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Brand perception across cultures: A comparative study of Skoda's brand characteristics in Poland and the United Kingdom

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Keywords

Brand Image, Price, Perceived Quality, Perceived Value; Trust, Purchase Intention, Advertising; Country of Origin

Abstract

This comparative study between the UK and Poland set out to ascertain the key differences in the Skoda motor car brand across a range of brand characteristics, including brand image, price, perceived quality, trust, perceived value, purchase intentions, advertising and the country of origin effect. An online survey was used to collect data across both countries. A sample of 113 respondents was generated, with 58 respondents from the United Kingdom and 55 from Poland. The study found that, in general, the brand image of Skoda in both Poland and the UK was positive. However, it was statistically more positive in Poland. Most brand characteristics were found to be favourable to Skoda, although no further statistical differences were found between the country scores. Although no difference in the country of origin effect was detected statistically, the empirical evidence would suggest some affinity between Poland and Czech Republic, Skoda's home, due to geographic and historical ties between the countries. Polish respondents were more knowledgeable about Skoda's roots, which may account for its higher level of popularity in sales terms within that country. Whilst Skoda's advertising was generally well received, there may be opportunity to embrace a change in tone (e.g. more humorous content) to make the brand more visible and appealing going forward.

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Introduction

The objective of this study is to examine the brand characteristics of Skoda consumers in the United Kingdom (UK) and in Poland. Skoda generates considerable sales in Poland, whereas the sales figures in the UK are markedly lower. The authors wish to understand, from a marketing perspective, why this may be the case. Brand image, price, perceived quality, trust, perceived value, purchase intentions, advertising and the country of origin effect are all be assessed as potential differentiators between the Polish and British markets for Skoda.

Skoda's history dates back to 1895 when Skoda Automobile was established by its creators, Laurin and Klement. It first specialised in bicycles, then progressed to motorcycles and eventually to cars. The company's headquarters are based in Mlada Boleslav within the Czech Republic (Skoda UK [online]). In 1925, the company was purchased by Skoda Works and taken under state ownership. After 1991, Skoda was steadily privatised and, since 2000, has been a Volkswagen Group subsidiary (English, 2011).

Initially, Skoda was associated with cheap, poor performing cars. However, in recent years, that has changed, and Skoda has become increasingly popular. One of the reasons is value for money. Skoda is well built, yet still maintains a modest price tag. Furthermore, Volkswagen gives Skoda freedom in developing interesting and practical cars that people like (Knapman, 2013). Currently, in Poland and in the UK, Skoda offers seven models: Yeti, Citigo, Rapid, Rapid Spaceback, Octavia, Fabia and Superb. In the UK, the price for new cars ranges from £8 000 for Citigo and £10 000 for Fabia to over £35 000 for the latest, best equipped Skoda Superb (which [online]). In Poland, the price ranges from PLN36 000 for

Citigo and PLN40 000 for Fabia to PLN146 000 for Skoda Superb (Skoda PL [online]). Since acquisition by the Volkswagen Group, Skoda has placed an emphasis on continually improving its cars. The latest, Skoda Superb, is an attempt to penetrate the more luxurious car market.

This study is thought to be of value in academic, industry and societal contexts. Its bi-national focus allowed the researchers to explore brand characteristics across two different cultural settings in Europe. As such, it was possible to unearth findings that may not be evident in a single-country study. The findings emanating from this research may help the Skoda brand to strengthen its position by determining its relative strengths and weaknesses, with the benefit of cultural interpretation. Finally, there is also potential value to society at large. The study examines Poland and the UK, two European countries with different histories and different economic prowess. The findings may be of value in defining what people in these difficult countries cherish in high value products, such as motor cars.

Literature Review

Brand equity is a crucial subject in the field of marketing. It has been conceptualised by various scholars, including Aaker (1991), Kapferer (2012) and Keller (2013). This literature review discusses various brand characteristics that are recognised as inputs into developing brand equity, namely: brand image, price, perceived quality, trust, perceived value, purchase intentions, advertising, as well as the country of origin effect.

Brand Image

Brand image, as defined by Goldberg *et al* (1990), refers to reasoned or emotional perceptions that consumers attach to specific brands. Brand image is a factor affecting consumers' subjective perceptions and consequent behaviours, and an indication when consumers are evaluating a product prior to purchase (Ryu *et al*, 2008). Keller (1993) defined brand image as perceptions about a brand reflected by the brand associations stored in consumer memory. A brand association has a level of strength and therefore the link to a brand will be stronger when the link is based on consumers' experience or exposure to marketing communications (Aaker, 1991). Brand associations are grouped into three categories including attributes, benefits and attitudes. Those associations vary based on their strength and uniqueness (Keller, 1993). As noted by Aghekyan-Simonian *et al* (2012), the more favourable the brand image, the more positive the attribute toward the branded product and its attributes. Additionally, brand image helps a consumer in identifying his/her needs and wants regarding the brand, and distinguishes the brand from its rivals (Anwar *et al*, 2011).

As discussed by Law & Lamb (2000), the perceived quality of products/services is crucial to the theory that strong brands add value to consumer purchase evaluations. Positive brand image indicates a brand's favourable image, as well as reflecting a higher level of brand strength than that of competing brands (Kim & Kim, 2005). When brands possess a favourable brand image, they create a matching level of perceived quality, which subsequently leads to improved sales.

In order to examine the difference in brand image across Poland and the UK, the following hypothesis pair is proposed:

H1₀: There is no significant difference in Skoda's brand image between Poland and the UK.

H1_a: There is a significant difference in Skoda's brand image between Poland and the UK.

Price

From the consumer's point of view, price represents the amount of money that needs to be forfeited to obtain a given product or service (Zeithaml, 1988; Lichsteiner *et al*, 1993). A number of consumers utilise price as a cue to reflect quality. Consumers do not always remember actual prices of products, instead they encode prices in ways that are meaningful to them (Zeithaml, 1988). For instance, in online shopping, consumers are likely to compare objective prices that are offered by a current retailer with reference prices that are offered by other retailers and then form their perceptions of price (Kim *et al*, 2012). The objective price is the total price that consumers need to pay to acquire a product or service, whereas reference price is the price consumers expect to pay to purchase a product or service. As noted by Yoon *et al* (2014), price as a heuristic cue is more readily noticeable. Consumers learn to distinguish between cues that are diagnostic and those that are not, and price appears to be a straightforward diagnostic cue. In a competitive hotel industry environment, low or reasonable prices help hotels achieve

a sustainable advantage within their product markets (Bojanic, 1996). Instead of a single price, consumers are usually offered a range of prices that are acceptable for an intended purchase. Similarly, Skoda offers its models at various price points in order to allow consumers to choose the price they are most willing to pay for a certain specification. Price plays a crucial role in consumers' choice of brands. As noted by Keller (1993), many consumers arrange their product category knowledge based on the price bands of different products or services.

In order to examine the difference in price perceptions across Poland and the UK, the following hypothesis pair is proposed:

H2₀: There is no significant difference in Skoda's price perceptions between Poland and the UK.

H2_a: There is a significant difference in Skoda's price perceptions between Poland and the UK.

Perceived Quality

Perceived quality has been defined as the consumer's judgment about a product's overall excellence or superiority. Perceived quality varies from objective quality. The former one refers to a global assessment categorised by a high abstraction level in a specific consumption situation (Zeithaml, 1988), whereas objective quality denotes the actual technical excellence of the product or service that may be measured and verified (Jacoby & Olson, 1995).

Perceived product quality is considered as a moderator between extrinsic cues and perceived customer value, while it has been argued that price is one of the most crucial extrinsic cues of product quality (Rao & Monroe, 1999). There are, however, contradicting discoveries on the influence of perceived quality on purchase intentions. Some studies have found perceived quality to have a positive direct effect on purchase intentions (Parasuraman *et al*, 2006), while others have informed of only indirect effect via satisfaction (Cronin & Taylor, 2002). Rust & Oliver (2004) suggested two differences between perceived quality and satisfaction. Perceived quality is considered to be a more specific construct based on product or service features, while satisfaction may result from any dimension, such as loyalty or expectations. Moreover, companies are likely to be able to influence perceived quality. Therefore, Llusar *et al* (2001) stated that perceived quality is understood as a cause of satisfaction and thus precedes satisfaction.

Perceived quality, in the car industry, is used as a merging word for product quality related to appearance, such as finish, material execution, appearance of paint or details execution. Perceived quality may be an equivalent to craftsmanship (Wang & Holden, 2000), cosmetic quality (Juster *et al*, 2001) or design quality (Sodeberg *et al*, 2006).

In order to examine the difference in quality perceptions across Poland and the UK, the following hypothesis pair is proposed:

H3₀: There is no significant difference in Skoda's perceived quality between Poland and the UK.

H3_a: There is a significant difference in Skoda's perceived quality between Poland and the UK.

Trust

In marketing terms, as noted by Singh & Sirdeskmukh (2000), trust has been defined as a psychological state encompassing intention to accept vulnerability based on positive expectations, or a willingness to depend on exchange partners (Ganesan, 1994). Trust refers to a positive belief about the reliability of a person or an object, especially when uncertainty and risk exist. Moreover, McKnight *et al* (2002) differentiated trust beliefs and trust intentions. Trust beliefs refer to consumers' perceptions of a brand's attributes, which for Skoda could be car dependability or confidence in the car performance; whereas trust intentions refer to intention to participate in trust-related behaviours with a specific brand. Trust beliefs therefore indicate the perception that a certain brand is trustworthy.

According to McKnight & Chervany (2002), trust combines ability, benevolence, integrity and predictability. Ability denotes the perceived competence level of a brand, benevolence refers to the trustor's perceptions of the trustee's efforts, integrity represents righteous behaviour and predictability denotes the trustor's beliefs that the trustee will adhere to the promised transaction. In terms of Skoda, those elements can be perceived as meeting the latest car safety regulations and guidelines, or believing that cars will live up to their initial specifications and recommendations. Brand trust has not only a technical nature, seen in terms of its ability and willingness to keep promises and satisfy consumers' needs, but also good intentions regarding consumers' interests and welfare (Delgado *et al*, 2003). Thus, a

trustworthy brand is one that consistently fulfils its promise to consumers through the way the product is developed, produced, sold, marketed and serviced.

Xie *et al* (2015) introduced brand trust created via identity expressiveness, i.e. identity based trust. Explicitly, identity based trust involves the trustworthiness that is created from the intrinsic consistency of shared values, goals or interests. In this respect, people exhibit tendencies to form psychological connections with brands that have shared values with themselves.

In order to examine the difference in trust perceptions across Poland and the UK, the following hypothesis pair is proposed:

H4₀: There is no significant difference in Skoda's trust perceptions between Poland and the UK.

H4_a: There is a significant difference in Skoda's trust perceptions between Poland and the UK.

Perceived Value

As noted by Payne & Holt (2001), two concepts form the foundations of value, and those are benefits and sacrifices. Sacrifices extend beyond just price, including non-financial factors such as time, effort or energy as well. The concept of perceived value describes the trade-off between what the consumer sacrifices in obtaining a product/service, and the benefits that the consumer gets from the product/service in return (Belal *et al*, 2013). Consumers do not purchase products per se, they do so in order to obtain utility. Therefore, perceived value is the difference between the utility provided by the product's attributes and the disutility due to the price and costs associated with the acquisition (Caruana *et al*, 2000). Furthermore, Zeithaml (1988) claimed that some consumers perceive value as a low price, whilst others see value in terms of a balance between quality and price.

Lee & Overby (2004) identified two types of shopping values: utilitarian value and experiential value. Utilitarian value represents an overall assessment of functional benefits, such as price savings, service excellence or time savings. Experiential value, on the other hand, represents sensory benefits e.g. the aesthetic appeal or the entertainment provided. For Skoda, utilitarian value can be perceived by end of season price cuts or by offering low cost financing plans. Experiential value would be the appearance of the cars, by virtue of their visual attractiveness in colour, shape, etc.

The perceived value has been related to other concepts such as satisfaction and quality. These relationships were confirmed by Petrick (2002), who argued that perceived value was a notable determinant of satisfaction. Roig *et al* (2006) stated that consumers' perceived value actually originates from the integration between functional, emotional and social value. Functional value denotes attraction of the quality and expected performance of the product/service; emotional value refers to the feelings conjured up by the product/service and, finally, social value represents to the social prestige gained by ownership and explicit usage of the product/service.

Various studies (e.g. Choi & Kim, 2013; Tam, 2004; inter alia) have confirmed that perceived value is a precursor of customer satisfaction, as well as having a positive effect on purchase intentions and brand preference.

In order to examine the difference in value perceptions across Poland and the UK, the following hypothesis pair is proposed:

H5₀: There is no significant difference in value perceptions of Skoda's brand between Poland and the UK.

H5_a: There is a significant difference in value perceptions of Skoda's brand between Poland and the UK.

Purchase Intentions

The interest exhibited by marketing scholars in purchase intentions emanates from its relation to buying behaviour. Studies have proven a positive correlation between purchase intentions and purchase behaviours (Morowitz & Schmittlein, 1992; Morowitz *et al*, 1996). Purchase intention, as discussed by Dodds *et al* (2001), refers to the likelihood that a consumer will buy a certain product or service. Intentions differ from attitudes. Attitudes are summary evaluations, whereas intentions reflect a person's motivation through a conscious plan to make an effort to carry out a particular behaviour (Eagly & Chaiken, 1993).

The theory of reasoned action, as discussed by Fishbein & Ajzen (1980), posits that the intention of behaviour is determined by attitude toward the behaviour that relates to a person's positive or negative feelings about performing the target behaviour. Chu & Lu (2007) found that the perceived effectiveness of a product has a significant influence on the consumer's purchase intention. Similarly, Lin & Tsai (2006)

found that consumers might decide to purchase a product/service when they think the product is effective. Additionally, consumers purchasing high-involvement products (such as cars) tend to seek related information and pay attention to the opinion of people around them before embarking on such decision making (Charters & Pettigrew, 2006).

Traditionally, researchers have looked for factors that affect consumers' car purchases, with the main focus of assessing car manufacturers' market shares. The forecasts are usually based upon econometrics models that use choice data (Wheelan, 2007; Dargay, 2002). Those models identified a number of characteristics, such as size of the household, the status of occupants (i.e. occupation, education, health), as well as other characteristics such as type and tenure of accommodation (Clark, 2009). However, critics of those models have argued the importance of psychological factors related to car purchase decisions, such as concerns about the environment (Khan, 2007). Moreover, Jansson *et al* (2010) found that values, beliefs and norms had an impact on the purchase of alternative-fuel cars. As such, there is an argument to be made that psychological factors ought to be analysed alongside socio-demographic factors in order to improve our understanding of car purchase intentions.

In order to examine the difference in purchase intentions across Poland and the UK, the following hypothesis pair is proposed:

H6₀: There is no significant difference in Skoda purchase intentions between Poland and the UK.

H6_a: There is a significant difference in Skoda purchase intentions between Poland and the UK.

Advertising

Advertising may be considered as any form of promotional activity aimed at highlighting an idea, product, service, etc that requires monetary expense (Kotler & Armstrong, 2011). It is of little surprise that advertising is one of the most apparent marketing activities.

Advertising may serve to affect brand equity in various ways. The customer judges the quality of the products from their internal and external symbols. The perceptions created or modified through advertising represents an external means to influence the perceived quality of the product/service (Kirmani & Rao, 2000). Moreover, advertising investment can play a beneficial role in creating brand recognition and increased levels of brand awareness (Keller, 2013). Performed effectively, this can lead to an enhanced brand image. In general, consumers consider brands with heightened levels of advertising to be better, and of higher quality (Bravo *et al*, 2007).

Previous research has found that consumers' perception of advertising is vital in affecting brand equity (Keller & Lehmann, 2006; Bravo *et al*, 2007). The effectiveness of advertising is evaluated by assessing the concept, the style, the medium and the frequency and reach of the campaign (Kotler, 2000). As such, advertising needs an appropriate plan and execution. Brands can attract attention by creating original, creative, fun and innovative marketing communications (Keller, 2013).

In order to examine the difference in advertising effect between Poland and the UK, the following hypothesis pair is proposed:

H7₀: There is no significant difference in perceptions of Skoda's advertising between Poland and the UK.

H7_a: There is a significant difference in perceptions of Skoda's advertising between Poland and the UK.

Country of Origin

Country image is the overall perception consumers possess of products/services from a certain country, based on their previous perceptions of the country's production and marketing strengths and weaknesses (Roth & Romeo, 1992).

Balestrini & Gamble (2006) found that country of origin and brand image affect perceptions regarding quality of products/services, yet consumers from different countries have dissimilar perceptions. The image of the country might have an effect either enhancing or deteriorating consumers' beliefs or attitudes toward its brands. Consumers might integrate their positive or negative image about the country with the image of the brand and, for that reason, brand image and country of origin are correlated (Guercini & Ranfagni, 2013).

Previous studies have indicated that general perceptions about a particular country tend to influence the evaluation of products associated with that country, irrespective of the level of consumer knowledge and experience of the products themselves (Laroche *et al*, 2005). Correspondingly, Hui & Zhou

(2003) discovered that the brand image of a known brand produced in a country renowned for that product category is likely to be seen in much more favourable terms than a known brand that originates from an unknown country. And, likewise, Srikatanyoo & Gnoth (2002) found that consumers tend to develop certain stereotypical beliefs about products from certain countries and thus country of origin can affect evaluations of those brands.

But what happens when a brand is mistakenly perceived to have originated in a different country? The reaction is dependent on 1) the degree to which country Y has a more positive/negative image than country X according to consumers and 2) the degree to which a brand is stronger than the country it is associated with. Brand origin misclassifications can be either positive or negative (Pharr, 2005; Verlegh & Steenkamp, 1999).

In order to examine the difference in country of origin effect between Poland and the UK, the following hypothesis pair is proposed:

H8₀: There is no significant difference in Skoda's country of origin perceptions between Poland and the UK.

H8_a: There is a significant difference in Skoda's country of origin perceptions between Poland and the UK.

Methodology

This study made use of a survey approach to collect primary data. This allowed the researchers to collect large sample of respondents from Poland and the UK, which was then quantitatively scrutinised to understand the brand characteristics of Skoda (Bryman & Bell, 2015; Saunders et al, 2007). Two groups of respondents aged 18 or over were recruited, one in Poland, the other in the UK. The researchers made use a snowball sampling to recruit respondents, who all fitted the profile of potential Skoda customers. Snowball sampling is a technique whereby existing participant recruit future participants from among their acquaintances or business contacts (Lewis-Beck et al, 2004).

The survey instrument, a questionnaire, consisted of eight sections of closed questions/statements that examined the various characteristics of the Skoda brand. Each question/statement used a Likert scale, whereby respondents were asked to choose a response from a 5 point scale ranging between 'strongly agree' and 'strongly disagree'.

The researchers conducted two pilot online questionnaires, one in Poland and one in the UK. The feedback received was positive and the respondents understood the questions and were happy with the time needed for completion. Therefore, only minor amendments were made prior to launching the main component of the survey.

The final questionnaire was created online via www.esurveycreeator.co.uk. The data was collected throughout August 2016. The link for the questionnaire was made available on various social networks, such as Facebook and Twitter, as well as via emails. In total, 122 (n=122) questionnaires were returned and 113 (n=113) of them were fully completed and thus available for analysis. 58 (n=58) contributors participated in the United Kingdom, and 55 (n=55) in Poland.

The data was entered SPSS for descriptive and inferential analysis. However, before analysis was commenced, the researchers ran the Kolmogorov-Smirnov test to establish the data distribution. This test compares the score in the sample to a normally distributed set of scores with the same mean and standard deviation (Landers, 2013). It was found that the data from Purchase Intentions was normally distributed, whilst the other seven brand characteristics yielded non-normal distribution. Subsequently, the researchers executed the Independent Samples T Test for the normally distributed Purchase Intentions data, and non-parametric Mann-Whitney tests for the non-normally distributed brand image, price, perceived quality, trust, perceived value, advertising and country of origin constructs (Field, 2014).

Discussion of Findings

Brand Image

The study found that, overall, brand image of Skoda in both Poland and the UK was positive. However, Poland scored higher in each of the eight measured areas, as well as in total. Polish respondents were considerably more familiar with Skoda, and this score was the highest in the whole study (M=4.65; SD=0.52). The familiarity can be linked to the fact that Skoda is a Czech brand. Poland and the Czech Republic are neighbouring countries and have long-established closed relationship. Moreover, 98% of the sample from Poland was able to name at least model of Skoda cars and 89% could name at least two

models. That result was much lower among UK respondents – 64% could name at least one model and only 50% could name at least two models. These numbers support the familiarity results noted above. Additionally, the high familiarity with Skoda in Poland could be linked to the fact that 82% of the Polish sample correctly named the Czech Republic as the country of origin of Skoda. That result was much lower in the UK, and did not even reach 50%. Almost a quarter of UK respondents (22.4%) actually thought that Skoda was Polish.

Polish and UK respondents both believed Skoda to be reliable and attractive. However, yet again, Poland scored higher in those areas. Those findings corroborate observations by Kim & Kim (2005) that positive brand image leads to a stronger brand with higher sales potential. Notably, this relationship is particularly evident in Poland where Skoda is the best-selling car. Moreover, Aghekyan-Simonian *et al* (2012) stated that the more favourable the brand image, the more positive the attitude towards the branded product and its attributes. This is evident in this instance, as Poland perceives Skoda's brand image to be highly favourable, with corresponding sales figures. Ataman & Ulengin (2003) concluded that that positive brand image has a positive effect on sales. This conclusion is well mirrored in the current study.

It is worth mentioning that neither Poland nor the UK thought that Skoda was the leading brand in the car market. This result was to be expected in the UK, where other brands outsell Skoda. However, this outcome is at odds with sales performance in Poland.

The non-parametric Mann-Whitney test revealed a significant difference in Skoda's brand image between Poland and the UK. Here, the Brand image of Skoda in Poland ($M = 66.08$) and in the United Kingdom ($M = 44.92$) was significantly different, $U = 930.50$, $z = -3.49$, $p = < .001$. Therefore, the null hypothesis is rejected and the study accepts the alternative hypothesis.

Price

The study revealed virtually the same perceptions of price of Skoda amongst Polish and UK respondents. Both groups agreed that the price of Skoda was reasonable, affordable and appropriate. Bojanic (1996) stated that companies offer reasonable prices in order to maintain an advantage within very competitive markets. It would appear that Skoda is compliant with this in both the Polish and UK markets.

One particular question measured whether or not Skoda was "inexpensive". Although Poland and the UK thought of Skoda as inexpensive, the UK achieved a better result here. The UK has one of the most prosperous economies in the world and its inhabitants enjoy higher levels of disposable income than consumers in Poland. The effect of the economy may explain why respondents in the UK thought Skoda's prices were more affordable in this regard.

The non-parametric Mann-Whitney test revealed that there was no significant difference in Skoda's price perceptions between Poland and the UK. Here, Skoda's price perceptions in Poland ($M = 56.33$) and in the United Kingdom ($M = 56.68$) did not differ significantly, $U = 1522.00$, $z = -.11$, $p = .914$. Therefore, the study fails to reject the null hypothesis and cannot accept the alternative hypothesis.

Perceived Quality

The findings revealed that both Polish and UK respondents viewed the quality of Skoda favourably. Both groups recorded very similar perceived quality scores. In the car industry, perceived quality may refer to the quality of appearance, material or detail. Therefore, the study measured how consumers compared the quality of Skoda with the Ford and Volkswagen brands, its major competitors. Somewhat surprisingly, both Polish and UK respondents agreed that Skoda was of better quality than Ford and Volkswagen. Those results are contradictory to what sales figures for 2015 reveal, namely that within the UK, the most popular car brand was Ford.

A similar disparity is observed in Poland. The sales figures for 2015 showed that Skoda was the most popular brand in Poland; however Polish respondents did not agree with the statement that Skoda offers the best quality. Whereas UK respondents thought that Skoda did offer the best quality, even though the sales figures showed otherwise. These results support findings of Parasuraman *et al* (2006), as well as of Cronin & Taylor (2002), who also reported mismatches between perceived brand quality and consumer behaviour.

The non-parametric Mann-Whitney test revealed that there was no significant difference in Skoda's perceived quality between Poland and the UK. Here, Skoda's perceived quality in Poland ($M = 54.92$) and in the United Kingdom ($M = 57.06$) did not differ significantly, $U = 1480.50$, $z = -.35$, $p = .723$. Therefore, the study fails to reject the null hypothesis and cannot accept the alternative hypothesis.

Trust

The study found that overall both Poland and the UK had trust in Skoda. Poland, however, scored higher in each of the four questions. McKnight & Chervany (2002) stated that trust combines ability and predictability. Respondents in Poland and in the UK agreed that cars sold by Skoda are indeed dependable. Furthermore, both groups believed that Skoda is honest about their cars' abilities and descriptions. This may be understood as the brand conforming to stringent safety regulations and living up to its claims. This affords Skoda a solid base for future development. This trust, evidentially, is reflected in increasing sales, particularly in Poland.

Furthermore, the notion of identity trust, as reported by Xie *et al* (2015), is corroborated in this study. Identity trust is based on consistency of shared values or interest. Both Polish and UK respondents scored favourable results in the question measuring confidence based on Skoda's values. The fact that consumers form psychological connections with brands that have shared values with them is a pleasing sign for Skoda.

The non-parametric Mann-Whitney test revealed that there was no significant difference in Skoda's trust perceptions between Poland and the UK. Here, Skoda's trust in Poland ($M = 61.53$) and in the United Kingdom ($M = 51.65$) did not differ significantly, $U = 1291.00$, $z = -1.63$, $p = .104$. Therefore, the study fails to reject the null hypothesis and cannot accept the alternative hypothesis.

Perceived Value

Polish and UK respondents agreed that Skoda offers good value. Zeithaml (1988) claimed that some consumers perceive value as a low price, whilst others see value as the compromise between quality and price. This assertion has been confirmed in the study. Polish and UK respondents claimed that Skoda was worth purchasing and offered good value for money. As noted previously, Skoda's price and quality was well received across the board. Therefore, the perceived value is correspondingly deemed to be high. However, it should be acknowledged that perceived value is not exclusively considered in monetary terms, but may also be seen in terms of non-financial facets such as effort or time (Payne & Holt, 2001).

The non-parametric Mann-Whitney test revealed that there was no significant difference in Skoda's perceived value between Poland and the UK. Here, Skoda's perceived value in Poland ($M = 60.55$) and in the United Kingdom ($M = 52.59$) did not differ significantly, $U = 1344.50$, $z = -1.33$, $p = .184$. Therefore, the study fails to reject the null hypothesis and cannot accept the alternative hypothesis.

Purchase Intentions

The research found that, overall; Polish and UK respondents did not exhibit particularly favourable purchase intentions of Skoda, with Polish consumers more likely to want to own a Skoda car than their British counterparts. Previous studies have found a positive correlation between purchase intentions and purchase behaviours (Morowitz & Schmittlein, 1992; Morowitz *et al*, 1996). These assertions are borne out in this study, bearing in mind the sales figures previously discussed in section 4.3.

Interestingly, both Polish and UK respondents agreed that Skoda would not be their first choice car. These findings are particularly interesting in terms of Polish consumers, bearing in mind that Skoda was the best-selling car in 2015. This discrepancy may be a result of the small sample size, or perhaps extraneous factors not encapsulated within the research instrument. However, one possible factor may be found in the literature. Khan (2007) stressed the importance of psychological factors related to car purchase decisions. Here, respondents from both Poland and the UK agreed that Skoda did not represent their personalities.

The Independent Samples T Test revealed that there was no significant difference in Skoda's purchase intentions between Poland and the UK. On average, participants in Poland recorded better purchase intentions of Skoda ($M = 2.86$, $SE = 0.12$) than those in the UK ($M = 2.64$, $SE = 0.09$). This difference, -0.21 , was not significant $t(99.51) = -1.39$, $p = .168$. Therefore, the study fails to reject the null hypothesis and cannot accept the alternative hypothesis.

Advertising

The findings revealed that Polish and UK respondents positively viewed Skoda's advertising. Both sets of respondents agreed that Skoda has pleasing media visibility. This could be one of the insights that explain Skoda's increasing sales.

Advertising affects brand equity in several ways. Kirmani & Rao (2000) and Keller (2013) argued that advertising investment pays dividends in terms of increased brand awareness, and that advertising can accrue positive benefits by means of elevating perceived quality. Previous research by Keller & Lehmann (2006) and Bravo *et al* (2007) found that consumers' perception of advertising is vital in determining brand equity. The respondents from the UK and from Poland stated that they liked Skoda's adverts. They further agreed that Skoda's adverts were suitably informative, although not humorous. There may be elements (e.g. humour) that the brand is neglecting in their marketing communications, thus preventing these ads from fully resonating with consumers.

The non-parametric Mann-Whitney test revealed that there was no significant difference in perceptions of Skoda's advertising between Poland and the UK. Here, Skoda's advertising perceptions in Poland ($M = 60.79$) and in the United Kingdom ($M = 49.52$) did not differ significantly, $U = 1177.00$, $z = -1.88$, $p = .060$. Therefore, the study fails to reject the null hypothesis and cannot accept the alternative hypothesis.

Country of Origin

Overall, both Polish and UK respondents had positive opinions of the Czech Republic. Poland, in fact, possessed a very favourable disposition in this regard. Both set of respondents agreed that the Czech Republic was a well-developed country, with a reputation for design. Those opinions would presumably be of benefit to Skoda, as Ballestrini & Gamble (2006) and Guercini & Ranfagni (2013) found that the image of the country is positively correlated to the product brand, giving rise to either a halo effect or, alternatively, deteriorating consumers' beliefs and attitudes toward the brand in question. As respondents generally held a positive view of the Czech Republic, this played into the hands of Skoda's brand. Furthermore, Polish respondents very strongly associated Skoda with the Czech Republic. UK respondents did share a similar view, although to a lesser extent

Another insight in this area revealed that neither Polish nor UK respondents associated car manufacturing with the Czech Republic. Hui & Zhou (2003) discovered that the brand image of a known brand produced in a country renowned for that product category is likely to be seen in more favourable terms than a known brand that originates from an unknown country. In this regard, Skoda does extremely well as its overall brand image is undoubtedly positive, yet consumers do not associate car manufacturing with the Czech Republic. Here, it would appear that Skoda punches above its weight, especially amongst Polish consumers.

The Skoda - Czech Republic association was also emphasised in another insight. Polish respondents stated that the country of origin of Skoda was important as Poland and the Czech Republic were neighbours and had shared tradition and history. These factors, patently, were not applicable to British consumers, due to the geographic distance separating the UK and Czech Republic.

The non-parametric Mann-Whitney test revealed that there was no significant difference in Skoda's country of origin effect between Poland and the UK. Here, country of origin perceptions in Poland ($M = 60.40$) and in the United Kingdom ($M = 51.68$) did not differ significantly, $U = 1298.00$, $z = -1.43$, $p = .152$. Therefore, the study fails to reject the null hypothesis and cannot accept the alternative hypothesis.

Conclusions and Limitations of the Study

The objective of this study was to examine various brand characteristics of Skoda among consumers in the United Kingdom and in Poland. The study also investigated whether sales are mirrored in the brand image of Skoda in the UK and in Poland. Brand image and its related aspects such as price, quality, trust, value, purchase intentions, advertising and the concept of the country of origin were assessed.

The study produced some fascinating results. The concept of brand image is complex and multi-faceted. The study found that, in general, the core brand image of Skoda in both Poland and in the UK,

was largely positive. However, Polish respondents perceived the image to be considerably better, with Polish consumers much better acquainted with the Skoda brand.

The study revealed similar perceptions of Skoda's pricing amongst consumers from both sets of respondents. Both groups agreed that the price of Skoda was reasonable, affordable and appropriate. The findings of the study also revealed that both Polish and UK consumers favourably perceive the quality of Skoda. Both groups scored almost identically in this respect. Although Skoda was the 2015 best-selling car in Poland, respondents did not agree with the statement that Skoda offers the best quality. The study also found that, overall, both Poland and the UK had trust in the Skoda brand. Yet, again, Poland scored higher in the series of trust questions, although this did not record a significant difference. Polish and UK respondents agreed that Skoda offered good value. Respondents in Poland reflected more desire to own a Skoda than UK respondents, underscoring higher sales of Skoda in Poland. However, both sets of respondents agreed that Skoda would not be their first choice of motorcar.

