

# National stereotype effects on consumer expectations and purchase likelihood: competent versus warm countries of origin

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## Keywords

Country of origin, consumer perception, consumer expectations, purchase likelihood, stereotypes, nation-branding.

## Abstract

*This two-study, experimental design, research proposes and tests if and how national stereotypes based on perceptions of competence versus warmth affect consumer expectations of the utilitarian versus hedonic nature of products as well as their subsequent purchase likelihood.*

*The results of our first study found that higher perceived warmth results in greater expectations of hedonic product properties, and that higher competence perceptions result in greater expectations of utilitarian properties. It is further shown that perceived competence and warmth mediate the effect of country of origin on utilitarian and hedonic product expectations, respectively. Importantly, the second study demonstrates the downstream impact of national stereotypes on consumer behavior, showing the asymmetric effect of perceived warmth and competence on purchase likelihood of hedonic versus utilitarian products, whereas competent perception favor both utilitarian and hedonic purchase likelihood.*

*Managerial and policy implications are offered for the marketing, retailing, and promotional strategies of products as well as of nation-brands. A social psychology of post-colonial globalization stereotypes nations as more competent ('developed' or 'emerged') versus warm ('developing' or 'emerging'): what can nations do to deliberately overcome the confines of negative and positive stereotypes in order to best promote their goods and services exports?*

## 1. Introduction

Focusing on national stereotypes held by US consumers, this paper employs a two-study experimental design to test how perceptions of competence and warmth associated with a product's country of origin impact expectations of utilitarian versus hedonic product attributes as well as subsequent effects on purchase likelihood. Ultimately, our research holds practical implications for the retailing strategies of export products as well as the strategic promotion of countries as they develop their own nation-brand.

A product's country of origin (COO) effect is a long-standing area of research in consumer behavior and international marketing (e.g. Verlegh and Steenkamp 1999; Jaffe and Nebenzahl 2006). Country of origin is defined simply as "information pertaining to where a product is made," which is generally operationalized and communicated with the phrase "Made-in," followed by the country name (Amine, Chao and Arnold 2005).

This paper proposes that perceived differences among, and the purchase likelihood of, utilitarian versus hedonic product perceptions (Voss et al. 2003) are driven by distinct dimensions of national stereotypes associated with a country of origin's people (perceived competence and perceived warmth). This study further extends the Chattalas and Takada (2013) research demonstrating that competent versus warm consumer perceptions of nations (two dimensions often used to categorize and judge individuals and groups) mediate the effect of country of origin on utilitarian and hedonic product expectations.

All societal groups, including nations associated with a product's origin, are universally perceived along two primary dimensions, warmth and competence (Fiske et al. 2002).

This *Stereotypes Contents Model* systematically predicts that most group stereotypes are mixed and ambivalent, as defined by high ratings on one dimension coupled with high ratings on the other, rejecting a general-attitude consistence explanation.

According to Fiske et al. (2002), perceived competence is defined as, “the target group’s (i.e. COO) perceived ability to be successful in tasks accorded high status and prestige,” whereas perceived warmth is conversely defined as, “the target group’s (i.e. COO) perceived socio-emotional orientation toward others.” Economically powerful groups are stereotypically rated as competent, while those unable to pose a competitive threat, as warm. Only “in-groups” receive high perceived scores on both dimensions.

When consumers think of German products, high-tech, engineering ones will likely come to mind, to the exclusion of high-touch, fashion ones, although there are many successful German fashion houses and designers marketing such hedonic offerings (e.g., Karl Lagerfeld, Escada, Hugo Boss, or Jil Sander). On the other hand, consumers are likely to expect products from Italy to be more pleasurable or sensual than functional, efficient, or high-tech. Bilkey and Nes (1982) suggested that quality perceptions for technical products produced in developed (vs. developing) nations tend to be more favorable, since consumers assume that production of such products requires a well-educated workforce. Nevertheless, Germany and Italy are similar in socioeconomic development and educational standards, so what might explain the different expectations of product characteristics, and purchase likelihood of, typically associated with these nations? Could an explanation be based on national stereotypes and their contents?

Indeed, there is evidence for consumer reliance on stereotypes when evaluating products. For example, Leclerc, Schmitt and Dubé (1994) showed that a French (vs. English) brand name can activate properties associated with “Frenchness,” such as the refined taste of the French, which results in consumers’ evaluating a perfume to be relatively more hedonic. Although a large body of research has documented the importance of COO effects (e.g. Jaffe and Nebenzahl 2006; Verlegh and Steenkamp 1999), the literature is currently lacking an investigation into how systematic differences in the content of national stereotypes (i.e. differences in perceptions of the warmth and competence of a particular country’s people) impact consumer expectations and purchase likelihood. This lack is even more surprising given that knowledge of national stereotype content may help marketers predict and manage consumer expectations and purchase regarding the presence and quality of particular product attributes as well as purchase likelihood (Chattalas, Kramer and Takada 2008).

This paper seeks to address the above shortcomings in the literature. Integrating the literature on COO, national stereotypes, and product characteristics, we show that COO effects on expectations of product characteristics are driven by national stereotypes. Addressing the earlier question regards a German versus Italian COO; this paper’s first study finds that consumers perceive Germans to be high in competence, which creates expectations that German products are relatively utilitarian in nature. Importantly, a second experimental study demonstrates the downstream impact of national stereotypes on consumer behavior, showing the asymmetric effect of perceived competence and warmth on purchase likelihood of utilitarian versus hedonic products.

Together, these findings not only advance our theoretical understanding of the differential impact of distinct dimensions of national stereotypes on consumer expectations and purchase likelihood, but are also of important managerial significance. In particular, in their retailing and advertising strategy, marketers may either capitalize on the match between the product characteristic expectations consumers have and the dominant national stereotype, or position their products to create such a match. Further, for the area of nation branding our

findings suggest that marketers may seek to develop more favorable perceptions on the stereotype dimension that mismatches particular local products. For example, Spain, which consumers tend to perceive as relatively warm but not competent, recently advertised its technological competence with the slogan, “España, technology for life.” Conversely, Taiwan, which is perceived as relatively competent but not warm, asks to “Touch your heart in Taiwan.”

To the best of our knowledge, this research is the first to empirically investigate the differential effects of the competence and warmth dimensions of national stereotypes on both consumer expectations of product characteristics and purchase likelihood via simultaneous experiments. The research objectives are thus to document the importance of warmth and competence perceptions for consumer expectations, examine the processes driving differences in expected product characteristics, and finally test for their impact on the purchase likelihood of hedonic versus utilitarian products.

## **2. Conceptual Background and Hypotheses**

### **2.1 Country of Origin (COO) and National Stereotypes**

When evaluating a product or brand, consumers often rely on its country of origin – that is, the country with which it is associated in their minds (for a review, see Pharr 2005). Several explanations for COO effects have been put forth, including affective (Fournier 1998), cognitive (Bilkey and Nes 1982; Li and Wyer 1994), and normative (Klein et al. 1998; Shimp and Sharma 1987) ones. Importantly in connection with the current research, Hong and Wyer (1989) and Maheswaran (1994) conceptualized COO perceptions as stereotypes that, like personal stereotypes, may set up expectations by classifying objects as belonging to a certain category. Furthermore, consumers may often draw on stereotypes automatically when making judgments (Devine 1989). In the current case, national stereotype-based expectations may include product-related information such as the presence of certain attributes, as well as product quality and price. Thus, consumers may expect that perfumes from France are sensual, shoes from Italy are made from exquisite leather, and cars from South Korea are inexpensive. Yet as discussed next, the particular expectations and the resultant purchase likelihood set up by a product’s COO may systematically depend on, and be driven by, consumer perceptions of the COO’s warmth and competence.

### **2.2 National Stereotypes and Perceptions of Competence and Warmth**

National stereotypes are based on two primary dimensions related to perceptions of warmth and competence, which have also been shown to be used to judge individuals (e.g. Fiske et al. 1999, 2002; Judd et al. 2005) and firms (Aaker, Vohs and Mogilner 2010). For example, Cohen (1992) showed that Americans perceive Westerners to be more sophisticated in their tastes and preferences, but Asians to be technologically superior. Poppe and Linssen (1999) found that most stereotypes in six Central and Eastern European countries fall along two dimensions, competence and morality, and that most stereotyped groups fell into one of two categories; incompetent but moral, or competent but immoral. Two parallel dimensions had surfaced previously in a study concerning perceptions of countries and people by Heslop and Papadopoulos (1993), which they termed affect and belief.

Finally, the Stereotype Content Model (Fiske et al. 1999, 2002) also suggests that group stereotypes consist of two independent, orthogonal dimensions, called perceived competence and perceived warmth. The dimension of competence describes a group’s capability, and includes perceptions of its competence, capability, and efficiency. Conversely, the warmth dimension refers to a group’s positive or negative intent, and includes how friendly, good-natured, or warm it is perceived to be. Comparing the two dimensions in their potential to

differentiate groups, research has found that competence tends to have a greater effect on differentiation than does warmth (Fiske et al. 2002). Further, groups tend to score high on one dimension or on the other, but usually not high on both or low on both. That is, mixed stereotypes often exist, whereby a group may be perceived to be warm but disrespected as incompetent or to be respected as competent but lacking warmth (Cuddy 2008; Cuddy, Fiske and Glick 2004; Fiske et al. 1999, 2002).

Although research in psychology and marketing has begun investigating the influence of differences in perceptions of individuals' and firms' competence and warmth (e.g. Aaker et al. 2010; Lee and Fiske 2006; Lin et al. 2005), the current research is the first to simultaneously examine the impact of national stereotype contents on consumer expectations and purchase likelihood for the utilitarian or hedonic nature of products. While there is some support for the role of competence in COO effects (e.g. Heslop et al. 2004), empirical evidence for the impact of perceived warmth is limited (Chattalas, Kramer and Takada 2008). In general, perceived competence is likely to have a greater effect than perceived warmth on consumer attitudes, given that high quality expectations may more directly be the result of high competence than high warmth. Yet, perceptions of warmth may play an important role when marketing hedonic, pleasurable products. Thus, as hypothesized next, the competence and warmth dimensions are likely to influence consumer expectations and the purchase likelihood; in particular, expectations regarding products' utilitarian versus hedonic properties.

### **2.3 Perceptions of Competence and Warmth and Consumer Expectations**

Products are often classified based on their predominant hedonic versus utilitarian properties (Park, Jaworski and MacInnis 1986). Although products can be high on both dimensions, relatively more utilitarian products satisfy practical or functional needs, while relatively more hedonic products satisfy sensory or symbolic needs (Dhar and Wertenbroch 2000; Voss, Spangenberg and Grohmann 2003). Further, perceptions of products' hedonic versus utilitarian properties have been shown to be affected by COO effects (Leclerc et al. 1994). Honing in more narrowly on a potential driver of these effects, we propose that perceptions of warmth and competence will influence whether consumers expect a particular product to be predominantly hedonic or utilitarian in nature. In particular, products rated high in hedonic characteristics are closer to consumers' affective experience than products rated high in utilitarian characteristics (Mano and Oliver 1993). Further, affective responses are more likely to have an effect on product evaluations that are based on hedonic, as compared to utilitarian, criteria (Yeung and Wyer 2004).

Given that the perceived warmth dimension relates to people's social and affective traits, whereas the perceived competence dimension is related to their intellectual and functional traits, we propose that higher perceived warmth leads to greater expectations of hedonic product properties. Conversely, we argue that perceptions of competence are more closely aligned with functionality or practicality, such that higher perceived competence will lead to greater expectations of utilitarian properties of products. On the other hand, there should be no relationship between perceived warmth and expected utilitarian characteristics, or between perceptions of competence and expectations of hedonic properties.

In summary, if national stereotypes set up expectations about product properties, then the particular content of the stereotype should impact the properties consumers expect these products to have. In particular, products marketed by those perceived to be high in warmth should be expected to be relatively more hedonic, while products marketed by those high in perceived competence should be expected to be relatively more utilitarian:



**H1a:** Higher warmth perceptions will result in relatively greater expectations of hedonic product characteristics.

**H1b:** Higher competence perceptions will result in relatively greater expectations of utilitarian product characteristics.

Furthermore, if COOs differ in perceptions of their people's warmth versus competence, then products from countries with people who are perceived to be high in warmth should be expected to be relatively more hedonic. Conversely, consumers should expect products from countries with people perceived to be high in competence to be relatively more utilitarian. That is, differential levels of perceived warmth and competence should drive differences in hedonic versus utilitarian expectations for products from different countries of origin:

**H2a:** Perceived warmth mediates the effect of country of origin on hedonic product expectations.

**H2b:** Perceived competence mediates the effect of country of origin on utilitarian product expectations.

### 3. Research Study 1

The objectives of the first study were two-fold. First, investigate if a country's perceived warmth and competence influence hedonic versus utilitarian product expectations (hypotheses 1a and 1b) of a bicycle. Next, test for the mediational roles of perceived warmth and competence in the relationship between the bicycle's country of origin and its expected hedonic and utilitarian characteristics (hypotheses 2a and 2b).

#### 3.1 Method

*Participants and Procedure.* One hundred and thirty-six undergraduate students (juniors and seniors, average age = 24 years, 52% female; age and gender did not differ across conditions) from a multicultural U.S. university on the East Coast participated in a study on consumer attitudes for class credit. Participants were asked to review an advertisement for a bicycle made either in Germany or in Italy, and then complete a questionnaire. The study thus employed one factor that was manipulated (country of origin) and a second factor that was measured (national stereotype contents of perceived competence and warmth).

The German (Italian) ad copy framed the color picture of an individual riding his bike, and read, "It's a faster commute on your German (Italian) bike! Featuring superior gear selection and brakes." We featured relatively more utilitarian attributes in the ad to prevent a ceiling effect because of the predominant use of bicycles for pleasure among our respondents. Further, focusing on the utilitarian attributes in the ad makes our proposed findings on expectations of hedonic characteristics more conservative. In addition to the text, a picture of the German (Italian) flag helped reinforce the bicycle's country of origin. The tagline at the bottom of the ad read, "Sponsored by the German (Italian) Bicycle Association," and listed either a German ([www.gab.de](http://www.gab.de)) or an Italian ([www.iab.it](http://www.iab.it)) Internet address.

After reading the ad, subjects indicated how utilitarian (where 1 = not utilitarian and 7 = utilitarian) and how hedonic (where 1 = not hedonic and 7 = hedonic) they expected the bicycle to be; items were counterbalanced across subjects. Before marking their rating, they were given the following definitions of utilitarian and hedonic products: "Utilitarian products are mainly motivated by goal-oriented consumption," and "Hedonic products are mainly motivated by pleasure-oriented consumption." Next, we assessed perceptions of warmth and competence of Germans (Italians) using items from Fiske et al. (2002). In particular, respondents indicated how warm, friendly, and good-natured (warmth dimension;  $\alpha = .84$ ) and how competent, capable, and efficient (competence dimension,  $\alpha = .88$ ) they perceived Germans (Italians) to be, where 1 =

not much and 7 = a lot. Items assessing perceived warmth and competence were counterbalanced between subjects.

### 3.2 Results

The bicycle was judged to be marginally more hedonic than utilitarian overall ( $M = 4.49$  vs.  $4.09$ , respectively;  $t = -1.93$ ,  $p < .06$ ). Furthermore, respondents perceived Germans to be significantly more competent than Italians [ $M = 5.23$  vs.  $4.57$ , respectively;  $F(1, 134) = 9.96$ ,  $p < .01$ ]. Conversely, Italians were perceived to be warmer than Germans [ $M = 5.36$  vs.  $4.42$ , respectively;  $F(1, 134) = 22.75$ ,  $p < .001$ ]. Consistent with findings by Fiske et al. (2002), the perceived warmth and competence dimensions were not correlated ( $r = -.03$ ,  $p > .10$ ).

*Effect of stereotype content on product expectations.* In support of hypothesis 1a, a regression analysis showed that perceived warmth had a significant positive effect on hedonic product expectations ( $B = .333$ ,  $t = 3.01$ ,  $p < .01$ ). However, as we predicted, the effect of perceived warmth on utilitarian product expectations was not significant ( $B = -.08$ ,  $t = -.68$ ,  $p > .10$ ). Furthermore, perceived competence had a significant positive effect on how utilitarian respondents expected the bicycle to be ( $B = .383$ ,  $t = 3.60$ ,  $p < .001$ ), supporting hypothesis 1b. On the other hand, perceived competence did not impact hedonic product expectations ( $B = -.055$ ,  $t = -.49$ ,  $p > .10$ ).

*Mediating role of stereotype content.* We first tested if perceived warmth mediated the relationship between country of origin and expectations of hedonic characteristics of the bicycle, using a mediation analysis technique suggested by Baron and Kenny (1986). According to Baron and Kenny, mediation is demonstrated when (1) the independent variable has a significant effect on the dependent variable; (2) the independent variable has a significant effect on the hypothesized mediator of the relationship between the dependent and independent variables; and (3) the effect of the independent variable on the dependent variable is reduced to non-significance (or significantly reduced in magnitude) in a regression containing the independent variable and hypothesized mediator, with the mediator remaining significant.

The first of Baron and Kenny's (1986) criteria was satisfied by analyses showing that country of origin was a significant predictor of expected hedonic characteristics of the bicycle ( $B = -.559$ ,  $t = -2.02$ ,  $p < .05$ ). Country of origin also had a significant effect on perceived warmth ( $B = -.936$ ,  $t = -4.77$ ,  $p < .001$ ), satisfying the second criterion. As discussed, perceived warmth had a significant effect on hedonic expectations of the bicycle ( $B = .333$ ,  $t = 3.01$ ,  $p < .01$ ). Lastly, when both country of origin and perceived warmth were included in the regression, perceived warmth remained a significant predictor ( $B = .288$ ,  $t = 2.41$ ,  $p < .05$ ), while country of origin became insignificant ( $B = -.289$ ,  $t = -.99$ ,  $p > .10$ ), satisfying the third of Baron and Kenny's criteria. We confirmed this finding with a Sobel test ( $Z = 2.14$ ,  $p < .05$ ). Taken together, these results provide evidence for complete mediation and hence support hypothesis 2a.

We next examined if perceived competence mediated the relationship between country of origin and how utilitarian respondents expected the bicycle to be. Country of origin was a significant predictor of expected utilitarian characteristics ( $B = .559$ ,  $t = 2.02$ ,  $p < .05$ ) and perceived competence ( $B = .662$ ,  $t = 3.16$ ,  $p < .01$ ). As discussed, perceived competence had a significant effect on expected utilitarianism of the bicycle ( $B = .383$ ,  $t = 3.60$ ,  $p < .001$ ). Lastly, when both country of origin and perceived competence were included in the regression, perceived competence remained a significant predictor ( $B = .349$ ,  $t = 3.17$ ,  $p < .01$ ), while country of origin became insignificant ( $B = .328$ ,  $t = 1.18$ ,  $p > .10$ ), supporting hypothesis 2b. We again confirmed these results with a Sobel test ( $Z = 2.22$ ,  $p < .05$ ).

### 3.3 Discussion and Further Conceptual Development

The first study confirmed hypotheses 1 and 2, such that a bicycle made in a country whose people were perceived to be relatively higher in warmth (competence) would be expected to be relatively more hedonic (utilitarian). Importantly, regression analyses demonstrated that the country of origin impacted perceived warmth of Italians, which in turn affected how hedonic our respondents expected a bicycle made in Italy to be. Conversely, we found that greater perceived competence of Germans was driving the effect of country-of-origin on how utilitarian a bicycle made in Germany would be. We were thus able to extend the literature on country-of-origin by demonstrating differences in consumer perceptions of national stereotypes as an underlying driver of the effect.

Given that we have found evidence that national stereotypes related to warmth and competence perceptions influence hedonic and utilitarian product expectations, we next turn to the important question of the downstream consequences of this relationship for consumer behavior. Specifically, there is ample evidence that extrinsic cues, such as a product's price (e.g. Huber and McCann 1982), warranty period (Srivastava and Mitra 1998), or country of origin (e.g. Teas and Agarwal 2000), can set up expectations for product characteristics, which are then used for product evaluations. That is, consumers are likely to respond positively if actual product attributes or characteristics match or exceed those expectations. We propose here that national stereotypes may serve as cues that will influence how consumers respond to hedonic or utilitarian products marketed by predominantly warm versus competent nations.

However, although consumers generally should respond more favorably to (e.g. be more likely to purchase) products with characteristics that match their national stereotype-based expectations, the impact of perceived warmth and competence on purchase likelihood might not be symmetric. Specifically, as we discussed, there is evidence that competence, as compared to warmth, more strongly differentiates between groups (Fiske et al. 2002). Further, we expect that for making high quality products, qualities such as capability and competence are likely to be important regardless of their particular hedonic or utilitarian characteristics. Indeed, research has found that competence can serve as a signal for high-quality offerings (e.g. Aaker et al. 2010; Goldsmith, Lafferty and Newell 2000). Conversely, findings in the literature suggest that the impact of warmth on likelihood of purchase might be more limited. For example, Grandey et al. (2005) show that warmth mattered in customer satisfaction ratings only to the extent that the service provider was also perceived as competent.

Nevertheless, warmth might have downstream influences on consumer behavior in those contexts in which warmth is more central (Aaker et al. 2010; Fiske et al. 2002), and we propose that the marketing of hedonic products is one such a context. That is, given that we expect that consumers infer the marketing of hedonic products to require warmth, their purchase likelihood of hedonic products should be greater with increasing perceptions of warmth. However, perceptions of warmth are unlikely to influence purchase likelihood of utilitarian products, given the mismatch between predominant national and product characteristics. It is therefore further hypothesized (and tested in Study 2) that:

**H3a:** Greater perceived warmth will result in greater purchase likelihood of hedonic, but not of utilitarian, products.

**H3b:** Greater perceived competence will result in greater purchase likelihood of utilitarian and hedonic products.

## 4. Research Study 2

The objective of the current study was to test if national stereotypes interacted with product characteristics in their impact on purchase likelihood. To control for any potential confounds associated with different countries used in the previous study, and to examine the influence of differences in warmth and competence perceptions for a particular given country, we kept the country of origin consistent across both hedonic and utilitarian conditions (i.e. South Korea).

### 4.1 Method

*Participants and Procedure.* One hundred and twenty-one undergraduate students (juniors and seniors, average age = 21 years, 55% female; age and gender did not differ across conditions) from a multicultural U.S. university on the East Coast participated in a study on consumer behavior for class credit. Subjects evaluated a South Korean pair of jeans that was positioned (i.e. framed) in an advertisement either as hedonic or utilitarian. The study used one factor that was manipulated (positioning of the jeans) and a second factor that was measured (national stereotype).

The study materials were similar to those used in the previous study except where noted below. In particular, the copy for the utilitarian ad condition framed the color picture of a pair of jeans, and read, "Jeans as durable as you! Introducing the new Seoul blue jean by *Daehan* that provides good air ventilation, doesn't fray over time, and is made from the strongest fabric." Conversely, the copy for the hedonic ad condition framed the color picture of a pair of jeans, and read, "Jeans as fashionable as you! Introducing the new Seoul blue jean by *Daehan* that feels soft against your skin, improves your body shape, and is always in style." The bottom of each ad showed a South Korean flag and the tagline "Made in South Korea" to reinforce the jeans' country of origin.

After reading the ad, respondents indicated their purchase likelihood of the jeans, where 1 = would definitely not consider buying it and 7 = would definitely consider buying it. Respondents then rated how warm, friendly, and good-natured (warmth dimension;  $\alpha = .86$ ) and how competent, capable, and efficient (competence dimension;  $\alpha = .86$ ) they perceived South Koreans to be, where 1 = not much and 7 = a lot. Items assessing perceived warmth and competence were again counterbalanced between subjects. Finally, to check that our framing manipulation of the jeans was successful, subjects indicated how utilitarian and hedonic they perceived the jeans to be on the same scales as in the previous study.

### 4.2 Results

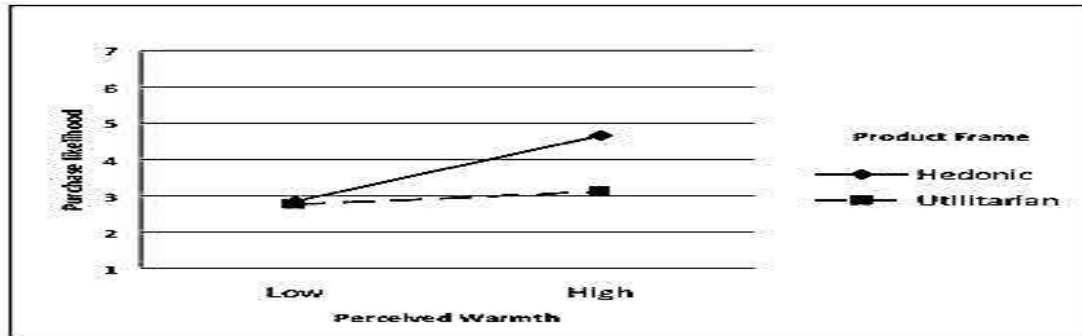
As expected, respondents perceived the jeans framed as hedonic (vs. utilitarian) to be more hedonic [ $M = 4.60$  vs.  $2.74$ , respectively;  $F(1, 119) = 42.72$ ,  $p < .001$ ], and the jeans framed as utilitarian (vs. hedonic) to be more utilitarian [ $M = 5.25$  vs.  $4.28$ , respectively;  $F(1, 119) = 11.52$ ,  $p < .001$ ]. The perceived warmth and competence dimensions were once again uncorrelated ( $r = .13$ ,  $p > .10$ ).

*Perceived warmth and purchase likelihood.* Following Aiken and West (1991), we first centered the level of perceived warmth and then conducted multiple regression analyses, predicting participants' purchase likelihood of the jeans from the centered level of perceived warmth, product frame (coded 0 for hedonic, 1 for utilitarian), and their two-way interaction. Analysis showed that the perceived warmth ( $B = .792$ ,  $t = 4.41$ ,  $p < .001$ ) and product frame ( $B = -.825$ ,  $t = -3.13$ ,  $p < .01$ ) had significant effects on purchase likelihood. That is, purchase likelihood increased with greater perceived warmth. Further, respondents were more likely to purchase the jeans when they were positioned as hedonic, as compared to utilitarian, which is not surprising



given the product category. Importantly, in support of our hypothesis and as shown in Figure 1, the level of perceived warmth X product frame interaction on purchase likelihood of the jeans was also significant ( $B = -.640, t = -2.72, p < .01$ ).

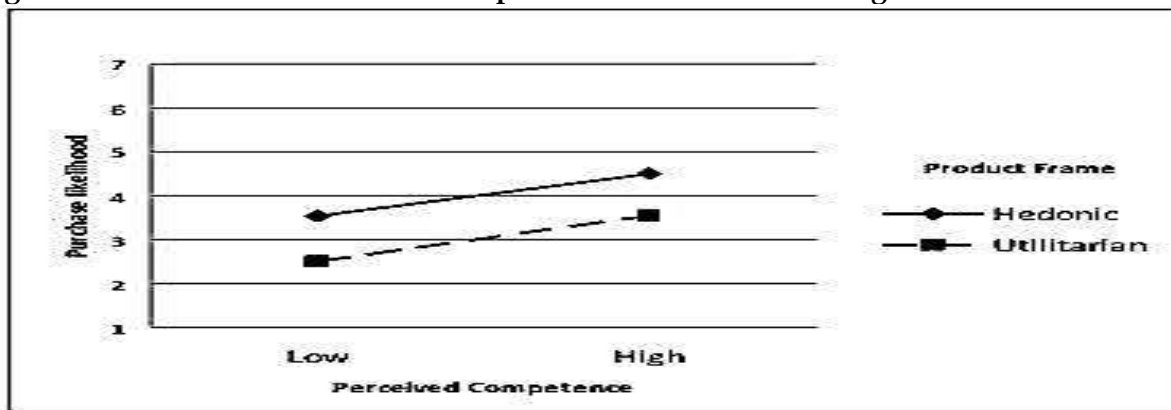
**Figure 1: The Effects of Perceived Warmth and Product Framing on Purchase Likelihood**



Next, we compared whether there were significant differences in purchase likelihood of the jeans between the hedonic and utilitarian product frame conditions at both low and high levels of perceived warmth using spotlight analysis at plus and minus one standard deviation from the mean of participants' experiential processing scores (Aiken and West 1991; Fitzsimons 2008). The planned contrast for high perceived warmth showed that purchase likelihood of the jeans was greater when they were framed as hedonic, as compared to utilitarian ( $B = -1.563, t = -4.15, p < .001$ ). On the other hand, framing of the jeans did not impact purchase likelihood for respondents who perceived South Koreans to be low in warmth ( $B = -.088, t = -.23, p > .10$ ). Furthermore, greater levels of perceived warmth resulted in a greater purchase likelihood of the jeans framed as hedonic ( $B = .792, t = 4.59, p < .001$ ) but had no effect on purchase likelihood of the utilitarian jeans ( $B = .153, t = .97, p > .10$ ).

*Perceived competence and purchase likelihood.* We again first centered the levels of perceived competence (Aiken and West 1991) and then conducted multiple regression analyses, predicting participants' purchase likelihood of the jeans from the centered level of perceived competence, product frame (coded 0 for hedonic, 1 for utilitarian), and their two-way interaction. Analysis showed that the perceived competence ( $B = .343, t = 2.22, p < .05$ ) and product frame ( $B = -1.005, t = -3.72, p < .001$ ) had significant effects on purchase likelihood. That is, purchase likelihood overall increased with greater perceived competence, and when the jeans were positioned as hedonic versus utilitarian. However, as shown in Figure 2 and confirming hypothesis 3b, the level of perceived competence X product frame interaction on purchase likelihood of the jeans was not significant ( $B = .023, t = .12, p > .10$ ).

We next compared the differences in purchase likelihood of the jeans between the hedonic and utilitarian product frame conditions at both low and high levels of perceived competence at plus and minus one standard deviation from the mean of participants' experiential processing scores (Aiken and West 1991; Fitzsimons 2008). Results showed that the purchase likelihood of the jeans was greater when they were framed as hedonic, compared to utilitarian, at both high ( $B = -.973, t = -2.29, p < .05$ ) and low ( $B = -1.037, t = -3.04, p < .01$ ) levels of perceived competence. Finally, greater levels of perceived competence resulted in a greater purchase likelihood of the jeans framed as hedonic ( $B = .343, t = 2.11, p < .05$ ) and of the jeans framed as utilitarian ( $B = .366, t = 3.30, p < .01$ ).

**Figure 2: The Effects of Perceived Competence and Product Framing on Purchase Likelihood**

### 4.3 Discussion

The current study demonstrated the asymmetric effect on purchase likelihood of framing or positioning the characteristics of a product to the producing nation's perceived warmth versus competence. We found that although greater perceived competence results in greater purchase likelihood regardless of whether the advertisement positioned the jeans to be relatively more hedonic or utilitarian, increases in perceived warmth were associated with greater purchase likelihood of the jeans only when the ad highlighted their hedonic characteristics. Thus, national stereotypes grounded in perceptions of warmth and competence can have clear consequences for consumer behavior, retail strategy, and marketers' bottom line. Specifically, as discussed below, this finding suggests that marketers in countries perceived relatively high in warmth may increase purchase likelihood of their products by positioning them as hedonic in nature.

### 5. Conclusions

This empirical research demonstrated that national stereotypes, that is, perceptions of the warmth and competence of a nation's people, significantly influence consumer expectations and purchase likelihood. Results of our first study found that higher warmth perceptions resulted in greater expectations of hedonic product properties, and that higher competence perceptions resulted in greater expectations of utilitarian properties of a bicycle. Further, we found support for the mediational roles of perceived warmth in the relationship between country of origin and hedonic product expectations on the one hand, as well as for the mediational role of perceived competence in the relationship between country of origin and utilitarian product expectations on the other. Importantly, a matching of a producing nation's perceived warmth to hedonic product characteristics increases consumers' likelihood of purchase.

#### 5.1 Research Implications

These findings extend current literature in several important ways. First, we demonstrate that differences in consumer expectations about the types of products offered by a nation are driven by differences in national stereotypes associated with its people. That is, we were able to show not just that a product's country of origin matters, but why this is the case. Additionally, although research has shown the importance of perceived competence in consumer decision-making (Aaker et al. 2010), we find that perceptions of warmth can also have significant effects in contexts in which warmth matters to consumers; namely, when making purchasing decisions for hedonic products.

Focusing on the perceived warmth versus competence dimensions of national stereotypes, our results might help also explain why certain product categories are more

strongly associated with particular countries. Coming back to our opening example of why consumers do not tend to associate hedonic products such as perfumes or fashion with Germany, it seems clear that one reason for this discrepancy is that national stereotypes of Germans (competent but not warm) mismatches what consumers may perceive to be necessary for the production of hedonic products. That is, for the manufacture of pleasurable and hedonic products nations need to be perceived as warm and friendly, while functional and practical products require perceptions of competence and skill. Our studies thus advance previous country-of-origin literature by delineating the mediating effect of specific national stereotype contents (warmth and competence) on the expected hedonic versus utilitarian nature of products associated with nations.

## 5.2 Managerial Implications

Empirical findings hold important implications for marketing managers concerning sourcing, branding, labeling, promotional and retail strategies, as well as for government and industry efforts to effectively brand, reposition, and market nations. Focusing on perceived warmth versus competence dimensions of national stereotypes, our findings help explain why certain product categories are more strongly associated (and more favorably evaluated) with particular countries. That is, for the manufacture of pleasurable and hedonic products nations need citizens that are perceived to be warm and friendly. Importantly, competent perceptions can favor both utilitarian and hedonic purchase likelihood.

In particular, firms from nations that are perceived as relatively high in warmth but low in competence (e.g. Greece, Italy, or Spain) may wish to emphasize hedonic, pleasurable attributes or benefits of their products. Furthermore, firms from these nations could source from countries whose national stereotype matches the desired positioning of their products (e.g. utilitarian Italian brands manufactured in “competent” nations). Companies may also strategically elect to communicate an origin nation entirely different from their own to overcome the mismatch between their perceived warmth and competence and product attributes generally associated with it by, for example, appropriating foreign-sounding brand names that aim to activate more favorable (if factually false) stereotype dimensions. For instance, we expect that difference in perceived competence would explain why consumers would be more likely to purchase a utilitarian, functional brand with a German-sounding name than an Italian-sounding one.

Next, as nations increasingly compete with each other to market their products and attract investors, they should project the appropriate fit between their perceived warmth and competence and the desirable levels of utilitarian and hedonic properties of their competitive offerings. Our findings suggest that nations should project an image as competent or warm, respectively, based on their type of products and target markets. Furthermore, our studies show that nations may benefit by promoting their citizens’ perceived warmth if they wish to project a higher level of heroiness. For example, Greece recently ran the “Explore Your Senses” television advertising campaign that portrayed “Greece” as a nation of warm and friendly people. On the other hand, nations should stress their competence if they want to be associated with a higher level of utilitarian features (i.e. France’s “The New France” business magazine advertising campaign that portrays “France” as a nation of competent and innovative people). However, any such repositioning should be done carefully and slowly so as not to confuse consumers with country images too inconsistent with prior perceptions or expectations (Ries and Trout 2001).

Adding a global business perspective, this paper explores how the universal stereotype dimensions of warmth and competence impact the perception of countries, their peoples,

products and nation-brands, and how these could be deliberately overcome (Chattalas and Takada, 2013; Cuddy et al. 2008).

### 5.3 Limitations and Directions for Future Research

In conclusion, consumers often rely on cues when making product judgments, and national stereotypes of perceived warmth and competence appear to have a robust influence on consumer expectations and on their purchase likelihood. Thus, the impact of stereotypes that marketers must be aware of, and possibly integrate into their marketing mixes, appears to range from a micro level, such as perceptions of warmth and competence of individuals or firms, to the more macro ones related to national stereotypes.

Although our experiments supported the hypothesized relationships between perceived warmth and competence stereotypes and consumer expectations for the types of products associated with the particular country, student samples were employed in our studies which focused on two product categories (bicycles and jeans) and three COOs (Germany, Italy and South Korea), limiting the generalizability of our findings. Further research is also necessary to delineate boundary conditions of the effect of warmth and competence perceptions consumer expectations, such as ethnocentrism (e.g. Shimp and Sharma 1987). Additionally, it would be interesting to further examine the dynamic nature of the relationship between perceived warmth and competence stereotypes and country-of-origin-based expectations over time. Specifically, the longitudinal transition of perceived warmth and competence stereotype contents from a "halo" to a "summary" construct should be investigated, given Han's (1989) position that consumers constantly summarize product-related information into their national stereotypes.

Another important avenue for future research is related to an investigation of the formation of warmth versus competence national stereotypes in the first place, as well as their relative strength in determining product perceptions. In particular, what social, cultural, or historical events determine stereotypes related to a nation's people, and how do they change over time? Further, what will be the effect on consumer expectations if both perceived warmth and competence are high or low? Relatedly, research is needed to investigate how and why perceived warmth and competence stereotypes change over time.

Future research should address how national stereotypes embedded in marketing, retailing, and/or advertising communication project a social psychology of neo-colonialism and cultural insensitivity, and what can nations do to deliberately overcome the confines of negative and positive stereotypes? What role does exposure to global social media or international travel play in overcoming the perceptual confines of stereotyping? And what about the case of countries whose national image is less well defined or of which we know very little? Analogous to the delineation of 'the other,' a social psychology of post-colonial globalization stereotypes nations as more competent ('developed' or 'emerged') versus warm ('developing' or 'emerging'). Ultimately, how do stereotypes of a nation held by global customers shape the national identity of its peoples (and vice-versa)?

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# Behavioural segmentation using store scanner data in retailing: Exploration and exploitation in frequently purchased consumer goods markets

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## Keywords

Consumer behavioural evolution, behavioural segmentation, promotion, exploration and exploitation, retailing, store scanner data.

## Abstract

*Consumers treat and react to promotions diversely in terms of their promotion proneness and variety seeking tendency. This paper investigates 589 consumers with 169678 transaction records in the US salt-snack market ranging from year 4 to year 7 in IRI Market Dataset for exploring how their purchase behaviours evolve in the consumer life cycle. A set of algorithms is presented to process store scanner data for measuring consumers' promotion proneness and variety seeking tendency, which are then used for conducting clustering analysis. Four types of purchase behaviours including "Promotion averse", "Bargain hunters", "Opportunistic explorers", and "Opportunistic exploiters" are identified and assigned accordingly for each consumer in each year. Even though consumers' purchase behaviours will dynamically and freely shift within or among those four behavioural segments over time, two clear behavioural evolution patterns can be identified statistically in the consumer life cycle. In the US salt-snack market, some consumers who are initially not sensitive to promotions will gradually evolve to take advantage of promotion to try alternatives for extending their market knowledge. Some explorers' promotion proneness will gradually increase and outweigh their variety seeking tendency over time, thus, those opportunistic explorers become inclined to buy any brands on promotion. In contrast, consumers who initially prefer to buy their familiar brands will become motivated to buy any brands, particularly the brands they are familiar with, on promotion. After a certain period of exploitation with promotions, their variety seeking tendency will gradually increase and slightly outweigh their promotion proneness, thus, those consumers will particularly keen to take advantage of promotion to explore the US salt-snack market over time. We discuss the implications of these findings in terms of managerial recommendations regarding promotion activities for retailers to increase the rate of response to promotions and offer suggestions for future research.*

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## 1. Introduction

According to solid research in marketing, consumers made more than 70% of their purchase decisions in store (Babej and Pollak, 2007). Messages delivered at point-of-purchase thus are expected to have the best chance to affect consumers' purchase behaviours and motivate consumers to behave as retailers desire (Babej and Pollak, 2007). In order to achieve marketing objectives through influencing consumer behaviours, retailers select and combine types of promotions including in-store advertisement, value increasing sales promotions, and value adding sales promotions. Even though in-store promotions were found to have positive effects on sales performances, the issue of low promotion response rates is always a serious problem confronted by retailers (Gilbert and Fackaria, 2002). Consumers have different views and reactions toward promotions. The promotion proneness, which is defined as the willingness a consumer would like to accept promotions, is essential to be considered when targeting consumers for providing sales promotions.



In a frequently purchased consumer goods market, consumers make many purchases during their life cycles. They select goods from hundreds of brands available in the product market. Consumers' brand selection behaviours are extrinsically influenced by their promotion proneness and intrinsically determined by their variety seeking tendency. Understanding the trade-off between exploration and exploitation in consumer decision making is regarded as an important and valuable issue in understanding consumers and predicting their variety seeking behaviours by many researchers (Audibert *et al.*, 2009; Erdem and Keane, 1996). We define the exploitation behaviour as maximizing the decision's utility according to what is known about the market (Gupta *et al.*, 2006). We define the exploration behaviour as taking advantage of opportunities to extend market knowledge (Gupta *et al.*, 2006). Segmenting consumers for offering tailored information and promotions enables retailers to capture the most selling opportunities with limited resources.

The purpose of this study is to develop a data mining model for segmenting consumers based on their promotion proneness and variety seeking tendency with the support of SAS Enterprise Miner and to find out how consumers' purchase behaviours evolve in their purchase life cycles. Even though promotion proneness and variety seeking behaviours are extensively explored in prior research (Heilman *et al.*, 2000; Teunter, 2002; Cheet *et al.*, 2013), it is necessary to collectively analyse those two research issues to uncover the interaction and the trade-off between promotion proneness and variety seeking tendency in brand selection over time from the perspectives of decision making.

In the next section, we review some theoretical literatures about brand selection behaviours for addressing how prior purchases can influence consumers' purchase exploration behaviours. We then detail our behavioural measurements and segmentation processes, and report and discuss our results about behavioural evolutions. Finally, we conclude with managerial implications, limitations, and plans for future research.

## 2. Literature Review

Variety seeking tendency can result in exploration behaviours without any promotional incentives (Teunter, 2002). On the one hand, consumers are extrinsically motivated to explore varieties among brands by promotions held in a product market. On the other hand, they are intrinsically motivated to try alternatives by their willingness to seek varieties for learning purposes (Teunter, 2002). Cheet *et al.* (2013) suggested that the reason for brand switching shifts from learning purposes to money savings in the consumer life cycle. From the perspectives of decision making, consumers make their purchase decisions for optimizing their material values from promotions and spiritual values from market knowledge. When new information about a product market is received from exploring among brands, consumers' uncertainty about the product market will be reduced. The reduction of uncertainty due to the increasing of market knowledge is defined as the value of information (Chen, 2004), which intrinsically motivates consumers to try alternatives. In information theory, the value of information is a function of probability. The value of information from exploration activities satisfies all properties about the value of information in information theory and thus can be measured by using entropy in information theory (Chen, 2004).

In retailing, the relationship between the information search for learning purpose and the category experience is an inverted U-shape (Heilman *et al.*, 2000). Information search for learning by exploring and trying alternatives reduces the uncertainties in purchases due to the increase of market knowledge, which thus can be quantified by using the value of information from purchases. In other words, if consumers want to learn then their motivation to seek variety

follows an inverted U-shape. The motivation of obtaining information from exploration varies with consumers' knowledge in a product market due in part to consumers' ability to distinguish between brands (Heilman *et al.*, 2000).

Inexperienced consumers with limited knowledge about a product market have little incentive to obtain market information through exploring because they cannot really distinguish between brands in the product market (Heilman *et al.*, 2000). Consumers' motivation for exploration will gradually increase since they will sample brands to pursue and acquire knowledge about alternatives and gain experiences in the product market (Erdem and Keane, 1996; Heilman *et al.*, 2000). When consumers first enter a product market, they are inclined to buy big and famous brands that they are familiar with, in the product market (Heilman *et al.*, 2000). As experiences are gained from trying and repeatedly purchase big brands over a period of time, consumers will expand their exploration range and try small and unfamous brands in the product market (Heilman *et al.*, 2000). Market knowledge acquired from brands sampling enables consumers to be able to differentiate brands in the product market (Heilman *et al.*, 2000). Until consumers gained sufficient experiences and knowledge in a product category from their exploration and exploitation activities, they will become loyal to their preferred brands (Lodorfose *et al.*, 2006; Heilman *et al.*, 2000). The motivation for exploring will then gradually decrease to 0 as consumers are relatively certain about brands in the product market and extra information is no longer perceived to be as valuable as previously (Heilman *et al.*, 2000).

In this research, we adapted Chen's (2004) measurement of information value in financial market to apply in a frequently purchased consumer goods market for measuring consumers' value of information from purchases. Following the literature review, we describe an approach for measuring promotion proneness and variety seeking tendency and an approach for segmenting consumers in US salt-snack market based on their purchase behaviours in the method section.

### **3. Method**

#### **3.1 Dataset for analysis**

The IRI marketing dataset was used for analysis in this study. The panel dataset and store dataset in salt-snack market ranging from year 4-7 were combined for processing. For the measurement of promotion proneness and variety seeking tendency, the sufficient transaction records are required for each consumer. In this study, 595 consumers, who had at least 34 purchase records in each of year 4-7, were selected. While, among the selected 595 consumers, 6 consumers were rejected since more than 10% of their salt-snack purchases are associated with missing brand promotion information. In the final dataset, 589 consumers associated with 169678 purchase records were selected for further analysis. The number of selected consumers accounts for around 19% of consumers who have purchase records in the consecutively four years. Consumers' variety seeking reactions to promotions were measured by their expected utility for taking advantage of promotion to explore in a product market in terms of promotion proneness and variety seeking tendency. The following sub-section explains the measurements of promotion proneness and variety seeking tendency.

#### **3.2 Behavioural measurements**

##### **3.2.1 Promotion proneness – prevalence of promotion**

In IRI dataset, the information of advertising, point of display, and price reduction are available for each product in each retail store. In this study, the data about those promotion approaches in salt-snack market from year 4-7 were used for measuring consumers' promotion proneness. In each retail store, at least one brand is promoted with at least a promotion

approach every week. Therefore, consumers have opportunities to buy promoted salt-snacks in all their purchases. This means that when we calculate the prevalence of promotion, which is defined as the number of purchases of promoted products relative to the total number of purchases, we are also measuring how prone consumers are to make use of promotions. The prevalence of promotion is calculated by using formula 1 as:

$$\text{Prevalence of promotion} = \frac{\text{The total number of purchases on promotion in a period}}{\text{The total number of purchases in the period}} \quad (1)$$

Formula 1: Prevalence of promotion

The higher the prevalence of promotion is, the more responsive to promotions the consumer is expected to be, and the higher the probability the consumer's purchase behaviours able to be altered in accordance with retailers' expectations by using tailored promotions.

