913. The success of the union depends on mainly political unity and a strong economic power.

Another example of a national monetary union is the Italian Monetary Union, which consisted of many small Italian states. 90 currencies were the barriers to trade. After the political unification of Italy in 1861, a transitional stage with 4 currencies was the first step to form a monetary union. In 1862, a common currency, Lira, was accepted; however, a central monetary authority was not created. The union was on bimetallic standard (Chown, 2003: 48-49). Due to lack of fiscal discipline and excessive budget deficits, the government announced that banknotes were inconvertible into gold or silver and borrowed from the largest bank in the system. Banks had the right of printing money, but the amount was restricted by the government. Monetary stability could not be maintained until the reform of the banking system. Issuing banknotes was restricted by law (Bordo ve Jonung, 2000: 15-19). Eckaus (1961) showed that there were regional differences in the union before the political unification. The north was more prosperous than the South. After the unification, the differences lessened but not completely disappeared. The sustainability of the union depends on the political unification.

Like the Italian Monetary Union, the German Monetary Union emerged, as a result of the political unification of small states in 1871. There were more than 300 German states. As a first step, the customs duties were abolished among these states, and then they created a customs union named Zollverein. The agreement they signed also included a monetary standard. The creation process of the monetary union continued until the political unification (Kindleberger, 2006: 120). The World War II divided Germany into two parts creating two currencies as Deutsche Mark and Mark der DDR. In early 1990s, a common currency emerged again by reunification of Germany.

Does the theory of optimum currency areas suggest political union?

Mundell (1961) challenged Friedman’s argument that flexible exchange rate regime is a better mean to absorb exogenous shocks because it is commonly observed that prices and wages are relatively rigid, and factors of production are immobile across countries. He developed his famous theory, a theory of optimum currency areas. He defines an optimum currency area as a currency area for which the benefits of adopting a common currency or fixed exchange rate regime exceed the costs of losing the exchange rate as an economic policy instrument. According to Mundell, if factors of production are mobile across countries, then separate currencies are unnecessary. An optimum currency area consists of regions or countries, which are affected symmetrically by shocks. Adjustment mechanisms of shocks in common currency areas differ from the areas, which have more than one currency. He developed a two-country model with three assumptions: (i) both two countries as the country A and the country B are initially in equilibrium with full employment and equality in the balance of payments; (ii) wages and prices cannot be decreased in the short-run without an increase in unemployment level; (iii) monetary authorities take necessary measures to prevent inflation. A shift in demand from the products of the country A to the products of the country B reduces the price level and output in the country A, and raises unemployment. The opposite is valid for the country B. In the case of separate currencies, the country A should devalue its currency vis-à-vis the country B’s currency to restore the equilibrium. However, in the case of a common currency, they need alternative adjustment mechanisms: wage flexibility, labor mobility, and expansionary fiscal policy.
These mechanisms minimize the costs of asymmetric shocks in a currency union. The theory suggested that currency areas should consist of regions or countries, which are affected symmetrically by shocks; otherwise, these three adjustment mechanisms should be the main conditions to create a currency area.

Later, Mundell (1973a, 1973b) published two new articles and argued that if a common currency can be managed without substantial change in member countries' purchasing power parities, a better allocation of capital, better diversified assets and uncertainty in exchange rates will be the benefits. Thus, negative effects of symmetric shocks are spread in time without creating a decline in output. In these circumstances, even a larger currency area is better under asymmetric shocks.

The theory was improved by many economists. Some of the important contributions to the theory are mentioned here. Kenen (1969) set a criterion to minimize the asymmetric effects of shocks. He argued that countries should deeply diversify the production and consumption, and they should produce similar products. Diversification in production and consumption makes countries less vulnerable to asymmetric shocks and effects of good-specific shocks will be similar. Hence, the costs of such a currency area are lower. McKinnon (1963) argued that if member countries’ openness to trade is high, most prices are determined at the union level and that the benefits of flexible exchange rates are lower because the change in the price of the currency affects both the export and import prices of the goods without any change in relative prices. Krugman (1993) argued that higher trade integration leads to a higher specialization in production due to economies of scale and that sector-specific shocks are likely to become country-specific shocks. However, this view was not accepted by many economists. His argument depends on the US example; but, regional concentration in the US is a result of both trade integration and a certain economic policy. Furthermore, he assumes that the regional specialization will not cross the borders of countries while the borders become less important in regional integration. According to another contribution to the theory by Ingram (1959) is that financial market integration may lessen asymmetric effects of shocks by capital mobility, and reduces the need for exchange rate adjustments. In the case of deep financial integration, capital movements provide a convergence of long-term interest rates, making easier financing external imbalances and an efficient allocation of resources. Baldwin and Wyplosz (2004) suggest similarity in economic policy preferences be an essential criterion to achieve an optimum currency area. Countries should agree on the measures, which should be taken to cope with adverse shocks. Preferences may differ because shocks may have redistributive effects.

The criteria for an optimum currency area can be summarized as follows:

- Price and wage flexibility.
- Mobility of factors of production, including labor mobility.
- Fiscal transfer system.
- Convergence of inflation rates.
- Diversification in consumption and production.
- A high degree of openness to trade.
- Integration, including financial market integration.
- Similarity in economic policy preferences.

Economists do not agree on a precise method or a set of criteria to evaluate whether a currency area is an optimum currency area or not. Not being an optimum currency area means that it will contain some costs to create and join it. Even a currency union, which is not an optimum currency area, can be sustainable with a strong political will.

**Rethinking the Euro Area and the Political Union**

The euro area is a multinational monetary union, which has a unique structure. The euro area countries adopted a common currency and a common monetary policy conducted by an independent central bank known as the ECB (European Central Bank). In the euro area, while the national monetary policies are centralized at the union level, the national fiscal policies are only coordinated under the SGP (Stability and Growth Pact). The member countries are responsible for conducting their fiscal policies independently but not breaching certain fiscal rules, which are determined by the SGP. This structure as a whole and the European monetary integration are under criticisms. Indeed, there are many weaknesses. However, these weaknesses do not provide enough evidence to conclude that the euro is not sustainable. Here, the criticisms about the euro area are analyzed in the light of the evidenced obtained previous sections.
Economists agreed on that the euro area is not an optimum currency area because of many factors. First, there is an asymmetry in the shocks to which European countries are subjected. Second, the degree of price and wage flexibility is low in the euro area countries. Third, the earlier reforms and deep financial integration increase the capital mobility; however, labor mobility is still limited because of different languages and cultures. Fourth, the euro area consists of the European countries, which are at different levels of economic development. Every enlargement of the euro area worsens this situation. Here, the criticism is that since the euro area is not a homogeneous group of countries, one-size-fits-all monetary policy is not an optimum policy for every member country at the same time. The review of the history in the previous parts proved that the heterogeneity caused the collapse of the international monetary systems. Nevertheless, economic differences in the euro area countries are not so high, as a result of years of the integration process, and it is not possible to use national monetary policies independently in a monetary union or an irrevocably fixed exchange rate system.

There is also widespread criticism of price stability objective of the ECB’s monetary policy strategy. Both the theory and historical examples prove that price stability is the most important condition for all monetary arrangements. The price stability should be supported by sound fiscal discipline. Previous sections presented many examples of international monetary systems and monetary unions, which ended due to dramatically deteriorated fiscal positions and instability of prices. Today, lack of fiscal discipline in some member countries and the ineffectiveness of the SGP are the main weaknesses of the euro area and the main reason behind the debt crisis.

After the debt crisis in the euro area, the criticisms concentrated on the lack of fiscal union and/or political union. It is not possible to consider them separately because a fiscal union or a common European budget requires deeper political union. It is often argued that since the national monetary unions are accompanied by political union, the euro area is not sustainable with its current structure. This argument implies that fiscal transfer system should be the main adjustment mechanism.

Why fiscal and/or political union cannot be a solution for the euro area? First, achieving a political union is not a realistic objective to achieve in the short-run. Second, fiscal transfers from the common budget cannot be useful for absorbing the effects of all types of adverse shocks. Fiscal transfers redistribute the union’s funds. It should be used for only temporary shocks or recessions; transfer system should not get a permanent character. Even in a political union, members will make complaints about their net contribution to the common budget. Third, the debt crisis in some of the euro area countries is not a simple fiscal problem. There are many structural problems behind it, such as low productivity, low competitive power and low production levels. Fiscal transfers cannot solve these problems, but they can protect the euro from speculative attacks. Fourth, such a system with permanent transfers from prosperous region to problematic regions cannot be credible.

Conclusion

Despite its weaknesses, lack of the fiscal and/or political union, and the serious crises, the euro has been stable so far. The member countries continue to work for a higher level of integration. Nevertheless, like the historical examples, the main factor in the euro’s success is the member states’ strong political will to sustain the union. However, for the sustainability of the euro, some measures should be taken. All member states should achieve a sound fiscal position, and it should not be allowed any deterioration in fiscal position to prevent potential fiscal crisis. Therefore, the SGP needs a significant reform to be effective. On the other hand, the differences among national economies should be eliminated. Structural economic problems in national economies needed to be solved. Finally, during the adverse shocks the member states should keep their political will to sustain the euro area.

References


Analyzing Tourism Investment Incentives in Turkey: Strategies and New Incentive Framework

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Abstract
This paper aims to analyze whether strategies for goals defined under Tourism Strategy of Turkey – 2023 document can be achieved with the new investment incentive program in Turkey. First, general macro level tourism strategies and then, micro regional tourism strategies for six specified different alternative tourism types are put forward. The analysis demonstrated that there are some themes that are targeted with the micro regional tourism strategies but are not supported within the scope of new investment incentive program. Cure centers and cure parks which are very crucial for health and thermal tourism are not supported. Minimum investment amount requirement for sports facilities is 10 million TL which is very high for a golf facility. For marine tourism, investments for building new or enlarging the current shipyards are not supported. Furthermore, short-term vocational courses for local people to be educated on touristic products, hand-made souvenirs, service and quality management are not supported to develop tableland and eco-tourism. Moreover, for convention and exhibition tourism, restaurant services are not supported and there is not any explicit support for the construction of international airports. Therefore, it can be concluded that the new investment incentives program framework in Turkey does not fit one to one with the strategies defined in Tourism Strategy of Turkey – 2023. There are some themes that must be supported perhaps with a new investment incentive program specialized on tourism sector in Turkey.