Moreover, the research unveiled that both Polish and UK consumers perceived Skoda's advertising in a positive light, liking Skoda's adverts. However, there was scope for optimising campaigns and perhaps striking a different tone of message e.g. embracing humorous content to engage the audience in a light-hearted manner. Overall, both Polish and UK respondents had positive opinions of the Czech Republic. However, it would appear that Polish consumers feel a closer affinity with the Czech Republic, due to these countries being continental neighbours.

In synopsis, the following conclusions were reached:

- **Brand image:** A significant difference between Poland and the UK was recorded, with the former cohort being significantly more positive about the Skoda brand
- **Price, perceived quality, trust, perceived value, purchase intentions, advertising, country of origin:** There was *no* significant difference recorded between Poland and the UK

There are three limitations to this research worth mentioning. First, the study only utilised a mono-method quantitative strategy. Further context may be required in due course, as the Likert type questions did not permit respondents to elaborate their answers in qualitative terms. Second, the sample acquired was fairly small and may not comprehensively represent perceptions throughout Poland and the UK. Third, there was a disproportion in age and gender amongst participants from the UK and Poland. Therefore, closely aligning the samples in terms of these demographics may produce more accurate results.

Looking forward, there is scope to pursue further cross-country analysis e.g. Czech Republic and the UK, or Poland and Ireland. A more comprehensive demographic analysis, using a larger sample, may yield valuable insight between different cohort's e.g. different age groups and income brackets. This would address the second limitation noted above. Finally, a follow-on study may be useful to determine why brand image alone (and not the other factors) differed between Poland and the UK. Here, qualitative research may shed further light on this.

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Results-based stakeholder re-positioning for business sustainability: applicability of the expectancy value-net framework

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Keywords

Results-based stakeholders; re-positioning; business sustainability, expectancy value-net framework; sustainability centricity.

Abstract

Business Sustainability retroverts a stakeholder issue into economic value, productive results, that creates value or wealth (Wheeler, Colbert, & Freeman, 2003). This paper aspires to allocate results-based objectivity to stakeholder re-positioning for business to generate value for sustainable term. This is challenging as the evolution of results-based approach needs arduous capacity-building in response to global business sustainability issues (Balogh, St-Pierre & Di Pippo, 2017). Classical concepts of shareholder wealth maximization have three domains, namely, normative, instrumental and descriptive theory (Donaldson & Preston, 1995). The three is adapted in this research to be depicted as value-net framework (Brandenburger & Nalebuff, 2011). The value-net introduces a number of inter-relationships that fosters co-adaptation and shared value creation (Dagnino & Padula, 2002). The architecture focuses primarily on the actors in any generic business environment and especially on the entities' results-based orientation. The expectancy-value model may be appropriate here to relate values that stakeholders aspire to responses from business actions with respect to situations (Feather, 1990). This postulation attempts to relate relationship of three parameters, results-based stakeholders, options to repositioning and value-net for business sustainability. The left side is the independent variable nomenclature as results-based stakeholders, the middle part is the re-positioning vector and the right-hand side represents the dependent variable, value-net for business sustainability. The outcome is the business sustainability matrix. In deciding on how to align expectancy value-net with intermediary dynamics for re-positioning, interests of the stakeholders and the firm should co-evolve. There are several reference frames. These reference frames can be linked to various steps in which stakeholder expectations form and manifest themselves. The first stage of the development of stakeholder expectations occurs necessarily on the level of individuals, as they are affected by the actions of organizations and evaluate all firms in their reach with respect to their behaviour.

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Introduction

The value based approach has configured sustainability in the business domain with three facets, corporate social responsibility, stakeholder engagement and doing well time after time after time. The intent is to transfigure a social or an environmental aspect into a business opportunity (Wheeler, Colbert, & Freeman, 2003). The responses of the organizations with respect to changes in the externalities, have necessitated results-based objectivity at four levels, inactivity, reactivity, proactivity and interactivity (Freeman, 2010). The "need for integration" (Freeman, 2010) call for recasting processes on stakeholder re-positioning for business to generate value for sustainable term. This is challenging as the evolution of results-based approach needs arduous capacity-building in response to global business sustainability issues (Balogh, St-Pierre & Di Pippo, 2017). Classical concepts of shareholder wealth maximization have three domains, namely, normative, instrumental and descriptive theory (Donaldson &

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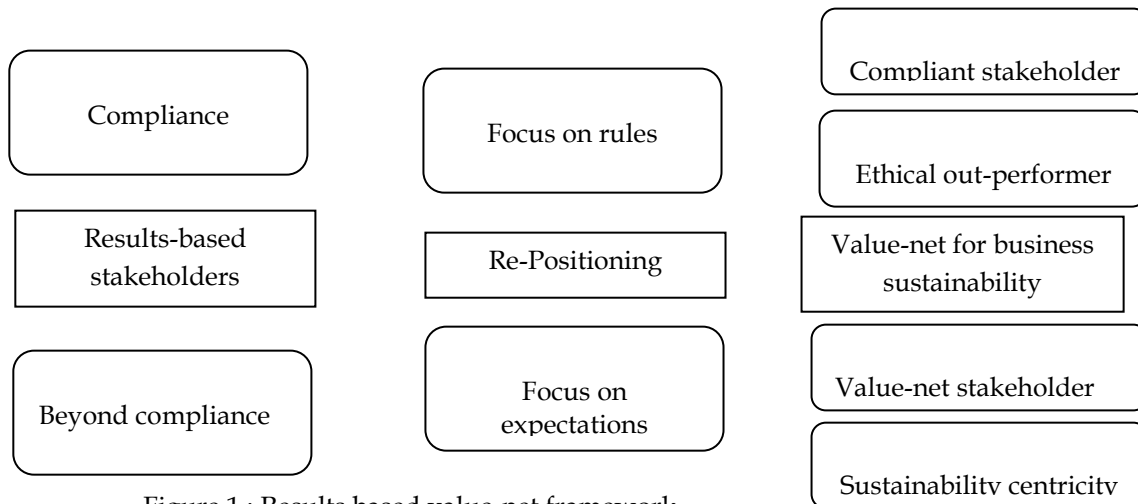


Figure 1 : Results based value-net framework

Literature review

The results based value-net framework (figure 1) creates the literature search criteria on the evolution of results-based approach with capacity-building framework (table 1). Three evolutionary stages of the normative, instrumental, and descriptive tenets configure the results-based measure with respect to the degree of stakeholder integration for business sustainability (Egels Zandén & Sandberg, 2010; McWilliams & Siegel, 2001). Beyond compliance positioning essentially builds on the resource-based perspectives that put the onus on businesses to surpass results (Russo & Fouts, 1997; Prakash, 2001). The value-net for business sustainability parenthesizes ethical out performer, compliant stakeholder and value-net stakeholders for business sustainability. Ethical out-performer posits co-opetition (Brandenburger & Nalebuff, 2011) that co-operate and compete simultaneously with a syncretic approach (Lado, Boyd & Hanlon, 1997). The compliant stakeholder conforms to sustainability reporting and exhibits proactive initiative to woo non-compliant stakeholder to transform, thereby creating a value-net (Rinaldi, 2013). The literature posits (Table 1) the next transition to key stakeholder groupings that serve as a value-net for primary and secondary stakeholders (Frow & Payne, 2011). The Practice of Sustainability leads encrypting a sustainability promise. (Sen & Pookayaporn, 2017; Gavan, 2012). The synergistic effect of results based stakeholders and the creation of business sustainability value-net leads to a transform for stakeholder re-positioning. There are two core literature domains, one that focus on rules and the other that focus on expectations. The focus on accountability termed as 'keen to be green' (Dwyer, 2009) and stakeholder responsiveness through integrated sustainability reporting (Busco, Frigo, Quattrone & Riccaboni 2013) cause the rules based repositioning. The multiform portrayal of stakeholder repositioning focused on expectations escalate competition, that in turn leads to the postulation on focus of expectations (Jones, 2005).

<p>Results-based Stakeholders</p> <p>Compliance: Literature trajectory: normative, instrumental, descriptive (Egels-Zandén & Sandberg, 2010; McWilliams & Siegel, 2001).</p> <p>Beyond Compliance (Russo & Fouts, 1997; Prakash, 2001).</p>	<p>Value-net for Business Sustainability</p> <p>Ethical out-performer Co-opetition, (Brandenburger & Nalebuff, 2011; Lado, Boyd & Hanlon, 1997).</p> <p>Compliant stakeholder Sustainability reporting, proactive initiator (Rinaldi, 2013)</p> <p>Value-net stakeholder Transition groupings (Frow & Payne, 2011).</p> <p>Sustainability centrality Proactive responses (Sen & Pookayaporn, 2017; Gavan, 2012).</p>	<p>Stakeholder Re-positioning</p> <p>Focus on rules 'Keen to be green', stakeholder responsiveness (Dwyer, 2009; Busco, Frigo, Quattrone & Riccaboni 2013).</p> <p>Focus on expectations Multi-form portrayal escalate competition (Jones, 2005)</p>
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Table 1: The evolution of results-based approach with capacity-building framework

The critique to the stakeholder theory (Key, 1999; Phillips, Freeman & Wicks, 2003) argues that it provides inadequate explanation of the firm’s behaviour within its environment. The processes of linkage with stakeholders by stakeholder maps (at the rational level), environmental scanning (at the transactional level) is not specifically identified. Furthermore, the complexity of real linkages exists. Thus, an actor can be the member of variety of groups, for example, an employee can be a member of an internal stakeholder group, such as a consumer forum, as well as an environmental activist, at the same time. The stakeholder theory clearly parallels the perspective of CSR in a way that it is responsible to specific shareholder groupings (Snider et. al., 2003).

The results-based value-net framework (figure 1) is drawn from the research construct that has independent, intermediating and dependent variables. The intent is to review the veracity through focused literature review. Table 1 is representative depiction of the sub-parameters corresponding to the (i) results-based stakeholders (ii) reposition (iii) value-net for business sustainability. Results-based stakeholders is justified to be categorized as independent variable as the sub-parameters, namely, (a) compliance and (b) beyond compliance convey degrees of compliance based on the stakeholder expectations. We have support from stakeholder mapping (Freeman & McVea, 2001); ethics & economics (Jones, 1995), decision rationales (Greer & Downey, 1982), among others. Theory can provide frameworks to evaluate corporate social responsibility through social reporting. The justification behind this approach is the interdependence of the progressive parameters of results-base, repositioning and value-net. They apparently link seamlessly the measurable dimensions, attribute performances, and consequences to values (Woodruff, 1997). Employees need customers to leverage their capital into products that may be marketed. Customers rely on shareholders to invest funds needed to make products they want to buy. The stakeholders influence shareholders. Thus, there is interdependence between parts of the quartet, while innovation acts as an axle to drive all.

Literature support for independent variable	Literature support for intermediary variable	Literature support for dependent variable
Results-based stakeholders	Repositioning	Value-net for business sustainability
<p>Compliance: Stakeholder mapping (Freeman & McVea, 2001); ethics & economics</p>	<p>Focus on expectations: Competitive advantage (Porter & Kramer, 2002); ethical dynamics (Snider, Hill &</p>	<p>Compliant stakeholder: ethics of competition (Knight, 1923).</p>

(Jones, 1995). Greer & Downey, 1982;	Martin, 2003).	Ethical out performer: stakeholder salience (Mitchell, Agle & Wood, 1997)
Beyond Compliance: Value research (Nilsson-Ollandt, 2017); environmental scanning (Phillips, Freeman & Wicks, 2003).	Focus on rules: Dynamics of business ethics (Noe & Rebello, 1994);	Value-net stakeholder: Co-opetition (Brandenburger & Nalebuff, 2011).
		Sustainability centricity: Sustainable competitor centricity (Parniangtong, 2017).

Table2: Literature review in support of independent, dependent and intermediary variables (representative list, details in references)

Repositioning is considered as an intermediary variable that incorporates the dynamism to the framework. Focus on expectations and focus on rules are two attributes whose respective degree acts as go-between to objective results-base and sustainability-oriented value-net. Literature posits competitive advantage (Porter & Kramer, 2002), influenced by ethical dynamics (Snider, Hill & Martin, 2003) that creates sustainability dynamics of business ethics (Noe & Rebello, 1994). Strategic groups are presence of firms within an industry following similar strategies (McLarney, 2002). Actors in the shadow environment exert external pressure (e.g. regulators and community groups). External forces play a critical role in determining mobility within and between strategic groups. Stakeholders can be categorized as either primary (owners, suppliers and employees) or secondary (actors of the shadow environment). Managing stakeholders is complicated as they are not homogeneous, and it is possible to be a member of a number of stakeholder groups simultaneously. Furthermore, stakeholders depict dynamic characteristics by entering or leaving a domain & creating or destroying power structures (Carroll, 1989).

The key to repositioning is the creation of value-net for business sustainability. The indicatives are of two sets (table 2): (i) compliant stakeholder (ii) ethical out-performer for the compliance set and (iii) value-net stakeholder (ii) sustainability-centricity oriented stakeholder for the beyond compliance set. The strategic group analysis considers stakeholders as clusters. In this approach, strategic groups are not stand-alone objects, but are connected via cluster of stakeholders to exert crucial influence. Hence, the classical structure-strategy-performance hierarchy hold. By introducing the concept of company-stakeholder clusters, it is possible to accurately represent the dynamic system. In this case, organizations and shadow environment are interdependent with complex relationships. Thus, companies can be viewed as a 'crystalline structure' (McLarney, 2002). With respect to individual stakeholders, three stakeholder attributes must be assessed: power, urgency and legitimacy (Mitchell et al., 1997). Power determines the extent to which a party can gain coercive mean to impose its will in a relationship. Urgency is based on the degree to which a delay of managerial attention is unacceptable to the stakeholder. Legitimacy is the importance of the relationship to the stakeholder. It is the combination of power, urgency and legitimacy that "triggers" action between stakeholder and managers.

The organization is under little pressure to engage in any relationship with discretionary stakeholders. Even dependent stakeholders must rely on either other stakeholders or the firm's manager for advocacy or guardianship. Only in the definitive class, stakeholders possess urgent legitimate claims and have the power to act. Strong co-dependence exists (Porter & Kramer, 2002). In order to systematically address legitimate stakeholder claims, firms have to develop internal performance management systems. One of the most ubiquitous and least tangible of all stakeholder needs is the need for sustainability and ecological accountability of the firm. Concepts like the 'ecological footprint analyses approach the issue of sustainability by referencing to a virtual overall 'carrying capacity' of the planet. It links individual behaviour to 'earth share', which is the average, sustainable, bio-productive capacity available per person. It has been propounded that firms should 'green the bottom-line' and recognise environmental liabilities while highlighting potential environmental costs. Working in tandem with environmental management systems, accounting can contribute to reduction in waste, energy and emissions and encourage more environmentally sensitive investment decisions. This includes environmental reporting by firms (Gray, 2000).

The extended 'triple bottom-line' of sustainability includes social accounts together with environmental reports. Also, the cost of sustainability can be incorporated into the profit and loss figure. Concepts of 'ecological bookkeeping' rely on a relationship between an "environmental impacts" measured in physical units which is linked to units produced by an "eco-factor". Total environmental impact is then calculated as the product of these fundamental factors (Nobuyuki Miyazaki, 2001). In recent years, the traditional notion of environmental compliance as an unavoidable expense of doing business is being transformed. Now it is viewed that waste treatment, pollution prevention, recycling are like going 'beyond compliance' and not only can represent direct cost savings, but also lead to competitive advantages (Aigner et al, 2003).

There is also established literature on the impact of environmental policy and beyond compliance (Prakash, 2001) that focuses on key managers who champion beyond compliance policy. The selective adoption is explained by considering internal dynamics of the firm. Firms could respond in various ways like being reactive, defensive, accommodative and proactive while dealing with social issues. The stakeholder theory suggests firms should embrace policies considering the preferences of multiple stakeholders.

Expectancy value-net framework

The expectancy value-net literature on transformative issues such as co-opetition (Brandenburger & Nalebuff, 2011) and sustainable competitor centrality (Parniangtong, 2017) add robustness. The dynamics of stakeholder re-positioning provides a resurging opportunity to not only attain re-positioning, but also business sustainability, by moving in the direction of greater equity and a reduced concentration on owner's interests (Evans & Freeman, 1993). Further to the distinction of three different 'aspects' of the stakeholder theory, i.e., 'descriptive', 'instrumental' and 'normative' (Donaldson and Preston, 1995), it is argued that the 'aspects' are actually different uses of the stakeholder theory. Thus, the descriptive aspect describes and explains the nature and operations of companies (Sinkula, Baker & Noordewier, 1997). The instrumental aspect states that the adoption of a stakeholder approach in running companies leads to achieving corporate objectives.

The normative aspect states what functions companies should adopt and provides a moral guideline. It should be emphasized that these aspects are not discrete. Rather, they are 'nested within each other'. Instrumental ones are supporting descriptive uses and normative uses provide a 'central core' to the others. Existing theories of the firm tend to fall in three general fields: economics, moral philosophy (business ethics) and social sciences (corporate social performance). Economic theories of the firm neglect moral analysis or sublimate it to positivist thinking. Moral theories over-emphasize motivation and moral posture. Social theories focus on structure and strategy with cognizance to moral posture without adequate concern to profitability. All these theories leave gaps. Frederick (2004) tried to fill the gap by using nature and the sciences, as he characterized an "evolutionary firm", which characterized the business firm as linked to evolutionary natural forces. Five core roles of evolutionary firms are motivator/driver, innovator/generator, organizer/coordinator, enabler/strategizer and moralizer/valuator. This connection between business values and stakeholders, manifest in this paper as expectancy value-net.

The propositions for a general stakeholder theory address three key issues. The first is the question of when stakeholder firms emerge. This point of emergence can be assumed as concurrent to the point when stakeholders start to hold assets that are critical to the firm's success and put their assets at risk in the firm. The second issue is the identification of organizational features contributing to stakeholder firm success. Stakeholders need to add value to ongoing operations and organizational governance systems need to be adapted to complement the contributions of the stakeholders. Finally, conditions under which stakeholder firms are sustainable have to be identified. In this regard, it is especially important that stakeholders have a say in leadership succession (Kochan & Rubinstein, 2000).

The issue of salience of stakeholders to firm's managers depend on the following features: stakeholder attributes are variable, and they are socially constructed, meaning that they are not objective reality. This is exemplified with respect to power: Power is transitory - it can be acquired as well as lost. Secondly, power by itself does not guarantee high salience in a stakeholder-manager relationship, but rather gains authority through legitimacy and gains impact through urgency (Mitchell et al, 1997).

Methodology: A strategic stakeholder response model

In order to make any assertions about how firms can achieve and maintain a competitive, i.e. economically viable, position in a stakeholder environment, the qualitative methodology is adopted. A unique effort in this paper is to configure the results based value-net framework a priori to illuminate the needed literature search. This provides the results-based proposition of this research. However, it needs to be qualitatively derived what strategic options or choices can be attributed to a firm, given a set of stakeholders with well-defined characteristics as well as a set of competitors with service provision attitude. In combination, the value-net is created. Such strategic options can only exist as long as the actions of individual firms within a network of stakeholders and competing firms are interdependent in terms of their impact on the performance of all participating firms. It can be expected that in most industries, more than one firm is connected to the same stakeholder group. Furthermore, stakeholders have to make choices in entering into transactions with firms and spending their resources (e.g. time, political influence) as well as maintain an understanding of what they deem desirable or appropriate in terms of firm behaviour for which the observed actions of incumbent firms serve as a reference frame. Finally, as stakeholder actions have direct implications for the performance of firms there connected to and this can be furthermore expected to hold even for a wider range of firm objective functions. Hence, it can be expected that strategic options for firms in a stakeholder environment do exist for most feasible network configurations.

In fully evaluating the strategic decisions a firm can make with respect to its stakeholders, a very complex network of personal interests, social relationships, societal expectations, power structures and cultural values needs to be untangled. Nevertheless, some fundamental concepts drive a firm's behaviour in almost any generic stakeholder setting and hence provide the basis for strategic decisions at the firm level. Definition of a stakeholder as 'any group or individual who can affect or is affected by the achievement of the firm's objectives' (Freeman & McVea, 2001). Following this tenet, stakeholders can either be positively or negatively affected my firm behaviour. As firms will have an interest in maintaining their legitimacy, they will only pursue actions with adverse effect on stakeholders if these actions are conducive to their objectives. In more general terms, they will choose the set of actions that yields the best result with regard to the objective function under the constraint that this set of actions does not endanger the legitimacy of the firm. Nevertheless, as this set of actions is complex, dynamic, evolving and usually bound to the inflexible organizational system of a corporation, most firms, or more precisely their managers, do not directly choose a set of actions, but rather implement a business policy, i.e. a set of rules, on the basis of which possible actions are to be evaluated by all organizational elements. As the stakeholder environment is in constant change, these rules have to be dynamic and linked to business processes geared towards both transforming and enforcing them. Combined, the purpose of these processes and rules is to ensure that stakeholder interests are met in such a way that the best possible performance with regard to the firm's objective is attained. Hence, the firm needs to aggregate and process knowledge about stakeholder interests and establish how serving these interests can support or hinder the pursuit of its objectives. Finally, the firm adjusts its business practices in such a way that the level of stakeholder satisfaction is optimised with respect to the firm's objective. Two strategic dimensions of firm's mode of response towards stakeholder interests and expectations can hence be identified: One concerns the information retrieval and processing and the second deals with the level of stakeholder satisfaction a firm tries to maintain. In other words, firms have to choose both how to obtain information about stakeholder interests and how to make use of this information.

Results and discussion:

The outcomes of this research bear well with the expectancy value-net concepts that are essentially rooted in felicitous repositioning. The transformative innovations such as co-opetition (Brandenburger & Nalebuff, 2011) has consonance with the characteristics of results based stakeholders (Table 3). The precept of sustainable competitor centricity (Parniangtong, 2017) is manifested the aim to create sustainability at core. The essence of the research result is the evolving dynamics that sustainability-centric businesses look for.

Intermediary dynamics for Re-positioning			
Expectancy value-net		Focus on rules	Focus on expectations
	Compliance	results-based stakeholder	value-net stakeholder
	Beyond compliance	ethical out-performer	sustainability-centricity

Table 3: Business sustainability matrix

The outcome is summarized in the business sustainability matrix (table 3). In deciding on how to align expectancy value-net with intermediary dynamics for re-positioning, interests of the stakeholders and the firm should co-evolve. There are several reference frames. These reference frames can be linked to various steps in which stakeholder expectations form and manifest themselves. The first stage of the development of stakeholder expectations occurs necessarily on the level of individuals, as they are affected by the actions of organizations and evaluate all firms in their reach with respect to their behaviour. On the second stage, individual stakeholders form interest groups that exchange information about aspects of firms' actions that affect them. On the third step, as these groups grow, they increasingly start to develop capabilities to influence firms' behaviour directly or indirectly, concurrently, they take the form of organizations and formalize their processes and the knowledge they incorporate. This means that the expectations shared by the members of the groups manifest themselves in a description of desired firm actions. In other words, a set of rules for company behaviour is maintained to describe desired behaviour.

As the norms set by these stakeholder groups become generally accepted as beneficial to social welfare, they are incorporated to the legal code and become legally binding for all considered firms. At this point, the transformation from individual to societal expectation is complete and concerned stakeholder expectations are normalized, made explicit and publicly available. Nevertheless, as an information basis, these rules are imperfect representation of stakeholder interests. This can be attributed to factors such as the complexity of the stakeholder environment, regulatory lag, social cost of administrative actions, incompleteness of written conditions and irrational behaviour by the stakeholders. Albeit these disadvantages of coded expectations, firms may prefer to use them as a reference frame for evaluating their options as opposed to aggregating more direct knowledge about stakeholder expectations. The reason for this is that the procurement and processing of this information, i.e. identifying stakeholders, extracting information from them and transforming this information into a consistent organizational understanding of stakeholder expectations, especially with respect to the legitimacy of these claims and their implications for business processes, requires considerably more resources than relying on expectations which are already coded into behaviour guidelines. Hence, firms have to make a choice regarding whether to form an understanding of legitimacy frontier based on rules derived from expectations or the underlying expectations themselves. This can be regarded to as the information dimension of strategic positioning in a stakeholder environment.

Nevertheless, even after firms have developed an understanding about which stakeholder expectations exists and how these are linked to their operations, they still have to implement this knowledge into all the business processes. The key question in this regard is to what degree stakeholder expectations should be integrated into a firm's business decisions. This is especially relevant in those cases where serving the stakeholder interests has a direct negative effect on a firm's performance. Ignoring stakeholder expectations completely or not meeting legitimate demands will only be feasible in the short time, as firms will either lose their legitimacy which will lead to corrective action from stakeholder agents (most notably the government) or lose access to their reference frame, as stakeholders will not engage in information exchange with firms if this does not further their own objectives. Hence, firms can take two different approaches to this problem of integrating stakeholder expectations: Either they regard the stakeholder expectations as a constraint, under which the actions of the firms have to be optimised with regard to their objective function, or they regard stakeholder expectations as additional information about a dynamic stakeholder environment in which actions towards stakeholders has both short-term and long-term implications for the firm's performance. Following the second policy, firms will not only meet stakeholder expectations, but also exceed them, which can be expected to have a negative direct effect on the firm's objective function. This negative direct effect is then expected to be overcompensated by a

strategic effect, as stakeholders will not only change their behaviour towards the acting firm, but also their expectations towards both the acting firm itself and its competitors. Hence, after legitimate stakeholder expectations have been identified, firms can choose to either meet or go beyond these expectations. This constitutes the expectancy value-net of business sustainability aggregation in a results-based stakeholder dynamics architecture.

In combination, the expectancy value-net dimension and the intermediary dynamics for re-positioning dimension provide a viable business sustainability matrix (classification model for the behaviour of firms in a stakeholder context. As both dimensions incorporate two fundamental decisions with regard to a firm's position, a total of four different strategic positions. Firms can choose between these positions, not only to respond to stakeholder demands in the way that is best fit to their capabilities the setup of their stakeholder environment, but also to differentiate themselves from other firms and their respective position in this model. A firms that focuses on rules in the expectancy value-net, can be classified as either a results-based stakeholder or a value-net stakeholder. A firm that exceeds stakeholder expectation in the expectancy value-net, can be assessed as either a value-net stakeholder or sustainability centrality oriented stakeholder.

Dynamic equilibrium among the four re-positioned stakeholder quadrants

A firm positioned as to be sustainability-centric. They are poised to offer the level of satisfaction to its stakeholders for it follows only an abstract, outdated and incomplete representation of legitimate stakeholder expectations in the information dimension and restricts itself to making as few concessions as possible in the compliance dimension. Because of this, the firm has the potential to perform very well regard to its objective function on the one hand as it faces the least restrictions with regard to stakeholders, but on the other hand, it will encounter more difficulties in maintaining the stability of its environment and its stakeholder relations, as it is operating directly at the legitimacy frontier and hence always endangered of being subject to corrective actions by stakeholder or stakeholder agents. Because of this, firms constituting results-based stakeholders, will require distinct internal capabilities that enable them to both ensure that strict compliance with evolving rules and regulations is ensured and that all actions initiated by unsatisfied stakeholders are pre-empted, monitored and fitted with an adequate response.

Since the rules and regulations used as an informational reference frame carry a guiding function not only for the firm but also the stakeholders whose aggregated expectations they are designed to represent, results-based stakeholders may employ measures to influence processes in which these rules are created. Possible forms of this behaviour, which typically complement each other, include lobbying, i.e. directly influencing legislative processes, supporting or building advocacy groups and strategically investing in research publications. While these activities are detrimental to the reliability of the informational reference frame, it shall be noted that "good citizens" invariably need to operate under the premise that these rules are imperfect and hence both their business processes and their organizational structure must be geared towards stabilizing volatile relationships and managing disruptive incidents with high stakeholder impact or involvement. Additionally, results-based stakeholders invest in social causes – often unrelated to their own operations – to remedy the adverse effects of potential legitimacy breaches. Due to these offsetting effects, activities geared towards influencing rules may have a positive net effect on the degree to which acting firms reach their organizational objectives.

As results-based stakeholders are least accommodative with respect to stakeholder needs, they will need to devote special attention to the stakeholders they are conducting transactions with. If the relationships with these stakeholders play a crucial role in the pursuit of the firm's objectives, they will regularly need to improve the attractiveness of the terms underlying the transactions and develop strategies to tie these stakeholders to the firm. Nevertheless, the strategy of being a results-based stakeholder is more likely to be successful where stakeholders are interchangeable, not carrying a strong strategic significance and generally are attributed with characteristics suitable to lower their bargaining power relative to the firm. One important factor influencing bargaining power in stakeholder networks is the ability of stakeholders to form groups. The more connections between individual stakeholders exist, the more likely it becomes that they develop common objectives and a shared understanding about desired actions by the firm, complement their characteristics to gain influence on the firm. This will make

stakeholder harder to manage from the firm's point of view. As a result of this, results-based stakeholders can improve their competitiveness if they manage to separate stakeholders (e.g. by diversifying geographically) or chose their set of stakeholders in such a way that the overlaps between functional groups of stakeholders are minimized (e.g. unskilled workers are less likely to support environmentalist groups). In addition to this, "good citizens" will seek to prevent the formation of groups within their stakeholder networks and frequently reward and penalize stakeholder behaviour accordingly.

Results-based stakeholders especially prosper in mature industries where the operating environment is less likely to be disturbed by innovation, where key competitive advantages are derived from internal capabilities like economies of scale or efficient organizational systems and where high barriers to market entry and oligopolistic market structures prevail. These conditions apply to numerous upstream and commodity markets, which also carry the advantage that the customers of the firms are either separated from the firm by means of institutional markets or themselves separate the firm from end consumers by constituting the downstream value-chain. In the latter case, the lower part of the value chain acts as a "filter" for stakeholder demands which are not fully propagated to the acting firm. Due to this effect, downstream firms with a stronger focus on stakeholder relationships might vertically disintegrate and outsource processes and sub-products that carry a high significance for their stakeholders to results-based stakeholders.

Just like the results-based stakeholders, a firm operating as a value-net stakeholder is using rules and regulations as a reference frame for modelling its behaviour towards stakeholders. Hence value-net stakeholders will usually develop capabilities similar to those of results-based stakeholders, especially with regard to ensuring compliance with rules and stabilizing volatile stakeholder relationships. Nevertheless, value-net stakeholder differs from results-based stakeholders in the way that they do not operate directly at the legitimacy frontier but rather offer a higher level of stakeholder satisfaction than strict compliance with the rules would imply. As this behaviour can be expected to have a direct negative effect on the firm's ability to perform well with respect to its objective function, results-based stakeholders expect offsetting positive strategic effects. The most direct effect of increased stakeholder satisfaction is an increase in the stability of stakeholder relationships for the acting firm. However, as the underlying information basis is inaccurate, results-based stakeholders frequently implement marketing measure to communicate to stakeholders how beyond-compliance measures affect them and relate to their needs. If corresponding internal capabilities enable results-based stakeholders to create a positive predisposition towards their actions in the stakeholders, this will have a positive effect on the firm's operations. Respective firms will experience less corrective actions by stakeholder, more favourable terms with a greater variety of transaction partners from the stakeholder set and less fluctuation as well as more options in set-up of their stakeholder network. In contrast to results-based stakeholders, a value-net stakeholder will hence be able to choose from a greater variety of business models, maintain higher degrees of vertical and horizontal integration to realize economies of scope and transform stakeholder relationships into strategic assets.

Aside from the instantaneous effect on stakeholder relationships, operating at a safe distance from the limits provided by the legitimacy constraint will allow results-based stakeholders to lower the impact of regulatory fluctuations on their business processes. Especially as stakeholder expectations and hence rules and regulations evolve, results-based stakeholders will experience less friction with respect to their business processes, as they have already been operating at standards above the required level. Therefore, results-based stakeholders will frequently have developed capabilities required to adjust to regulatory discontinuities while competing value-net stakeholder will have to undergo a disruptive change process when respective alterations to the rule frameworks are made. As it is not feasible for stakeholder to operate beyond compliance for all respective rules on all possible dimensions, results-based stakeholders have to create a fit between their portfolio of beyond compliance-measures and the evolutionary development of the regulatory frameworks that surround them to gain a competitive advantage in the response to regulatory adjustments. Two distinct capabilities will enable results-based stakeholders to attain these competitive advantages. The first is the ability to sense emerging policy trends and continuously identify regulatory dimensions representing the most prevalent stakeholder concerns, which can be expected to show the greatest volatility. Apart from this passive approach, results-based

stakeholders can also take leadership positions in defining what behaviour is appropriate and thus influence the evolution of rules and regulations to improve their fit with their respective internal capabilities. Even when this leadership position is not assumed, stakeholder and policy maker will frequently identify individual standards and code of behaviours developed and adopted by results-based stakeholders as universally desirable and will hence shape rules and regulations to the model of these standards.