### 3.2.2 Variety seeking tendency - value of information from purchases

In this study, consumers' value of information from purchases, which measures the informational value of purchases made within a given period, was measured by using the adapted Chen's (2004) generalized entropy to deal with the transaction data. This behavioural measure reflect consumers' variety seeking tendency for learning purpose.

Adapting Chen's (2004) measurement of information value in financial market to apply in a market in which products are consumed fast, we generalize the  $I(M)_p$  to represent consumers' knowledge about the product market in their purchase life cycle. In this study, we assume that consumers can only obtain market knowledge from trying alternatives (i.e. exploring among brands in the product market is the only way for obtaining market knowledge). The information about a brand collected from trying that brand is unique and independent with the information about the other brand collected from trying the brand. The information value of trying two brands is higher than the information value of trying either of those brands and equals to the sum of the information value of trying each of those brands. The market information collected from trying alternatives makes consumers to understand the product market well and contributes to the reduction of risks in purchasing. The information value of trying alternatives is always positive. When consumers first enter a product market, their knowledge about the product market is zero. Their market knowledge will increase to 1 when they have experiences with all N brands in the product market. For each exploration activity in their purchase life cycle, their market knowledge will increase by  $\frac{1}{N}$ .

$I(M)_p$  Is quantified as the percentage of brands in a product market that have been tried by a consumer in his/her purchase life cycle. In this study, we assume that the selected consumers first entered the salt-snack market in year 4. Their purchase life cycle thus starts from year 4. For measuring consumers' market knowledge, all transaction data ranging from year 4 to their most current purchase are processed. The knowledge about a product market was measured by using formula 2:

$$\text{Knowledge about a product market} \left( I(M)_p \right) = \frac{\text{The number of brands tried by a consumer in his / her purchase life cycle}}{\text{The total number of brands available in the product market in the consumer's purchase life cycle}} = \frac{n}{N} \quad (2)$$

Formula 2: Knowledge about a product market

According to Chen (2004), the unit value of information of trying brands in the product market is  $-\log_2(I(M)_p)$ . The formula for calculating the associated unit value of information is:

$$\text{Unit value of information} = -\log_2(I(M)_p) = -\log_2\left(\frac{n}{N}\right) \quad (3)$$

Formula 3: Unit value of information

When  $I(M)_p = 1$ ,  $-\log_2(I(M)_p) = 0$ . The unit value of information for trying alternatives in a product market is zero when consumers already have full knowledge about the product market. When consumers certain about a product market, the extra information about the product market have no value for them and they will not be expected to do exploration activities to further extending their market knowledge.  $I(M)_p$  Varies between 0 and 1. Theoretically, the more the  $I(M)_p$  approaches to 1, the less valuable the information is. When  $I(M)_p$  approaches to zero,  $-\log_2(I(M)_p)$  approaches infinity. In that case, the unit value of information obtained from trying alternatives is very high and consumers are expected to do information search by trying alternatives. However, in practice, since new consumers are not able to differentiate brands in the product market due to the lack of market knowledge, they are normally insensitive to the brands in the market and will not try alternatives in the product market. Consumers' variety seeking for learning purpose is determined by their knowledge about a product market (Heilmanet *al.*, 2000). When consumers do not have any knowledge about the product market, their value of information will be zero even though their unit value of information will approach to infinity. With the increase of market knowledge, the capability of differentiation among brands increases, thus, the value of information will increase accordingly. With sufficient knowledge was obtained, extra information about the product market will no longer be as valuable as before, thus, the value of information will gradually decrease until approach to zero when all brands in the product market are tried by a consumer. The consumers with none value of information are expected to stick with their preferred brands in their purchases later on. In general, the value of information from information search for learning purposes in purchases presents an inverted U-shape with the increase of product market knowledge, which is consistent with and can be explained by the motivation of variety seeking in dynamic choice process proposed by Heilmanet *al.* (2000).

In this study, we measure the value of information from exploration activities by using the quantified consumers' knowledge about a product market to multiply the associated unit value of information. Formula 4 shows the calculation of the value of information from purchases:

$$\begin{aligned} \text{Value of information from purchases} &= \\ \text{Knowledge about a product market} \times \text{The unit value of information} &= \\ (I(M)_p) \times (-\log_2(I(M)_p)) &= \frac{n}{N} \times \left(-\log_2\left(\frac{n}{N}\right)\right) \quad (4) \end{aligned}$$

Formula 4: Value of information from purchases

### 3.3 Customer segmentation - clustering analysis

Since the prevalence of promotions can represent and reflect consumers' reactions to all approaches of promotions, in order to simplify the clustering model and minimize the error in



clustering analysis resulted from the significant correlation between variables for clustering, the prevalence of promotions was selected and used for clustering analysis in customer segmentation. Consumers who have high values in prevalence of promotion are sensitive to promotions; on the contrary, they will be featured as insensitive to promotions. In terms of variety seeking, consumers who have high values of information are explorers; on the contrary, they will be regarded as exploiters. Since variety seeking and promotion proneness are not significantly related to each other theoretically and statistically (0.021, *sig.* =0.618), four segments are theoretically expected to be identified in clustering analysis based on consumers' characteristics in both of the variables.

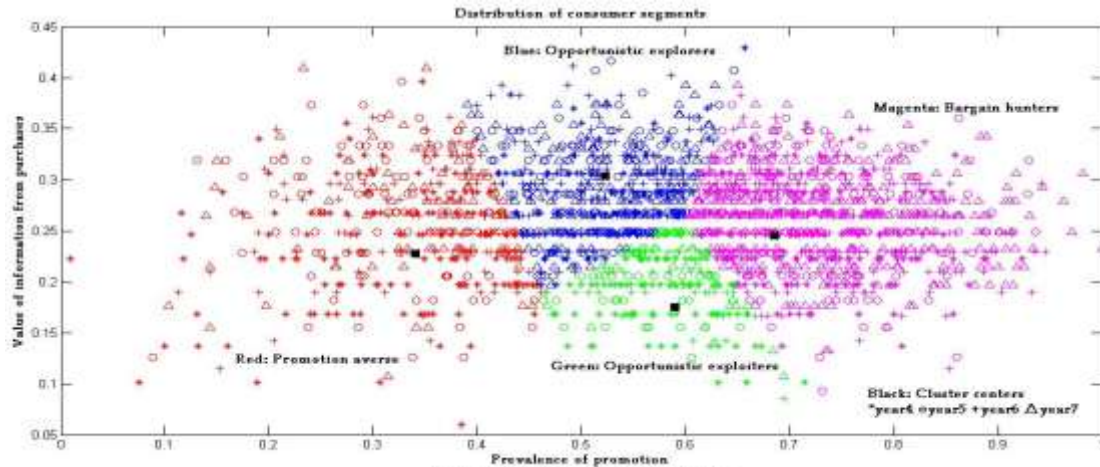
The prevalence of promotion and the value of information from purchases in year 4 were selected as inputs for clustering analysis with the support of SAS Enterprise Miner. In enterprise miner, PROC FASTCLUS, which is designed to find good clusters (but not necessarily the best possible clusters) with only few passes over the dataset, was used to perform clustering (Cerrito, 2005; SAS Institute Inc., 1999). Since the distributions of two inputs are close to normal distributions, they are directly used to conduct clustering analysis without transforming. Before clustering, both input variables were standardized ensure all inputs have similar measurement scales. We limited the maximum number of clusters to four, and set the software to identify the initial clusters without iterating using full replacement algorithm. We expected the clusters to be clumped together, rather than well separated, in which case full replacement is the preferred method (Collica, 2011). The cluster boundaries are relatively stable, which makes the vast majority of consumers were assigned to the same clusters regardless of the selection of cluster centers generated with or without iterations. Since segmenting consumers based on the cluster centers generated without iteration produced the results as we expected based on the prior theories, those cluster centers are selected for follow up clustering. Consumers were then assigned to a cluster for each of years 4-7 on the basis of the nearest cluster center.

## 4. Results and Discussion

### 4.1 Segment profiling

The distribution of consumer segments for each of years 4-7 is showed in Figure 1, in which the behavioural segments are distinguished by using different colours. In Figure 1, horizontal axis represents consumers' prevalence of promotion in their purchases in a particular year; vertical axis represents consumers' value of information for the purchases they made in their purchase life cycles. Consumers in different segments exhibited marked differences in their promotion proneness and variety seeking tendency. Consumers in the "Red" segment are not prone to make use of promotions in US salt-snack market since they have the lowest number of purchases of promoted products relative to the total number of their purchases. In other words, with the same level of variety seeking tendency, those consumers have the lowest probability to respond to promotions since the provision of promotion may result in negative brand image of the promoted brands/products for them. They basically do not want to buy promoted salt-snacks (particularly true for the brands they are not familiar with). We named the consumers in this segment as "Promotion averse" on the basis of their behavioural characteristics.

On the contrary, consumers in the "Magenta" segment have the highest value in promotion prevalence and are prone to take advantage of promotions to maximize their material benefits in purchases. With the same level of variety seeking tendency, those consumers have the highest probability to buy the promoted salt-snacks in US market. We named the consumers in this segment as "Bargain hunters" as they tend to go shopping for bargains.



Consumers in “Blue” and “Green” segments have medium level of promotion proneness. They are differentiated from promotion averse and bargain hunters in promotion proneness. For distinguishing the consumers in “Blue” segment from consumers in “Green” segment, consumers’ variety seeking tendency plays a critical role even though consumers in “Green” segment are slightly more sensitive to promotions than consumers in “Blue” segment. Consumers in “Blue” segment have higher variety seeking tendency than the consumers in “Green” segment. We named the consumers in “Blue” segment as ‘Opportunistic explorers’ and consumers in “Green” segment as “Opportunistic exploiters”. Opportunistic explorers are prone to take advantage of promotion to explore in the product market for extending their market knowledge. With the same level of promotion proneness, opportunistic explorers have the highest value of information from purchases and thus are highly motivated to try alternatives for information search in the salt-snack market.

On the contrary, opportunistic exploiters have low value of information and are prone to take advantage of promotion to repeatedly buy their preferred brands. With the same level of promotion proneness, opportunistic exploiters have the lowest value of information from purchases and thus are not motivated to explore in the salt-snack market. The characteristics of consumers in each behavioural segment are summarized and presented in Table 1:

Segment	Promotion proneness	Variety seeking tendency	Typical behaviours and associated purposes
Promotion averse	Low	Varies	Purchasing brands without promotions
Bargain hunters	High	Varies	Shopping for bargains to maximizing material benefits
Opportunistic explorers	Medium	High	Trying alternatives to extending market knowledge
Opportunistic exploiters	Medium	Low	Repeatedly buy preferred brands to avoid risks from trying alternatives

Table 1: Behavioural segments

## 4.2 Behavioural evolvment

Comparing the assigned segments of each consumer from one year to the year after, behavioural evolvment among four segments is identified. Figure2 shows the evolvment of consumer behaviours from year 4 to year 5. The behavioural evolvment from year 5 to year 6, and from year 6 to year 7, are similar to the evolvment showed in Figure 2 (i.e. only some of the associated percentage of change slightly differs).

As can be seen in Figure 2, around 56%  $((87+71+19+153)/589)$  of the consumers are assigned to the same segment in both of year 4 and year 5, which indicates that those consumers showed similar purchase behaviours in year 5 as in year 4. The assigned segments of the rest of the consumers in year 5 are different from those in year 4, which implies that the purchase behaviours of the rest of the consumers evolve over time from year 4 to year 5 in terms of promotion proneness and variety seeking tendency. Even though consumers change their purchase behaviours freely in any directions, two typical behavioural evolution dynamics are identified, which is represented by the solid lines with different colours in Figure 2.

Opportunistic exploiters are the most dynamic consumers among those four behavioural segments. From year 4 to year 5, around 22% of opportunistic exploiters became opportunistic explorers, who extend their market knowledge by taking advantage of promotion to explore in the salt-snack market. Around 41% of opportunistic exploiters became bargain hunters, who are keen to take advantage of any promotion to maximize their material benefits in purchases. Unlike opportunistic exploiters, bargain hunters have the most stable purchase behaviours. Around 75% of bargain hunters consistently buy promoted salt-snacks in two consecutive years. In year 5, 249 consumers are bargain hunters, which consist of 61%  $(153/249)$  of consumers who are originally bargain hunters, 16%  $(41/249)$  of consumers who are originally opportunistic exploiters, 4%  $(11/249)$  of consumers who are originally promotion averse, and 18%  $(44/249)$  of consumers who are originally opportunistic explorers. As for the rest of 25% of bargain hunters who evolved to be the members in other segments in year 5, 60%  $(15/25)$  of them became opportunistic explorers. Even though around 60% of promotion averse is consistently insensitive to promotions, 25% of promotion averse evolved to be opportunistic explorers in year 5. In year 5, 161 consumers are opportunistic explorers, which consists of 44%  $(71/161)$  of consumers who are originally opportunistic explorers, 22%  $(36/161)$  of consumers who are originally promotion averse, 14%  $(22/161)$  of consumers who are originally opportunistic exploiters, and 20%  $(32/161)$  of consumers who are originally bargain hunters.

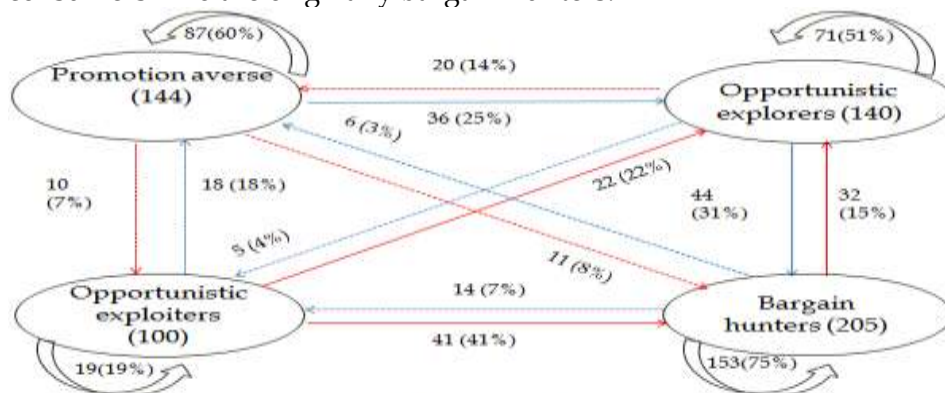


Figure 2: Behavioural evolution from year 4 to year 5

In general, the number of promotion averse decreases since many of them evolved to taking advantage of promotion to extend their market knowledge after they first enter the US salt-snack market. The behavioural evolution dynamics suggest that consumers are expected to become more and more sensitive to promotions over time in their purchase life cycles. Similarly, the number of opportunistic exploiters also decreases since many of them either directly transferred to be opportunistic explorers or indirectly evolved to be opportunistic explorers through bargain hunters. As the time evolves, the number of opportunistic explorers and the number of bargain hunters increase. Consumers dynamically transferred between those

two behavioural segments by making the trade-off between promotion proneness and variety seeking tendency.

In order to find out how and why consumers' behaviours evolve from one segment to the other segment over time, 9 consumers, whose behavioural evolution processes from year 4 to year 5 are presented in Figure 3, are selected. In Figure 3, each line represents a typical behavioural evolution type, which is presented by one of nine selected consumers.

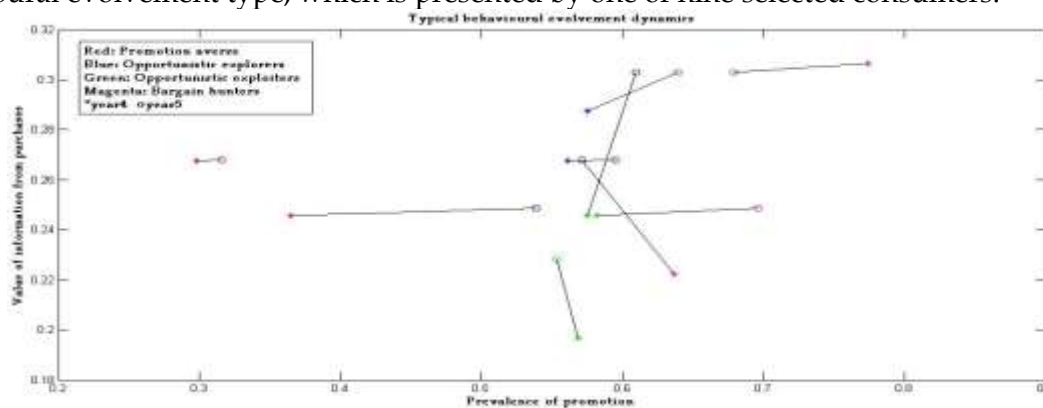


Figure 3: Typical behavioural evolution dynamics

When consumers first enter a salt-snack market, some of them tend to purchase big brands in the salt-snack market regardless of the promotions (Heilman *et al.*, 2000). The increase of promotion sensitivities and variety seeking tendency, which are resulted from trying big brands to extending market knowledge, make some of promotion averse became opportunistic explorers over time. Those consumers gradually inclined to take advantage of promotion to explore among the salt-snack market to extend their market knowledge in order to reduce risks from trying small brands. Since promotions of interesting brands are not always available, consumers' high variety seeking tendency motivate them to try alternatives even without any promotions. However, in the evolution process, consumers' variety seeking tendency is not necessarily to continuously increase. Some consumers, who originally have high variety seeking tendency and evolve from promotion averse to opportunistic explorers, took advantage of promotion to repeatedly buy their preferred brands for a certain period when their expected costs from trying alternatives exceed their expected benefits obtained from information search (Heilman *et al.*, 2000). Since those consumers still have high variety seeking tendency, they inclined to re-take advantage of promotion to try alternatives when their expected benefits from exploration exceed their expected costs.

Consumers differ from their exploration needs and learning rates. After a certain period of exploration, some consumers are able to differentiate brands in the product market and know which purchase decisions can most satisfy their needs (Heilman *et al.*, 2000). Around 31% of opportunistic explorers thus became more and more sensitive to promotions and prefer to buy any salt-snacks on promotion. Promotion proneness replaces variety seeking tendency as the critical criterion in determining their segmentation. In other words, they became bargain hunters.

The second typical behavioural evolution dynamic starts from the opportunistic exploiters. Consumers are regarded as opportunistic exploiters if they have low variety seeking tendency for learning purpose and incline to take advantage of promotion to repeatedly buy a subset of brands. When consumers first enter a product market, they cannot differentiate brands in the product market. Some of them inclined to take advantage of promotion to repeatedly buy big brands in the salt-snack market (Heilman *et al.*, 2000). On the contrary, consumers, who have sufficient market knowledge and a set of preferred brands in a product market, are also



regarded as opportunistic exploiters if they repeatedly buy and loyal to their preferred brands. However, in reactive environment, true brand loyal consumers are supposed to be very limited or even non-existent in salt-snack market. Even though 19% of consumers are consistently to be regarded as opportunistic exploiters in both year 4 and year 5, they also tried alternatives with or without promotions during the two consecutive years. The increase of variety seeking tendency resulted from occasionally trying new brands in the salt-snack market motivated opportunistic exploiters to further extend their market knowledge from exploration. They thus evolved to be opportunistic explorers directly or even indirectly through bargain hunters over time depending on their expected benefits and costs from exploration.

When the expected benefits for trying alternatives sufficiently exceed the expected costs, opportunistic exploiters inclined to explore in the salt-snack market even without taking advantage of promotion. Their variety seeking tendency rapidly increased, which makes them to directly evolve to be opportunistic explorers over time. While, when the expected costs from exploration exceed the expected benefits, opportunistic exploiters inclined to repeatedly buy a subset of their preferred brands on promotion. Only when the alternatives are on promotion, which reduces the risks from trying them, opportunistic exploiters are motivated to try the promoted alternatives since the expected costs are reduced by the provision of promotions. In other words, those opportunistic exploiters became bargain hunters. The variety seeking tendency of bargain hunters increases with the increase of market knowledge obtained from trying promoted alternatives. When variety seeking outweighs the promotion proneness in purchase decision making, bargain hunters inclined to try alternatives even without promotions when expected benefits of exploration exceed the expected costs. Thus, they became opportunistic explorers over time. While, if the expected costs of trying promoted alternatives exceed the expected benefits, bargain hunters inclined to repeatedly buy a subset of their preferred brands even without promotions for a certain period, which results in a decreased promotion proneness and variety seeking tendency if new brands are introduced to the product market. As for some of those bargain hunters with high variety seeking tendency, in this circumstances, they also became opportunistic explorers when their promotion proneness and variety seeking tendency are slightly decreased. Their exploration activities are resumed when their expected exploration benefits exceed their expected exploration costs.

## 5. Conclusions and recommendations

This study segments consumers into four segments as "Promotion averse", "Opportunistic explorers", "Opportunistic exploiters", and "Bargain hunters" in terms of their promotion proneness and variety seeking tendency. In order to increase response rate of promotions, providing the tailored promotions for consumers in each segment based on their purchase behaviours is necessary. Among those four behavioural segments, promotion averse is not the target of retailers for providing promotions. On the contrary, any promotions are suggested to be provided for the bargain hunters since they incline to take advantage of promotions to optimize their monetary value in purchases. Bargain hunters are the main target for retailers to satisfy marketing needs by using marketing interventions. Opportunistic explorers incline to extend their market knowledge from trying alternatives on promotion. Any promotions about the new brands/products are thus suggested to be provided to opportunistic explorers. The promotions of new brands/products are expected to be able to motivate them to explore among brands with less expected costs. However, since some opportunistic explorers may repeatedly purchase their favourite brands for ascertain period, the promotions of their preferred brands are also suggested to be provided. Similarly, the promotions of opportunistic exploiters' preferred brands are suggested to be provided to them since they prefer to stick with their

current best choices on promotion. Those promotions are expected to motivate them to buy their preferred brands/products with less cost and thus will increase the sales of the brands/products.

Even though the behavioural evolution dynamics are identified and the general probabilities of behavioural evolution from one segment to the other are suggested in this study, we still cannot precisely predict consumers' purchase behaviours in the future. In order to overcome this limitation, a predictive modelling will be developed for predicting consumers' purchase behaviours by using their associated promotion proneness and variety seeking tendency. The behavioural evolution dynamics and the predictive modeling in other product markets will also be explored to find out how generalize the identified behavioural evolution dynamics and the developed predictive modeling in salt-snack market are in future research.

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# The role of social capital on absorptive capacity and organizational innovation

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## Keywords

Social Capital (SC), Structural Dimension (SD), Relational Dimension (RD), Cognitive Dimension (CD), Absorptive Capacity (AC), Organizational Innovation (OI)

## Abstract

*This study aims to investigate the influences of social capital on three dimensions: the structural dimension, the relational dimension and the cognitive dimension in relation to absorptive capacity and organizational innovation. The data were collected by using a questionnaire from 119 leather product exporting firms. The results indicate that both the relational and cognitive dimensions have a significant positive impact on absorptive capacity. Absorptive capacity has a significant positive impact on organizational innovation. This study might be useful to scholars and those who share an interest in the subject. The current study can also be used as a guideline for future research projects. Potential discussion with the research results is effectively implemented in the study. Theoretical and managerial contributions are explicitly provided along with the directions for future research.*

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## 1. Introduction

A fundamental element of social capital claims that the larger community in which a business organization is embedded is a source of capital. The resources and information that the said firms can obtain value-creation processes, such as organizational innovation relies heavily upon the capital that arises from networks, social norms and trust in relation to the financial importance of human forms of capital. (Renko, Autio, and Tontti, 2002; Tsai, 2006). Previous studies have suggested that social networks are important channels for firms to access external knowledge. Through such networks, firms can obtain pertinent information and knowledge that helps them enhance their overall learning and innovation (Ahuja; 2000, Inkpen and Tsang, 2005). Although these are positive aspects, there are several limitations in current research that restrict further understanding of how social capital can improve knowledge absorptive capability and organizational innovation.

Firstly, there are few studies that consider the differences in social networks while studying the value of social capital for organizational innovation (Anand and Khanna, 2000; Landry, Amara, and Lamari, 2002). In fact, the composition of a firm's social network can influence the amount of resources and information said firm can obtain from the network (Phelps, 2010). Secondly, the majority of current research assumes that the relationship between social capital and knowledge absorptive capacity produce a positive effect on competitive advantages of companies (Lin and Chen, 2006; Steinfield et al., 2010). However, social network theory indicates that a relationship between social capital and organizational innovation is possible. Thirdly, some recent studies have found that the benefits of social capital are dependent on firm characteristics and contextual factors, which suggests that scholars must consider these factors when studying the value of social capital (Haeussler and Higgins, 2009; Sampson, 2007).

Therefore, this study aims to address the above limitation by examining how the composition of a firm's social capital affects the absorptive capacity and organizational

innovation. In addition, this investigation contributes to the literature and practice in several ways. The main purpose of this paper is to investigate the relationships amongst social capital, structural dimension, relational dimension, cognitive dimension, absorptive capacity, and organizational innovation. The key research question is how social capital, structural dimension, relational dimension and cognitive dimension are related to absorptive capacity and organizational innovation. Moreover, to highlight this relationship, two specific research questions are established as follows: (1) How social capital, structural dimension, relational dimension, and cognitive dimension are related to absorptive capacity; (2) How absorptive capacity is related to organizational innovation.

## **2. Literature Review**

### **2.1 Social Capital**

Individuals, organizations, inter-organizational arrangements and societies are an example of the different facets that social capital can be categorized into (Tsai and Ghoshal, 1998). The achievements of an organization are highly dependent on the existence of social capital. A more detailed definition would be that social capital is the particularity of social organization such as networks, shared norms, and trust that aid reciprocity and cooperation for mutual gains (Putnam, 2000). Furthermore, it is a permanent distinction from which future benefits are gained by continually investing in resources as and when they are needed (Adler and Kwon, 2002). In addition to this, it is a resource that is fixed within the social network of an organization or society that can be utilized by the appropriate user in order to enhance the success rate for specific actions (Lin, 2001). Cooke and Wills (1999) suggest that social capital is a communal property involving civic engagement, associational membership, high trust, and exchange in social networks or connections. Chua (2002) proposes that the most important role for the members of a social network in order to enhance overall knowledge sharing within an organization is interaction between the organization members by physical or electronic means such as meetings, teamwork, emails or online discussion forums to facilitate ease of access to knowledge amongst various members.

Several theories have been suggested to describe the effect of social capital on the outcome of knowledge creation and organization innovation with individuals and organizations (Burt, 1997; Inkpen and Tsang, 2005; Nahapiet and Ghoshal 1998), for example, the above authors posit that social capital facilitates the development of intellectual capital and contributes to the competitive advantage of an organization by providing the opportunity, anticipation, motivation, and capability of knowledge combination and exchange, which are the two primary processes of knowledge creation and innovation.

Research on social capital has suggested three dimensions: the structural dimension, the relational dimension, and the cognitive dimension (Nahapiet and Ghoshal, 1998).

### **2.2 Structural dimension of social capital and absorptive capacity**

The structural social capital of an individual is embedded in the individual's ego network, which comprises of the respective person themselves and their previously attained connections. The structural social capital of a group is based on both the complex ties between its intrinsic members, and its external ties with other extraneous groups (Xu, Chau, and Tan, 2014). Similarly, the structural dimension plays an important role in the formation and utilization of social capital (Widen-Wulff and Ginman, 2004). The structural dimension defines as the pattern of connections between the members of a network (Aslam et al., 2013). These relationships between the organization members by physical or electronic means such as meetings, teamwork, emails or online discussion forums facilitate the access to knowledge amongst various members.

As a result, as Chua (2002) suggests, certain important factors are improved, including overall knowledge-processing and knowledge creation.

According to several scholars, social context conditions are conducive to several knowledge activities. They encourage the development of communication (Verona, 1999), influence the creation of interpersonal relationships and improve a unit's capacity to acquire, assimilate, integrate knowledge, and administer this newly attained extraneous knowledge (Cohen and Levinthal, 1990). Furthermore, these activities improve the atmosphere of several social conditions (i.e., social interaction, trust, and agreed shared norms), thus having a positive effect on absorptive capacity (Kostopoulos, 2007). This, in turn has a positive effect on an organizations ability to reduce the potential confusing of knowledge that a firm obtains from external firms, as a result, improving knowledge sharing and knowledge administration internally (Jesen and Szulanski, 2007).

In this respect, the higher the internal and external network, the greater the chance an organization has concerning potential barriers to network members who are less knowledgeable than others. In addition, this can also help to improve the social interactions between absorptive capacities, which in turn can increase the chances of the positive exploration of organizational innovation. Zahra and George (2002) outline absorptive capacity as a set of organizational procedures by which firms acquire, administer, transform, and take advantage of knowledge to produce a complex organizational capacity (Zahra and George, 2002). Therefore, structural dimension is a fundamental source of absorptive capacity in the current time of knowledge economy (Daghfous, 2004; Projogo and Ahmed, 2006). The reasoning above leads to the following hypothesis:

**Hypothesis 1:** Structural dimension is positively related to the absorptive capacity.

### 2.3 Relational dimension of social capital and absorptive capacity

The relational dimension of social capital is concerned with trust, norms, and identification between individuals. Trust is an important facet for social exchange and cooperation, as a result, trust alone can be a fundamental factor which enables individuals to open up and share knowledge. It creates cooperation, which in turn creates trust (Nahapiet and Ghoshal, 1998). Norms are defined as knowledge sharing that is mutual and perceived by the parties in the same way, whilst being fair and beneficial at the same time (Chiu, et al., 2006). The way people perceive themselves as associated with a person or a group can affect the perception of the benefits of knowledge exchange with their peers or their respective group (Nahapiet and Ghoshal, 1998). Behavior can be directly affected by the relationships that the people within an organization have between each other, for example the respect and friendship two colleagues have will greatly influence their willingness to share knowledge with each other. The sociability of individuals (Nahapiet and Ghoshal, 1998) can determine the level of trust and identification between one another (Bolino, et al., 2002). Trust is based on social judgments, for example; assessment of the other party's actions in different situations or their competence with certain tasks, together with assessment of the pitfalls if the other party turns out to be untrustworthy (Rousseau, Sitkin, Burt, and Camerer, 1998). Trust plays a key role in the willingness of a network to share knowledge. A lack of trust could have a negative effect on the firm's previously attained bonds as a result of competitive confusion within the group (Powell and Smith Koput Doerr, 1996).

Interestingly, an atmosphere of trust would rather contribute to the free exchange of knowledge absorptive capacity between committed members (Blau, 1964; Jarillo, 1988). Chow and Chan (2008) would also suggest that the level of trust can grow exponentially as result of



continual social interaction. Trust and norms are important sources of social capital in the long term when concerned with the network of relationships (Adler and Kwon, 2002). Among the key aspects of this dimension are trust and trustworthiness (Fukuyama, 1995; Putnam, 1993), norms and sanctions (Coleman, 1990; Putnam, 1995), obligations and expectations (Burt, 1992; Coleman, 1990; Granovetter, 1985; Mauss, 1954) and identity and identification (Hakansson and Snehota, 1995; Merton, 1968). Members of an organization should seek to signify their trustworthiness through the way they act within their respected group. For industrial districts, interpersonal trust shows a critical role, meanwhile, as mentioned earlier; individual social capital plays a key role in the development of organizational social capital. Social interaction improves the quality of knowledge created in an organization. In addition to this, knowledge sharing process is likely to be improved when members of a network know each other well, and have some form of social interaction both inside and outside of the workplace (Bolino, et al., 2002). Thus, knowledge is supported through the network of relationships (Mu, et al., 2008). Likewise, social relationships and social interactions play a significant role in advantageous resource exchange (Tsai and Ghoshal, 1998). In conclusion, the relational dimension of social capital can be broadly regarded as the concept of strong relations between members of an organization or firm (Levin and Cross, 2004). The more positive ties and trust that exists, the more success the network creates, which in turn creates a higher degree of trust and inspires partners to make greater resource commitments to the relationships (Capaldo, 2007). The reasoning above leads to the following hypothesis:

**Hypothesis 2:** Relational dimension is positively related to the absorptive capacity.

#### **2.4 Cognitive dimension of social capital and absorptive capacity**

The cognitive dimension characterizes the resources providing shared language and codes between network members (Nahapiet and Ghoshal, 1998). The two facets of the dimension that we address are shared goals and shared culture amongst network members. Shared goals can be defined as the degree to which network members share a common understanding and approach towards specific network tasks, as well as sharing specific goals and outcome expectations towards said task. Shared culture can be defined as the degree to which norms of behavior rule relationships. This facet is similar to tie modality, which relates to a set of institutionalized rules and norms that govern appropriate behavior in the network (Inkpen and Tsang, 2005). Inside large, complex organizations, shared vision and values greatly influence the development of the cognitive dimension of social capital. When individual and joint actions are supported, an organization will likely observe a beneficial outcome (Tsai and Ghoshal, 1998).

Shared vision concerns the common goals and ambitions of the members of a social network. Common understanding about the ways of interaction leads to increased and improved opportunities for resource sharing with minimal misunderstandings. Shared goals help the network members to visualize the benefits of these exchanges. Therefore, the shared vision that exists amongst the network members, can lead to more efficient sharing of knowledge (Tsai and Ghoshal, 1998). However, Davenport (1997) suggests that knowledge can be seen as a source of power as well as a resource; it is unnatural for people to share knowledge. That being said, norms of collectivity that guide a subject to leave individual interests for a community are a binding force for that community (Coleman, 1988). Shared goals and norms within a community, facilitate the members in understanding the meaning of knowledge sharing (Chiu et al., 2006). Common goals and norms lead to trust amongst the members of a network, as they do not fear pursuit of self-interest or self-promotion of other members which may compromise the shared common goals. Hence, common goals and norms act as a binding force that create

trust (Tsai and Ghoshal, 1998) and can lead to knowledge sharing. (Chiu et al., 2006) in their empirical study, suggest that shared vision was positively related to the quality of knowledge shared within a network. The reasoning above leads to the following hypothesis:

**Hypothesis 3.** Cognitive dimension is positively related to absorptive capacity.

### 2.5 Absorptive capacity and organizational innovation

Absorptive capability is a firm's ability to learn from other firms. (Zahra and George, 2002) define absorptive capability as the active organizational capability of a firm to obtain, absorb, transform, and utilize external knowledge. In addition, absorptive capability has been found to be an important factor that positively contributes towards an uneven knowledge transfer process (Soh and Roberts, 2005). In this study, the organizational innovation activity involves searching, processing and administering knowledge in order to create something unique and advantageous for an organization or company. Based on the literature about absorptive capability (Cohen and Levinthal, 1999), the existing knowledge base increases a firm's ability to search, assimilate, and take advantage of new knowledge for problem-solving activities. Therefore, firms with higher levels of absorptive capability can acquire new knowledge from networks in order to enhance their organizational innovation activities and obtain more effective and improved knowledge transfer (Fleming and Sorenson, 2004). This argument is in agreement with the literature on resource-based views of firms and their organizational learning processes (Zollo and Winter, 2002).

There are reasons to suggest that greater absorptive capability enables greater utilization of embedding knowledge from external networks, and as a result, promotes superior innovative outcomes (Powell, Koput, Doerr, 1996; Abrizio, 2009). Cohen and Levinthal (1990) postulate that external knowledge sources are the key to innovation, but whether a firm could absorb and utilize this knowledge is based on its own experience and capabilities. The reasoning above leads to the following hypothesis:

**Hypothesis 4.** Absorptive capacity is positively related to organizational innovation.

## 3. Methodology

### 3.1 Sample Selection and Data Collection Procedure

This study investigates the relationship between social capital have three dimensions: the structural dimension, the relational dimension, and the cognitive dimension are related to absorptive capacity, and organizational innovation. Hence, this study selected exporting firms from leather products businesses in Thailand as the sample. The population was obtained from a list database of Thailand's exporter directory at the Department of Export Promotion, Ministry of Commerce of the Thai government as of February 10, 2015 (<http://www.depthai.go.th>). A mail survey procedure via questionnaire was used for data collection. The key participants in this study were executives or managers. With regard to the questionnaire mailing, 25 surveys were undeliverable because some firms were no longer in business or had moved to unknown locations. Deducing the undeliverable from the original 316 mailed, the valid mailing was 291 surveys, from which 125 responses were received. Of the surveys completed and returned, only 119 were usable. The effective response rate was approximately 40.89 %. According to Aaker, Kumar and Day (2001), the response rate for a mail survey, without an appropriate follow-up procedure, and greater than 20%, is considered acceptable.

Furthermore, a non-response bias test was performed by comparing early and late responses. Characteristics of the firms comprise industry types, amount of capital funding, time in business, number of employees, and key informants who self-reported all constructs (Armstrong and Overton, 1977). As for non-response bias, t-test statistical tests were performed

and; the results exhibited no significant differences. Therefore, a non-response bias is of no concern in this data.

### 3.2 Methods

In this study, factor analysis is used to study the construct validity of several constructs in the conceptual model that has been developed as scales. Factor analysis was used to assess the basis of a large number of items and to determine whether they could be reduced to a smaller set off actors. All factor loadings are higher than the rule-of-thumb 0.40 cut-off and are statistically significant (Nunnally and Berstein, 1994).

Moreover, Cronbach's alpha coefficient was used to evaluate the measurement of reliability. In the scale, Cronbach's alpha coefficients are higher than 0.70 (Nunnally and Berstein, 1994). Therefore, scales of all measures are shown to result in consistency. So, these measures are considered appropriate for further analysis because they show that validity and reliability that have be recognized in this study. The result shows factor loadings and the Cronbach's alpha coefficient for multiple item scales used this study in Table 1. Table 1 presents all variables that have factor loading scores as between 0.777 - 0.902. Additionally, Cronbach's alpha for all variables are shown between 0.797 - 0.885. Therefore, all constructs of the validity and reliability of measurement can be applied for further analysis.

**Table 1: Results of measure validation**

Items	Factor Loadings	Cronbach's Alpha
Structural dimension (SD)	0.779-0.863	0.837
Relational dimension (RD)	0.819-0.880	0.864
Cognitive dimension (CD)	0.832-0.880	0.885
Absorptive capacity (AC)	0.827-0.865	0.863
Organizational innovation (OI)	0.777-0.902	0.797

Ordinary Least Squares (OLS) regression analysis is multiple regression analysis. It is the appropriate way to test the hypotheses in which the variables are categorical and interval data. The assumptions in the study were transformed into two equations. The equations analyze the relationships between independent variables and the dependent variable (Hair, Black, Babin and Anderson, 2010). The equation model is presented as follows.

$$\text{Equation 1: } AC = \beta_{001} + \beta_1SD + \beta_2RD + \beta_3CD + \beta_4FA + \beta_5FS + \varepsilon_1$$

$$\text{Equation 2: } OI = \beta_{002} + \beta_6AC + \beta_7FA + \beta_8FS + \varepsilon_2$$

### 4. Results and Discussion

Table 2 presents the descriptive statistics and correlation matrix for all variables. With respect to potential problems relating to multicollinearity, variance inflation factors (VIFs) were used to provide information on the extent to which non-orthogonality among independent variables inflates standard errors. The VIFs range from 0.22 to 4.73, well below the cut-off value of 10 recommended by Neter, Wasserman and Kutner (1985), meaning that the independent variables are not correlated with each other. Therefore, there are no substantial multicollinearity problems encountered in this study.

**Table 2: Descriptive statistics and correlation matrix**

Variables	SD	RD	CD	AC	OI	FA	FS
Mean	4.530	4.399	4.468	4.341	4.431	3.884	3.541
S.D.	0.483	0.566	0.572	0.566	0.559	0.492	0.834
RD	0.621**						
CD	0.638**	0.619**					
AC	0.571**	0.643**	0.729**				
OI	0.612**	0.594**	0.934**	0.802**			
FA	0.122	0.025	-0.071	-0.075	-0.082		
FS	0.129	0.216**	0.093	0.056	0.060	0.229**	

\*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.10

Table 3 presents the results of OLS regression analysis of the relationships among three dimensions of social capital which consist of structural dimension, relational dimension, and cognitive dimension and are related to absorptive capacity. Moreover, this table also presents the results of testing the relationships among absorptive capacity and organizational innovation. Firstly, relational dimension and cognitive dimension have a significant positive impact on absorptive capacity ( $\beta_2 = 0.298$ ,  $p < 0.01$ ;  $B_3 = 0.487$ ,  $p < 0.01$ ). Thus, hypotheses 2 and 3 are supported. This would suggest that the relational dimension can aid in increasing the positive impacts of network diversity, as well as the value of network diversity that has a positive effect on organizational innovation (Hua Yu, 2013). That greater absorptive capability enables increased usage of embedded knowledge from outside networks, and as a result, promotes the improving of organizational innovation (Powell, Koput, and Doerr, 1996; Fabrizio, 2009). Moreover, it could be argued that external knowledge sources are the key to innovation, but whether a firm could absorb and utilize this knowledge is based on its experiences and capabilities.

The social networking of an organization aids itself in obtaining information through external knowledge (Cohen and Levinthal, 1990). The degree of a firm's internal development capacity determines their ability to evaluate, understand and assimilate the new external knowledge that it obtains from social networks (Powell, Koput, and Doerr, 1996; Lichtenthaler, 2009). Thus, when a firm includes a high level of absorptive capacity, the value created from the information and knowledge obtained from the social network is also improved. More specifically, when firms choose to access diverse knowledge, their absorptive capacity impacts how much the firm can utilize the knowledge for beneficial results (Kogut and Zander, 1992). Organizational innovation is the novel partnership of knowledge that firms possess, and the fresh knowledge that they obtain (Arora and Gambardella, 1994; Fabrizio, 2009). When a firm holds a high degree of absorptive capacity, the search for knowledge can increase overall organizational innovation (Laumann, 1978). In addition, organizational innovation can be described as a social community that has shared identities, common norms, general beliefs, collective visions or joint experiences (Kogut and Zander, 1996; Nahapiet and Ghoshal, 1998). An organization that has more cooperative ties with a common cognitive system will have stronger shared identities and common norms, hence the collective cohesion will be improved and increased (Nonaka and Takeuchi, 1995; Grant, 1996). Members within these organizations would be more likely to reduce barriers of communication and opportunistic behaviors (Conner and Prahalad, 1996), in turn these members would be more likely to have more motivation and opportunities to share knowledge or resources with each other (Adler and Kwon, 2002). Secondly, structural dimension has no significant positive impact on absorptive capacity. Thus, hypotheses 1 is not supported. It may be possible that structure and planning organization does not source for external knowledge absorptive capacity.

**Table 3: Results of regression analysis**

Independent Variable	Dependent Variable
	Absorptive Capacity (AC)
Structural dimension (SD)	0.100 (0.073)
Relational dimension (RD)	0.298*** (0.061)
Cognitive dimension (CD)	0.487*** (0.061)
Firm Age (FA)	-0.052 (0.053)
Firm Size (FS)	-0.022 (0.018)
Adjusted R <sup>2</sup>	0.590

\*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.10, <sup>a</sup> Bata coefficients with standard errors in parenthesis

Table 4 presents the results of OLS regression analysis of the relationships among absorptive capacity and organizational innovation. It was found that absorptive capacity has a significant positive impact on organizational innovation ( $\beta_6 = 0.790$ ,  $p < 0.01$ ). Thus, hypothesis 4 is supported. Firms in industries that are constantly changing attain their primary competitive advantage through the efficiency of their employees to create and manage knowledge (Bettis and Hitt, 1995; Grant, 1996). This result is consistent with the research of Nahapiet and Ghoshal (1998) who found that social relationships, and the social capital therein, are an important influence on the development of intellectual capital. Simply speaking, intellectual capital includes specialist knowledge and personal knowledge (Spender, 1996). Hage and Aiken (1970) suggest that firms can create their best opportunities for innovation as a direct result of gaining, creating and implementing external knowledge. This is because, as Tushman and Anderson (1986) outline; a firm's ability to ingest, understand and take advantage of knowledge into the alternate aspects of social, technological and market development highly influences the success of their organizational innovation.

**Table 4: Results of regression analysis<sup>a</sup>**

Independent Variable	Dependent Variable
	Organizational Innovation (OI)
Absorptive capacity (AC)	0.790*** (0.041)
Firm Age (FA)	-0.032 (0.048)
Firm Size (FS)	0.008 (0.017)
Adjusted R <sup>2</sup>	0.640

\*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.10, <sup>a</sup> Bata coefficients with standard errors in parenthesis



## **5. Contributions and directions for future research**

### **5.1 Theoretical Contribution and Directions for Future Research**

This research is intended to provide a clearer understanding of the relationships among social capital, structural dimension, relational dimension, cognitive dimension, absorptive capacity and organizational innovation. This research makes three contributions to the literature of social capital. Firstly, this research proposes three dimensions of social capital (structural dimension, relational dimension, cognitive dimension), whereas prior research was lacking. Secondly, this research advances previous literature by categorizing many antecedents and consequences to develop a model to test the relationships. The role of social capital on absorptive capacity and organizational innovation is examined in terms of the quantitative by collecting data from leather exporting firms in Thailand, while most of the previous research proposes the conceptual relationships. Likewise, to expand the research contributions and verify the research generalizability, future research is needed to collect data from different sample groups and/or comparative populations or from other business sectors in order to increase the level of reliable results.

### **5.2 Managerial Contribution**

This research also helps executives identify and justify key components that may be more critical in a rigorous organizational innovation. From a practical and managerial contribution, many important insights can be gained from this research. The study can facilitate CEO's (executives and managers), particularly in leather product exporting firms and businesses in Thailand, to understand how their firm can create valuable propositions and enhance organizational innovation. Enlargement competitiveness of firms is becoming a foundation for firms to survive. Therefore, organizational innovation has become an important issue for managers in the business sector. In addition, social capital is to absorptive knowledge from external the organization. The structure of the crema and planning organizations. The creation of social capital by building a good relationship with each other constantly until the cause of trust that were synchronized with external of organizations. In the context of the business sector, intense competition can stimulate many firms to attempt to search for knowledge absorptive capability and innovation. The CEO's, then, should effectively acquire, manage, and utilize the components of social capital in order to possess organizational innovation.