Keywords: Tourism Incentives, Regional Incentives, Alternative Tourism Types

Introduction
Any person who travels to a destination other than that in which s/he has his/her usual residence for a period not less than 24 hours or stays at least one night in a collective or private accommodation in the destination visited and whose main purpose of visit is other than commercial gain is defined as a tourist. Therefore, tourism is defined in a well-organized manner as follows (Goeldner and Ritchie, 2009: 6)

“Tourism may be defined as the processes, activities, and outcomes arising from the relationships and the interactions among tourists, tourism suppliers, host governments, host communities, and surrounding environments that are involved in the attracting and hosting of visitors.”

From the definition of tourism, touristic product can be identified as composite and therefore, a well-functioning tourism system requires coordination and internal cohesion among all branches of tourism sector. Usta (2001:171) gathered tourism enterprises into five main categories: Destination management organizations, intermediaries (traveling and marketing enterprises), transportation enterprises, accommodation enterprises and catering enterprises. Moreover, there are subsidiary service providers such as retail stores and recreation facilities.

Tourism is generally accepted as a capital-intensive sector since tourism facilities mostly depend on land, building and equipments. Land costs are very high due to the need of constructing the tourism facility usually in the city centre or at seaside. Furthermore, aesthetic requirement of the buildings, increase the building costs. Due to the characteristic of touristic product to be consumed where it is produced, equipment needs of tourism facilities and thus, the equipment costs are very high. According to Kahraman (1997:18), the fixed capital requirement of accommodation facilities is 94% of the total capital requirement.

So far only the superstructure investments are argued. However, there are also infrastructure investments such as public transportation facilities, electricity, water, drainage, cleaning and health services, communication facilities, roads, bridges, airports, terminals and commons. Such facilities are other components of the composite structured touristic product. Moreover, there are subsidiary investments such
as the sports facilities, independent restaurants, cafes and pubs, souvenir shops, markets and shopping centers.

Investment incentives for tourism sector must regard the complementarity between these different types of investments. Furthermore, it has to take into account the criterion of whether different types of tourism are supported. However, some studies in the literature are reviewed and it is observed that there is not any point of view which examined incentives in this manner.

This paper aims to analyze whether strategies for goals defined under Tourism Strategy of Turkey – 2023 document can be achieved with the new investment incentive program in Turkey. First, general macro level tourism strategies and then, micro regional tourism strategies for six specified different alternative tourism types are put forward.

The rest of the paper proceeds as follows: Past studies are presented in section 2. In section 3, general macro level tourism strategies are put forward whereas analysis of micro regional tourism strategies for six specified different alternative tourism types is indicated. The last section concludes.

Literature Review

Investment incentives for tourism sector must regard the complementarity between these different types of investments. Furthermore, it has to take into account the criterion of whether different types of tourism are supported. However, some studies in the literature are reviewed and it is observed that there is not any point of view which examined incentives in this manner.

For example, Toker (2007) evaluated these incentives by investigating whether tourism sector is involved in the prioritized sector list or whether regional incentive schemes are in the agenda, comparison of incentive ratios and upper limits for incentive amounts in terms of local currency, comparison of some statistical data such as number of accommodation facilities with business licenses, number of rooms, number of beds and tourism revenues in terms of US dollars before and after the implementation period. Moreover, Şahin (1989) also employed bed capacity of accommodation enterprises, number of incoming tourists, amount of tourism revenues and amount of tourism investments as criteria to analyze the effects of tourism investment incentives in Turkey. Şahin compared incentive schemes implemented to different regions via conditions for gaining incentive document, application guaranty amount for incentive document, minimum investment amount and minimum equity ratio etc.

Savrul and Doğru (2013) analyzed TR 22 Nuts 2 Region within the framework of general incentive system not just tourism established in 2002 according to the number of investment incentive documents, fixed investment amount and number of people employed within the scope of investment incentive documents.

Furthermore, Karadeniz et. al. (2007) examined tourism investments in Turkey with the help of SWOT analysis where data are collected via questionnaire from three stakeholders: Academicians in tourism, accommodation managers and travel agency managers.

Tezcan et. al. (2008) analyzed the tourism investment incentives and tax incentives by comparing the implementation practices of Turkey and other countries. The most important criterion in that paper was the value added tax rates executed to hotels, restaurants, cafes and pubs and aviation fuels.

Methods used to analyze the effects of tourism investment incentives are plenty however, the most effective method for this purpose can be found by understanding the specific aim of government authorities in every single country behind executing those incentive schemes. Therefore, development plans, strategic documents and/or action plans have to be reviewed. However, this paper focuses mainly on the Tourism Strategy of Turkey – 2023.

General Macro Level Tourism Strategies

9th Development Plan for Turkey (2007-2013) suggested a “Tourism Sector Master Plan” to be prepared in order to ensure that the tourism sector is developing healthy in the long run. This plan is called Tourism Strategy of Turkey – 2023. This document suggested nine tourism improvement areas, seven thematic corridors, ten tourism cities and five ecotourism regions. It sets quantitative goals of reaching to 63 million tourists, 86 billion dollars foreign tourism revenues and 1350 dollars expenditure per tourist in 2023.
Strategies in this document consist of ten different but some interrelated titles. Under these titles, there are some strategies related to them in order to achieve the goals. These titles, strategies and goals are not written in this document explicitly but are driven and categorized by the author.

1-Sustainability of Tourism Sector
For this purpose, “Turkey image” and “Turkey brand” is aimed to be established. Moreover, new information and communication technologies must be employed for branding process. Especially, internet must be used widespread. Investments for new technologies such as e-promotion, e-marketing, e-commerce must be actualized. Furthermore, brand culture cities must be formed.

2-Quality of Tourism Environment
Research and development activities of systems that produce minimum waste with the usage of minimum energy and natural resources must be supported. Moreover, carrying capacity measurement for physical capacity in current and new touristic places must be done. For this reason, systems that can arrange and monitor the statistical data and research must be formed.

3-Interregional Development Differences
In order to eliminate these kinds of differences, regional and local brands must be established. For this reason, different kinds of tourism such as farm, organic agriculture, hobby gardens, boutique villa gardens etc. must be constructed especially at backshores.

4-International Cooperation
Accordance to international standards must be ensured.

5-Promotion, Advertisements and Marketing
Participation to and hosting international organizations are required. Cinema industry must be a promotional tool. Advertising campaigns must be executed especially for East Asia Pacific Region like China and India, Middle East like Iran and Turkish Republics.

6-Integration of Alternative Tourism Types
Alternative tourism types in every region must be designed to complement each other.

7-Infrastructure
Burden of the government is aimed to be reduced with encouraging the private sector investments. Infrastructure problems in Mediterranean and Aegean seashores must be solved with the Mediterranean-Aegean Tourism Infrastructure and Coastal Management Project. Also infrastructure problems at touristic backshores must be solved. Infrastructure plants such as drinking water, drainage, sewage treatment and solid waste collection and disposal from Çanakkale to Antalya-İçel border must be constructed.

8-Transportation
Private sector investments in seaway, railway, marina, cruise port, highway and divided road construction must be encouraged. Share of yacht tourism in tourism sector must be increased with the rehabilitation of marinas in Istanbul, Antalya and Izmir and construction of Mega Marinas instead of them. More than two hundred fishing shelters must be redesigned for serving the tourism sector. Integration among different types of transportation and connections of land, air and sea transportation must be ensured. Direction indicators and informational signs must be located for tourists. Arrangements for different kinds of transportation such as phaeton, train, lift, bicycle path and pathway must be accomplished. Public transportation systems connecting airports to city centers must be formed. Airport hotels must be constructed.

9-Domestic Tourism
Disadvantage groups such as low-income earners, disabled people, young people and women etc. must be included into tourism sector with social tourism projects. For this reason, facilities for exhibiting the cultural and artistic demonstrations must be constructed. For example, city museums, convention and
exhibition centers, art villages, authentic shopping centers like Grand Bazaar and catering facilities near these structures must be located. Lighting these historic structures and landscaping designs must be done.

10-Human Resources

Quality of vocational tourism education and capacity of educational institutions must be improved. Specialization and branching of tourist guides must be ensured with master programs specialized in this field. Specialized courses on alternative tourism branches in tourism management and hospitality departments must be taught.

These titles and strategies under them are mainly in the macro level. However, this document foresees tourism sector in Turkey to be structured and improved regionally. Therefore, nine different thematic regions, seven tourism development corridors and ten tourism cities are determined serving to six prioritized alternative tourism types. Moreover, Tourism Strategy of Turkey – 2023 focuses mainly on six different alternative tourism types to be developed at some regions. Strategies for the aim of developing these alternative tourism types at specific regions are determined. These strategies are discussed within the scope of the new investment incentives program executed in Turkey in order to investigate whether regional investment incentive schemes are well-designed to fit the needs of regional touristic places to be improved as foreseen in the document.

Analysis of Micro Regional Tourism Strategies for Six Specified Different Alternative Tourism Types

One of the six different alternative tourism types to be developed which are determined in Tourism Strategy of Turkey – 2023 is health and thermal tourism. The goal for Turkey is being the first destination point in Europe for thermal tourism. Cities determined for this type of tourism are Balıkesir, Çanakkale, Yalova, Aydın, Denizli, Manisa, İzmir, Afyon, Ankara, Uşak, Eskişehir, Kütahya, Akşaray, Kırşehir, Niğde, Nevşehir and Yozgat. Thermal tourism is defined to be a prioritized investment theme under the decision of Council of Ministers about government assistance for investments. Construction of waste collection and disposal plants are supported. Landscaping investments are supported only with the schemes of VAT exemption and customs duty exemption for all of the cities above and interest support except for Çanakkale, Yalova, Aydın, Denizli, İzmir and Eskişehir. Hotel construction is also supported however; cure centers and cure parks which are very crucial for health and thermal tourism are not supported. Green areas, racecourses and walking ways beside the cure centers are supported yet the entertainment complexes like aqua parks are not supported.