As a development of rules in regulations, in either a more restrictive or a less restrictive direction, can be beneficial to results-based stakeholders, they will be comparatively less active with regard to influencing rules and regulations. If they are integrated into respective processes, they will regularly follow an integrative approach, i.e. opposing both rules strictly detrimental to stakeholder interests, which will potentially improve the competitive position of competing firms at the legitimacy frontier, as well as rules strictly detrimental to the performance of firms in the stakeholder network, which can potentially hurt their own performance.

In contrast to results-based stakeholders and value-net stakeholders, ethical out-performer model their behaviour in direct response to expectations expressed by their stakeholders. Due to this behaviour, ethical out-performer usually maintains very stable relationships with their stakeholders and realizes favourable contract terms with those stakeholders constituting transaction partners. Ethical out-performer are therefore not only able to stabilize their operating environment to the greatest extent but also develop their stakeholder relationships to level where they constitute competitive advantages.

While the advantages of the ethical out-performer position are significant, maintaining it requires considerable resources and commitments from a firm. Most notably, "interest servers" regularly cannot rely solely on information exchange but will implement additional negotiation processes to ensure that stakeholder expectations do not increase continuously in step with their partial fulfilment by the firm. Paired with internal review processes, these negotiations with stakeholders are geared towards creating an collaborative environment where the value created by successful firm operations is divided among all stakeholders according to their contribution, creating a greater bond between the firm and all its stakeholders, which will in turn improve the performance of the firm. However, the implementation of this virtuous circle is exacerbated by both opportunistic behaviour of stakeholders and insufficient means of measuring and accounting for stakeholder contributions.

Therefore, ethical out-performer predominantly operate in industries, markets or value-chain segments in which operations entail a stakeholder set which is not only of low complexity in terms of interest groups and group overlaps but also mostly contains stakeholders whose interests match the firms interest. For example, firms in knowledge-intensive intensive industries will seek to retain and develop skilled labour while respective measures will also benefit employees, e.g. in terms of job security. Conversely, ethical out-performer often struggle in industries where stakeholder interests do not match their own interests. This is especially significant in cases where negative externalities exist, and the contribution of individual stakeholders is the compensated acceptance of actions producing adverse effects.

While the attributes of involved stakeholder groups crucially influence the viability of an ethical out-performer strategy, the manageability of the ethical out-performer process – constituted by extracting and evaluating expectations in step with negotiating and implementing change measures – can be aggravated or alleviated by rescaling the operations of concerned firms. Firms composed of fewer organizational elements and a restricted number of business processes will find it easier to evaluate expectations and implement changes, while having fewer stakeholders will improve a firm's ability to extract expectations and negotiate respective changes. The managerial implication of this is that ethical out-performer will often operate in a contained geographical region, have stronger incentives to outsource activities not contributing to their competitive advantages and frequently serve niche markets where substantial market shares can be maintained on the basis of small-scale operations. As the ethical out-performer strategy therefore causes significant diseconomies of scale, firms following it are unlikely to diversify into unrelated businesses.

Similar to results-based stakeholders, ethical out-performer will need to develop capabilities that enable them to follow emerging stakeholder expectations. Nevertheless, in comparison to the regulatory

artefacts representing them, stakeholder interest can be expected to develop with greater continuity and less fluctuations, albeit on a higher level. Hence, ethical out-performer can be reactive in the development of their capabilities, even though they regularly have to ensure that they are following best practices and implement continuous improvement strategies as to prevent the formation of a gap between their standards and stakeholder expectations.

The sustainability-centricity oriented stakeholder constitutes the direct counterpart to results-based stakeholders. While results-based stakeholders aim at implementing standards which maximize the firm's performance with respect to its objective function under the constraint that the set of actions is acceptable by the firms' stakeholders, the sustainability-centricity oriented stakeholder will seek to create the maximum benefit for the stakeholders under the constraint that the firms objective function is satisfied at an acceptable level. For classical objective functions describing variations of shareholder wealth maximization, the strategy of an "ethical out-performer" will find justification only in very few scenarios. An example scenario in this context is the case in which the extensive resource use on serving stakeholder interests creates a level of differentiation regarding the firm's products or service, without which even greater resource aggregation (e.g. by virtue high prices charged by the firm) could not be achieved. Nevertheless, even in these cases, resource allocation disputes are the likely to persist, unless serving the interest of all stakeholders is included in the objective function of the firm. As the owners, i.e. shareholders, of a firm regularly dictate the objective function, sustainability-centricity oriented stakeholder are often owned by a limited number of shareholders who do not pursue strict personal wealth maximization, but additionally follow philanthropic interests. Not-for-profit organization and individual stakeholder interest groups are other potential owners of sustainability-centricity oriented stakeholder. In stark contrast to results-based stakeholders, sustainability-centricity oriented stakeholder will try to support and nurture the evolution of stakeholder expectations. Rather than passively waiting for stakeholders to recognize their actions as desirable and reflect this is their expectation towards all firms they are connected to, sustainability-centricity oriented stakeholder regularly take a leading role and actively market their standards to stakeholders, often by attacking the mode of behaviour of competing firms. Thus, the presence of sustainability-centricity oriented stakeholder increases both the volatility of the stakeholder expectations as well as the rules and regulations representing them. This, in turn, can be expected to decrease the competitiveness of virtually all other players in the market or industry under consideration.

Just like results-based stakeholders generally want to achieve maximum anonymity with regard to their actions and products, sustainability-centricity oriented stakeholder requires the greatest extend of identification possible. To achieve high degrees of identification, "ethical out-performers" will seek to develop one or several brands, which are to represent both the firms' innovative potential as well as their leadership in ethical business conduct.

Conclusion: An integrated view

In choosing from the four positions of the framework, firms have to create a fit between their own attributes and the requirements of the desired position. Firms possessing comparative advantages in processing information and integrating the processed information into their business operations will operate "at compliance" in the compliance dimension while firms with distinct capabilities in leadership and process innovation will tend to operate "beyond compliance". With regard to the information dimension, firms focussed on cost-advantages, employing heterogeneous business processes and maintaining large-scale operations will generally be inclined to use on the rule and regulations as a reference frame while firms focussing on differentiation, and maintaining narrow, well-defined, small-scale business processes will be inclined assess the stakeholder expectation directly.

While firms regularly will take the position in the framework is best suited to their internal capabilities and attributes and the stakeholders linked to their processes, as firms are able to develop and transform their characteristics and change their business processes, firms are also able actively take positions in the framework. This problem of ex-ante positioning is especially pertinent for entrepreneurial firms without an organizational history. If firm and stakeholder attributes are hence removed from the decision-relevant variables in the problem of positioning the firm, in the context of the stakeholder network, the optimal positioning is dependent solely on attributes of competing firms. If the behaviour of

these competitors is mapped with regard to the presented framework and their resulting position as well as their ability to move strategically within the framework are taken as their main attributes, competitors, and therefore also the competitive environment, can be assessed in terms of positions within the framework.

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Prahalad's market approach impacting brand loyalty in base of the pyramid Philippines

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Abstract

This purpose of this paper is to examine how Prahalad's 4As market framework influences brand loyalty in the Base of the Pyramid (BoP) market of the Philippines. Specifically, Prahalad's proposed market framework composed of four constructs – awareness, affordability, access, and availability. Prahalad proposed that the 4As strategic framework was a more appropriate alternative to the traditional marketing framework of the 4Ps – product, price, place and promotion. To date, limited market research has focused on brands and brand loyalty in BoP markets. The present study was conducted first to examine Prahalad's 4As as a comprehensive set of constructs, and second to measure the impact of the 4As on brand loyalty in the BoP market of the Philippines.

Using an online survey, data was collected from 606 Philippine college students. Structural equation modeling was utilized to examine the relationship between Prahalad's constructs and their combined impact on brand loyalty. Two constructs, access and availability, were combined into the construct presence, reflecting the consumers' perspective that the product is present in the consumers' marketplace, both in a store and on the shelf. Examining the impact on brand loyalty, both awareness of the branded product and the affordability of the branded product were found to be positively related to brand loyalty; these findings support previous research studies. While presence was not found to be related to brand loyalty, presence was found to be positively related to both awareness and affordability.

The paper concludes with a discussion of how the findings link to previous research, the theoretical implications, recommendations for marketing practitioners, the limitations of this research, and suggestions for future research.

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1. Review of the Problem Statement

Despite the increase in globalization and the rapid growth in emerging markets, Multinational Corporations (MNC) continue to be challenged in their attempts to penetrate the BoP markets. Prahalad's response to the MNCs' failure to effectively penetrate the BoP markets was a strategic reframing of marketing; Prahalad shifted from the traditional 4Ps' approach to his proposed 4As' strategic marketing approach. Prahalad's (2004, 2010, 2012) 4As include:

1. Awareness of the product and service so that the BoP consumer knows what is available, and how to use the product or service.
2. Affordability of the product or service for the BoP consumer.
3. Access to the product or service, even for consumers in remote geographical areas.

4. Availability of the product or service with an uninterrupted or continuous supply of the product or service.

Little research has been undertaken focusing on brands or brand loyalty in BoP markets (Barki & Parente, 2010; Chikweche & Fletcher, 2010; Dawar & Parker, 1994; Tong, 2006). Chikweche and Fletcher found that “research on branding at the BoP is one area where there is a gap in current literature” (2011, p. 248).

While still in its infancy as a field of research, recent studies have begun to focus on brands and brand loyalty in both emerging and BoP markets (Ahmed, Sandhu, Zulkarnain, & Gulzar, 2011; Eisengerich & Rubera, 2010; Khan & Mahmood, 2012; Kim, Forsythe, Gu, & Moon, 2002; Nguyen, Barrett, & Miller, 2011; Punniyamoorthy & Raj, 2007; Wel, Alam, & Nor, 2011). Surprisingly, none of these nascent studies quantified the basic relationships which exist when considering Prahalad’s 4As. Secondly, no studies have quantitatively examined all Prahalad’s 4As as a set of independent variables influencing the dependent variable brand loyalty. The purpose of this study was to address these two heretofore unaddressed research questions, specifically:

1. Are Prahalad’s 4As unrelated variables, or are they related to each other? And if associations do exist, how strong are the associations?
2. Do the independent variables of Prahalad’s 4As effect the dependent variable of brand loyalty? And if effects do exist, how strong are the effects?

Based on these problem statements, research hypotheses for the current study were developed and are presented in Table 1.

Hypothesis	Hypothesis Statement
<i>H₁</i>	No statistically significant relationship exists between <i>awareness</i> and <i>affordability</i> . The relationship was expected to be neutral.
<i>H₂</i>	No statistically significant relationship exists between <i>awareness</i> and <i>access</i> . The relationship was expected to be neutral.
<i>H₃</i>	No statistically significant relationship exists between <i>awareness</i> and <i>availability</i> . The relationship was expected to be neutral.
<i>H₄</i>	No statistically significant relationship exists between <i>affordability</i> and <i>access</i> . The relationship was expected to be neutral.
<i>H₅</i>	No statistically significant relationship exists between <i>affordability</i> and <i>availability</i> . The relationship was expected to be neutral.
<i>H₆</i>	No statistically significant relationship exists between <i>access</i> and <i>availability</i> . The relationship was expected to be neutral.
<i>H₇</i>	Higher levels of product <i>awareness</i> will be positively related to higher levels of <i>brand loyalty</i> . The relationship was expected to be positive.
<i>H₈</i>	Higher levels of product <i>affordability</i> will be positively related to higher levels of <i>brand loyalty</i> . The relationship was expected to be positive.
<i>H₉</i>	Higher levels of product <i>access</i> will be positively related to higher levels of <i>brand loyalty</i> . The relationship was expected to be positive.
<i>H₁₀</i>	Higher levels of product <i>availability</i> will be positively related to higher levels of <i>brand loyalty</i> . The relationship was expected to be positive.

Table 1: Research Hypotheses

2. Review of Methodology

Data collection was accomplished through a survey completed by 1,520 college respondents in the Philippines. Income and family size responses were collected to qualify respondents in the BoP economic level. The final research data set consisted of 606 respondents who were classified as BoP members with an annual income of 135,645 PhP or less (i.e., \$3,000 USD or less). The measurement of Prahalad’s 4As constructs was based on Prahalad’s definitions. The measurement of the brand loyalty construct was based on an earlier definition by Lam (2007) and Sproles and Kendall (1986). Additional demographic responses were collected to increase homogeneity in the sample, and for potential use in future analysis.

This study included two cross-cultural communication assumptions inherent in international research. The first key assumption was that the questions in the measurement instrument would be understood by Filipino college students. The questionnaire was presented to the respondents in the

English language, an official language in the Philippines. Recognizing the existence of cultural language idioms, the measurement instrument was further reviewed for both comprehension and unique language issues by five Philippine university professionals. With the completion of this review, the first key assumption was addressed in two ways. First, using English, the survey items would be understood when the questionnaire was deployed in the Philippines. And second, using Philippine English, the measurement instrument would be appropriate for use in the unique environment of the Philippines. The second cross-cultural communication assumption was that the questions in the measurement instrument would be answered accurately and without bias in the Philippines. The measurement instrument was developed to minimize bias-generating questions.

After a thorough pre-analysis data screening, data was analyzed by means of structural equation modelling (SEM). The hypotheses were tested using EQS SEM which can correct for non-normal data in large samples through EQS's use of robust fit statistics (Byrne, 2006).

3. Discussion and Implications of the Research Results

Results of the current research are reviewed in this section. First those hypotheses addressing the first research question are reviewed; specifically, "*are Prahalad's 4As unrelated variables, or are they related to each other?*" And second, those hypotheses addressing the second research question are reviewed; specifically, "*do the independent variables of Prahalad's 4As effect the dependent variable of brand loyalty?*"

3.1 Relationship among Prahalad's constructs

Prahalad initially described the 4As as distinct and unrelated constructs; because of this, the null hypothesis structure was utilized to validate the independence of these variables. The hypotheses examined in this section include: H_1 , H_2 , H_3 , H_4 , H_5 and H_6 .

The optimized model identified multiple statistically significant relationships between Prahalad's 4As constructs; these significant relationships are shown in Figure 1. The construct *presence* is the combined construct made up of three question items initially from the exogenous construct *access*, and two question items initially from the exogenous construct *availability*.

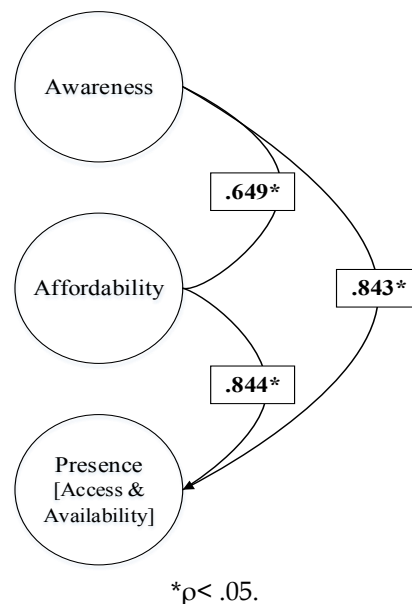


Figure 1: Relationships Among Prahalad's Constructs

H_1 No statistically significant relationship exists between *awareness* and *affordability*. The relationship was expected to be neutral.

This relationship fit the optimized SEM Model. However, the stated hypothesis H_{0-1} was not supported in this current study; a statistically significant positive estimated correlation was found to exist between *awareness* and *affordability* ($r = .649$, $n = 606$, $\rho < .05$).

H₂ No statistically significant relationship exists between *awareness* and *access*. The relationship was expected to be neutral.

H₃ No statistically significant relationship exists between *awareness* and *availability*. The relationship was expected to be neutral.

Prahalad's original constructs *access* and *availability* did not fit in the optimized SEM model. Though not eliminated from the optimized model, three items of the construct *access* were ultimately combined with two items of the construct *availability* forming the combined construct *presence*. This combination of the constructs resolved the collinearity that was found to exist between the construct *access* and the construct *availability*. Therefore, the stated hypotheses **H₂** and **H₃** were not supported in this current study.

Additionally, a statistically significant positive estimated correlation was found to exist between *awareness* and *presence* ($r = .843$, $n = 606$, $\rho < .05$). This provided further evidence that the stated hypotheses **H₂** and **H₃** were not supported in this current study.

H₄ No statistically significant relationship exists between *affordability* and *access*. The relationship was expected to be neutral.

H₅ No statistically significant relationship exists between *affordability* and *availability*. The relationship was expected to be neutral.

As identified with hypotheses **H₂** and **H₃** Prahalad's original constructs *access* and *availability* did not fit in the optimized SEM model. Though not eliminated from the optimized model, three items of the construct *access* were ultimately combined with two items of the construct *availability* forming the combined construct *presence*. In a similar manner, the stated hypotheses **H₄** and **H₅** were not supported in this current study.

Additionally, a statistically significant positive estimated correlation was found to exist between *affordability* and *presence* ($r = .844$, $n = 606$, $\rho < .05$). This provided further evidence that the stated hypotheses **H₄** and **H₅** were not supported in this current study.

H₆ No statistically significant relationship exists between *access* and *availability*. The relationship was expected to be neutral.

As discussed, Prahalad's original constructs *access* and *availability* did not fit in the optimized SEM model. Therefore, the stated hypothesis **H₆** was not supported in this current study.

3.2 Summary - Relationship among Prahalad's constructs

In summary, of the six null hypotheses testing the independence between Prahalad's four constructs, none of them were supported by the findings of this research. Prahalad initially described the 4As as distinct and unrelated constructs. This quantitative study found no support for the expected independence. On the contrary, this study initially found a degree of collinearity existing between the two constructs of *access* and *availability*, which negated the testing of their independence in this study.

Secondly in the optimized SEM model, high positive estimated correlations were found to exist between the construct *awareness* and *affordability* ($r = .649$), *awareness* and *presence* ($r = .843$), and *affordability* and *presence* ($r = .844$).

Based on these findings in this research, the independence of Prahalad's 4As cannot be verified as the 4As consistently showed high levels of positive correlations.

3.3 Prahalad's constructs impacting Brand Loyalty

The second research question of this research examined the impact of Prahalad's four constructs as independent variables impacting the dependent variable brand loyalty. These hypotheses examined in this section include: **H₇**, **H₈**, **H₉** and **H₁₀**. As described above the optimized model also identified multiple statistically significant relationships between Prahalad's 4As constructs as independent variables, and the dependent variable brand loyalty; these significant relationships are shown in Figure 2.

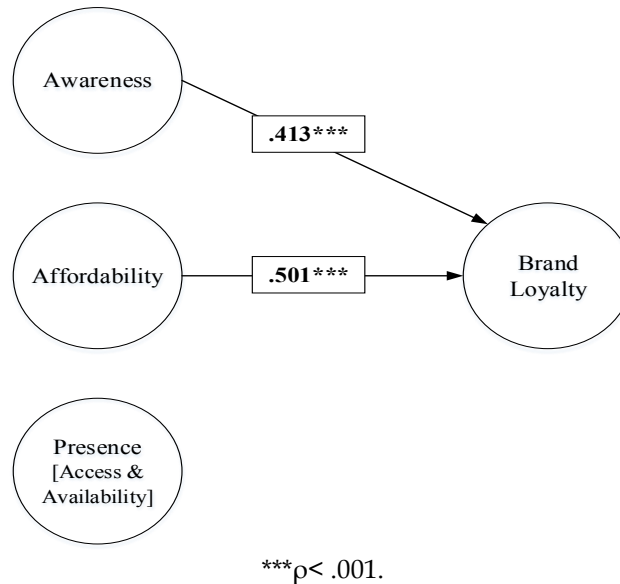


Figure 2: Prahalad's 4As as Independent Variables Impacting the Dependent Variable Brand Loyalty

H₇: Higher levels of product *awareness* will be positively related to higher levels of *brand loyalty*. The relationship was expected to be positive.

This relationship fit the optimized SEM Model. The stated hypothesis **H₇** was supported in this current study. A statistically significant standardized parameter estimate was found to exist between *awareness* and *brand loyalty* ($\beta_{\text{standardized}} = .413, n = 606, \rho < .001$).

H₈: Higher levels of product *affordability* will be positively related to higher levels of *brand loyalty*. The relationship was expected to be positive.

This relationship fit the optimized SEM Model. The stated hypothesis **H₈** was supported in this current study. A statistically significant standardized parameter estimate was found to exist between *affordability* and *brand loyalty* ($\beta_{\text{standardized}} = .501, n = 606, \rho < .001$).

H₉ Higher levels of product *access* will be positively related to higher levels of *brand loyalty*. The relationship was expected to be positive.

H₁₀ Higher levels of product *availability* will be positively related to higher levels of *brand loyalty*. The relationship was expected to be positive.

Prahalad's original constructs *access* and *availability* did not fit in the optimized SEM model. Though not eliminated from the optimized model, three items of the construct *access* were ultimately combined with two items of the construct *availability* forming the combined construct *presence*. This combination of the constructs resolved the collinearity that was found to exist between the construct *access* and the construct *availability*. Therefore, the stated hypotheses **H₉** and **H₁₀** were not supported in this current study.

3.4 Summary - Prahalad's constructs impacting Brand Loyalty

Of the four hypotheses testing Prahalad's 4As as independent factors impacting the dependent factor *brand loyalty*, two of the hypothesis were supported; specifically: *awareness* significantly impacted *brand loyalty* ($\beta_{\text{standardized}} = .413, n = 606, \rho < .001$), and *affordability* significantly impacted *brand loyalty* ($\beta_{\text{standardized}} = .501, n = 606, \rho < .001$).

The two remaining hypotheses were not fully tested due to the collinearity existing between *access* and *availability*.

4. Relationships of Current Study to Previous Research

The findings of this study both support and extend the earlier research studies focusing on brands and brand loyalty in emerging and BoP markets. Further, this study builds on the market framework of Prahalad's 4As theory.

An empirical study by Nguyen, Barrett and Miller (2011) examined the shampoo purchasing behavior of female consumers in Thailand and Vietnam, both BoP markets. The authors investigated five constructs: brand loyalty, brand awareness, perceived quality, advertising attitudes, and distribution intensity. First, the authors proposed that distribution intensity, an unstated surrogate measure for Prahalad's access, was positively related to brand awareness; this relationship was found to be significant both in Thailand ($\beta = 0.34, \rho < .001$) and in Vietnam ($\beta = 0.25, \rho < .05$). The current study supports this earlier finding, showing a statistically significant positive estimated correlation between *awareness* and *presence* ($r = .843, n = 606, \rho < .05$). Second, the authors proposed that brand awareness was positively related to brand loyalty: this relationship was supported in Vietnam ($\beta = 0.27, \rho < .001$) but failed to reach statistical significance in Thailand ($\beta = 0.04, \rho < .52$). The current study supports this proposed relationship, showing a statistically significant standardized parameter estimate between *awareness* and *brand loyalty* ($\beta_{\text{standardized}} = .413, n = 606, \rho < .001$).

A second empirical study by Khan and Mahmood (2012) examined the relationship between the factors brand loyalty and brand equity among consumers of mineral water in Pakistan. Using SEM, the authors found statistically significant positive correlations between the independent variable brand awareness and the intervening variable brand loyalty ($r = .500, \rho < .000$). Supporting this earlier finding, the current study found a corresponding statistically significant correlation between *awareness* and *brand loyalty* ($r = .843, n = 606, \rho < .05$). This further validates the relationship between *awareness* and *brand loyalty* found in BoP markets.

An exploratory study (Kumar, Sharma, Shah, & Rajan, 2013) developed a conceptual framework focused on the creation of Profitable Customer Loyalty (PCL) in emerging markets. PCL was described as "customers who exhibit both behavioral and altitudinal *loyalty*, and provide profits to the firm" (2013, p. 58). One research proposition in this conceptual model was that "product awareness, along with awareness of the benefits of the product offerings, leads to the creation of PCL in emerging economies" (2013, p. 64). The current study provided the empirical validation extending the proposed Kumar et al. model, finding a statistically significant standardized parameter estimate between *awareness* and *brand loyalty* ($\beta_{\text{standardized}} = .413, n = 606, \rho < .001$).

In summary, the findings of this study support and extend the earlier studies focused on brands and brand loyalty in emerging and BoP markets. Next, the impact on Prahalad's 4As theory will be discussed.

5. Theoretical Implications

The findings of this study build on the 4As theory as initially proposed by Prahalad (2004, 2010, 2012). First, none of the early international studies examining brand loyalty quantified the underlying relationships which exist when considering Prahalad's 4As as an inclusive set of four variables. The current study tested for the independence of the 4As, and found a high degree of correlation between Prahalad's four constructs. The findings suggest that these four constructs are related to one another. Although contradictory to Prahalad's theories, this finding suggests the need for further analysis and a systematic evaluation of the relationships among the 4As constructs.

Second, no studies have quantitatively examined all Prahalad's 4As as a set of independent variables influencing the dependent variable brand loyalty. The current study addressed this gap in the research literature through its examination of the simultaneous impact of Prahalad's 4As on brand loyalty. As referenced in the preceding section, it has been shown that several studies found a positive relationship between *brand awareness* and *brand loyalty* (Nguyen, Barrett, & Miller, 2011; Khan & Mahmood, 2012). The current study validated these earlier studies, finding a statistically significant standardized parameter estimate existing between *awareness* and *brand loyalty* ($\beta_{\text{standardized}} = .413, n = 606, \rho < .001$). While not identified in prior research, the current study found a statistically significant standardized parameter estimate existing between *affordability* and *brand loyalty* ($\beta_{\text{standardized}} = .501, n = 606,$

$\rho < .001$). These findings directly support Prahalad's initial 4As framework as it relates to *awareness* and *affordability* (Prahalad, 2004, 2010, 2012).

Third, the current study found the existence of collinearity between the construct *access* and the construct *availability*. This collinearity precluded testing the impact of these two constructs as identified in Prahalad's initial 4As framework (Prahalad, 2004, 2010, 2012). However, an underlying explanation of this collinearity may be found in a recent review of business models focused on poverty alleviation; this review identified the term *institutional voids* (Casselmann, Sama, Horak, Stefanidis, Lu, Gevorkyan, & Carroll, 2015). Although not specifically defined, companies were shown to respond to institutional voids by adapting their business models to the local market, such as developing "novel distribution approaches that alleviate a lack of supply networks or poor transportation infrastructure" (Casselmann et al., 2015, p. 78). The construct *access* and the construct *availability* can both be viewed through the lens of an institutional void existing in the BoP market. As a reflection of an institutional void in the distribution channel, *access* and *availability* would be expected to be highly related. The current study found a high degree of interrelation between these two constructs. Further, the constructs *awareness* and *affordability* could be viewed as consumer characteristics, with *awareness* reflecting the consumers' knowledge of available products, and *affordability* reflecting the consumers' ability to purchase products. As such, the current study has identified two dimensions of a model, composed of both institutional factors, and consumer characteristics.

Fourth, this study increases the quantitative body of knowledge surrounding BoP markets. Sheth (2011) has suggested that to successfully introduce branded products and services into BoP markets, traditional marketing theories needed to be validated for applicability in the BoP markets. He identified marketing theories describing brands, brand behavior, brand equity and brand loyalty as particularly important to be validated for use in BoP markets. Further, London et al. (2014) focusing on the enterprise, called for the use of "rigorous qualitative and quantitative data analysis approaches to assess individual enterprises, and to aggregate, compare findings across enterprises" (2014, p. 16). This research effort provided partial validation of Prahalad's theory, specifically for the constructs *awareness* and *affordability*.

In summary, the findings of this current study build on the foundation of theory as initially proposed by Prahalad. First, by testing the 4As for independence. Second, by providing a partial validation of Prahalad's 4As framework specific to *awareness* and *affordability*. Third, by conceptualizing the perspective that both institutional factors and consumer characteristics exist in and influence the market. And fourth, by actively and empirically responding to Sheth's request for additional validation of marketing theories in BoP markets.

6. Recommendations for Marketing Practitioners

This paper provides a number of directives for those marketing practitioners who are currently engaged in emerging markets and BoP markets, or for those practitioners who are faced with the potential of engaging in those markets in the future. The uniqueness of these markets has been identified, and the challenges inherent in these markets must be addressed to optimize market success.

This study has identified the existence of two strong relationships positively influencing brand loyalty. The first relationship is between *awareness* and *brand loyalty*. Prahalad (2004, 2010) identified BoP consumers as both brand-conscious and value-conscious, buying aspirational brands, stating "an aspiration to a new and different quality of life is a dream of everyone, including those at the BoP" (2010, p. 38). Marketing practitioners need to focus on establishing and building increasing awareness of their good or service. The messages of the marketing practitioner should focus on the brand, the brand's value, and even the aspirational qualities of the brand. In communicating these messages, the marketing practitioner should utilize the marketing tools most appropriate for the BoP consumer. For example, mass market communication based on the communication channels utilized by the BoP consumer should be employed. In urban areas, this might include television and radio advertisements, and outdoor advertisements such as billboards and wall posters. Brand logos and in-store displays specific to the small mom and pop stores typically found in BoP neighbourhoods might be particularly effective for the BoP shoppers. Additionally, specific segments of the BoP population may have access to the internet, in which case social media marketing may be an appropriate communication channel for that specific segment.

The second strong relationship identified in this current study is between *affordability* and *brand loyalty*. Marketing practitioners need to focus on providing affordable products to the BoP consumer. Prahalad (2004, 2010) identified the need for small unit packages for products sold in BoP markets. This small sized packaging is reflected in both single-serving packages, and low-unit packages. This type of packaging has been defined as sachet packaging, becoming the dominant packaging approach in the BoP markets (Mahajan, Banga, & Gunther, 2006; Singh, Ang, & Sy-Chango, 2009). Marketing practitioners need to continue to develop affordable sachet packaged products for the BoP market.

While not directly impacting brand loyalty, this current study identified the strong relationship between *presence* (e.g., the combination of the two constructs of *access* and *availability*) and the two constructs of *awareness* and *affordability*. Although not tested in this current study, it appears that *presence* may function as a positive precursor for both *awareness* and *affordability*. If this is the case, then marketing practitioners need to simultaneously focus on establishing new distribution channels in the BoP markets, and strengthening their existing distribution channels.

7. Limitations

There are several limitations that are identified. The first major limitation is the geographic location where the current research was conducted. The data collection was completed in the Philippines, specifically centralized around Manila, a major urban area. As such, the results of this current study cannot be generalized to include other Asian populations. While there may be similarity to populations in other Asian countries such as Malaysia or Vietnam, the findings of this current research need to be replicated in those countries before generalized statements can be made about those country-specific populations. Further, since this data was collected in major urban areas near the city of Manila, the results cannot be generalized to include rural areas.

The second major limitation is the common demographics of the respondents. The respondents were currently enrolled college students. These students may be a unique segment of the overall Philippine population because of their level of education. Further these students may be a unique segment of the overall Philippine population because of their age; identified as birth year, the respondents had a mode birth year of 1996 (e.g., at the time this study was conducted, approximately 19 years of age). A population of younger respondents may exhibit different behaviors than those behaviors found in middle-aged or senior-aged populations.

The third major limitation is the data collection method employed. A smart phone application was employed, with the survey administered in a digital format. Using this method of data collection, there is a high probability that the respondents were technology savvy, with an awareness and comfort of using the internet. Further, these respondents may have higher than normal brand awareness due to their internet-based exposure to advertisements and product-specific content on the internet.

8. Suggestions for Future Research

To build on the foundations of this study, several suggestions for future research are provided.

8.1 Addressing identified limitations

Several of these suggestions for future research are directly tied to the previously identified limitations of this current study. First, this study should be replicated in other geographic, country-specific markets; for example, in other Asian countries such as Malaysia or Vietnam. This would identify quantified differences in other Southeast Asian populations. This study could be replicated in other countries with significant BoP populations to determine if there is a commonality of behaviors existing in a generalized BoP population.