## **6. Conclusions and Recommendations**

The purpose of this research was to examine the relationships among three dimensions of social capital, structural dimension, relational dimension, cognitive dimension, absorptive capacity and organizational innovation. The model of testing is from the collected data of mail surveys from 119 exporting firms of leather products in Thailand. The results lend support for the hypothesis derived from the conceptual model. Generally, this research provides empirical evidence that only two dimensions of social capital have a positive impact on absorptive capacity. Relational dimension has a positive impact on absorptive capacity.

Relational dimension engender trust for social capital exchange and it opens up people for knowledge absorptive capacity. Members of a social network who trust each other are more willing to share their resource since they have no fear of being exploited by the other members. Cognitive dimension has a positive impact on absorptive capacity. It is knowledge sharing, shared goals, learn skills, knowledge and common conventions on absorptive capacity. Furthermore, absorptive capacity causes social capital on knowledge and information from outside organizations. Moreover, the research suggests that absorptive capacity has a positive impact on organizational innovation. In addition to this, the methodology of research analysis

will contribute significantly towards the understanding of how exporting firms of leather products in Thailand can encourage social capital to increase their absorptive capacity and organizational innovation.

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# Investigating the major marketing communication tools and their impact on building bank brand equity in the Egyptian context A customer perspective

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## Keywords

Brand equity, marketing communication tools, Egyptian banking sector

## Abstract

*The purpose of this study is to identify the major marketing communication tools that are beneficial on building bank brand equity through customer-based brand equity dimensions (CBBE) (brand awareness, brand perceived quality, brand associations, brand loyalty and brand trust) from customers' perspective in the Egyptian context. This study used qualitative approach, which consists of semi-structured interviews. Fifteen interviews were conducted until the saturation level. Data collected were analysed by using themed analysis. The findings of this study showed that in the Egyptian banking sector, the major bank marketing communication tools consist of advertising, personal selling and direct marketing. The most important tool was personal selling; the next tool was direct marketing; and, finally, the advertising on building bank brand equity through CBBE dimensions. This study contributes on the theoretical level in the following ways: by adding to the field of branding particularly in the service brand equity in the Egyptian banking sector; by identifying the major bank marketing communication tools that help build bank brand equity through CBBE dimensions; and by developing a proposed conceptual framework that links between major marketing communication tools, CBBE dimensions and overall brand equity. It also provides directions to the service provider and particularly the bank managers on building, improving and maintaining bank brand equity to achieve a sustainable competitive advantage.*

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## 1. Introduction

In today's market place, the service sector has become a central force in the economy in both developed and developing countries (Ghoneim, 2007). One of the most important service industries is the banking sector. This sector has gone through strong competitive pressures because of the integration and globalization of financial markets, and the advancement of technological developments (Nellis *et al.*, 2000). Many developing countries such as Egypt have experienced a wave of foreign banks into their financial markets. Over the past decade, the Egyptian banking sector has witnessed important changes such as privatization; bank mergers and acquisitions; the largest number of mergers and acquisitions took place between 2004 and 2007. Thus, this came as a golden chance for the entry of more foreign banks that perceived Egypt as a profitable market (American Chamber of Commerce, 2008). In this wide and diverse banking sector, banks are providing more or less identical products and services for nearly the same price. Further, banks lack significant technological edge, since hardware and software programmes have generally been acquired from external vendors or outsourced (Moutinho *et al.*, 1997; Wright, 2002; Quelch, 2003). This is a particularly important challenge in the context of banking, in which quality standards and overhead costs are converging, due to similar product

offerings and IT solutions (Durkin and Howcroft, 2003). As a result, this similar, competitive and global banking era leads banks to differentiate their services in order to stand out. This can be achieved through the development of brands and active promotion to customers (Parasuraman, 1997). By developing bank brands, financial institutions can achieve a noticed sustainable competitive advantage, leading to a critical success factor. Through the promotional tools, banks can create brand equity, which can attract customers; develop strong relationships with them; and establish a unique competitive edge (Powers and Hahn, 2002). These promotional tools are the marketing communication tools, which present the brands and the organizations to their audiences in order to achieve success in business. These tools have a fast and direct impact on the target market (Herrera *et al.*, 2002; Fill, 2002). Thus, the uses of a variety of marketing communication tools play a critical role to organizations. As a result, the selection of these tools is a critical decision, since the customer's behaviour is clearly determined by them (Herrera *et al.*, 2002).

For this reason, the purpose of this research is to identify the major bank communication tools that are beneficial in building bank brand equity in the Egyptian banking sector through CBBE dimensions. This study decided to focus on this topic after a revision of prior studies. The reviewed literature indicated that there are few studies that have addressed branding issues and challenges faced by financial services organizations. Furthermore, prior research has not addressed major marketing communication tools, CBBE dimensions and overall brand equity as a separate construct in financial services, particularly in the Egyptian banking sector. In order to provide insight into these issues, this research investigated the major bank marketing communication tools as perceived by customers and their impact on building bank brand equity through CBBE dimensions in the Egyptian banking sector.

## **2. Literature review**

### **2.1 The development of brand equity concept**

The origin and development of brand equity concept provide useful background to current meanings. The concept originated in the early 1980s (Riezebos, 2003). According to Barwise (1993) and Riezebos (2003), brand equity became popular as a financially oriented term that emerged when various companies were bought and sold for amounts significantly in excess of the company's net assets (which reflects the difference between the assets and the liabilities of a company).

As noted by Feldwick, (2002) the difference between price paid and net assets became explained as brand equity. Thus, the brand became something that worth money. During the late 1980s, brand equity was adopted by marketers to understand the benefits customers seek from brands; the influence of branding on customers' perceptions and behaviours; and the marketing roles towards branding (Riezebos, 2003). It has since been proposed that brand equity is a valuable company intangible asset that should be carefully and continuously managed and invested in to optimise its value (Aaker, 1991, 1996; Kapferer, 1997; Keller, 1998). Despite the fact that brand equity is one of the most popular concepts, which has been discussed by both academics and practitioners over the past decade, there is no common agreement on its conceptualisation, definition or management (Keller, 1998; Yoo and Donthu, 2001). Its popularity is due to its strategic and crucial role in gaining competitive advantage. Brand equity represents the suitable measurement, when properly and objectively measured, to evaluate the long run impact of strategic management decisions (Simon and Sullivan, 1993). Nevertheless, the content and meaning of brand equity have been discussed in different ways, for different purposes and till now no common agreement has emerged (Vazquez *et al.*, 2002; Keller, 2003).

The majority of brand equity definitions reflect that there is some value added that is uniquely attributable to the brand (Keller, 1993; Mackay *et al.*, 1997; Netemeyer *et al.*, 2004; Bick, 2009; Kartono and Rao, 2009b). However, the brand equity can be discussed from two main perspectives, depending on its purpose, the financial and the marketing perspectives. The financial perspective provides monetary value for the brand (Kartono and Rao, 2009). Such financial benefits could be measured per year based on the incremental profit achieved by the brand compared to another brand with the same product and price but with minimal brand building efforts (Simon and Sullivan, 1993). On the other hand, the marketing perspective expresses the term brand equity as customer-based brand equity (CBBE) (Wood, 2000). The CBBE is based on customers' perspective. It explains how customers process brand information, how they perceive the brand, and how it shapes their behaviour towards the brand (Kartono and Rao, 2009b).

This research adopts the marketing perspective because the financial perspective did not take into consideration that brand equity can vary when customers' perceptions towards the brand change (Kartono and Rao, 2009b). The power of a brand depends on what customers have learned, felt, seen and heard about the brand based on their experiences over time and what other people tell them (Keller, 2003). If the brand has no importance to the customer, none of the other definitions is significant (Keller, 1993; Cobb-Walgren *et al.*, 1995; Rio *et al.*, 2001a). For a brand to have value, customers should value it (Keller, 2003). This perspective provides benefits to both customers and firms. First, it provides value to the customer by improving their interpretation and processing information. It builds their confidence in the purchase decision, and leading to satisfaction. Second, it provides value to the firm by helping managers to take certain marketing decisions towards different customer segments and in evaluating their marketing strategies and programmes effectively (Ambler *et al.*, 2002; Leone *et al.*, 2006; Sinha *et al.*, 2008; Kartono and Rao, 2009). In addition, it boosts profits, trade leverage and competitive advantage (Aaker, 1991). Thus, enhancing CBBE leads to larger margins from customers and enhances marketing communication effectiveness, licensing opportunities and customers' responsiveness to brand extensions (Keller, 1993).

## 2.2 Customer-Based Brand Equity (CBBE) dimensions

Scholars created CBBE to encourage the use of customer-based measures (Keller, 1993). However, they have disagreed on its dimensions and gave it various definitions (Chahal and Bala, 2012). Thus, till now the concept of CBBE remains vague (Punj and Hillyer, 2004). Aaker (1991) defined CBBE based on a set of dimensions linked to the brand. These dimensions include brand awareness, brand associations, brand perceived quality, and brand loyalty. These dimensions have been used in other studies, such as Washburn and Plank, (2002); Atilgan *et al.* (2005), Pappu *et al.* (2005, 2006) and Buil *et al.* (2008). Keller (1993) defined CBBE in terms of brand knowledge, consisting of brand awareness and brand image. Park and Srinivasan (1994) identified the CBBE based on brand associations (attributes and non-attributes components). Lassar *et al.* (1995) link CBBE with five dimensions, such as performance, social image, value, attachment, and trustworthiness. Yoo *et al.* (2000) mentioned that the CBBE dimensions include brand perceived quality, brand loyalty, and brand associations combined with brand awareness. Keller (2003) studied CBBE based on brand salience, brand performance, brand imagery, brand judgments, feelings and resonance towards the brand. Kim *et al.* (2003) and Kayaman and Arasli, (2007) defined CBBE based on brand loyalty, brand awareness, brand perceived quality, and brand image. Netemeyer *et al.* (2004) mentioned that CBBE dimensions include perceived quality, perceived value and uniqueness. Only a limited number of studies included trust in their CBBE dimensions. For example, Atilgan *et al.* (2009) integrated trust as possible CBBE

dimension, which includes brand associations, perceived quality, loyalty and trust. Moreover, Kimpakorn and Tocquer (2010) mentioned that CBBE dimensions include brand awareness, brand perceived quality, brand differentiation, brand associations, brand trust and brand relationships. Kumar *et al.* (2013) adopted the CBBE dimensions: brand awareness, brand associations, brand perceived quality, brand trust and brand loyalty. From the previous studies, it has been shown that various researchers have focused on CBBE concept and suggested different dimensions that can be linked to a brand. However, the common dimensions in all models are the use of one or more dimensions of Aaker's model (1991). Particularly, the widespread dimensions include brand awareness, brand perceived quality, brand associations and brand loyalty. Thus, the researcher examined the effect of these dimensions (awareness, associations, perceived quality and loyalty) in addition to brand trust. Brand trust dimension is chosen because it is critical during the high-perceived risk associated with the banking services. Trust acts as a risk-reducing tool that helps reassure customers (De chernatony and Dall'Olmo Riley, 1999; De chernatony and Cottam, 2006). To conclude, the CBBE dimensions are presented as follows:

### 2.2.1 Brand awareness

Brand awareness is one of the CBBE dimensions. It refers to the customer ability to recognise or recall a brand (Aaker, 1991). Hence, brand awareness consists of both brand recognition and brand recall (Rossiter and Percy, 1987; Keller, 1993). Brand recognition and brand recall are vital in evaluating brand equity since it measures the customer's top of mind awareness of a particular good or service. Without high top of mind awareness, it is difficult to build brand equity (Pinar *et al.*, 2012). A brand with high top of mind awareness has the capacity to influence customer choice towards a specific good or service (Kimpakorn and Tocquer, 2010). Brands have different amount of power and value in the marketplace. There are brands that are not well known by the majority of users. However, there are brands that have a high degree of brand awareness (Atilgan *et al.*, 2005). Therefore, brand equity increases when the customer has a high level of brand awareness and familiarity with the brand (Yoo *et al.*, 2000; Atilgan *et al.*, 2005; Rajh and Dosen, 2009; Kumar *et al.*, 2013).

### 2.2.2 Brand perceived quality

Brand perceived quality is considered to be a main dimension in the CBBE frameworks (Farquhar, 1989; Keller, 1993; Aaker, 1996; Dyson *et al.*, 1996). Brand perceived quality is defined as: "*the customer's subjective judgment about a product's overall excellence or superiority*" (Zeithaml, 1988, p.3). Thus, it is based on customers' or users' not managers' or experts' subjective assessments of product quality (Yoo and Donthu, 2001). Many aspects can affect the customer's subjective judgment of quality such as personal product experiences, unique needs and also consumption situations. In other words, brand perceived quality is the customer's overall perception about the overall quality of a particular brand compared to other competing brands. Thus, it is considered to be an intangible overall feeling about a brand, which in turn affects the brand market share, price and profitability (Aaker, 1991).

Consequently and based on Zeithaml (1988), high perceived quality means the superiority of the brand from the customer's point of view through the long - term experience related to the brand. Hence, Zeithaml (1988) identified the perceived quality as a component of brand value. High-perceived quality would lead the customer to choose the brand rather than other competing brands. Thus, it provides value to customers by supporting them with a reason to buy and by differentiating the brand from other competing brands (Kayaman and Arasli, 2007). Customers evaluate service quality in terms of what they receive (the outcome of the



service) and also by examining the way the service is delivered (the functional quality of the process) (Gronroos, 2001). Based on the previous studies, when customers perceive the brand quality positively, brand equity will increase (Yoo *et al.*, 2000; Atilgan *et al.*, 2005; Chahal and Bala, 2012; Kumar *et al.*, 2013).

### 2.2.3 Brand associations

Brand associations are considered to be one of the CBBE dimensions. They are defined as anything allied in memory towards a brand (Aaker, 1991). Brand associations reflect the brand image, which is the customer perception regarding a brand that is held in the customers' memory in a meaningful way (Aaker, 1991). Brand associations are complex, connected to one another and are composed of multiple ideas, episodes, instances and facts that build a strong network of brand knowledge. Brand associations have a level of strength (Keller, 1993). They are stronger when they are based on many experiences or exposures to communications rather than few (Aaker, 1991). Brand associations may reflect the product features and aspects independent of the product (Chen, 2001). In consumer goods, brand associations are grouped in the form of product related attributes such as brand performances and also non-product related attributes such as brand personality, user profile, and country of origin (Aaker, 1991; Keller, 2003; Netemeyer *et al.*, 2004; Gronroos, 2007). In services, there is a difference between associations related to the core service (the reason of being of a service) and those related to supporting services (differentiators that add value to the services) (Gronroos, 2007). Consequently, associations represent the basis for purchase decisions. They also create value to the firm and to the customers (Atilgan *et al.*, 2005), such as helping to process and retrieve information, distinguishing the brand, generating a reason to buy, creating positive attitudes and presenting a basis for extensions (Aaker, 1991). Additionally, Rio *et al.* (2001b) mentioned that brand associations represent a key element in brand equity creation and management. In this respect, high brand equity indicates that customers have strong positive associations with respect to the brand (Yoo *et al.*, 2000; Atilgan *et al.*, 2005; Rajh and Dosen, 2009; Kumar *et al.*, 2013).

### 2.2.4 Brand loyalty

The brand loyalty is one of the CBBE dimensions, which is considered to have a great impact on brand equity (Atilgan *et al.*, 2005). The brand loyalty definition and its measurement represent challenges (Atilgan *et al.*, 2005). In this research, brand loyalty is expressed as the attachment of a customer towards a brand, particularly when that brand makes changes in price or other product characteristics (Aaker, 1991). Thus, brand loyalty is defined as "*a deeply held commitment to rebuy or patronise a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behaviour*" (Oliver, 1997, p. 392). Based on Javalgi and Moberg (1997), brand loyalty is defined based on behavioural, attitudinal and choice perspectives. The behavioural perspective is based on the amount of purchases for a specific brand. The attitudinal perspective includes customer preferences and dispositions towards brands, while the choice perspective identifies the reasons for purchases and also the factors that may influence choices. Consequently, loyal customers show positive responses to a brand than non-loyal customers (Grover and Srinivasan, 1992). Brand loyalty leads customers to purchase continuously and to resist switching to another brand (Yoo *et al.*, 2000). The definitions of brand loyalty indicate a direct relationship between brand loyalty and brand equity (Aaker, 1991). This direct relationship has been supported by previous studies (Yoo *et al.*, 2000; Atilgan *et al.*, 2005; Chahal and Bala, 2012; Kumar *et al.*, 2013). Keller (2001) asserted that brand loyalty is a key variable for the management of brand equity when measured from customers' point of view.



### 2.2.5 Brand trust

Trust has received a great attention from scholars in many disciplines such as psychology, sociology, economics and in applied areas such as management and marketing. Therefore, there are many definitions for this term. Trust can be defined as a general expectation thought by an individual that the word of another can be relied on (Rotter, 1967); the extent to which a person is confident in, and ready to act on the basis of the words, and decisions of others (McAllister, 1995); and the willingness of the customer to rely on the ability of the brand to perform its identified function (Chaudhuri and Holbrook, 2001). Subsequently, brand trust is known as a psychological state that happens when one party has confidence in an exchange partner's reliability and integrity. It is a psychological variable reflecting a set of accumulated assumptions involved the reliability, integrity and intention that a customer attributes to the brand (Morgan and Hunt, 1994; Garbarino and Johnson, 1999). In this research, brand trust is measured by the brand ability to deliver its promises (Kimpakorn and Tocquer, 2010). Trust is crucial in keeping successful customers relationships with the brand (LaBahn and Kohli, 1997). Since, the ultimate goal of marketing is to provide an intense bond between the customer and the brand, and the core ingredient of this bond is trust (Hiscock, 2001). Brand trust evolves from past experience and previous interaction (Garbarino and Johnson, 1999). Brand trust can improve or destroy a relationship between brand and customers (Keller, 2003). Therefore, it is conceptualized as a source of CBBE dimensions that affect overall brand equity (e.g., Harris and Goode, 2004; Duffly, 2005; Luk and Yip, 2008; Burmann *et al.*, 2009; Rauyruen *et al.*, 2009).

### 2.3 Overall brand equity

Most of the studies examining brand equity do not differentiate between brand equity and its sources. Making it hard to understand how it can be improved (Yoo *et al.*, 2000). Brand equity refers to the incremental value added to a product (goods or services) by virtue of its brand (e.g., Aaker 1991; Keller, 1993). Yoo and Donthu (1997) initiated the split between the two concepts, developing two distinct brand equity scales, the overall brand equity and the multidimensional brand equity. Furthermore, Yoo *et al.*, (2000) research began setting a separate brand equity construct, which would help us understand how the dimensions contribute on building brand equity. They created a model that consists of three components: marketing mix elements represented by (price, store image, distribution intensity, advertising spending and price deals), CBBE dimensions (perceived quality, brand loyalty, brand awareness/associations) and a separate brand equity construct, which is the overall brand equity. This study was conducted in three different product categories. According to Yoo *et al.*, (2000) model, overall brand equity can be created, maintained and increased by strengthening on the CBBE dimensions, which result from the marketing activities. They used an overall equity construct and applied the dimensions of brand equity as the sources of this construct. The results indicate that overall brand equity is positively related to perceived quality, brand loyalty, and brand awareness/associations. Thus, high overall brand equity indicates that the customer is well aware of the brand, has positive and strong associations with the brand, perceives it as high quality brand and is loyal to it. Yoo *et al.*, (2000) model illustrated that the relationship of brand loyalty is much stronger than the relationship of perceived quality and brand associations to overall brand equity. Additionally, the results show that the price of the brand is positively related to its perceived quality; store image is positively related to perceived quality, brand associations/awareness; distribution intensity positively related to perceived quality, and brand loyalty only; advertising spending positively related to perceived quality, brand loyalty and brand associations/awareness; frequency of price deals are negatively related to perceived quality and brand associations/awareness. Later on, limited number of researchers adopted the

overall brand equity as a separate construct in their model (e.g., Rajh and Dosen, 2009; Yacout and Elsahn, 2011; Kumar *et al.*, 2013). In this study, the researcher deals with the brand equity as a separate construct in the service context. In addition, the researcher assumes that this construct can be created, maintained and increased by strengthening on the following CBBE dimensions (brand awareness, brand perceived quality, brand associations, brand loyalty and brand trust) (these dimensions act as sources of overall brand equity), which are developed and enhanced from the marketing communication tools.

### 3. Methods

To gain further understanding and insights on the topic of branding banks in the Egyptian context and to investigate the major bank marketing communication tools and their impact on building bank brand equity through CBBE dimensions, a qualitative research was used. The qualitative research has become popular in consumer research over the past ten years (Woodruff and Schumann, 1993; Haley, 1996; Masberg and Silverman, 1996; Gibler *et al.*, 1997; Hirschman and Thompson, 1997; Price *et al.*, 2000), since it helps the researcher to attain insights into a phenomenon not easily understood through quantitative measures. The qualitative research is mainly required when the topic is broad, complex and when the existing body of knowledge is insufficient (Bonoma, 1985). With respect to these conditions, building brand equity in the Egyptian banking sector is a new study, which is not simple to be easily measured particularly in Egypt. In addition, there is a lack of research regarding brand equity in the service sector particularly in the financial organizations. A full understanding of this topic is better sought through a qualitative research because it is related to customers' perception, and cultural needs (Cooper, 1999). Additionally, given the large number of antecedents that could build brand equity, it was necessary to screen out variables that are most appropriate for the Egyptian banking sector. Therefore, qualitative research was conducted to identify the major bank marketing communication tools as perceived by customers that help build bank brand equity through CBBE dimensions. Semi-structured interviews were conducted to collect the data. The semi-structured interviews contained an interview guide, which consists of a list of questions. These questions focused on specific topics to draw insightful data. It is flexible in its nature, allowing new questions to be brought up during the interview as a result of what the interviewee says. The sampling method was based on nonprobability sampling (judgmental sampling). Fifteen interviews were conducted until saturation level of data was met. The selected sample in this study is bank customers from different demographic backgrounds (age, ethnicity, gender, marital status, and career) in order to ensure a large enough variety in the studied population. The researcher interviewed all the respondents and recorded the discussion, with their permission. The interviews were transcript and analysed by using themed analysis to provide a more reality-based standpoint of the interviewees.

### 4. Data analysis

The researcher conducted fifteen semi-structured interviews. The respondents involved in these interviews had dealt with various types of banks including public and private ones in the Egyptian banking sector. From the public banks, they had dealt with NBE, Banque du Caire and Bank Misr. From the private banks, they had dealt with CIB, QNB, HSBC, AAIB and Barclays Bank. These respondents had a mixture of various socio-demographic characteristics (age, gender, and occupation). The researcher interviewed customers outside their banks in order to have a sociable and friendly atmosphere. The following table (1) illustrates the respondents' characteristics:

Table (1) Respondent's characteristics

Demographic Traits	Percentage of the Respondents
<b>Gender</b>	
- Males	53 %
- Females	47 %
<b>Age</b>	
- 21 to 30	53 %
- 31 to 40	20 %
- 41 to 50	13 %
- Above 50	13 %
<b>Occupation</b>	
- Engineers	15%
- Accountants	10%
- Doctors	20%
- Lecturers	30%
- Businessmen	20 %
- Housewives	5%

**The first group of questions in the interview was intended to ask about the General knowledge of marketing communication tools**

#### **Different types of marketing communication tools**

The interview began by asking a question related to the participants' general knowledge about the various communication tools in marketing. Based on the interviewees' background, they were familiar with different marketing communication tools. All participants mentioned that advertising and personal selling were essential means of marketing communications. As for advertising, they considered it a one-way communication tool. They indicated that there were different mechanisms used to deliver the advertising such as television; radio; printed, like magazines, pamphlets, flyers, posters, billboards; and, finally, online through the organisation's website or through social media like Facebook and Twitter. In contrast, the interviewees considered personal selling a two-way communication tool, which is based on the contacts between customers and personal selling. This point was supported by the following quote: *"I am aware that marketing communication tools are divided into two main categories, the first one is the one-way communication tool, which consists of the different forms of advertising and the second one is the two-way communication tool, which mainly depends on the interactions between customers and personal selling."* In addition, the majority of interviewees stated that word of mouth (WOM) is a primary mean of communication, particularly in Egypt, due to its great existence in people's daily life. Furthermore, some interviewees indicated that direct communication tools or direct marketing tools are popular and well used. They specified that these direct communication tools took the form of e-mails, phone calls, messages, letters, faxes or catalogues directed to specific customers. Moreover, they mentioned that public relations tools play a major role in creating knowledge of an organisation. These public relations tools include the organisation's event marketing, and sponsorship marketing. Finally, a few number of interviewees stated that sales promotions, such as special offers and discounts were ways for organisations to communicate to customers.

#### **Power of marketing communication tools in delivering a message**

The second question in this area was related to the power of marketing communication tools in delivering a message. All interviewees agreed that marketing communication tools in general are powerful when providing a message. However, they mentioned that the power of each tool differed according to the purpose of the organisation, the target market, and how customers were to be reached. Additionally, they stated that it is totally dependent on the type

of industry and the nature of the product (whether goods or services). This idea was supported by the following quotes: *"It depends on the nature of the product, each tool is effective in different degrees. "Yes of course, they are powerful; each one is effective in a different way."* and *"Definitely yes, especially when they are tailored to my needs."* Some of the interviewees specified that the most powerful tools in delivering a message are personal selling and then advertising in general. They indicated that personal selling is powerful because it: *"helps to obtain a more complete picture of the product due to the interactions between customers and personal selling."* Also, they mentioned that advertising is powerful because *"it has a higher level of exposure to various audiences,"* as well as, *"Advertising is perceived as a reliable tool of information."*

### **The second group of questions in the interview was intended to ask in more detail the usage of marketing communication tools in the Egyptian banking sector**

#### **Marketing communication tools used in the Egyptian banking sector**

This area started by asking a question related to the marketing communication tools used in the Egyptian banking sector. All interviewees identified advertising and personal selling as the most common communication tools used by banks. As for the advertising, the interviewees specified different forms related to banks. For example, the use of printed advertising both indoors and outdoors was mentioned. The indoor advertising includes flyers, pamphlets and posters. The outdoor advertising includes outdoor signs and billboards. Furthermore, it was stated that banks use television and online advertising (whether on banks' website or through social media). For the personal selling, the interviewees indicated that this tool creates a great opportunity for interaction that helps create a communication channel rich with information. This point of view was supported by the following quote: *"My bank uses television advertising, online advertising, printed advertising and of course personal selling because when dealing with banks you need to talk to someone, to ask questions and to make a conversation before taking decisions."* Additionally, the majority of interviewees stated that there are different direct marketing tools used by banks, such as messages, phone calls, emails and letters directed to them. Moreover, some of them indicated various public relations tools like banks' event marketing and sponsorship marketing. However, minorities mentioned some examples of sales promotions such as banks' offers like free issuing fees for opening an account or for taking a credit card.

#### **Usefulness of marketing communication tools on building a bank's value**

In the second question in this area, which talks about the usefulness of marketing communication tools on building a bank's value, the majority of interviewees mentioned that bank's personal selling is the most successful tool on building the bank's value. They argued that in the banking sector, face-to-face communication or interaction between sales representatives and customers reduce the uncertainty and help build a bank's value. The respondents stated the following supporting quotes: *"Speaking to helpful and knowledgeable representatives gives customers a sense of assurance that they are taking the right decisions."* *"Personal selling are the people who deal with customers and who develop their perceptions towards the banking services."* *"Personal selling caters for the customer's needs, and provides suitable information and guidance, which help build the bank's value."* The next successful tool on building a bank's value is advertising with its different forms. The interviewees indicated that advertising whether printed, broadcast or online reflects the bank's utility, usefulness and value. This mean of communication helps to build the bank's value. Respondents stated the following supporting quote: *"Advertising provides higher exposure to various audiences in the market. Therefore, the bank value is easily reflected."* The third successful tool is direct marketing. The respondents enjoyed receiving telephone calls, messages on their mobiles, emails, faxes and post mails. They believed that this means of communication benefitted them by acting as a source of information and a



reminder of various services, benefits and values related to the bank. They stated the following quote: *“Direct marketing tools provide customers with recent offers and information concerning the bank’s offerings and benefits. “Finally, the fourth successful tool is the public relations, particularly the bank’s sponsorship marketing. The interviewees stated that banks benefit from this communication tool by being associated with certain events that people enjoy. Hence, people remember the bank in a positive way, which enhances its value in the customer’s mind. The respondents mentioned the following quote: “Public relations impact the bank’s value in the eyes of their customers in a positive way.”*

**The third group of questions in the interview was intended to examine the impact of bank marketing communication tools on the CBBE dimensions**

**Bank marketing communication tools that affect customers’ awareness towards banks in the Egyptian market**

This area began by asking the respondents about banks they are aware of in the Egyptian market (brand awareness is one of the CBBE dimensions). The interviewees mentioned several banks. The most famous banks mentioned by the respondents were as follows: NBE, CIB, QNB, HSBC, Banque Misr, AAIB, Barclays, and Banque du Caire. They were aware of these banks due to different marketing communication tools. Each tool played a part in forming their familiarity and their knowledge regarding these banks. The majority of the responses were in favour of WOM [this tool was mentioned in the first area as a primary mean of communication particularly in Egypt due to its great existence in people’s daily life]; while others were in favour of advertising, personal selling, direct marketing; and, finally few responses were in favour of public relations tools. The majority of interviewees who were in favour of WOM, mentioned that WOM from close reference groups such as family; friends and co-workers affect their awareness towards banks. WOM can be very influential to listeners when it is their first time in dealing with the banking services. Therefore, they believed that WOM is more credible than mass media with regards to the banking services. This idea was supported by the following quote: *“As a start, positive WOM affects my awareness regarding banks.”* The interviewees who were in favour of advertising stated that advertising plays a major role in creating bank awareness among customers. Advertising reaches a large number of people faster than other communication tools and provides information of various services. When respondents see paid advertising, they consider it as a credible source because they believe that organisations would not pay to spread false or inaccurate information. Furthermore, they believed that constant and repetitive advertising messages allow customers to be aware of the bank name. In addition, it allows curiosity to develop, triggering customers to go to banks and ask about the advertised services. This idea was supported by the following quote: *“Advertising whether television, radio, printed or online helps me to remember the bank with its different services.”* Interviewees who mentioned that personal selling creates bank awareness declared that the aim of sales representatives and employees, such as customer advisor, is to inform and encourage customer to deal with the bank. They are informative and knowledgeable.

Therefore, they are the most suitable persons to provide information because they are from within the organization. This idea was supported by the following quote: *“Personal assistance helps me know the available services that are relevant to my needs.”* Interviewees stated that direct marketing tools create bank awareness among customers. With the use of direct marketing, the bank is able to contact its customers when new services are created or ideas promoted. This finding was supported by the following quote: *“Phone calls and messages increase my awareness towards the new offers and the new services because my bank contacts me whenever there is something new.”* Finally, a small number of interviewees stated that public relations create bank



awareness among customers. The respondents believed that the most effective public relations tools are the temporary set up booths in well-known public arenas. Through these mechanisms, customers are able to approach the bank in convenient times for information. This finding was supported by the following quote: *"At the introductory stage of a service that is offered by a bank, a set up booth would be beneficial in grabbing people's attention."*

### **Bank marketing communication tools that affect customers' perception towards banks' quality**

The second question was related to the bank marketing communication tools that affect customers' perception towards banks' quality (brand perceived quality is one of the CBBE dimensions). The interviewees had different perceptions regarding this matter. The majority of the responses was in favour of personal selling giving more weight to the customer advisors, while others were in favour of advertising with its different forms and also direct marketing. However, a small number of responses were in favour of public relations tools. Based on the replies of the interviewees, the majority stated that the best marketing communication tool, which affects the perceived quality towards a bank, is personal selling. Personal selling is not the only major player in developing the quality of a bank but also the customer service employees in banks play an important role. Employees represent the excellence of banks. Hence, when employees are knowledgeable, presentable, and friendly, they reflect good quality. This idea was supported by the following quotes: *"Employees who are knowledgeable impact the quality and the performance of a bank."* *"Employees affect the perceived quality of a bank because they provide guidance and advice to customers in order to help them to take the right decisions."* *"Customer advisors can bring a business up or bring it down depending on their performance. "When communication by sales representatives is of good quality, this affects the overall quality of a bank. "Furthermore, in this question, some of the interviewees believed that advertising affects the perceived quality towards a bank. They mentioned that advertising must be established in a clear and informative manner. The design and layout should be attractive and of high excellence.*

This finding was supported by the following quote: *"Indirect contact gives me the first impression through television advertising, radio advertising, online advertising and printing advertising. If they are well designed, informative, organized, simple, well planned, and have a clear identity, they will definitely affect the perceived quality of the bank in a positive way. "According to this question, some other interviewees believed that direct marketing tools could also affect the perceived quality towards a bank. Receiving regular correspondence (whether emails, telephone, or postal service) creates a sense of quality assurance among the interviewees. This finding was supported by the following quotes: "When I receive regular correspondence from my bank, I feel that the bank has a good system that I can rely on. "The quality of the website, its design and its tasks are a strong indicator of the service quality of the bank."*

### **Bank marketing communication tools that demonstrate the bank's characteristics**

The fourth question was related to the bank marketing communication tools that demonstrate the bank's characteristics, which help create the brand association in the customers' minds. (Brand association is one of the CBBE dimensions). They are very crucial because they are the attributes of the brand, which come into the customer's mind when the brand is talked about. In general, the interviewees mentioned that brand associations are related most of the time to the perceived quality. The majority of interviewees believed that advertising and staff, as communication tools, shape the brand associations in the Egyptian banking sector. Advertising is perceived to reflect good performance and unique persona towards a bank, allowing customers to develop an affirmative and positive image. The interviewees stated that the most influential forms of advertising are presented as follows: television, printed, and online. These

forms are listed according to their impact correspondingly. In addition, the respondents believed that the effective interaction among staff and customers creates a positive bank's image, which leads to positive brand associations. They provided the following reasons as their supporting quotes: *"The better the quality of advertising, the better the image is portrayed. "The way the bank is presented in the advertising, with the slogan, creates a positive image of the bank. "I build positive image if the adverting reflects good performance of the bank. "The bank personal selling is a very crucial tool because I judge the image of the bank based on my interactions with the bank staff. The better interactions, the better the bank image will be. "Furthermore, some of the interviewees mentioned that direct marketing could also create an image of a bank through messages, emails or phone calls. Hence, these tools should be developed in a professional and attractive manner. This finding was supported by the following quote: "If these tools provide me with the needed information, definitely, it will positively affect the bank image."*

### **Bank marketing communication tools that affect customers' loyalty towards the bank**

The fifth question was related to the bank marketing communication tools that affect loyalty towards the bank (brand loyalty is one of the CBBE dimensions). The interviewees had different opinions regarding this issue. The majority stated that the usage of the bank marketing communication tools does not affect their loyalty towards their banks. However, the rest were in favour of personal selling, particularly the customer advisor, and direct marketing, whereas a few were in favour of sales promotions. The majority of interviewees mentioned that their loyalty towards their banks is not based on the usage of the bank marketing communication tools because they tend to be loyal to their banks unless something major happens. In addition, they considered the decision of starting a new account as an important decision because changing banks is a big hassle. This idea was supported by the following quotes: *"I do not think that my loyalty is based on the bank's marketing communication tools because I tend to be loyal to my bank unless something major happens. "When I create an account in the bank, I never think of changing my bank, unless there is a major problem that forces me to change. "My loyalty is not influenced by any of the communication tools. As long as I am satisfied with the service, I have no reason to think of changing the bank I deal with. "Changing banks is a big hassle. Hence, my loyalty is not affected by the bank communication tools."* According to this question, some of the interviewees implied that the usage of marketing communication tools could act as a promoter regarding their loyalty towards their banks. They stated that customer advisors and direct marketing tools could affect their loyalty. These elements are vital due to both personal and direct contacts.

The importance of face-to-face communication and customized contact in the services sector, particularly the banking sector, gives a sense that the bank that the customer is dealing with has warm, intimate, and special treatments for its customers. Hence, it allows customers to feel important. Particularly, they stated that customer advisors are the ones who know how to build a business. They are the ones who give customers the sense of devotion and fidelity. In addition, others have agreed that direct marketing aids customers to be in direct and close contact with the bank. It allows them to be aware of every new service, promotion (offers), and relevant information regarding the bank, which definitely influences their reliability and loyalty. These ideas were supported by the following quotes: *"The customer advisor easily influences my loyalty. "My loyalty to the bank depends on the bank staff. When I feel that the staff are helpful and have the right advice for me that serves my own interest, I feel loyal to the bank. "Direct marketing helps me to always be in contact with the bank which will affect my bank loyalty. "Furthermore, a minor number of interviewees stated that their loyalty towards their banks is affected by the sales promotions. Sales promotions include for example the offers received when opening an account or using the credit card. They believed that when their banks provide special offers not found in other banks,*

such as free issuing fees, they feel that they receive better value for their money. They also feel that their banks are trying to satisfy them with a better service than other banks. These benefits create a catalyst to deepen their loyalty. This point was supported by the following quote: *"I am prepared to change my bank if it means getting a better value for money from another bank."*

#### **Bank marketing communication tools that affect customers' trust towards the bank**

The sixth question was related to the bank marketing communication tools that affect the trust towards the bank (brand trust is one of the CBBE dimensions). Different points of view have been obtained regarding this matter. The majority of responses were in favour of three communication tools, personal selling, advertising (particularly television), and direct marketing tools. However, few interviewees were in favour of public relations. The majority of interviewees believed that the banks' employees in general play a crucial role in affecting trust towards the bank. Customers feel much more comfortable when the bank staff provide them with clear information, fulfil the banks' promises and give advice to them about the best service that satisfies their needs. When employees appear to be frank about what the bank offers, customers begin to perceive them as dependable, credible, and responsible. Being extremely honest is important to maintain customers in banks. In addition, the interviewees believed that advertising (particularly television) affects their trust towards their banks because television advertising requires a huge amount of money to begin the campaign and allow for its airing. Hence, the bank that uses this form of advertising will try to promote what actually exists in the bank in order to maintain its good reputation. Advertising will reflect the genuineness of the bank, factors found in reality.

Furthermore, interviewees agreed that the regular correspondence that they received from their banks such as letters, make them feel that the bank has a good system they can trust. These direct communication tools affect clearly their reliance towards their bank, particularly if these tools deliver accurate and clear information. These previous ideas were supported by the following quotes: *"I think face-to-face communication is the most effective tool that can build my trust, particularly in the banking sector. "To trust a bank, the bank staff should be trustworthy, behave ethically and deliver the bank's promises in order to have a solid relationship with customers. "Television advertising is a good indication that I can trust the bank, as I know that Television advertising is expensive so it will be important to maintain a good reputation that has been enhanced by the advertising. "Direct communication tools affect the trust in a positive way if they provide me with right and clear information. "A few number of interviewees mentioned that public relations such as the usage of publications affect their trust towards their banks. Reliability of the publications allows customers to receive the needed information and promotions. This point was supported by the following quote: "Reliability of publications makes me feel that I can trust the bank."*

#### **The fourth group of questions in the interview was intended to examine the impact of CBBE dimensions on the overall brand equity**

##### **Importance of CBBE dimensions on building bank's brand equity**

The final area in the interview consisted of one closing question. The aim of this question is to know the importance of CBBE dimensions (brand awareness, brand perceived quality, brand associations, brand loyalty and brand trust) on building the bank's brand equity. All interviewees mentioned that all the previously discussed dimensions are very crucial in order to build the bank's brand equity, which will benefit to achieve a sustainable competitive advantage in the Egyptian banking sector. Additionally, they stated that these dimensions should exist altogether as a package. These dimensions should not be neglected or divided. They should be linked together since they complement each other in order to build the bank's brand equity. This point of view is supported by the following quotes: *"All the dimensions are needed to build bank*

brand equity; we cannot depend on one dimension and avoid the other. "All the dimensions are related and none of them can be disregarded." All the dimensions are essential and need to be taken into account. "In more detail, some of the interviewees indicated that the most critical dimensions in the Egyptian banking sector to build the bank's brand equity are trust and perceived quality. They stated that trust is a crucial dimension due to the specific characteristics of the banking services.

Furthermore, they mentioned that perceived quality is a vital dimension particularly for banks in order to survive and to compete in the Egyptian market. These opinions are supported by the following quotes: "All the dimensions are needed, but we should focus more on the brand trust due to the sensitivity of the banking sector." "All the dimensions are required, but I think that the bank brand equity is mainly directed by trust. It is important to me to be sure that I can trust that my money is safe with the bank and that I can receive the service I need when I need it and also that I will get the bank's promises." "All the dimensions are necessary but I think that one of the most important dimensions is trust, as I would never give such private information to an organisation I do not trust." "All the dimensions are needed, particularly the overall quality of the bank, when I choose a place to keep my money; I want to be sure that its quality is very good." "All the dimensions are important, but I believe that perceived quality is the most important one. I am attracted to the bank because of this. When the bank offers a better quality service than other banks, I am more inclined to use this bank." The following table (2) illustrates the themes that emerged during the interviews, which help develop a proposed conceptual framework.

**Table 2: The themes that emerged during the interviews.**

<b>Theme 1</b>	"Egyptians are very familiar with advertising, personal selling and WOM as critical means of communication in their daily life"
<b>Theme 2</b>	"In general, the marketing communication tools are powerful in delivering a message, particularly personal selling and advertising."
<b>Theme 3</b>	"The most commonly-used marketing communication tools in banks found in the Egyptian market are advertising, personal selling, and direct marketing."
<b>Theme 4</b>	"The most useful marketing communication tools on building a bank's value in the Egyptian market are personal selling, advertising, and direct marketing correspondently."
<b>Theme 5</b>	"The strongest marketing communication tools that affect Egyptians' awareness towards banks are WOM, advertising, personal selling and direct marketing."
<b>Theme 6</b>	"Personal selling, all forms of advertising, and direct marketing affect the perceived quality of a bank."
<b>Theme 7</b>	"Advertising with its different forms, bank employees and direct marketing are crucial means in affecting the brand associations in the Egyptian banking sector."
<b>Theme 8&amp;9</b>	"Bank communication tools do not affect customer's loyalty in the Egyptian market." "Customer advisor and direct marketing tools act as a promoter to the creation of customer's loyalty."
<b>Theme 10</b>	"Bank staff, television advertising, and direct marketing are trustworthy tools of communication in the Egyptian banking sector."
<b>Theme 11</b>	"All CBBE dimensions are necessary to build bank brand equity in the Egyptian banking sector, particularly trust and perceived quality of the bank have a significant impact."

## 5. Discussions

In the field of marketing, there are five main marketing communication tools that any institution, such as banks, can use in its integrated marketing campaign. These tools are advertising, personal selling, direct marketing, public relations, and sales promotion. Advertising refers to any paid notice from identified sponsors usually offered through communication media, such as television and radio. Personal selling refers to a personal presentation by the company's sales staff in order to make sales and to build customer relationships. Direct marketing refers to straight connections with targeted individual customers



to achieve both an immediate response and build long-lasting customer relationships; for example, catalogues, telephone calls, direct e-mails, mails and other communication tools to communicate directly with particular customers. Public relations consist of building good relations with the company's various publics. It includes sponsorship marketing, and special events. Finally, sales promotion refers to short-term incentives for a customer to make immediate purchase such as discounts, and coupons. Based on the interviews' analysis, the researcher concluded that the most familiar marketing communication tools known in Egypt are advertising (one-way communication tool), and personal selling (two-way communication tool). Both tools are generally recognised as the most powerful tools in delivering a message.

Regarding the banking sector, the respondents stated a third communication tool: direct marketing. They believed that these three controllable communication tools (advertising, personal selling and direct marketing) are the most influential to promote and create a bank's brand equity through CBBE dimensions. Each of these marketing communication tools that were vital in the Egyptian banking sector impacts certain CBBE dimensions, with different explanations. Advertising, the first perceived influential tool in communication, was found to have an impact on (1) brand awareness, (2) brand perceived quality, (3) brand associations, and (4) brand trust. Respondents believed that advertising is proficient in introducing customers to banking services and in providing detailed information. Advertising helps to increase the audiences' awareness of issues with which they may be unfamiliar, as well as educate them on related benefits of the service. The respondents indicated that a well-designed advertising would definitely reflect good quality and good image towards the bank in the customer's mind. Hence, the bank will be associated with something positive so that the customer will relate the brand to being constructive. Additionally, the advertising impacts the trust towards a bank when the customer's expectations are met and when the bank's promises are delivered.

Personal selling, the second perceived influential tool in communication, was found to go hand-in-hand with effective bank employees. They then impact (1) brand awareness, (2) brand perceived quality, (3) brand associations, (4) brand loyalty, and (5) brand trust. Respondents believed that one of the major roles of personal selling is to inform and educate customers on various banking services in order to create awareness and interest with potential customers. Furthermore, they indicated that the bank's employees promote the bank's services through their appearance, attitude and knowledge. Hence, when the bank's employees are presentable, friendly and knowledgeable, customers will perceive the bank as having high quality and will be associated with positive features in the customer's mind. In fact, effective employees (whether they are personal selling or customer advisors) keep customers satisfied and build long-term relationships with them. Bear in mind that bank employees listen to and communicate with customers to solve their problems in order to win their trust and confidence. At the end, customers who are satisfied are more inclined to deal with the bank again and to become loyal customers towards the bank.

Direct marketing, the third perceived influential tool in communication, was found to have an impact on (1) brand awareness, (2) brand perceived quality, (3) brand associations, (4) brand loyalty, and (5) brand trust. Interviewees believed that this means of communication works differently than other tools. Technology has allowed customers to be empowered with advanced communication tools, such as mobile phones, Internet messages, and international quick postal services. These devices can be viewed as unique means of connecting to the target segment. Direct marketing is driven by databases, which provide accurate data about the customers to satisfy their needs and to win their trust. Although this tool is still evolving, it is already finding success when building brand equity. According to the interviewees, customers'

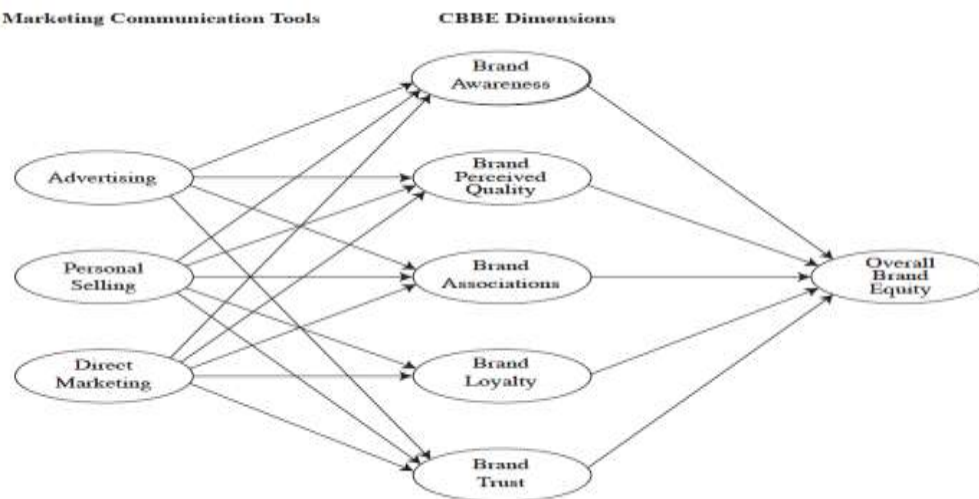


involvement is the key towards accomplishment because of its participatory communications. This technique helps boost customers' awareness, and reflects good quality in the customer's mind. In addition, this tool helps develop a direct and close contact with customers. Those contacts help create and maintain strong relationships, which lead to loyal customers.