Another alternative tourism type is winter tourism. Cities determined for this type of tourism are mainly Erzincan, Erzurum, Ağrı, Kars and Ardahan which constitute the winter corridor. Infrastructure investments in Erzincan and Erzurum are supported however; infrastructure investments that are carried out only by private sector are supported in Ağrı, Kars and Ardahan. Constructions of accommodation enterprises like ski resort hotels are also supported. Yet, for road transportation bus investments for cargo and passenger transportation are not supported except municipalities are the investors. Other motor vehicles production investments are supported not in the regional scheme but in the large scale scheme.

Other alternative tourism type is golf tourism. Cities determined for this type of tourism are not defined explicitly in the document. However, minimum investment amount requirement for sports facilities is 10 million TL which is very high even for a golf facility.

Another alternative tourism type is marine tourism. Cities determined for this type of tourism are Trabzon, Aydin (Kuşadası), Samsun, İzmir, Antalya, Mersin and İstanbul. Ports for cruises must be improved. Share of yacht tourism in tourism sector must be increased with the rehabilitation of marinas in İstanbul, Antalya and İzmir and construction of Mega Marinas instead of them. More than two hundred fishing shelters must be redesigned for serving the tourism sector. Yacht clubs must be constructed. Ports and port services investments are supported not in the regional scheme but in the large scale scheme. Cargo and passenger transportation via seaway are one of the prioritized investment themes. However, investments for building new or enlarging the current shipyards are not supported and yacht length must be at least 24 meters in order yacht construction investments to be supported. Moreover, short-term vocational courses for marine tourism are not supported.

Other alternative tourism type is tableland and eco-tourism. Cities determined for this type of tourism are mainly Samsun, Trabzon, Rize, Giresun, Bolu, Zonguldak, Bartın, Kastamonu and Sinop. Seaway
transportation, private sector’s railway transportation and production of aircrafts are supported. Hostels and lodgings are also supported. Landscaping investments are supported partially. However, short-term vocational courses for local people to be educated on touristic products, hand-made souvenirs, service and quality management are not supported.

The last alternative tourism type is *convention and exhibition tourism*. Cities determined for this type of tourism are mainly İstanbul, Ankara, Antalya, İzmir, Konya, Bursa and Mersin and secondly, Adana, Gaziantep and Trabzon. Convention and exhibition centers are supported provided that there are at least 1000 seats and closed area must be at least five thousand square meters. Accommodation facilities are supported. However, restaurant services are not supported. Furthermore, there is not any explicit expression for the construction of an international airport.

**Conclusion and Discussion**

This paper aims to analyze whether strategies for goals defined under Tourism Strategy of Turkey – 2023 document can be achieved with the new investment incentive program in Turkey. First, general macro level tourism strategies and then, micro regional tourism strategies for six specified different alternative tourism types are put forward.

The analysis demonstrated that there are some themes that are targeted in the micro regional tourism strategies but are not supported within the scope of new investment incentive program.

To sum up, cure centers and cure parks which are very crucial for health and thermal tourism are not supported. Moreover, entertainment complexes like aqua parks are not supported. Bus investments for cargo and passenger transportation are not supported except municipalities are the investors. Minimum investment amount requirement for sports facilities is 10 million TL which is very high even for a golf facility. For marine tourism, investments for building new or enlarging the current shipyards are not supported and yacht length must be at least 24 meters in order yacht construction investments to be supported. Moreover, short-term vocational courses for marine tourism are not supported. Furthermore, short-term vocational courses for local people to be educated on touristic products, hand-made souvenirs, service and quality management are not supported to develop tableland and eco-tourism. Moreover, for convention and exhibition tourism, restaurant services are not supported and there is not any explicit support for the construction of international airports.

In the light of the analysis, it can be concluded that the new investment incentives program framework in Turkey does not fit one to one with the strategies defined in Tourism Strategy of Turkey – 2023. There are some themes that must be supported perhaps with a new investment incentive program specialized on tourism sector in Turkey.

**References**


Determinants of Official Development Assistance in Lebanon: a Pre- and Post-War Assessment

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Abstract
This paper aims to examine the determinants of Official Development Assistance (ODA) flows received by Lebanon from 1970 to 2010. Over this period of time, Lebanon’s economy and socio-political reality has been under strain due to the outbreak of the civil war (1975-1990). More specifically, the objective of this paper is to attempt to understand the linkage between ODA and civil armed conflict and as well as other factors that might affect these flows. The importance of examining ODA lies in the fact that these funds might serve as resources in the reconstruction process. ODA per capita amounts in Lebanon seem to be positively linked to both GDP per capita and occurrence of armed conflict, therefore highlighting the importance of political factors in aid allocation.

Keywords: Official Development Assistance, Armed Conflict, Economic Development, Lebanon.

Introduction
OECD’s Development and Cooperation Directorate (DCD – DAC) defines Official Development Assistance (ODA) as ‘grants and loans to countries and territories on the DAC list of ODA recipients and to multilateral agencies which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms […] Grants, loans and credits for military purposes are excluded. Transfer payments to private individuals […] are in general not counted’ (The full definition can be found at: http://www.oecd.org/dac/dacglossaryofkeytermsandconcepts.htm#ODA). Therefore, ODA’s main objective is development-oriented; although political and/or human rights motivations cannot be excluded (more details are given in the literature review section). The United Nations Development Program even considered that ‘ODA is allocated in ways that seem strange and arbitrary – however you look at it’. (UNDP, 1992).

Lebanon makes it to the DAC list of ODA recipients, and evidence of aid reception goes back as far as 1960 (DAC Online Database, http://www.oecd.org/dac/stats). A closer look at the data shows that ODA has peaked during the war in 1981 and later on in the post-1990 period, from 2006 till 2008.

More generally, the Lebanese economy was permanently scarred by civil armed conflict, with colossal destruction requiring massive funds for reconstruction, which left the country with high levels of fiscal deficits and public debt and in bad need for external assistance in that respect (Harvie and Saleh, 2008).

The objective of this paper is to study the evolution of Lebanon’s ODA over a period of 30 years, spanning from 1970 to 2010, and inclusive of the 1975-1990 conflict. The paper also aims to explore the nexus between ODA allocation and armed conflict as well as several socio-economic and political variables, for a deeper understanding of determinants of these inflows and their potential impact on the country. More particularly, the paper will attempt to uncover whether ODA flows were higher during or after the conflict in order to understand whether these funds were motivated by crisis relief during war or socio-economic reconstruction after the war. Section 2 will present an overview of the literature on the topic, with a focus
on the literature pertaining to ODA in war-affected countries. In section 3, a model of ODA determinants will be developed and analyzed, with clear explanatory and explained variables. Section 4 will conclude.

**Literature Review**

Literature about ODA can be broadly divided into two main parts. Some studies research the impact of various socio-economic and political factors on ODA allocation; in other words they take ODA as a dependent variable while other papers consider the impact of ODA on other factors, in other words, they take ODA as an independent variable.

**ODA as a Dependent Variable**

Several studies have attempted to look at the determinants of ODA. Wall (1994) extends a model of one donor's bilateral ODA to a model integrating several donors. Taking three separate time periods, and data for net ODA recipient countries, the author regresses ODA per capita on the following independent variables: infant mortality, GNP per capita, an indicator of human rights and a population size variable. Results indicated that only per capita income (of the recipient country?) and population were correlated with ODA.

Alesina and Dollar (2000) found that aid is influenced as much by political considerations as by economic needs of the recipient. In this respect, they emphasise the importance of colonial past and political alliances as well as the importance of the democratization process in attracting aid. In comparison, Foreign Direct Investment (FDI) seems to be more sensitive to economic incentives.

Aid allocation also seems to be linked to donor type. For instance, Neumayer (2003) found an important difference in aid allocation between UN agencies and regional development banks in that the latter tend to rely more on economic need (measured by GDP per capita) as a criterion for aid allocation whereas UN agencies also tend to incorporate the quality of life as a condition for aid allocation.

Also from the perspective of donors, Shweinberger and Lahiri (2006) develop a theoretical model of donor countries behavior, and make a distinction between private and public aid. In the same line of thought, Tingley (2010) attempts to understand the role of domestic political variables in determining aid effort. He finds that more economically conservative governments tended to allocate less aid.

Ali and Isse (2006) find that taxes on trade have a significant impact on foreign aid receipts, and conclude that 'fiscal distortions increase country’s dependency on foreign aid'. Among other significant determinants of aid, the authors find that higher GDP per worker, higher trade levels and higher levels of human capital imply lower levels of foreign aid suggesting that more developed countries are less dependent on foreign aid. Greater ethnic diversity seems to be positively correlated with aid, and so is the relationship between government expenditures and aid. In addition, size does matter since larger countries seem to receive less aid and finally, the relationship between aid and foreign direct investment (FDI) is negative, suggesting a crowding out effect.

Chong and Gradstein (2008) examine the determinants of foreign aid from the perspective of the individual willingness to provide foreign aid (hypothetical level) and from the perspective of actual donor country data. Using a probit model, they find that the respondents’ tendency to agree on higher levels of aid being attributed to poorer countries increased with income, and with higher satisfaction from own government performance. Other explanatory variables were also included such as gender and education. Concerning the actual aid payments, evidence from the model shows that richer and more egalitarian countries are more likely to give aid, whereas own government efficiency has a negative impact on amounts of attributed aid. However, the interesting finding is that recipient country corruption levels do not seem to affect foreign aid. Interestingly also, the number of donors is inversely related to the amount of aid, suggesting a free riding behavior among donors.