Second, this current study collected data in major urban areas near Manila, with a total metro population of approximately 12 million. Future research should attempt to differentiate between an urban BoP population and a rural BoP population. There is a strong likelihood for urban populations to utilize elements of living in an urban environment to structure their brand preferences and ultimately their brand choices; some of the urban elements could include: a) the proximity to shopping malls which impacts brand *awareness* and *access* to products, usually with high levels of product on-shelf *availability*; b) the availability of public transportation providing more efficient *access* to products; c) the plethora of

urban media such as television, radio, billboards, and other related brand signage which increases brand *awareness*; and d) the availability of internet and digital technology which increases brand *awareness*.

Third, this study should be replicated across multiple age categories. As discussed in the previous section, the currently examined population of young college-aged respondents may exhibit different characteristics than other, older age groups.

Fourth, this study could be further extended by examining the effect of different levels of internet usage. One approach would be to examine heavy, medium and light users of the internet. Heavy users might have an increased level of brand awareness based on their higher than average exposure to internet-based brand-focused advertisements. Heavy users of the internet may additionally have a higher perceived level of product access and availability, sharing a common perception that "everything is available on line".

8.2 Extending the results of the current study

Two suggestions for future research come from an examination of the results. First, it would be highly informative to replicate the basic analysis completed in this current study, using middle of the pyramid respondents. Specifically, a total of 612 middle of the pyramid respondents were excluded from this current study. Replicating the methodology with these respondents would highlight the differences and similarities existing between the BoP respondents and the middle of the pyramid respondents.

Finally, it might be possible to develop BoP models based on the two major categories of institutional factors and consumer characteristics as discussed above. Models focused on a grouping of institutional factors would be particularly appealing to marketing practitioners who have a degree of control over those institutional factors.

9. Summary

This research adds to the foundation of empirical literature on Prahalad's 4As framework in BoP markets. First, this study tested for independence among the 4As as separate constructs. Rather than independence, this study found high positive estimated correlations among the four constructs. This finding was not supportive of Prahalad's 4As market framework.

This current study found a strong positive relationship between the construct *awareness* and the construct *brand loyalty*. This finding supported Prahalad's initial 4As framework (Prahalad, 2004, 2010, 2012), and provided corresponding support for this relationship quantified in earlier empirical studies (Khan & Mahmood, 2012; Nguyen, Barrett & Miller, 2011).

Two of the four constructs, *access* and *availability*, exhibited collinearity; it was suggested that this collinearity reflects an institutional void in the distribution channel (Casselman et al., 2015). Identified as elements of institutional void, *access* and *availability* would be expected to exhibit a high degree of interrelation; this current study found a high degree of interrelation between these two constructs.

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The FDI psychic distance paradox: Myth or reality?

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Keywords

Psychic distance, psychic distance paradox, foreign direct investment

Abstract

Psychic distance is derived from the Greek word psychikos which refers to an individual's mind and distance refers to degree of psychological gap when specific individuals consider subjective and objective phenomena. It is regarded as an individual's subjective perception of phenomena and their unique subjective distance of these phenomena from their own psychikos or 'mind's eye.' In the business context, Psychic Distance refers to the tendency of companies embarking on internationalization to choose countries that are psychically close in terms of a number of key criteria that make business success easier to achieve, including: language, geographical proximity and historical and cultural ties. In this regard, the 'Psychic Distance Paradox' concept originally arose from an attempt to explain contradictory evidence from Canadian companies that had embarked on FDI in the physically close USA, which indicated that only a few had been functionally successful.

The current paper purpose is to investigate whether psychic distance and the psychic distance paradox provide cogent theoretical and empirical models; or whether they arise from a methodological approach built on a unidirectional, 'deficit model' consisting of lists of objectives (researcher conceived) 'psychic factors' obtained from the internationalization experiences of countries.

The paper critically analyses the concepts of psychic distance and its paradox as theoretically and logically cogent constructs based on valid and rigorous empirical evidence. It aims to contribute to the extant literature by providing an original theoretical critique and describing an example of a recent South African empirical study that potentially surpasses the original psychic distance methodological approach by considering quantitative and qualitative context-specific factors in a triangulated quantitative and qualitative cross-sectional research design.

Findings of the theoretical and empirical analyses suggest that Psychic Distance and the Psychic Distance Paradox may be more myth than reality, and may derive from the limitations of the model's deficit-focused configuration its emphasis on objective measurement indices and a paucity of qualitative data.

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Introduction

In the business context, Psychic Distance has been defined as the advantage of internationalizing companies that choose countries that are 'psychically close' in terms of a number of key criteria that make business success easier to achieve, including: language, geographical proximity and historical and cultural ties. The 'Psychic Distance Paradox' concept original definition arose from an attempt to explain contradictory evidence obtained from Canadian companies that had embarked on Foreign Direct Investment (FDI) in the 'psychically close' USA, which indicated that only a few had been functionally successful. In other words, the paradox was defined in terms of the empirically established fact that low psychic distance was not necessarily associated with company success in foreign localities. In fact, the term 'Psychic Distance' has a long history with, unsurprisingly, a specifically psychological origin Bullough (1912) in an article in the British Journal of Psychology referred to it in relation to aesthetics and in the sense, he used it, meant distancing oneself from our appeal of an object (work of art) by putting our perception 'out of gear' with practicalities and making the focus of our contemplation of the object

complete. This original use of the term 'Psychic Distance' is clearly far removed from its use in International Business in which it emerges in various forms distinct from its original meaning in the field.

The Uppsala internationalisation school originally defined Psychic Distance as 'the sum of factors preventing or disturbing the flows of information between firms and markets' (Johanson & Wiedersheim-Paul 1975:308). However, there have been many further definitions and implementations of the concept in International Business. Stemming from the original definition of information flow disturbances has been the more recent interpretation and meaning attached to the concept that of distance where further distance is equated with greater information disturbances which, as Brewer (2007) points, out may or not be the case and where distance is seen largely in terms of geographical and cultural proximity. Thus, Vahlne and Wiedersheim-Paul (1973) defined psychic distance as "factors preventing or disturbing [a] firm's learning about and understanding [of] a foreign environment" (Nordstrom & Vahlne, 1994:42). As Brewer (2007:74) points out: "The connection between psychic distance and knowledge is that a firm's managers will tend towards those country markets that they can get to know most easily, and they will avoid those it is difficult to get to know. It is further postulated that psychic distance is a result of perceived business differences between the firm's home environment and that of foreign country market(s)". In effect the original very broadly defined deficit model of Psychic Distance as distortions in information flows has been narrowed down to ease or difficulty in understanding a foreign environment to, most recently, specific objectively measurable aspects that make understanding the foreign environment difficult. For example, Stottinger and Schlegelmilch's (2000) *cultural proximity*; Evans, Treadgold and Mavondo's (2000a) *cultural and business differences*; Conway and Swift's (2000) *separate national identities*; Child, Ng and Wong's (2002) *differences in languages, culture, political systems, level of education and level of development*; Chetty and Campbell-Hunt's (2004) *differences from the home country in terms of language, culture, political system, business practice, industrial development and education systems, and* Dow and Karunaratna's (2006) *differences in culture, languages, religions, education and political systems*.

O'Grady and Lane (1996) used the 'Psychic Distance Paradox' concept to describe evidence from 32 Canadian retail companies which had embarked on FDI in the physically close USA but of which only 7 companies (22%) had been functionally successful there. The researchers suggest that this finding suggests a 'Psychic Distance Paradox' since it had been found that psychically close countries were not always easy to manage and were not as successful as had been assumed. This was because assumed international similarities often hide subtle, but critical, cultural and operational differences which tend to remain unrecognized and accounted for.

However, definitions implementations and derivations of the original information flow deficit model of psychic distance are eclectic in the variables selected for the measurement of Psychic Distance, and lack the necessary broadness and scope and openness to subjectively interpreted inputs of meaning to validly reflect the real-world process of internationalization decision-making.

The essential point being raised in the foregoing discussion is that there cannot be a psychic distance *paradox* if the definitions and usage of the concept of Psychic Distance itself are arbitrary and eclectic and narrow in scope and do not adequately consider the pivotal role of the perceiver and his/her subjective interpretations of what constitutes their predilections and priorities in their foreign investment decision-making.

The paper takes the following form. The next section presents a brief literature review with a focus on Brewer's (2007) work in trying to give a comprehensive objectively measurable index of what Psychic Distance consists of. This is followed by a section that deals with literature concerning the Psychic Distance Paradox and describes recent findings using computerized simulations of Psychic Distance and Psychic Distance Paradox (Gairola and Chong, 2012) and criticisms of the concepts that can be derived from this study and other recent empirical data. There then follows a description of a methodological approach used in a recent empirical study conducted in South Africa that focuses on FDI (Foreign Direct Investment) decision making among SA executives. The study suggests that a broader, nomothetic and ideographically-oriented approach to Psychic Distance is more valid than the extant nomothetic 'deficit' model of Psychic Distance, and renders the extant concept of Psychic Distance Paradox obsolescent. This is followed by the conclusion that concludes from the foregoing arguments regarding the psychic paradox, outlines limitations of the study and presents recommendations for further research.

1. Literature review

Psychic distance

The business origins of the "psychic distance" have their roots in research performed by Beckerman (1956) and Linnemann (1966), but Vahlne and Wiedersheim-Paul (1973) as cited by Nordstrom and Vahine (1994) as indicated above were the first to conceptualize psychic distance as disturbances or preventions in flow of information between potential and actual suppliers and customers. These flow disturbances are associated with country-based differences and are grouped into four major clusters of factors that impede information flows namely: linguistic differences, cultural factors, economic factors and, political and legal system factors.

Johanson and Vahlne's (1977) study of Nordic multinationals surmised that a firm's international activities which include FDI relate to psychic distance and that international expansion progresses from markets with lower psychic distance to markets with successively higher psychic distance. Companies tend to export to countries that have the least information deficits and then progressively advance into markets further afield. The original psychic distance model suggests that firms enter new markets with opportunities with few market uncertainties and later enter markets at with progressively greater information flow disturbances. The process of internationalization considers psychic distance as a key factor in the explanation of the expansion of firms into foreign markets.

Johanson and Wiedersheim-Paul (1975) were the first authors to make the conceptual link between psychic distance and the internationalisation process. The Uppsala model proposed the role of psychic distance in the internationalisation behaviour of a firm and postulated that the more distant the market, the more difficult it is for new firms to fit into the foreign business environment. The higher the psychic distance the greater the risk of the internationalisation venture on (Arenius, 2005). Zaheer (1995) lists four sources of foreign investment risk:

- *General costs*, including costs of travel, transportation and management co-ordination over large distances and across time zones;
- *Firm-specific costs* based on information costs incurred through the unfamiliarity of the foreign environment;
- *Costs arising from the host country's specific environment*, such as tax and registration surcharges and from economic nationalism;
- *Costs present in the home country environment*, such as nationalisation, and government restrictions on foreign investment.

The psychic distance concept has been used as a key conceptual factor in explaining expansion strategies of firms (Stöttinger and Schlegelmilch, 2000; Bai and Sarkis, 2010; Covin and Miller, 2014). Pioneering research in the area supports the view that companies perform best in foreign markets that resemble their domestic markets closely. The 'common sense' relationship between psychic distance and organisational performance is seen as the generally plausible premise that psychically close countries are easier to understand (Cavusgil, 1980; Nordström and Vahlne, 1994; Evans, Treadgold and Mavondo, 2000; Campbell, Eden and Miller, 2012) and that the level of uncertainty faced by companies investing in foreign countries closer to home is likely to be reduced.

For example, Asian firms appear to support the psychic distance concept in their internationalisation process. This is evident in the growth of the Asian MNE's in the 1980s and 1990s, through their inter-regional direct investments (Sim and Pandian, 2003; Dent, 2016; Kotabe, Jiang and Murray, 2011). FDI is transferred from one level of Asia's economy to another, from Japan, to the NICs (Korea, Taiwan, Hong Kong and Singapore), and then to the rapidly growing economies such as Indonesia, Malaysia and Thailand, a process of industrialization sometimes referred to as the "wild flying geese pattern".

Similarly, Amighini, Rabellotti and Sanfilippo (2013), found that the international *guanxi* system of social networks and relationships among Chinese diaspora seems to be a significant factor in location decisions. The use of network alliances reduces psychic distance in different countries and networks of overseas Chinese nationals are considered a crucial source of trustworthy information for Chinese companies in more psychically distant markets and can affect the success or failure of the investment made. Blomkvist and Drogendijk (2013) also found that Chinese FDI is affected by an 'aggregated'

construct of psychic distance which includes measures of, inter alia: similarities in language and culture, levels of industrialisation and the strength of local democratic institutions.

Other researchers indicate that companies perform better in foreign markets which are psychically close because they are more readily understood and business information, building knowledge and forming networks easier to acquire and assimilate (e.g. Evans *et al.*, 2000; Campbell *et al.*, 2012) and that this reduces risks associated with investing in a foreign country and in setting up operations (Cavusgil, 1980; Johanson and Vahlne, 1977; Nordström and Vahlne, 1994; Lee 1998; Evans *et al.*, 2000; Rugman, Verbeke and Nguyen, 2011; Kiss, Danis and Cavusgil, 2012).

Recent findings by Holm, Forsgren and Johanson. (2015), and Ekroos and Sjöberg (2012) also confirm that companies perform better in psychically close countries.

Conversely, Li and Guisinger (1992) found that US affiliates business failure was significantly higher when the parent company was based in a culturally distant country compared with those culturally close. These authors have all purported shown that psychic distance, loosely defined, provides a 'conceptual umbrella' to explain variations in the performance of parent companies in foreign locations. But the empirical evidence in this regard is by no means unanimous. For example, Benito and Gripsrud (1992), found in a study of Norwegian companies, did not find support for the notion that FDI undertaken by Norwegian MNEs occurs in culturally close countries. They found that the selection of location by Norwegian MNEs seemed to be based on much broader rational economic considerations than simply psychic proximity. Similarly, O'Grady and Lane (1996) found that specific Canadian retail companies were not successful in the psychically close United States business environment. Thus, empirical data suggests that support for psychic distance as an explanatory concept is not unanimous, even in its most broadly defined implementations. The concept of psychic distance as an independent variable in the explanation of successful FDI is thus brought into question on empirical and conceptual grounds.

The conceptual weakness and measurement difficult of psychic distance has recently been identified Brewer (2007) and measures and prescriptive remedial steps taken to resolve the problem through the construction of a 'psychic distance index'. In this regard Brewer (2007) maintains that the operationalization of key factors of the concept of 'psychic distance' in its current, broadly defined form can be achieved by constructing an umbrella psychic distance index. The psychic distance index comprises aspects of psychic distance derived from the extant literature and combined as an aggregated construct and operationalized in a specially designed measuring instrument. The elements of the psychic distance index construct devised by Brewer (2007) were obtained from factors used by Australian exporters in their FDI decision-making processes. The psychic distance index included factors which were based on "subjective judgment plus data availability" (Lockwood, 2004: 507).

Brewer's (2007) measuring instrument aims at eliciting data from individual FDI decision-makers. The measures Brewer (2007) suggests as indexes of psychic distance are indicated in Table 1.

Measure	Description of measure
Commercial ties	Existing commercial relationships between countries based on exchange of goods and services. Existing commercial exchanges are adding to overall knowledge about a country and businesses operating in these countries.
Political ties	Political ties can enhance relationships of businesses in foreign countries and reduce information distortions.
Information availability-Trade agreements, defense treaties, diplomatic connections and aid programs.	Information availability generates enhanced awareness between countries.
Historical ties	Countries that share historical ties (e.g. a colonial relationship), tend to be closer in terms of institutions, mutual familiarity and understanding.
Geographical proximity	Geographical distances between countries affects ease of commercial exchanges
Country's level of	Highly developed countries generally have better information

development	availability, a more amenable business environment and less corruption
Social ties	Differences culture and language used affect the information and knowledge inflows.

Table 1 - Brewer's (2007) psychic distance index

Brewer (2007) used the specially constructed psychic distance index to measure exporting frequency between Australia and twenty-five other countries and found that the concept of psychic distance provided a significant level of predictive validity. Brewer's (2007) index used numbers 1 and 0 to indicate the extreme measurement values of the index pertaining to a specific independent variable where 1 = the most psychic distance and 0 = the least psychic distance. Intermediate numbers are given to relative values between 0 and 1 (Lockwood 2004). "Summation of the individual psychic distance elements for each country leads to an index number on an interval scale. The closest index value that a country can have with respect to another country is 0, and the farthest is 15 (the total number of index indicators" (Brewer 2007:56). Brewer (2007) found that countries having the closest psychic distance (lower psychic distance index score) tended to have the largest number of Australian exporters selling in their markets. Thus, the UK and the US with psychic distance index scores of 4.80 and 5.27 respectively, were ranked first and second on psychic distance. In contrast, Kenya which was ranked bottom on psychic distance, obtained a psychic distance index score of 11.51.

Brewer (2007:87), however, recognizes that: "Information exchange is at the heart of the original Johanson and Wiedersheim-Paul (1975) psychic distance definition based on ease of information flows. But there has been an important departure from this original definition in the most common forms of psychic distance interpretation in the literature, namely, country differences. The extrapolation of psychic distance from 'factors impeding the flow of information' to 'country differences' is unsupported by other than recognition that such differences should affect business relationships. The direct definitional relationship between psychic distance and ease of information flows has been corrupted to a direct one-to-one relationship between psychic distance and differences between countries". Brewer (2007) suggests that the development of the psychic distance index goes some way in resolving this by offering a number of variables for measurement of psychic distance that may have relevance for specific countries. Brewer (2007: 88) also indicates that, "In addition to national characteristics or conditions that are most likely to be important to psychic distance, the particular characteristics of the managers of a firm might also be important. This is because it is the managers not nations that perceive psychic distance".

Thus Brewer (2007) recognizes that formative indicators such as the psychic distance index he constructed are highly context dependent, and when applied to different countries, industries and entry methods would require major adjustments. He also recognizes the importance of incorporating management's subjectivity in deliberations over the decision-making process.

The psychic distance paradox

At the most basic level, a paradox is "a statement or proposition which, despite sound (or apparently sound) reasoning from acceptable premises, leads to a conclusion that seems logically unacceptable or self-contradictory" (Oxford Dictionary, 2017). The psychic distance paradox is thus seen to be evident where psychically close countries do not generate superior company performance. In this way, the so-called 'psychic distance paradox' has arisen from studies that purport to show that business interests are not always served by investments made in countries considered to be psychically close, in the way psychic distance explanatory model proposes. For example, O'Grady and Lane (1996) in an early study of this phenomenon, maintain that perceived similarities between countries can make managers overlook and remain unprepared for possible differences and by doing so, fail in making rational decisions. Expectations about psychic closeness may lead to unforeseen entry barriers and result in unsuccessful company performance.

Fenwick, Edwards and Buckley (2003) indicate that culturally close markets may result in reduced risk in entering and operating in a foreign market, there is no guarantee that it will result in successful company performance. Since cultural differences are seen as a core aspect of psychic distance per se, this finding is regarded as supportive of the paradox. Fenwick's et al. (2003) research suggests that company

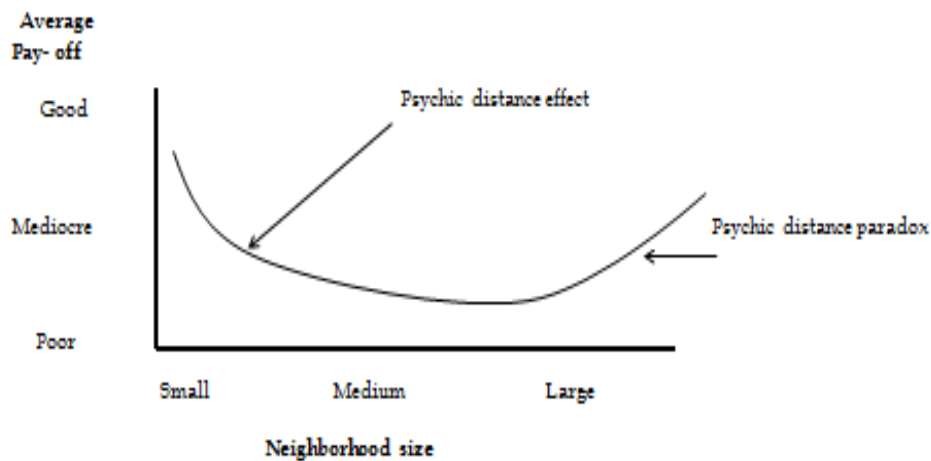
performance in psychically close markets can be negatively affected by unanticipated cultural differences. Perceived similarities between countries resulted in overconfidence and poor management preparation. Evans, Treadgold and Mavondo (2000) point out that psychic distance may positive impacts on organizational performance. The uncertainty and risks linked to psychically distant markets makes companies invest additional time and more money on planning and research activities which results in better organizational performance.

Dikova (2009) suggests in contradiction to the psychic distance paradox model indicated in the above studies that market uncertainties in *psychically distant* markets motivates company management to research such markets more thoroughly, which can result in the better performance of foreign subsidiaries. The above studies indicate that the rationale for the apparent paradox resides in explanations stemming from shifts in independent variables rather than the same independent variable (psychic distance) becoming a paradox which is logically self-contradictory. The new independent variables explaining the 'paradox' are thus distinct from the original one of psychic distance, and in the above studies are found to be: management unpreparedness (O'Grady and Lane, 1996), management overconfidence (Fenwick et al, 2003) and management research and planning (Evans et al, 2000; Dikova, 2009).

More recently, Gairola and Chong (2012) have incorporated psychic distance in computer simulations of cooperation to generate more realistic noise models in empirically-validated spatial games. Gairola and Chong (2012) investigate a novel 'psychic noise model' based on the idea of a psychic distance effect that they suggest, reflects real-world interactions. Gairola and Chong (2012) purport that psychic noise that influences interactions between individuals, depends on their psychic distance (e.g., cultural difference). Results from their extensive computer simulations which use a multi-agent system framework to assess the impact of various constructions of noisy interactions, show that noise has a negative impact on cooperation. However, Gairola and Chong (2012) also obtain results which they regard as "reminiscent of the psychic distance paradox" (op.cit:271), where increases in psychic 'noise levels' lead to decreases in inter-individual cooperation. Where 'noise' is defined as the faulty transmission of strategic choices and 'psychic noise' is regarded as arising from differential psychic distances between interacting people. This finding can be regarded as an *equivocal* manifestation of the psychic distance model's paradox in that it suggests that psychic distance and resultant pay-offs (where average pay-off values indicate the degree of cooperation) follow the form of a U-shaped curve, where increasing psychic distance appears to reduce average cooperation pay-offs and then, as psychic distance increases beyond a certain point, begin to improve cooperative pay-offs. Gairola and Chong (2012) regard this as evidence of a psychic distance paradox, but it is clear that it has fundamental qualitative differences from earlier empirical studies (e.g. those by O'Grady and Lane, 1996; Evans et al, 2000). In their analysis of the noise effects of spatial distances, Gairola and Chong (2012) found that neighbourhood size (with greater size being equivalent to greater distance) was associated, initially, with declining average pay-offs, but later with increasing average pay-offs with increasing neighbourhood size (see Figure 1).

Note that this finding, although logically consonant with the notion of the existence of a psychic distance *paradox*, is quite distinct from the *paradox* found in some empirical business studies. Here the *paradox* relates to *greater psychic distance being associated with greater payoffs*, whereas in most empirical business studies of the phenomenon the *paradox* relates to *smaller pay-offs being associated with closer psychic distance*. It would seem, therefore, that working from the general premise that lower psychic distance promotes greater benefits, the *paradox* cannot logically be *both* that closer psychic distance promotes lesser benefits and further psychic distance promotes greater benefits at the same time, as it would suggest that the paradox is constituted of *both* negative and positive associations with psychic distance, when the concept itself is generally regarded as unidirectional.

Figure 1. The psychic distance paradox (Gairola and Chong, 2012)



The paradox effect noted by Gairola and Chong (2012) and illustrated in Figure 1 cannot be explained by means of rationale of any of the empirical business studies mentioned earlier, here the effect seems to be one of, beyond a certain point, the greater the psychic distance the more effective cooperation and average pay-offs become. This finding might be explained by greater efficiencies derived from the relative lack of 'cultural ties' and need for personal involvement in more distant neighborhoods. As pointed out recently in a paper in the *Economist* (2017), cultural differences and lack of involvement can *diminish* the probability of cultural clashes which stem from "cultural incompatibilities".

2. Methodology

The preceding section has attempted to give an outline of the current situation regarding the definition and applications of the concepts of psychic distance and the psychic distance paradox published in the extant literature. The methodology used in the preceding section was one of logical inductive analyses of secondary data sources (Mill, 1843). The current section briefly discusses a methodological approach used in a recent empirical study of South African multinational company executives' decision-making which aims to resolve some of these conceptual and empirical problems which arise from the use of the psychic distance and paradox models discussed in the earlier section. The study (Joosub and Coldwell, 2016) adopted a cross-sectional research design using mixed methods combining nomothetic and idiographic approaches. A quantitative survey instrument was combined with qualitative semi-structured interviews and the findings of the analyses triangulated with a sequential research protocol. Table 2 below provides an overview of the mixed method sequential explanatory design discussed above.

Phase	Procedure	Product
Quantitative data collection	Cross sectional web based survey	Numeric data
Quantitative data analysis	Analysis using SPSS	Descriptive statistics
Qualitative data collection	In depth interviews	Interview transcripts
Qualitative data analysis	Thematic and content analysis	Themes and commonalities
Integration of the qualitative and quantitative results	Triangulation	Diversions

Table 2. The sequential explanatory design

Adapted from (Ivankova, Cresswell and Stick, 2006)

The research study consisted of three distinct phases implemented sequentially: quantitative, qualitative and triangulation. The quantitative phase consisted of closed-ended questionnaires emailed to the sample of respondents (data was analysed using SPSS descriptive statistics). The qualitative phase involved conducting a series of in-depth interviews with executive management (Atlas ti was used to

interpret themes and commonalities that emerged from the data). Finally, the data were triangulated as a means of assessing the degree of corroboration between the nomothetic and idiographic data.

The quantitative population from which the non-random sample was obtained consisted of all South African Multinational enterprises (MNEs) that had operational foreign direct investments on 1 January 2012. The qualitative sample of 26 CEOs or directors involved in strategic decision making was non-randomly selected from a wide range of industries including: telecommunications, mining, engineering, retailing (food and clothing), paper manufacturers, service (legal and audit), banking, information technology, fast food and pharmaceuticals.

The quantitative and qualitative combined approach also has the potential benefit of surmounting limitations involved in using a single method. The qualitative and quantitative research instruments used similar conceptual ideas and focus which allowing the two paradigms to be connected and compared in an overall conceptual framework involving triangulation. The mix of the two methods provides a platform that allows the researcher to analyse 'seeing and hearing' data (Greene, 2008). It allows the researcher to understand the different and often difficult aspects of social phenomena by using multiple forms of inquiry (Greene, 2008:20).

Triangulation is regularly used to validate data obtained by the mixed method approach. As Webb, Campbell, Schwartz and Sechrest (1966:3) point out "Once a proposition has been confirmed by two or more independent measurement processes, the uncertainty of its interpretation is greatly reduced. The most persuasive evidence comes through a triangulation of measurement processes".

Triangulation is a method for corroborating and confirming qualitative and quantitative research findings by providing a third paradigm which consists of a synthesis which can provide more informative, complete and balanced. Triangulation is a validation strategy which provides more persuasive empirical evidence (Flick, 2009). Triangulation allows for convergence, validation and legitimization of results and a deeper understanding of the phenomenon being investigated and is able to create new knowledge through its synthesising process. (Denzin, 1989).

Methodological triangulation establishes validity between the different analytical methods used (Guion, 2002). In the South African study triangulation was used to describe the goodness of fit between the quantitative (survey instrument) and qualitative (interview) data. The findings of this triangulated synthetic analysis indicated corroboration of the nomothetic analysis by the idiographic analysis and validated the FDI factors found in the data analyses. Triangulation is thus a technique to generate a dialectic which goes beyond simply validating mixed method findings that are able to achieve innovations of original conceptual frameworks which "... is made possible through an ongoing dialectic of investigation. Essentially, this dialectic consists of a 'bottom-up' qualitative and 'top down' quantitative operationalisation of concepts in a dialectical synthesis that aims to validate existing research constructs and facilitate the emergence of further conceptual innovations" (Coldwell, 2007:7).

3. Findings

The findings of the inductive analysis of secondary sources (Mill, 1843) suggest that the concepts of psychic distance and the psychic distance paradox are logically equivocal. In particular, the idea that psychic distance is theoretically sustainable as a unidirectional deficit model was shown to be untenable. Also, following from this, the equivocal nature of the psychic paradox was exposed by indicating that the paradox is sometimes regarded not only when low psychic distance is associated with unsuccessful FDI (its original meaning), but also when high psychic distance is associated with successful FDI.

Findings from the analyses using the innovative methodological approaches and techniques, suggest that geography (physical distance from head office) is a salient factor in FDI decision-making and agree with the original psychic distance model. However, the study found no unequivocal evidence that cultural differences, a major independent variable in the original model, affect the choice of FDI destination. Subjective elements of the management decision-maker not incorporated into objective, quantitative measurements of psychic distance incorporating objective indices, were often found to involve broader analyses of FDI opportunities. Management decision-makers perceptions of broader, dynamic contextual FDI factors and their own personal experience of the internationalization process, often weighed more heavily on the ultimate decisions made than objectively measurable psychic distance factors of the kind analysed in the original model. There was clear evidence that personal experiences of

top management moderated FDI decision-making. More specifically, it was found that managers with personal experience of international locations (through work experience, business and social networks) were more likely to indulge in FDI.

Although based on a study limited to one country and with a small sample, the findings tentatively show that research relating to company internationalisation and FDI should include a qualitative dimension if it is to obtain dynamically valid results. Purely objective indices such as those used in psychic distance measurement are unlikely to embrace the dynamic subjective feature of FDI decision-making, not only in terms of what objective variable are contextually pertinent at a given moment in time, but also their relative importance.

The study also has indicated the crucial importance of contextual aspects in the explanation of FDI decision making; every firm sees FDI from its own unique perspective and responds from its bounded rationality and partial information possessed by decision-makers according to its interests and values rather than simply 'information deficits' as proposed in the psychic distance model. The qualitative dimension of the study and the triangulated methodology used in corroboration with the quantitative aspects, suggests that the unidimensional perspective of the psychic distance model is unable to capture the complexity of the FDI decision making process and that this is better understood by adopting a broader perspective with subjective and contextually dynamic inputs.

4. Conclusion

In general terms, psychic distance might be regarded as a view arising from a widely-held conviction that, as Nietzsche puts it, "invisible (psychic) threads are the strongest ties" (Colli, and Montinari, 1998). While a paradox is defined as "a statement or proposition which, despite sound (or apparently sound) reasoning from acceptable premises, leads to a conclusion that seems logically unacceptable or self-contradictory (Oxford Dictionary, 2017) this paper has indicated that such invisible psychic threads do not always provide strong ties and benefits they are purported to do in the psychic distance model. The analysis has shown that the concept of psychic distance and the psychic distance paradox become tenuous in both its empirical and theoretical usages. In short, the model of psychic distance is empirically flawed because it embraces partial and eclectic view of how the internationalization process occurs and theoretically flawed because empirical and computer simulated evidence suggests that psychic distance is *both* positively and negatively correlated with company internationalization success. In such circumstances also, the idea of a psychic distance paradox becomes logically inconsistent. The paper has also indicated that if psychic distance is 'disembodied' from the individual's psyche and merely measured by objective indices of its effects, it cannot be regarded as a truly *psychic* construct derived from individual subjective perceptions and experiences and has suggested that in order to do so, methodological adaptations in the way the concept is used in the South African study described in the paper are required.

Limitations of the study include the fact that the triangulated nomothetic and idiographic methodological approach to FDI decision-making used in the South African study has only been conducted with a relatively small sample of multinational companies in one specific context. Also, the equivocality of the psychic paradox has been shown by computer simulations and requires further substantive investigation. However, Brewer's (2007) acknowledgement of the fact that that the psychic distance concept is contextually bound, and that management's subjective decision-making process is crucial to explain the actual internationalization process, suggests that a broad and multi-faceted methodological approach is warranted. Future research using the triangulated quantitative and qualitative methodological approach with larger samples from different organizations in different industrial contexts and countries is therefore recommended.