Finally, the interviewees mentioned the importance of all the CBBE dimensions (brand awareness, brand perceived quality, brand associations, brand loyalty and brand trust), particularly brand perceived quality and brand trust in order to build the bank's brand equity. Based on the interview findings and the emergent themes, the researcher has identified three major marketing communication tools in the Egyptian banking sector as follows: advertising, personal selling and direct marketing. Each of these tools impacts different CBBE dimensions with different explanations.

According to these qualitative findings and the previous studies, a proposed conceptual framework was developed. Diagram (1) illustrates the three major bank marketing communication tools and the CBBE dimensions in which they influence. The lines indicate the links that leads to overall brand equity.

**Figure (1): Proposed model**



## 6. Conclusion

### Limitations and future research

This study provides a significant advancement to the current literature of branding, particularly in the service brand equity. As the researcher reviewed the literature review, it has been found that the developed branding models focused more on the context of physical goods, while limited number of studies focused on the service sector. Particularly, a small number of studies have addressed branding issues and challenges faced by financial services organisations. Moreover, the literature showed that scholars have highlighted the need to further examine the impact of the marketing mix elements in general on building brand equity. The researcher noticed that only a small number of studies have examined the impact of selected marketing mix elements on brand equity as a separate construct via two or three CBBE dimensions. Furthermore few studies have focused on the overall brand equity as separate construct. Therefore, this study provides a complete understanding by focusing on one of the most important marketing mix elements (major marketing communication tools) and their impact on building the overall brand equity as separate construct via five CBBE dimensions.

Additionally, it has been found that some previous studies have focused on managerial and brand experts' perspectives. However, this study is based on the customers' perspective to obtain information from service takers in order to provide a valuable and more realistic insight into the branding issues, adding more knowledge and helping managers to develop effective marketing strategies and programmes effectively in the area of branding. In conclusion, based on the research outcomes, a conceptual framework has been formed for future researchers to use. Therefore, the distinctive contribution of this research arises from providing an integrated framework that combines the major marketing communication tools, five CBBE dimensions and overall brand equity in the Egyptian banking sector, where the concept of brand equity is not well developed. However, this study had several limitations. First was the small size of the sample. Second, the conclusion was based on what the respondents expressed. The respondents might not be telling the truth or express sincere how they feel. Third, the researcher did not take into consideration the uncontrollable communication tool (WOM), which was mentioned by the interviewees as a communication tool that affects brand awareness. Fourth, themed analysis was used, which is the process of pinpointing, examining, and recording patterns (or "themes"). This method is popular but the data interpretations depend on the researcher understanding based on the respondents' answers. Thus, the present study needed to be supported by quantitative research that evaluates the range of proposed antecedents as well as the overall model that was suggested.

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# Private label brand adoption in South Africa: a qualitative analysis of grocery products using expert opinion

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## Keywords

Private label, store brand, cereal, FMCG, qualitative, South Africa

## Abstract

*This study considered the adoption of private label brands, with a particular focus on breakfast cereals sold under a retailer's own label, within the South African grocery sector. A panel of twelve corporate and academic experts was assembled and consulted to probe these issues and draw suitable qualitative insights for retailers to improve the inherent quality of their private label merchandise and the marketing thereof. Based on the insights gleaned, a number of conclusions and managerial implications were reached. This study produced results to suggest that packaging is an inadequate feature of PLBs in their current state, suggesting a potential reason for their poor quality perceptions and relative lack of success in the South African market place. Moreover, the study stressed the importance of value, and particularly the effect of price in this equation. Lower prices have served as the basis on which these products have traditionally been sold, yet product quality should not be overlooked as a determinant in the value equation. Moreover, the leverage potential of the store image was also highlighted as a prominent factor to allay such fears and create a 'halo effect' for the brand.*

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## 1. Introduction

This study considered the adoption of private label brands, with a particular focus on breakfast cereals sold under a retailer's own label, within the South African grocery sector. Whilst most studies within this field of enquiry have conducted consumer level research, this study considers issues from an industry perspective. To this end, a panel of twelve corporate and academic experts was assembled and consulted to probe these issues and draw suitable qualitative insights for retailers to improve the inherent quality of their private label merchandise and the marketing thereof.

## 2. Background to the Study

### 2.1 Brands in the Retail Sector

Brands are omnipresent in both scholarly literature and daily life (Fan, 2005). deChernatony (2001) describes a brand as "an identifiable product, service, person or place, augmented in such a way that the buyer or user perceives relevant, unique, sustainable added values which match their needs most closely" (Mowle & Merrilees, 2005: 221). Weisnewski (2008: 53) refers to a brand as "everything associated with a company, product, service or person - all the attributes, tangible and intangible". These benefits are vital in terms of product and service differentiation and play an important role in building and maintaining consumer loyalty (Weisnewski, 2009; Knox, 2004; Wood, 2000). Weisnewski (2008: 57) succinctly declares that a brand is a powerful ambassador for the company and "rallies your troops and builds a loyal base of customers who also become messengers happy to spread the word and expand your business".

In the retail sector, primarily two forms of brand categories exist – National Brands (NBs) and Private Label Brands (PLBs). The key difference between them lies in the ownership of trademark rights. “Trademark rights of private label brands are held by retailers, while trademark rights of national brands are held by manufacturers” (Olbrich & Grewe, 2009: 937). Thus, PLBs are owned, controlled and marketed by the retailers and NBs are acquired, and resold, from established suppliers.

PLBs are generally priced lower due to simple packaging, weak brand recognition and minimal advertising, whilst national brands are priced at a premium due to strict quality controls, aesthetically appealing packaging and widespread advertising (De Wulf *et al*, 2005). As a result, the average consumer perceives NBs to be of superior quality and reliability (Martenson, 2007; De Wulf *et al*, 2005). However, NBs are somewhat limiting for retailers in the sense that they do not differentiate the business from its competitors and restrict the opportunities available for merchandise innovation and customer loyalty retention (Martenson, 2007). PLBs, on the other hand, offer the retailer a raft of advantages. These are discussed below.

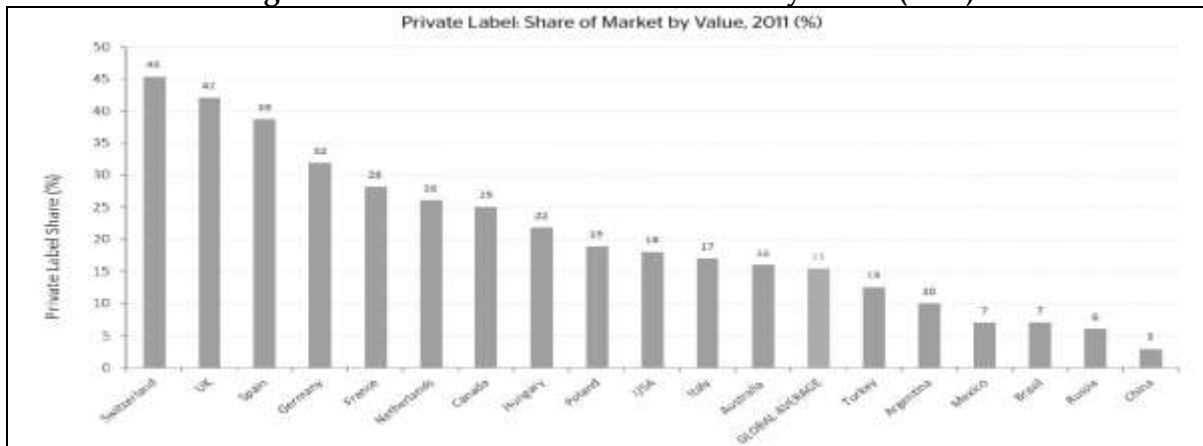
First, owing to the modest marketing and supply chain expenses in managing PLBs, retailers are able to sell them at competitive prices while maintaining higher margins than achievable on NBs (Kumar & Steenkamp, 2007; Baltas, 2003; Corstjens *et al*, 1995; Broadbent, 1994). Another invaluable aspect of PLBs is that they strengthen the bargaining power of retailers (Herstein & Jaffe, 2007). An innovative PLB may also serve to breathe fresh life into a category which has become staid, or where competition to a leading NB is sorely needed. Hence, PLBs can provide consumers with a “real brand choice”, thereby increasing customer satisfaction through greater product variety (Huang & Huddleston, 2009: 978). For example, the aforementioned successes are evident in Tesco’s Finest Premier Cru Champagne, which was named the best non-vintage champagne at the 2005 International Wine Challenge (Kumar & Steenkamp, 2007). Lastly, PLBs are store specific and are, hence, not substitutable when switching to a different retail chain. Thus, they avoid direct price competition and enhance store differentiation (Huang & Huddleston, 2009; Herstein & Jaffe, 2007; Zielke & Dobbelstein, 2007; Baltas, 2003).

## 2.2 A Profile of Private Label Brands

Internationally, PLBs constitute an average of 15 percent of total retail market share, with some European countries (e.g. Switzerland and the United Kingdom) fast approaching a 50/50 split in market share between NBs and PLBs. In contrast, South Africa’s private label penetration rate is a mere 11 percent, similar to that of Turkey and Argentina (Klug & Queck, 2012). The remainder of Africa fares even less favourably. Figure 1.1, on the following page, illustrates the private label market share achieved by a host of countries. It is immediately evident that Western European nations are leading the charge in penetrating their domestic markets with PLBs. Emerging markets such as Turkey, Argentina, Mexico, Brazil, Russia and China experience penetration rates significantly below the global average (15 percent) and are therefore still playing ‘catch up’.

Recent academic research on this subject affirms the above findings. Herstein and Jaffe (2007) found that European and North American markets were fertile grounds for PLBs, achieving some of the highest penetration rates. Nonetheless, emerging markets are experiencing phenomenal growth potential, with growth rates of up to eleven percent recorded, albeit off a low base. This is in stark contrast to developed nations that were seen to have a reasonable growth rate of approximately five percent.

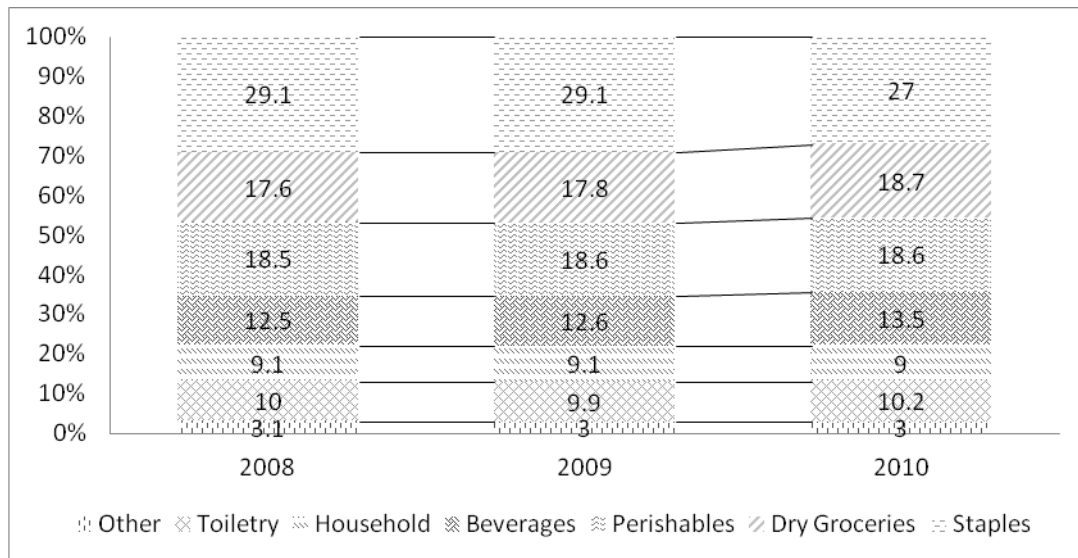
**Figure 1: Private Label Share of Market by Value (2011)**



Source: Klug and Queck (2012)

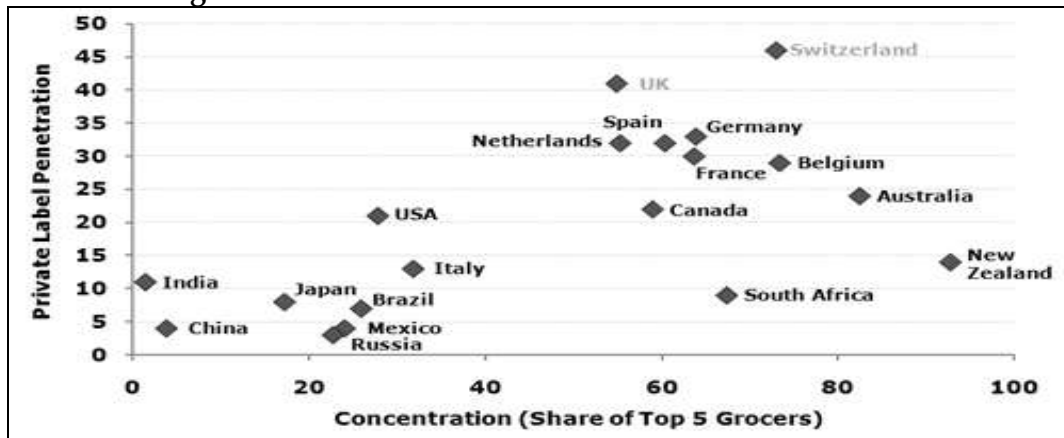
In terms of private label adoption in South Africa, the relative success of different product segments is depicted in Figure 1.2 on the following page. Staples (commodities) comprise the largest segment, followed by dry groceries and perishables. These three segments command the lion’s share of the market – approximately two thirds of private label sales. As can be seen, these segments have remained relatively stable over the review period of 2008 to 2010 (Nielsen, 2011).

**Figure 2: Consumer Spend on Private Labels (2008–2010)**



Source: Nielsen (2011)

Research has established that high retail concentration (essentially an oligopoly scenario in the retail sector) is strongly correlated with the success of PLBs (Nielsen, 2006). Figure 1.3, depicting market research by Planet Retail (2010), bears testimony to this. It may be seen that countries such as the United Kingdom, Switzerland and Germany all enjoy relatively high penetration rates of PLBs. This is positively correlated with the concentration of retail power in the grocery sector. Hence, these results indicate that when a small number of relatively large grocery chains dominate the market, one would expect to see private label penetration receive a stimulus.

**Figure 3: Private Label Penetration versus Concentration**

Source: Planet Retail (2010)

Yet, in South Africa, despite a high degree of retail concentration held by the five major supermarket chains, PLBs have not achieved the level of success of their global counterparts. This may, in part, be explained by the accessibility factor. In South Africa, lower income groups often do not have direct access to supermarket stores where PLBs are readily available. This leads these consumers to shop at local 'spaza' outlets, similar to convenience stores, but owned by community members and present in the township areas. These stores tend to charge higher prices due to their location, as well as not being able to benefit from larger economies of scale (Klemz et al, 2006). Almost twenty percent of Fast Moving Consumer Goods (FMCG) sales are estimated to occur through this informal sector (Blottnitz, 2007), therefore representing a lost opportunity for private labels. This is in contrast to developed countries, which tend to have a smaller informal sector.

### 3. Methodology

In order to shed light on the status quo of marketing and adoption of private label brands in South Africa, with a particular emphasis on breakfast cereals of this variety, a series of questions was put to a panel of experts in order to collect qualitative insights to better understand this market segment. The core questions raised in the consultation process are reflected in Table 1 below.

**Table 1: Questions posed to Panel Members**

Question 1	What is your view on the product development status and value proposition of FMCG private label brands, in general, within South Africa?
Question 2	What is your view on the product development status and value proposition of <u>breakfast cereal</u> private label brands in South Africa?
Question 3	In your opinion, how could private label brands, such as breakfast cereal, be better marketed in South Africa?
Question 4	Are there are particular variables or consumer characteristics that you feel might influence the value proposition or consumption behaviour of private label breakfast cereal in South Africa?

A panel of experts was assembled, consulting of six senior academic staff members of a prestigious university in South Africa, and six members of the local business community with knowledge and experience of private label brands. Their initials and association (academic versus corporate) are reflected below.

- JS(academic)
- GH(academic)
- EB (academic)
- HS (academic)
- JL(academic)
- CM (academic)
- SH (corporate)
- IW (corporate)
- BB (corporate)
- AN (corporate)
- AF (corporate)
- TM(corporate)

The corporate members of the panel included the executive director of a major private label contract manufacturer in South Africa, a retail data analysis and consultancy provider and the category operations manager of a worldwide food producer.

Based on the collective qualitative response of the twelve members listed above, data from the panel was assessed and insights drawn. The question-by-question feedback is synthesised and presented in the findings section below. Thereafter, conclusions and managerial implications are extracted.

### 3. Findings

#### 3.1 Panel Response to Question One

The first question probed participants' general views on the product development status and value proposition of FMCG private label offerings in South Africa.

Arguably, the most authoritative view was raised by AN, who has engaged in the business development and marketing of both national and private labels over the previous quarter of a century. He asserted:

*"I believe that it has made very good progress in the past 5 years, but that it still lags that of Europe, in particular the UK, France and Germany. The improvement over the last couple of years can be seen in the market share gains of Private Label products across a large number of FMCG categories. The improvement is driven by improved quality product, better packaging, improved availability and visibility on supermarket shelves."*

A more scholarly-oriented view was advocated by GH:

*"In my mind these products were initially developed to reflect a 'better' value proposition based primarily on price and volume advantages. In modern marketing practice I suspect that the use of PLB has moved beyond just transactional factors. Seemingly brands can now be employed to achieve multiple strategic marketing objectives – such as trust in a particular retailer."*

These sentiments were echoed throughout the panel. BB, however, pointed to a continuum of product development, drawing a sharp contrast between the mass-market retailer, Shoprite, and Woolworths, positioned at the upper end of the market:

*"My perception is that there are private label brand options for most FMCG product categories. On the one end of the spectrum Shoprite private label products have generic packaging but offer excellent value for money, whereas on the other end of the spectrum Woolworths private label products have more sophisticated package design and are priced to suit the premium, less price-sensitive customers they target. My feeling is that different South African retailers have well developed yet different private label brand strategies that are well designed to meet the value expectations of their customers."*

AF provided a fascinating insight from his company's independent analysis:



*"I have noticed in our data [...] that people often can't distinguish between house brands and non-house brands."*

AF substantiated this finding by saying that although private labels have experienced very modest growth and played a relatively small role in the growth strategies of retailers, this appears to be changing with

*"more retailers developing their private label brands from something that used to be the 'cheap alternative' to more trusted and even exclusive brands".*

He further contended that

*"private label brands are likely to continue increasing market shares, especially if products are perceived to be good quality – which seems to be the case".*

JS also weighed in on the issue by postulating that the prominence and stature of many NBs puts them in an enviable position to compete with private label alternatives.

He postulated that the

*"...hangover from apartheid days when many multinationals pulled out of RSA [Republic of South Africa], fearing that their presence here would impact on brand performance in other countries," has resulted in there being "relatively few national brands available, making them very powerful in terms of their interaction and negotiation with the relatively few major retailers locally."*

JS noted that is particularly evident in the breakfast cereal market.

An amalgamated version of these views reflects a competitive landscape with private labels rising in prominence and competing increasingly aggressively with entrenched NBs.

### 3.2 Panel Response to Question Two

The second question probed participants' general views on the product development status and value proposition of breakfast cereal PLBs in South Africa.

Again, an impression of a dynamic market was created by the participants in response to the second question posed. In this instance, the issue of price was reflected as a highly pertinent factor in the views expressed.

In her personal capacity, CM claimed that she has *"tried new brands of cereal usually to check the quality of the cereal but mostly based on competitive cost"*. Underscoring this notion, GH and BB asserted that retailers are looking for the edge by punting their cereals as a cheaper alternative to NBs. EB appeared to agree with this sentiment through her statement that:

*"I would be happy to always buy private label brands if the price differential (between these brands and national brands was substantial enough."*

However, she noted this is often not the case, with a tried and trusted NB often priced only slightly above the private label option. For that reason, EB appeared skeptical about the comparative value proposition of private label breakfast cereals.

The notion of cheap manifested itself in various forms. SH noted that most of these products are *"boring"*, particularly due to *"little product differentiation and innovation"*. JL, likewise, noted that:

*"The packaging is often a bit bland (picture with white background) which interestingly seems okay for dairy products (I almost exclusively buy PnP label dairy products including yoghurt, milk, butter) but the bland packaging doesn't entice me towards PnP cereals."*

AN also took issue with the mediocre packaging from an industry perspective:

*"Price is [the] only value proposition for private label. Others such as pack design, innovation and on-shelf availability are poor."*

The transformation of breakfast cereal, as a product category in its own right, was placed under the microscope by JS. He reckoned that consumers increasingly see the product in transactional terms:

*“The consumption of breakfast cereal has undergone massive change as people’s lifestyles change. Breakfast is no longer a family-sit down affair. People eat on the run, so to speak. Note too, that cooked breakfasts are a thing of the past.”*

The panel response to question two paints of picture of under investment in private label breakfast cereals. In this respect, the value proposition is questioned, along with the extrinsic cues such as packaging and in-store enticement. Further to this, JS’s view alludes to the fact that breakfast cereal is becoming a discretionary item, as opposed to staple dietary requirement.

### 3.3. Panel Response to Question Three

Question three placed the spotlight on how PLBs, such as breakfast cereal, could be better marketed in South Africa.

Responses from participants focused predominantly on improvements in the intrinsic product quality and packaging, as well as the on-shelf appearance of this merchandise.

According to HS

*“If PLB’s want to compete with national brands amongst higher income consumers a larger focus could be placed on the source and manufacturing of the products, as well as the quality of the ingredients used.”* Furthermore, *“PLB’s could also be less generic in their product offering and start adding extensions and formulations to their products in order to differentiate themselves further from the national brands. E.g. Cornflakes with Berries, or Vanilla Cornflakes, Larger Flake Cornflakes etc (i.e. anything that the national brands are NOT currently doing).”*

SHand BBalso highlighted the need to improve packaging and suggested further means of endorsement and promotion such as punting South African production and consumption (SH: *“local is lekker”*, translated as *“local is really good”*), in addition to in-store tastings to demonstrate product features and provide quality assurance.

TM felt that considerably more needed to be done at an in-store level:

*“I think the activity in store could be up weighted. I think what they have done with positioning on shelf next to the market leader is the biggest win for them. However, they have not done much else to drive awareness to their offer at shop shelf. There is no media/communication at shelf highlighting their offer versus the market leader.”*

Whilst concurring with the need for in-store attractions and exposure, AF stressed the need for mainstream media exposure. He asserted:

*“Considering the vast amount of ‘traditional’ (albeit expensive) advertising that national cereal brands do through television, big billboards and competitions, the options for more extensive marketing are limitless. Store based promotions could also expand the consumer base.”*

AN drew together a number of the insights expressed both in this question and elsewhere in the feedback process. His suggestions for retailers were recorded as follows:

- *Improve the appearance and design of private label breakfast cereal packaging to make it more attractive to children (who are heavy users of the product).*
- *Allocate greater shelf space to these products than is currently the case.*
- *Place a strong focus on innovation as private labels are paired against formidable competitors such as Kellogg’s, Bokomo and Jungle Oats.*
- *Strengthen the value proposition across all factors of price, quality, packaging, etc.*
- *There may still be gaps in the category worth exploiting. For example, there is potential to develop and launch a Weetabix lookalike as a private label.*

### 3.4 Panel Response to Question Four

Question four sought to clarify whether there were any exogenous variables and consumer characteristics, not included in the study, which might influence the consumer's value proposition of, and consumption behavior towards, the merchandise under consideration.

Whilst there was a subtle difference in wording between the two questions, the panel participants referred to the pertinent issues interchangeably. Hence, these were jointly analysed. The respective views are presented below.

The influence of reference groups and peer perceptions were highlighted by SHand GH as noteworthy facets for further enquiry. So too was the distinction between rural and urban consumers. Here, GH added further clarity by stating that

*"one may gain new insights by employing a culture measurement to account for within-country diversity".*

Thus, in a country as multicultural as South Africa, further strands of research into cultural differences may prove enlightening. Connected to this perspective, BB created a linkage between reference group marketing and the promotion of the merchandise:

*"I think reference group marketing / opinion leaders could play a significant role in the promotion of private label brands. Choosing [sic] opinion leaders (aspirational specifically although contractual could work too) relevant to the target audience of the private label brand could go a long way to establishing trust for the private label brand without product trial and without above-the-line spend. Product packaging and in-store promotions (including physical appearances, giveaways and cardboard cut-outs) could be leveraged to promote the endorsement of the private label brand by the opinion leader."*

JL and EB both noted that "generational" or "family" influence might have a bearing on how consumers perceive the merchandise. JL added that his children have some sway in determining which cereals are bought for the household. Allied to this viewpoint, the influence of children was also raised by AN, noting that:

*"They are the main users and also very strong influencers as to what the mothers must buy. What do children think of Private Label versus branded products? They certainly will look at different value drivers than what mothers do, i.e. packaging on the table."*

HS and GH both pointed to the distinction between willingness to buy and actual purchasing behaviour. Here, GH suggested that a lot of research, including this study, has opted in favour of capturing a self-professed intention to buy, rather than observing actual purchasing behaviour. Hence, uncertainty was expressed as to whether the stated intention to acquire the merchandise necessarily translates into an affirmative decision at the point of purchase. This remains a limitation of model-based consumer studies.

HS also drew reference to the notion of social risk, stating that some products that are used in a public environment may be more susceptible to this form of risk than household consumption items. Therefore, in her words,

*"willingness to buy may then also possibly be influenced by personal image as well as intended final consumption".*

Two further factors were highlighted by TM and EB. TM pointed to the time of the month, suggesting that consumers are likely to favour NBs at month-end after having been paid their salaries, whilst PLBs may benefit from 'top up' purchases throughout the month when funds are not as plentiful. Connected to this, EB suggested that disposable income levels are highly likely to influence shopping patterns and purchase decisions. Owing to these constraints, certain individuals and families may therefore be forced into buying the cheaper brands (typically PLBs) without due consideration of factors such as perceived quality and risk.





Nonetheless, it is hoped that this will shed further insight on a mounting volume of research concerning private label brands in emerging markets.

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# South Korea's country personality in Thai consumer's perception: A qualitative study

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## Keywords

Country personality, Brand personality, Marketing, South Korea, Thailand

## Abstract

*Brand personality applies human personality traits to describe a brand. While brand personality has attracted interests from marketing researchers for decades, the application of brand personality to describe a country as a person is still in its infancy. To fill in this void, the present study employs a qualitative research to gain insights in this topic and explore the possibility that new country personality dimensions and/or traits will emerge. Data collected from Thai consumers reveal six dimensions of Korea's country personality including Development (e.g., advanced, developed, highly educated), Agreeableness (e.g., friendly, sincere, sympathetic), Good Appearance (e.g., cute, beautiful, surgical, handsome), Trendiness (e.g., entertaining, fashionable, touristic), Conservatism (e.g., religious, orderly, patriotic), and Negativity (selfish, impolite, chaotic). Several research implications are discussed and avenues for future research are offered.*

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## 1. Introduction

Brand personality is a concept which applies human personality traits to describe a brand (Aaker, 1997). While brand personality has attracted interests from marketing researchers for decades, the application of brand personality to non-traditional products or non-products is relatively new. Nevertheless, recently researchers have started to apply the concept of brand personality to non-product entities in such diverse areas as non-profit organizations (Venable et al., 2005), cultural festivals (d'Astous, Colber & d'Astous E., 2006), sports teams (Tsiotsou, 2012), website personality (Chen & Rodgers, 2006), and tourist destinations (Upadhyaya, 2012; Hosany, Ekinci & Uysal, 2006).

Another area that warrants more research in brand personality is the study of country as a brand. In this sense, brand personality of a country or country personality reflects how a country is viewed by using personality trait descriptors. When a country is considered as a brand, brand personality is useful for describing a country. By putting a country's characteristics together and explaining them as human personality traits can be very important for country branding, both for promoting it as a tourist destination and for exporting its product to other countries. How a country is conceptualized with a particular set of personality traits may affect consumer's cognition, attitude, and behavior regarding their decision-making related to that country. As the research in the country personality area is still relatively scant, therefore, this study is a preliminary step toward such direction with an expectation to fill the gap in country personality literature.

South Korea is chosen as a focal country in the present study due to several important reasons. First, South Korea is a country with unique culture. Although South Korea has been relatively more modernized or westernized on the surface than other several Asian countries, South Korean people still maintain their culture, tradition, and customs (Lee 2012). In addition, South Korea is a country that practices the Confucius principle and it heavily plays major roles

even in the present day Korea (Sung & Tinkham 2005). As a result, South Korea is a country with a combination of both traditional, eastern culture and modern, western development. This unique characteristic combination, thus, could lend itself to the reflection of several personality traits of the country. Moreover, in terms of the economic and business perspective, South Korea is a major player in the global economy. Several business conglomerates including, for example, Samsung, LG, Hyundai, and Daewoo are one of the biggest manufacturers for a variety of products especially those in the technology and electronic sectors (Bouhleb, Mzoughi, Hadji, & Slimane, 2011; Yu, 1999; Kim, 2006). For instance, in Thailand, Samsung smart phones are competing forcefully with the US Apple's I-phone and thus has gained considerable market share. In addition, for Thai people, especially teenagers or young adults, South Korean popular culture (K-Pop) has been well and widely received. South Korean movies, music, dance, actors/actress and singers, collectively, may nicely reflect South Korean cultures and thus form some bases for the development of country personality for South Korea in the perception of Thai consumers. Based on this discussion, Korea is, thus, selected as a country of interest to study the perception of country personality in the view point of Thai people.

## 2. Theoretical Background

### Brand Personality

Brand personality reflects human personality traits perceived in a given brand and it explains the personality of that brand (Aaker, 1997). Two sources of brand personality are (1) product-related source including, for example, product category, packaging, and price and (2) non-product-related source such as consumer experience, symbols, marketing communication, and corporate management (Sung & Tinkham, 2005). Brand personality is suggested to have impacts on consumer behaviors especially in terms of needs and decision-making (Swaminathan, Stillee & Ahluwalia, 2009). Therefore, brand personality may be used as a strategic marketing tool for creating a relationship between consumers and a brand.

Drawing from psychology and marketing literature, Aaker (1997) developed the brand personality construct and its measure. Through a series of factor analyses, 42 appropriate brand personality traits are identified in five dimensions of brand personality as follows:

- 1) *Sincerity*: down-to-earth, family-oriented, small-town, honest, sincere, real, wholesome, original, cheerful, sentimental, and friendly.
- 2) *Excitement*: daring, trendy, exciting, spirited, cool, young, imaginative, unique, up-to-date, independent, and contemporary.
- 3) *Competence*: reliable, hard-working, secure, intelligent, technical, corporate, successful, leader, and confident.
- 4) *Sophistication*: upper class, glamorous, good looking, charming, feminine, and smooth.
- 5) *Ruggedness*: outdoorsy, masculine, western, tough, and rugged.

Although these five-dimensions emerged from a wide range of product categories including toothpaste, canned soup, retail chain store, automobile, shoe, tire, soft drink, computer, jeans, television set, television station, photo film, candy bar, lotion, credit card, medicine, telephone service, toy, greeting card, perfume, cosmetics, cereal, and fast-food chain, these are typical or traditional products and brands. Therefore, relatively little is known regarding the extent to which the concept of brand personality can be applicable when country is used as a brand. As a result, the present research attempts to fill in this void.

### Country personality

The idea of a country as a brand is playing an increasingly important role in people's lives through mass media, product origin and travel experiences. D'Astous and Boujbel (2007)



argued that country personality is a useful instrument for assessing the country image by using the human traits as a guideline. This consumer's perception is very important for global marketers where multinational transactions occur across the globe more frequently. In addition, country personality implies relating a variety of acknowledged characteristics of a country to personality in such dimensions as government policy, economy, society, culture, and tourism. For example, the US may be viewed as possessing an aggressive personality while Japan is of a humble one. Country personality may help identify the meaning of each country in terms of which personality type they belong to, thus providing an insight or a strategic tool for marketing a country.

Using a quantitative approach, d'Astous and Boujbel (2007) developed a scale to measure country personality. Their results revealed six country personality dimensions grouping from 38 personality trait descriptors as follow:

- 1) *Agreeableness*: bon-vivant, amusing, reveler, agreeable, generous, cooperative, accommodating, romantic, and accepting
- 2) *Wickedness*: vulgar, decadent, offender, immoral, fighter, and violent
- 3) *Assiduousness*: organized, rigorous, hard to work, flourishing, serious, and important
- 4) *Snobbism*: snobbish, naughty, mannered, chauvinist, and egocentric
- 5) *Conformity*: religious, spiritual, traditionalist, ceremonious, and mysterious
- 6) *Unobtrusiveness*: cowardly, wimpy, dependent, discrete, and neutral

### 3. Methodology

In order to gain an insight in the personality of the country of interest and explore the possibility that new country personality dimensions and/or traits will emerge, the present study opts for a qualitative study. Fourteen samples of Thai undergraduate students were interviewed individually. The researchers created the casual ambience by asking the participant one or two introductory questions. For example, "Have you ever been to South Korea?" Or "Have you ever seen or ever heard about South Korea from any media?" Then, the researchers told them to imagine South Korea and asked them "if South Korea was a person, what would be its characteristics?" In this step, each participant was asked to think about the personality traits for at least 5 words that came to their mind when thinking of South Korea.

### 4. Results and Discussions

After the interview, 88 personality traits derived from 14 participants were obtained. Subsequently, the redundant words were removed, leaving 45 non-redundant personality traits. Based on the meanings and the relationships among these personality traits, six groups or dimensions of Korea's country personality emerged as below:

- 1) *Development*: technologically leading, thriving, advanced, developed, leader, highly educated, and well-organized
- 2) *Agreeableness*: friendly, sincere, bright, good human relations, sympathetic, united, natural, flexible, peaceful, and cultured
- 3) *Good Appearance*: cute, beautiful, surgical, handsome, distinctive, beauty-loving, and good-looking.
- 4) *Trendiness*: entertaining, fashionable, touristic, tasty, well-dressed, contemporary, stylish, unique, and welcoming
- 5) *Conservatism*: religious, orderly, patriotic, and strict-in-law
- 6) *Negativity*: selfish, temperamental, impolite, insincere, superficial, stingy, war-related, and chaotic

At the dimensional level, in comparison with d'Astous and Boujbel's (2007) country personality dimensions, our agreeableness and wickedness-negativity dimensions are conceptually similar. At the trait level, for each individual country personality trait, our findings reveal six traits that are semantically connected or similar to those of d'Astous and Boujbel (2007) including (1) united-cooperative, (2) war-related-violent, (3) patriotic-chauvinist, (4) selfish-egocentric, (5) cultured-traditionalist, and (6) religious-religious.

After the six dimensions of Korea's country personality dimensions and 45 traits revealed in our study are compared and analyzed with those identified in the literature especially those proposed by d'Astous and Boujbel (2007), some similarities and differences warrant further discussions.

In terms of similarities, first, both sets are composed of both positive and negative personality traits. This finding confirms that the personality of a country can be expressed negatively, or in terms of undesirable characteristics. This is different from the brand personality construct uncovered by Aaker (1997) which include only positive items. It may be possible that brand personality (in comparison with country personality) is more articulately managed by marketers. As a consequence, only positive descriptors were found for brand personality. On the other hand, country personality is often not specifically managed or more difficult and complicated to play with. That is, country personality could be affected by several more uncontrollable factors. As a result, negative dimensions are found for country personality. It should be noted, however, that the degree of negativity in the present study is not as negative as those found in the previous literature, judging from the meaning or connotation of the traits. It is possible that this relatively less negative aspect may reflect the characteristics of either the country of interest (South Korea) or the country of the research subjects (Thailand). Both countries are Asian. Asian culture tends to focus on respect and politeness. Therefore, South Korea, in general, is not viewed as a negative country. In addition, Thailand is high on the femininity aspect (Sophonsiri & Polyorat, 2009). Being soft and gentle people, Thai respondents may not describe South Korea too harshly or too negatively. Next, the sources of the country personality perception appear to be similar. That is, both our set and d'Astous and Boujbel's (2007) set reflect the country image or perception consumers may form from the exposure to various media, product they use, family and friends, direct experience with the country, and the general characteristics of the country.

The results from the present possess some differences from d'Astous and Boujbel's (2007) in some respects. As our study collected data concerning exclusively one country (South Korea), the results, therefore, undoubtedly reflect some unique features of this country which are generally not found from a study that cover several countries at once. These two South-Korea specific dimensions include *Good Appearance* (cute, beautiful, surgical, handsome, distinctive, beauty-loving, and good-looking) and *Trendiness* (entertaining, fashionable, touristic, tasty, well-dressed, contemporary, stylish, unique, and welcoming). These two dimensions obviously reflect the country image influenced by popular culture exported by South Korea. The traits like surgical, entertaining (TV series, singers, actors), and war-related clearly illustrate the distinctive image of South Korea while a scale developed based on several countries in a single study may not naturally lend itself to the discovery of a unique feature. In this sense, the goal of using a qualitative approach to explore the emergence of new personality traits and dimensions is attained.

## 5. Conclusion

### Research Implications

The present study provides several contributions to the areas of country marketing and branding. In terms of theoretical implications, as relatively little research exists in the area of country branding or country personality, this research is a preliminary step toward examining the country personality dimensions and traits, thus, at least partially, filling the void in country personality literature. Moreover, there are a number of personality traits obtained from the interview in this study that are new words which have not been identified in the previous country personality studies. Further investigation of these new country personality traits would provide a fruitful effort in a better understanding of the construct. For example, these new personality traits can be used as a pool to generate scale items to measure the country personality dimensions in a more comprehensive manner.

Regarding managerial contributions, based on the results of the current study, it could be inferred that nowadays people have known about South Korea through various channels. Findings of the present study revealed personality traits that came to Thai customers' mind when thinking of South Korea. With the country personality traits and dimensions being revealed, South Korea will know what characteristics people think of it. Furthermore, the country personality dimensions were shown in both positive and negative sides. Therefore, it would be beneficial for that country to conserve and continuously develop their positive image, while attempting to suppress or eliminate their negative one. Moreover, country personality may be involved in determining the strategies for the tourism and export. For example, this data will be useful for Tourism Organizations in South Korea to adjust the tourism strategies in order to attract Thai tourists. For example, there could be a tour devoted specifically to explore and appreciate South Korea popular culture.

Sirisoontorn and Polyorat (2013) suggested that country personality dimensions are related to consumer purchase intention. As a result, country personality can be used as an instrument to define the appropriate product or service positioning strategy. The marketers and the government sectors can utilize the country personality dimensions to promote the country based on identity in a variety of dimensions, and plan the right position for a particular country. In this sense, the contribution of this research occurs with not only to the country of South Korea but also to Thai entrepreneurs that import Korean products and popular culture to cater to the need of Thai consumers. That is, based on the South Korea's country personality dimensions and traits identified in the present study, proper marketing strategy can be formulated to match or influence the Thai consumers' perception of South Korean products.

## 6. Research Limitations and Directions for Future Research

Although the current study provides some insights into the area of country personality, some limitations needed to be mentioned. First, the results are drawn from the personality of a single country, namely South Korea. Therefore, future research may extend this research by studying other countries with different cultural, socio-economical, and technological background. Next, because the data were collected from a sample of undergraduate students, which may not necessarily represent the whole research population, future research may be conducted with a wider coverage of samples for a more generalized understanding of this construct. Finally, other qualitative techniques including focused-group and discourse analysis may be employed to provide additional understanding of the topic.

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# Is converting shrub land to palm oil plantation worth it? - an ecosystem services analysis

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## Keywords

Land conversion, Shrub land, Palm oil plantation, Cost-Benefit Analysis, Ecosystem services.

## Abstract

*Palm oil is one of the most important commodities as a source of national income in Indonesia. Increasing demand for this commodity encourages land conversion from shrub land to palm oil plantation in Parinduregion, West Kalimantan. As the result thereof, the ecological function of shrub land is neglected. This research examines whether the full conversion of shrub land into palm oil plantation is worth using the concept of total economic value. This concept considers three ecosystem services from shrub land, which are regulating services, provisioning services, and cultural services. The valuation shows that the estimated economic value of shrub land for the local community is Rp830, 293 (for provisioning service), Rp20 to Rp40 (for cultural service), and Rp831, 613 to Rp831, 633 (for regulation service). This means that the economic value for shrub land until the next twenty years is in the range of Rp5,997,592 to Rp7,782,421 (or equal to USD 454.019 to USD 589.131) per hectare. It is to prove that despite its small economic value, shrub land indeed appears to have considerable economic value. Hence, based on the cost-benefit analysis on the three ecosystem services, the palm oil plantations worth to build on shrub land. However, further research is suggested to complete the total economic valuation with other ecosystem services, since the cost of pollution decreases the monetary value of shrub land, so that in terms of long-term sustainability, the development of palm oil plantation is questionable.*

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## 1. Introduction

Palm oil in Indonesia is one of the major commodities with a very important role as a source of state revenue. Recorded during the year 2012, Indonesia gained as much as 28.3 trillion rupiahs from export tax or export duties from palm oil plantations (Pusat Informasi Kelapa Sawit, 2013). Palm oil plantations in Indonesia also have an important function as a source of income for the community as well as being the wheel of development in the region. It is based on the fact that more than 3.7 million heads of families are absorbed in industries and palm oil plantations (Antarnews, 2013).

Indonesian Palm Oil Association recorded until May 2013 that demand for palm oil from countries like India was increasing as much as 8.17% compared to April 2013; China rose 14.14%; America 265.9% from 9,700 tons in April to 35,500 tons in May 2013 (Kontan, 2013). Increasing number of demand leads to the expansion of palm oil plantations in Indonesia, especially in the island of Sumatra and Kalimantan. In 2012 the use of land in Sumatra reached 62.5% of the total national palm oil land (5,913,585 hectares) and Kalimantan by 31% (2,814,782 hectares) with projections of land use in the region in 2020 amounted to 7.84 million hectares of Sumatra, and 7,500,000 hectares of Kalimantan (Kompasiana, 2013).

It cannot be denied that the development of palm oil plantations in Indonesia also carries negative impact. Issues of environmental degradation, social conflict, deforestation, and fires become a major attention from various communities both local and international. The expansion of palm oil plantations in Indonesia, does not only occur in peatlands but also leads to the use of

community land, which are mostly shrub land in West Kalimantan. This is also done by PTPerkebunan Nusantara XIII (State-owned Enterprise for Agroforestry) in Parindu region where the company bought community land to be managed together with the local people as palm oil plantations. Many people think that shrub land does not both, economic and ecological value. This premise then becomes the reason to convert shrub land into palm oil plantations because they think palm oil plantations are much more profitable. As a result, the ecological functions of shrub land are neglected. The surrounding communities who do not have the political and economic power often have to be the ones who bear the negative impacts of pollution and environmental damage caused by the certain party's desire to boost economic growth.

The purpose of this study is to compare the economic value gained from shrub land by the people in the region of Parindu, Sanggau, West Kalimantan, and net profit from converting shrub land into palm oil plantations. The social aspects and ecosystem services are also taken into account.

## 2. Literature Review

Ecosystem services are the benefits people obtain from ecosystems. These include provisioning services such as food and water; regulating services such as flood and disease control; cultural services such as spiritual, recreational, and cultural benefits; and supporting services, such as nutrient cycling, that maintain the conditions for life on Earth (Plieninger *et.al.* 2014, Davis *et.al.* 2014, Millennium Ecosystem Assessment Board 2003). Ecosystem services can be divided into:

- *Regulating services*: Keeping the essence of ecological processes and life support systems for human wellbeing. One example of the regulation services is the biological regulation, which is the interactions between species, i.e. controlling diseases and pests.
- *Provisioning services*: A provider of natural resources and raw materials. One of which is food, Ecosystems provide plants and animals that can be consumed by humans.
- *Cultural services*: Provide emotional comfort, psychology, and cognitive wellbeing. One of them is as a place of recreation.
- *Supportive services*: The structure and the fundamental ecological functions for delivering ecosystem services. One of which is a habitat, which is a physical place where organisms live.

Ecosystem services	Advantage	Disadvantage
<i>Regulating Services</i> ( <i>Biological services</i> )	Assist farmers in managing agricultural pests without using pesticides and chemical fertilizers	If the regulating services decline, then the use of chemical fertilizers and pesticides will increase, and in the long term can damage the quality of the soil
<i>Provisioning Services</i> (Food and medicine)	Communities can take advantage of shrub land as a source of food and medicine	If this ecosystem service is lost, then the costs of local communities to meet their basic needs will increase
<i>Cultural Services</i> (Recreation)	Local communities can earn extra income without having to lower the quality of their land. This service can also serve as a stress reliever	Index of Happiness could decline due to the lack of open space for interaction and recreation.

**Table 1. Advantages and Disadvantages of Ecosystem Services** (Plieninger *et.al.* 2014, Davis *et.al.* 2014, Millennium Ecosystem Assessment Board 2003)

In this study, the observed shrub land possesses three above ecosystem services. Shrub land can help palm oil farmers in overcoming pests naturally (*regulating services*). This is because shrub land is one of the habitats of predator insect and parasitoid that are natural enemies of pests. The loss of shrub land raises the potential of intensive use of chemicals in an effort to combat pests. But it is feared, that in the long term, this may impair the quality and fertility of soil.