Beyond the causal relationships some authors have attempted to provide a comprehensive theoretical framework for modeling ODA allocation (Cingranelli and Pasquarello 1985 and Neumayer 2003). These models identify two stages in ODA allocation decisions. The first stage, also called the 'gatekeeping' stage, is a screening phase where the donors determine the pool of eligible states. The second stage, called the 'level' stage where the actual amount of aid is determined. In this context, Gomez (2007) studied the impact of the cold war system on aid allocation for the 1980-1989 period considering 8 major aid donors and 72
recipients. He finds that human rights seem to be an important factor at the gatekeeping level; however, they do not have a significant impact on the amount of aid at the level stage. Balla and Reinhardt (2008) find that donor countries condition aid on conflict (at the gatekeeping stage), however, controlling for several development, economic and political variables, the authors find that donors tend to reduce aid to countries with or bordering conflict (at the level stage). Therefore, political considerations and conflict seem to play an important role in aid allocation.

In this perspective, Findley, Powell and Strandow (2011) use georeferenced data for foreign aid projects targeting Angola, Mozambique and Sierra Leone, they find that conflict is concentrated in locations where fungible aid has been granted, with fungibility of aid defined as its ‘potential to be diverted for purposes other than those intended by its donor’.

In the field of post-conflict intervention, research has shown that OECD countries respond to conflict situations, and increase their aid in the aftermath of conflicts. In addition, conflict characteristics are an important determinant of aid, and so are the national attributes of the receiving country. Furthermore, aid tends to peak after a conflict before leveling off (Kang & Meernik, 2004).

In the previous section, the determinants of aid were investigated in literature; the objective was to understand what were the factors affecting ODA transfers from a donor to a recipient. However, the causality is also worth examining in the reverse direction, i.e. it is important to understand how aid affects other variables, especially in terms of economic development. This is what the next section will deal with.

**ODA as an Independent Variable**

In a seminal paper, Burnside and Dollar (2000) examine the impact on aid on economic growth and conclude that ‘aid has a positive impact on growth in developing countries with good fiscal, monetary, and trade policies but has little effect in the presence of poor policies’. This paper was used as a basis by policymakers and multilateral agencies in order to justify aid transfers (Easterly, 2003; However, this view was later on challenged by Easterly in the same paper).

As mentioned before, the purpose of aid is development-oriented; therefore it is natural that some studies have attempted to examine the impact of aid on economic growth, especially when it comes to developing countries. The results concerning the impact of aid on growth were found to be mixed depending whether the model was estimated for different time periods of for different regions (Ekanayake & Chatrna, 2010). These results are contradicted by Minoiu and Reddy (2010) who find a positive relationship between aid and growth in the long run.

Other analyses examine the relationship between aid and governance and find a negative relationship between the two variables, with aid having a negative impact on governance (Busse and Gröning, 2009).

Moe (2008) develops a model of ODA as a determinant of human and educational development in eight selected Southeast Asian medium development level economies. ODA appears to have a positive impact on human development (measured by the Human Development Index) of recipient countries, alongside with other factors such as gross domestic product and foreign direct investment.

Selaya and Sunesen (2012) examine the relationship between flows of FDI and aid. Both are sources of foreign capital for recipient countries, therefore it is relevant to examine the potential complementarities or competition between both flows of funds. The authors find that ‘the composition of foreign aid matters’ and recommend investing aid in complementary inputs since these investments seem to encourage aid flows, whereas direct investment of aid in infrastructure has a crowding out effect on FDI. In the same line of research, Bhavan, Xu and Zhong (2011) find a complementary relationship between FDI and aid in selected South Asian countries.

Aid has also been linked to real exchange rate overvaluation, especially in post-conflict countries. (Elbadawi, Kaltani and Schmidt, 2008).

Nasir, Rehman and Orakzai (2012) examine the nexus between aid and war on terror. In the short run, aid does not seem to have an impact on the number of terrorist incidents; however, the relationship was positive and significant in the long run. The authors considered that the reason behind this result was the conditionality and the direction of aid targeting military assistance and was perceived by the insurgents as reward for the government for logistic support to the US and allied forces thereby bringing on retaliation.
Some authors have attempted to examine the impact of foreign aid on conflict occurrence. Taking data for Sub-Saharan Africa, Ree and Nillsen (2009) find that increasing aid flows tend to decrease civil conflict duration. Collier and Hoeffler (2007) find diametrically opposite results.

**Methodology**

This section now presents a model of the determinants of the flows of Official Development Assistance to Lebanon between 1970 till 2010, inclusive of the 1975-1990 civil war episodes. ODA is taken as dependent variable, and it is regressed against a set of independent variables (table 1). The independent variables can be classified into two main categories:

The economic variables, which are an indicator of the level of socio-economic development and well-being of the country; they include measures of GDP per capita, government expenditure, saving rate and openness to international trade.

The institutional/political environment variable, which include measures of the occurrence of armed conflict.

Table 1 provides a description of the data.

<table>
<thead>
<tr>
<th>Dependent variable: Official Development Assistance.</th>
<th>Symbol</th>
<th>Figure</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total ODA per capita (in constant 2011 USD)</td>
<td>ODA/c</td>
<td>Fig. 1</td>
<td>OECD and Penn World Tables (PWT) for population data, author’s calculations</td>
</tr>
<tr>
<td>2. Real GDP per capita (constant 2005 USD)</td>
<td>GDP/c</td>
<td>Fig. 2</td>
<td>PWT</td>
</tr>
<tr>
<td>3. Government Consumption Share of GDP Per Capita (2005 constant prices)</td>
<td>G</td>
<td>Fig. 3</td>
<td>PWT</td>
</tr>
<tr>
<td>4. Saving rate or investment Share of PPP converted GDP Per Capita (2005 constant prices)</td>
<td>S</td>
<td>Fig. 4</td>
<td>PWT</td>
</tr>
<tr>
<td>5. Openness</td>
<td>OPEN</td>
<td>Fig. 5</td>
<td>PWT</td>
</tr>
<tr>
<td>6. Occurrence of armed conflict/war (0 for no and 1 for yes)</td>
<td>WAR</td>
<td>Fig. 6</td>
<td>PWT</td>
</tr>
</tbody>
</table>

**Descriptive Statistics: A Quick Look at the Evolution of the Model’s Variables between 1970 and 2010 And The Rationale behind Them**

Before analyzing causal relationships, a quick look at the evolution of each of the above mentioned variables allows us to highlight interesting facts. Concerning the amount of aid per capita (calculated by dividing total aid by population size), it peaks at the beginning of the eighties, and then in the mid-2000 years (post-war era). The latter could be explained by the occurrence of the 2006 war of Israel on Lebanon and the 2007 Nahr El Bared events. Overall, the evolution is rather erratic even if an overall upward trend can be traced.

GDP per capita follows an erratic movement that is largely explained by the occurrence of armed conflict, plunging in the mid-eighties then witnessing a more or less sustained growth in the post-conflict period (starting 1990).

Government consumption share of GDP per capita, a proxy of government expenditures, peaks in the early eighties, however it maintains itself at a relatively steady ratio in the post-war era. This could be explained by higher levels of fiscal discipline, but could also be attributed to tightness of public budgets and the need to remedy the ever-growing public debt.
The investment share of GDP per capita is used as a variable to proxy the saving rate in the economy. Since savings are the major determinants of investment, classical growth model (Solow type) have proven that a higher saving rate leads to higher levels of income per capita. Therefore, the saving rate represents a measure of the resilience of the economy and its capacity to generate new investments that will pull the economy forward. A closer look at figure 4 shows that the saving rate had a tendency to increase even after the start of conflict, however it has been constantly decreasing until the beginning of the new millennium. Several explanations can be developed. The initial increase could be attributed to a more risk-averse behavior on behalf of consumers because of the need to hold back consumption in periods for armed conflict in prevention of an unstable environment both politically and economically. This environment is reflected in the parallel decreasing trend of GDP per capita over the same period. In the beginning of the nineties however, the trend was reversed, which could be attributed to the advent of the "peace period" but also to the fact that the economy was left vulnerable after the end of conflict, resulting in a lower propensity to save. Since the year 2000, this rate has tended to stabilise.

Openness is defined as exports plus imports over GDP. This ratio measures the extent to which a country is open for international commercial and financial transactions and is an indicator of the integration of the country in the world economy. Openness was on an increasing trend up till the end of the war, however it plummeted right afterwards but seems to be on an upward trend again.

When it comes to accounting for armed conflict in the model, a qualitative variable was used. It takes the value of 1 in periods of armed conflict and zero in periods of peace. The variable was assigned the value of 1 for periods ranging between 1975 and 1990 and also for years 2006, 2007 and 2008 (Israel war, Nahr El Bared events, UNDP 2009).

![Fig. 1. Total ODA per capita (in constant 2011USD)](image1)

![Fig. 2. Real GDP per capita (constant 2005)](image2)
Fig. 3. Government Consumption Share of GDP Per Capita (2005 constant prices)

Fig. 4. Saving rate or investment Share of GDP Per Capita (2005 constant prices)

Fig. 5. Openness

Fig. 6. Occurrence of armed conflict (0 for no and 1 for yes)
Regression Analysis

Before performing regression analysis, the Augmented Dickey Fuller test was used in order to detect the existence of unit root. All variables except ODA/c and WAR need to be taken at the first difference.