Finally, there seems little doubt, as has been argued in this paper, that an idiographic dimension is needed in applications of a psychic distance concept if it is to validly reflect actual FDI decision-making processes and successfully combine the complex array of objective criteria and subjective world views that impinge on internationalisation decisions reached by managers in the real world.

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Generosity's antecedents and outcomes - A proposed relationship between Generosity and Intention in Indonesia's BPJS Kesehatan

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Key Words

BPJS Kesehatan, Generosity, Positive Emotion, Intention

Abstract

In one preliminary descriptive study, the authors look for the satisfaction of and intention towards BPJS Kesehatan in Indonesia, revealing that despite the high un-satisfaction rate, ninety-one per cent of members are still expressing their intention continue paying insurance premium. The most mentioned reason for continued membership is helping others. Therefore, the preliminary study concludes that there might be a role of generosity influencing intention. This study aims to develop a conceptual model linking generosity to intention. The method used for critical review is PRISMA systematic review. The result of the critical review is used as the based for concept development. More than three hundred publications published after 2007 in Science Direct were screened with key words "generosity" and "charity". Finally, thirty journals were included in this review. The finding is that the most discussed topics are terminology (3 journals), motivation (16 journals), consequences (5 journals), and attributes of generosity (5 journals). Based on the review results, two possible relationships between generosity and intention are proposed. The first is that generosity, mediated by positive emotion, will influence intention. The second is that generosity has a direct influence on intention. It concludes with the need for further study to find empirical validation of the two possible relationships between generosity and intention. This is the first study proposed to link the generosity to intention.

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1. Introduction

Indonesia is one of several low and middle-income countries aiming to improve their health financing system and to implement universal health coverage (UHC). The Government of Indonesia issued Law No. 40 of 2004 regarding the implementation of the National Social Security System (President Republik Indonesia, 2004). This law was issued based on the principles of humanity, benefit, and social justice for all Indonesian citizens. Furthermore, the government established Social Security Agency or Badan Penyelenggara Jaminan Sosial (BPJS) as an agency body to ensure the implementation of the system. One of the programs is BPJS Kesehatan, which covers health insurance for all Indonesia.

Starting just within the last three years, January 2014, BPJS Kesehatan has successfully had large coverage. As of January 2017, BPJS Kesehatan has 172.97 million members, according to its official website. It is considered the biggest single payer institution of the Universal Health Coverage program in the world (Teh, 2015). Government of Indonesia targets to reach 100% coverage by 2019.

The rapid expansion of insurance coverage has created a demand which cannot be met by the current healthcare system (Bredenkamp *et al.*, 2015). The sudden increase of demand will disrupt the delivery of service, especially in public hospitals. The disruption of service, as a consequence, will influence the satisfaction level. The Centre for Health Economic and Policies Study from the University of

Indonesia showed that the satisfaction level of hospital service is 54%. The satisfaction level of doctor service is 44% (Thabrany, 2016).

One descriptive study, with 123 samples done by the authors, confirms that the satisfaction level of the service of BPJS Kesehatan is still low. Sixty-one per cent of respondents rate the BPJS Kesehatan service as positive (satisfied to very satisfied). Thirty-nine per cent of respondents still consider the service unsatisfying. Despite the high un-satisfaction rate, both users and non-users are still expressing their intention to continue BPJS Kesehatan membership. Intention rate is 91 per cent. The most mentioned reason for continuing membership is helping others (27 respondents). Therefore, there might be a role of generosity influencing intention (Dwidienawati and Abdinagoro, 2017).

Generosity is defined as giving to others – especially giving to others at a level that exceeds minimum needs or obligation (Wilcox and Dew, 2016). Generosity is a way of expressing love. It tends to the well-being of those to whom something is given. Generosity is shown in various way of giving. It can be giving money, possession, time, attention, aid, encouragement, emotional availability, and more.

However, “*The more I give to thee the more I have*” Juliet says to Romeo. Generosity is known not only to be beneficial for the recipient, but also beneficial to the donor. The act of giving is good for those who practice it (Smith and Davidson, 2014). Generosity is not identical to pure altruism, since people can be generous for reasons that serve their own interest as well as those of others. Therefore, we can say that generosity is a virtue that serves side, donors and recipients. It is for the good of others, the recipients, and also benefits the donors (Smith and Davidson, 2014).

Generosity does not usually work in simple, zero sum, win/lose ways. It works unexpectedly; counter intuitively, win-win. Generosity is not producing net losses. In general, the more generously people give, the more of many goods they receive in turn. Sometimes they receive the same kind of thing that they gave, such as money, time or attention. More often and importantly, generous people gain back goods that are even more valuable than what they gave, namely happiness, health, a sense of purpose in life, and personal growth (Smith and Davidson, 2014).

Charitable giving involves a huge amount of money. In the U.S., the total money given to charity in 2011 alone was \$298.42 billion – over 2% of U.S. GDP and it is estimated to grow (Chuan and Samek, 2014). People currently are more generous. The act of giving has been promoted in many countries. According to World Giving Index published by the Charities Aid Foundation, almost a third of the world population had given money to charity, and 45% of the world had been ‘good Samaritans’ and helped strangers (Datablog, 2010).

Business saw the potential economic benefit of this more generous attitude. Cause Related Marketing was introduced as approach to combine act of giving and business purpose. CRM has proven to be an effective marketing and fundraising tool by involving companies in helping behaviors. CRM enables customers to view purchasing as a pro-social behavior. However, in academia, there are only a few literatures on the subject studying how generosity initiative influences customers' loyalty or intention to continue the relationship with the company (Choi and Seo, 2017).

In order to gain more understanding to develop a relation model of generosity to customer intention to continue the relationship with the company, the authors do a critical review of available journals on generosity.

On Science Direct, search results using the keywords “generosity”, “charity”, and “intention” reveal more than 60,000 publications. More than eleven thousand publications are from the last five years (2012-2016). In 2017 only, within 2 months alone, there are more than 500 publications on the topic of generosity or charity alone. What is so fascinating about generosity? Why have researchers put in such efforts to establish empirical evidence? What topics are covered in the latest study on generosity? This critical review is done to answer those questions. The other objective of this critical review is to establish a base to develop the relationship model of generosity to intention.

2. Methodology

The authors used PRISMA systematic review stepwise (Liberati *et al.*, 2009). From Science Direct, with “generosity” or “charity” as keywords, the authors found more than 60,000 journal publications. The authors then limited the source to social science journals, namely Journal of Social Medicine, Journal of Public Economic, Procedia –Social and Behavior, Journal of Economic Behavior and Organization. The

authors further limited the topic to social, public, behavioral science, individual behavior, public economic, people, and participant, and limited the date of publication to those later than 2007. This search result yields 231 journals.

The authors added search terms from the same sources with the keywords “generosity” and “intention”, with the same limitation; an additional 80 journals were discovered. After excluding duplication and checking the relevancy, the final number of journals for reviewing purposes totals thirty.

3. Result

The full-text journal review of thirty journals found that there are four main topic categories. The first one is the definition of generosity. The second one discusses the motivation of people being generous and what make them more generous. The third category is about the consequences of generosity. The last category is various attributes influencing generosity.

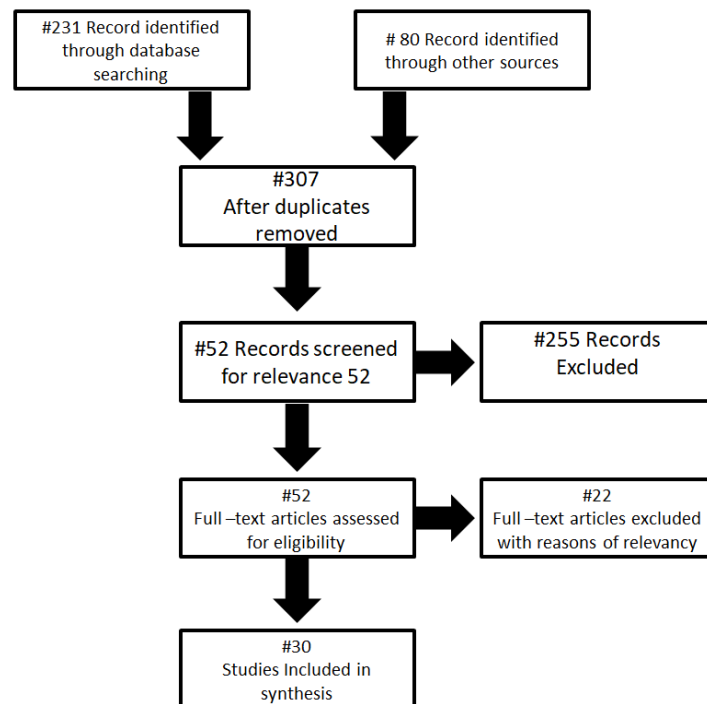


Figure 1. PRISMA Systematic Review

3.1. Definition of Generosity

Generosity is defined as giving to others - especially giving to others at a level that exceeds minimum needs or obligation (Wilcox and Dew, 2016). Generosity comes in various ways, such as giving money, possession, time, attention, aid, encouragement, emotional availability, and more.

Three publications were found that define and give terminology related to generosity: Codrea (2014), Strauss, Baer, & Cavanagh (2016), and Jensen (2016).

Codrea (2014) reveals the definition of gift from an anthropological perspective, which is different from the rigid civil notion of donation. Gift is different from donation since it is not free, not voluntary, and not unilateral. Gift is subject to triple obligation: to give, to receive, and to reciprocate. This may be the reason why people sometimes still expect reciprocity when they give something to others.

Strauss et al. (2016) talk about compassion. According to him despite widely increasing attention, the definition of compassion is still not fully agreed upon and lacks robust measure. He proposes that there are five elements of compassion, which are recognizing suffering, understanding the universality of human suffering, feeling for the person suffering, tolerating uncomfortable feelings, and motivation to act/acting to alleviate suffering. Compassion somehow is part of generosity.

Jensen (2016) discusses prosocial behavior. According to him, prosocial behavior is behavior which is intended to benefit others. Informing, comforting, sharing, and helping are examples of prosocial behaviors.

3.2. What motivates people to be generous and what makes people become more generous?

Various motivations are behind the act of giving, and can be economical reasoning versus social reasoning. Extrinsic incentives are economically relevant. Tangible reward (e.g. money, reciprocal gift) and intangible reward (e.g. reputation, gain long term cooperation, and avoiding social sanction) are types of extrinsic incentives. Social rationale is when the reason behind giving is to gain intrinsic rewards (DeClerck, Boone and Emonds, 2013). Intrinsic rewards are rewards such as feeling satisfied, "Warm Glow", and positive feelings from the experience of donating. The last motivation is pure altruism, which is empathy to help others (Verhaert and Van den Poel, 2011; Dickert et al., 2011; Basil et al., 2008) in (Wang and Tong, 2015).

There are nine journals out of thirty which review the motivation of people for being generous. The hoping to get intrinsic reward is reported by various authors (DeClerck, Boone and Emonds, 2013; Hur, 2013; Greenberg, 2014; Sharp and Randhawa, 2014; Lynn, 2015; Natter and Kaufmann, 2015; Kandul, 2016; Llamas and Uth, 2016; Liu and Hao, 2017). They argue that people doing good to others, such as prosocial acts, tipping, giving money to strangers, and voluntary payment, do so because they can gain the feeling of pleasure, "Warm Glow", and feeling more connected to humankind.

Llamas & Uth (2016) argue that main reasons people are generous are to gain luxury, feel the pleasure and purpose, and feel connected with humankind (intrinsic). DeClerck et al. (2013) state that people enjoy giving because of the reward of human cooperation, not because of natural compensation. Greenberg (2014) in his study in prosocial behavior demonstrates that the motivation of prosocial behavior is both intrinsic and extrinsic. The prominent motives behind giving money to others are first they don't like inequality, second, they like to have "Warm Glow", and last the solidarity of needy (Kandul 2016).

Only three journals are about extrinsic reward motivation. Natter & Kaufmann (2015) say the reason people initiate a voluntary payment is because they expect to accept reciprocal acts. Greenberg (2014) in his study demonstrates that the motivations of prosocial behaviors are both intrinsic and extrinsic. The motivation of avoiding social sanction is only mentioned by Greenberg and Hur. Giving to others, according to them, is for moral judgement and following social norm.

Sharp & Randhawa (2014), Hur (2013), and Kandul (2016), however, show that pure concern to others is the main motivation of being generous (pure altruism). According to them, selfishness is not the norm of humankind. Hur (2013) mentions that the motivations of prosocial behaviors are mainly empathic and moral judgement. Sharp & Randhawa (2014) further strengthen the evidence. They argue that the motivation of altruism is concern for the welfare of others and it is driven by emphatic. Kandul (2016) states that the prominent motives behind giving money to others are first they don't like inequality, second, they like to have warm glow, and last the solidarity of needy.

Human beings can be more generous. Zaleskiewicz, Gasiorowska, & Kesebir(2015), Kandul(2016), Sollberger, Bernauer, & Ehlert(2016), Grolleau, Sutan, & Vranceanu(2016), Cryder & Loewenstein (2015), Charles-sire, Guéguen, Meineri, Martin, & Bullock(2014) and Rotemberg(2014) are researching those particular reasons. The thought of mortality, getting detailed information about the charity itself, interacting with a poorer stranger, already receiving help, and interacting with generous people are some of the reasons causing people to become more generous. Sollberger et al. (2016) shows that stress can increase the act of kindness to donate even though it decreases the amount of donation. Rotemberg (2014) shows that seeing others donate can motivate people to also donate. Generosity is contagious

3.3. Consequences of Generosity

Previous studies show that being generous leads to more happiness and satisfaction(Aknin *et al.*, 2013)(Matz, Gladstone and Stillwell, 2016)(Anik *et al.*, 2009). Giving money use both cognitive and emotional processes(Corcoran, 2015). Corcoran (2015) argued that positive emotion played important role in people contributing money. Anik, Norton, Aknin, & Dunn (2013) in their experimental study showed that giving prosocial bonuses in the form of donations to charity lead to happier and more satisfied employees.

From thirty studies reviewed, only three studies see the consequences of generosity: Aknin et al. (2013), Yoruk (2014), and Lin (2015). Aknin et al. (2013) contributes to empirical evidence on the consequences of generosity. He suggests that prosocial impact unleashes the emotional rewards of giving. The study further shows that helping is most likely to lead to happiness when helpers know they have assisted another person in a meaningful way.

Yoruk (2014) states that charitable giving has positive spill over, affecting overall health status and decrease the probability of suffering from several health problems. Charitable subsidies are associated with decreasing the probability of lung disease, emotional and psychological problems, and arthritis. Even though the results show charitable acts associated with the decreasing probability of suffering from other health related problems such as high blood pressure, diabetes, cancer, heart attack, and obesity, the impact on these outcomes is not statistically significant.

Lin (2015) concludes that generosity will increase the feeling of gratitude. Gratitude may lead to increased self-esteem and to improved well-being.

The satisfaction level of being generous can be elevated and eliminated. Rudd, Aaker, & Norton (2014) mentions that framing concrete goals of prosocial acts brings greater happiness. The reminder about one's responsibility to help others will make people feel better about contributing (Whillans, Wispinski and Dunn, 2016). Aknin et al. (2013) also shows that happiness because of giving money can be elevated when the donor knows how the funds are used. Goal gradient can also increase satisfaction of contribution (Cryder and Loewenstein, 2015). People contribute because of mostly intrinsic incentive, which is also discussed by Chuan & Samek (2014), while Wang & Tong (2015) show that exposing or declaring donations to others by the recipients will diminish the satisfaction of contribution.

3.4. Attributes of Generosity

Woman might show more empathy, kindness, and desire to help others. Men display less empathetic behaviour. However, the act of being prosocial is similar. Nielson, Padilla-walker, & Holmes (2017) argue that there is no difference between man and woman regarding prosocial behavior.

Lynn & Starbuck (2015) show that the willingness to tip is influenced by attitude and sensitivity of duty. The difference of culture also influences prosocial behavior. A culture with a communal norm expects less reciprocity when compared to an individual culture (Miller *et al.*, 2014). High status individuals give when they expect reciprocity and low status individuals give out of gratitude (Liu and Hao, 2017). Choi & Seo (2017) show that personality, status-seeking, and non-status-seeking have different motivations in giving.

Topic	Author	Description
Terminology (3 journals)	(Strauss et al. 2016),(Jensen 2016) and (Codrea 2014)	Different definition of gift and donation from anthropological perspective. Definition of Prosocial and compassion.
Motivation of being generous (15 Journals)	(Llamas & Uth 2016), (Declerck et al. 2013), (Natter & Kaufmann 2015),(Greenberg 2014), (Sharp & Randhawa 2014), (Hur 2013), (Lynn 2015), (Kandul 2016), (Liu & Hao 2017) (Zaleskiewicz et al. 2015), (Kandul 2016), (Sollberger et al. 2016), (Grolleau et al. 2016), (Cryder et al. 2013), (Charles-sire et al. 2014)),(Rotemberg 2014)	Motivation of being generous are extrinsic incentives, intrinsic incentive and pure virtue. People become more generous because of thought of mortality, getting detail information about the charity itself, interact with poorer stranger, receiving help and interact with generous people, seeing other donate and stress.
Consequences of generosity (5 journals)	(Aknin et al. 2013), (Yoruk 2014) and (Lin 2015) (Rudd et al. 2014), (Whillans et al. 2016), (Aknin et al. 2013), (Chuan & Samek 2014), (Wang & Tong 2015), (Cryder & Loewenstein 2015)	Happiness and health outcomes are the consequences of being generous. The satisfaction or happiness level increase when framing concrete, reminded about responsibility to help, know how the funds are used and goal gradient. Exposing or declaring donation to others or recipients will diminish the satisfaction of contribution.
Attributes of generosity (5 Journals)	(Nielson et al. 2017),(Lynn & Starbuck 2015),(Miller et al. 2014) (Liu & Hao 2017),(Choi S & Seo 2017)	Culture and personality influence one generosity but no gender influence.

Table 1. Topic Highlight from 30 journals

4. Discussion

Generosity comes in various ways, whether giving money, possession, time, attention, aid, encouragement, emotional availability, and more. However, generosity is not identical to pure altruism, since people can be generous for reasons that serve their own interest as well as those of others. Therefore, that generosity is a virtue that serves both sides, as it is for the good of others and also beneficial for the donor (Smith & Davidson, 2014).

The critical review from thirty journals on “generosity” reveals that being generous is motivated by pure altruistic reasons (empathy to help others) (Hur, 2013; Kandul, 2016; Sharp & Randhawa, 2014), intrinsic incentives (the feeling of pleasure, “Warm Glow”, and being more connected to humankind) (Declerck et al., 2013; Greenberg, 2014; Hur, 2013; Kandul, 2016; Liu & Hao, 2017; Llamas & Uth, 2016; Lynn, 2015; Natter & Kaufmann, 2015; Sharp & Randhawa, 2014), and extrinsic incentives (hoping for reciprocity, increase reputation, and avoiding social sanction) (Greenberg, 2014; Hur, 2013; Natter & Kaufmann, 2015).

Being generous may further lead to happiness, well-being, and other positive health outcomes. The relationship of happiness, positive emotion, and satisfaction to intention has been shown in various (Barclay, 2013; Su and Hsu, 2013; Corcoran, 2015; Grolleau, Sutan and Vranceanu, 2016; Urueña and Hidalgo, 2016; Whillans, Wispinski and Dunn, 2016). Therefore, the authors propose a relationship between generosity, positive emotion, and intention.

P1: Generosity is mediated by positive emotion and will positively influence intention.

The other motivation of generosity is pure altruism. People are giving, sharing, and contributing because they are moved by inequality, solidarity of needy, helping others, concerned with the welfare of others, and are driven by empathy (Hur, 2013; Kandul, 2016; Sharp & Randhawa, 2014). From that evidence the authors can draw the other possible direct relationship of generosity to intention.

P2: Generosity has a positive direct influence on intention.



Figure 2. Proposed Model Relationship of Generosity to Intention

5. Conclusion

In a descriptive study done by the authors to see the satisfaction of and intention towards BPJS Kesehatan in Indonesia, the authors found that despite the high un-satisfaction rate (39 per cent), 91 per cent express their intentions to continue paying insurance premiums. The most mentioned reasons for continuing membership is helping others (27 respondents). Therefore, the conclusion of the study is that there might be a role of generosity in influencing intention (Dwidienawati and Bramantoro, 2017).

Being generous is motivated by pure altruistic reasons (Hur, 2013; Kandul, 2016; Sharp & Randhawa, 2014), intrinsic incentives (Declerck et al., 2013; Greenberg, 2014; Hur, 2013; Kandul, 2016; Liu & Hao, 2017; Llamas & Uth, 2016; Lynn, 2015; Natter & Kaufmann, 2015; Sharp & Randhawa, 2014) and extrinsic incentives (Greenberg, 2014; Hur, 2013; Natter & Kaufmann, 2015). The other motivation is pure altruism.

Drawing from above evidences, the authors suggest that there are two possible relationships between generosity and intention. The first relationship is that generosity is mediated by positive emotion, which will positively influence intention. The second relationship is that generosity has a positive direct influence on intention.

The limitation of this study is that the critical review is only based on one source which is Science Direct. Broaden sources might give more insight such as other possible variables link generosity to intention. Other limitation of this study is that it is still a conceptual model. Further study to discover empirical validation of the two possible relationships between generosity and intention should be done.

Further evidence will contribute both to theoretical and practical implication. The theoretical contribution will be the first study to provide evidence of the relationship between generosity and intention. The practical implication will be the insight for manager that “generosity” topic can be used to improve customers’ intention.

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No	Author	Years	Journal	Topic	Design Study	Variable	Outcomes	Description
1	Aknin et al.	2013	<i>Journal of Economic Behavior and Organization</i>	Consequences	Survey	Type of donor (Specific or general)	Prosocial act	Giving money will give more happiness when participant know how their money used.
2	Choi S & Seo	2017	<i>International Journal of Hospitality Management</i>	Attributes	On line survey	Consumer Personality (Status seeking or non status seeking)	Consumer Behavior	Status seeking individual exhibited the high level of prosocial behavior when their behavior was recognition compared to non status seeking
3	Charles-sire et al.	2014	<i>Transfusion and Apheresis Science</i>	Motivation of being generous	Survey	Priming "Loving=Helping"	Intention to give blood donation	Semantic priming effect to donor intention and commitment in blood donation.
4	Chuan & Samek	2014	<i>Journal of Economic Behavior and Organization</i>	Motivation of being generous	Experiment	Declare the donation with sending postcard to donor	Amount of future charity	Declare the donation to recipient can reduce the intention of donation
5	Crodea	2014	<i>Procedia - Social and Behavioral Sciences</i>	Definition or Terminology	Literature Review			Gift from an anthropological perspective differs from the rigid civil notion of donation. Gift subject to triple obligation: to give, to receive and to reciprocate.
6	Cryder & Loewenstein	2015	<i>Journal of Experimental Social Psychology</i>	Consequences	Experiment	Information about the goal of donor	Satisfaction	Goal gradient helping occurs in part because late stage effort provide donors with a heightened sense of proocial impact, on influential source of satisfaction of proocial act.
7	Cryder et al.	2013	<i>Social Science Research</i>	Motivation of being generous	Experiment	Detail information about the donor/activity of donor	Generosity	Highlighting detail about charity will increase generosity. Because they believe their contribution will give effect.
8	DeClerk et al.	2013	<i>Brain and Cognition</i>	Motivation of being generous	Literature Review			People enjoy cooperation behavior because they enjoy human connection. Not because of natural compensation.
9	Greenberg	2014	<i>Journal of Economic Behavior and Organization</i>	Motivation of being generous	Survey	Social Norm	Prosocial Act	People act prosocial because of or motivated by intrinsic motivation, but many motivated by social norm (extrinsic).
10	Grolleau et al.	2016	<i>Research in Economics</i>	Motivation of being generous	Experimental (Public good game)	Benefit for others	Generosity	People are concern about well being of others. When they receiving other help or interacting with generous people (social contagious).

Table 2. Resume of 30 journals (1)

No	Author	Years	Journal	Topic	Design Study	Variable	Outcomes	Description
11	Hur	2013	<i>Personality and Individual Differences</i>	Motivation of being generous				Social behavior is to achieve positive outcome for other rather than one self. The motivation mainly empathy and moral judgment.
12	Jenssen	2016	<i>Current Biology</i>	Definition or Terminology	Review			Prosocial behavior that intended benefited other. Various from prosocial act such as informing, comforting, sharing and helping.
13	Kandul	2016	<i>Journal of Economic Psychology</i>	Motivation of being generous	Experiment	Act of recipient and act of other donor	Giving Money	Participants are willing to share money to poorer stranger. Prominent motive behind are: dislike inequality, warm and glow and solidarity of needy.
14	Lin	2015	<i>Personality and Individual Differences</i>	Consequences	Survey	Self Esteem and Gratitude	Well Being	Gratitude will lead to self esteem which further lead to well being.
15	Liu and Hao	2017	<i>Personality and Individual Differences</i>	Motivation of being generous; Attributes	Survey	Social Status	Reciprocity belief and Gratitude sentiment	High statue people give more if reciprocity. Low status give of out gratitude.
16	Llamas and Thomsen	2016	<i>Journal of Business Research</i> ,	Motivation of being generous	Qualitative Study			Sharing will give the luxury of pleasure, purpose and connection to human kind.
17	Lynn	2015	<i>Journal of Behavioral and Experimental Economics</i>	Motivation of being generous	On line survey	Motives of tipping	Tipping act	Desire of giving tip is motivated by help server, reward good service and fulfill obligation
18	Lynn & Starbuck	2015	<i>Journal of Behavioral and Experimental Economics</i>	Attributes	Survey	Attitude to tipping; sensitivity to social pressure: sensitivity to duty	Tipp Size	Tipping prevalence influenced by national attitude on tipping and national sensitivity of duty.
19	Miller et al.	2014	<i>Journal of Experimental Social Psychology</i>	Attributes	Experimental	Culture	Reciprocate Behavior	Indian places greater emphasis than American do on communal norm in friend relationship with this effect unrelated to socioeconomic status. American more to reciprocal.
20	Natter and Kaufmann	2015	<i>Journal of Behavioral and Experimental Economics</i>	Motivation of being generous	Literature Review			Reciprocity is the major reason of people giving voluntary payment.

Table 3. Resume of 30 journals (2)

No	Author	Years	Journal	Topic	Design Study	Variable	Outcomes	Description
21	Nielson et al.	2017	<i>Journal of Adolescence</i>	Attributes	Survey	Gender	Prosocial Act	There is no difference of man and woman in their prosocial act.
22	Rotemberg	2014	<i>Journal of Public Economics</i>	Motivation of being generous	Conceptual Paper			People donate when other donate
23	Rudd et al.	2014	<i>Journal of Experimental Social Psychology</i>	Consequences	Experiment	Framing Goal	Happiness	Framing concrete goal will make prosocial bring greater happiness.
24	Sharp and Randhawa	2014	<i>Transplantation Reviews</i>	Motivation of being generous	Literature Review			People help because they concern about welfare of others and driven by empathy.
25	Sollberger et al.	2016	<i>Psychoneuroendocrinology</i>	Motivation of being generous	Experimental	Donation behavior	Happiness	Stress may increase prosocial behavior through the mechanism of emotion regulation. However, stress induced also decreases the amount of donation.
26	Strauss et al.	2016	<i>Clinical Psychology Review</i>	Definition or Terminology	Literature Review			5 Component of compassions: 1. Recognition of suffering; 1. Understand it universally; 3. Felling sympathy, empathy and concern; 4. Tolerance the distress; 5. Motivation to act.
27	Wang & Tong	2015	<i>Journal of Research in Marketing</i>	Consequences	Experiment	Publication after charity act	Happiness and Future Charity giving	Publishing prosocial act may donor post-donation happiness and may influence future prosocial intention.
28	Whillans et al.	2016	<i>Journal of Economic Behavior and Organization</i>	Consequences	Survey	Wealth Responsibility	Taxation Perception	Novel lever will encourage and make people feel better in paying tax.
29	Yoruk	2014	<i>Journal of Economic Psychology</i>	Consequences	Survey	Generosity	Health Outcomes	Charitable giving has a positive spill over affect on overall health status and decrease the probability of suffering from several important health problem.
30	Zaleskiewicz et al.	2015	<i>Journal of Experimental Social Psychology</i>	Motivation of being generous	Survey	Amount of money given; Mortality salient	Satisfaction	People choose to behave more generously after mortality thought. This has more to do with one's personal satisfaction of others.

Table 4. Resume of 30 journals (3)

Exploring the extension of unified theory of acceptance and use of technology, UTAUT2, factors effect on perceived usefulness and ease of use on mobile commerce in Egypt

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Keywords

Convenience, Social influence, Hedonic motivations, perceived usefulness, ease of use

Abstract

This paper aims to study the factors that enhance perception of mobile commerce users to promote such form of shopping in Egypt. Researchers explored the factors affecting users of Mobile communication and electronic shopping by identifying all factors considered in technology users' behaviour theories. Researchers conducted an exploratory research, to examine the most relevant factors for mobile commerce adoption, also, tested the reliable and valid measures extracted, for considering its effect on the user's perception of its usefulness and ease of use. Three factors were considered of main importance: social influence, convenience and hedonic motivations. Researchers tested those factors and they all affected User's perception, further They affected each other. Thus, researchers concluded that, in Mobile commerce, Social influence were fully mediated with hedonic motivation and convenience. As of Convenience, it tends to be the most affecting for perceptions of consumers usefulness and ease of use also, it has a strong mediation effect between social influence and mobile commerce user's perceptions.

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Introduction

Worldwide, expansion of electronic commerce and the surge of mobile commerce developed new opportunities and markets for businesses. According to global Retail survey (PWC, 2015), 47% of global consumers used mobile devices to make purchases during 2014 compared to 30% two years earlier, which implies a rapid growth in mobile device usage as one of the means of conducting online shopping. Moreover, 62% of global mobile device users compared to 75% in the Middle East believe that purchases are more likely through social media. In the Middle East, Egypt has the largest population for online buyers, 15.2%. However, due to the low purchasing power and other challenges such as security concerns for payments, the United Arab Emirates and Kuwait have more online buyers for e-commerce (Daily News, May 2015). In the UAE, 46% of total internet users are online consumers. On the other hand, in Egypt, which has the highest number of internet users, 55%, only 8% of total internet users are online consumers. Moreover, mobile internet users constitute only 22% of mobile subscribers who are almost 95 million. (Payfort, April 2015). Consequently, there is a huge potential in this market for M-commerce, however; there is still limited usage of such technology which possess lots of questions for the reasons underlying.

To understand the term mobile commerce (m-commerce), the term split into "Mobile" and "commerce". Mobile means "Anywhere and anytime access". This access takes place through mobile communications networks, which facilitates this access regardless of geographic location (Hohenbery and Rufera, 2004). M-Commerce is defined as "buying and selling of goods and services, using wireless hand-

held devices such as mobile telephones or personal data assistants" (UNCTAD, 2002), or conducting transactions using communication networks (Muller-veerse, 2000). A mobile device is a wireless connection, however, not all wireless devices are mobile applications (Ancher and Dincau, 2002). Mobile commerce is as part of the electronic commerce evolution and many theories governing e-commerce can be explored for M-commerce to explain consumer behavior for such technology. Theories such as TAM (Technology Acceptance Model), TPB (Theory of planned Behavior), TAM2 (the extension of TAM), UTAUT (Unified Theory of Acceptance and usage of Technology) and UTAUT2 (The Extension of the Unified Theory of Acceptance and usage of Technology) are known theories for explaining consumer behavior in using technologies and electronic commerce. This research aims to study factors hypothesized in these theories and their effect on Mobile commerce in Egypt.