In addition to functioning as regulating services, shrub land in this study is also used either directly or indirectly by local people as a source of food and medicine (*provisioning services*). If the shrub land disappears, it will bring the potential to the increasing of cost of living of local communities because people have to meet their needs by buying from the market.

The last ecosystem service examined in this study is related to the benefits of shrub land as a habitat of various kinds of birds. The chirping of birds and the behavior of birds that live in the shrub land have potential as a stress reliever and recreational facilities for the local community and tourist (*cultural services*). The loss of shrub land results in fewer open land for interaction and recreation.

In the context of development, ecosystem services are often overlooked. Many people think that development and environmental protection are two separate things. According to Djadjaningrat (1997), the natural environment is an essential element of economic growth. The importance of ecosystem as described previously is for instance to supply the resources and absorb the pollution and waste as the negative impact of economic growth (Kaufmann *et.al.*1994). This means that the environment can provide economic benefits. Resource supply will decrease if the natural resource is exploited too much so that the ability of ecosystems to provide services to be disrupted. Overexploitation leads to a decrease in natural resource capital ecosystem (Marten, 2001).

### **2.1. Shrub Land as Supportive Services and Regulating Services**

Habitat of an organism is explained by Odum(1993) as a living organism or as a place to live for the organism. Habitat can also be interpreted as the place occupied by the entire community. Thus, habitat can be either physical or biotic and a biotic environment.

Shrubs, secondary forest, and grassy marshes affect the existence of predatory insects and are also as a place for parasitoids invasion (Ryanto *et.al.* 2011). The role of shrub land for the presence of insect predators and parasitoids, indicates that shrub land is one of the habitats of insect predators and parasitoids, as stated by Iskandar (2009) that certain types of animals in the natural habitat can have more than one habitat.

Anggraitoningsih *et.al.* (2012) explain that the insect predators and parasitoids can function as pest control. This is because both insect predators and parasitoids are natural enemies of pests. Concerning this, the palm oil entrepreneurs should use insect predators and parasitoid to cope with palm oil pests, using the concept of integrated pest management. According to Freemark *et.al.* (1993) and Flintandvan denBosch (1981), integrated pest management is a strategy to control the pest ecologically that relies on natural mortality factors, and look for ways to minimize disturbance to these factors. Besides being able to minimize the use of chemicals that are harmful to the environment, integrated pest management system can also reduce the cost of production.

### **2.2. Shrub Land as Provisioning Services and Cultural Services**

Basically, ecosystems always provides its services to satisfy human needs both primary needs (food) as well as non-primary purposes (leisure/entertainment). Humans consume a wide range of plants (food), wherein the food itself contains a substance that is necessary to regulate

the chemical processes that occur in our bodies. Besides, humans also need recreation/entertainment to meet the inner needs by enjoying the beauty and wealth of nature (Iskandar 2009, Barnes 2000).

Shrub land, based on the research from Gunawan (2003), has at least 29 bird species that exist only in the bushes. This shows that shrub land has potential for recreational. One of the options is for the bird-watching activities. In addition, some types of wild plants found in shrub land can also be used as food ingredient, such as spinach family (Amarantaceae) that can be used as vegetables with high iron ingredient.

Either be used directly or through process management, the availability of food and recreation and entertainment give other options to utilize shrub land (Sathirathai and Barbier, 2001).

### **2.3. Total Economic Value: Contingent Valuation and Cost-Benefit Analysis**

Contingent valuation is a survey-based methodology to bring the assessment of goods, services, and facilities (Boyle, 2003). Bishop and Heberlein (1979) in their study showed that in estimating the 'willingness-to-pay' (WTP), contingent valuation has the same level of validity with the travel cost method and cash transactions.

Cost-Benefit Analysis (CBA), according to Snell (2011), is a device for determining a decision by considering the costs and advantages. The main categories of CBA include financial, economic, and social CBA. Financial analysis focuses on the financial position of the individual, company or organization, so that both costs and benefits are measured in terms of money spent or received by certain parties (Snell, 2011). The economic analysis focuses on the welfare of a group of people in the area. Market prices and the flow of money is usually the starting point in quantifying costs and benefits. In the CBA, the purpose of the economic pricing is to regulate market prices with a view to justifying the price distortion and deliver at a price in the perfect market (Snell, 2011).

## **3. Methodological Framework**

### **3.1. Data**

The study is conducted from the beginning until mid of 2014 on oil palm plantations covering an area of 26.38 km<sup>2</sup> and in an area in the form of shrubs that will be converted into oil palm plantations in Parindu Village, West Kalimantan. Some relevant stakeholders in this study are the management of PTPN XIII, plantation employees, environmental practitioners, as well as local communities.

This study uses secondary and primary data. Secondary data is data that is related to the economic value of oil palm plantations and alternative value to other uses of shrub land obtained from palm oil company reports and also from previous studies linked with other utilization of shrub land. Primary data obtained from the interview with key informants i.e. head of administrator of the palm oil plantation in Parindu village, formal and informal community leaders, and head of local NGOs, which is selected by using purposive sampling method. Quantitative data is also collected with the use of questionnaire distributed to the respondents.

### **3.2 Population and Sample**

Sampling process is conducted using Taro Yamane's formula and taken from the local population (farmers) around the plantation area of Parindu Village and from outside the region (in the city of Pontianak). According to the data from the local government, the population of Parindu is 30,018 people (Village monograph 2009). Meanwhile, the population of Pontianak city is 565,856 people (Village monograph 2014).

Using the Yamane's formula, the amount of sample is 99 for local people of Parindu (around palm oil plantation) and 99 for people outside region (city of Pontianak).

### 3.3 Data Analysis

This study combines qualitative and quantitative method (mixed method) with explanatory design (follow-up explanations model). Cresswell (2007) in his book entitled "Designing and Conducting Mixed Methods Research" revealed that there are four important aspects to consider in designing a mixed method, namely: time, weighting, mixing, and theorization. Based on the results of the various aspects of the above considerations, the strategy used in mixed method in this study is a strategy of explanatory design: follow-up explanations model.



**Figure 1. Explanatory Design: Follow-up Explanations Model** (Cresswell2007)

Follow-up explanations model is a mixed method research in which qualitative data are used to support the outcome of quantitative results (Cresswell 2007). The purpose of the use of mixed methods explanatory design: a follow-up explanations is to determine the economic value of two alternative activities in the shrub land. In the first stage, the quantitative methods used to gather information related to the society knowledge of the palm oil plantation and the economic value of ecosystem services of shrub land. The second stage uses qualitative methods to get more in-depth information related to the benefits derived by the community and the community's assessment of the economic value of palm oil plantation as well as the value of ecosystem services of shrub land.

At the end, the interpretation of the overall stages of analysis is performed to compare the economic value gained by palm oil business with consideration of ecological aspects with the economic value of ecosystem services of shrub land as the results of quantitative and qualitative analysis.

### 3.4. Variable, Indicator, Source of Data

Target	Variable	Data Parameter	Type of Data	Source of Data
Revenue gained by the community from 3 ecosystems services of shrub land	<i>Regulation services</i>	<ol style="list-style-type: none"> <li>1. Size of land (Agriculture/shrub) (ha)</li> <li>2. Amount of agriculture production (kg/month)</li> <li>3. Cost for pest control and eradication (Rp)</li> </ol>	Secondary and Primary Data	Document/internet, Informant and Respondent



	<i>Provisioning services (Food)</i>	<ol style="list-style-type: none"> <li>1. Type of food found in shrub land (Rp)</li> <li>2. Market price for food (Rp)</li> <li>3. Cost spent by the community for daily consumption (Rp)</li> </ol>	Secondary and Primary Data	Document/internet, Informant and Respondent
	<i>Cultural services (Recreation)</i>	<ol style="list-style-type: none"> <li>1 Willingness To Pay (WTP) (Rp)</li> </ol>	Primary Data	Respondent
Total net profits of palm oil plantations, by taking into account the social aspects and ecosystem services	<i>Financial Return</i>	<ol style="list-style-type: none"> <li>1 <i>Gross Returns</i> (Rp/ha)</li> <li>2 <i>Variable Costs</i> (Rp/ha) <ul style="list-style-type: none"> <li>• Cost of harvesting and transport</li> <li>• Transport of palm oil</li> </ul> </li> <li>3 <i>Annualized Fixed Costs</i> (Rp/ha) <ul style="list-style-type: none"> <li>• Plantation maintenance cost</li> <li>• Overhead cost</li> <li>• Head Office cost</li> <li>• Depreciation</li> </ul> </li> </ol>	Secondary Data	Document/internet
	<i>Economic Return</i>	<ol style="list-style-type: none"> <li>1. Gross Returns (Rp/ha)</li> <li>2. Variable Costs (Rp/ha) <ul style="list-style-type: none"> <li>• Cost of harvesting and transport</li> <li>• Transport of palm oil</li> </ul> </li> <li>3. Annualized Fixed Costs (Rp/ha) <ul style="list-style-type: none"> <li>• Plantation maintenance cost</li> <li>• Overhead cost</li> <li>• Head office cost</li> <li>• Depreciation</li> </ul> </li> <li>4. <i>Cost of pollution</i> (Rp/ha)</li> <li>5. <i>Costs of soil rehabilitation</i> (Rp/ha)</li> </ol>	Secondary Data	Document/internet

**Table 2. Variable, Indicator, and Source of Data**

#### 4. Results and Discussion

Table 3 summarizes the values of the three ecosystem services from shrub land. The value of *provisioning services* is calculated by the net income earned by the villagers of Parindu from the field (Rp830,293/ha/year); the value of *cultural services* is represented by the willingness to pay of the people associated with the city of Pontianak from birdwatching recreation potential in the shrub area of owned by indigenous village of Parindu (Rp20- Rp40); and the value of ecosystem services associated with *biological regulation* is shown by the amount of funds spent related to society pest control (mice) (Rp1,300/ha/year).

Ecosystem services	Value (Rp) per ha
Provisioning services (food)	830,293
Cultural services (recreation)	20 - 40
Regulation services (pest control)	1,300
<b>Total Value of Ecosystem Services</b>	831,613 - 831,633
<i>Net present value (10% discount rate)</i>	7,782,234.45 - 7,782,421.61
<i>Net present value (12% discount rate)</i>	6,957,024.87 - 6,957,192.19
<i>Net present value (15% discount rate)</i>	5,997,592.96 - 5,997,737.20

**Table 3. Net Present Value of Ecosystem Services in Shrub Land**

Description: Value is calculated within a period of 20 years in the future

Source: Results of data calculation (February - March 2014)

The age of productive palm oil is normally up to 25 years. At the age of 1 to 5 years, palm oil has not been able to contribute economically, then at the age of 6 years until the age of 17 years, the production of palm oil began to rise and tend to be stable. Unfortunately, at the age of 18 years, palm oil productivity will start to decline. However, in the plantation company PTPN XIII still maintains the palm oil with the age of 30-31 years. Table 4 describes the amount of produced palm oil plantation per hectare per year in the PTPN XIII and the NPV of palm oil plantations.

Value (Rp/ha)	Year					
	1 <sup>a</sup>	2	3	4	5	6-20
Profit						
Gross Profit <sup>b</sup>	37.572.177	37.572.177	37.572.177	37.572.177	37.572.177	37.572.177
Cost <sup>c</sup>	5.086.688	5.086.688	5.086.688	5.086.688	5.086.688	5.086.688
Net present value (10% disc. rate)				274.725.125		
Net present value (12% disc. rate)				242.489.774		
Net present value (15% disc. rate)				205.011.266		

**Table 4. Financial Analysis: Net Present Value of Palm Oil Plantations**

<sup>a</sup> The first year of palm oil production.

<sup>b</sup> Gross profit was taken from the calculation of average production per ha/year (19,774.83 kg) multiplied by the price of fresh fruit bunches (FFB); the maximum price is Rp1, 900/kg).

<sup>c</sup> Cost includes fixed cost and variable cost.

The investment value of palm oil per hectare is Rp3,840,641.

Source: Field Data, February - March 2014

The initial investment of the palm oil per hectare is Rp29, 274, 081 (including the initial investment cost of the plant treatment from age 1 to 5 years). This value is relatively small when we look at the benefits of palm oil plantation per hectare per year; amounting to Rp32, 485,489. Table 4 above shows that palm oil is well worth economically, within the next 20 years, ranging between Rp205, 011,266 to Rp274, 725,125 per hectare per year.

Financial analysis demonstrates the advantages from the standpoint of investors, or in this case PTPN XIII, as the company that manages palm oil plantations in the region Parindu village. PTPN XIII implements the pattern of 'plasma-core' to empower local communities. Until now, according to the Parindu community leaders, villagers gain benefits from palm oil

plantations through the 'plasma-core' pattern although there is still a debate related to the pattern of land distribution and credit system adopted by the company. The presence of palm oil in Parindu village according to community leader's information brings 3 impacts:

1. Other economic needs can be met not only the needs of food
1. Increasingly opened-social conditions broaden the social and cultural perspectives towards a better way
2. Increasing public education (at the moment Parindu village has 15 young people with bachelor degree).

The loss of water resource for Parindu villagers is included as external costs. According to the results of the field survey, every household needs of clean water as much as 3 gallons of water (60 liters) per day. Price per gallon of water in the region Parindu is Rp6, 000. Thus, using the market price approach, the cost for Parindu village communities to meet the needs of water per month is Rp21, 600,000. Table 5 presents an economic analysis by incorporating external costs into the calculation of the NPV of palm oil plantations.

Value (Rp/Ha)	Year					
	1	2	3	4	5	6-20
Profit						
Gross Profit <sup>a</sup>	37.572.177	37.572.177	37.572.177	37.572.177	37.572.177	37.572.177
Cost <sup>b</sup>	5.086.688	5.086.688	5.086.688	5.086.688	5.086.688	5.086.688
Cost of Pollution <sup>c</sup>						623.077
Net present value (10% disc. rate)				268.894.370		
Net present value (12% disc. rate)				237.277.299		
Net present value (15% disc. rate)				200.517.634		

**Table 5. Economic Analysis: Net Present Value of Palm Oil Plantations**

<sup>a</sup>The gross profit of the calculation is calculated from the average production per ha per year (19,774.83) multiplied by the highest palm oil price (Rp1, 900/kg)

<sup>b</sup> Cost includes fixed cost and variable cost

<sup>c</sup>The cost of pollution is estimated from the water consumption of Parindu villagers per year divided by the size of area of palm oil plantation

Source: Field Data, February - March 2014

The results of the economic analysis above shows that the value of palm oil is still greater (Rp200,517,634 to Rp268,894,370) compared with the value of the three ecosystem services of shrub land (Rp5,997,592.96 to 7,782,421,61) within a period of 20 years.

If we look at the economic value of the third ecosystem services (provisioning, cultural, and regulation services) calculated in this study, the palm oil plantations may be feasible to be built in shrub land. However, since this study only includes three aspects of the many ecosystem services that are owned by shrub land, further study is needed to complete the general assessment of ecosystem services in shrub land.

## 5. Conclusion

The study shows that the shrub land that formerly had been perceived by the local community and the company has no economic or ecological value, turns out to have considerable monetary value of the ecosystem and the economy. However, the economic benefits of palm oil plantation is in fact larger than that of shrub land if the calculation only considers three ecosystem services (provisioning, regulating, cultural services) owned by shrub land. Therefore, the attempt to build palm oil plantation in shrub land is feasible.

This study also confirms that palm oil plantation does not always bring negative impact. Palm oil plantation can provide positive benefits in the long term, especially for the community, if the development of palm oil plantation is conducted with precautionary principles and implementing the concept of sustainable palm oil plantation such as (RSPO 2014, RSPO 2013):

- Palm oil plantations are strived not to be built in peat soil, so as to minimize the release of carbon into the air that can trigger global warming
- Palm oil crops are not to be planted in the area of primary forest so as not to disrupt ecosystems and habitats of many plants and animals
- Palm oil companies must directly participate in overcoming or minimizing the negative impacts caused by oil palm plantations
- Palm oil companies empower communities around the plantation to provide economic benefits to the surrounding communities

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## Assessing the implementation of TQM in the hospitality industry in Alexandria

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### Keywords

Competitiveness, TQM, Employee Satisfaction, Customer Satisfaction, Hospitality Industry, Alexandria

### Abstract

*In today's highly competitive, global marketplace, a company that excels is one that continually strives to identify and focus on factors critical to its customers and improve its processes in order to provide the highest – quality product or service possible. The implementation of total quality management in hospitality industry is an essential approach for business that attempts to maximize their competitiveness through the continual improvement of the quality of its products, services, people, processes, and environments in order to meet customers' requirements which will subsequently lead to customers' satisfaction. Moreover, it is worth to stress on the effect of dealing with the employees as internal customers in achieving customers' satisfaction which will lead to present high quality service in the hospitality industry within the framework of TQM criteria.*

*Thus, this study aims to investigate the relationship between the implementation of TQM and the customer satisfaction and employee's satisfaction, as well as to study the relationship between the application of the TQM and achieving the organization goals and gaining competitive advantage through achieving customers' satisfaction in hospitality industry in Alexandria, Egypt. Two questionnaires were distributed in four and five hotels in Alexandria; the first one is distributed to customers to measure the elements that affect their satisfaction during their stay in Alexandria hotels. The second one was distributed to hotels' employees to measure their satisfaction.*

*It can be concluded that the hotel industry in Alexandria is way behind in terms of approaching TQM for two reasons; first, hotel managers have not yet realized the importance of TQM, second, hotel managers have not yet realized the importance of the human factor, training, and turnover rate in the management of quality in hospitality.*

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### 1. Introduction

Hospitality is the organizations which provide lodging and food services for customers when they are away from their homes. Quality is "conformance to requirements" (Sallis, 2005). Thereby, quality is a concept which is interested in the customer needs and requirements from the first time and every time in order to achieve the customer satisfaction and the organization goals through eliminating errors. (Deming, 1986). Service quality is even more difficult to define than product quality, because services have more diverse quality attributes than products, and this often results from wide variation created by high customer involvement. (Mohanty & lakhe-2007). Quality in the hospitality as service industry is defined as the consistent delivery of services according to expected standards through the service concept (Ninemeier & Perdue, 2005).

In addition, it involves delivery of products and guest services according to expected standards which is an essential condition for success in the emerging, keenly competitive, global hospitality markets.

Total quality management has proven to be extremely useful in increasing both productivity and quality through employees' satisfaction which in turn leads to customers' satisfaction. It can be defined as a tool to improve the effectiveness, efficiency and competitiveness of any business enterprise ref. So, in hotels TQM consists of commitment of the hotel to the guests using the services in all departments with all employees on each level which is meant that quality is considered in terms of hotel a series of actions that take place to satisfy the needs of a guest from the pre- arrival stage, the arrival stage, the residence in the hotel, and the departure stage. (Hayes & Niemeier-2005). The hospitality industry is further a human profession that involves making a customer feels welcome and comfortable depending on the face to face relationship with employees and customers (Barrows & Powers, 2009).

Customer is the main success key for any organization, especially in the service field, so, wise organization should concentrate on achieving the customers' satisfaction through meeting their requirements, and offering service quality that exceeds their expectations. Moreover, human resources-related activities are critical factor for hotel's success because of the relationship between the delivery of services and the customer impressions through the aspect of the direct contact between the employees and the guest. (Hayes & Ninemeier- 2005). Hotels seek to achieve competitiveness through personalized service, quality product, and fair prices. Thus, the business can't achieve its goals unless, it implements the TQM principles which is an integrative philosophy of management for continuously improving the quality of products and service through empowering all levels of employees to work in groups and treat guests as they would like to be treated themselves. (Rawlins-2008)

The relationship between profitability, customer loyalty, and employee satisfaction, loyalty, and productivity is known as service profit chain (Kotler& Armstrong- 2008). Thus, the study aims to investigate the relationship between the implementation of TQM and the customer satisfaction and employee's satisfaction, as well as to study the relationship between the application of the TQM and achieving the organization goals and gaining competitive advantage through achieving customers' satisfaction in hospitality industry in Alexandria, Egypt.

## 2. Total Quality Management

According to (Besterfield, et al. - 2003) quality dimensions can be divided to:

- 1- Performance
- 2- Reliability
- 3- Conformance
- 4- Durability
- 5- Service ability

Furthermore, Quality implies passing through several stages which are Inspection, Quality control, Quality Assurance and TQM refer. The following figure will display these stages which is called the hierarchy of quality.

All definitions agree with the importance of the TQM in order to increase competition through customers' satisfaction and employees' satisfaction. Hence, the TQM concept emphasizes on the continuous improvement of products, services and processes, through the involvement of all people in the organization in order to prevent problems before occurrence which leads to customer satisfaction.

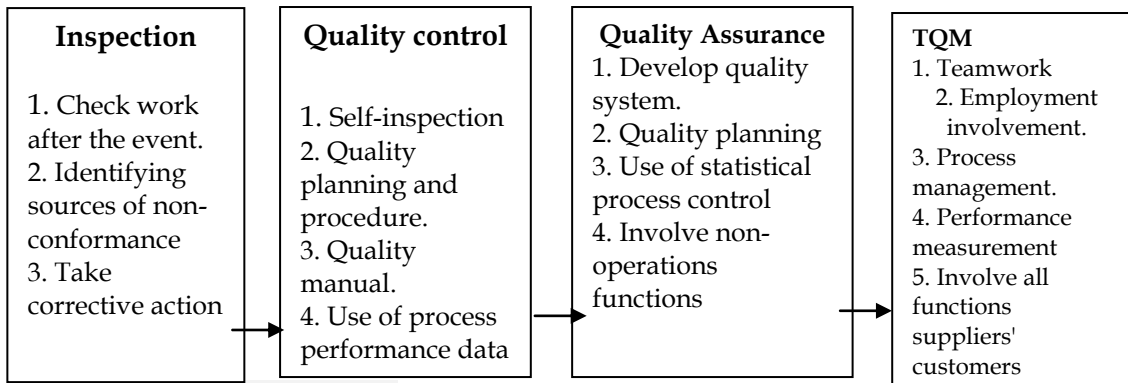


Figure 1: Hierarchy of quality.

Source: (Basu, 2004)

The implementation of TQM follows several basic steps for solving a problem as showed by (Omachonu & Ross, 2000, Evans& Lindsay, 2008):

- 1- Identify the problem area in order to recognize the problem
- 2- Observe and identify causes of the problem in order to evaluate the present status of the problem and identify the factors that could have caused the problem.
- 3- Analyze, identify, and verify root causes of the problem in the previous steps
- 4- Plan and implement preventive action through two steps; the first step is **Corrective action** which is taken in order to fix the problem, the second step is **Preventive action** which is taken to prevent the problem from happening again through elimination the causes of problem...
- 5- Check effectiveness of action taken in order to ensure that the main causes of the problem have been eliminated.
- 6- Standardize process improvement through the elimination of the causes of the problem by replicating and documenting the preventive action which ensures the active cooperation from all workers involved it.
- 7- Determine future actions through checking if the preventive action is still working or not, besides the team identify any remaining problems and lays out a plan to solve them in order to achieve the goal of the company which is the continuous improvement it.

In conclusion, there is a cost of implementing quality which is the amount of money a business loses because its product or service was not done right in the first place because of a malfunctioning machine or a badly performed service, businesses lose money every day due to poor quality (Sixsigma, 2010). A vital issue when dealing with quality to consider is SERVQUAL.

SERVQUAL questionnaire is considered an important tool developed by Parasurman, et al. (1985) for assessing service quality through a survey that is used by many firms and has many advantages. The benefits of customer' satisfaction can be illustrated in the following figure.

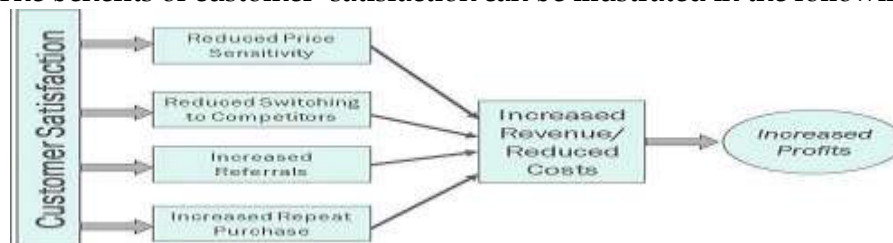


Figure 2: The benefits of customer' satisfaction.

Source [www.surevista.com](http://www.surevista.com)

It is worth mentioning that customer's satisfaction is a requisite for loyalty through exceeding the customer expectation (Kotler & Keller- 2012). Customer loyalty, is a measure of how likely customers are to return to the organization, and their willingness to build relationships with the organization refer. Customer retention aims at keeping the customer through enhancing the relationship by increasing the frequency of customer's service usage as well as cross-selling (Bruhn & Georgi, 2006). Aiming at excellence and profitability, organizations should focus on quality service; retention of existing guests by continuous quality improvement; employment, regular training and empowerment of service-oriented staff. Thus, employees play a key determinant of customer satisfaction, which in turn stresses on the importance of employees' satisfaction. (Mudie, Pirrie- 2006, Gaurav-2010). Therefore, in order to achieve success in the hospitality industry, hospitality organization should focus on achieving employees' satisfaction through motivating employees depending on needs theories and determining what are the needs of every employee which will lead to contribute and perform valuable inputs to a job at a high level. (Jones & George- 2007).

### 3. Service profit chain

In a service business, services are created through the interaction between the customer and the employee, so, effective interaction, in turn, depends on the skills and qualifications of the employees (Armstrong and Kotler- 2011). Thus, successful service companies focus their attention on both their customers and their employees through understand the service profit chain which links service firm profits with employees and customers satisfaction (Armstrong and Kotler, 2011). The **service-profit chain** establishes relationships among profitability, customer loyalty, and employee satisfaction, loyalty, and productivity through the relationships of three management functions which play very important and interrelated roles in meeting the needs of service customers: marketing, operations, and human resources (Lovelock, et al. 2009).

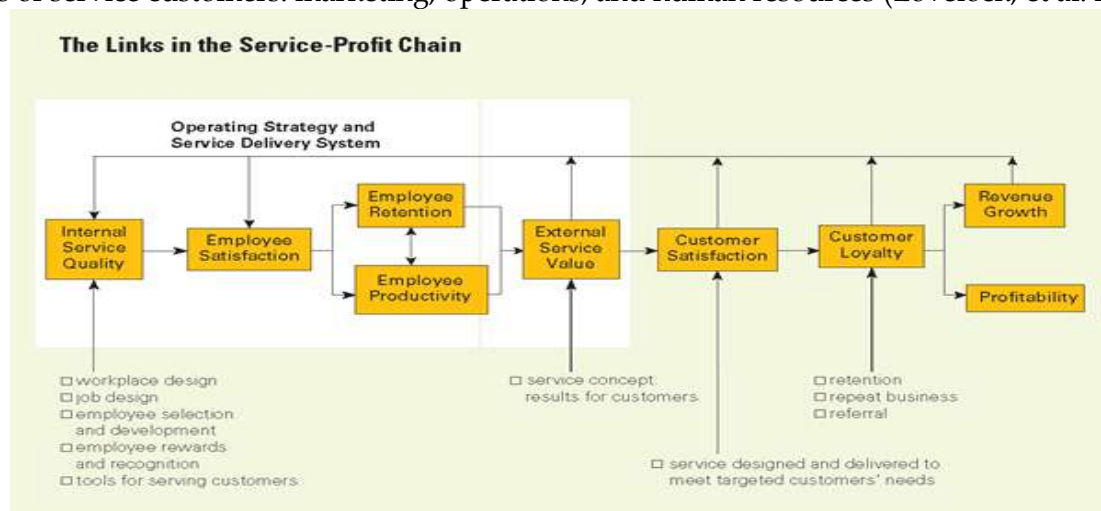


Figure 3: Service Profit Chain

Source: Heskett, J.L. et al. « Putting the Service Profit Chain to Work », Harvard business review, March- April 1994.

### 4. Research methodology

The objectives of the study are summarized into two points: to explore the relationship between applying TQM concepts and achieving the organizational goals and gaining competitive advantage. In order to study achieve the objectives of the study, two questionnaires

were distributed for both employees and customers. The study was conducted in 4 & 5 stars hotels in Alexandria from November 2012 to March 2013.

The first questionnaire was distributed to customers to measure the elements that make them feel satisfied. It is divided into six sections depending on some elements of the SERVQUAL developed by Parasurman, et al. (1985) for assessing services quality. The questionnaire is divided into two parts; customer expectations and customer perceptions.

The second questionnaire was distributed to employees to measure their satisfaction. The Likert scale was used in the questionnaires from 1= strongly disagree to 5= strongly agree. 400 questionnaires were distributed, after revising questionnaires and remove improper questionnaires, 117 questionnaires for employees were analyzed with response rate 58.5% and 143 questionnaires for customers were analyzed with response rate 71.5%. Analyses of the results were carried out according to the SPSS version 20. To establish the reliability of the questionnaire Cronbach's alpha was calculated. The scale was found to be internally reliable (Cronbach's alpha of employees' questionnaire = 0.892 and Cronbach's alpha of the customers' questionnaire = 0.911) that is greater than Nunnally's (1978) recommended level of 0.70.

## 5. Results

The demographic characteristics of the employees were first discussed. The majority of the respondents 55.6% were from 5 stars hotels while 44.4% were from 4 stars hotels. Moreover, 66.7% of the employees belong to the age category from 25- 30. Regarding years of experiences 76.9% of the employees had less than 10 years of experiences which indicates that the percentage of young people occupies a broad base of employment in hotels. Table 1 will illustrate the results of management's interests in employees.

Table (1): The Percentage showing Management's interests in employees.

	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1-Management believes that you are the most important asset of the hotel	30.8	34.2	25.6	8.5	.9
2-The hotel leadership has made changes which are positive for you	20.5	57.3	16.2	5.1	0.9
3-I feel the team spirit in the work environment	24.8	47.0	21.4	3.4	3.5
4-You are satisfied with the information you receive from management on what is going on the hotel	23.1	44.4	23.1	9.4	0
5-Your compensation matches you responsibilities	15.4	37.6	26.5	17.9	2.6
6-Upper management doesn't understand the problems you face on your job	18.8	20.5	23.9	26.5	10.2
7-You have reasonable balance between you private life and your work	19.7	37.6	30.8	6.8	5.2
8-You have enough freedom in your position to take independent action when needed	10.3	40.2	20.5	9.4	18.8
9-You will choose your job again if you have the choice	22.2	33.3	22.2	9.4	12.8

Results showed that 34.2% of the respondents disagree that management believe that employees are the most important assets, and 30.8% strongly disagreed. Moreover, 57.3% of the employees disagreed that management made positive changes for them, 20.5% strongly disagreed. In addition, the majority of respondents disagreed (47.0%), followed by 24.8% who strongly disagreed, that they didn't feel the team spirit in the work environment. In terms of the information they receive, 44.4% of the respondents disagreed, followed by 23.1% strongly



disagreed. Concerning the compensation they received, 37.6% of respondents disagreed. Regarding the management's understanding of the problems faced by the employees, 26.5% of the respondents agreed and 23.9% of the respondents are neutral. Furthermore, 37.6% of the respondents disagreed that there is a balance between their private life and their work. They also disagreed that they enjoyed freedom in their position with 40.2%. Finally, 55.5% of the respondents either disagreed or strongly disagree that they will choose the same job again. These results show that employees are not satisfied with their jobs, which implies that management is not familiar with the importance of TQM which is interested to achieve employees' satisfaction through involving all the employees in order to achieve high quality service.

Table 2 shows the results of correlation analysis between the management's interest and the employees' satisfaction.

Table (2): The correlation coefficient between management's interest and employees' satisfaction.

Management interested in employees	R	P value
Management believes that you are the most important asset of the hotel	.581**	.000
The hotel leadership has made changes which are positive for you	.575**	.000
I feel the team spirit in the work environment	.525**	.000
You are satisfied with the information you receive from management on what is going on the hotel	.657**	.000
Your compensation matches you responsibilities	.645**	.000
Upper management doesn't understand the problems you face on your job	.412**	.000
You have reasonable balance between you private life and your work	.482**	.000
You have enough freedom in your position to take independent action when needed	.231*	.012
You will choose your job again if you have the choice	.493**	.000

There was statistical significant positive correlation between management interest in employees and its items ( $P < 0.05$ ), which means the more the management is interested in applying the TQM elements, the more the employees will be satisfy with their works which will lead to achieve goals effectively.

Table 3 will display the employees' job stress and job satisfaction compared to six month ago.

Table (3): Job stress and Job satisfaction compared to six month ago

Job stress				
Mild	Moderate	Severe	Extreme	
4.3 %	52.1%	25.6%	18%	
Job satisfaction				
Much less satisfied	Somewhat less satisfied	Same satisfied	Somewhat more satisfied	Much more satisfied
2.6%	8.5%	40.2%	42.7%	6%

Regarding job stress, 52.1% of the respondents showed moderate cases followed by severe stress with 25.6%. In terms of Job satisfaction, 42.7% of the employees are somewhat more satisfied, followed by same satisfaction (40.2%).\_Consequently, the employees become more satisfy when they suffer less of job stress, and may that due to the decreasing of the customers'

rate due to current circumstances. Results also show that there is no statistical significant relationship between management interested in employees and job stress ( $F = .251, P = .861 > 0.05$ ), which means that the management doesn't give sufficient attention to identify problems that employees faced during their works which will lead to more job stress then less job satisfaction which will affect negatively the service quality and customers' satisfaction

Hence, the first hypothesis is proved which indicates that there is a relationship between the applying of the TQM principles through the management and achieving the employees' satisfaction.

Moreover, results show that there exists a statistical significant relationship between management's interest in employees and job satisfaction ( $F = 2.575, P = 0.042^* < 0.05$ ), which means the more the management is interested in the employees, the more the employees become much more satisfied which will positively affect their work.

Concerning the relationship between management and job stress and job satisfaction compared to six months ago, results show that there is no statistical significant correlation between job stress and management interested in employees ( $R = -0.032, P = 0.734 > 0.05$ ), while there is statistical significant inverse correlation between job satisfaction and management's interest in employees ( $R = -0.212^*, P = 0.022 < 0.05$ ). This means that the more the management is interested in employees, the more the job satisfaction will increase.  $\chi^2$  is also calculated to investigate whether there is a significant difference between the hotel category and both employees' job stress and job satisfaction. The analysis demonstrates that there was no statistical significant difference between job stress and category of hotel ( $\chi^2 = 1.322, P = .728, P > 0.05$ ), while, there was statistical significant difference between job stress and category of hotel ( $\chi^2 = 18.927, P = .001^{**}, P > 0.01$ ). This result may be due to the 5 stars hotels are more aware of the importance of the implementation of the TQM criteria in order to preserve their customers and gain new customers, through hiring employees who are much more qualified than the 4 stars hotels.

$\chi^2$  is further calculated to investigate whether there is a significant difference between the age of the employees and both their job stress and their satisfaction. The analysis demonstrates that there was no statistical significant difference between the age of the employees and both their job stress and their satisfaction ( $\chi^2 = 10.224$  and  $9.481, P = .333$  and  $.661$  respectively,  $P > 0.05$ ), while there was no statistical significant difference between job stress and category of hotel ( $\chi^2 = 10.224, P = .333, P > 0.05$ )

Results also demonstrate that there is no significant relationship between job satisfaction and age ( $F = 0.255, P = 0.858 > 0.05$ ). Furthermore, when investigating whether there is a significant difference between years of experiences and both job stress and job satisfaction. The analysis demonstrates that there was no statistical significant difference between ( $\chi^2 = 8.279$ , and  $5.577, P = .218$  and  $.695$  respectively,  $P > 0.05$ ).

Results show that there is a significant relationship between the management's interest in applying the TQM criteria and employees' satisfaction in order to get rid of job stress and achieving the employees' satisfaction which will positively affect the service quality, that will subsequently lead to customers' satisfaction and hence profitability. The analysis of the customers' questionnaire will further be illustrated in order to recognize the relationship between the employees' satisfaction and customers' satisfaction. Results show that the majority of the customers (58%) were from 5 stars hotels and 41.3% were from 4 stars hotels. Furthermore, 46.9% of the customers belong to the age 30-40 years followed by the age 40-50 years (24.5%).

The following table will analyze the reliability of the service provided by the hotel, staff responsiveness, service assurance, hotels' tangibles and empathy of hotel's staff.

Table (4): Percentage of the hotel's reliability, staff responsiveness, service assurance, hotels' tangibles and empathy of hotel's staff.

<b>Hotel's reliability</b>	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1. When you have a problem, the hotel staff is interested in solving it.	42.0%	46.9%	1.4%	6.3%	3.5%
2. The hotel doesn't provide things right first time.	3.5%	8.4%	9.8%	44.8%	33.6%
3. The hotel provides the services late.	4.2%	13.3%	16.1%	41.3%	25.2%
<b>Staff's responsiveness</b>					
4. Personnel in the hotel tell you exactly when services will be performed.	23.8%	50.3%	14.7%	8.4%	2.8%
5. Personnel in the hotel aren't always willing to help you.	4.2%	7.7%	5.6%	52.0%	30.1%
6. Personnel in the hotel are too busy to respond to your requests	2.1%	8.4%	9.1%	52.4%	28%
<b>Service assurance</b>					
7. The behavior of personnel in the hotel instills confidence in customers	37.8%	46.9%	9.1%	4.9%	1.4%
8. You feel safe in dealing with the hotel	40.6%	48.3%	6.3%	3.5%	1.4%
9. Personnel in the hotel are consistently courteous with you	34.3%	50.3%	9.8%	4.2%	1.4%
10. Personnel in the hotel have knowledge to answer your questions	39.25	46.2%	8.4%	4.2%	2.8%
<b>Hotels' tangibles</b>					
12. The hotel has modern looking equipment	27.3%	45.5%	15.4%	6.3%	5.6%
13. The physical facilities at the hotel are visually appealing	26.6%	32.2	20.3	9.1%	11.9%
14. Personnel at the hotel are smart appearance	37.8%	37.1%	18.2%	6.3%	0.7%
<b>Empathy of hotel's staff</b>					
15. When the hotel promises to do something by a certain time they do it	26.6%	55.2%	7.7%	8.4%	2.1%
16. The hotel staffs don't give you individual attention	4.9%	10.5%	9.1%	46.2%	29.4%
17. The hotel has operating hours inconvenient to all their customers.	10.5%	19.6%	48.3%	10.5%	11.2%
18. The personnel of the hotel understand your specific needs	37.1%	38.5%	9.8%	10.5%	4.2%

Concerning quick response to customers' problem, the majority of respondents (46.9%) disagreed, and 42.0%, of them strongly disagreed. Concerning providing things right first time, most of respondents agreed (44.8%), followed by 33.6% who strongly agreed. In terms of providing the services late, 41.3% of respondents agreed and 25.2% strongly agreed.

The results of the responsiveness show that concerning Personnel in the hotel tell you exactly when services will be performed, 74.1% of the customers either disagreed or strongly disagreed. Regarding Personnel in the hotel aren't always willing to help, 82.5% of the

customers either agree or strongly agreed. In addition 80% of customers either agreed or strongly agreed that Personnel in the hotel are too busy to respond to requests.

As regards of the behavior of personnel in the hotel instills confidence in customers, 46.9% of customers disagreed and 37.8% of them strongly disagreed. Concerning feeling safe in dealing with the hotel, 88.9% of the customers either disagreed or strongly disagreed.

However, regarding Personnel in the hotel are consistently courteous, 84.6% of customers disagreed. Finally, 85.4% of customers disagreed that Personnel in the hotel have knowledge to answer questions. Furthermore, in terms of measuring tangibles; 82.8% of the respondents disagreed that the hotel has modern looking equipment, as for (The physical facilities at the hotel are visually appealing), 58.8% of the respondents disagreed. Regarding (Personnel at the hotel are smart appearance) 64.9% of the respondents disagreed.

This result implies that management is not interested in hotel's appearance and facilities; this in turns confirms that management didn't implement the customer focus through determining their needs and requirements. In terms of hotel's staff's empathy, 81.8% of the respondents disagreed that when the hotel promises to do something by a certain time they do it. 75.6% of the respondents agreed that the hotel staffs don't give individual attention, while regarding inconvenience of the operating hours, 48.3% of the respondents are neutral. Finally, 75.6% of the respondents disagreed that the personnel of the hotel understand specific needs.

These results assure that the employees suffer from lack of information received, training programs, rewards, motivations and empowerment. This will subsequently affect employees' satisfaction, which in turn will negatively affect the service quality. Moreover, the management is not interest in implementing the customer focus concept. Moreover, the management and the staff aren't interested in applying the responsiveness criteria. In addition, management are not aware of the concept of employees' satisfaction in achieving customers' satisfaction through meeting customers' needs and expectations out of applying the concept of TQM.

The Pearson correlation coefficient between reliability and customers' satisfaction are then calculated. Results show that there was no statistical significant relationship between the service reliability and solving customers' problems ( $R = -0.026$ ,  $P = 0.755 > 0.05$ ), while there are statistical significant relationship between the service reliability and the customers' satisfaction through the time commitment of providing the right service from the first time ( $R = 0.695^{**}$ , and  $0.810^{**}$  respectively,  $P = 0.00 < 0.01$ ).

When calculating the correlation coefficient between the customers' satisfaction and responsiveness, results show that there was statistical significant positive relationship between responsiveness and its variables, ( $R = 0.196^*$ ,  $0.775^{**}$ ,  $0.698^{**}$ ,  $P = 0.019$ ,  $0.00$ ,  $0.00 < 0.05$  respectively). This result implies that the more the staff is interested in providing the service accurately and helping customers, the more customers' satisfaction rate will increase.

By calculating the correlation coefficient to investigate the existence of relationship between the assurance of the service quality and customers' satisfaction, results demonstrate that there are statistical significant positive relationship between the assurance of the service quality and customers' satisfaction ( $R = 0.872^{**}$ ,  $0.884^{**}$ ,  $0.866^{**}$  respectively,  $P = 0.00 < 0.01$ ), which means the more the behavior of personnel in the hotel instills confidence in customers, the more the customer feels safe in dealing with the hotel, the more personnel in the hotel are consistently courteous with the customer, as well as have knowledge to answer the customer' questions, the more the hotel will succeed in achieving the customer's satisfaction.

The Pearson correlation coefficients between tangibles of the hotel and the customers' satisfaction is further calculated. Results show that there is here was statistical significant positive relationship between tangibles and its variables ( $R = 0.885^{**}$ ,  $0.835^{**}$ ,  $.678^{**}$  respectively

with P value = 0.00,  $P < 0.01$ ), which means the more the hotel is interested in having modern looking equipment, and physical facilities at the hotel are visually appealing, as well as the personnel at the hotel are smart appearance, the more customers will be satisfied.

Moreover, the Pearson Correlation coefficient was also calculated to measure the relationship between the empathy of the staff and customers' satisfaction. Results showed that there was statistical significant positive correlation between empathy and its variables ( $R = 0.45^{**}$ ,  $0.238^{**}$ ,  $0.721^{**}$ , P value = 0.00, 0.004, 0.00 respectively,  $P = < 0.01$ ), which means that when the staff is interested in serving customers in a way which exceed their expectations, it will lead to customers' satisfaction. Moreover, when employees suffer from lack of information needed, empowerment, motivations, training programs, and teamwork spirit, this will lead to unqualified staff. Besides, job dissatisfaction will negatively affect service quality and consequently create dissatisfied customer.

The relationship between reliability, responsiveness, assurance, and tangibles using Pearson correlation will also be investigated in table 5.

Table (5): Correlation between reliability, responsiveness, assurance, tangibles

		Reliability	Responsiveness	Assurance	Tangibles
Responsiveness	R	.425**			
	P value	.000			
Assurance	R	-.072	-.146		
	P value	.391	.082		
Tangibles	R	.194*	.186*	.224**	
	P value	.021	.026	.007	
Empathy	R	.191*	.230**	.461**	.352**
	P value	.023	.006	.000	.000

\*\* Correlation is significant at the 0.01 level \*. Correlation is significant at the 0.05 level.

There was statistical significant correlation between reliability and both responsiveness and tangibles ( $P < 0.05$ ), as well as a statistical significant correlation between tangibles and both responsiveness and assurance ( $P < 0.05$ ), while there was no statistical significant correlation between assurance and both reliability and responsiveness ( $P > 0.05$ ). Finally, there was statistical significant correlation between empathy and reliability, responsiveness, assurance as well as tangibles ( $P < 0.05$ ). This implies that there is a relationship between assurance, responsiveness, empathy, tangibles, and reliability which will in turns affect customers' satisfaction.

## 6. Findings

In terms of analyzing the questionnaire of the employees indicates that the majority of employments in hotel industry are young people, and subsequently most of them have less than 10 years as years of experience.

Concerning hotels' management, it doesn't deal with the entire staff as an important and essential element in fulfilling tasks and achieve goals. Moreover, the management doesn't make efforts to satisfy the staff using motivate positive changes which lead to high level quality service indirectly. The majority of respondents didn't feel the team spirit in the work environment, which clarifies that the management doesn't interest in TQM because the team work is one of the elements of its implementations in order to achieve its goals and objectives. In addition, employees are not satisfied with the information they receive which confirms that the



management doesn't consider the staff as an important element in executing tasks successfully and achieving objectives. Similarly, employees are dissatisfied with the compensation they received; they also suffer from achieving a balance between their private life and their work, which represent a crucial element in achieving service quality.. Finally, the majority of respondents refused to choose the same career, which is a logical result of job dissatisfaction. The relationship between the employees' satisfaction and the customers' satisfaction have been proved, which means the more the employees satisfied with the work environment, the more the customers will be satisfied with the service quality they received and that will lead to high profitability.

Concerning job stress, moderate cases were the most frequent by severe, this means that there is a kind of mismatch between the demand of the job and the resources and the capabilities of the employees such as lack of communication between the management and the staff, lack of information needed, lack of empowerment, lack of training, the amount of hours worked and work life balance which will decrease productivity, more expenses, high employees turnover which will lead to reduce job satisfaction and thus affect the service quality.