As mentioned previously, a regression analysis was conducted in order to assess whether GDP per capita, the saving rate, government expenditures, openness and war have an impact on aid receipts by Lebanon during the 1970 and 2010 period. The following equation has been tested:

\[
ODA/ct = \beta_1 + \beta_2GDP/ct + \beta_3Gt + \beta_4St + \beta_5OPENt + \beta_6WARt + \epsilon_t
\]

Where variables are defined in table 1. In addition t is the subscript for time, and \(\epsilon\) represents the residual. The \(\beta\)'s are the coefficients of the independent variables in the equation. Their sign indicates the direction of the causality between each of the independent variables and the dependent variable. Table 2 presents the results of the regression. Overall, only 20% of the variations in foreign aid per capita are explained by the independent variables. Concerning the significant variables, only GDP per capita and WAR are significant (at 10% and 5% levels respectively) with positive signs. This means that a higher level of GDP per capita induced higher aid inflows. This is logical since aid needs to be related to the economic size of the country in order to be efficient. The coefficient of the WAR variable is also positive, implying that aid per capita is significantly higher in periods of war, and therefore war seems to be an important determinant of aid allocation in Lebanon. The only negative coefficient in this regression is the saving coefficient implying that a higher saving rate results in lower aid being allocated. This could be explained by the fact that a higher saving rate implies a population with more “reserves” set aside and therefore more resilient to internal and external shocks and in less need for external aid. However, this result needs to be taken with caution as the coefficient is not significant.

### Table 2. Regression results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>85.14295</td>
<td>18.66507</td>
<td>4.561620</td>
<td>0.0001</td>
</tr>
<tr>
<td>D(GDP_C)</td>
<td>0.017019</td>
<td>0.010033</td>
<td>1.696284</td>
<td>0.0990</td>
</tr>
<tr>
<td>D(G)</td>
<td>4.209483</td>
<td>4.536399</td>
<td>0.927935</td>
<td>0.3600</td>
</tr>
<tr>
<td>D(OPEN)</td>
<td>0.211820</td>
<td>0.546560</td>
<td>0.387552</td>
<td>0.7008</td>
</tr>
<tr>
<td>D(S)</td>
<td>-3.371612</td>
<td>2.688320</td>
<td>-1.254717</td>
<td>0.2183</td>
</tr>
<tr>
<td>WAR</td>
<td>73.02390</td>
<td>27.93704</td>
<td>2.613874</td>
<td>0.0132</td>
</tr>
</tbody>
</table>

**Conclusion**

This paper attempted to investigate the determinants of foreign aid flows received by Lebanon between 1970 and 2010. It was found that only GDP per capita and armed conflict affect ODA per capita flows. GDP per capita is an important explanatory variable as it encompasses the level of economic development and serves as a proxy of the level of well-being in the country. A higher level of GDP per capita implies that higher ODA flows are needed in order to make a tangible impact. However, since correlation does not imply causation, it might be interesting to investigate the reverse causality. Concerning armed conflict, it seems to be a major determinant of ODA flows, which reinforces the idea that ODA is politically motivated. The model’s overall goodness of fit remains low (R²=.20) and the model could be improved by
adding independent variables, however there are major data limitations in the case of Lebanon, especially for such a long period of time.

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Collaborative Consumption: Definition and Dimensions of Interactional / Relational / Social Analysis

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Abstract

The technological revolution has changed gradually the way how people relate and conduct market exchanges. In fact, there are more information, open access and resources available to people nowadays. On the core of these changes is emerging ideas and new services based on systems or networks in which people collaborate and interact with each other online and offline. Social and economic practices are increasingly overlapped revealing itself in new forms of relationship or relational based on features as physical and virtual interactions, locality and interactions among different actors (government, companies and individuals). Through networking and collaborative services, the interactions that emerge conducted by the actors cannot be understanding by only one perspective where transdisciplinarity is required. Therefore, this article aims to: (1) to analyze the concepts of collaborative economy, sharing and collaborative consumption under different theoretical assumptions; (2) to describe the main practices associated with collaborative consumption in terms of fundamental aspects, relational pairs and platforms; (3) to propose interactional / relational /social dimensions of analysis for the practices of collaborative consumption in the context of services.

Keywords: Collaborative Consumption, Collaborative Services, Interactional / Relational /Social Dimensions.

Introduction

The technology advancement has changed and allowed the restructuring of business and networks in the sense of it gave more resources and enabled people change roles of consumption and ways of connect with each other. These changes incurred on social innovation that emerge as new ideas of products, services and business models that simultaneously meet social needs and create new social and collaborative relationships (Murray et al., 2010).

Emerges the need for reflection on new economic and social practices at the heart of what is called collaborative consumption, collaborative economy, sharing economy or sharing. Grounded in collaboration and/or sharing, collaborative services, their purpose and relational pairs and types of interaction vary materially.

Moreover, despite technological advances that have enabled the emergence of services and collaborative systems, it is perceived that these changes follow an orientation human centered and in a creating value process. The new forms of consumption within the collaborative consumption shall be discussed under different disciplines seeking to adopt define their own bases since the theoretical concepts are not consolidated and it is still strongly influenced by neoclassical theories. The perspective of the collaborative consumption that will be adopted is a practice that before being economical is social, co-constructed, centered on human interaction to create value.

Initially is presented and discussed the collaborative consumption, collaborative economy, collaborative sharing, and sharing from different perspectives in order to examine the theoretical assumptions behind of each one, are then detailed the elements, purposes and relational pairs of collaborative practices mentioned in the literature consulted. Finally, it is proposed three dimensions of interactional/relational to serve to the analysis of practices of collaborative consumption, and written closing remarks.
Collaborative Consumption, Collaborative Economy, Sharing

The collaborative consumption, collaborative economy and sharing are treated under the same concept or defined from a utilitarian view, disregarding the social perspective of practice. It is presented the main concepts found in the literature review, noting the perspectives of each assumption.

Marketing and business practitioners bring collaborative consumption, collaborative economy, and the sharing economy or sharing, as a new business practice, and also as an innovative economy able to steer the economy to a better world in terms of redistribution markets, a new economy of abundance and focus on social (Botsman & Rogers, 2010).

On the other hand, from an academic perspective, there is distinction between collaborative consumption and sharing. According to Belk (2007, 2010), sharing is when there is an act and process of transfer what is yours to others for their use and/or the act or process of receiving or taking what belongs from others to our use. This ownership can be tangible or intangible sharing, such as ideas, values and time. In this concept is excluded sharing activities that Speath and Felson (1978) called collaborative consumption, for example, when there is a gathering of friends to watch a football match. The activity is shared, but football game should happen regardless of the presence or not of friends. This type of sharing is excluded from the definition of Belk.

Besides the distinction, Belk (2013) states that collaborative consumption is characterized by people coordinating the acquisition and distribution of resources for financial compensation or other compensation such as, exchange, bartering, trading. This concept excludes activities that do not involve compensation such as the CouchSurfing social network in which people host guests in their homes.

Regarding the classification of activities in the context of collaborative consumption, Botsman and Rogers (2010) exposes that the collaborative consumption or collaborative economy is enabled by technology and peer communities that redefining the traditional sharing, exchange, bartering, donation, trading, rent and the gift gifting.

While the perspective of Belk focuses more on the exchange of tangible or intangible assets by financial or other compensation, the concept of Botsman and Rogers focuses on strengthening aspects of social innovation and therefore broader, encompassing also activities based in sociality, for example. The concepts can be evaluated from different perspectives as discussed below.

The term collaborative "economy" can generate discussion in the field of economic anthropology. Into the theoretical field itself, between substantivist and formalist schools, there is no consensus in what characterizes an economy. Formalist perspective is rooted on neoclassical view that characterizes the economy by the premises centered in modern economic theory where human being is viewed as utilitarian being, always looking for maximizing resources toward to a rational use of these. Thus, from modern assumptions, primitive societies would be devoid of economics. While, on the contrary, for substantivists, the economy is the process of interaction between man, environment and society and must be analyzed in an institutional manner. In substantivist vision, summarized by Polanyi (1977), the economy, independent of the society, is subject to three fundamental patterns that he calls forms of integration reciprocity, redistribution and exchange. Thus, substantivists assumptions incorporated activities of primitive societies to economic studies that were devoid of market exchange, while the formalists leave out.

Taking the assumptions of formalist economists as a parameter for analysis, collaborative economy exists in the precepts of the modern economy and therefore also approaches to the perspective of Belk says about collaborative economy. The paradigm explains the collaborative economy as an economic process reframing it by social actors, mediated it by the exchange in the context of capitalism. From a formalist perspective, various practices of collaborative economy where there is no financial compensation or other compensation are characterized as a process that occurs in social context, out of the economy, as the case of Couchsurfing. This debate into economic anthropology field, initiated by Polanye, brings to reflection on the assumptions in taking what assumption characterizes an economy. However, this paper does not go in order to explorer the discussion in this direction. The discussion is not going to prove that collaborative economy is an economy but it is going to explore the assumptions of the theoretical concepts in order to generate greater understanding and mainly, look at it as an economy of interactions/relationality transiting between economic and social practices with overlays often.
Then, it was referenced the arguments and counter arguments about the possibility of collaborative consumption to be or not to be an economy. It is taken the decision of do not go deeper into the theoretical framework that would demonstrate it that. It is looking is highlight the context of collaborative consumption, as they are addressed the social and economic relations, as they influence each other, or even are indissoluble.

In sociology and economic anthropology fields, in order to integrate a macro and micro view of sociological analysis, Granovetter (1992, p. 4), for example, criticism the neoclassical view that sees man only as an atomized and utilitarian being. Granovetter proposes a reflection on the economy considering the sociological following assumptions:

- the pursuit of economic goals is often accompanied by non-economic, such as sociability, approval, status, and power; economic action, as all actions, is socially situated and cannot be explained by individual motives alone, once is imbricated in ongoing networks of personal relationships performed by actors; economic institutions, like all institutions, do not originate automatically or neither are inevitable created due to external circumstances, but they are socially constructed (Berger, Luckmann, 1966).

Granovetter argues since that economic activities are coordinated by groups of people rather than isolated individuals should seek the understanding of economic institutions as a socially constructed process.

Taking the examples of collaborative consumption, sharing and collaborative economy, it is realized that the collaborative consumption does not have consolidated theoretical definition yet and its definition depends on the theoretical assumption taked on consideration. Admitting the macro vision of embeddedness or overlapping between economy and society, economic and social purposes, it is taken a micro perspective analysis of collaborative consumption looking to interactions and relationships, rather than analyzing only the compensation of commercial exchange. Furthermore, it is considered that the exchange in collaborative consumption is just one of the ways to present such practice, which should be considered in addition to the currency exchange as from the relationship established in terms of the dimensions of interaction, relationality and sociability to be discussed later in this paper.