Theoretical frame work

There are an abundance of theories and models that attempt to explain consumer behavior in using technologies and electronic commerce, as TAM, TPB and TAM2. The technology theories originated from the theory of reasoned actions (TRA). This Theory considers the effect of experience, person's demographics characteristics and personality traits on behavioral performance. Also, Perceived control was added to such theory, which led to the development of the theory of planned behavior (Ajzen, 1991; Ajzen, 1988). Ajzen (1988) explained perceived control as the level of difficulty of performing a behavior, and, hypothesized a direct relationship between perceived control and buying intentions (Ajzen, 2002). Thus, the behavioral buying intentions were considered as representative of consumer behavioral performance as of TPB. Behavioral intention is defined as the willingness and motivation to commit effort or time to a certain behavior (Courneya et al., 1999). Attitudes, subjective norms & perceived behavior control were added to TPB. Later, The TAM was developed for accessing user behaviour of information system technologies. It was an antecedent of TRA and TPB as it considered both buying intentions and attitudes. Its goal was to define the determinants of computing acceptance and its technology, through a theoretical based theory (Davis et al., 1995). The TAM emphasizes a person's behavior towards technology by his attitudes and beliefs toward this technology. The perceived usefulness and ease of use were the main determinants of attitudes. The TAM model lacks normative constructs, such as the facilitating conditions component of perceived control, and affective measures of habit. The TAM model was extended, by Vankaetesh and Davis (2000), by incorporating subjective norms, image, job relevance, output quality & result demonstrability.

Proceeding on theories of behaviour prediction to Technology, The Unified Theory of Acceptance and Use of Technology (UTAUT) developed as an extension for TAM and TAM2 models (Venkatesh et al, 2003). In this model, there are four key constructs that predicted behavioural intentions to use technology as follows; performance expectancy, effort expectancy, social influence, and facilitating conditions. First, performance expectancy is the degree to which such technology is beneficial to consumers in performing certain activities. While Effort expectancy represents the degree of ease of use of the technology. Then, Social influence which is the extent to which important others to the consumer, believe the consumer should use a technology. Finally, facilitating conditions which refers to consumers' perceptions of the resources and support available to perform the technology, its acceptance and usage behavior (Brown and Venkatesh, 2005; Venkatesh et al., 2003). In addition to the four factor, age, gender and experience were considered moderating the relationship between the four constructs and behavioral intentions. Complementary to UTAUT, Hedonic motivation, price value, experience and habits were added to the four constructs to extend the model to UTAUT2 (Venkatesh et al., 2012). Hedonic motivation has been used in consumer behaviour research (Holbrook and Hirschman, 1982). Hedonic motivation was defined as fun or pleasure derived from using technology, also, hedonic motivation has been conceptualized as perceived enjoyment (Van der Heijden, 2004; Thong et al, 2006). Price value was also integrated and defined as the extent that benefits of using technology are greater or less than the cost of using it. Finally, experience and habit reflect on the opportunity to use a target technology and was typically operationalized as the passage of time (Venkatesh et al., 2003). Lastly, habit was interpreted as the instrumental behaviour resulted from learning (Linayem et al., 2004)

In this paper, researchers conducted exploratory research on Mobile commerce consumers and experts to emphasise the variables that would enhance Mobile shopping users' adoption. They explored

dependent and independent variables hypothesized in TAM and UTUAT2 models. The result emphasised the importance of perceived usefulness and ease of use as determinants of mobile commerce usage in Egypt. Furthermore, convenience, hedonic motivations, and social influence have a crucial effect on Mobile commerce, as of preliminary research.

Perceived usefulness and Ease of use (EOU_PU)

Perceived usefulness is the value addition of conducting any task using information technology or computing system, while perceived ease of use is the minimization of effort and time while using computing technology. Relative advantage and compatibility are the components of perceived usefulness. Relative advantages include several factors, such as cognitive and decisional control, enhanced privacy, improved security, and information access. Compatibility is matching of individual usage and lifestyles and the ability of the system to fulfil personal situational needs (Keeling 1999). Perceived usefulness is essential for anticipating buying intentions while perceived ease of use comes preceding usefulness (Igbaria, Guimaraes, & Davis, 1995). The importance of such variables is determined by the characteristics of technology used (Gefen and Straub, 2000). Also, ease of use importance varied in a study on MBA students. Ease of Use was important in their usage of booksellers of e-books, however, it wasn't that important in the purchases. Moreover, there is empirical support provided for the relationship between usefulness and attitudes by several studies. There are many studies that tested the effect of perceived ease of use on Perceived usefulness. Some studies realized that the more the technology is easily used by users, the higher is its usefulness. Hence there is a direct effect of PEOU on usefulness. Also, there is an indirect positive effect of Perceived ease of use on attitudes through perceived usefulness (Davis, 1986, 1989). However, recently, in a study on online shopping in Korea (Wang, 2011), PU shows lower importance in affecting attitudes, while PEOU is getting to be a determinable requirement. In, Wu and Ke (2015) meta-analysis, PEOU had a direct effect on online shopping intentions without any mediation. On the other contrary, in a study conducted in Jordan (Faqih, 2011), PEOU tend to affect online purchasing intentions indirectly through perceived usefulness. Finally, in a study conducted in India on urban citizens' online shopping intentions, PEOU did have more of a direct effect on online shopping intentions than PU (Sirinvasan, 2015). Researchers concluded from literature that PEOU affect PU. Also, the importance of both variables varies depending on technology, usage and other variables included in different studies.

Hedonic motivations (HM)

Hedonic motivation is the pleasure or enjoyment resulting from technology adoption (Brown & Venkatesh, 2005). HM affects behavioral intentions (Liao and Lin, 2007; Taylor and Venkatesh, 2010). However, it differs across stages of technology adoption. There are six dimensions of HM (Arnold & Reynolds, 2003), adventure, social, gratification, idea, role, value and other hedonic dimensions such as pleasure, arousal and escapism (Perea, Monsuwé, Dellaert, & De Ruyter., 2004). In another context, it represents the extent to which the technology is considered entertaining (Venkatesh et al., 2012). Initially, Information systems were designed as task oriented, the focus of adoption was on utilitarian factors such as PU and PEOU (Thong et al., 2006) but this concept changed to include an entertaining value, where it became more entertaining and enjoyable (Dwivedi et al., 2015).

Perceived enjoyment can be considered as a main component of hedonic motivation. Also, it is used interchangeably. In the current research, hedonic motivations are operationalized as perceived enjoyment. Enjoyment is an antecedent of PEOU & PU, since an enjoyable technology is perceived easier and more useful than a monotonous one (Agrwal & Kharahanna, 2000; van der Heijden, 2004; Conci et al., 2009). Similarly, a study was conducted on first line managers of mid-sized companies on their usage of computers, confirmed that enjoyment affect both PU and PEOU (Fagan et al., 2008). Further, perceived enjoyment is fully mediated by PU and PEOU and it has no direct effect on behavioral intentions in the presence of PU and PEOU (Venkatesh et al., 2002; Zhang et al. 2003).

H1: Hedonic motivation has a positive significant relationship on perceived usefulness

H2: Hedonic motivation has a positive significant relationship on perceived ease of use

Convenience (CONV)

Convenience can be described as of a product or a service. A technology can be considered when it saves time, and saves cognitive, emotional and physical burden on users (Berry et al., 2002). There are

three dimensions of convenience as described by Yoon & Kim (2007): time, place and execution. Thus, convenience refers to the performance of a task at any time, in any place and in a burdenless manner. Convenience feature of Smart Phones is evident as individuals are not tied to immobile workstations, such as desktops at a home office which results in convenience in terms of performing daily routines while waiting for any official duties or tasks. With a free software download, the consumer has become highly independent on smart phones to retrieve the information by a single touch and click to access the smart phone as it is with them wherever they go (Islam et al., 2010; Genova, 2010). Shopping online is convenient as it provides the opportunity to shop 24 hours a day (Hofacker, 2001). Interactive shopping reduces the costs of acquiring information pre-purchase while increasing search benefits by providing a broader collection of product alternatives at a minimum cost (Bakos, 1991).

As concluded by Yoon & Kim (2007), PEOU is one of the antecedents of perceived convenience, while convenience is one of the antecedents of PU. Similarly, this is true for e-learning systems using mobile learning (Gwebu & Wang, 2011). Further, on the E-learning system MOODLE, the TAM Model was extended by perceived convenience (Hsu & Chang, 2013). Confirmed by the previously discussed literature, convenience was an antecedent for Perceived Usefulness and affected by PEOU. As of Childers et al., (2001), convenience has a positive effect on PE and PEOU.

H3: convenience has a positive significant effect on perceived usefulness.

H4: convenience has a positive significant effect on perceived ease of use.

In a study conducted on information searches habits of tourists using mobile technologies, the quality of ubiquitous tourist information has four dimensions, interface design, system quality, convenience and system quality. Those four dimensions were tested on perceived enjoyment and mobile usage. Convenience didn't have a significant impact on enjoyment (Kim et al., 2012). However, in another study on online shopping, there was a significant relationship between convenience and enjoyment (Childers et al., 2001).

H5: Convenience has a positive significant direct effect on hedonic motivation

Social influence (SI)

Social influence is defined as "the degree to which an individual perceives that other important persons believe he or she should use the system" (Kripanont, 2007). Moreover, it refers to the way other people affect a person's beliefs, feeling and values (Foon et al., 2011; Jaganathana et al., 2014). Also, it is the degree to which significant people to the user perceive that technology is crucial to him (Diaz & Loraas, 2010). It is similar to the factor "subjective norm" as defined in the extension of Technology Acceptance Model (TAM2). Subjective norm contains the explicit or implicit concept that the technology users are influenced by the way they believe others will view them concerning technology usage (Chang 2012). Subjective norms are used interchangeably with SI and it is tested in the theory of technology acceptance and theory of planned behavior. Further, social influence is a significant factor in predicting technology and usage behavior as we consider others perception of what we should do or want us to do in adopting any innovation (Fishbein & Ajzen, 1975). Furthermore, it is the influence of an individual social environment on his or her behavioral intentions (Zhang et al., 2012).

SI has a positive direct relationship with PEOU and PU as confirmed by literature (Farahat, 2012; Wolfson, Magnoum, and Marsom, 2007; Park 2009 & Ramayah et al., 2005). Similarly, subjective norms had a significant effect on perceived usefulness and behavioral intentions (Venkatesh and Davis, 2000). Also, there is a significant direct relationship between subjective norms and PU but an indirect relationship with behavioral intentions (Rose and Fogarty, 2006). However, in another study, there was a direct relationship between subjective norms and behavioral intentions (Scheper & Wetzels, 2007).

Regarding the relationship between social influence or subjective norms and Perceived enjoyment or hedonic motivations, Park et al, (2011) studied the behavior of mobile communication users on 3G services and found that SI had a significant relationship on both PU and perceived enjoyment; however, it has a higher influence on perceived enjoyment. Thus, researchers focused on the importance of considering the effect of relatives and friends in designing marketing campaigns. Consequently, in mobile payments adoption, social influence has shown to affect user's behavior in adoption of mobile phone

services (Kim et al. 2007) mobile internet (Kim, Chan And Gupta, 2007) and online game communication (Hsu & Lu, 2007). It is evident that perceived enjoyment is a socially constructed phenomenon as many hedonic products are consumed in presence of others. So, mobile payments tend to affect positively perceived enjoyment and PU (Lewis et al, 2015; Venkatesh et al., 2012)

Thus, the following hypotheses were drawn from the above literature,

H6: Social influence has a positive significant direct effect on Perceived usefulness.

H7: Social influence has a positive significant direct effect on Perceived ease of use.

H8: Social influence has a positive significant direct effect on hedonic motivations.

Method

This study aimed to collect data across Smartphone owners who conduct mobile shopping to test the proposed research model and its corresponding hypotheses. The survey items used to measure the constructs were extracted from literature. There are 5 variables in this questionnaire; PEOU, PU, CONV, HM and SI. The convenience scale was developed by Chang et al., (2012), while other variables HM and SI were extracted from the scales developed by Vanketesh et al, (2012) when developing his extension for the UTAUT2 model. Finally, the two independent variables, PEOU and PU were extracted from the original TAM model. Each questionnaire item used a 5-point Likert-type scale that ranged from 1 (strongly disagree) to 5 (strongly agree). The questionnaire was translated into Arabic, so there was a version in English and another version in Arabic. Potential respondents were randomly approached for convenience. This method was used because the population of mobile shoppers in Egypt is quite limited. The researchers checked to determine whether the potential respondents were appropriate for this study. They were asked whether they had participated in this survey before and whether they conducted mobile shopping in Egypt. After fulfilling these criteria, the respondent was given a questionnaire for completion.

A two-step approach involving structural equation modeling (SEM) was adopted for measurement scale validation and structural analysis (Byrne, 2000; Hair et al., 2010). The maximum likelihood estimation procedure was employed using AMOS Version 20. This study's proposed research model was analyzed following three main steps. First, a covariance matrix of all measured variables was constructed and subjected to a series of validity and reliability checks. Upon establishing the model fit, we estimated the significance and size of each structural parameter for the specified model. The detailed results of the analysis are discussed below.

Descriptive analysis

The questionnaire was administrated only to persons who had smart phones. The respondent included almost as many as males as females and included a broad range of all levels. The percentages of respondents are shown in table (1),

Characteristics	Frequency	Percentage
Gender:		
1. Male	93	46.5%
2. Female	107	53.5%
Age:		
1. Less than 25	96	48%
2. 25 to less than 30 years old	35	17.5%
3. 30 less than 40 years old	31	15.5%
4. 40 less than 50 years old	27	13.5%
5. 50 less than 60	10	5.0%
6. 60 or older	1	0.5%
Education:		
1. Uneducated	0	0%
2. Primary or preparatory	0	0%
3. High school graduate	71	35.5%
4. Graduate (Bachelor degree)	98	49%
5. Post graduate	31	15.5%

Data analysis

Reliability and Validity of Measurement Items

A confirmatory factor analysis (CFA) of all items was simultaneously conducted to evaluate the validity of the items and the eight underlying constructs in the measurement model. Table 2 summarizes the results of the measurement model across the model-fit indices. All model-fit indices indicate that the measurement model exhibits a good fit with the data collected. Hence, we proceeded to examine the measurement model's psychometric properties to evaluate its reliability and construct validity. Construct validity was examined using the test for convergent and discriminant validity. Convergent validity was evaluated using the attributes of factor loading, average variance extracted (AVE), and construct reliability (CR). Table 3 shows the factor loading, AVE, and CR values that were used to assess convergent validity for the CFA model.

Goodness of Fit measure	
Chi-Square Value (X ²)	171.294
P value	0.001
DF	80
X ² /DF	2.1
AGFI	.860
GFI	.907
CFI	.927
NFI	.874
RMSEA	.076

Note. GFI = goodness-of-fit index; AGFI = adjusted goodness-of-fit index; CFI = comparative fit index; NFI = normed fit index; RMSEA = root mean square error of approximation.

Factor	Item	Standardized factor loading	AVE	CR
CONV	CONV_1	.803	0.69	0.779
	CONV_2	.845		
	CONV_3	.771		
	CONV_4	.689		
HM	HM_1	.810	0.813	0.835
	HM_2	.870		
	HM_3	.834		
SI	SI_1	.899	0.853	0.842
	SI_2	.939		
EOU and PU	EOU_1	.654	.679	0.835
	EOU_5	.911		
	EOU_6	.778		
	PU_4	.537		
	PU_5	.774		
	PU_6	.619		

Note: AVE = average variance extracted; CFA = confirmatory factor analysis; CR = construct reliability; CONV: convenience; HM: hedonic motivation; SI: social influence; PU: Perceived usefulness; EOU: perceived ease of use

	HM	EOU_PU	CONV	SI
HM	0.813			
EOU_PU	0.502	0.679		
CONV	0.427	0.567	0.69	
SI	0.442	0.347	0.16	0.853

All scale items are highly loaded on their respective constructs, as all factor loadings are above the threshold value of 0.70 except for one dimension (table3). Each indicator’s item reliability, including CR, was above .70, suggesting good reliability and convergent validity (table 3). Notably, all CR values for the constructs in the model were above .7, which provides strong evidence that these measures consistently represent the same latent construct. The AVE values were compared with the squared estimate of the correlation estimates to assess discriminant validity. The correlation matrix in Table 4 shows that all AVE values are greater than the squared correlation estimates; this result confirms that a satisfactory level of discriminant validity has been achieved and indicates that the measured variables have more in common with the construct with which they are associated than with other constructs in the model. Furthermore, this finding indicates that all constructs in the measurement model are significantly different from one another.

Structural Model and Hypothesis Testing

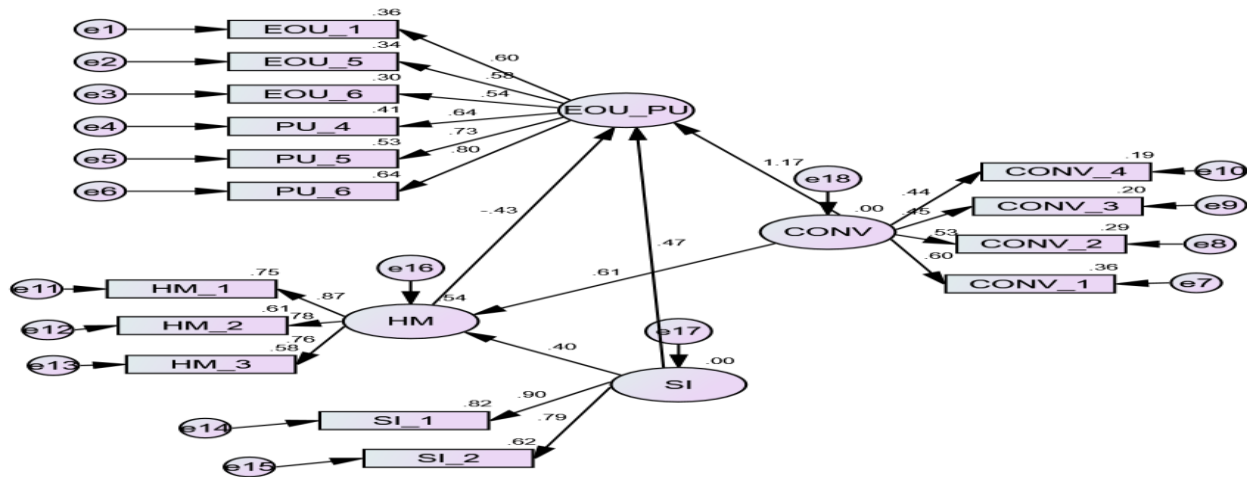


Figure 1: Path analysis

The results of the full structural model showed a good fit of the data to the model: $\chi^2/df = 1.865$, goodness-of-fit index (GFI) = 0.923, adjusted goodness-of-fit index (AGFI) = 0.878, comparative fit index (CFI) = 0.947, normed fit index (NFI) = 0.895, standardized root mean square residual (SRMR) = 0.038, and root mean square error of approximation (RMSEA) = 0.066. This study tested each hypothesis by examining the path significance. Figure 2 illustrates the path diagram with the resulting fully standardized structural parameter estimates included on the paths. The paths from CONV, HM, and SI to Perceived usefulness and perceived ease of use as they are collected in one factor, are statistically significant in the current user group (as all p-values is less than 0.05). These factors explained 50.7% of the variance.

Discussion

As of exploratory factor analysis conducted, perceived ease of use and perceived usefulness did merge into one factor in this research. One possible explanation, that most of the respondents perceived them similarly.

On considering the effect of other variables such as hedonic motivations, social influence and convenience, there is a direct positive relationship between all variables and Perceived ease of use and perceived usefulness. As follows, the standardized estimates are .983, .261 & .231 with no mediations. As is evident, Convenience has the strongest effect on perceived usefulness and ease of use. However, on exploring the paths between convenience and Hedonic motivation on one hand and social influence on hedonic motivation on the other, the relationship between Hedonic motivation and perceived ease of use and perceived usefulness became a negative relationship. To better identify the reasons for such change in the relationship, the mediation effect for convenience was tested. Also, the mediation effect for Hedonic motivation was tested for the relationship between social influence and Perceived ease of use and usefulness.

Table 5: Hypothesis testing

Paths	Standardized estimates	P-value	Hypothesis supported
CONV →EOU-PU	1.114	0.001	H1 &2 Supported
HM→EOU-PU	-0.43	0.041	H3 &H4 supported
SI →EOU-PU	0.457	0.001	H6 & H7 supported
SI →HM	0.426	0.001	H8 supported
CONV →HM	0.571	0.001	H5 supported

As table 6 shows, there is indirect effect of social influence on perceived usefulness and ease of use Through Hedonic motivations and convenience. On testing the mediation effect of convenience, social influence was fully mediated by convenience as the direct effect of social influence on PU_EOU became completely insignificant. As a result, convenience was considered as a strong mediator on the relationship between SI and PU_EOU.

On the other hand, in exploring the mediating effect of hedonic motivation, hedonic motivation didn't mediate the relationship between SI and PU_EOU. The indirect effect of hedonic motivation is considered insignificant.

However, when hedonic motivation & convenience are considered together, they are fully mediating the relationship between social influence and perceived usefulness and ease of use.

Table 6: Mediation analysis

	Total effect	Direct effect	Indirect effect
SI-CONV-EOU_PU	0.390(.014)	0.147(.484)	0.181(.108)
SI-HM-EOU_PU	0.300 (.032)	0.236(0.088)	0.064(.338)
SI-HM-CONV-EOU_PU	0.409(0.02)	.113(0.669)	.296(.098)
SI-HM-CONV-EOU_PU	0.390(.014)	0	.390(.014)

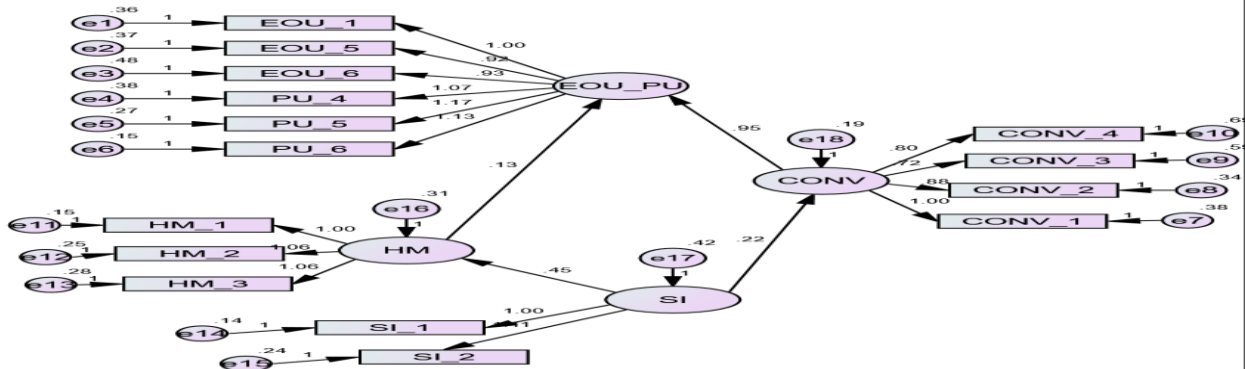


Figure 2: path analysis after mediation effect

Conclusion, implications and limitations

As it is evident from the discussion, that social influence, hedonic motivations and convenience are significant factors for enhancing the usefulness and ease of use of mobile commerce in Egypt. However, convenience tends to affect the usefulness and ease of use the most. Also, social influence could be fully mediated if the users found more convenience either in terms of time or effort for the usage of mobile commerce. Mobile commerce user would consider it useful even though social influence is not in line with. In literature, social influence did have an influence however, with this new conclusion, marketers would focus more on developing more excitement and pleasure and convenience rather than focusing on other people's opinion in mobile commerce. For future research, the complete model including the adoption and usage of technology would be of benefit if compared for different age groups and in different countries in Arab world region. This research was conducted in Cairo only and it didn't consider other governates, as most of the smart device users live in Cairo governates, as Cairo has the largest population and highest incomes among Egypt governates (El-Tawila, Gadalla and Einas Ali, 2013). Also, the age groups are mostly teenagers and young adults, as most of smart users are younger generations less than 40 years old (Alex bank research, 2015).

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Managerial perceptions of corporate sustainability reporting determinants in Nigeria

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Key words

Coercive; Institutions; Mimetic; Normative; Organizations; Sustainability Reporting

Abstract

This study investigated managerial perceptions of the determinants of sustainability reporting in Nigeria. The rationales that managers construct around institutional pressures in relation to sustainability reporting constitute an under explored area in research. A survey research design was employed. A questionnaire was designed for the purpose of data collection and copies were administered to 81 companies in oil and gas, banking, industrial goods and consumer goods sectors in Nigeria. The results showed that corporate respondents opined that a mix of factors – coercive, normative and mimetic factors actually influence sustainability reporting of companies.

The findings showed that corporate actors attributed higher values to initiation from the company chief executive officer (CEO) and investors' concern with long-term performance of the business. Interestingly, regulatory pressures and employee training were found to have higher mean scores than pressures arising from corporate membership of external governance bodies, total asset base and foreign operations. Results from factor analysis showed that respondents opined that sustainability reporting was influenced by a mix of coercive, normative and mimetic factors. Pearson correlation between the level of sustainability reporting and coercive, normative and mimetic pressures showed significant association between the level of sustainability reporting and coercive and normative pressures.

This study identified that a number of pressures combine to influence sustainability reporting. The rationales attributed to the factors could be a pointer to the areas that members of the organizational field need to improve upon to enable companies to provide reliable sustainability reporting and disclosures. This study contributes to the literature by focusing on aspects of the organizational field or environment of business that can aid improvements in the quantity and quality of sustainability reporting. This aspect of research is yet to be undertaken in the Nigerian context.

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1. Introduction

Developments in businesses worldwide indicate that it is important for companies to integrate sustainability aspects into their corporate reporting. According to Baron (2014), this is because businesses are operating in a world embattled with environmental and social challenges, making it imperative for business stakeholders to be informed about their responsibility efforts. Baker and Bettmer (1997) note that there are other issues such as wealth distribution, social justice, political ideology and environmental degradation that is within the purview of accounting. These issues affect business operations and society, and have led to clamors that organizations should report and be accountable for their actions particularly environmentally, socially and economically.

Muskawa (2014) identifies two schools of thought in the practice of corporate governance namely shareholders and stakeholders' model. The first school of thought argues that shareholders have financial

stake in a business and their interests should be safeguarded by corporate governance structures such as company directors, board committees and chief executive officer. The second school of thought posits that governing an organization is not expected to be for the interests of shareholders only and no stakeholder should be ignored. This has resulted in the stakeholder model of corporate governance which emphasizes the need for companies to consider their impact on shareholders, suppliers, community, employees, and trade unions, society at large, amongst others.

According to Fremond (2000), businesses exist to serve a wider range of interests. The interests of stakeholders need to be taken into consideration to achieve balance between profitability and other aspects of organizational performance. Muswaka (2014) notes that stakeholder model of corporate governance can balance a company's pursuit of short-term profit and social justice. This is because businesses have responsibilities towards their internal and external stakeholders. According to Global Reporting Initiative (2013), sustainability reporting is a way of measuring, disclosing and being accountable to organizational stakeholders. Accountability to these stakeholders is important because of the risks that could arise from ignoring them. Kaspereit and Lopatta (2011) note that the risks arising from social and environmental impacts of business operations should not be ignored because they can impair profits and reduce shareholder value.

There are a host of factors that can influence sustainability reporting and related aspects such as social reporting, environmental reporting and integrated reporting. According to studies such as Adams (2002), Baele (2012) and Mitra, Agrawal & Ghosh (2015), these factors stem from both the internal and external organizational environment. Adams (2002) notes these factors can determine the extensiveness, quality and quantity of reporting by companies. Furthermore, managers of companies are corporate actors whose perceptions of reporting in terms of its benefits and costs can influence the level of companies' engagement. Baele (2012) notes that companies where the chief executive officers perceive social responsibility reporting to be important engage in more reporting than the CEOs who did not perceive such reporting as important. In the view of Mitra et al. (2015), perceptions of managers about sustainability reporting influence the level of reporting. Managers also opine that lack of legal framework and best practice guidance is responsible for low engagement of companies in sustainability reporting. This approach to studying corporate social reporting and related areas such as sustainability reporting and integrated reporting provides a forum to engage with decision makers in the companies. Accessing data from the secondary sources such as corporate annual reports and websites may not be able to ascertain the reason for companies' engagement in sustainability reporting and perceptions of managers about the factors in the business environment that could be responsible for a companies' engagement in sustainability reporting.

In Nigeria, Asaolu, Agboola, Ayoola and Salawu (2011) find that sustainability reporting is a voluntary form of reporting. However, their study is premised on multinational oil and gas companies alone. They also note that there is no legislation guiding what companies report. The finding gives opportunity to engagement-based studies that can identify the behavior, attitudes and mind-sets of decision makers in companies in relation to factors in the internal and external business environment that influence the level of reporting of companies. In the view of Adams and Larrinaga-Gonzalez (2007), by engaging with corporate actors, organizational change in improved sustainability performance can be achieved. Drawing from their position, this study argues that manager rationales towards factors in the business environment can be a pointer to areas that steer companies to engage in sustainability reporting.

The business environment otherwise known as the institutional environment includes other companies in the industry, stakeholders, professional accounting firms, foreign presence, and bodies such as United Nations Environment Programme (UNEP), United Nations Global Compact (UNGC) and global oil and gas industry association for environmental and social issues (IPIECA).

This paper aims to broaden the literature on sustainability reporting by examining the perceptions of corporate managers towards institutional factors with a view to categorizing them. This area of research is under explored compared to studies that have examined corporate characteristics in relation to sustainability reporting. This research contributes to the sustainability reporting literature by assessing the determinants of sustainability reporting from the perspective of corporate managers. This interpretive approach to study the determinants of sustainability reporting can identify corporate managers' views of

institutional factors in relation to sustainability reporting. The findings from this research should be able to assist institutions improve on their support for sustainability reporting. The research questions this study intends to answer is: what are the factors that influence sustainability reporting in Nigeria from the perception of corporate respondents?

2. Main body

2.1 Determinants of Sustainability Reporting

From a new institutional theory perspective (DiMaggio & Powell, 1983), the members of an organization's external environment exert different pressures on an organization's reporting and disclosure practices (including sustainability reporting). This makes the study of the factors influencing sustainability reporting imperative to decipher how they combine at a point in time to influence organizations. These factors have been broadly grouped under three headings namely coercive, normative and mimetic pressures (Bebbington, Higgins & Frame, 2009; Farneti & Rammal, 2013). Coercive pressures have been argued to be a formidable force in leading companies to adopt a reporting practice. According to Hendey (2013), by withdrawing financial resources from business organizations that do not comply with certain rules and regulations, organizations can be forced to adapt a behavior or policy. Also, coercive pressures make organizations comply with certain disclosure and reporting practices because of the potential for reward or threat of punishment. Consequently, codes of corporate governance, Securities and Exchange Commission Laws, Central Bank Laws pertaining to sustainability reporting are coercive pressure mechanisms that influence companies' practices. Studies (Jalaludin, Sulaiman & Ahmad, 2011; Goswami & Lodhia, 2012) find that coercive pressures influenced reporting practices.

Normative pressures occur through the influence of professional networks that give room for certain reporting practices to permeate the business organization where such networks exist. For example, such pressures could arise from accounting firms, bodies that develop codes of conducts for sustainability reporting, professional accounting associations, amongst others. The more the networking of professionals or other bodies that brings companies together, the more the likelihood of increased reporting practices among such companies where those professionals are domiciled. It has also been argued by Jalaludin et al. (2011) that such professionalism stimulates education among the members of such professional circles.

Mimetic pressures have been examined in the literature. They can arise in varying forms. For example, mimetic pressures can emanate from copying best practices of those business organizations that are perceived as successful. They can also arise when a business organization copies reporting practices of a foreign affiliated company in order to access certain benefits. In addition, such foreign affiliated companies are prone to adhere to the parent company's reporting practices and host country requirements (Sufian, 2012). Therefore, this can increase the chances of improved reporting practices by the locally-based company that is affiliated with a foreign company.

Asaolu, Agboola, Ayoola and Salawu (2011) find that sustainability reporting is a voluntarily practice by multinational oil and gas companies in Nigeria. Their study also finds deficiencies in sustainability reporting as there is no guidance through legislation. Compared to their foreign affiliates, multinational oil and gas companies operating in Nigeria do not report on some aspects of sustainability reporting. Interestingly, oil and gas companies are environmentally-sensitive. The finding of Asaolu et al. (2011) is not in tandem with theoretical expectations as parent companies do not make sustainability reporting compulsory. Studies such as Amran & Devi (2008) and Sufian (2012) find no influence of foreign affiliates on social reporting. The implication of their findings is that companies that have foreign affiliation do not have more social disclosures.