On the other hand, concerning customers' questionnaire, the majority of respondents are dissatisfied with the service reliability that may be due that employees suffer from lack of empowerment or lack of information they received or may be because the management is not aware enough of the problems that the employees faced, as well as the lack of qualified staff members which may be due to the lack of interest in training programs. In addition, about 79% of respondents are dissatisfied with staff's responsiveness, which means that the management doesn't interest in customers' problems and needs as well as in the qualifications of the staff through assessing their works, needs or problems. Concerning assurance, 85.9% of respondents are dissatisfied which refers that management doesn't interest in applying the customer focus which is one of the TQM elements. Similarly, customers were dissatisfied concerning tangibles as well as the staff' empathy which also confirms that management doesn't interest in customer focus concept.

## 7. Conclusion and Recommendations

In the hotel industry, it is difficult to study quality because of the nature of the product/service that a hotel offers its customers. Based on the empirical study, we can conclude that the hotel industry is way behind in terms of approaching TQM for two reasons; first, hotel managers have not yet realized the importance of TQM. Second, lack of interest of the TQM elements in the implementation such as recognition and rewards to motivate employees to be better, training, building team works which make all people involved in a process working to achieve a common goal which is customers' satisfaction, and empowerment which is an important element in accomplishing tasks quickly, substantially realizing the importance of the human factor in the management of quality in hospitality.

Moreover, analysis showed that there is a relationship between the management interested in applying the TQM criteria and the employees' satisfaction which will achieve customers' satisfaction and will affect positively the hotel's profitability. Therefore, Managers should focus on the quality culture and evaluate the effectiveness of the current TQM practices. Moreover, they should emphasize continuous training and education, because, the entire workforce must acquire new knowledge, skills and abilities. Hotels' managers should further create service culture based on making employees that they are essential part of the hotel through treating them as their own customers.

In addition, management should provide employees more empowerment which will help them to find a quick solution to the problem they faced with the customers. Moreover,

management should interest in training program to improve their employees' skills. Finally, the management should help their employees to have a balance between their work and their private life. In another hand communication forms a fundamental aspect of organization's cultural change because involving all employees has a great importance in achieving organizational goals through sharing the vision with them, and leaders become responsible for making them motivated, satisfied, and willing to improve themselves.

For a quality improvement program to be successful, the commitment to total quality must encompass a whole workforce who must be encouraged to participate actively in achieving continuous improvement. Moreover, managers and employees should review their services design at regular interval through a customer feedback system which helps the organization to discover the customer satisfaction, determine opportunities for improvement and analyze complaints to eliminate the root cause. Further, they should update their current specifications as per the customer expectations.

Ensuring your staff listen to, act professionally and empathize with the customer which is an important key element of any customer retention strategy, and understand what a customer wants from their conversations.

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# The effects of ICT adoption on marketing capabilities and business performance of Indonesian SMEs in the fashion industry

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## Keywords

ICT, small to medium-sized enterprises, marketing capabilities, business performance, fashion industry, Indonesia.

## Abstract

*The purpose of this paper is to investigate factors influencing the adoption of ICT among SMEs, to examine the influence of ICT adoption on marketing capabilities, and to analyze the influence of marketing capabilities on business performance among Indonesian SMEs in the fashion industry. A questionnaire-based survey was employed to collect data from 204 SME owners/managers. The results suggest that complexity, trialability, and observability are among the technological factors that have a significant influence on ICT adoption. Research advantage and compatibility do not influence ICT adoption. Meanwhile, organizational factors such as owner/manager knowledge and innovativeness significantly influence ICT adoption among SMEs. Environmental factors such as competitive pressure, institutional intervention (excepting market turbulence) contribute significantly to the adoption. Moreover, data analysis reveals that ICT adoption has a positive influence toward SMEs' marketing capabilities. Finally marketing capabilities significantly influence a firm's business performance. The findings contain valuable insights that could educate owners/managers of SMEs about the potential gains they will get by adopting the cost-effective capabilities of Internet adoption for their businesses. This study also provides justification and recommendations for government and lawmakers to foster the growth of SMEs in Indonesia by building more IT-related infrastructure and developing necessary skills to enhance SME business performance.*

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## 1. Introduction

### 1.1. Background

Information and Communication Technology (ICT) is widely used in many organizations. ICT has provided new ways for organizations to store, process, distribute and exchange information with their stakeholders as well as within the organization (Kollberg and Dreyer, 2006). Previous studies demonstrate the positive implication of ICT adoption for the

operation, structure and strategy of organization (Burhalis, 2003), the adoption not only leads to cost cutting and efficiency enhancement, but also customer service improvement (Ashrafi and Murtaza, 2008).

The development of core competences to enhance competitiveness and performance of firms (Wernerfelt, 1984; Prahalad and Hamel, 1990) has gained interest in academic literature. According to the resource-based view (RBV), sustainable competitive advantages are driven from an organization's distinct capabilities (Amit & Schoemaker, 1993; Grant, 1991, 1996). There has been a growing interest in marketing capability studies and the consequences of marketing capabilities on organizational performance has emerged. Previous studies revealed the links between business capabilities and organizational performance, jointly measured using financial (profits, and returns) and market-related (sales and market share) indicators.

It has been stated that ICT adoption has positive implications on organizational performance. However, the context of the studies was mainly focused on larger organizations. Meanwhile, most of the studies of technological roles in SMEs emphasize merely the factors contributed to ICT adoptions such as the Internet or e-commerce adoption barriers, as well as cross-country Internet adoptions. Hence, there is a literature gap on comprehensive research that links factors influencing ICT adoption and how it contributes to the development of marketing capabilities and the consequences towards business performance in the SMEs context.

## 1.2. SMEs and ICT Adoption

The definition of SMEs varies from one country to another. However, the most common measurement used to classify different size of business establishment is based on total assets, annual sales, and number of workers employed by the business.

Meanwhile, it has been acknowledged that not all SMEs need to adopt ICT at the same level of sophistication; different sectors use the Internet differently and therefore will adopt it at a different pace (Kotelnikow, 2007). Previous research conducted by Tan K.S., Chong, C.S., Lin, B., Eze, U.C.,(2010) noted that micro-sized manufacturing and service firms have the least to benefit from ICT adoption. These SMEs face a dilemma when it comes to the adoption decision. While they realize the many benefits to be brought to the firms, high costs, security concerns, and limited knowledge of ICT have hindered them. The findings are in line with the earlier argument that the majority of SMEs have not adopted, or are slow in adopting, ICT (Kotelnikow, 2007) and that the adoption intention is not affected by the number of employees or annual sales turnover, implying that Internet adoption is not a matter of choice across different firm sizes but rather a necessary tool for business success.

While there has been an increasing number of studies on the use of information and technology and its impact on organizational capabilities, the context of the studies were mainly focused on larger organizations. Only a few researchers have explored and examined factors contributing to ICT adoption among SMEs and the consequences of the adoption on marketing capabilities and business performance.

In this study, the authors aim to address the literature gap by examining SMEs operating in the fashion industry in Indonesia. The Ministry of Trade Republic of Indonesia (2008) defines fashion subsector as all creative activities related to the creation of clothing design, footwear, other fashion accessories, fashion apparel and accessories production, and the distribution of fashion products. It is divided into fashion companies, fashion and distribution channels, and most of the companies follow mass production, distro, ready to wear and haute couture type of business models. The fashion industry is considered an important sub-sector in Indonesia's creative industry. In 2010-2013, total number of firms in this industry reached 3.8 million firms. In addition, in the period between 2010 and 2013, fashion industry contributed to IDR 182



trillion (or equal to USD 13 billions) of Gross Value Added (GVA) with the growth rate of 6.44% (The Ministry of Tourism and Creative Industry of the Republic of Indonesia, 2014). As a result of the above discussion, this study is conducted to answer the following objectives: 1) to analyze factors influencing the adoption of ICT among SMEs, 2) examine the influence of ICT adoption on marketing capabilities, and 3) examine the influence of marketing capabilities on business performance.

## 2. Literature Review and Hypotheses Development

### 2.1. ICT Adoption

Several studies have addressed ICT adoption and provided theories and models that examine this adoption. Korpelainen (2011) identified the four most influential theories and models used in ICT adoption. The Technological Acceptance Model (TAM) by Davis (1986), is the most cited theory in examining ICT adoption at the individual level. The second most cited was the Theory of Reasoned Action (TRA) (Ajzen and Fishbein, 1980), which provides links between beliefs, attitudes, norms, intentions, and behaviors of individuals. Another theory that focuses on ICT adoption at an individual level is the theory of Planned Behavior (Ajzen, 1991), which focuses on cognitive self-regulation. The diffusion of innovation (DOI) model by Rogers (2003) focuses on an organizational or a social system. Finally, the Technology, Organization, Environment (TOE) framework was adopted in some ICT studies in an organizational context. This framework is consistent with DOI and has a solid theoretical basis and consistent empirical support, and it provides potential applications across different contexts (Oliveira and Martins, 2011).

In examining factors influencing ICT adoption, this study employs the Technology, Organization, Environment (TOE) framework (Tonatzky and Fleischer, 1990). Ghobakhloo, Aranda, and Arando (2011) found that e-commerce adoption within SMEs in Iran is affected by perceived relative advantage, perceived compatibility, CEOs innovativeness, information intensity, buyer/supplier pressure, support from technology vendors, and competition. Research conducted by Kendal et al. (2001) suggested that among Indonesian SMEs, relative advantage serves as a strong predictor to the adoption of e-commerce. Other empirical evidences reveal that compatibility of new and old systems significantly predicts innovation adoption, and SMEs owners/managers are likely to adopt new ICT only if the technology is compatible with their current businesses (Kendall et al., 2001; Thong 1999; Lee, 2004).

Thus, the following hypotheses are formulated:

H1a: The relative advantage of ICT positively influences ICT adoption.

H1b: The compatibility of ICT positively influences ICT adoption.

H1c: The complexity of ICT positively influences ICT adoption.

H1d: The trialability of ICT positively influences ICT adoption.

H1e: The observability of ICT positively influences ICT adoption.

In an organizational context, empirical findings have demonstrated owner-managers are involved in making decisions that affect both current and future activities (Fuller-Love, 2006; Smith, 2007; Thong, 1999). In addition, owner-managers' understanding of IT and innovation skills contributes substantially to the likelihood of IT adoption (Bassellier et al., 2003; Fuller and Lewis, 2002; Thong, 1999; Thong and Yap, 1995). Literature reviews also reveal that SME owner-managers viewed as "more entrepreneurial, risk-takers, innovative and creative" are seen to be important to the firm readiness for ICT adoption (Zappala and Gray, 2006; Beckinsale and Ramn, 2006). Moreover, CEOs or owner-manager innovativeness is considered as one of the important characteristics in e-commerce adoption (Lee, 2004). In the context of SMEs, Fink (1998)

found out that movement toward IS adoption in SMEs with innovator owner-manager have a higher likelihood to succeed in adoption. Empirical studies concluded that ICT adoption is positively affected by owner-managers innovativeness (Al-Qirim, 2007; Ghobakhloo, Arias-Aranda, and Benitez-Amado, 2011). Therefore, the following hypotheses are stated:

H2a: owner manager IT knowledge positively influences ICT adoption.

H2b: Owner/manager innovativeness positively influences ICT adoption.

The environmental context, according to the TOE framework, is an arena in which a firm conducts its business. It includes the industry where a firm is operating, competitors, and government (Tornatzky and Fleischer, 1990). Empirical studies have shown that competitive pressure impacts adoption and diffusion of ICT. However, there is a variation in the findings of the relationship between competitive pressure and ICT adoption (Tong, 1999). Moreover, past research has recognized that market turbulence impacts organizational capability and the way firms adopt its strategies (Gatignon and Xuereb, 1997) Thus, innovation can represent an effective means to deal with environment turbulence. According to institutional theory, institutional environments are essential in determining firm structure and actions (Scott, 2007). As stated earlier ICT adoption among SMEs are hindered by limited resources. Hence, government support through financial aids, regulations, infrastructure, and ICT knowledge building can facilitate ICT adoption among SMEs. Finally, based on the above discussion, these following hypotheses are stated:

H3a: Competitive pressure positively influences ICT adoption.

H3b: Market turbulence is positively related to ICT adoption.

H3c: Institutional intervention positively influences ICT adoption

## 2.2. Marketing Capabilities

The literature on capabilities has recognized various capabilities that firms can use to gain a competitive advantage (Prahalad and Hamel, 1990; Barney, 1991; Day, 1994). These capabilities can be developed through the integration of knowledge and skills of employees and functional capabilities can be integrated across functional lines and are deployed across multiple product markets to deliver competitive advantage (Grant, 1991, 1996). Marketing capabilities are one of the functional capabilities that were developed so that employees can solve firms' marketing problems (Day, 1994; Grant, 1991, 1996). Antuahene-Gima (1993) conceptualized marketing capabilities and identified eight processes to reach target customers such as customer service, promotional activities, sales people quality, distribution networks, advertising resources, marketing research, product differentiation, and speed of product introduction. In addition, Vorheis (2005) investigated six marketing areas for evidence of marketing capabilities: marketing research, pricing, product development, distribution channels, promotion, and marketing management.

Empirical evidence reveals ICT as an endogenous element of the firm, and it performs as a key element of management and marketing practices (Brady et al., 2002). Furthermore, Vilaseca-Requena, Torrent-Sellens, and Jimenez-Zarco (2007) provide two ideas that stand out from ICT use in the marketing area. Intensive ICT use in marketing enhances firms' innovativeness, reduces barriers to innovate and accelerates the innovation process. Also, ICT use in marketing encourages collaboration and integration of the business environment in the development of the innovation process, thus improving the degree of adaptation of the new product to market demands. Furthermore, intensive ICT use in marketing results companies products more innovative as it can reduce technological, strategic and marketing risk associated with new product development (Vilaseca-Requena, Torrent-Sellens, and Jimenez-Zarco, 2007). A study on information technology and marketing conducted by Trainor et al. (2008) shows that

technology adoption leads to e-marketing capability and positively influences firm performance by improving customer retention and satisfaction. A firm's competence in using the Internet and other information technologies facilitates rich interaction with its customers. These interactions provide customers with access to firm resources and information and simultaneously providing firm with customer information (Brodie et al., 2007). Based on the literature review:

H4: ICT adoption positively influences and marketing capabilities.

### 2.3. Business Performance

The synergic relationships between different market-based capabilities from Dutta et al. (1999) shows marketing capabilities enhance innovative technologies across a range of industries. The general strategic management and marketing literatures suggest that firm capabilities in a number of functional areas can lead to positive performance (Hunt and Morgan, 1996), and the concept of capability development and its impact on performance has been an important focus within marketing studies (Vorheis et al., 1999).

Many empirical studies in marketing depict the relationship between marketing capabilities and firm performance as direct and positive (Moorman and Slotegraaf, 1999). Moore and Fairhurst (2003) in their studies found that the most effective marketing capabilities in fashion retailing for firm performance are promotional capability and image differentiation. In a study on marketing capabilities in entrepreneurial firms, Qureishi and Mian (2010) found that marketing capabilities (marketing research, pricing, product development, channels, promotion and marketing management) were significantly related to firm performance and suggest that firms should develop marketing programs by developing marketing capabilities. Therefore,

H5: Marketing capabilities positively influence business performance.

Based upon the literature review and rationale stated earlier, the framework of this study can be seen in the following figure:

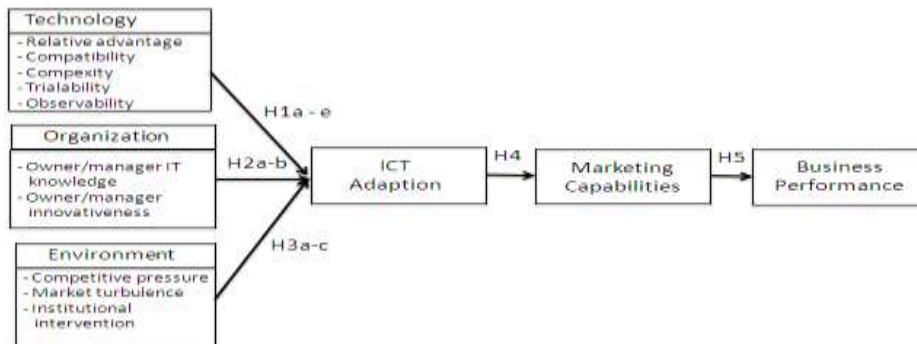


Figure 1 - Research framework

## 2.4. Methodology

### 2.4.1. Research Procedures

This study employed descriptive quantitative data analysis, to investigate factors that contributed to ICT adoption, and the consequences of the adoption to a firm's marketing capabilities and business performance in the context of SMEs in the fashion sub-sector in Indonesia. Hypotheses were developed from theoretical reviews and empirical studies. Subsequently it followed a confirmatory strategy of research in which a process of confirming or disconfirming hypotheses is employed to answer previously identified research questions. Moreover, according to Martin and Martya (2001) ICT adoption in SMEs was limited to emails and website adoption given the characteristics of SMEs. Therefore, the context of ICT adoption

in this study was limited only to the adoption of email and other web-based applications (websites, blogs, and social media such as Facebook and Twitter).

#### **2.4.2. Sampling Procedure**

In this study, a non-probability sampling was employed, and the sampling method used was convenience sampling. The selection of research sample will be based on: 1) The sample consists of SMEs with reference to the size of establishments according to the Government Decree No. 20, 2008 which will be based on total assets, annual sales and number of workers employed. According to UNCTAD and Ministry of Trade Republic of Indonesia, fashion industry is classified into haute couture and ready to wear products, handbags, accessories (tie, shawl, scarf, glove, hat, hairpin), sunglasses, headgear, leather-based products, and perfume. However, this study will focus on owners/managers who are involved along the fashion industry with focus on the production, commercialization and distribution of ready-to-wear fashion products, and who had clothing kiosks in Thamrin City, one of the largest fashion centers in Jakarta, Indonesia. Jakarta is the capital and the largest city in Indonesia with a population of 10, 075,300 in 2014 (Indonesia's Central Bureau of Statistics, 2015), 2) Given the characteristics of SMEs, the level of ICT adoption of this study will be limited to the lower levels of ICT adoption based on Martin and Matya (2001)'s framework; email and website adoption.

A survey method was employed to collect data. The survey method used a standardized questionnaire to collect desired information from respondents. In anticipation of a low response rate, the personal survey interviews were conducted between September and October 2014. Prior to conducting a full-scale survey, a pilot-test to 30 respondents was executed to solicit feedback in terms of understanding of the survey wording and evaluate the measurement reliability and validity.

#### **2.4.3. Measurement**

All data was generated from questioners and was designed, based and modified on previous studies. The measurement scales used to collect the data were also derived from technological variables which consisted of relative advantage (4 items), compatibility (4 items), complexity (5 items), trialability (3 items), and observability (3 items). The organizational variables consist of owner/manager IT knowledge (3 items), owner/manager innovativeness (4 items). The environmental variables consist of competitive pressure (5 items), market turbulence (4 items), and institutional intervention (5 items). All the items were adopted from Tornantzky and Fleischer (1990) and Rogers, 2003). Moreover, ICT adoption was measured by using 6 items adopted from Bassellier, Benbasat, Reich (2003); Teo and Benbasat (2003); Rogers (2003); and Kilangi (2012). Next, marketing capabilities consisted of planning flexibility (6 items), marketing implementation (4 items), product development (4 items), pricing (3 items) and communication (3 items). The variables and items were adopted from Morgan et al. (2003); Fahyet al., (2000); Tsa and Shih (2004); and Vorheis and Morgan (2005). Business performance was measured by using 3 items related to perceived growth on revenue, profit, and number of employees. All questions were measured with a five-point Likert scale, where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree. Finally, to obtain respondent profiles, the questionnaires also included several questions such as age, gender, and education, as well as questions on firm profiles such as firm age, number of employees, and number of stores.

#### **2.5. Analysis and Results**

Using the survey data from the pilot test, the statistics procedures in SPSS 22 were utilized for validating the outcome of the questionnaire. Cronbach's alpha was used to validate the consistency of measurements in the questionnaire. Based on the reliability test all variables

are reliable with Cronbach's alpha value greater than 0.6 ( $\alpha > 0.6$ ). It indicates satisfactory internal-consistency reliability among all of the variables used in this study. Furthermore, a validity test on the pilot-test sample was employed by using a Pearson Product-Moment Correlation Coefficient to measure the strength of a linear association between the variables. The result shows that all the measurements are valid with  $r > 3$  and t-value of 0.000. The results of both the reliability and validity tests on the pilot-test sample indicate that the variables and indicators can be used for full-scale data collection.

To gain a better insight of respondent and firm profiles, distribution frequency was used and the results are shown in table 1.

Owner/Manager Profile				Firm Profile			
		Count	Percentage		Count	Percentage	
Age	20-25	43	21.0%	Year of Start-up	< 1	13	6.4%
	26-30	46	22.5%		1-3	86	42.3%
	31-35	31	15.2%		4-6	85	41.7%
	36-40	21	10.3%		7-9	13	6.4%
	41-45	25	12.3%		10-12	6	2.9%
	46-50	21	10.3%		>12	1	0.5%
	51-55	9	4.4%		None	26	12.7%
Gender	56-60	8	3.9%	Number of employees	1-10	162	79.4%
	Male	94	46%		11-25	12	5.9%
Female	110	54%	26-50		3	1.8%	
Education	Elementary	3	1.8%		51-99	1	0.5%
	Middle School	32	16.3%	Number of stores in Thamrin City	1	103	50.1%
	High School	101	49.5%		2	57	27.9%
	Diploma	21	10.3%		3	24	11.8%
	Bachelor	43	21.1%		4	11	5.8%
	Master	3	1.5%		5	5	2.5%
Doctoral	1	0.5%	>5		4	2%	

Table 1- Respondent and Firm Profiles

The conceptual structural equation model was tested using LISREL 8.30, as shown in above table, the chi-square ( $\chi^2$ ) is equal to 2957 with the degree of freedom (df) equal to 1341, so that the  $\chi^2/df$  (chi-square to freedom ratio) is 2.25 which is less than the cutoff good fit  $< 3.0$ , this indicates a good fit between the model and the collected data (Kline, 2004). Moreover, the model shows a good fit between the conceptual model and the data with RMR = 0.096, RMSE = 0.079, GFI = 0.93, AGFI = 0.92, CFI = 1.00, NFI = 1.00 (Designed cutoffs: RMR  $\leq 0.05$  or  $\leq 0.1$ , RMSE RMSEA  $\leq 0.08$ , GFI  $\geq 0.90$ , AGFI  $\geq 0.90$ , CFI  $\geq 0.90$ , and NFI  $\geq 0.95$ , Hair et al., (2010)). As shown in Table 2, eight out of twelve hypotheses received significant support (H1c, H1d, H1e, H2a, H2b, H3a, H3c, H4, and H5), while three hypotheses were rejected (H1a, H1b, and H3b).

Construct and Items	Standardized Loading	Error	t-value	CR	VE
<i>Relative Advantage</i>					
In general, email and web-based applications are useful for my business.	0.84	0.30	13.87	0.869	0.628
Email and web-based applications will allow me to better communicate with customers, suppliers and trade partners.	0.78	0.39	13.55		
Email and web-based applications enable me to reach new markets.	0.88	0.22	14.08		
Email and web-based applications provide fast access to information.	0.86	0.58	12.30		
<i>Compatibility</i>					
Email and web-based applications fit well with the way we do our businesses.	0.90	0.20	16.61	0.920	0.744
Email and web-based applications fit well with our culture and values.	0.91	0.18	16.55		



Email and web-based applications fit well with firm's existing distribution channel.	0.87	0.25	16.32		
Email and web-based applications fit well with our customers.	0.77	0.40	15.59		
<i>Complexity</i>					
Using email and web-based applications is easy to learn for our employees.	0.92	0.15	18.23	0.898	0.652
Using email and web-based applications is easy to understand for our employees.	0.96	0.07	18.43		
Using email and web-based applications is easy to use for our employees.	0.95	0.10	18.09		
Using email and web-based applications is easy to use for my customers.	0.53	0.72	11.66		
Using email and web-based applications is easy to use for my business partners.	0.55	0.70	12.03		
<i>Trialability</i>					
I have had a great deal of opportunities to try various internet applications such as email and web-based applications.	0.98	0.05	10.87	0.889	0.734
In my daily life I use various internet applications such as email and we-based applications.	0.93	0.14	10.87		
Before deciding whether to use email, or web-based applications, I was able to properly try them out.	0.63	0.61	10.87		
<i>Observability</i>					
I believe I could benefit from the use of email and web-based applications.	0.90	0.19	13.32	0.930	0.817
The results of using email and web-based applications are apparent to me.	0.95	0.10	13.35		
People can see the benefits I got from using email and the benefits of using email and web-based applications.	0.86	0.26	13.35		
<i>Owner/manager knowledge</i>					
I would rate my own understanding of ICT as very good compared to other business owners.	0.83	0.30	10.45	0.841	0.639
Regarding my understanding of IT, I know the effects of adopting/using the Internet on my business.	0.82	0.33	10.45		
I have adequate experience in using email and web-based applications.	0.74	0.45	10.45		
<i>Owner/manager innovativeness</i>					
I have original ideas.	0.78	0.40	12.36	0.836	0.560
I would sooner create something new than improve something existing.	0.77	0.41	12.24		
I often risk doing things differently.	0.69	0.52	14.10		
I often have fresh perspective on old problems.	0.59	0.43	12.41		
<i>Competitive pressure</i>					

My customers demand email and web-based applications services offered to them.	0.69	0.52	14.10	0.871	0.579
My suppliers demand email and web-based applications opportunities offered to them.	0.58	0.67	12.41		
I am very alert that using e-mail and web-based applications can increase my business's competitive advantage.	0.87	0.25	16.13		
Using email and web technologies are important to keep up with competition in the market	0.86	0.26	16.0		
I respond quickly to other competitor actions in using email and web-based applications.	0.55	0.41	12.03		
<i>Market turbulence</i>					
I am faced with very intense competition	0.69	0.52	7.52	0.805	0.515
In our industry the customer preferences are changing frequently.	0.87	0.70	7.18		
I have to deal with price competition.	0.89	0.62	7.21		
My competitors can easily offer my products.	0.83	0.82	5.86		
<i>Institutional intervention</i>					
The government offers grants and loans for adoption email and web-based applications.	0.90	0.20	21.17	0.954	0.806
There are current government regulations related to information technology.	0.83	0.31	20.23		
The government provides knowledge-building capacity for email and web technology adoption.	0.94	0.11	21.82		
The government provides information infrastructure for adoption of email and we-based applications.	0.93	0.14	21.62		
The government promotes the adoption of email and web-based applications among SMEs.	0.89	0.21	21.05		
<i>ICT Adoption</i>					
I regularly use email and web-based applications for displaying company information and products offered.	0.93	0.14	25.25	0.967	0.830
I regularly use email and web-based applications to communicate with my suppliers.	0.89	0.22	24.46		
I regularly use email and web-based applications to communicate with my employees.	0.78	0.39	22.24		
I regularly use email and web-based applications to communicate with my customers (where customers can submit	0.95	0.10	25.57		

various enquiries).					
I regularly use email and web-based applications to sell my product online.	0.97	0.06	25.91		
I regularly use email and web-based applications to sell my product and receive payments.	0.94	0.11	25.45		
<i>Planning Flexibility</i>					
I can easily change the company's strategic plan if a new competitor enters the market.	0.85	0.27	22.23	0.947	0.743
If a shift in customer needs and preferences occurs, we can easily change the strategic plan.	0.88	0.22	22.60		
I can easily change my strategic plan if new technology emerges.	0.82	0.32	21.62		
If a shift in economic conditions occurs, I can easily change my strategic plan.	0.89	0.22	22.61		
If new opportunities emerge, I can easily change my strategic plan.	0.87	0.24	22.49		
If an unexpected threat arises, I can easily change my strategic plan.	0.86	0.27	22.19		
<i>Marketing Implementation</i>					
I can allocate marketing resources effectively.	0.65	0.58	12.90	0.887	0.665
I can translate marketing strategies into action.	0.87	0.24	14.82		
I can execute marketing strategies quickly.	0.89	0.21	14.99		
I can monitor marketing performance.	0.83	0.31	14.70		
<i>Product development</i>					
In terms of quality and price, my products are better than my competitors' products.	0.64	0.59	11.82	0.849	0.589
I have an ability to develop new products/ services adapted to customer needs.	0.78	0.38	12.96		
I am successfully launching new products/services.	0.72	0.48	12.61		
I have an ability to develop better products than competitors.	0.96	0.19	5.80		
<i>Pricing</i>					
When setting up product price, I consider the profit margin carefully.	0.48	0.77	5.80	0.759	0.534
I have knowledge of competitors' pricing tactics and strategies.	0.93	0.13	5.80		
My firm regularly monitors competitors pricing and pricing changes.	0.54	0.71	5.80		
<i>Communication</i>					
I acquire ability to communicate my products to customers.	0.30	0.91	5.02	0.741	0.531
I provide the salespeople the training	0.93	0.50	9.56		

they need to be effective.					
I provide effective sales support to the sales force.	1.00	0.00	21.04		

Table 2 - Confirmatory Factor Analysis

Hypotheses	Coefficient	t-value	Hypothesis Testing
H1a: Relative advantage → ICT adoption	-0.01	-0.46	Rejected
H1b: Compatibility → ICT adoption	0.04	1.53	Rejected
H1c: Complexity → ICT adoption	0.21	8.47	Supported
H1d: Trialability → ICT adoption	0.47	17.62	Supported
H1e: Observability → ICT adoption	0.15	3.13	Supported
H2a: Owner/manager knowledge → ICT adoption	0.44	23.45	Supported
H2b: Owner/manager innovativeness → ICT adoption	0.20	6.80	Supported
H3a: Competitive pressure → ICT adoption	0.16	4.26	Supported
H3b: Market turbulence → ICT adoption	0.03	0.93	Rejected
H3c: Institutional Intervention → ICT adoption	-0.09	-3.01	Supported
H4: ICT adoption → Marketing capabilities	0.80	14.06	Supported
H5: Marketing capabilities → Business performance	0.49	16.45	Supported

Table 3 - Results and model tests using the structural equation modeling approach

### 3. Discussion and Conclusion

This study reveals several theoretical and managerial implications relating to ICT adoption among fashion industry SMEs in Indonesia. The industry is considered as an important sub-section in Indonesia's creative industry. The findings of this research prove that ICT adoption has important implications on firms' marketing capabilities and business performance.

In terms of theoretical implications, it can be considered that the major novelty in this research is that it attempts to explore ICT adoption comprehensively. This study extends the current literature in three areas. Firstly, this research used a modified version of the TOE framework (Tonatzky and Fleischer, 1990) and the findings confirmed that technological, organizational, and environmental factors play essential roles in the adoption of ICT among SMEs operating in the fashion industry. In regards to technological factors, complexity, trialability, and observability are three factors that influence the adoption positively, where trialability was found to score the highest mean among other technological factors. These findings confirmed prior empirical studies conducted by several researchers (Tan et al., 2009; Thong, 1999, and Kendal et al. (2001). However, compatibility and relative advantage were found to be insignificant technological factors in ICT adoption. This finding contradicted previous studies, where relative advantage was an important factor in adoption (Tan et al., 2009; Thong, 1999, and Kendal et al., 2001). The results of an in-depth interview conducted with five SME owners/managers reveals that they did not consider ICT as the only medium to communicate with their customers, suppliers and trading partners as they tended to communicate with them using phone calls, text messages, or talk to them directly.

Moreover, both owner/manager knowledge and owner/manager innovativeness were two organizational factors that contributed to ICT adoption. This finding is in line with previous literature, as owner/manager knowledge on technology was considered an important characteristic affecting technology adoption and contributes substantially to the likelihood of adoption (Fink, 1998; Bassellier et al., 2003; Fuller & Lewis, 2002; Thong, 1999; Thong & Yap, 1995). Also, innovativeness is seen as an important owner/manager characteristic in e-commerce and ICT adoptions (Zappala and Gray, 2006; Beckinsalen and Ram, 2006; Al-Qirim, 2007; Ghobakhloo et al., 2011).

Finally, the result shows that competitive pressure and institutional intervention were important environmental factors influencing ICT adoption among SMEs. Surprisingly, the findings further indicate that institutional intervention negatively influences adoption. Most empirical studies concluded that institutional intervention fosters SMEs growth by providing financial aids, regulations, infrastructure, and ICT knowledge building. However, with respect to this current study, it seems that the government does not provide enough support to SMEs in the fashion industry. Furthermore, the results from in-depth interview reveals that SMEs tended to have skeptical attitudes toward support provided by the government. Also, This finding supports a study conducted by Setyorini, C.T., Pinasti, M., Rokhayati, H. (2013) which highlighted lack of coordination and unsynchronized programs government agencies in assisting in all batik SMEs in central Java, Indonesia. Moreover, market turbulence was found to be an environmental factor which had an insignificant influence toward ICT adoption.

Secondly, this study reveals a significant relationship between ICT adoption and marketing capabilities. This finding strengthens empirical studies on the importance of ICT adoption to endow marketing function with capabilities to target specific customers by employing communication and other parts of the marketing mix to customer segments (Pine et al., 1995; Prasad et al., 2001). Also, ICT adoption performs a key element in enhancing the new product development process and improving the degree of adaptation of new products to market demands (Vilaseca-Requena, Torrent-Sellens, and Jimenez-Zarco (2007); Brady et al., 2002).

Thirdly, the findings confirm the vast body of literature that suggests firm capabilities in functional areas lead to firm performance (Hunt and Morgan, 1996). The studies of firm performance in SMEs reveals that marketing capabilities were significantly related to firm performance, where firms with more advanced marketing capabilities showed better financial performance (Qureshi and Mian, 2010).

The findings of this study further suggest several managerial implications to owner/managers of SMEs operating in the fashion industry. It is clear that the adoption of ICT leads to better business performance of SMEs. ICT has given the opportunity for SMEs to reach more customers and provides a low cost infrastructure to grow their businesses. The opportunity of owners/managers to easily try various Internet applications such as email and other web-based applications (such as social media platforms: Facebook, Twitter, blogs, and websites) is an important driver to ICT adoption for SMEs since most of the owners/managers are quite familiar and use those web-based applications on a regular basis. Also, this study further reveals that there is a lack of government support for SMEs in the fashion industry. SME players seem to have skeptical attitude toward government intervention.

#### **4. Research Limitations and Direction for Further Research**

This study employs a non-probability sample of SMEs in the fashion industry. The decision to use convenience sampling was chosen due to the difficulties in contacting the owners/managers of SMEs since most of them lived in different cities and the employees did most of the store operational activities. This method may limit the generalization of the results of this study. Further research with a broader sampling frame should be further examined to see the impact of ICT adoption on marketing capabilities and business performance. Since this study only examines ready-to-wear products, future research that includes different fashion products will enhance our understanding in this industry. Finally, future research in different sub-sectors within the creative industry will broaden our perspectives on the importance of ICT adoption, thus could give us better insights of how ICT adoption could have an impact across different industries. Also, further study on how owner/manager characteristics and firm characteristics



determine the adoption on ICT would bring more detailed insights of ICT adoption among SMEs in Indonesia.

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# The effect of HRM outsourcing on performance of multinational firms in Thailand

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## Keywords

Human Resource Management Outsourcing, Human Resource Management, Organizational Performance

## Abstract

*The objective of this research is to verify the relationships among human resource outsourcing of four activities such as recruitment activities, training administration, payroll management, and human resource information system and organizational performance through HR cost efficiency, effective HR development and HR flexibility. The model is tested by using data collected from mail survey questionnaires of 165 multinational firms and using a questionnaire as the instrument. The results of OLS regression analysis show that HRM outsourcing has a significant impact on organizational performance both direct and indirect via HR cost efficiency, effective HR development and HR flexibility. In sum, this study contributes to manager by providing the knowledge that organizational performance can be increased by HR outsourcing implementation. Theoretical and managerial contributions, conclusion and directions of the future research are mentioned.*

## 1. Introduction

At present, global economic challenge with resource limitations is increasingly growing pressure on competitive advantage of firm. To complete in business, firms need to find strong ways to deal with this changing environment. The success of organization depends greatly on many factors such as productivity, cost efficiency and successful strategic human resource management (SHRM). With dynamic environment, HR outsourcing turns to be an important tool as strategic management of firm (Leavy, 2004). HRM outsourcing is the process of delegating HR practices to external party supplier with the aim of successful competitive advantage. Accordingly, firms perform HR outsourcing for benefits such as reducing HR costs, cultivating diversity of competencies, superior capacity of flexibility, spreading and sharing risks to improve firm performance (Wu & Park, 2009; Elmuti, Gruneward & Abebe, 2010; Cicek&Ozer, 2011). In addition, HR outsourcing can allow organizations to perform more proactive and strategic role focusing on their main competencies in order to increase efficiency without investing in people and technology (King, 2007; Lau & Zhang, 2006). According to prior research, HRM practices have been outsourced in various activities such as payroll, benefits, recruitment, recruitment and selection (Barczyk et al., 2007).

Several researches confirm that outsourcing is certainly increasing with more and more on outsourcing HR activities. Despite the increasing agreement of the HRM outsourcing practices, academic research on this topic in Thailand context is incomplete. However, there have been several questions about the values of HRM outsourcing outcomes, such as: Does HRM outsourcing really contribute to achieve organizational performance or not? and how does HRM outsourcing affect organizational performance? Quartey (2013) reasoned that many multinational firms are well done for human resource outsourcing practices increasingly in recent years. Consequently, HRM outsourcing of multinational firms in Thailand is explained in this research.

The main aim of this research is to clarify the relationship between HRM outsourcing (recruitment activity, training administration, payroll management, and human resource



information system) and organizational performance via HR cost efficiency, effective HR development, and HR flexibility. This research is ordered as follows: the first part is literature survey, whilst the second part details research methods, including data collection, measurement, and statistics. Next, the results are shown and discussed. Consequently, contribution, limitations, future directions, and conclusion are mentioned.

## 2. Conceptual Development

The theory of resourced-based view of firm (RBV) explains how resources and capability which is values, rare, non-substitute and non-imitate is often treated as strategic tool to achieve competitive advantage (Barney, 1991). When the strategies are successful with rare, valuable and difficult-to-imitate resources, firm is likely to gain an advantage over its competitors and thus has higher returns. In this research, RBV is applied to explain HRM outsourcing as a strategic success factor to increase the competitive advantage of a firm. Likewise, several studies claim that HR outsourcing activity is important strategies in dynamic environment for executives to achieve demands and objectives of firms such as HR cost reduction, increasing HR flexibility, gaining advance technologies, and a concentration on core activities (Gilley et al., 2004; Lilly, Gray & Virick, 2005; Kinange & Murugiah, 2011). Thus, a conceptual framework is shown in Figure 1.

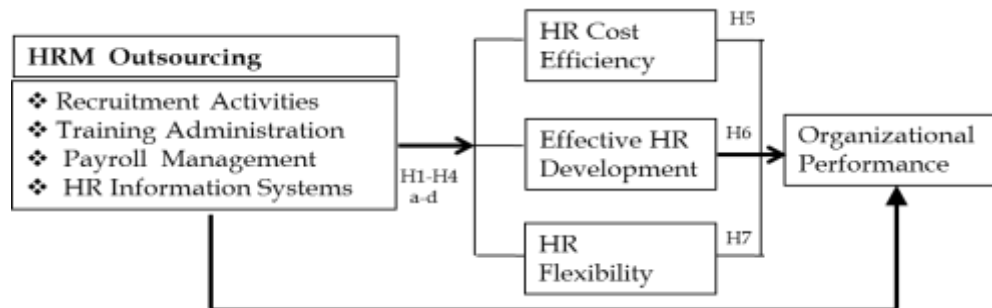


Figure 1: Conceptual Framework of HRM Outsourcing and Outcomes

### 2.1 HRM Outsourcing

A number of researchers are defined HRM outsourcing in various meanings. Belcourt (2006) clarifies that HR outsourcing is a contractual relationship for the provision of business services by an external provider. It means that firm agrees with another firm to do some work of HR practices for it. In other words, Society for Human Resource Management (2009) states that HRM outsourcing is "a contractual agreement between an employer and an external third party provider whereby the employer transfers responsibility and management for certain HR, benefit or training-related functions or services to the external provider". Likewise, AL-Khachroum&Kennawi (2010) states that HRM outsourcing refers to a sharing of human resource activities and services, along with the delivery of staff and resources related with an outside party under a contractual contract management. It can describe that HRM outsourcing is an opportunity for the HR function to increase employee efficiency and effectiveness by using third party. This research is defined HRM outsourcing as the process of transferring procedure of HRM activities to an external provider of the company with the aim of increasing competitiveness.

HRM outsourcing in this research is consisted of four activities namely: recruitment activity, training administration, payroll management, and human resource information system (HRIS). For the relationship between HRM outsourcing and organizational performance, several studies reveal that HRM outsourcing has a positive impact on organizational performance via HR cost efficiency, effective HR development and HR flexibility. In order to clearly study the

relationship between HRM outsourcing and organizational performance, this research describes HRM outsourcing as follows:

**Outsourcing of recruitment activities** refers to a procedure to transfer recruitment and selection activities to an external provider. The recruitment outsourcing activities are advertising, job fair hosting, applicant tracking and some of selection process such as extensive skill testing, organization and background testing. Previous studies show that recruitment outsourcing can be significantly reduced costs (Seth & Sethi, 2011). Additionally, a great advantage of HR recruitment outsourcing is a new way of acquiring talent. In most research it is assumed that recruitment outsourcing will support modernize business's recruitment job and make it integrated and been efficient. It is very critical aspect of recruitment outsourcing which directly affects business quality and performance (Braun & Pull, 2011). In addition, Elsaid (2013) suggested that outsourcing of recruitment process can create competitive advantage for business operating in Egypt. As a result, the hypothesis is proposed as follows:

**Hypothesis 1: Outsourcing of recruitment activity is positively related to (a), HR cost efficiency, (b) effective HR development, (c) HR flexibility, and (d) organizational performance.**

**Training administration** refers to the process of gaining or allocating knowledge, skills and competencies to carry out specific and useful competencies for improving one's capability, and performance by using outside groups. Nowadays, business training is highlighted on employee and customer learning. The increasing in training space has resulted in a strongly upgrading in demand for outsourced training services. The growth in training outsourcing can give to satisfied progress and well-organized distribution methods in an increasingly global marketplace. The business can yield the potential for cost savings by effective budget control with some types of learning and successful employee skills when decision to outsource its training function (Chaudhuri & Bartlet, 2014). Another benefit is that the training by outsourcing is a variety way to provide innovative knowledge and deliver high-quality technology. Likewise, Gilley et al., (2004) suggested that outsourcing of training by outside specialist groups, firm may achieve greater innovation and stakeholder performance, finally, increase firm performance. As a result, the hypothesis is proposed as follows:

**Hypothesis 2: Outsourcing of training administration is positively related to (a), HR cost efficiency, (b) effective HR development, (c) HR flexibility, and (d) organizational performance.**

**Payroll management** refers to a process that contracting with an external business service to organize all or part jobs related to compensation activities for employee services. The activities comprise salary payments, wages, bonuses, tax withholdings, and deductions from incomes. Firms may decide to outsource their payroll functions to an outsourcing service like a part or a fully managed payroll service. Abdul-Halim & Che-Ha (2011) suggest that payroll administration and benefits are the popular activity for outsourcing because it can reduce time and resource of firm. Moreover, Gilley et al., (2004) states that HR divisions can get better service and lower costs from vendors than from in-house sources, because providers of payroll service have the benefits of scale, know-how, and advance technology as well as more comprehensive process knowledge that may succeed them to deliver better service and lower costs. In addition, a good payroll-services provider is faraway less likely to make a big error than in-house control. Furthermore, if a serious error is finished, firm can follow financial return from the provider that company can't organize with own employees. In addition, most payroll services have technologies that can improve security. Accordingly, Norman (2009) confirms that payroll outsourcing activities are positively related to firm performance. As a result, the hypothesis is proposed as follows:

***Hypothesis 3: Outsourcing of payroll management is positively related to (a), HR cost efficiency, (b) effective HR development, (c) HR flexibility, and (d) organizational performance.***

**Human resource information system (HRIS)** refers to a systematic process with a comprehensive system for HR activities that can be completed by outside provider. Employees can operate the basic sorts of the software, such as filling out forms online, making changes based on life events, and getting information on their benefits at any time. Accordingly, HRIS is a chance for company to make the HR department managerially and tactically in operating the organization. HRIS can be executed such as the issuing of HR information, the computerization of transaction, and altering the entire working of the HR department, so it plays a more strategic role and improves more values to the company (Lengnick-Hall & Moritz 2003). By using HRIS, HR practices are tested in relation to the company's success in competitive advantage (Chowdhury et al., 2013). In addition, Sadiq et al., (2012) revealed that HRIS had a positive effect on the human resources performance. As a result, the hypothesis is proposed as follows:

***Hypothesis 4: Outsourcing of human resource information system is positively related to (a), HR cost efficiency, (b) effective HR development, (c) HR flexibility, and (d) organizational performance.***

## **2.2 HR Cost Efficiency**

HR cost efficiency refers to the ability of firm to complete procedure by effective cost reduction of workforce. A function of HR department requires additional office space and highly trained and experienced of HR staff. Many small businesses find it more cost-effective to outsource HR functions rather than expand to a larger position to meet the space needs of another department. In addition, the study of Adli & Saleki, (2014) showed that HR cost efficiency had a positive impact on firm performance. As a result, the hypothesis is proposed as follows:

***Hypothesis 5: HR cost efficiency is positively related to organizational performance.***

## **2.3 Effective HR development**

Effective HR development refers to outcomes of developing or building competencies, expertise and knowledge through training for the purpose of improving performance. In other words, the firm is satisfied with its capacities and competence by continuous development. In this view, HR outsourcing links to more than improved operational effectiveness, it comprises a greater number of the firm's activities and functions, particularly those that significantly give to its added value (Cicek & Ozer, 2011). For the relationship between HRD activities and performance, several studies show that HRD activities have a positive impact on organizational performance (Jirawuttinunt & Janepuengporn, 2012). Thus, the higher the HR development is, the more likely that firms will increase greater organizational performance. As a result, the hypothesis is proposed as follows:

***Hypothesis 6: Effective HR development is positively related to organizational performance.***

## **2.4 Human Resource Flexibility**

HR competency flexibility refers to varying quality and quantity of employee attributes such as knowledge, skills and behaviors to response to environmental change and uncertainty (Ngo & Loi, 2008). Bhattacharya et al., (2005) presents that HR flexibility has a positive relationship with firm performance. Likewise, Jirawuttinunt & Janepuengporn (2012) reveal that flexible of skills, behaviors and HR practices have both direct and indirect effects on HR outcomes in achieving superior firm performance. As a result, the hypothesis is proposed as follows:

***Hypothesis 7: Human resource flexibility is positively related to organizational performance.***

### 3. Data and Methodology

#### 3.1 Sample Selection and Data Collection Procedure

In this research, multi-national firms are selected to be population and sample for hypotheses testing because most of multinational firms in Thailand are likely to implement HR outsourcing. The database in this research is collected from Department of International Trade Promotion, Ministry of Commerce. The key participants are HR directors or HR managers of each company. With simple random sampling method, the questionnaires were sent to 600 firms by mail. Of the surveys completed and received, only 165 surveys are usable. The effective response rate is approximately 27.50% which Aaker, Kumar & Day (2001) mentioned that 20% of response rate for a mail survey without follow up is considered acceptable for analyzing and testing hypotheses.