It is noteworthy that the collaborative consumption arises on the basis of social relations, from social interactions. Since the study of social interactions is excluded from the traditional approach of exchange relationships by formalist economists, and relegated to the analysis by the called human sciences, the relevance in discuss collaborative consumption relies on the purpose to advance the discussions about the

Therefore, the perspective adopted in the current paper is that of collaborative consumption based on "togetherness" that means collaboration among individuals to produce, to consume, to share, to exchange and to rent, tangible or intangible assets. Once economic institutions are socially constructed and do not emerge automatically in responses to economic needs. Economic institutions emerge from social networks where individuals are embeddedness and their actions are facilitated or constrained by available resources and structures.

**Services and Networks (Systems) Collaborative - Purposes and Relational Peers**

Following the micro and macro discussion on how collaborative consumption is presented in the literature review, this topic deepens a micro view focused on types of systems and services, purposes and relational pairs. Collaborative services and collaborative systems appear to have a social network platform as requirement for enabling online interactions that can extend to the offline context. Or can also be started offline and culminate with the creation of an online context-based interactions.

Baek et al (2010) relate the emergence of collaborative services to the advancement of information technology. In the authors' view, the collaborative services are those in which end users collaborate to provide solutions to unmet social needs. Moreover, the result of collaborative services is to create a solution and a social network.

Since traditional business models are not able to meet these new needs, action platforms allow people to express themselves and use their abilities to co-create solutions that meet their needs. Thus, the emerging collaborative initiatives not supplant the current economy and may emerge as new solutions in order to complement and reshape traditional economy based in traditional businesses (Manzini, 2012). However, the collaborative consumption goes beyond the online platforms, which often is the condition that enables the consumer, but which does not correspond to where the service or experience will take place.
Botsman and Rogers (2010) classified the collaborative consumption in three ways or systems: (1) the product service systems, (2) redistribution markets and collaborative lifestyles (3). The product service systems is when it is paid for the benefit of a product without the material possession of it, in case the sharing or rent. Examples are car and bicycle sharing and books rentals. Collaborative services have some common aspects with the collaborative digital production or sharing. Both require more collaboration than competition, inclusion more than exclusion and are based on a more decentralized than centralized platform (Baek et al., 2010).

The redistribution markets are social networks that enable redistribution, like donation and exchanging of goods that are not of interest to the current owners. Examples are the exchanges of clothes, accessories, books and other goods by other similar or by other similar value (Botsman, Rogers, 2010).

The collaborative lifestyles are individuals with similar interests inclined to organizing and to sharing less tangible assets such as time, space, skills and money (Botsman, ROGERS, 2010). As examples have workspace and food sharing, among others. The human-human interaction to create value without the physical product, is usually the focus of this exchange. As results are generated a series of relationships and social connectivity. Other types of collaboration found in the literature were co-production, crowdsourcing and prosumer.

The term co-production, for example, is used to describe the innovation of products or services when there is a triad organization and consumer and systems (ROWLEY, Kupiec-Teahan, LEEMING, 2007). While crowdsourcing is a model of problem solving and production to collect ideas, suggestions, contributions at the beginning of a process, applied online, open to groups that wish to participate (BRABHAM, 2008). The prosumerism, in turn, occurs with online collaboration among users themselves who produce, share and comment online content (Tapscott & Williams, 2008). The sharing corresponds to production and consumption of content, rent, donation of tangible and intangible goods (Belk, 2007, 2010; Botsman & Rogers, 2010; Manzini, 2012).

Relational services or collaborative services appear into the core of service design discipline. Cipolla and Manzini (2009) explain that the "collaboration" term arose from the fact that the quality of interpersonal interactions were far from an approach to cover a more fluid service delivery. The traditional service delivery occurs when from the frontline to the customer, everybody has roles and functions predefined, employees are usually active, and customers are passive. The authors add that social innovations deconstruct the traditional approach to service delivery in the sense that establishing new collaborations, transforms participants into active co-producers of commonly recognized benefits. And this new approach also give rise to a special form of interpersonal interaction in services known as relational services where participants are willing and inclined to relate to others in a personal way (Cipolla & Manzini, 2009; Cipolla, 2007, 2009).

Analysis of Collaborative Consumption by Interactional, Relational and Social Dimensions

From the literature review, it is noticed that there are many concepts related with collaborative consumption, and that most of them are associated to the relations of market exchange as the unit of analysis. Therefore, interactions as those based on sociability are excluded from the literature consulted. It is proposed conceptual dimensions to analyse of interactions on collaborative consumption. Considering all consumption implies a context of interaction, relationship and / or sociability between individuals. The purpose of this conceptual classification is, first of all, to have, for each type of interaction, the possibility of analysis from more utilitarian or social outlook that create value for the participants.

Notice that some practices of sharing more oriented to traditional business like car or bike sharing into collaborative consumption, mediated by systems, for example, usually involves less human-human interactions. Therefore, these activities involve less human interaction and seems to have different purposes than other practices within the collaborative consumption that involves greater human participation, and does not seem appropriate to analyze them from the relational dimensions. The dimensions were inspired from the relational tourism (Richards et. al, 2014). The following are the proposed dimensions of analysis:

Interactional dimension. The interaction is the smallest unit of analysis. Users start, experience and / or finalize collaborative consumption from networked interactions (online), to establish the first contacts between peers, or to perform a transaction, for example. The interaction is the participation in the process where there is limited involvement in emotional or cognitive terms of performance among peers. This is the
case of Trip Advisor where tourists leave their opinion and review about local, cities, restaurants and points visited in different parts of the world to other travelers or other interested people that can take advantage from such information. The interaction is eventual, sometimes even do not occurs. Another illustration is the Trocacasa.com where users from different locations who wish to travel to any destination, barter from home for a period. In the latter case, users do not know each other personally and even after the home exchange, they can never establish a physical and personal contact. The best practices of collaborative consumption that represents the interactional dimension are crowdourcing, co-production, the prosumerism, and sharing.

Relational dimension. Interaction is followed by or includes the participation of users where involvement occurs. Users start, experience and finalize collaborative consumption that begins with networked interactions, but goes beyond that and may culminate in the development of a short term relationship, but of great intensity between at least two participants. The rent a local friend is a platform that provides relational service of guided tour and is present in four continents. Providers users are people who love to travel and share experiences, interested by human interactions and play professionally roles in areas not necessarily related to tourism. That means they are not in generally travelling agents and tourism professionals but people who offer personalized services to show the city they live in a more personal, local and less touristic perspective. By contrast consumer users are people who wish to have a more relational and authentic touch while traveling. In Bliive, platform based on bank hours, users offer a service that when is provided, results in the generation of credits that can be used to purchase other services from the platform. Friend to listen outburst, a company to go to watch movies, explore the city of Recife from bike, a backpacker tips are examples of offers available on the platform. Practice of sharing or sharing that involves the exchange of intangibles, are in this dimension. Steps of relational and collaborative services are also in this dimension.

Social dimension. Besides the basic interaction and relational, there is the engagement of the participants in this dimension. The roles are not clear. The engagement established between peers and sometimes groups goes beyond conventions and occurs according to a co-construction and more spontaneous manner oriented for sociability purposes. In Mealsharing platform, users who travel can have the experience of sharing a meal with a local. The Couchsurfing, community in which users provide a spot in their home to host someone, also operate under the same logic, but goes beyond sharing meals once contemplates the experience of being hosting by a local.

Conclusions

The collaborative economy, sharing and collaborative consumption can be analyzed from different theoretical assumptions which make them mutually exclusive or complementary concepts according to the perspective adopted (substantivist or formalist). However, in order to advance the discussion on collaborative consumption it is considered that since the economic institutions are socially constructed (Granovetter, 1992) and the traditional view cannot frame the practice that guides this consumption is more valuable to observe the phenomenon from a social perspective.

It is noteworthy that the collaborative practices studied today emerged from the social practices, and propose its study from the theoretical precepts of sharing (Belk, 2007, 2009, 2010) is incomplete. As this concept focuses on defining the share from the transfer of tangible and intangible assets to a third party, the premise of analysis is centered on exchange and therefore exclude other sharing activities that are relational, and go beyond the utilitarian perspective.

Thus, it is proposed that collaborative consumption is more human-centered than in assets-centered. It is a consumption that seeking building covalue through interactions among peers beyond the mere exchange or online interactions. Therefore, it seems more appropriate to use the dimensions of interaction / relationship to analyze how value is created in these practices instead of taking as analyzing just the exchange itself.

Finally, the proposition of interactional / relational dimensions to aim contributing to the discussion of the topic from an interdisciplinary perspective necessary for understanding this phenomenon which moves between exchange and sociability.

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The Role of Visit Duration on the Satisfaction and Customer Behavioral Intentions of Repeat Festival Attendees

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Abstract

This study examines how visit duration influences the satisfaction levels of previous visitors to festivals and influence customer behavioral intentions. Specifically, the research proposes a theoretical model, focusing on the relationships between, repeat visitations, visit duration, satisfaction and behavioral intentions (return visits and recommending the festival to others). A path analysis reveals that there is no significant relationship between previous visitation and satisfaction level but visit duration as a mediator ensures a positive correlation between repeat visits and satisfaction. High levels of satisfaction increase the probability of return to the festival and their ability to recommend the festival to others. Return visitors will also recommend the festival to others, but only if they are engaged longer in the festival and if they are satisfied with the festival. Repeat visitation does not directly influence satisfaction but duration of visit as moderator positively affects satisfaction, which positively affects behavioral intentions. The implications of the study are twofold. Previous studies indicated that previous visits will ensure satisfaction however the results indicate that this in only true if attendees are kept engaged to participate longer. This will in turn will directly drive satisfaction and indirectly influence customer behavioral intentions. In practice festival organizers should consider providing repeat visitors with activities that will keep them more engaged in the festival to increase satisfaction.