Most of the aforementioned studies are based on data gathered from secondary sources such as annual reports, sustainability reports and corporate websites. However, studies (Adams, 2002; Kaspersen, 2013; Krongkaew-Arreya & Setthasakko, 2013) have argued for the need to assess institutional pressures through engagement with managers in business organizations. The findings from the literature on engagement-based studies in the area of sustainability reporting are not conclusive. Support and commitment from a company's chief executive officer is crucial to achieving the objectives of sustainability reporting. According to KPMG (2008), corporate disclosures and reporting are examined by the chief executive officer in order to mitigate the risks associated with statements made. Adams and Frost

(2008) also concur that the chief executive officer of an organization is responsible for the development of Key Performance Indicators (KPIs) relating to sustainability performance.

The company chair is in a position to approve budget allocations relating to performance indicators of sustainability reporting (Krongkaew-Arreya & Setthasakko, 2013). Also, Chief Executive Officers (CEOs) can convince information users who monitor the organization by disclosing or reporting more to justify their position. New managers have been found to disclose more governance information to convince shareholders' monitoring (Mohd-Saleh, Mohd-Sanusi, Abd-Rahman & Bukit, 2012). There is need for senior executives to demonstrate more commitment to sustainable practices and development (Sciulli, 2011). The pressure from the board of directors is another issue that has been identified in engagement-based studies in sustainability reporting. Corporate governance and sustainable development issues (including sustainability reporting) have been examined as separate fields of inquiry and less attention has been paid to the interactions between the two (Ricart, Rodriguez & Sanchez, 2004). Business organizations are moving from minimizing agency conflicts (between principals-owners/shareholders and agents/managers) to issues of corporate transparency and accountability to the different business stakeholders.

Accountability towards shareholders is displayed in financial terms, showing them the profit that has been made by the injection of resources into the business. It is on the basis of the need to expand the current definition of accountability that a number of corporate governance codes in Africa for example are redefining their focus towards stakeholders (King III Code of Corporate Governance, Johannesburg, South Africa; Securities and Exchange Commission 2011 Code of Corporate Governance, Nigeria). In aforesaid, codes of corporate governance have adopted an agency theory perspective which seeks to reconcile business manager and shareholder conflicts. This has changed because best practice in corporate governance is characterized by increased stakeholder-oriented focus (Brennan & Solomon, 2008).

Employee training is another internal factor that can influence corporate sustainability reporting. Training of employees is associated with costs. Aspects that are usually covered by employee training are the sustainability reporting process, stakeholder engagement, content of sustainability reports, monitoring the information that sustainability reporting covers, available guidelines that can be used for a sustainability report. Education and training of employees is an aspect in the implementation phase for organizations that subscribe to the ISO14000 series. ISO14000 is a group of standards related to environmental management. This training helps employees to be aware, implement, document and audit their environmental management systems. This is one of the issues in ensuring an adequate corporate sustainability strategy.

The accountability that financial results of a business organization communicate is an important aspect of corporate transparency that cannot be ignored. Financial results alone cannot determine corporate value. Sustainability issues could contribute to the value of business organizations. In order to improve the content of sustainability reports, external pressures and organizational context have roles to play in the transformation process. An unanswered question is how these factors can be assessed and modeled. There is not much discussion on corporate sustainability reporting arising from conformity to external pressures and organizational contexts in Nigeria.

2.2 Materials and Methods

In line with prior studies (Belal and Cooper, 2011; Krongkaew-arreya and Setthasakko, 2013) that examine the perceptions of managers towards corporate disclosures as well as the factors responsible for them, the current study employs a survey research design. The survey research design is appropriate because of its ability to solicit responses first-hand from managers and assess managers' rationales towards institutional pressures. According to the Nigerian Stock Exchange (2015), there are 15 universal banks, 24 companies in the industrial goods sector, 28 companies in the consumer goods sector and 14 companies in the oil and gas sector. This results in a population of 81 companies. 81 copies of questionnaire were administered to these companies and 54 companies responded to the survey. The questionnaire is made up of three sections namely A, B and C. In Section A, respondents are required to rate the importance of 22 factors in influencing sustainability reporting on a scale of 'Extremely Important', 'Important', 'Slightly Important' and 'Not Important'. In Section B, respondents are required to rate the actual influence of the factors on a scale of 'Strongly Agree', 'Agree', 'Disagree' and 'Strongly

Disagree'. In Section C, respondents are required to rate the level of sustainability reporting, their industry affiliation, department, highest academic qualification, professional qualification and number of years of service to the organization. The respondents are required to respond on a scale of 'Strongly Agree', 'Agree', 'Disagree', 'Strongly Disagree' to 22 statements. The full description of the institutional pressure factors are in Appendix I. The data is analyzed using descriptive statistics and factor analysis. Descriptive statistics has been used in prior studies (for example, Belal and Cooper, 2011; Selvanathan, 2012) to ascertain the mean scores of responses to a particular statement or question in a survey instrument. Factor analysis is also used to ascertain how the factors can be grouped based on the respondents' perceptions (for example, Selvanathan, 2012). The data is analyzed using Statistical Package for Social Sciences (SPSS).

3. Findings

The response rate in this study is approximately 67 per cent. In line with Jalaludin, Sulaiman and Ahmad (2011), a comparison of the ten earliest and latest responses was carried out to determine the equal variance estimates between both classes of responses for all the variables. Results of independent samples t-test shows that the p-value is greater than 0.05. Thus, it is concluded that there are no significant differences between the early and late responses for the variables (Appendix III). In order to test for reliability of the scale used to gather data used in this study, Cronbach's alpha test was conducted on the items in the questionnaire. The Cronbach's alpha coefficient is 0.923, and implies very good internal consistency of the scale based on Pallant (2011). The results of this study are presented in two aspects namely descriptive statistics (mean and standard deviation) and factor analysis. The mean scores are necessary to know how the respondents responded to the factors from internal and external organizational environment. Factor analysis is used to examine the structure underlying the factors identified in the literature based on the responses retrieved.

Table 1 shows the mean scores of responses to the factors influencing sustainability reporting. The initiation from chief executive officer factor and investors' concerns with long-term performance of the business organization each has mean scores of 3.482 and standard deviation of 0.613. Respondents' rate SEC code of corporate governance, employee training by organizations, CBN sustainability banking principles and foreign lenders higher than awards given to organizations for sustainability performance, professional accounting association training of accounting professionals, corporate membership of external governance bodies, total asset base of a business organization, presence of a business organization in a foreign country. The results of this study are also interpreted in line with new institutional theory. Coercive isomorphism has a mean score of 3.250 and this shows that respondents opine they face a high level of institutional pressure through stakeholders - investors, consumers, regulators and finance providers. Also, respondents opine that mimetic pressures influence sustainability reporting (mean score of mimetic pressure is 3.083). However, the respondents perceive that sustainability reporting is influenced by a moderate level (mean score of normative pressure is 3.182) of institutional pressure arising from professionalism.

Factors	Mean	Std. Deviation
Initiation from Chief Executive Officer of organization	3.482	.613
Pressure from the Board of Directors	3.185	.729
Employee Training on sustainability reporting by business organizations	3.333	.727
Professional Accounting Association Training of Accounting Professionals	3.074	.866
Professional Accounting Firms Training of Accounting Professionals	3.167	.795
Investors' concern with long-term performance of the business organization	3.482	.606
Securities and Exchange Commission (SEC) Code of Corporate Governance	3.407	.687
Central Bank of Nigeria (CBN) Sustainability Banking Principles	3.259	.678
Successful Industry Leaders' engaging in sustainability reporting	3.167	.818
Consumers' interest in sustainable products and services of an organization	3.241	.775
Revenue base of a business organization	3.148	.833
Total asset base of a business organization	3.037	.823
Foreign lenders' emphasis on approving loans on the basis of sustainability	3.259	.732
Local lenders' emphasis on approving loans on the basis of sustainability	3.167	.720
Presence of a business organization in a foreign country	3.000	.847
Corporate membership of external governance bodies	3.056	.878
Human resources on sustainability	3.130	.778
Employees' attitude towards sustainability reporting	3.130	.972
Accounting firms' Provision of Assurance Services on sustainability reporting	3.167	.771
Use of assurance services on sustainability reporting by business organizations	3.148	.810
Rating of business organizations on the basis of sustainability performance	3.167	.863
Awards given to business organizations for sustainability performance	3.093	.896
Coercive pressure	3.250	.458
Normative pressure	3.182	.530
Mimetic pressure	3.083	.744

Table 1: Descriptive Analysis of Actual Influence of Factors

Source: Field Survey (2015)

Factor analysis is employed to ascertain the structure underlying the 22 items on the factors influencing sustainability reporting scale. The suitability of the data for factor analysis was checked. The Kaiser Meyer-Olkin value is 0.783, exceeding the recommended value of 0.6 in Pallant (2011). The Bartlett's Test of Sphericity reaches statistical significance ($p=0.000$), supporting the factorability of the correlation matrix. In the correlation matrix table, correlation coefficients of 0.3 and above are seen. Using Kaiser's criterion, the researcher is interested only in components with an Eigen value of greater than or equals to 1. The first five components record Eigen values of greater than 1 (8.689, 2.808, 1.762, 1.404 and 1.223). These five components explain a total of 66.65 percent of the variance. On the scree plot, a change in the shape of the plot is seen from component 4. This implies that components 1, 2, 3 and 4 explains or captures much more of the variance than the remaining components.

The component matrix table shows the unrotated loadings of each of the items on the four components. Most of the items on components 1, 2, 3 and 4 loads quite strongly (that is, the values are above 0.4). This suggests that a four-factor solution is likely to be more appropriate. The Rotated Component Matrix table shows the item loadings on the 4-factor with component 1, 2, 3 and 4 explaining 66.65 percent of the variance. Rotated Component matrix shows the factor loadings of each of the variables. The highest loading on each component was searched for to identify and label the component. The Table below shows the Rotated Component Matrix for Principal Component Analysis with Varimax Rotation of four-factor solution of factors influencing sustainability reporting.

	Component			
	1	2	3	4
Human resources on sustainability	.849			
Awards given to business organizations for sustainability performance	.771			
Use of assurance services on sustainability reporting by business organizations	.673			
Accounting Firm Provision of Assurance Services	.671			
Rating of organization on the basis of sustainability performance	.668			
Presence in Foreign country	.581			
Professional Association Training of Accounting Professionals	.476			
Total Assets		.817		
Revenue Base		.762		
Consumers Concern in Sustainable Products and Services		.720		
Reporting Practices of the Most Successful in the Industry		.719		
Pressure from board of directors		.709		
Employee Attitude		.633		
Investor Concern in long-term performance		.478		
Central Bank of Nigeria (CBN) Sustainability Banking Principles			.779	
Securities and Exchange Commission (SEC) Code of Corporate Governance			.756	
Initiation from the Chief Executive Officer			.634	
Employee Training			.623	
Professional Firm Training of Accounting Professionals			.519	
Local lenders approving loans on the basis of sustainability performance				.827
Membership of external governance bodies				.690
Foreign Lenders approving loans on the basis of sustainability performance				.589

Table 2: Rotated Component Matrix for PCA with Varimax Rotation of Four-Factor Solution of Factors Influencing Sustainability Reporting

Source: Field Survey (2015)

The Pearson correlation coefficients showed that there are significant associations between the level of sustainability reporting and mimetic, normative and coercive factors.

		Extent of Sustainability Reporting	Mean Mimetic	Mean Normative	Mean Coercive
Extent of Sustainability Reporting	Pearson Correlation	1	.218	.406**	.377**
	Sig. (2-tailed)		.114	.002	.005
	N	54	54	54	54
Mean Mimetic	Pearson Correlation	.218	1	.676**	.681**
	Sig. (2-tailed)	.114		.000	.000
	N	54	54	54	54
Mean Normative	Pearson Correlation	.406**	.676**	1	.717**
	Sig. (2-tailed)	.002	.000		.000
	N	54	54	54	54
Mean Coercive	Pearson Correlation	.377**	.681**	.717**	1
	Sig. (2-tailed)	.005	.000	.000	
	N	54	54	54	54

** . Correlation is significant at the 0.01 level (2-tailed).

Table 3: Pearson Correlations

4 Discussions and conclusions

4.1 Discussions

The survey responses generally show that managers acknowledge the role of institutional pressures stemming from within and outside the business organization. The results of this study suggest that the Securities and Exchange Commission (SEC) code of corporate governance is a core coercive factor

influencing companies towards sustainability reporting. This finding is based on the positive response to the SEC code of corporate governance being an actual factor that has influenced companies' sustainability reporting. It is also interesting to note that the results of this study suggest that the influence of this study appear to suggest that the influence of the chief executive officer, investors concern with long-term performance of an organization, was rated stronger than the influence of presence of business organization in a foreign country. It may be that the presence of a business organization in a foreign country is not an automatic license for the organization in Nigeria to engage in sustainability reporting. In agreement with the finding of this study, Asaolu et al. (2011) note that multinational oil and gas companies operating in Nigeria were deficient in reporting sustainability issues. Multinational companies have operations in foreign countries and it does not seem that their Nigerian-based counterparts are made to engage in sustainability reporting by their foreign-based counterparts.

In line with the findings of Dobbs and Van Staden (2011), this study finds the influence of the CEO of a business as a key factor in driving sustainability reporting. This CEO's influence may be in form of establishment of goals towards sustainability performance and ultimately reporting. Investors are a class of business stakeholders who are often viewed as the dominant stakeholders (see Dobbs and Van Staden, 2011). It may not be surprising that respondents rate their influence in strong positive terms. It is also obvious from the survey results that mimetic pressures have the lowest mean score. This implies the absence of uncertainty associated with sustainability reporting.

This study finds that normative and coercive factors are responsible for the level of sustainability reporting among selected companies in Nigeria. The survey finds significant relationship between normative and coercive isomorphism and level of sustainability reporting. The findings of this study agree with Jalaludin et al. (2011) where mimetic pressure are not found to influence environmental management accounting practices. However, coercive and normative pressures are found to be associated with the adoption of such accounting practices. A reason for the absence of mimetic pressures in influencing companies' accounting practices in relation to environmental sustainability is that managers did not face uncertainty and there were policies and consultants that guided the course of adopting accounting practices in relation to environmental sustainability.

Based on theoretical propositions of DiMaggio and Powell (1983), it is expected that factors in an organization's institutional environment which is made up of coercive, normative and mimetic pressures, shape disclosure and reporting practices. Although, decision makers in companies opine that a mix of coercive, normative and mimetic factors are institutional pressures influencing sustainability reporting, only coercive and normative pressures are actually associated with sustainability reporting. For companies to engage in sustainability reporting, accounting professionals need to be trained by professional associations and professional firms. Based on the perceptions of decision makers in companies, there is a tendency for companies to be influenced by the reporting practices of the most successful company in the industry. Industry leaders need to be proactive about sustainability reporting. Companies also need to train their employees to appreciate the benefits of sustainability reporting. Also, a company's revenue and total assets base are determinants of sustainability reporting. These findings point to the need for large organizations to engage in sustainability reporting. The findings of this study suggest that normative and coercive forces may have been responsible for the level of sustainability reporting among the selected companies in the four sectors. Based on the new institutional theory, normative pressures from professional accounting associations, accounting firms, external governance bodies, human resources on sustainability, raters of sustainability performance, awards for sustainability performance are important in influencing sustainability reporting by companies. Companies need to subscribe to normative forces such as networking and education arising from professionalism to improve their level of sustainability reporting.

4.2 Conclusions

The current study suggests that coercive pressures from regulators, investors, consumers and finance providers are factors that influence sustainability reporting. These pressures are important because organizations could be denied resources when they fail to engage in promotion of reporting practices that show it takes cognizance of both business and society. The findings of this study have implications for research in less developed countries such as Nigeria. Research in other less developed

countries should provide comparative platforms and shed light on the nature of pressures influencing sustainability reporting that are dominant across countries within a particular continent and roles that governance systems play in corporate disclosure and reporting practices. It is also crucial to decipher the trend in institutional pressures across time periods.

The results of this study could be of interest to professional accounting bodies and accounting firms because they provide normative pressures for companies to engage in sustainability reporting. Companies need to take a positive stance on employee training pertaining to sustainability reporting in order to improve their engagement in sustainability reporting. Accounting firms need to improve on their services to companies in the area of providing assurance on sustainability reporting. Successful industry leaders need to lead in the area of sustainability reporting practices. It is not enough for them to lead in terms of profitability alone as they should show that they operate to make the society a better place.

5 Research limitations and direction for further research

The findings of this study are subject to limitations. For instance, this study is based on a survey undertaken in a one-year period. The results of this study were based on perceptions of respondents using questionnaire. Future studies can employ interviews to gain more in-depth understanding of the role of the factors identified. Future studies based on new institutional theory can assess the influence of other institutions such as trade unions, environmental pressure groups, employee unions and trade creditors. Also, there is need to expand the survey to organizations in other industrial sectors such as conglomerates, agriculture, natural resources, insurance and telecommunications.

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Appendix 1: Institutional Pressure Factors

Coercive Pressures

The investors in this organization are concerned with long-term performance
This organization is guided by the Securities and Exchange Commission (SEC) Code of Corporate Governance guidelines for sustainability reporting
This organization is guided by the Central Bank of Nigeria (CBN) Sustainability Banking Principles on sustainability reporting
The Consumers of the products and services of this organization are interested in sustainable products and services
The revenue base of this organization is high
The total asset base of this organization is high
Foreign lenders emphasize on approving loans on the basis of sustainability performance of an organization
Local lenders emphasize on approving loans on the basis of sustainability performance of an organization

Normative Pressures

The Chief Executive Officer of my organization initiates sustainability reporting
The Board of Directors of my organization pressures this organization to engage in sustainability reporting
Employees in this organization are trained on sustainability reporting
Accounting professionals in this organization subscribe to training on sustainability reporting by Professional Accounting Associations in Nigeria
Accounting professionals in this organization subscribe to training on sustainability reporting by Professional Accounting Firms in Nigeria
This organization is a corporate member of external governance bodies such as United Nations Environment Programme (UNEP), global oil and gas industry association for environmental and social issues (IPIECA), and United Nations Global Compact (UNGC)
There are sustainability officers in this organization
Employees' attitude towards sustainability reporting is encouraging
Accounting firms provide assurance services on sustainability reporting to this organization
This organization uses assurance services on sustainability reporting provided by accounting firms
This organization is rated by external parties on the basis of sustainability performance
This organization has received awards on the basis of sustainability performance

Mimetic Pressures

This organization looks up to Successful Industry Leaders' sustainability reporting
This organization has presence abroad and this influences her sustainability reporting

The mediating effect of knowledge of inventory management in the relationship between inventory management practices and performance: The case of micro retailing enterprises

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Keywords

Inventory management, performance, knowledge of owner/manager, retailing sector, small and medium enterprises

Abstract

The adoption of systematic inventory management practices (IMPs) is a critical success factor for businesses in a retailing industry. Nevertheless, there is lack of thorough understanding in the field of inventory management within a micro business setting. Thus, this study empirically explores the extent of IMPs in the micro retailing enterprises and the mediating effect of knowledge of IMPs in the relationship between IMPs and micro enterprises' performance. A questionnaire was sent to a random sample of 300 Malaysian owners/managers of micro retailing enterprises and 100 completed replies were received. The study finds that the usage level of systematic IMPs is moderate among the micro retailing enterprises with evaluation of suppliers as the most frequently applied IMPs. Meanwhile, inventory management activities related to reorder point, purchasing and controlling are adopted moderately. Interestingly, this study confirms that there is a significant direct effect of IMPs on enterprise performance. The relationship is partially mediated by knowledge of inventory management. This research enhances the body of knowledge in inventory management and the firm's performance particularly within the context of micro enterprises.

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1. Introduction

Inventory management is among key functions in a business operation particularly in meeting high customer's demand (Baron et al., 2010). This function requires a balance between fulfilling the demands of customers and keeping sufficient supply of merchandises (Heizer and Render, 2014, p. 512). Ultimately, its fundamental aim is to turn over inventory as quickly as possible without losing sales (Gitmann and Zutter, 2012). Among the major advantages of systematic inventory management are to reduce costs related to inventory holding, stock-out costs as well as purchasing costs by buying in quantity and speculate on price movements (Jonsson and Mattsson, 2008; Koumanakos, 2008; Basu and Wang, 2011). Inventory management also helps to improve firm's production scheduling, production and delivery lead times (Jonsson and Mattsson, 2008) and ultimately increases the overall firm performance (Koumanakos, 2008). Trade-off decisions between costs and the level of required sales target often produces a complex decision making. De Vries (2011) argued that finding a proper balance between quality of services and costs is challenging as it generates pressures on many other aspects of production activities (Pong and Mitchell, 2012). Organisations should be able to recognise how to maintain sufficient stocks for continuous production to meet customer's demand as well as to avoid losses as a result of running out of stockpiles. In this case, the knowledge of inventory management among owners/managers and staff is crucial to handle issues in inventory management.

In a micro enterprise context, there is a limited use of systematic IMPs due to the lack of resources. Today's financial pressures force small enterprises to reduce their inventories, which led to inventory

stock-outs (Chikan and Whybark, 1990). This is because much of a firm's costs were invested in inventory holding, transportation and management costs (Waller et al., 2006). Furthermore, small enterprises also face issues on low attention on forecasting of inventory, training and development of employees (Rajeev, 2008) and unwillingness to share information related to inventory management within the micro retailing enterprises (Ahmad and Mohamed Zabri, 2016) which eventually reduce the overall competitiveness of enterprises in this sector.

There are substantial empirical evidences concerning the inventory management practices and its relationship with performance (Capkun et al., 2008; Boute et al., 2006; Koumanakos, 2008; Koliass et al., 2010; Ogbo et al., 2014; and Panigrahi, 2014). Despite robust information on IMPs and performance in the literature, empirical evidence is lacking on this relationship within the micro retailing sector. Retailing is a process of selling consumer goods or services to customers through multiple channels of distribution to earn profits. An intense global competition and increased inventory carrying costs have motivated today's retailers for speeding up inventory turnover to maintain their survival. Prior studies suggest that IMPs is a critical success factor for retailing industry as Bala (2012) demonstrated that retailers with sophisticated systems for better demand forecasting and improved inventory management had an edge over the others in terms of profitability. This is due to the accuracy of information received from such system which enabling a more efficient business decision. Thus, it is worthwhile to investigate this sector for further understanding of the nature of their IMPs.

Based on the significant literature gap, the study addresses this issue by examining the effect of IMPs on micro retailing enterprises performance and how the knowledge of IMPs mediates the relationship between the extent of IMPs and performance. Obtaining further evidence regarding this issue may help in understanding the dynamics of inventory-performance relationship as SMEs have not only some unique characteristics that differentiate them from larger firms, but also a higher failure rate as compared to the larger firms (Elsayed and Wahba, 2016). Furthermore, the existing evidence regarding inventory-performance relationship is still inconclusive (Elsayed and Wahba, 2016). Thus, this study rectifies the deficiency by providing evidence on IMPs in the micro retailing sector and a further investigation through the incorporation of knowledge of IMPs as the mediating variable on IMPs-performance link. The rest of this paper is set out as follows; the literature review is discussed in the next section followed by methodology, results discussions and conclusion.

2. Literature review and hypothesis development

2.1 Inventory management and performance

Past research in inventory management and performance reveal that there is a significant relationship between IMPs and performance (Deloof, 2003; Koumanakos, 2008; Shah and Shin, 2007; Jonsson and Mattsson, 2008; and Capkun et al., 2009). For example, Deloof (2003) revealed significant and negative relation between gross operating income and the number of inventory days based on a sample of non-financial Belgian firms. The results proposed that managers could create value for their shareholders by reducing the number of inventory days to a reasonable minimum. Boute et al. (2006) who analysed inventory turnover in Belgium's manufacturing sector and the impact of reducing inventory on financial performance, found that companies with the highest inventory ratio had a higher chance of bad financial performance. The study asserted that firms with high inventory ratios were most likely to be weak financial performers. Similarly, Fullerton et al. (2003) and Demeter (2003) revealed that high inventory turnover associated significantly with a higher return on sales. Studies by Chen et al. (2005) and Chen et al. (2007) concluded that high inventory levels were associated with poor long-term stock returns. Next, Koumanakos (2008) indicated that the higher the level of inventory, the lower its rate of returns. Likewise, Koliass et al. (2011) found that inventory turnover ratio was negatively correlated with gross margin.

In a further study, Garcia-Teruel and Martinez-Solano (2007) demonstrated that managers could create value by reducing their inventories and the number of days for which their accounts were outstanding. Likewise, Shah and Shin (2007) revealed that inventory reduction had a direct and significant effect on performance. Panigrahi (2013) indicated that inventory conversion period had an inverse relationship with the firms' profitability i.e., when the inventory conversion period (ICP) days increases, the profitability of the firm decreases, and vice versa. Next, Elsayed and Wahba (2016) found that while inventory to sales ratio affected organisation's performance negatively in the initial growth stage and the

maturity stage, it exerted a positive and significant coefficient on performance in either the rapid growth stage or the revival stage. Jonsson and Mattsson (2008) concluded that the way of determining and the review frequency of safety stocks and lead times had great importance for the planning performance of MRP methods, while the determination and review of order points, review frequencies and run-out times were important for re-order point methods. Capkun et al. (2009) investigated the relationship between inventory performance and financial performance in the US manufacturing sector based on financial information gathered from 1980 to 2005. The study found that there was a significant positive correlation between inventory performance and measures of financial performance. Gaur and Kesavan (2009) found that there was a strong relation between inventory turnovers, firm's size and increased in sales. Similarly, Pong and Mitchell (2012) indicated a positive association between increased in profit return and improvement in inventory days using a sample of the UK firms. The performance of inventory management may be contributed by size of a firm. Gaur and Kesavan (2009) noted that firm size may affect a firm's capability to achieve increased competitiveness and financial performance. Their study demonstrated that the increase in inventory turnover and sales performance is depending upon the firm size. This is because larger firms are more likely to have a bigger market share and control over the competitive market. Furthermore, larger firms have more access to resources compared to a smaller business unit.

Despite numerous significant evidences in the relationship between IMPs and the firm's performance, there is little evidence that reveal contradicting results. For example, Vastag and Whybark (2005) demonstrated that there was no relationship between inventory turnover and performance. Likewise, Cannon (2008) found that there was no correlation between inventory management efficiency and overall financial performance. When the effects of time were taken into account, turnover improvement on average had a slightly negative effect on return on asset. Keramidou et al. (2012) investigated the relationship between efficiency and profitability revealed that the results did not confirm a positive strong correlation between efficiency and profitability. Companies that had the capability of producing their products with the best practices were not always capable of generating the maximum profits. Similarly, Obermaier and Donhauser (2012) demonstrated that organisations that had the lowest (highest) inventory level had also the worst (best) performance level. They concluded that moving towards zero-inventory case was not always recommended. Folinis and Shen (2014) found that there was no significant correlation between inventory turnover and financial performance. Overall, empirical evidences on IMPs and performance relationship produce mixed results. Thus, the following hypothesis is suggested:

H₁: Inventory management practices have significant relationship with enterprise performance.

2.2 Inventory management practices and knowledge of IMPs

Previous studies contend that qualified personnel with sufficient knowledge of inventory management should be considered in running IMPs. One of the critical barriers to inventory management adoption is the inadequacy of qualified personnel, who have little knowledge on how to handle inventory management effectively. Water (2003) proposed that organisations should provide sufficient training to key employees in understanding the inventory control system. Ogbo et al. (2014) argued that management's capability could be acquired with a good knowledge in such functions. Furthermore, the culture of good practices in inventory management would distribute knowledge among the staff through training and information sharing. Thus, it is crucial for any organisations to acquire expertise and knowledge for better inventory management practices. Thus, this study proposes the following hypothesis.

H₂: Inventory management practices have significant relationship with inventory management knowledge.

2.3 Knowledge of IMPs and performance

In the SMEs context, one common issue that may limit the adoption of systematic practice is the abilities of qualified human resources. Prior studies highlight that qualified human factor is important for the adoption of sophisticated management practices (Ahmad and Mohamed Zabri, 2015), thus it may increase firm performance. Expertise and knowledge are the management skills that any organisation should acquire (Ogbo et al., 2014). Kotzab and Teller (2005) argued that the lack of qualified personnel and

knowledge regarding the demand and the inaccuracy of virtual and real stock in the stores caused inefficiency in inventory management. A study by Ayad (2008) found that different stores within the same companies and different departments within the same stores delivered different results, mainly due to human factors, specifically in terms of critical thinking, functional knowledge and leadership. In every planning and control situation there were different planning conditions that impact the possibility of favourable application modes, but which might also have a direct impact on planning performance. Such conditions included the educational and knowledge level, management commitment and the organisational design and function of planning and control (Jonsson and Mattsson, 2008). Strohhecker and Grobler (2013) suggested that appropriate knowledge was critical in implementing systematic IMPs. Thus, we suggest that the presence of knowledgeable staff or owners/managers is associated with a better adoption of IMPs.

H₃: Inventory management knowledge has significant relationship with enterprise performance.

2.4 The mediating role of knowledge of IMPs in relationship between IMPs and performance.

The literature suggests that inventory management has a significant link with performance and the important role of knowledge and competent human factor in assisting the running of IMPs towards enhancing performance. The allocation of tasks, the decision-making processes, the behaviour of the personnel involved in the inventory system, as well as communication processes appear to be important contextual factors when analysing and redesigning inventory systems (De Vries, 2011). Ahmad and Mohamed Zabri (2016) demonstrated that knowledge and adequate training in managerial practices initiated the adoption of systematic managerial practices for achieving higher performance level. In the IMPs context, Kotzab and Teller (2005) argued that the lack of knowledge in managing stock led to poor inventory management and ultimately to poor performance. Similarly, Bahri et al. (2011) revealed that training for employees to gain adequate inventory management knowledge could improve management's quality and therefore influenced the value of inventory performance. In this case, we propose that the knowledge of IMPs has a mediating role in the relationship between IMPs and performance. Thus, the fourth hypothesis is stated as follows:

H₄: Inventory management knowledge mediates the relationship between inventory management practices and enterprise performance.

Figure 1 presents the conceptual model that shows the role of inventory management knowledge as a mediator in relationship between IMPs and performance.

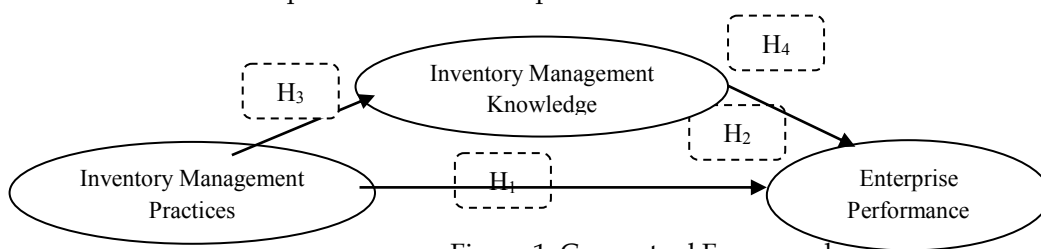


Figure 1: Conceptual Framework

The following section discusses the methodology in more detail.

3. Methodology

This study utilises structural equation modelling (SEM) in testing the hypotheses. Basically, SEM consists of two components; the measurement model, which reduces observed variables to a smaller number of latent factors; and the structural equation model, which defines causal relationships among these latent factors.

3.1 Sample

This study focuses on micro retailing enterprises as this sector is one of the significant sectors in Malaysia. In Malaysia, micro enterprises are businesses that fall within the criteria of having either an annual sales turnover of less than RM300,000 (equivalent to approximately USD75,000) or fewer than five employees. As this sector comprises a significant number of the Malaysian SMEs, this sector promotes the growth of retailing activities in Malaysia. According to SMECorp (2016) the SMEs activities are mostly

from the wholesale and retail industries. As such it is worthwhile to examine IMPs from the context of the micro enterprise sector.