Finally, the non-response was tested for two independent samples. A comparison of early responses and late responses data is recommended by Armstrong & Overton (1977). T-tests comparing the first 82 survey responses received with the last 83 survey responses across a firm's four characteristics (i.e. number of employees, number of years in business, amount of capital invested, and sale revenue per year) did not find any significant differences between the two groups. Thus, it appears that non-response bias does not pose a significant problem for this research.

#### 3.2 Variables

In the conceptual model, all of the variables were measured on five point Likert scale, ranging from '1 = strong disagree' to '5 = strong agree', except control variables. The variable measurements of dependent, independent, and control variables are described below:

*Organizational performance* is the dependent variables of this research. It is measured by sales growth, profitability, market share, performance over competitor and customer acceptance. This construct is adapted from Gilley et al., (2004). *Recruiting activity of outsourcing* is developed from Ordanini & Silvestri (2008). *Outsourcing of training administration* is developed from Al-Tarawneh & Tarawneh (2012). *Payroll management* is developed from Gilley et al., (2004), and *HRIS* is developed from Al-Tarawneh & Tarawneh (2012). *HR cost efficiency* is developed from Abdul-Halim & Ha (2010). *Effective HR development* is measured by achievement of developing or building competencies, expertise and knowledge via training for the purpose of improving performance from Jirawuttinunt & Janepuengporn (2012). *HR flexibility* is measured by variety of organizational capabilities and speed to response to environmental change and uncertainty from Adli & Salek(2014). The control variables are also likely to affect the relationships. In this research, there are two of them comprising firm age and firm size; because different age may present different firm characteristics and resource placement (Chen & Huang, 2009). This study defines firm age as the number of years that the firm has been established. Also, firm size may impact the capacity of a firm to implement business strategies in order to achieve superior performance (Ussahawanitchakit, 2005). It is measured by amount of capital invested.

#### 3.3 Validity and Reliability

With respect to the confirmatory factor analysis, this analysis has a high potential to inflate the component loadings. According to the rule-of-thumb of Nunnally & Berstein, (1994), all factor loadings are greater than the 0.40 cut-off and statistically significant. Second, in the scale reliability, Cronbach alpha coefficients are greater than 0.80 as recommended by Hair et al., (2010). The scale of all measurement appears to produce internally consistent results; thus, these measures are deemed appropriate for analysis because they express an accepted validity and reliability. Table 1 shows the results for both factor loadings score between 0.788-0.936,

indicating that there is construct validity, and Cronbach alpha coefficients for all variables between 0.814-0.928 are considered acceptable.

Items	Factor Loadings	Cronbach Alpha	Number of Items
Organizational Performance (PER)	0.816-0.936	0.928	5
Recruitment Activity (REC)	0.789-0.855	0.866	4
Training Administration (TRA)	0.846-0.889	0.895	4
Payroll Management (PAY)	0.778-0.837	0.814	4
Human Resource Information System (HRI)	0.838-0.865	0.877	4
HR Cost Efficiency (COS)	0.811-0.895	0.865	4
Effective HR Development (HRD)	0.813-0.903	0.893	4
HR Flexibility (HRF)	0.805-0.897	0.870	4

**Table 1: Results of Measure Validation**

### 3.4 Statistic Test

The Ordinary Least Square (OLS) is utilized to measure all hypotheses in this research because both dependent and independent variables in this study were neither nominal data nor categorical data, OLS is an appropriate method for examining the hypothesized (Hair et al., 2010). After all is said and done, the model of the relationships mentioned above is shown below.

$$\text{Equation 1: } COS = \beta_{01} + \beta_1 FS + \beta_2 FA + \beta_3 REC + \beta_4 TRA + \beta_5 PAY + \beta_6 HRI + \varepsilon$$

$$\text{Equation 2: } HRD = \beta_{02} + \beta_7 FS + \beta_8 FA + \beta_9 REC + \beta_{10} TRA + \beta_{11} PAY + \beta_{12} HRI + \varepsilon$$

$$\text{Equation 3: } HRF = \beta_{03} + \beta_{13} FS + \beta_{14} FA + \beta_{15} REC + \beta_{16} TRA + \beta_{17} PAY + \beta_{18} HRI + \varepsilon$$

$$\text{Equation 4: } PER = \beta_{04} + \beta_{19} FS + \beta_{20} FA + \beta_{21} REC + \beta_{22} TRA + \beta_{23} PAY + \beta_{24} HRI + \varepsilon$$

$$\text{Equation 5: } PER = \beta_{05} + \beta_{25} FS + \beta_{26} FA + \beta_{27} COS + \beta_{28} HRD + \beta_{29} HRF + \varepsilon$$

## 4. Empirical Findings

### 4.1 Result of Descriptive statistics

The descriptive statistics and correlation matrix for all variables are shown in Table 2. The research verifies possible multicollinearity problems by studying correlation between the variables included in the regression analysis. In this way, by means of Pearson's correlation coefficient, we can measure the degree of linear association between every pair of variables as shown in Table 2. With respect to possible problems relating to multicollinearity, all the correlation coefficients of independent variables are smaller than 0.8, and all the Variance Inflation Factor (VIF) values are smaller than 10. The problem of multicollinearity of independent variables in this model is therefore not significant (Hair et al., 2010). The VIF ranged from 3.211 - 4.090 are below the cut-off value of 10 recommended by Hair et al. (2010), meaning that the independent variables are not correlated with each other. Therefore, there are no substantial multicollinearity problems encountered in this study. In addition, Table 2 shows the correlation matrix for all variables used in the regression analysis.

Variables	REC	TRA	PAY	HRI	COS	HRD	HRF	PER
MEAN	3.772	3.615	3.617	3.660	3.377	3.709	3.648	3.591
S.D	0.792	0.878	0.762	0.790	0.805	0.723	0.753	0.829
REC	1							
TRA	.793**	1						
PAY	.672**	.791**	1					
HRI	.652**	.767*	.737**	1				



COS	.615**	.658**	.583**	.587**		
HRD	.338**	.427**	.532**	.573**	.556**	
HRF	.497**	.560**	.656**	.662**	.643**	.784**
PER	.527**	.508**	.634**	.656**	.595**	.649**

\*\* . p < 0.01, \* p < 0.05

**Table 2: Descriptive Statistics and Correlation Matrix for all Constructs**

#### 4.2 Effect of HRM Outsourcing and the Outcomes

Table 3 demonstrates the OLS regression analysis of HRM outsourcing (recruitment activities, training administration, payroll management, and human resource information system) on HR cost efficiency, effective HR development, HR flexibility and organizational performance. The results show that recruitment outsourcing has significant and positive effect on HR cost efficiency ( $b_3 = 0.261$ ,  $p < .01$ ) and organizational performance ( $b_{21} = 0.246$ ,  $p < .05$ ) but has no effect on effective HR development ( $b_9 = -0.062$ ,  $p > .01$ ), and HR flexibility ( $b_{15} = -0.063$ ,  $p > .01$ ). *Therefore, Hypotheses 1a and 1d are supported but Hypotheses 1b and 1c are not supported.* The unaccepted result of recruitment process on consequence linkages can explain by the research of Gilley et al., (2004) that performance effects of HRD outsourcing may achieve in a long run.

Accordingly, the findings show that training administration has significant positive impact on HR cost efficiency ( $b_4 = 0.299$ ,  $p < .05$ ), but has no impact on effective HR development ( $b_{10} = -0.074$ ,  $p > .10$ ) and HR flexibility ( $b_{16} = -0.040$ ,  $p > .05$ ). Moreover, the findings show that training administration has negative significant on organizational performance ( $b_{22} = -0.275$ ,  $p < .05$ ), *Therefore, Hypotheses 2a is supported whereas 2b, 2c and 2d are not supported.* The contrast results of hypothesis can explain by the study of Gilley et al., (2004) that organizational performance of training effect will result over the long term. Likewise, effective HR development may take time to learn that improve performance in long run (Hatch & Dyer, 2004). In addition, the result of Butler and Callahan (2012) shows a negative effect on operating performance if outsourcing participation is not optimal.

Consequently, the results illustrate that payroll management has significant positive impact on effective HR development ( $b_{11} = 0.233$ ,  $p < .10$ ), HR flexibility ( $b_{17} = 0.331$ ,  $p < .01$ ) and organizational performance ( $b_{23} = 0.314$ ,  $p < .01$ ), following literatures but no effect on HR cost efficiency ( $b_5 = 0.038$ ,  $p > .10$ ). *Therefore, Hypotheses 3b, 3c and 3d are supported but Hypothesis 3a is not.* The Contrary to the expectations, this study found that payroll management outsourcing does not have significant impact on HR cost efficiency. This finding provides insight into thinking that payroll management has direct effect on organizational performance and indirect effect via effective HR development and HR flexibility.

In the line of HRIS, the results show that HRIS is positively related to effective HR development ( $b_{12} = 0.476$ ,  $p < .01$ ), HR flexibility ( $b_{18} = 0.373$ ,  $p < .01$ ), and organizational performance ( $b_{24} = 0.440$ ,  $p < .01$ ), supporting literatures. However, HRIS is not significant impact on HR cost efficiency ( $b_6 = 0.158$ ,  $p > .10$ ). These insignificance findings are consistent with Abdul-Halim & Ha (2010) who find that HRIS has no positive effect with cost efficiency. According to firm age and firm size as control variables, this result found that firm age has no effect on the relationship between HRM outsourcing and outcomes whereas firm size has some effect on HR cost efficiency. This result means that the firm size has an influence on the relationship between HR outsourcing on HR cost efficiency.

In Table 3, the empirical results significantly support the hypothesized effect of HR cost efficiency, effective HR development and HR flexibility on organizational performance. The

result shows that HR cost efficiency is positively related to organizational performance ( $b_{27} = 0.144$ ,  $p < .05$ ), similar to prior literatures. *Thus, Hypothesis 5 is supported.* Then, the finding shows that effective HR development has no impact on organizational performance ( $b_{28} = 0.056$ ,  $p > .01$ ). *Thus, Hypothesis 6 is not supported.* This insignificant findings can explain that effective HR development is likely to variation in learning that spend long term to achieve organizational performance. However, HR flexibility is positively associated with organizational performance ( $b_{29} = 0.651$ ,  $p < .01$ ). *Thus, Hypothesis 7 is supported.* These results are consistent with prior studies which indicate that HR flexibility is able to continuously enhance organizational performance. According to firm age and firm size as control variables, the findings show that firm age and firm size have no effect on the relationships.

Independent Variables	Dependent Variables				
	1 COS	2 HRD	3 HRF	4 PER	5 PER
Recruitment Activity (REC)	0.261*** (0.095)	-0.062 (0.107)	-0.063 (0.097)	0.246** (0.096)	
Training Administration (TRA)	0.299** (0.117)	-0.074 (0.132)	-0.040 (0.120)	-0.275** (0.119)	
Payroll Management (PAY)	0.038 (0.114)	0.233* (0.129)	0.331*** (0.116)	0.31*** (0.116)	
Human Resource Information System (HRI)	0.158 (0.109)	0.476*** (0.123)	0.373*** (0.112)	0.440*** (0.111)	
HR Cost Efficiency (COS)					0.144**
HR Development (HRD)					(0.063)
HR Flexibility (HRF)					0.056 (0.077)
					0.651*** (0.084)
FA	0.166 (0.125)	0.176 (0.144)	0.010 (.128)	-0.016 (0.127)	0.137 (0.103)
FS	0.301*** (0.111)	-0.098 (0.134)	0.075 (.114)	0.109 (0.113)	0.016 (0.096)
Adjusted R <sup>2</sup>	0.482	0.338	0.456	0.464	0.637
Maximum VIF	4.090	4.090	4.090	4.090	3.211

<sup>a</sup>Beta coefficients with standard errors in parentheses, \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.10$

**Table 3 : Results of OLS Regression Analysis<sup>a</sup>**

## 5. Summary

The results show partial support for hypotheses are derived from the conceptual framework. In general, it provides empirical evidence that recruitment activities, payroll management and HRIS have strong direct influence on organizational performance. However, outsourcing of training has indirect effect on organizational performance via HR cost efficiency but has negative significant effect on organizational performance. It is obvious that organizations with great HR outsourcing are likely to improve HR cost efficiency, effective HR development, HR flexibility and organizational performance. This research is intended to expand the theoretical contributions on earlier knowledge and literatures of HR outsourcing practices. Moreover, resource-based view of firm is integrated explaining the overall link of variables in the model. In addition, this research provides some relevant managerial implications.

The results suggest that firms focus on HR outsourcing as strategy can increase organizational performance. Therefore, the executives must put more emphasis on factors of HR outsourcing that aligns with strategic goal by concentrating on HR outsourcing ever more. In this research, the most interesting aspect of these results of multinational firm is the conducts in which recruitment outsourcing, payroll management and HRIS of outsourcing are direct linked to organizational performance. Thus, the executives should clearly understand and enhance them within the organization for gaining HR outsourcing as strategy. This research has some limitations that should be mentioned. Firstly, this research is conducted by cross-section data. Therefore, a longitudinal study that tracks HR outsourcing and organizational performance overtime is needed. Secondly, this research uses the questionnaire for collecting data from many types of businesses in multinational firm. Future research should focus on specific businesses which might provide different results from the findings of this research. Thirdly, the small response rates may impact the results. Finally, future research may identify the other statistical analysis to confirm HR outsourcing phenomenon with larger response rates. As such, this research has assessed the importance of successful HR outsourcing relative to organizational performance in multi-national firms.

### 6. Direction for Future Research

Based on the finding of the study, further study may find practical reasons why some constructs found no relationships supporting hypotheses by reviewing varied literatures, or collecting data from a larger sample. In addition, to better clarifying inconsistent relationship of the model, an in-depth interview with manager/director in future research would be helpful to completely understand in HR outsourcing phenomenon.

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## The role of logistics task on retail food companies in Egypt

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### Keywords

Retail food companies, Egypt, Logistics, Retail Convenience, Distribution Center and Warehouse

### Abstract

*The growth in the consumer food retail companies in 2008 and 2009 was primarily due to continued Egyptian population growth, relatively strong economic growth despite the global downturn in 2009, and the presence of new international and domestic retail companies. Changes in consumer lifestyle, as Egyptian consumers become more westernized in their work hours and eating habits, along with the presence of more women in the workforce, contributed to increased retail and food service sales. The economic climate will further improve as the global economic crisis is resolved, breathing new life into the ever growing Egyptian market.*

*While the global financial crisis has reduced the growth rate in the catering business in Egypt by about 15-20%, retail sales have increased by the same proportion due to the expansion of international chains, variety of products offered and an increase in the level of income and brand advertising. The food retail sector in Egypt continues its rapid development. More hypermarkets and supermarkets are sprouting in suburban Cairo and Alexandria in addition to more supermarket chains establishing a position in the rest of the governorates, primarily the Red Sea resort area. Carrefour (France) now operates 6 stores and has a plan to open 18 new stores over the next 5 years including 16 small express stores. Makro Cash and Carry (the local brand of the Dutch Metro chain) expects to open two outlets in 2010. The local Metro supermarket chain has 39 branches now and its affiliated class B and C food chain "KheirZaman", operates 21 branches.*

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### Introduction

New entries in the market were led by multinational players. Consumers' lifestyles changed and they started to be more prone to spend than save. This affected the market positively and brought high growth, which encouraged international companies to enter the Egyptian market. Thanks to the large number of shopping centers, which are frequently visited by shoppers, foreign companies could find ideal retail areas with little risk. The U.S., France, Germany, Italy, Switzerland, Greece, Holland, Denmark, Thailand and China are the dominant suppliers of consumer-ready food products to Egypt. The introduction of hypermarkets (store area of more than 5,000 square meters), supermarkets (more than 450 square meters), and mini markets (more than 150 square meters) is helping to re-shape the retail industry as well as the shopping habits of customers. One of the biggest challenges to expansion is the limited availability of shelf space. Hypermarkets need a large plot of land for sufficient retail space and storage area and large parking lots which is not available in Central Cairo. However, land is available in the rapidly developing suburban areas. Sales of packaged food and consumer foodservice in 2010 has increased due to the increase in GDP and the good economic conditions; thus contributing to the growth in retailing. While GDP increased 7.2% in 2009, the economy turned in a relatively respectable 4.7% growth in 2009, thanks in part to government economic stimulus efforts. GDP growth is forecast in the range of 4.5 to 5% in 2010. Socio-demographic factors were also very favorable to retailing, with population growth of 2% over 2009. Home delivery service is becoming very popular among the large retailers. The objective of the

delivery service is to create customer loyalty while also providing convenience. Some of the retailers charge an extra small fee for delivery. It is becoming a big business in Egypt since it is convenient for customers with Cairo's infamous heavy traffic and also contributes in hiring many young people.

### **Research Importance**

In order to scope the research of the topic, authors need to make a clear focus and limitation to keep the study and research within the specific research structure. The study scope is limited by focusing on Retail food companies & Convenience Stores in Egypt. Furthermore this research, mostly focus on the Logistics process from Distribution Center and its stores. Moreover, the authors specifically frame the research between Distribution Center (DC) and the store. The process between DC and stores are discussed in details. The selected case study is a convenience store chain, Retail food companies in Egypt; therefore it may mainly reflect norms and practices considerably within the firm's environment. On top of that, the convenience store management policies on certain areas normally differ at each location since they are tightly tied to local customer needs.

### **Research objectives**

The purpose of this research is to, from retailing industry and retailing convenience store's perspective, identifies and describe how task logistics support to retail stores its retail convenience business focusing on several aspects; strategic fits, distribution and IT, which support Retail food company's activities.

### **Research Methodology**

The study is considered as qualitative -case study. Data is collected from the Interviews with several parties involve with retail convenience industry in Egypt .Secondary data is retrieved from the information system, research and reports, publication sources as well as internet sources. Lastly, data analysis is followed by the literature chapter.

### **Research Problem**

This study is focusing on only retailing industry and retailing convenience stores' perspective in Egypt. Retailing and distribution are concerned with product availability and retailers must be concerned with the flows of product and information into and through their companies in order to make products available to consumers (Spark, 1998). According to Fernie and Sparks (1998), it had been revolutionary in the 1980s in the history of the task logistics support to retail stores.

The first step changed in managing the logistics function; retailers moved from direct store deliveries (DSD) to centralization of stock at regional distribution centers (RDCs) (Lawrence Christensen - cited in Fernie& Sparks, 1998). Fernie and Spark (1998) state that technologies and IT were developed to facilitate logistical efficiencies in the distribution network and those technologies were either material handling (composite distribution, unitization) or of and IT nature which can improve the flow of information through the logistics chain. Gattorna and Walters (1996) also mention that communication and information management are essential if decision making is effective. Therefore technology and IT are important.

The concern in retail and distribution are with the structure and logistics, management channels (Cooper, 2009; Boowersox and Cooper, 2006; Gattorna&Walters, 2007 - cited in Fernie& Sparks, 2008).The logistics management task is concerned with the element of distribution mix (for example storage facilities and communication, etc), which have to be integrated fir successful retail distribution. The author will study and focus on the mentioned

information which surely affects retail business (in this research which is retail convenience business) in one way or another.

### Frame of reference

Based on various sources of literature concerning competitive advantage and strategic fits, distribution related to marketing and retail, distribution centers and warehousing, and information system apply in retail store.

### The logistics task

Retailing and logistics are concerned with product availability. Many have described this as 'getting the right products to the right place at the right time' (eg Fisher, Raman and McClelland, 2000). Unfortunately, however, that description does not do justice to the amount of effort that has to go into a logistics supply system and the multitude of ways that the supply systems can go wrong. The very simplicity of the statement suggests logistics is an easy process. The real trick, however, is making logistics look easy, day in and day out, whilst reacting to a volatile and changing consumer demand.

Table 3.1 Components of the 'logistics mix'

Component	Description
Storage Facilities	These might be warehouses or distribution centers or simply the stock rooms of retail store. Retailers manage these facilities to enable them to keep stock in anticipation of, or to react to, demand for products. Increasingly, some centers are run 'stock-less' and act as sortation hubs
Inventory	All retailers hold stock to some extent. The question for retailers is the amount of stock or inventory (finished products or component parts) that has to be held for each product and the location of this stock to meet demand changes
Transportation	Most products have to be transported in some way at some stage of their journey from production to consumption. Retailers therefore have to manage a transport operation that might involve different forms of transport, different sizes of vehicles and different scheduling availability of drivers, vehicles and even store access.
Unitization and Packaging	Consumers generally buy products in small quantities. They sometimes make purchase decisions based on product looks and packaging. Retailers are deeply concerned to get products that are easy to handle in logistics terms, don't cost too much to package or handle, yet retain their selling ability on shelves. Secondary and transit packaging can be a cost to the supply chain and is increasingly replaced by returnable handling systems where possible. Unitization is combined with standardization to provide order to the handling of products.
Communications	Communications to get products to where we want them, it is necessary to have information, about both demand and supply, but also about volumes, stock, prices and movements. Retailers have thus become increasingly concerned with being able to capture data at appropriate points in the supply and demand system and, most importantly, to use that information to have a more efficient and effective logistics operation.

The logistics management task is therefore concerned with managing the components of the 'logistics mix'. Table 1 identifies five components. It should be clear that all of these elements are interlinked. If a retailer gets good data on demand from its checkout system, then the scheduling of transport and the level of stock holding become more straightforward. If the level

of inventory can be reduced, then perhaps fewer warehouses are needed. If communications and transport can be highly effectively linked, then perhaps a retailer can move from putting stock away in a warehouse to running a distribution center that sorts products for immediate store delivery, i.e. approaching a 'just-in-time' system.

Summarizing, the logistics task can be described (Christopher, 1998: 4) as: 'The process of strategically managing the procurement, movement and storage of materials, parts and finished inventory (and the related information flows) through the organisation and its marketing channels in such a way that current and future profitability are maximised through the cost effective fulfilment of orders.' As retailers have begun to embrace this logistics approach and examine their supply chains, many have realized that, to carry out logistics properly, there has to be a transformation of approach and operations. It is to this we now turn.

### Convenience Stores

Egyptian consumers are beginning to expect cleanliness, quality and a wider variety of products. Consumers are currently asking for convenience and shopping at supermarkets is becoming a leisure activity. Consumers depend less on neighborhood grocery and convenience stores except for last minute spur of the moment food needs. In the suburbs and less developed areas of Egypt, grocery and convenience stores still play an important role in the retail business. Retailing is highly fragmented; largely dominated by single-outlet operations in the largest retailing formats, including independent grocers, food specialists and leisure and personal goods retailers. The biggest share of the retail market is still held by traditional stores and it will take a long time before supermarkets will acquire a dominant position. It is estimated that 90-95% of the food outlets can be categorized as small grocery stores. Supermarkets account for no more than 5% of the outlets. There are currently around 140,000 small grocery outlets of which only 10,000-12,000 are equipped with freezers; there are no more than 550 outlets that could be categorized as supermarkets, included in this count are the hypermarkets and the medium-sized supermarkets. The rapid growth of the supermarket sector is hindered by the fact that a large part of the population still lives in poverty and is unable to buy products in the more expensive supermarkets. Sales through modern convenience stores grew steadily in 2009. Their number is increasing. Their total number reached 224 units. Most of them have a sit-in space, which is generally popular with young people, thereby increasing product purchase. The continuous development in new residential areas and roads and the increase number of car owners have contributed in these developments. Convenience stores are more important in the new residential areas and on the main highways. Hot weather has helped in the increasing number of these stores especially on the highways. The majority of the new established units are very modern, air-conditioned, and offer high quality products and services.

#### Producer Consumer:

The shortest, simplest distribution channels for consumer goods involves no middlemen

#### Producer Retailer Consumer:

Goods ship directly from manufacturers and agricultural producers to large retailers.

#### Producer Wholesaler Retailer Consumer:

If there is a traditional channel for consumer goods, this is the one normal way. The small retailers and manufacturers by the thousand find this channel the only economically feasible choice.

#### Producer Agent Retailer Consumer:

Instead of using wholesaler, many producers prefer to rely on agent middlemen to reach the retail market, especially in large-scale retailers.

**Producer** → **Agent** → **Wholesaler** → **Retailer** → **Consumer:**

To reach small retailers, producers often use agent middlemen, who in turn call on Whole salers that sell to large retail chains/or small retail store. After designing a channel, next thing that firms must consider is, on the intensity of distribution which means how middlemen will be used at the wholesale and retail level in a particular territory (Etzel et al., 2004). In accordance with Etzel et al., (2004), there are three degrees of intensity.



Figure 1: The intensity-of-distribution Continuum

Source: Etzel, Walker and Stanton (2009)

**Intensive distribution**

In intensive distribution producers sell their products or services through each available store in the market where consumers might reasonably look for the products or services by projecting the ultimately consumers demand satisfaction from convenience goods immediately, and they will not adjourn purchases to find a particular brand (Etzel et al., 2004). In the intensive distribution is commonly needed for convenience products and as well Gattorna and Walters (1996) states that it is usual to use intensive distribution with, for instance, everyday use products (such as food, newspaper, basic stationery items, etc.), and it also obtains for consumable industrial products such as abrasives, lubricants, drill bits, etc. Moreover, they mention that the objective of the vendors are to offer convenient ,which mean local and easily obtainable, availability for the reason that the pattern of purchasing is typically short-term with end user maintaining low or nil inventories.

ADVANTAGES	CHALLENGES
Out of 80 million Egyptians, about 15 million can afford to purchase imported food products.	Lack of product availability and limited income. Egyptian import regulations such as Halal requirement slaughtering for beef and poultry, and labeling requirements are too stringent.
Products perceived as both Western and new-to-market have a wide appeal to Egyptians. U.S. products are perceived as "high quality."	With the growing size of supermarket chains, the desire to introduce a broad array and new-to-market products is strengthening.
Expansion of the number of supermarket chains. International companies interested in the Egyptian market include, Carrefour, Makro Cash and Carry Egypt (opens in 2009).	With the growing size of supermarket chains, the desire to introduce a broad array and new-to-market products is strengthening.

**Logistics Activities**

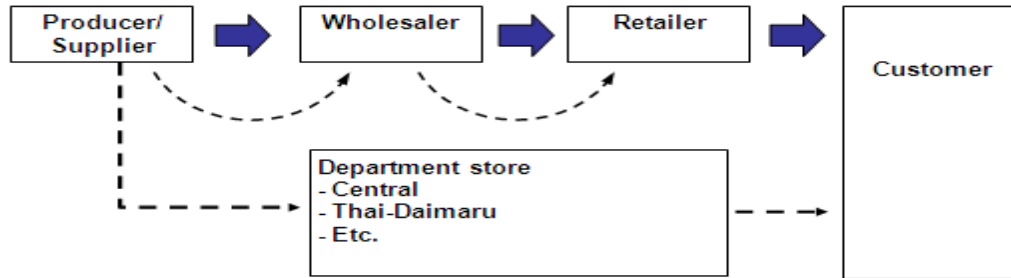
Logistics activities in focus of the thesis are from DC to the stores. Many activities are involved in and between DC. The flows in dash box represent the working flows within a distribution center. As suggested in the next figure, the overall process is shown, on top of that,



two types of the process in a distribution center of Retail food companies can be divided to inbound and outbound activities.

**Distribution Center Management**

The successful cases of Egyptian Retail food companies in the role of supply chain management where the linkage of each player in the chain are synchronously organized through the use of distribution system and information system in the network. The key to deliver prior product and service lie in the value information from tracking and tracing of sales which enable the short replenishment cycle time for each store, the market analysis and the accuracy of operation in a real time manner. (Nabajyoti, 2011, and The Nation Newspapers, 2014)



**Figure 2: Stage 2: Producer/Supplier have the most bargaining power. Adapted from Department of Business Development, 2011.**

**Distribution Channels**

Importers either sell their products to wholesalers who distribute food products to retail outlets, or sell directly to retailers. There are some supermarkets chains, namely Carrefour, Metro, Fathalla, and Oscar that import food products directly. Carrefour buys some of its meat from a private processing plant which imports live animals and sells imported beef cuts at their stores. There are over 30 food companies that import processed food from U.S. and deliver it to the different supermarkets and hypermarkets.

Distribution channels for Food, alcoholic beverages and confectionery:

Food	-Hypermarkets and supermarkets - Large grocery stores - Medium and small grocery stores - -- Hotels and Restaurants
Alcoholic Beverages	Hotels - - Restaurants with a license for Alcoholic -beverages Liquor shops (very limited)-
Confectionery	-Hypermarkets and supermarkets -Large grocery stores - Medium and small grocery stores -Petro/gas/service stations Kiosks Pastry shops

**4.9.4 Distribution Center**

In the very first era of operating chain convenience stores with only the couple of hundreds of stores, Egyptian Retail food companies employed direct shipments from the suppliers to its stores. The lack of efficiency in transportation process by the suppliers negatively caused sales opportunity

## Conclusion

This research aims to investigate and describe how, Egyptian Retail food companies managed and operated its retail convenience business in several aspects; strategic fits, distribution and IT, which support the Egyptian Retail food company's activities and how they contribute the competitive advantages to the firm as mention in the purpose. The case study is employed to give an example of a retail convenience store business and its operation linkages, internally and externally.

The companies experienced distribution difficulties at the beginning of business. Poor performance came primarily from the lack of collaborative operations from each connection in supply chain. While retailing is the gate way to the consumption point, it is referred to as market channel to the goods. The defects in logistics and distribution activities are putting overall chain performance down, let alone retail firm itself. To cope with this, the supply chain needs coordinated strategies. Framing the business strategy to shape up working tactics throughout the chain is a must. The retailer determines its strategy, and draws the cooperating actions and inter-firm strategy further to others member of the chain; as to succeed in business implementation. , Egyptian Retail food company's case, the companies uses differentiation strategy to market itself. The differentiations inconvenience, in term of location, operating hours, products and services availability - even some special products such as ready to eat food and dairy products - are used to boost up sales. Moreover, differ in store location, demand pattern, space limitation, and perishable goods need a quick response to demand.

Challengingly, the company must concentrate on the responsiveness throughout the supply chain up and downstream. However, the responsiveness cannot be done with the proper amount of effectiveness and efficiency operations that ensure a reliable and dependable supply chain. The operations and distribution are delivered cohesively.

Accordingly, firm seeks to manage its logistics chain to determine the chain strategy by utilization of the members' capabilities through combinations and joint development programs as seen in product development program, the bridges of technologies, and collaborative functions. Combinations of capabilities would yield a healthy performance. Of course, these logistics management perspective require data sharing, trust, mutual benefits and collaborative operations to facilitate the flows of information, and physical product as well financial flows. Put in another word, logistics flows must be achieved in order to gain the 'synergies' in logistics operation.

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# International management: A conceptual framework for comparison of offshoring and outsourcing strategies by UK and German multinational corporations

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## Keywords

*Multinational, offshore, outsource, varieties of capitalism*

## Abstract

*This paper outlines research exploring differences in approach to outsourcing and offshoring by multinational corporations. In particular, a comparison is drawn between German and UK headquartered organizations in the airline / transport and also the engineering sectors. A novel conceptual framework is developed that uses differing varieties of capitalism (VoC) to compare and contrast a series of criteria. Underlying theory that is drawn from the resource based view (RBV) of the firm and global production networks (GPNs) are also considered. The initial findings from two case studies are that German organizations are less inclined to outsource (in both sectors) preferring to retain control as a wholly owned business offshore. The UK businesses were less risk adverse and seemed to be more flexible and agile in their sourcing policies being prepared to outsource, offshore and partner or acquire as appropriate, even using competitors when there is a sound business case. The relationships' with trade unions / works council was also found to be very different, with reluctance by management in Germany to progress radical initiatives. A favorable economy in Germany has also created an environment in which overseas expansion could take place without a significant loss of jobs at home.*

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## Introduction

Offshoring and outsourcing represent an on-going and accelerating (at least until recently) trend in the reorganization and restructuring of firms and has become a major part of (although not an exclusive driver of) the globalization trend. Offshoring can be defined as the performance of tasks in a different country to that where the firm's headquarters is located; while outsourcing may be regarded as the performance of tasks under some contractual arrangement by an unrelated third party (Harms, Lorz and Urban, 2009). Mergers and acquisition have a high risk of failure (Mitchell, 2004) and in recent years organizations have therefore sought alternative means of non-organic growth such as partnerships, joint ventures and alliances (Financial Times, 2011). While the initial justification to offshore is typically to arbitrage labour costs, the rapid growth in demand for outsourcing may lead to cost increases (Economist, 2011) and justification increasingly becomes a complex balance of proximity to markets, suppliers, ability to innovate and institutional factors such as governance and immigration policy (Pisano, 2009). Further, there is an increasing trend to outsource and offshore activities that demand higher levels of skills. According to Kirkegaard (2008) few topics in international economics have risen faster to the top of the political agenda, while also being so poorly understood and quantified as has outsourcing. Recent economic pressures have led governments in the United States and Europe to 'encourage' multinationals to return jobs and investment back to home markets (BCG cited in Economist 2011); beyond this, backshoring and reverse offshoring have been motivated by poor or disappointing experiences in host countries, and declining economic conditions at home.

However, the institutional aspects of offshoring are under-explored and this research aims to compare the practices, strategies and outcomes for case study firms from the UK and Germany, which are characterized by different capitalist models (Hall & Soskice, 2001; Lane, 2008). It is suggested that German firms for example, typically have stronger institutional links than typical UK competitors (Lane, 2006 cited in Morgan, Whitley and Moen). Furthermore, UK and German economies have different comparative advantages and industrial infrastructures, yet both countries also play host to a number of successful multinationals (MNC). The institutional context here can be understood as *both* the configuration of formal institutions (government, banks, trade unions and other firms) or as deeply embedded business practices and norms and 'ways of doing business'. This will shed light on how UK and German competing organizations differ in managing global expansion, and take advantage of the various resources and support available. Following German reunification (1990) a period of austerity and strict wage control took place in Germany, and this helped to drive investment at home together with a strong export led economic revival. In 2012 German productivity was assessed to be 24 percentage points ahead of the UK in terms of output per hour (Financial Times, 2013). UK productivity is also currently 16 percentage points below the G7 average - the widest gap since 1994. A contested area is that the UK has been retaining employees rather than losing jobs to offshoring, while new work is created by UK outsourcing providers. Throughout the 2008-9 recession, increased part-time working in the UK and even the hiring of new employees occurred at a time of minimal growth (Financial Times, *ibid*).

This research should be of interest to researchers, students and business managers. Also to those who are interested in globalization, the role of the multinational corporation, the relationship between a headquarters and its divisional or national subsidiaries. A further challenge is the extent to which offshoring and outsourcing practices have created wealth for shareholders, the host country and employees. Added interest is generated by challenging popular questions and criticism made of multinationals and their role in globalization together with the debate by politicians and others on policy towards domestic employment and wealth creation at home at a time of prolonged economic uncertainty.

**The overall aim of the research is:**

1. To examine the extent to which the offshoring and outsourcing strategies of UK and German based multinational corporations (MNCs) are embedded in the institutional contexts of their respective home countries. This gives rise to a number of sub - questions:
2. What are the differences between UK and German based MNCs in the geographical, functional and temporal patterns of outsourcing and offshoring?
3. How far do mechanisms such as ownership, control, coordination and the degree of autonomy differ between the UK and Germany?
4. How is this reflected in divergent international divisions of labour regarding the employment of indigenous or ex-pat managers from the home country?
5. To what extent do preferences for cultural proximity affect location choices?
6. What is the influence of trade unions in the process of outsourcing and offshoring and how is this reflected in the structuring of the firms' labour markets?
7. What evidence is there of a reversal in policy - backshoring / reversed offshoring / outsourcing and why may it be occurring?



## 2 Literature Review

The purpose of the contextual stage of the literature review is to review the varying definitions, challenges with measurement, recent trends, background issues to, and the debate around outsourcing and offshoring. This will help in understanding the motivation for offshoring and outsourcing. Firstly, some definitions because the two terms outsourcing and offshoring are sometimes confused and deployed in very different scenarios. This will then provide a context for the changes that have been taking place at the level of a firm in response to globalization and competition.

Offshoring means that work is moved outside the home country and therefore has geographical connotations, usually to a country which can perform the work at lower cost, or perhaps has special skills; although there might also be a business case for offshoring around new market entry and moving operations closer to the country of destination. Outsourcing currently implies that an organization decides to move selected activities from in-house (inside the organization) to a third party or external supplier through a formal contract arrangement. The supplier may or may not be in the same country of origin as the organization undertaking the outsourcing. The reasons for doing this may be multiple, but the usual starting point is to reduce costs, often labour and associated overhead charges. In so doing, the instigating organization can be said to be re-organising its value chain and moving either core or support activities to the responsibility of another organization.

Measurement difficulties often arise from problems associated with the identification beforehand and the allocation of costs and/or poor recording of government statistics. Offshoring work in particular may be outsourced to a third party or indeed undertaken through a wholly owned subsidiary business (adapted from Contractor, 2010). Questions continue to be raised about the value of multinational expansion (Contractor, 2012). While sourcing costs may be reduced locally, and foreign knowledge and intellectual property may be acquired in rapidly developing markets as can the hedging of currency risks. There are a number of other costs to consider; e.g. R&D and headquarter costs, often retained in the home market may increase substantially. Each foreign affiliate may have to incur substantial reorganization costs and change for example to incorporate group information and accounting systems, there may also be increased overheads to facilitate group controls and quality systems. Central costs of coordination will increase as the number of foreign markets rise, along with supply chain and inventory costs, risks of stock-out, supply failures. Institutional and cultural distance issues again add complexity, communication challenges and potential cost.

Offshoring and outsourcing could be analyzed as global disaggregation of the value chain and as an attempt to combine comparative advantages of geographic location with an organization's resources and competencies to maximise competitive advantage (Mudambi, 2010). The interplay of comparative and competitive advantages determines the optimal location of value chain components (offshoring decisions) as well as the boundaries of the firm and the control strategy (outsourcing decisions).

Three different but interrelated strands of theory have also been explored. From the fields of:

- Operations, geography, economics and strategy, (Coe, N.M. et al, 2004) the concept of Global Production Networks (GPN).
- Business and economics, (Barney, J., 1991) the Resource Based View (RBV).
- Geography and economics, (Hall, P. and Soskice, D, 2001) the concept of differing Varieties of Capitalism (VoC).

The intention is to synthesize these differing approaches together with an understanding of offshoring to answer the research questions and to explore differences in how German and

UK multinationals operate in specific business sectors, and manage offshoring / outsourcing processes in particular. This will also help in developing a conceptual framework. The lack of research on the interdependencies of geography and control is underplayed considering that firms operating in international markets face these decisions simultaneously (Dunning, 1988) and so whilst addressed in part by researchers of GPNs, the field is contested. Making these decisions independent of each other leads to short term, tactical sub-goal optimization. The strategic integration of these decisions can result in significant firm-level performance improvements (Banker et al., 1984). Most of the offshoring literature takes control decisions as a given. Similarly, the mainstream literature on outsourcing usually fails to explore the location decision. Understanding the cost-benefit of offshoring and outsourcing is informed by RBV theory and concepts. This goes beyond the simple assumption of labour cost arbitrage towards the complexities of disaggregating home based processes and deciding what exactly to move offshore and where to locate it. Behavior, whether rational or not, can be explored between buyers, suppliers and third parties in negotiating contracts and rents. If this can be combined with a better understanding of how to ensure that economic goals are embedded into social structures and the subsequent impact on behaviour then we have a compelling approach. There are obvious limitations in clustering nation states, nevertheless broad comparisons seem possible. VoC can provide fascinating insights to the role of governments and institutions in juggling support and resources from the public to the private sector (and vice versa) also the extent to which institutions or the market influence prices and positioning. The real issue is the extent to which this benefits longer term growth and prosperity for firms and their shareholders. Whether coordinated versus liberal, production versus finance dominated, or corporatist versus pluralist private enterprise, most writers on VoC agree on distinct differences between UK and German systems of capitalism. The significant distinction is how German or UK MNCs then coordinate policy and whether they take their lead from the market or influential institutions to coordinate stakeholders. Further understanding of inter-firm linkages, power and competition is provided by the study of GPNs. The role of the lead firm is considered crucial in managing the impact of institutional policy on resource allocation decisions. Once offshore processes are sufficiently embedded that they add value back to the lead firm, further complex decisions are often required on (re)positioning (typically expensive) R&D and innovation resources, along with suppliers and customer markets.

### 3. Data & Methodology

A qualitative approach to a case study methodology is adopted with competitive comparisons drawn across airline and engineering sectors for both UK and German headquartered MNCs. Fourteen semi-structured interviews with senior executives in Germany, UK, India, Czech Republic and Poland were undertaken for the research. Initial research questions were refined and additional data requested. The methodology can be summarized as:

CRITERIA	SELECTION
Philosophy	Pragmatism - combining positivism and interpretivism
Approach	A combination of deductive, inductive and abduction
Strategy	Multiple case studies that are paired by sector with multinational corporations MNCs who are significant market players. Ethnography - exploring customer needs, experiments and action research were not considered to be appropriate. To support the case studies some additional secondary data and / or research of archive material will be required to triangulate the findings.
Choice	Qualitative

Time horizon	Cross sectional with some historical perspective to current time
Techniques & Procedure	Semi structured interviews, recorded transcripts, analysis using a mixture of quantitative and qualitative techniques, supplemented with additional secondary data collection.

Table 1. Selected Combination of Approaches (adapted from Saunders et al)

Reichertz (2004) has referred to abduction as a knowledge-extending means of drawing an inference, distinct from the normal logical conclusion based upon either purely deduction or induction. The idea of abduction can lead to rule governed and replicable knowledge that is both new and valid; and is increasingly popular in social science research. There will be a risk that in bringing order to chaotic data collected in interviews, and then fitting that data into a typology with predictions of likely outcomes for LME and CME firms, that we are bringing together ideas not previously associated with one another. Nevertheless, it is hoped to develop a series of propositions from the findings that in turn can help to develop conclusions. So abduction is essentially a search for some meaningful rules that will offer a valid explanation, while removing what is surprising about the facts. This results in a set of predictions (could also be regarded as a hypothesis). There are three steps that will be followed here:

**Step 1:** Develop a novel conceptual framework based on a taxonomy of criteria that help to explain outsourcing and offshoring behaviour (Table 2). This '*abduction*' provides a focus, to commence research and testing and is a useable re-construction of the predicted outputs from the research (the hypothesis).

**Step 2:** Derive predictions from the hypothesis (*deductions*) where the researcher reflects upon answers to the interview questions from the engineering case study

**Step 3:** Search for evidence that will verify the assumptions (*inductions*) these are the propositions that are further developed and lead to Conclusions in section 5 below.

### 3.1 Developing the conceptual framework

It has been suggested that a firm's decisions might evolve from initial cost saving through the outsourcing of support activities as a first stage of disaggregating the value chain and then process improvement and further leveraging of labour cost savings through offshoring. Finally, if the economic circumstances in the home market change then politicians might in some manner influence MNCs to reverse their policy and restore work back into the home market – backshoring or similar (McKinsey, 2012). While this appears logical at a generic level, it may be rather too simplistic, especially at the level of a firm. Let us develop a more rigorous approach.

### 3.2 Proposed theoretical conceptual framework

A novel taxonomy for the relationships between LMEs and CMEs and their predicted approach to outsourcing and offshoring activity is shown below in Table 2. The first column distils the key questions that have been identified towards outsourcing and offshoring. Column 3 lists what are considered to be key dimensions to be explored through the research and subsequent analysis. Columns 4 and 5 represent hypotheses of anticipated responses if the companies conform to the stereotypical national LME model for the UK and CME for Germany.

It is intended that this conceptual framework and taxonomy will help in exploring case study differences in the rationale, success and lessons between the UK and Germany for each of the airline and engineering sectors as an empirical focus. The variables or dimensions chosen include the choice of location for outsourcing and / or offshoring which is essentially the reason or motivation that the company has for making the change, the control and coordination mechanisms in place, the levels of involvement and participation and finally, an ability to cope with changes in circumstances. The UK and Germany are compared using differing concepts of

varieties of capital. The assumptions set out below and summarized in Table 2 are drawn from the literature (Lane and Probert, 2009; Whitley, 1997; and Trompenaars, 1997) in some cases reflecting a view that LMEs and CMEs are polar extremes, in other cases that over time there is some convergence and middle ground.

Taking each in turn, it is predicted that the motivation for outsourcing and offshoring will differ in that an LME will focus on short term cost cutting, budget control and shareholder interests. Initially, arbitrage of lower wages will be an inducement. If offshore they might also have a preference for English language speaking countries and traditional trading zones. On the other hand CMEs whilst also regarding low cost as a 'given' will focus on medium and longer term benefits in quality and performance and therefore a reluctance to outsource losing control and potentially intellectual property, if they offshore preferring central or European locations with a cultural or language similarity. This makes assumptions, such as all companies in a particular country will to at least some extent mirror and practice some of the characteristics associated with that classification of VoC. Also, the model can be regarded as rather static when in reality countries, sectors, markets and individual company approaches are dynamic and adapt to differing economic situations. So for countries such as Poland, Hungary or the Czech Republic the VoC positioning may be regarded by some as having shifted from a 'Transitional' positioning to a 'Pluralist Private Enterprise' (LME) or even to a 'Mixed' central position. Thus there is a link to the second dimension of ownership and related aspects such as control and coordination and degrees of autonomy. This draws on GPN theory to the extent that policy and practice become embedded in the supply chain, the network and the territory. The RBV and associated work on dynamic capabilities helps to inform us on how the lead company will manage core competences and resources. In deciding to transfer work from in-house and the home market are there than sufficient skilled resource to help the business transition work to either a third party or to an offshore subsidiary?