Keywords: Festivals, Satisfaction, Repeat Visitors, Behavioral Intentions
The Macro-Effectiveness of Unconventional Monetary Policy: Comparing FED, ECB, BoE and BoJ

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Abstract

Global financial crisis has changed the views about monetary policy. Prior to the crisis, monetary policy was assigned to ensure price stability and the primary tool was short term interest rate. This short term interest rate was transmitted to the entire economy via various channels. But financial crisis, that erupted in August 2007, hampered the financial markets. Furthermore; with the fall of Lehman Brothers in September 2008, financial crisis evolved into a full fledged global crisis and depressed the real economy. Central Banks have responded by altering interest rate- conventional monetary policy- firstly. But this was not enough to calm financial markets and revive the real economy. In this regard, major Central Banks- FED, ECB, BoE and BoJ- have begun to use liquidity support, asset purchases and forward guidance, namely unconventional monetary policies. They have expanded their balance sheets accordingly. However, the positive growth can not be achieved till the first quarter of 2010. The aim of this study is to analyze the macro-effectiveness of unconventional monetary policies used by FED, ECB, BoE and BoJ. With this aim, we will explain the theoretical underpinnings of unconventional monetary policies. Then we will analyze the macro-effectiveness of these policies descriptively as well as empirically. As an empirical method, we will use structural VAR models.

Keywords: Monetary Policy, Global Financial Crisis, Structural VAR Models

Introduction

Global financial crisis has changed the views about monetary policy. According to Mishkin(2011), prior to the crisis, as a consequence of advances in theoretical and empirical studies, most economists and policymakers accepted there was a well defined “science of monetary policy”. Monetary policy is assigned to ensure price stability and the primary tool is short-term interest rate. Central banks implement monetary policy by altering short-term interest rate and explaining the monetary policy stance to the public in order to influence expectations. Short-term rates are seen as a signal for money markets and this impulse is transmitted to the entire economy through various channels.

However; with the turbulence started in August 2007, financial instability hampered the money markets. Uncertainty about solvency of financial markets lead to a mounting counterparty risk. Moreover; with the fall of Lehman Brothers in September 2008, financial crisis have evolved into a full-fledged global crisis. In this regard, central banks responded by decreasing official rates. But this could not be transmitted to the money market rates and spreads have risen accordingly. So central banks have to use other tools to address financial market stress and revive the real economy. These tools are; providing liquidity to financial institutions, purchasing assets (public or private) and forward guidance. Borio and Disyatat(2010) express that a difference between conventional and unconventional policies might be very tenuous. They also admit that, as these policies alter the magnitude or composition of balance sheets, these policies could be named as “balance sheet policies”\textsuperscript{96}

\textsuperscript{96} Unconventional monetary policies might not expand the balance sheet of the Central Banks. Central Banks in order to effect long term interest rates can buy long-term assets and sold same amount short-term asset. This maturity transformation of assets were tried in 1961 with the name of “Operation Twist”. In this policy the magnitude of the balance sheet does not change. In the literature the name of this policy is “Qualitative Easing”. It is also important that the forward guidance policies also are not reflected in balance sheets.
FED, ECB, BoE and BoJ have aggressively used these policies in order to calm financial markets and prevent repercussions to the real economy. Monetary policy have begun to focus on financial stability and growth, rather than price stability. Using unconventional monetary policies have expanded the balance sheets.\(^97\) Total assets of FED have reached 4 trillion dollars (end of 2013). Cumulative increase in total assets is approximately 5 fold in FED and BoE till the beginning of the crisis. It is modest in BoJ and ECB – nearly 2 fold. Despite using these policies aggressively, real GDP growth could not be record positive values till the first quarter of 2010.

In this study, we are trying to analyze the effectiveness of unconventional monetary polices by comparing major central banks. With this aim we will explain the theoretical background of unconventional monetary policies. Then we will mention the policies used in practice. Third section will be devoted to policy performance. After empirical testing in the fourth section, study will be concluded.

**Unconventional Monetary Policy**

In normal times, central banks alter monetary policy rate and this would transmitted to the economy via various channels. But in time of financial crisis, transmission channels are disrupted. Despite lowering policy rate; Central Banks could not be able to reduce money market rates. Spreads have risen accordingly. Lowering policy rate has also a limit, policy rate has decreased till it hits the zero-lower bound. So further monetary ease could not be achieved by decreasing policy rate as conventional monetary policy predicts. According to Mishkin(2009); this is not an indication of impotent monetary policy, this related with the severity of the crisis. In this regard, Central Banks uses other tools to adress distortions in the transmission mechanisms and stimulate aggregate demand.

There are two different approaches to unconventional monetary policies. The first one is a sequential approach that is mainly used by Fed and BoE. Unconventional monetary policy is regarded as a substitute to conventional monetary policy. When the policy rate is decreased and hits the zero-lower bound, unconventional monetary policies are used to provide further stimulus. In a New-Keynesian framework; real rates could be decreased by creating inflation via expanding balance sheet. In the second approach – used mainly by ECB- unconventional monetary policy is a parallel and complementary to conventional monetary policy. Policy rate is set to ensure price stability. But during crisis, this rate could not be transmitted to the entire economy. Unconventional monetary policies are used parallel to conventional monetary policy- before interest rate hits zero-lowerbound- to address these disruptions in the transmission mechanisms (Trichet(2013), Cour-Thirman and Winkler(2013)).

**Theoretical Background**

We can classify unconventional monetary policies into three broad categories: (i) liquidity provision to financial markets/ institutions, (i) asset purchases and (iii) using forward guidance policies to effect long-term yields.

Liquidity support to financial institution is not a new funciton for Central Banks. Till their establishments, Central Banks act as a lender of last resort- either providing direct assistance to individual financial institutions or acting as a leader in the rescue operations (Goodhart and Schoenmaker, 1995:541).\(^98\) Liquidity support by Central Banks may be vital in the acute phase of the crisis in order to support illiquid institutions and calm the markets.

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\(^97\) Till the Lehman’s collapse central banks sterilize these policies with the fear of inflation, so there is no expansion in the balance sheets.

\(^98\) The scope of lender of last resort function is highly controversial. According to liberal economists, central banks should provide liquidity to markets through open market operations. According to this view, markets are better informed than central banks, and they can distinguish between solvent and insolvent banks better than Central Banks. Furthermore, liberal economists stress the moral hazard problem, that creates disincentives for risk management of financial institutions. Bagehot(1873), famously draw a framework in order to address moral hazard issues. On the other hand, more interventionist economists, oppose this view and underline the market failure proposition. Markets could not be able to solve the some confidence related issues, such as counterparty risk.

Additionally, sometimes rescuing insolvent institution may be needed to deter contagion (Goodhart and Hung, 1999:5).
The second type of unconventional monetary policy is asset purchases. By purchasing assets Central Banks targeted the the level of reserves of the banks. In normal times; the level of reserves are not targeted, they are by-product. The focus of the policy is price of reserves that clears the market. But in the crisis; the focus turn to be a quantity of reserves. That’s why this policy is often referred to “Quantitative Easing”. So; the aim with rising reserves is to increase lending into the broader economy and as a consequence of buying assets; rising asset prices. This would eventually remove deflationary forces and stimulate demand (Joyce, et.al, 2012:274).

Liquidity support and asset purchases effect the broader economy via two channels. The first one is signalling channel. Central banks use communication tools to inform the public about intentions regarding the future evolution of short term interest rates. In the literature signalling channel has been used by authorities in order to escape zero lower bound (Ceccioni et.al,2011:16). By announcing that central bank would loose monetary policy further, it is a signal for financial markets that they are not alone (Bowdler and Radia, 2012:611). In order to use this channel effectively, central bank credibility is a key. Only credible central bank can effect the expectations and lower long-term yields. This in turn stimulate aggregate demand.

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The second one is portfolio rebalancing channel. It affects total demand through altering balance sheets of central banks and private sector by asset purchases and liquidity injections. Functioning of this channel depends on the imperfect substitution in private sector balance sheet items. Forexample; some investors – such as pension and insurance funds- prefer to hold long-term assets in order to match them with their long-term liabilities. When central bank purchase long-term assets, these investors would gain revenue. With these revenues they would purchase long-term assets as well. On the other hand, by purchasing long-term assets, central bank would reduce the stock of privately hold assets. The aggregate reduction in stock of long-term assets cause a decline in term premium. This would in turn reduce the long-term yields and increase the long term asset prices. Increase in asset prices would raise household wealth and stimulate aggregate demand (Joyce, et.al., 2012:279).

Injecting liquidity to financial institutions would stimulate the aggregate demand via portfolio rebalancing channel in the case of imperfect substitution in private sectors liabilities. This imperfect substitution is driven by asymmetric information. In the case of asymmetric information external funds are costlier than the internal funds. In crisis times, asymmetric information is exxagerated (Mishkin, 1991). This may lead to rationing in external funds. At that time providing liquidity to financial institutions by Central Bank, especially with a long maturity would lead to provision of liquidity at long maturities and reduce the long-term spreads (Ceccioni et.al. 2011:18). This would in turn stimulate aggregate demand.

The third type of unconventional monetary policy is forward guidance. This policy is based on Central Banks statements about the path of future policy rates. Central banks altered the short-term rates but the monetary policy stance is related with long-term rates (Eggertson and Woodford, 2003:7). Private sector considers long-term rates while barrowing and investing. In the monetary transmission mechanism, long-term rates play a pivotal role. However; long-term rates is the sum of future expectations of short term rates –plus risk and liquidity premium- as expectations theory predicts. So; Central Banks try to effect expectations about short-term rates by explaing their intentions about future short-term rates (Bernanke, et.al, 2004:9). On the other side market participants should beleive in that commitment and form their expectations accordingly. Woodford(2012) and Bernanke and Reinhart(2004) stresses the credibility of the Central Bank in using forward guidance. Market participants should beleive that Central Bank would not renge from it’s commitment. Otherwise; the time-inconsistency problem would be apperant.