One of the key institutional factors to be explored is the role played by the trade unions and works council; and the inter-relationships with employees and management. Finally, we address evidence of a reversal in policy and returning work to the home country. So, a theoretical projection is shown below in Table 2 presenting a series of hypothesis on what we might expect from a MNC headquartered in either the UK (LME) or Germany (CME). We have explored some relevant theory to underpin and construct this conceptual framework. The case studies will provide a 'test' for the conceptual framework of the theory both in use and practice. The first case study comparison is for airlines (UK and German) which will include passenger transport, cargo, maintenance and overhaul (Table 3). The second case study is for engineering and manufacturing (UK and German) this covers products such as pumps, valves and seals for the offshore oil and gas industry together with software / hardware for the automotive components market (Table 3).

#### **4 Discussion**

##### **4.1 Discussion of the transport sector. (Let us call the UK airline 'A' and the German airline 'B').**

The two competitors selected in the airline sector show differences in approach. Both have moved back office support services and administration offshore, but the German organization has set up wholly owned shared service center's 'near-shore'; whilst the UK company moved processes to India, then as the business unit developed it was demerged and contracts are now in place to buy increasing levels of service back into 'A' from the offshore and outsourced provider. With engineering, repair and maintenance work, also catering the approaches are again different. The German company 'B' retains control and manages cost by



leveraging labour costs offshore and using agency employees where necessary although this can cause questions around control. The UK business however works through its procurement and contracts team to place work either offshore or outsourced or both to keep costs down. 'A' have now learnt to manage these contracts more effectively and even buy in catering and engineering services from the competitor 'B' when appropriate in best value terms. Where labour costs are less of a concern they have improved processes now to such an extent they are prepared to reverse a previous policy and bring work back into 'A' where it is now cheaper following efficiency savings. 'A' aims for flexibility and an ability to react to market changes. The yield and volume of seat tickets sold are carefully monitored with metrics such as unit costs for an available seat per km. With price reductions and discount promotions, again the cost base is carefully monitored (with and without fuel costs that cannot be controlled). Productivity improvements have to fund pay awards; efficiency improvements are regarded as important with large volume activity.

For a summary of findings and comparison with the conceptual framework (see Appendix Table 3). The key challenges for the Airlines include:

- Highly competitive, overlapping segments in the market e.g. low cost passenger travel, and price competition for larger organizations.
- Network of partner and alliance companies for global coverage.
- Passenger transport and engineering businesses can be counter cyclical.
- Profitability is sensitive to fuel costs, economic conditions and competition.
- Customer loyalty is a key factor in a high profile customer service business.
- Differing levels of power, control and influence between management, trade unions and works council.

#### **4.2 Discussion of the manufacturing and engineering sector. (Let us call the UK engineering company 'C' and the German engineering company 'D').**

These two engineering organizations do provide some early insights on differences in approach with respect to competences, technology transfer around the world and the development of key alliances; as postulated by Lynn and Salzman (2009). There are similarities in focus for both UK and German companies – to initially cut costs, keep prices down and then to improve efficiencies, processes and customers service. The method of delivery however, is different. The UK company 'C' takes a long term view but with short term deliberate steps towards partnership and then integration and acquisition utilizing outsourcing and offshoring where appropriate. The German company 'D' however, prefers to retain centralized control by establishing a subsidiary business offshore from the outset, with no or little consideration of outsourcing. There is also little evidence of synergies across the German group. Both 'C' and 'D' companies have grown and employment has been largely protected, although the United States division of 'C' has reversed a policy to move work to Mexico back into the US. It would also seem that complex work offshored to India by 'D' has subsequently had to be re-worked in India.

For a summary of findings and comparison with the conceptual framework (see Appendix Table 3). The key challenges for the engineering businesses include:

- On-going cost control, especially in the UK company which is shareholder driven.
- Customers ask for, and expect lower prices and local supply.
- Competitor pressure within the market and industry sector.
- Preferred tendency with 'C' to try a joint venture and then acquisition, integrate and restructure to reap rewards.



- More control if it is a wholly owned subsidiary of 'D', can then avoid issues of IP with a third party.

## 5 Conclusions

### Propositions – leading to conclusions

Cost control is a key consideration in both sectors with UK and German companies. Coordination from HQ and a replication of shared services is important for both the German airline and the engineering company. Market development and local expertise is also important for the German engineering business. Both sectors seem to be consistent with the country VoC hypothesis.

In both sector cases, the UK companies were open to outsourcing and progressive offshoring; they were also flexible and prepared to divest, start joint ventures or acquire when circumstances changed. Reluctance to outsource from both German companies but willing to take lower costs from moving offshore if control is retained. Outsourcing in Germany however, remains on the agenda as further productivity improvements are demanded. Procurement and Contracts drive the operational changes in the UK airline. Performance measures and SLAs are regarded as part of achieving budget in UK but the business is left alone to meet targets. German operations, are more constrained and have fewer 'degrees of freedom' they must consult with HQ on delivery.

Ownership, control and autonomy were consistent with LME (loose) and CME (tight) styles for the UK and Germany respectively. The division of labour was very similar for both sectors. This does contrast with some 'other' transnational companies (e.g. ABB) that wish to develop an international cadre of experienced managers. English is regarded as an international language that is widely spoken around the world. Although some reservations were expressed by the UK companies there was generally a higher level of concern regarding location by the German companies of working somewhere that was sympathetic to the German language and culture. Perhaps one of the biggest differences was revealed in the airline case study. In Germany disputes seem to be settled more quickly and the Works Council are inclined to agree with management. The attitude of members is different as a result – supportive of the TU in the UK less so of the works council in Germany.

Regarding re-shoring there were few examples in the companies studied but generally a more flexible attitude by the UK airline and engineering company where there was a willingness to change earlier decisions and policy when judged appropriate.

### Overarching finding

The main aim of this research was to establish the extent to which the outsourcing and offshoring practices for the chosen case companies were embedded in the institutional contexts of their home countries, as seen from a 'varieties of capitalism' perspective.

To a significant degree the policies and practices in use in India, Czech Republic, Poland and China do largely followed the characteristics anticipated for each of the German and UK headquartered MNCs studied. This applied both to transport / airlines and also to engineering sectors as reported in the case studies.

### Ambiguities

Although many aspects of the hypothesis developed in the conceptual framework are supported, there are also some aspects that are disputed or lack clarity:

The first ambiguity is that the German businesses (in particular Company D) regard their overseas presence as necessary for market development and making good use of local skills (e.g. software development) which also just happens to be at a lower cost than the same skills in

Germany. Thus the issue here is whether market development really is the justification for moving or relocating work offshore and retaining control, or is it just rhetoric for saving cost? Separating suspicion and fact prove troublesome in this instance.

The second ambiguity is that for the German engineering case there was very limited communication channels between the operating business and with the customer (OEM) when we might have assumed a higher level of interconnectedness and interrelationship.

The third ambiguity is attitude to risk. With the UK cases autonomy seems to be evidenced by a hands off, stand-alone approach as long as targets are met. In Germany the processes are standardised and closely monitored in operational terms, and are not keen on taking a third party risk. A higher level of interconnectedness and institutional support might have been expected.

The fourth ambiguity is that the German company would have been expected to deploy and retained a stronger presence, especially of skilled operatives or of senior management in establishing new captive offshoring locations. Involvement was largely short term and modest.

The fifth ambiguity is regarding cultural proximity. The German engineering company developed a long established, sizable and now firmly embedded business in India, while the German airline had no wish to locate suppliers in India (following a bad previous experience). Company C also had no wish to relocate in India and yet that is where a UK company might have been expected to be comfortable.

The sixth ambiguity is with the UK management and trade union relationship. Company C made radical changes without adverse relationships developing.

Finally, the seventh ambiguity is regarding a change in policy such as re-shoring. To this extent the case study companies are not typical of the average levels reported for re-shoring in the UK and Germany (14-20 per cent) nor of a recent increasing rate or a response to political pressures.

### **Overall Conclusion**

It is well known that Germany has managed its economy in such a way that it has been less exposed to the economic pressures suffered by much of the rest of Europe. To some extent this has allowed management to move operations offshore but not outsource, gain the benefit of lower costs (some 10 per cent at least) without losing jobs at home. However, as costs increase at a faster rate in many overseas markets the search for productivity benefits and efficiency gains continues. The basic components of a 'coordinated market economy' seem to prevail with evidence of institutional coordination, long term planning but also central control and an aversion to risk. The UK Companies were quick to outsource, favoured short term cost savings but was also more flexible and agile, taking risks with trade unions and suppliers and customers to seemingly favour shareholders. In many respects this is consistent with the 'liberal market economy' capitalist model. In both cases the choice of location was often different, as was the approach to delegation and autonomy suggesting differing views on governance. The underlying theoretical constructs of varieties of capitalism, the resource based view and global production networks were each found to be of value.

### **6 Research limitations and direction for further research**

This work is based on fourteen interviews, and follow-up meetings. Because the case studies inevitably comprise different sections of a business rather than the organization as a whole the 'unit of measure' will be important in making comparisons and drawing wider implications. Access to the host organisations' has been challenging with mixed views on the need for confidentiality. The usual concerns about use of case studies in respect of wider applicability within the sector must apply. Further research is intended with trade unions, and a

wider cross section of employees, and also with other related companies who will be interviewed to triangulate the results. More data suitable for quantitative analysis is suggested.

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## Appendices

Table 2: Conceptual Framework - Theoretical Projection

Research question	Approach	Dimensions	Liberal market economy UK (LME)	Coordinated market economy GERMANY (CME)
What are the differences in the geographical, functional and temporal patterns of outsourcing and offshoring?	Outsource	Motivation	Cost cutting and employee reduction English speaking countries Traditional trading zones	Quality and performance, cost control is 'a given'. Central / Eastern Europe preferred
How far do mechanisms such as ownership, control, coordination and the degree of autonomy differ?		Ownership	Shareholder driven	Multiple stakeholder
		Control & Coordination	Arm's length on strategy. Strict cost and budget control	Tight HQ control of strategy, policy and resources
How is this reflected in divergent international divisions of labour regarding the employment of indigenous or ex-pat managers?	Offshore	Managerial division of labour	Low initial use of ex-pat managers who then stay on	High initial use of ex-pat managers for set-up and training. Subsequently local management
		Or	Cultural Proximity	Low, flexible, opportunistic
What is the influence of trade unions in the process of outsourcing and offshoring and how is this reflected in the structuring of the firms' labour markets?	outsourced offshore or	Relationship with employees / Trade Unions	None, limited to legal requirements Push the limits Can be confrontational to enforce desired changes	Consult widely Actively avoid confrontation Opportunistic - use growth to create additional jobs elsewhere
What evidence is there, and why of a reversal in policy - reshoring?	re-shore	Change of policy	Loss of initial cost-benefit. Political pressure or economic incentives	Loss of intellectual property Change in market focus or strategy

Table 3: UK and German Airline and Engineering companies compared

Question	Approach	Dimensions	Liberal Market Economy (UK)		Coordinated market Economy (Germany)	
			Company A Airline	Company C Engineering	Company B Airline	Company D Engineering
What are the differences in the geographical, functional and temporal patterns of outsourcing and offshoring?	Outsource	Motivation	Offshore-outsource back office services to India and outsource RMO to South Wales.  Outsource catering, administrative and revenue accounting, engineering, maintenance, repair and overhaul. Ramp, buses and de-icing.  Cost and improved productivity - reduced employee numbers. Speed of response.	Outsource UK, Czech republic, China outsource and offshore manufacturing destinations. Less keen on India. Acquire and integrate business when appropriate.  Outsource catering, administrative and revenue accounting, Offshore engineering, maintenance, repair and overhaul outsourced locally.  Cost	Captive offshore shared services to Poland, Thailand and Mexico.  Shared services, ticket booking, invoicing. Offshore RMO to China (JV) and Hungary. All offshore work retained in-house.  Recent outsourcing of IT systems to IBM.  Quality, performance and cost	Captive offshore subsidiaries India, Vietnam, Czech Republic, Hungary. 'Lead' global roles in Asia, Europe and North / South America.  Embedded software applications, IT systems, accounting, call centres.  In Czech Republic - the development of new automotive platforms; R&D, Engineering and Manufacturing.  Local expertise and cost.
Control & Coordination		Ownership	Outsource: Shareholder value.	Offshore through Joint Venture then wholly owned acquisition. Financial control via HQ, but freedom to run business locally.	Retained offshore subsidiary.	Now wholly owned, offshore subsidiaries, budget control and OEM contact through HQ.
		Control & Coordination	Offshore and outsourced. Arm's length, market driven. Open book, service level agreements. Procurement	Global operations via HQ and regional (EMEA) control	Tight HQ organisational control.  The airline has an extensive alliance - not wholly but	HQ with OEM, divisional control and global coordination from HQ.



			led/ contract driven. More recently strategic collaborative ventures have become more important.		largely non-equity based and has become a benchmark in code sharing.  New CEO resulted in fresh policies and priorities.	
		Degree of autonomy	Generally high. Maintenance retained at an internal subsidiary. Allowed to source from competitor if a business case.	Relatively high - unless a problem e.g. loss of IP.	Low, but increasing, based offshore or nearshore. Acquisition used as a short term 'spoiling' technique.	Relatively high in terms of design and delivery. Close budget and resource planning and monitoring from HQ.
How is this reflected in divergent international divisions of labour regarding the employment of indigenous or ex-pat managers?	Offshore  or	Managerial  Division of labour	Local staffs. No ex-pats. Concern over JV in the US with potential loss of UK jobs.	Kept to a minimum. Initial training on site in Czech Rep.	Run by ex HQ managers  At start-up managerial level withdraw at operative level as soon as possible and recruit locals. Duplication with JV in China.	Ex-pat initially as senior manager. Replaced with local after 5 years, maybe 5 ex pats out of 10,000 local employees. In Czech Republic initial training of engineers in Germany then on-site over 2 years. Ex pats may stay.
To what extent do preferences for cultural proximity affect location?	outsourced offshore	Cultural Proximity	Unimportant. Global reach. Cope with afterwards - gain experience through diverse partnerships.	Significant preferences through experience. Try it, see what happens and learn. Manage each location differently.	Important - language & culture. Focus on regions Europe, SE Asia,  S America.	Less important - although with the Czech Republic there are advantages of proximity, similar markets, some ease of language and cultural affinity.

What is the influence of trade unions in the process of outsourcing and offshoring and how is this reflected in the structuring of the firms' labour markets?	or	Relationship with employees / Trade Unions	Sometimes adversarial, often regarded as non co-operative, but there exceptions e.g. Gatwick ground staff. Regular meetings – tone set by different CEOs.	Redundancies where required.	Cooperative, aversion to conflict. Resolution often rather quick leaving employees frustrated with the union rather than management.	Avoid conflict, timed to coincide with growth to avoid job losses in Germany. Few issues in Czech republic – weak union but also free labour market and plant growth offering security.
What evidence is there and why, of reshoring?	re-shore	Change of policy	MRO work retained / returned in-house and within the UK. Work previously outsourced now back within IAG.	Mexico back to the US	Not so far	Stories of complex work being returned from India to Germany for rework.

# Global Vs. Local-The Hungarian Retail Wars

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## Key Words

MNE's, SME's, Hungary, FMCG Retailing, Cooperatives, Rivalry

## Abstract

*In this paper we explore the impact of the invasion of large global retailers into the Hungarian FMCG space. As well as giving the historical evolution of the market, we also show a recipe on how the local SME's can cope with the foreign competition. "If you can't beat them, at least emulate them well."*

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## 1. Introduction

Our research started with a casual observation. There seemed to be too many FMCG (Fast Moving Consumer Goods) stores in Hungary, compared to the population size, and the purchasing power. What was the reason for this proliferation, and what outcomes could be expected from it? Would the winners necessarily be the MNE's, and the losers the local SME'S? These were the questions that focused our research for this paper. With the opening of the CEE to the West, large multinational retailers moved quickly into the region. This was particularly true for the extended food retailing sector (FMCG's). Hungary, being very central, and having had good economic relations with the West in the past, was one of the more attractive markets to enter. We will follow the entry of one such multinational, Delhaize (Match), in detail. At the same time, we will note how two independent local chains, CBA and COOP were able to respond to the threat of the invasion of the multinationals.

## 2. Louis Delhaize Group - Match:

### 1.1. Stages of Developments/History

The international chain, the Belgian-based Louis Delhaize group, appeared in Hungary in 1989, by acquiring - during privatization - the stores of Duna Fuzsért Rt, a state-owned chain of grocery stores. In 1991, during its first year of operation, the company took over several more small grocery stores and named them all Profi. In pursuit of further market expansion, in May 1997, the company opened its first hypermarket under the name of Cora [1]. In 1998, to meet the growing demand, Delhaize opened a supplier organization to provision its Cora and Profi stores [1]. In 1999, the Delhaize group further continued its market expansion by acquiring one of the early entrants into Hungary, the Julius Meinl group of Austria. Julius Meinl consisted of 4 chains (Julius Meinl, Jee Diszkont, Jee C+C, and Alfa), consisting of approximately 160 stores and 25 franchise partners [1].

In 2001, a newly branded chain, called Match, was launched—first in Miskolc, then Szeged, Kaposvár, and Nagykanizsa. The larger size stores of the chain, some of which were refurbished, were branded under the Match name. Following the successful launch of Match, Delhaize started to use a similar brand name, SMatch (instead of Julius Meinl and JeeDiszkont) for its smaller stores. During 2002 to 2007, they removed Jee C+C stores and Alfa stores from the market. Profi stores remained as a separate brand [1]. As the number of stores was growing, and to optimize the operational costs, the company decided to merge all existing store brands under one name; match. By 2006, the new network consisted of 201 Match stores throughout the

country [1]. In 2008, the company generated total revenue of 60 billion forints, through operation of its stores, employing nearly 2300 employees, throughout Hungary [1].

## 1.2. Product and Services

As part of company's strategy to differentiate its positioning against competitors, Match concentrated on providing fresh and quality products. Fresh salad bars in every store, as well as wide varieties of quality fruits, usually rare fruits which were hard to find in other grocery stores, placed the chain as the market leader in providing fresh daily goods. The Match stores were compared to local bakery shops which served freshly baked goods for customers every day.

Match stores offered a large variety of consumer goods including food and "so-called near-food goods" such as toiletries, cleaning products and other hygienic products. Match also offered "non-food products such as clothing, sports equipment, and household electronic appliances" [2]. The availability of a wide range of premium local products, were promoted as local production and as satisfying the needs of consumers. The availability of products in each store was customized based on the location and local needs. The convenient location of the stores, as well as reasonable prices, provided a fast, reliable, one-stop shopping experience.

## 3. The Onslaught by the other MNE's

As well as Dalhaize (Match), numerous other large multinationals entered Hungary. Some of these will be introduced later in the paper. They accounted for severe competition and an over-population of retail food outlets.

## 4. The SME's are in Danger:

With this large scale invasion, the local SME's were in serious trouble. While they had some locational advantages, they neither had the variety of products, nor the price points that would be competitive with the MNE's. In the 1990's, a large proportion of small grocery stores ("Ma and Pa" stores) left the market. The remainder were in danger of following this exodus. A solution had to be found, or they would disappear from the market. This solution came in the form of retail cooperatives. The ones to be detailed here are CBA and COOP.

## 5. CBA

In 1992, during the era of privatization, a former state-owned grocery chain, which combined 17 stores in all, was bought by 10 Hungarian businessmen. The new venture was named CBA. Since its foundation, CBA has been 100% Hungarian owned. One of the major challenges the new company faced was price competitiveness. Due to its small scale operations, the company's costs were higher than that of its larger (usually MNE) competitors [3]. In 1995, CBA purchased a 2000 m<sup>2</sup> warehouse in Budapest which enabled it to increase its storage capacity. With its own warehouse, CBA was able to purchase larger quantities of goods than it could previously buy, when it was operating individual stores. Benefiting from higher order quantities, at reduced prices, the retail prices for the customers became more competitive [4].

With a continually growing number of stores, the volume of sales increased exponentially, requiring CBA to increase the capacity of its warehouse. As a result, in 1998, CBA further expanded its storage capacity, by purchasing an 18000 m<sup>2</sup> warehouse in Budapest. In addition, to improve operational efficiency, CBA established regional centers, creating a decentralized managerial system [4]. In 2000, CBA began a joint partnership with the German EDEKA; Europe's largest trading association. This partnership was the most important milestone in the history of the company. It provided the company with the know-how of developing an internationally effective franchise system. This strategic move, helped to drive the

Hungarian chain's regional expansion capabilities [4]. In 2001, CBA entered the Croatian market, which was the first step toward regional expansion. Further expansion required higher capacity of storage to support the growing number of sales both in the home market and abroad. In 2005, after the completion of its new logistic center, equipped with latest technology, and operations based on a computerized system, the company was able to compete with the best in the retail industry [4].

Since its foundation, CBA has become a notable franchising model in the region. In 2009, in response to growing demand for premium local products, as well as low cost products, CBA diversified its stores by opening high quality shops under the CBA Prima label, and soft discounters called CBA Cent [4].

### 5.1 CBA Prima

In May 2009, to capture the ever growing demand for local premium products, CBA launched a new shop category called CBA Prima. The new launch commenced with the opening (relabeling) of 40 stores throughout Budapest. In many cases, current CBA stores were renovated, and upgraded to Prima status. The new launch came with a clear message; Quality, Reliable products, Friendly and Professional service as well as Reasonable prices. The successful launch of CBA Prima significantly increased the revenues of the company [5].

CBA, as a leading Hungarian grocery chain, devotes a large effort to the promotion and preservation of local brands and products. The new Prima stores introduced a wider range of Hungarian products. In addition, CBA Prima's new look, and modern interior design provided customers with a unique shopping experience. It was crucial that while emphasizing reliability and quality, the new high-end stores still retained reasonable price points [5].

### 5.2 CBA Cent

Following the successful launch of CBA Prima, in November 2009, the company introduced another category of grocery stores called CBA Cent. The CBA Cent stores provided customers with very favourable prices as a priority. However, the CBA quality was guaranteed as well. The shrinking middle class in Hungary and rapidly growing demand for low-cost products, as well as strong deep-discount chains in the market, meant that this need could not be ignored [6]. CBA Cent stands for affordable prices as a rule, diverse product lines, a wide range of quality goods, and helpful service. The opening of the first 1000 m<sup>2</sup> sales area store in 2009 was the beginning of a new era for CBA. Since then, the chain has opened more than a hundred of these discount stores. The stores are supported by a logistics center in Alsonemedi. Bakery products are the only exceptions, with their procurement organized individually [6].

Another important pillar of the CBA Cent stores is that only 15 people work in each store. This number is about half that found in other, similar-sized CBA stores. Electronic shelf labels used in CBA Cent stores help to display prices on the shelves. This network allows the price display to be automatically updated whenever a product price is changed. This method of price display offers a wide range of options, including time-of-day discount offers [6].

### 5.3 Positioning

CBA stores are designed to satisfy local needs by offering lower prices, and a large variety of goods selected to meet local needs. Successful business operations and rapid expansion enables the company to cut its costs, thereby enabling it to reduce prices. CBA benefits from large volume purchases and efficient logistics. This puts CBA in direct competition with leading multinational chains such as Tesco, Auchan, and Metro. Based on Nielsen reports, in 2011, CBA was the second largest retail chain in Hungary, generating €2,024 million in revenues [9]. It did so through the operation of more than 3,383 outlets [8]. The



company's outstanding performance and remarkable business model has allowed it to expand into other countries of the region. Currently, CBA operates in countries such as Bulgaria, Czech Republic, Croatia, Poland, Lithuania, Romania, Serbia, Montenegro, Slovakia and Slovenia and plans on further expansion in Western Europe.

#### 5.4 CBA Logistics Center

The current CBA logistics center is 25 km away from Budapest, located in the center of CBA's 36 hectare commercial space. In the year 2000, CBA spent nearly 5 billion HUF (16.7 Million EUR) for the reconstruction of the site. It is one of the country's leading logistics centers [10]. The capability of the new logistics center goes beyond the storage of only dry goods. From the 30.000 m<sup>2</sup> storage capacity, 6.000 m<sup>2</sup> is the cryogenic area, of which 3.000 m<sup>2</sup> is deep-frozen. The center operates based on a computerized system which, significantly, increases the efficiency of operation. The stores are able to place their orders directly through a computerized system [10]. The state-of-the-art logistics center opened a new page in the history of CBA. The current capacity of the new logistic center and its proven operational efficiency places CBA as one of the leading grocery retailers in Central Eastern Europe. Indeed, the construction of the new site is one major factor driving the successful franchise system of CBA.

#### 6. COOP

COOP is one of Hungary's leading retail grocery chains, serving one and half million customers every day. With more than 3000 stores in 1650 towns throughout the country, COOP stands out as one of the most successful franchise models. The company's total share in food trade is 13% which is growing considerably as the company expands its operation. In 2011, the company's total revenue amounted to €1,827 million which placed COOP as the third largest grocery chain in Hungary, after Tesco and CBA [11].

Unlike CBA and Tesco, COOP's major operations are in small towns and rural areas. The extensive network of stores of all sizes, from convenience stores to large supermarkets, provides customers with vast varieties of products including locally produced products. By introducing local products, COOP aims to promote local production and capture the needs of local people. The COOP group consists of 32000 staff which makes COOP one of the largest employers in Hungary [10]. Currently, COOP also operates in another four countries in the region. Its successful franchising model has been influencing grocery retailing in the region.

##### 6.1 Stages of development/History

In 1995, during the post-privatization era, the COOP group began its operation as a small-sized grocery chain. The establishment of the company took place 3 years after CBA was launched. The strong presence of CBA and Tesco created a challenging environment for COOP. In order to be competitive with its rivals, COOP took a different approach toward market expansion. The company realized that there was a growing demand in small towns and rural areas, and therefore concentrated its resources to capture those areas [11]. During the first year of operation, COOP managed and operated 619 stores throughout the country. With a continually growing number of stores, the volume of sales increased simultaneously, enabling the company to streamline its purchasing, thereby reducing sales prices. In 1999, as a result of successful expansion, the number of COOP stores tripled [11].

In autumn 2010, the COOP supermarket chain launched a development process which included modernization of IT and Logistics, revision of shop categories, as well as expansion and modernization of their product portfolio. The main task of the program - while maintaining the visual unity- was "personalization" of their image [11].

## 6.2 Products and Services

COOP offers a wide range of grocery products. Among them are a wide variety of locally grown products. Unlike its rivals, CBA and Tesco, COOP operates mostly in under-populated areas. Therefore, the company designs its stores according to the population it serves. Currently, COOP has four different sizes of stores, which range from under 200 m<sup>2</sup> to near 900 m<sup>2</sup>. The smallest stores which are less than 200 m<sup>2</sup> are called COOP Mini's. In the range 200 to 300 m<sup>2</sup> the stores are usually called COOP. From 300 m<sup>2</sup> and above, the stores are called COOP ABC; and in the range of 600 to 900 m<sup>2</sup> stores are called COOP Szuper [12].

## 6.3. Regional presence

After 5 years of impressive performance and successful growth, in 2000 COOP stepped outside the borders of Hungary, to become a regional player. The first two market entries were Slovakia and the Czech Republic. In December of 2000, the company established COOP EURO as an "international association of purchaser" in Central Europe [13]. Today COOP EURO operates in 4 regional countries: Hungary (**Co-op Hungary Zrt**), Bulgaria (**Central COOPERative Union Bulgaria**), Czech Republic (**COOP Centrum družstvo**), and Slovakia (**COOP Jednota Slovensko, s.d**). All together COOP EURO has 8.000 stores in four countries. Slovakia ranks as the second biggest operation (after Hungary with 3000 stores) having 2400 stores [14].

Each of the regional branches functions as an independent entity under supervision of COOP EURO. Each country carries out purchasing activities for a wide range of products in its domestic market. "The chain covers the smallest villages as well as the largest cities and its ability to communicate directly with its customers allows it to react with great flexibility to the needs of the market" [13].

## 6.4 Franchise system

The driving force behind the successful expansion of COOP is its unique franchise system as well as the strategic choice of locations of each franchisee. As the company operates mainly in small towns and rural areas it requires fairly minimal criteria for accepting a new franchisee. COOP's simple conditions for joining the cooperative provide an important opportunity for small local operators to develop. The procedure for obtaining the right to join the COOP retail chain consists of one main phase of assessment. At first, the company assesses the potential applicant's store location. If the store has the required facilities and capabilities to be part of the chain, then the company classifies the potential member into one of the four categories of COOP Mini, COOP, COOP ABC, or COOP Szuper [14].

After the potential applicant is qualified for membership, the two parties discuss the terms and conditions of the franchise agreement. Under COOP franchise policies, the franchisee needs to pay an entry fee of 50,000 Hungarian Forints plus VAT. COOP requires all of its franchisees to pay an annual fee of 0.1% of their annual income (plus VAT) which is collected on a quarterly basis [14].

After signing the franchise contract, the store can use the COOP logo and the company's "know-how" to begin operation. The common operational policy requires 60% of the products to be the identical in every store. COOP also provides assistance in internal decoration which helps to raise the attractiveness of the shelves. Since 2012, COOP requires all of its franchisee stores to have the same image [14].

## 7 Retail Rivalry:

Competition is not restricted to the three players already mentioned. During the last 20 years, the following major multinational food chains have entered the market:

## 7.1. Wholesalers

### 7.1.1. Metro

METRO Cash & Carry is an international self-service wholesale outlet for SME's. It is a member of Metro Group which was established in 1963 in Germany. The business concept of Metro Cash & Carry is to target B2B customers in the hotel, restaurant, catering and retail trade. In 1993, METRO was the first multinational wholesaler to enter the Hungarian market. The chain operates 13 stores in Hungary. Metro is included in our list, as it is very easy to establish a business entity in Hungary, usually done for tax purposes, and such entities are entitled to shop at Metro. Thus, shopping for personal consumption is not uncommon at Metro [15].

## 7.2 Discounters

### 7.2.1 Penny Market

Penny Market is a discount supermarket chain based in Germany, which operates 3,000 stores in Europe, and is owned by Rewe Group. The company opened its first store in Szentes, Hungary, in 1996. The company currently operates 191 one stores in Hungary with the latest store opened on 6<sup>th</sup> of June of 2013 in the city of Győr [16].

### 7.2.2 Lidl

Lidl Stiftung & Co. KG. (Lidl) is a European discount supermarket chain of German origin, belonging to the holding company Schwarz Gruppe. Lidl entered Hungary as the first hard discount chain in 2004 opening 21 stores. During the first six months of its operation, Lidl reached nearly 29% of the households. In 8 years, the number of stores increased rapidly and in 2012 Lidl operated 156 stores - 25 of them in Budapest. Lidl, as a hard discount chain, sells groceries and miscellaneous items mainly under its own brand name (800 to 1000 items). In 2011 Lidl earned 840, 2 M EUR in Hungary [17].

### 7.2.3 Aldi

Aldi, another German company, is the most important competitor of Lidl. It entered the Hungarian market 4 years after Lidl. However, it entered very aggressively, opening 9 stores simultaneously. The company was founded in 1913 in Germany by two brothers - and was later split in two; Aldi Nord and AldiSüd. The Hungarian affiliate belongs to AldiSüd having 4425 stores worldwide and 86 in Hungary. The Hungarian operation generated 247, 1 M EUR revenue in 2011. Similarly to Lidl, Aldi offers to its customers a limited range of private label products at competitive discount prices [18].

## 7.3 Hypermarkets

### 7.3.1 Auchan

GroupeAuchan SA is a French international retail chain with a presence in 12 countries operating 639 hypermarkets and 2412 supermarkets in the world in 2011. In Hungary, the first Auchan hypermarket was opened in 1998. In October 2012, Auchan acquired all seven Cora hypermarkets in Hungary. As a result of this take over the number of Auchan hypermarkets increased to 19. The acquisition cost was 6 billion HUF and it took 6 month to complete. Auchan purchased not only real estate, but also know-how, in the sense that they preserved all the services Cora offered, which were popular among customers (eg. cheese, delicatessen and fish counters). A strategic issue is the closeness of some Auchan hypermarkets to the previous Cora stores. In order to avoid cannibalization Auchan plans to focus its outlets on different market segments and each hypermarket will have unique offerings. The sum of the revenues realized by Auchan (824 M EUR) and Cora (308 M EUR) in 2011 is still below Tesco's revenue (2,526 M EUR) [19].

### 7.3.2 Tesco (operating hypermarkets, supermarkets and convenience stores as well)

Tesco PLC is a British multinational grocery and general merchandise retailer founded in 1919. Hungary was the first international business of the chain, which entered the market in 1995 through the acquisition of existing retailer S-Market's 26 stores in the North-West of Hungary. Its first hypermarket in Budapest was opened in 1996. Tesco entered the market aggressively and penetrated it with a strong store presence not only in cities but also in rural areas. Tesco was the first chain to introduce 24 hours shopping and the first one to introduce private labels. In 2012 Tesco operated 213 stores in Hungary, employing 22000 people, being the 4<sup>th</sup> largest employer in the country and having further expansion plans. As a consistent market leader, Tesco generates the highest revenue among all retail chains in Hungary and was one of the few companies in the sector which increased revenue during the economic crisis. Tesco offers not only grocery products but a wide range of goods, like clothing or mobile phone services. Stores are also diversified. Four categories exist - (hypermarkets, supermarkets, express, s-market). They differ in size from few hundred m<sup>2</sup> to 15,000 m [20].

## 7.4 Supermarkets

### 7.4.1 SPAR

SPAR was founded in 1932 in the Netherlands as a large, self-organized, retail chain association. The aim of cooperation was to operate more efficiently by combining purchasing power when placing orders. The business model spread rapidly throughout Europe in the fifties. Currently the supermarket chain operates in five continents, in 33 countries, incorporating more than 15 thousand units of various sizes, and about 6 million m<sup>2</sup> sales space. The majority of SPAR stores are independently owned and operated. SPAR was set up in Hungary in 1990 by the Austrian ASPIAG (Austria SPAR International AG) group, based in Switzerland [21].

Spar acquired the General firm in Tatabanya and later seven large-scale supermarkets in Budapest. Around 200 existing locations were taken over and redesigned by SPAR in the next few years. Takeovers were the main tool to expand. Important steps were the acquisition of 14 Billa shops in 2002 and of 22 Kaiser's supermarkets in 2003. SPAR joined a purchasing cooperative with Metro and Praktiker, called "METSPA". In this cooperation, merchandising ventures are interlinked, co-negotiated and partnerships agreed upon with suppliers. SPAR in Hungary is consistently in fourth place on the Nielsen top list, following Tesco, CBA and Coop. SPAR uses four main store formats in every country. The core SPAR is a traditional supermarket, INTERSPAR is a bigger size hypermarket and EUROSPAR is the largest format over 1000m<sup>2</sup>. The smallest format is SPAR Express, a convenience store with extended opening hours. SPAR operated 398 stores in 2009 in Hungary. In 2012 SPAR decided to launch a franchise system in Hungary. The first SPAR partner joined the new structure in September 2012 [21].

## 8 Retail Over-population

Over-population in the FMCG space occurred because, with the opening of the CEE, many competitors were attracted to the opportunity presented by the Hungarian market. However, each entrant considered the opportunity as it existed, prior to the entry of the others. Further, the financial crisis of 2008 significantly reduced the purchasing power of the consumers and hence market attractiveness.

Hard data support the observation of over-population. The disposable income of Austrian citizens is nearly four times higher than that of Hungarians, at €20,015 per capita. Yet, the retail intensity in the FMCG sector in Hungary, at 1.0 m<sup>2</sup> per capita, is only 60% less than that

of Austria, where it is 1.75 m<sup>2</sup> per capita. Based on these data we can conclude that retail intensity relative to purchasing power is extremely high in Hungary [22].

However, we also used a different method of showing retail over-population. This is shown in another publication [22].

### 9 Delhaize announces its withdrawal from the market

In December 2011, the Delhaize Group, announced that it will cease all its activities, and exit the Hungarian market. Following this news, CBA and COOP, both local cooperative chains, entered into a series of lengthy negotiations to acquire 110 Match stores throughout the country. After a year of negotiations, in November 2012, CBA announced that it had completed the purchase of 48 Match stores. Simultaneously, COOP announced that it was acquiring 62 Match stores [23]. Auchan acquired all seven of the Cora hypermarkets.

### 10 Conclusions

Store over-population, and extreme competition in the extended food retail industry exists in Hungarian towns and cities. They cannot be explained on population size, or growing disposable income. What other explanations are possible? In our opinion, with the opening of CEE, Hungary was seen as a strategic market by several large multinational chains. Staying out of the market had significant implications. The late entry of Aldi into an already saturated market is a case in point. However, with the impact of the financial crisis, and the changing role of the CEE in the portfolio of multinational chains, this market may no longer be as attractive. Asian markets are taking over as desirable investment targets.

The consumer clearly benefits from this rivalry. Already low prices are continually eroded by "special sales", further reducing the profit margins. While not proven, low prices might also result in lower (hidden) quality. Unable to compete, many "Ma and Pa" stores had no choice but to close. The number of small independent stores has reduced substantially during the last 15 years. An alternative for small stores was to band together in cooperatives, such as CBA and COOP. This enabled them to stay in competition on price. This business model seems to be working, and its success in being exported to other markets. The battle for market share is not over yet. As seen in the example of Cora and Auchan, Kaiser and Spar, and Match and CBA/Coop, further mergers and acquisitions are likely in the future.

Our curiosity as to why there are so many competing stores in the FMCG space in Hungary has been ratified by M&A activities during our study. Mergers and acquisitions, however, are about ownership, not number of outlets. The M & A activity will lead eventually to the closing of several outlets in an effort to reduce square meters devoted to this sector. If this happens, it could lead to the loss of major anchors in malls, leading to pressures on mall closures. In the interim, new malls are opening with great regularity.

In the long-term, local suppliers will become more open to regional competition, and hence feel pressures on their margins and demand for their products. The only winners in the rivalry will be a few players, who can become dominant. Of course, domination is established not only through price, but also on location, brand equity (particularly for private brands), product offerings, quality, service levels and convenience. On the whole, however, a lot of red ink will still need to flow, before some market equilibrium can be established.

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#### 1. Introduction

- 1.1 Manuscript should be written in English and should be submitted to the Editor-in-chief electronically through the online system as e-mail attachment to [editor@abrmr.com](mailto:editor@abrmr.com)
- 1.2 If electronic media is not available, the original paper may be submitted on standard CD to the Editor by using full postal address which is, **The Academy of Business & Retail Management, 183 Exeter Road, Harrow, Middlesex HA2 9PG.**
- 1.3 Manuscripts are to be submitted as **MS Word** documents for Windows. Other formats will not be accepted.

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- 2.6 **Length of the Paper:** The paper length should not exceed 15 pages maximum including figures, tables, references and appendices.
- 2.7 **Paragraphing:** A blank line between paragraphs should be left without indent.

#### 3. Structure of the Manuscript

##### 3.1 Cover page

The front page of the manuscript must be organised as follows:



- (i) **Title of the Article** –Paper title to be centered on the page, uppercase and lowercase letters, Font size 14, bold
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- (v) **Key words:** Maximum 6 key words, font size 11

**3.2. Abstract:** The abstract is self contained summary of the most important elements of the paper

- (i) **Pagination:** The abstract begins on a new page
- (ii) **Heading:** Upper and lower case letters with 12 font size bold and align text to the left.
- (iii) **Length and format:** Abstract should be the summary of the paper, not more than 300 words, abstract should include purpose of the paper, design/methodology employed, findings, practical implications and originality statement. Font size 11.

### 3.3. **Body of the manuscript**

From the second page the rest of manuscript should be included the introduction/background, main body of the paper which can be divided into section and sub-sections. Section and sub-section should be numbered and should be typed in BOLD. The manuscript should be organised as follows:

1. The Introduction
2. Main body of the paper with sections and sub-sections
3. Discussions and conclusions
4. Research limitations and direction for further research
5. References
6. Appendices (if any)

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- (a) All tables are to be centered and numbered sequentially, with their title centered below the table.
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## Call for Papers

### INTERNATIONAL JOURNAL OF BUSINESS & ECONOMIC DEVELOPMENT

(Print) ISSN 2051-848X (Online) ISSN 2051-8498

The IJBED, a scholarly and refereed journal, provides an authoritative source of information for scholars, academicians, and professionals in the fields of business and economic development and is publicised four times a year. The journal promotes the advancement, understanding, and practice of business & economic development. It is peer reviewed and is the main research platform of The Academy of Business & Retail Management (ABRM). Scholars across borders are encouraged in advancing the frontiers of management education, particularly in the area of economic development. Contributions should therefore be of interest to scholars, practitioners and researchers in management in both developed and developing countries targeting a worldwide readership through electronic medium.

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- ☒ Gender and socio-economic development
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- ☒ Microfinance and development
- ☒ Multinational enterprises and business strategy
- ☒ Natural resources and their internationalisation as leverage factors
- ☒ Natural resources and their internationalisation as leverages
- ☒ NGOs and entrepreneurship development

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## Call for Papers for the forthcoming conferences

**ITARC-2015, London, UK**

9-10<sup>th</sup> November 2015  
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**ICGEEE-2016, Alexandria, Egypt**  
**In Association with Arab Academy of Science & Maritime Technology**

15-16<sup>th</sup> February 2016  
International Conference on Globalisation, Entrepreneurship & Emerging Economies

**ICBED-2016, New York, USA**  
**5<sup>th</sup> International Conference on Business & Economic Development (ICBED)**

4-5<sup>th</sup> April 2016

**ROGE-2016, University of Oxford, Oxford, UK**  
**6<sup>th</sup> International Conference on Restructuring of the Global Economy**

20-21<sup>st</sup> June 2016

**IACP-2016, Paris, France**  
**4<sup>th</sup> International Academic Conference in Paris (IACP)**

20-21<sup>st</sup> June 2016

Authors are invited to submit original research papers, case studies, review, work in progress reports, abstracts, students' papers or research projects within the broad scope of each conference. All papers should be professionally proofread prior to submission. These conferences will be jointly organised by the *Academy of Business & Retail Management* and the *Journal of Business & Retail Management Research*.

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**Aims and Objectives**

IJHEM is a peer reviewed journal and is a research publication platform for international scholars. Their research can be in any aspect teaching & learning covering the interests of developed and emerging countries alike. The Journal seeks to reach a worldwide readership through print and electronic media. The main aims of the Journal are:

- Publish high quality and scholarly empirical based research papers, case studies, reviews in all aspect of teaching & learning, education management and leadership with theoretical underpinnings.
- Offer academics, practitioners and researchers the possibility of having in depth knowledge and understanding of the nature of teaching and learning practices and.
- Create a forum for the advancement of education management research for the High Education sector.

**Subject coverage**

- λ Educational policy and Policy impacts on education
- λ Management of education and Relations between lecturers and students
- λ Psychology of education, Psychology of student and teacher/lecturer
- λ Quality of education and Improvement method
- λ Global education and Its challenges and opportunities
- λ E-teaching/E-learning, Educational software and multimedia for education
- λ Teacher education
- Distance education and Education quality
  - Methodology of educational research, Adult and continuing education
  - Special education, Gender, diversity and difference, Vocational education
  - Assessment processes and mechanisms
  - Language Education, Listening and acoustics in education environment
  - Education History
  - Innovative teaching and Learning methodologies; Multi-virtual environment
  - Application of educational technology
  - Education reforms and Practical teaching reform

- Frequency:** Twice a year: February & August  
**Review process:** Blind peer review  
**Indexing with:** Ebesco Host, ProQuest, Open J-Gate, Cabell`s Directory

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**(Print) ISSN 2059-660X (Online) ISSN 2059-6618**

IJBCS is a scholarly and refereed journal that provides an authoritative source of information for scholars, academicians, policy makers and professionals regarding business and cyber security. It is peer reviewed journal that is published twice a year and serves as an important research platform. IJBCS is committed to publishing articles that provide insight and informs best practice. Contributions should therefore be of interest to scholars, policy makers, practitioners and researchers internationally. The Editors and Editorial Board of the IJBCS are committed to championing original academic papers that demonstrate academic rigor, originality and integrity. IJBCS seeks to minimise cyber-risk through insight and vigilance.

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- eCrime and Cyber Terrorism
- Identity Fraud & Access Management; Information hemorrhage
- Cryptosystems and Data Protection
- Compliance, Legal Safeguards and Obligations
- Foresight Leadership and Planning; Industrial Espionage & Counterfeiting
- Critical Infrastructure Protection; Building and maintaining cyber resilience
- Security architecture and network defense
- Vigilance and scrutiny; Attitudinal change
- Knowledge transfer & training; Addressing the skills deficit
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- Financial Analysis & Control Systems
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# Present

**International Conference on Globalisation, Entrepreneurship & Emerging Economies (ICGEE), 15-16<sup>th</sup> February 2016, Alexandria, Egypt**

It gives us immense pleasure to inform you that Academy of Business and Retail Management (ABRM) is hosting **International Conference on Globalisation, Entrepreneurship and Emerging Economies (ICGEE)** in Alexandria, Egypt scheduled during 15-16<sup>th</sup> February 2016, at Arab Academy of Science, Technology and Maritime Transport (AASTMT), Alexandria, Egypt

**ICGEE-2016** offers various tracks which include: The Finance, Accounting and Organisational structure, The Growth and Economic Development, the Globalisation and International Trade, Education and teaching for the Life Long Learning Sector, The HRM, Marketing & Information Technology, Health and Social care Management. Authors are invited to submit their original research papers, case study, review, work in progress, reports, abstract, students' papers or research proposals within the broad scope of each conference. Author's submission will be published in both the conference proceeding under **The Business & Management Review** (Printed copy) and online. ABRM utilises **double blind review** process for all submitted papers.

For further details please see the conference brochure and visit our website on [www.abrmmr.com](http://www.abrmmr.com) or send us an email on [editor@abrmmr.com](mailto:editor@abrmmr.com).

### IMPORTANT DATES

**Draft Submission Deadline: 18<sup>th</sup> December 2015**  
**Final Paper Submission Deadline: 18<sup>th</sup> January 2016**  
**Publication Release: 15<sup>th</sup> February 2016**

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