Policies used after the Global Financial Crisis

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99 The imperfect substitution in private sector balance sheets is based on the preffered habitat theory. In this theory economic agents have different maturity preferences as well as interest rate expectations. For details see Modigliani ve Slutch(1966), and Mishkin(1990).

100 Filardo and Hofmann(2014) express that there are three types of forward guidance. The first one is qualitative forward guidance. If Central Banks states that “policy rate will kept lower for an extended period”, this is called qualitative forward guidance- not conditional to time or quantity. The second one is calendar-based forward guidance like “policy rate will kept lower x years”. The third one threshold-based forward guidance that simply conditional to economic variables. For example, “policy rate will not be increased unless the unemployment rate is x%”.
Global financial crisis erupted as a subprime mortgage market crisis in August 2007 in US. This would began to effect money market overseas, especially the more integrated with US financial markets. Furthermore with the fall of Lehman Brothers on September 2008, the crisis evoved into a full-fleged global crisis allover the World.

Central Banks have adressed the problems in financial markets from the begining. But in the first phase of the crisis –from August 2007 to September 2008- Central Bank policies basicially dealt with financial market distortions that impaired the transmission channels. After September 2008, the crisis repercussions were evident in real sector, Central Banks began to aim stimulating aggregate demand.

The major Central Banks, FED, ECB, BoE and BoJ used extensive measure to alleviate financial market tensions and revive the real economy. ECB, provide liquidity in order to calm interbank markets as bank-financed nature of Europe’s financial system. ECB conducts open market operations through variable tender procedure. But in October 2008, the procedure was changed to a Fixed-Rate Full Allotment (FRFA). With this new procedure ECB try to satisfy the liquidity needs of banks at a specified interest rate. ECB have also lengthen the maturity of Long-Term Refinancing Operations (LTRO), from three months to six months. Additionally, ECB conducted 1 year LTRO on May 2009 and two 3 years LTROs on December 2008 in order to fullfill long term liquidity needs of banks (Sczcerbowicz, 2012:11). With these operations ECB became intermediation of last resort (Gionne, et.al.,2011:11).

FED, first of all increased the credit from discount window in order to provide liquidity to banks. More comprehensive programs were designed afterwards, in order to support all banks under the name of Term Auction Facility(TAF) and market maker banks under the name of Primary Dealer Credit Facility (PDCF) (Labonte, 2010:10).

BoE also targeted the interbank money market distortions and provide liquidity accordingly. First of all; the spreads in standing facilities were decreased from 100 basis points to 25 basis points. Then; in April 2008, Special Liquidity Scheme program was introduced. The aim was to change illiquid assets with liquid ones in banks’ balance sheets (OECD, 2009:29). But these measures were not enough for banks to provide credit to the economy. In order to adress this; BoE started Funding For Lending Scheme in July 2012. According to this program, banks can barrow with reasonable rates in condition to lending non-financial corporations and households (BoE, 2012:310).

BoJ started “fund-supplying operations” and lend to banks with a maturity of three months at the policy interest rate in December 2009. The total amount of loans was initially programmed as 10 trillion yen but in March 2010, the amount ratched up to 20 trillion yen. In August 2010, 10 trillion yen additional loan was added to the program with a maturity of 6 months. BoJ also decided to provide loans to banks lending to the growth sectors such as envirenment related and healthcare sectors about 3 trillion yen in June 2010. Under the program of “comprehensive monetary easing” 30 trillion yen fund-supplying operation was started (OECD, 2011:32). BoJ also racted by supplying loans after an earthquake on March 2011. The upper limit on funding to banks that lending growth industries raised to 3.5 trillion yen in June 2011 and 5.5 trillion yen in March 2012 (OECD,2013:12).

Asset prices have also shrunk with the financial crisis. Asset prices are important in market financed economies like US and UK. For households rising asset prices means soaring wealth and consumption. Furthermore, rising asset prices leads to a rise in equity prices -with substitution and portfolio rebalancing effects-. Rising equity prices lead to an increase in investment as Tobin’s q theorem predicts. These two eventually boost aggregate demand. Thus Central Banks have purchased assets.

ECB, has also purchased assets. But it is again to releive interbank money markets. First of all ECB started two Cover Bond Purchase Programs (CBPP) in June 2009 and October 2011. In these programs ECB purchased bonds that costs 40 billion Euro and 60 billion respectively.

After the Sovereign Debt Crisis, the spreads on sovereign bonds increased tremendously especially in highly debted countries– Greece, Portugal, Ireland. Sovereign bonds has a high importance in the transmission channels. First of all; as they are highly liquid, these bond are primary collateral in European

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101 Covered Bonds are bonds that are created from the pool of public sector or mortgage loans. These are dual-recourse bonds. The key difference from securitization is that covered bonds do not involve credit risk transfer. These bonds are highly popular in European markets, had grown to 2 trilliob euro. For details see ECB(2008).
repo markets. Furthermore; they can provide a benchmark for other assets used in these transactions. So in order to buy private and government bonds from secondary markets; ECB introduced Securities Market Program (SMP). With this program, the aim was to prevent bond yields to increase further and provide time for government to find durable solution to debt crisis (Cour-Thirman and Winkler, 2013:13). In September 2012, this program is replaced by Outright Purchases Program (OMT), the difference from predecessor is conditionality to EFSF/ESM programs in order to force debted governments to take on responsibility.

US financial system is market-based so FED purchased substantial amounts of assets. In November 2008, to support credit in housing market, FED started the first Large Scale Asset Purchase Program (LSAPP1), known as Quantitative Easing 1 (QE1). In this program, FED bought 175 billion dollar agency debt and 1.25 trillion dollar mortgage back securities (MBS). This was not enough for markets. So in November 2010 FED announced that it would expand its balance sheet with the second Large Scale Asset Purchase Program (LSAPP2), also known as QE2. In the scope of the program, FED bought 600 billion dollar long-term government bonds (Ceccioni, et al. 2011:14).

In September 2011, FED started Maturity Extension Program. Under this program, FED bought 400 billion dollar long-term securities and sold the same amount short term securities. This program did not expand balance sheet, it only alters the composition (Labonte, 2013:8). One year later, in September 2012, as a consequence of weak economic outlook, FED announced the third Large Scale Asset Purchase Program (LSAPP3), known as QE3. It started to buy 40 billion agency mortgage backed securities (Agency MBS). In November 2012, FED added 45 billion dollar government bond to the program (IMF, 2013:10).

BoE also started Asset Purchase Facility (APF) in January 2009 and bought government bonds (gilts), corporate bonds and commercial paper. The ceiling was 50 billion sterlin when it is first announced but it is raised to 200 billion sterlin afterwards (EC, 2012:20). In October 2011, BoE introduced the second Asset Purchase Facility (APF2). 175 billion sterlin asset have bought under this new program.

In October 2010, as a response to weak economic performance, BoJ introduced “comprehensive monetary easing”. Under this, BoJ established an asset purchase program amount of 5 trillion yen, which is composed of government securities (3.5 trillion yen) and private assets (1.5 trillion yen). After an earthquake; this was raised to 40 trillion yen. Then the asset purchase program expanded several times to 101 trillion yen which is nearly 21% of GDP (OECD, 2013:12). In April 2013, BoJ launched “quantitative and qualitative monetary easing”. This aims to increased monetary base by 60 trillion to 70 trillion annually, increasing the average maturity of government bonds held from three to seven years (IMF, 2013:40).

These major Central Banks try to influence long-term interest rates and stimulate aggregate demand accordingly by using forward guidance policies additional to expanding balance sheets. FED used this policy extensively. Firstly in December 2008, Federal Open Market Comittee admitted that federal fund rates will be low for some time. Then in March 2009, FED extended the duration by expressing the statement “extended period of time”. In order to give clear messages, this statement was replaced by a date, mid-2013. Then this date delayed to the mid-2015. At last in December 2012, FED announced that it would keep low interest policy till the unemployment is lower than %6.5 and inflation does not exceed 2% at most 1 percentage points.

ECB also try to effect long-term yields by using forward guidance policies. In July 2013, Governing Council announced that ECB would kept the interest rate lower for extended period of time. BoE used this policy from August 2013 with response the weak growth and employment dynamics. Monetary Policy Comittee expressed that unless the inflation expectations exceeded the target -2%- about half points and financial instability poses a threat, this low policy rates would be continued (BoE, 2013:5).

102 FED announced several programs before QE policies. These were ABCP Money Market Fund Liquidity Facility, Commercial Paper Funding Facility (CPFF), Term Asset BAcked Securities Facility (TALF). For details see Labonte(2010,2013) and Ceccioni, et al. (2011).

103 These were belongd to Fannie Mae, Freddie Mac and Ginnie Mae.

104 On December 2013, FED states that it would begin to tapering off its asset purchases beginning from January 2014. Beginning in January 2014 it reduces purchasing assets 10 billion dollars per month. And in 29 January 2014, FED decreased its purchases to 30 billion dollar MBS and 35 billion dollar treasury securities. Than in March it reduces further 10 billion dollars. As economy recovers asset purchases will be declined to zero.
BoJ uses forward guidance policy by referring its inflation target. In October 2010, BoJ states that it “will maintain the virtually zero interest rate policy until it judges on the basis of the understanding medium-to long-term price stability.” In January 2013, BoJ clarify this inflation target by expressing 2% point estimate and in April 2013, with the announcement of “quantitative and qualitative monetary easing” express its intention to meet this target over about 2 years (IMF, 2013 and OECD, 2013).

These policies are reflected in balance sheets. Balance sheets of BoE and FED have expanded very seriously. ECB and BoJ’s balance sheets expansions are more modest.

![Figure 1: Total Assets of Central Banks (2006/07=100)](source=Central Banks’ webpages)