Most of the items developed in this study were adapted from a study by Ahmad and Mohamed Zabri (2016). IMPs and enterprise performance were evaluated based on the subjective measures which is more suitable in a small business context when objective performance and IMPs data are unavailable. Pre-test and pilot tests were conducted to enhance the validity and reliability of the data and a few amendments were made based on the suggestions. The questionnaires were distributed directly to a sample of 300 owners/managers of micro retailing enterprises. After several follow-ups, a total of 100 completed responses were received which equals to 33.33% of the response rate. The degree of use of IMPs were measured by using 24 items (Inv1 to Inv24) based on 7-point Likert scale where 1= Very Rarely and 7= Very Frequent. Meanwhile knowledge of IMPs (three items: Know1 to Know3) and Performance (five items: inventory turnover, profit margin, sales growth, delivery on-time, customers satisfaction and customer complaints) were measured using 7 point Likert scales where 1= Very Low and 7= Very High. The reliability analysis indicated that the Cronbach's alpha values were greater than 0.8 which suggests that all items used as variables in this study were found to be highly reliable.

3.2 Factor analysis

Principal components analysis (PCA) with varimax rotation on 24 IMPs items was first carried out using SPSS to confirm the main dimensions of inventory management. Due to low factor loadings which below than 0.6, eight items had to be removed. The final PCA analysis as shown in Table 1 indicates that the factor loadings in the measurement model were all greater than 0.60, leading to a conclusion that the reliabilities of individual items are within the acceptable level. The 16 items of IMPs were divided into three broad dimensions. The first category with four items (Inv1- Inv4) was categorised as inventory reorder activities. The second category consisted of eight items (Inv5, Inv6, Inv7, Inv8, Inv10, Inv11, Inv12, Inv13) was classified as inventory control activities and the third group (Inv17 to Inv23) was categorised as supplier monitoring activities.

Table 1: Factor Analysis Pattern Matrix

		Factor		
		1	2	3
1	Inv1			.992
2	Inv2			.800
3	Inv3			.683
4	Inv4			.764
5	Inv5	.873		
6	Inv 6	.850		
7	Inv 7	.956		
8	Inv 8	.672		
9	Inv 10	.739		
10	Inv 11	.905		
11	Inv 12	.911		
12	Inv 13	.729		
13	Inv 17		.624	
14	Inv 21		.934	
15	Inv 22		.918	
16	Inv 23		.690	

a. Rotation converged in 5 iterations.

Normality assessment was made by evaluating the measure of skewness of each item. The absolute values of skewness for all independent and dependent variables were less than 1.5, which suggested that all the items were normally distributed.

4. Results and discussions

This section discusses the results of the data collected from 100 respondents using the descriptive analysis and structural equation model. The next section discusses the background of the responding enterprises.

4.1 Profile of the responding enterprises

Table 2 shows the characteristics of the sample in terms of the number of employees, average annual sales, duration in business and inventory management techniques, which provides the overview of the respondents' profiles. About two-thirds of the responding enterprises are proprietors and have been in business for less than three years. Furthermore, the results show that half of the respondents have diploma and bachelor degree certificates. In terms of inventory management techniques, the rule of thumb is the most frequent inventory management techniques used by micro retailing enterprises. EOQ, bar code tagging and VMI are only applied by a small number of respondents.

Table 2: Profile of the responding enterprises

No.	Items	%	Items	%	
1	<i>Business duration</i>		2	<i>Education level</i>	
	Less than 3 years	66		UPSR/PMR	4
	4-5 Years	12		SPM	37
	6-7 Years	13		STPM	9
	8-9 Years	3		DIPLOMA	19
	More than 10 Years	6		Bachelor Degree	31
	Total	100		Total	100
3	<i>Business form</i>		4	<i>Inventory techniques used</i>	
	Proprietorship	64		Economic Order Quantity (EOQ)	15.5
	Partnership	9		Other techniques	32.2
	Companies	27		Vendor managed inventory	9.5
	Total	100		Bar coding tagging	7.1
				Rule of Thumb	35.7

4.2 Details on information of inventory management practices

This section discusses in detail the current state of IMPs which were measured using a 16-item scale related to IMPs under three main components (Reorder point: 4 items, Inventory control: 8 items and Supplier monitoring: 4 items). Supplier monitoring activities are the most frequent IMPs adopted by micro retailing enterprises with an average mean score of 5.30. This is followed by inventory control and inventory reorder activity with average mean values of 4.89 and 4.81, respectively. The overall IMPs can be considered at a good level as its average mean score is 5.00.

Table 3: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Reorder Point	1	7	4.81	1.062
Inventory Control	1	7	4.89	1.459
Supplier	2	7	5.30	1.332
IMPs	1	6	5.00	1.065

4.3 Correlation tests

This section provides the results of correlation analysis between enterprises characteristics and IMPs and performance. Table 4 shows that all inventory management subcomponents have significant, strong and positive relationships with performance. The study also reveals that there is a strong and significant relationship between IMPs and performance with the correlation value of 0.637. Thus, the test implies that micro enterprise with a higher level of IMPs is more likely to have a better performance. The findings demonstrate that the size of enterprises which is represented by either the number of employees and average annual sales has a significant and positive relationship with IMPs. This suggests that larger

enterprises are more likely to implement systematic IMPs as compared to smaller enterprises and have more consistency in profitability level. This is due to the fact that larger firms have sufficient resources to successfully implement high profile management initiatives (Pong and Mitchell, 2012). Kinney and Wempe (2002) argued that inventory control was superior in larger firms. In addition, Gaur and Kesavan (2009) claimed that the firm's size might affect a firm's capability to achieve increased competitiveness and financial performance. This is shown in a study by Panigrahi (2013) who found that profitability improves with an increase in the firm's size.

Table 4: Correlation analysis between size, IMPs and performance

	Employee	Annual Sales	Reorder Point	Inventory Control	Supplier	IMPs	Performance
Employee	1	.505**	.418**	.279**	0.152	.330**	0.186
		0	0	0.005	0.131	0.001	0.063
Annual Sales		1	.347**	.317**	0.071	.289**	.200*
			0	0.001	0.484	0.003	0.046
Reorder Point			1	.412**	.397**	.686**	.358**
				0	0	0	0
Inventory Control				1	.713**	.891**	.582**
					0	0	0
Supplier					1	.875**	.604**
						0	0
IMPs						1	.637**
							0
Performance							1

4.4 The mediating effects of knowledge of IMPs on IMPs and performance relationship

The structural equation model using AMOS was performed to analyse the effect of IMPs on enterprise performance and the mediating role of inventory management knowledge on the relationship between IMPs and performance. The confirmatory factor analysis was conducted to ensure the appropriateness of the scales and that the measurement model constructs were in line with the literature. Table 5 presents the composite reliability (CR) coefficients for the constructs in the present model (IMP: Inventory Management Practice; EP: Enterprise Performance; and IK: Inventory Knowledge) are all greater than 0.70, suggesting that a high internal reliability in the constructs. Meanwhile, the average variance extracted (AVE) coefficients as shown in Table 5 are all larger than 0.5, which suggests that the items are able to explain the variance in the constructs. Table 6 shows the results of discriminant validity. The diagonal values, in bold, is the square root of AVE of the three constructs while other values are the correlation between the respective constructs. The discriminant validity for all three constructs is achieved since the diagonal values are higher than the values in its respective matrices.

Table 5: Composite reliability coefficients

Construct	Item	Factor Loading	CR	AVE
IMP	Item1	0.49	0.781	0.556
	Item 2	0.86		
	Item 3	0.83		
EP	Item1	0.69	0.787	0.555
	Item 2	0.86		
	Item 3	0.67		
IK	Item1	0.92	0.911	0.837
	Item 2	0.91		

Table 6: Discriminant validity

	EP	IMP	IK
EP	0.745		
IMP	0.637	0.914	
IK	0.70	0.644	0.744

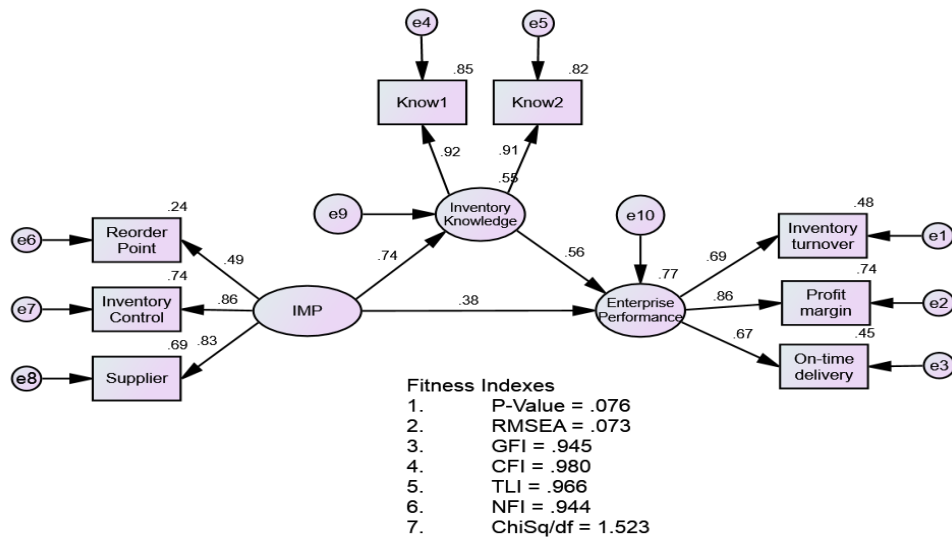


Figure 2: The standardised path coefficients between constructs

Figure 2 presents the model fit results based on absolute fit (RMSEA below than 0.08; GFI greater than 0.90), incremental fit (CFI; TLI; and NFI >0.9) and parsimonious fit (Chisq/df < 3.0). Thus, all the model fitness requirements are achieved. The results in Figure 2 also shows the standardised path coefficients between the constructs that indicates the value of coefficient of determinant R-square was 0.77. This suggests that the contribution of the exogenous variable in estimating the endogenous variable is 77%. After the CFA analysis, the items for knowledge of inventory management are reduced to two items, and enterprise performance to three items. Next, the regression weight estimate for the model is presented in Figure 3 and the text output is in Table 8. Table 8 shows that the direct effect of IMP on enterprises performance is significant (beta coefficient: 1.721, p: 0.001). When the mediating variable (Knowledge) enters the model, the value of path coefficient for IMP is reduced to 0.754. Based on the results, all hypotheses (H₁ to H₄) are supported. Thus, the results suggest that there is partial mediation for our model where the IMP have a significant direct effect on enterprise performance and also a significant indirect effect on performance through knowledge of IMPs. Thus, our findings validate the hypothesised relations between IMPs and performance which is partially mediated by the knowledge of IMPs.

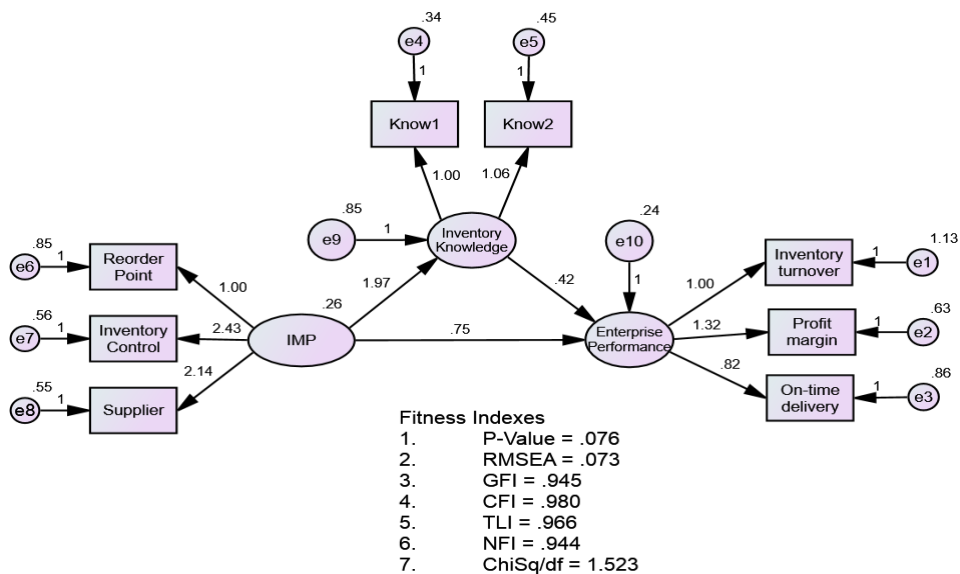


Figure 3: The unstandardised path coefficients between constructs

Table 8: The regression weights and path coefficients

Regression Weights: (Group number 1 - Default model)						
The direct effect of IMP on performance						
			Estimate	S.E.	C.R.	P
Enterprise_Performance	<---	IMP	1.721	0.419	4.109	***
The regression path coefficients and its significance based on p value <0.05						
			Estimate	S.E.	C.R.	P
Inventory_Knowledge	<---	IMP	1.973	0.450	4.383	***
Enterprise_Performance	<---	Inventory Knowledge	0.415	0.107	3.869	***
Enterprise_Performance	<---	IMP	0.754	0.311	2.425	.015

5. Conclusion

This research reports the quantitative results obtained from 100 useable responses on questionnaires sent to 300 Malaysian micro enterprises in the retailing sector, enquiring about the mediating effect of inventory management knowledge on the relationship between inventory management practices and performance. Several conclusions can be drawn from this research. Firstly, most respondents have adopted a moderate level of systematic inventory design. Staffs own experience or rule of thumb appear to be the highest inventory management techniques which suggests the informal approach of inventory management. The responses seem sensible as small enterprises tend to make decisions based on their own judgement. The results are also reflected by the limitation of resources and expertise commonly faced by micro enterprises.

Furthermore, the analysis on the level of use of selected IMPs which are categorised into three categories (inventory reorder point, inventory control and supplier monitoring) suggests that the accuracy of information received from suppliers is seen as an important IMP procedure among responding enterprises. This is due to the critical role of suppliers through delivering inventories with accurate price and quantity information. Monitoring suppliers' performance through the evaluation on price, quality and quantity of materials and the reliability of the supplier is a fundamental part of ensuring continuity of sales since suppliers are in a position to ensure the continuity of supply of the required inventory. Watts et al. (1990) claimed that suppliers' competencies could significantly affect an organisation's ability to produce a quality product at a reasonable cost and in a timely manner. Having a list of valid and reliable suppliers as well as having a good relationship with suppliers is essential in ensuring the smooth flow of materials.

The correlation analysis demonstrates that IMPs is strongly and significantly related with performance which suggests that enterprises with a higher level of IMPs has more possibility to increase their performance. Additionally, the size of enterprises is significantly and positively associated with IMPs. Our results are consistent with previous arguments on the positive relationships between IMPs and performance and how the variation of IMPs associated with the size of enterprise. Finally, the findings indicate that there is partial mediating effect of knowledge of IMPs on IMPs-performance relationship. The IMPs have both significant direct effects on performance as well as indirect and significant effect on performance through knowledge of IMPs. The results support the previous arguments on the positive and significant link between IMPs and performance. For owners/managers of micro retailing enterprises, it is crucial to be aware of the need of qualified and knowledgeable staff in assuring effective inventory management.

This research has increased understanding of inventory management in a micro business setting. Pursuit of the benefits of improving inventory management places pressures in various areas of the production function. Organisations should make the decision on whether to incorporate one key inventory management technique or a combination of techniques to meet their needs to reach the maximum return. Waters (2003) emphasised that inventory management could be executed effectively by establishing an accurate sales forecast, inventory planning, building relationships with key suppliers, setting a realistic inventory turnover objective, determining the holding cost of inventory and providing sufficient training to key employees in understanding the inventory control system. In addition, Jonsson and Mattsson (2008) added that accurate lead times and safety stocks are two of the most critical factors

for inventory system performance. Thus, micro enterprises should be equipped with proper knowledge in inventory management.

Overall, the results suggest that there is room for improvement in the micro enterprises' inventory management system. This work presents new additional evidence in IMPs and performance in micro retailing enterprises based on subjective measures. It highlights the importance of knowledge of IMPs in mediating IMPs towards improving the firm's performance. As such this study does not only contribute to the body of knowledge but also presents insightful findings on inventory management to the related policy makers particularly in improving micro enterprises growth and development in Malaysia. This study is limited to micro businesses in the retailing industry; thus, the findings are not generalised to other sectors or industries. Future studies should increase the number of samples in order to collect more reliable evidences in this area or add more contextual variables such as the effect of technologies, business strategies and culture on the application of IMPs within small businesses. It is also worthwhile to explore IMPs in other sectors as well, such as in the manufacturing or healthcare industries. Furthermore, in this study, subjective measures of the IMPs and performance were used. Further development of instruments in appraising the objective data relevant to IMPs and performance are needed to add more evidence in this area from a different quantitative approach.

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Is SERVQUAL an inclusive indicator of SMEs' service quality advantage during an economic downgrade? A South African case

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Keywords

Service quality, differentiation strategy, competitive advantage, small and medium enterprises, South Africa

Abstract

Confidence levels among small business owners are lower since South Africa's economy has been downgraded to technical recession. With the economic climate looking dismal, small business owners are not convinced that the South African government will spend on small business development. Where large and small businesses are competing for the same market share, there is a need for small businesses to differentiate themselves in some manner to attract and retain customers through the tough economic climate. A particularly excellent competitive advantage to pursue is high service-quality levels to satisfy customer wants and needs in such a way that customers make repeat purchases. The purpose of this paper is to establish if small businesses can utilise the same measurement models as larger businesses. The research utilised a quantitative research design whereby the data was collected by means of a five-point Likert scale survey, known as the SERVQUAL model. The results recommend that small and medium enterprises use the SERVQUAL model to measure and manage service quality and that the SERVQUAL instrument, when used to measure the perceptions of service quality aspects according to business owners in South Africa, functions largely as intended with only four of the items that are not quite interpreted as intended. At a confidence level of 95 percent or alpha at 0.05 is smaller than the p-value of expectations and perceptions at 0.101 and 0.076 respectively. Results indicate there is no evidence that the model does not fit the data and it is deemed acceptable. However, the SERVQUAL model does not measure service quality in its entirety, as there are aspects that differ between large and small businesses that are not addressed in the SERVQUAL model.

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Introduction

Small business owners are concerned that cash-flow, economic conditions and funding will be the main issues resulting from South Africa's downgrade to technical recession by two global ratings agencies (Omarjee 2017; Moody's 2017). The pressure of low growth has further catalysed small business owners into finding a competitive advantage when competing for market share. A competitive advantage is essential to survive in the market place, as competition gets tougher, customers are wiser and more engaged (South African Reserve Bank 2016; Taneja, Pryor & Hayek 2016:48). To maintain competitiveness, small and medium enterprises (SMEs) will need to find a strategy that will allow the business to stand out from other businesses. Often, having a competitive edge may be difficult when the business offers a product or service that is similar throughout that particular industry for example, insurance, restaurants or cellular service providers. Small businesses require a competitive advantage to operate successfully under stricter regulations and to obtain financial support where there is a lack of infrastructure and inadequate access to credit markets (Festus, Kasongo, Moses & Yu 2016:581). Small businesses compete with fellow small businesses and larger businesses alike. Consider that larger businesses have the advantage of greater financial, human, technological and intellectual resources (Dessi, Ng, Floris & Cabras 2014:669), it is necessary for a small business to find a way to differentiate itself in some way to compete and thrive. An SME could utilise differentiation as a strategy. Differentiation is offering a product or

service that is perceived as unique, has innovative attributes and adds value (Douglas, Douglas & Davies 2010:374). The existence of uniqueness could allow an SME to offer the product or service at a premium. Possible strategies for differentiation include warranties, unique features, brand image, and service quality. Differentiation is especially suitable to small businesses; because of their nature, size and flexibility they can adopt change and implement new strategies (Taneja *et al.* 2016:44). The ability for SMEs to match growing customer expectations regarding products and services is largely based on the SMEs' ability to innovate and deliver products and services that the customers perceive to be of high quality. Due to the unique characteristics of the service industry, specific requirements are essential such as leadership commitment, employee training, internal communication regarding quality and supportive organisational culture (Lam, Lee, Ooi & Phusavat 2012:284).

A notable differentiation strategy is to use service quality, which is a measure of the value provided based on the difference between customers' perceptions and expectations of the service offering (Badrudin, Mohamed, Sharifuddin, Rezai, Abdullah, Latif & Mohayidin 2012:61; Strombeck & Shu 2013:161-162). Customers' perceptions of the service provided are based on service dimensions of reliability, empathy, responsiveness, tangibles and assurances (Chenet, Dagger & O'Sullivan 2010:337). Small businesses may consider service quality standards as an important survival and growth mechanism (Owusu-Frimpong & Nwankwo 2012:684; Tseng & Wu 2014:77), particularly as service quality is a useful measure of organisational performance (Kasul & Motwani in Anuar & Yusuff 2011:328). A measure of high service quality is required to ensure that it is offered. The SERVQUAL model has been identified as an excellent management and measurement model of the customer service offering. The SERVQUAL model identifies where the gaps are in the service offering and indicates service performance (Chitty, Hughes & D'Allesandro 2012:246) thus showing where corrective measures can be implemented. Evaluating service quality in SMEs is necessary considering that SMEs produce more jobs than larger companies and are an essential driver for growth and innovation (Anuar & Yusuff 2011:324). Considering the difference in resources and capabilities of small businesses compared to that of larger businesses, the purpose of this paper is to determine whether small businesses can measure their service offering in the same fashion as that of large businesses. A more in-depth discussion on service quality and its components are found in the following section.

Literature review

Service is characterised as delivering intangible goods, which are varied according to the individual/s delivering the service and the "goods" being delivered that are consumed simultaneously. While quality is regarded as the perception of value (Lam *et al.* 2012:282). Service quality is the discrepancy between the customers' perceptions of a service offered by a business and the customers' expectations of companies offering that particular service (Badrudin *et al.* 2012:61). Customer perceptions can be considered as beliefs about service delivery that serve as a reference point against which consumers will make judgements (Wilson, Zeithmal, Bitner & Gremler 2008:55). Customers will consider perceptions as their reality as it is referred to as the overall evaluation of the service provided and a subjective response to it (Suki, Lian & Suki 2011:43). Perception is comparing expectations with performance (Parasuraman in Suki *et al.* 2011:40). Thus, perceptions together with expectations can be likened to a positive indication of quality if the perception of the services rendered is higher than the expectation of the services. The reverse is an indication of poor quality if the expectations of the service are higher than the perceptions of the service. Perceived service quality from the company's perspective can also be measured in an effort to understand how companies view their own service quality. SME owners should identify customers' needs and wants, then a service should be created that will satisfy the customer in such a way that it is not necessary for them to consider competing services (Machado & Diggines 2012:120). Perceived quality is the service experienced while using the service, which is an important factor of customers' satisfaction and in turn affects their intention to utilise a service (Zeithmal in Nekoie-Moghadam & Amiresmaili 2011:58).

By measuring the service quality perceptions of the small business, small business providers are able to detect which system processes are in need of adjustments (Suki *et al.* 2011:44). SERVQUAL has been identified as a powerful diagnostic authority for the measurement of service quality, however despite the widespread usage, there has been numerous criticisms regarding its theoretical and

procedural bases (Owusu-Frimpong & Nwankwo 2012:685). The SERVQUAL model was originally created with the following ten dimensions: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer and tangibles (Buttle 2009:246). However, the SERVQUAL model was later refined to include only five core dimensions (Chitty *et al.* 2012:246) which are:

- reliability (Performing the service dependably and accurately);
- assurance (Employees' conveyance of trust, confidence, product/service knowledge and courtesy towards customers);
- tangibles (Physical facilities, equipment, personnel attire and communication medium's appearances);
- empathy (Caring and individualised attention for the customers) and
- Responsiveness (Prompt assistance for customers).

The importance of each dimension can be calculated and the difference between perceptions and expectations indicates customer satisfaction. The differences between expectations and perceptions are known as gaps (Buttle 2009:203) that provide insight as to where corrections can be made. If poor service is experienced then it is an indication of a gap, which reflects as a negative number based on the following equation (Hernon & Altman 2010:88): $SERVQUAL \text{ Gap score} = \text{perception score} - \text{expectation score}$. The SERVQUAL model is a necessary measurement tool to take continuously corrective measures to the service quality provided to remain competitive with service quality as the differentiating strategy. It is necessary to remaining competitive, as the environment in which small and large businesses alike operate, requires for either type of business to have a differentiating factor for them to stand out from the other businesses in a competitive environment. Despite the mainstream use of SERVQUAL to measure service quality and perform corrective measures where necessary, to remain competitive with service quality as the differentiation strategy, the initial SERVQUAL model would have perhaps been more suited to small businesses. The initial model would have been suited particularly considering that small businesses do not have as many human resources, finances, information technology hardware and software that large businesses possess (Buttle 2009:246; Dessi *et al.* 2014:669). In addition, the SERVQUAL model is not appropriate for all service offerings, as the dimensions do not relate to all service activities. Handrinou, Folinou and Rotsios (2015) give an example of a research study that adapted SERVQUAL to suit the service offering by either adding more dimensions or replacing the existing dimensions. Parasuraman (in Handrinou *et al.* 2015) indicated that at SERVQUAL's inception, dimensions could be added or deleted to suit the service industry; the existing dimensions serve as a starting point to measure service quality.

Therefore, based on the service quality offering in small businesses, SERVQUAL may have to be adapted to suit the unique needs for each small business industry. Unique needs of a small business could include increased competence considering lack of financial resources to hire too many employees; access to information technology; physical location may be more difficult for small businesses to obtain; communication, as small businesses may not have the HR capacity to respond to an overflow of emails or telephone calls; or credibility as small businesses are often unknown compared to the reputation of a larger business (Sandhu, Hassain & Matlay 2012:728). Small businesses outsource many tasks due to lack of expertise or due to cost reduction, which means some of the services are not even provided by the small business itself (Edvardsson & Teitsdóttir 2015:32). Based on the nature of the small business sector and the particular challenges and opportunities, service quality should be a differentiating strategy, which could provide a competitive advantage for SMEs in South Africa. Differentiation by means of service delivery implies that SMEs recognise the necessity of service delivery measurement and related corrective actions. This gives rise to the question: Can SMEs use SERVQUAL to measure service quality given the constraints relating to human resources, finances, information technology hardware and software that large businesses possess?

3. Aim

The SERVQUAL model with its five dimensions represents both the expectations and perceptions of service quality as seen by management of small businesses. The main aim of the study is to establish

whether the SERVQUAL model is an inclusive indicator of SMEs' service quality during an economic downgrade.

4. Methodology

A sample of small business owners were asked to complete a quantitative questionnaire designed to measure the different dimensions of service quality as defined by the SERVQUAL model. The measured perspectives are the opinions of the SME owners regarding the importance of certain business aspects that influence service quality (their expectations) as well as their perceptions regarding how successful their businesses are in adhering to these aspects. Expectations and perceptions of service quality was measured on the dimensions of reliability, empathy, responsiveness, tangibles and assurances by means of a 5-point Likert scale with 22 items each (1=Strongly disagree; 2=Disagree; 3=Neutral; 4=Agree; 5=Strongly agree) as indicated in the SERVQUAL model.

Data was collected by means of electronically distributed self-administered questionnaires to a sample of SME owners operating in Gauteng and KwaZulu-Natal who registered their small businesses on an official state institution database that provides financial, administrative and marketing services to SMEs (with permission of the state institution and the SME owners). A non-probability, convenience sampling methodology was utilised to enable the researcher to collect data quickly and easily. Sufficient number of questionnaires was distributed to achieve a confidence level of 95 percent and an error margin of 5 percent at 50 percent response distribution. A total of 123 usable responses were received which is an error margin of 8.14 percent. The online Raosoft sample calculator was used to calculate the sample.

Confirmatory factor analysis in conjunction with structural equation modelling was employed for the analysis of the Likert scales. The results are discussed in the subsequent section.

5. Research findings

The respondents were asked to indicate the extent to which they agree that all businesses should adhere to a list of aspects (SERVQUAL) pertaining to service quality (expectations) by selecting a score from a five-point Likert scale (1=Strongly disagree; 2=Disagree; 3=Neutral; 4=Agree; 5=Strongly agree). The same was done regarding the perceptions of the respondents of the extent to which the expectations are realised (perceptions) in their own businesses. The psychometric properties of the SERVQUAL service-quality instrument are presented in terms of its reliability and validity in the sections to follow. These results give an indication of the extent to which the SERVQUAL instrument works as intended for this kind of data in a South African context.

The combined contribution of these provinces to the national GDP is 50 per cent (Gauteng 33.9 per cent; KwaZulu-Natal 16.1 per cent) and can therefore be regarded as representative of SMEs in South Africa (Gauteng Online, 2015). The respondent group consisted of owners (45.45 per cent), managers (18.18 percent) and owner managers (36.36 percent). The majority (58.46 percent) of these businesses had been operating for less than five years whereas a small portion (4.46 percent) existed for more than 25 years. The majority (58.62 percent) of respondents was female and more than half (56.9 percent) was older than 40 years. Almost two thirds (62.12 percent) of the respondents had a post-school qualification ranging from certificates to post-graduate degrees. An overview of the main results is provided in the next section.

5.1 Reliability of the Servqual instrument

The Cronbach's alpha coefficients, a measure of internal consistency, computed for the SERVQUAL in total, as well as for the various dimensions of service quality it measured. These coefficients are presented in Table 1.

	Current study	
	Expectations	Perceptions
	Cronbach's Alpha (Number of items) [α increases if item deleted]	Cronbach's Alpha (Number of items) [α increases if item deleted]
All items	0.932 (22)	0.946 (22)
Tangibles	0.809(4)	0.806 (4) [P_TAN_3]
Reliability	0.817(5) [E_REL_9]	0.867(5)
Responsiveness	0.811(4) [E_RES_13]	0.783(4) [(P_RES_13)]
Assurance	0.897(4)	0.881(4)
Empathy	0.791(5) [E_EMP_19]	0.938(5)

Table 2: Cronbach Alpha coefficients of the SERVQUAL instrument

Source: Author's own research results

Overall, a Cronbach's alpha of 0.932 for expectations and 0.946 for perceptions indicate that the reliability of the scale overall is very high in both sets of data. Although lower, the reliabilities found for the individual dimensions also demonstrate high internal consistency.

5.2 Validity of the SERVQUAL instrument

To assess the validity of the SERVQUAL instrument, confirmatory factor analysis (CFA) was employed, postulating a model with the 22 items of the SERVQUAL and their corresponding latent constructs. To assess this dimensionality of the SERVQUAL instrument (whether the five factors can provide a plausible explanation of the co-variances among the measured question items), IBM SPSS Amos 22 was used and the CFA models that were fitted to the expectations and perceptions data are shown in Figure 3 and Figure 4 respectively.

5.3 Expectations

Each construct with the associated items was assessed individually and E_TAN_4 (Materials like pamphlets or statements linked with the service, will be visually appealing); E_REL_9 (Insist on error-free records); E_RES_13 (Employees are never too busy to respond to customers' requests); and E_EMP_19 (Operating hours will be convenient to all customers) were found not to contribute to the solution with squared multiple correlations below 0.3 and was therefore left out of the initial model.

The initial model also had no co-variances between error terms, and no cross-loading of items to other latent variables. However, an inspection of the modification indices indicated that path coefficients could be included between the latent variable "tangibles" and E_REL_5 as well as E_REL_7 between "reliability" and E_RES_12, and between "assurance" and E_RES_10 and E_EMP_18. Theoretically, the addition of these path coefficients could be justified from the item content. Thus, based on the responses from the current sample of SME owners, it seems as though in a South African context, cross-loadings should be allowed when applying CFA to the SERVQUAL instrument when it is used to measure importance (expectations) of service aspects. The addition of these parameters to the model improved the fit. Due to indication from the modification indices that the model fit will improve by allowing E_TAN_3 to cross-load on three of the other latent constructs, it was decided to drop this item from the model, which resulted in a substantial improvement in fit. Modification indices that indicated large possible improvements in model fit statistics were between errors terms E_REL_5 and E_EMP_18, E_RES_10 and E_RES_11, E_RES_12 and E_EMP_18 as well as between E_RES_11 and E_ASS_16. From the item content, the inclusion of these co-variance parameters between the error terms of the items could be theoretically justified. For example, there could be some overlap in interpretation of "Employees will tell customers exactly when services will be performed" (responsiveness) and "The employees will understand the specific needs of their customers" (empathy). Subsequent addition of these error co-variance parameters to the model improved the fit.

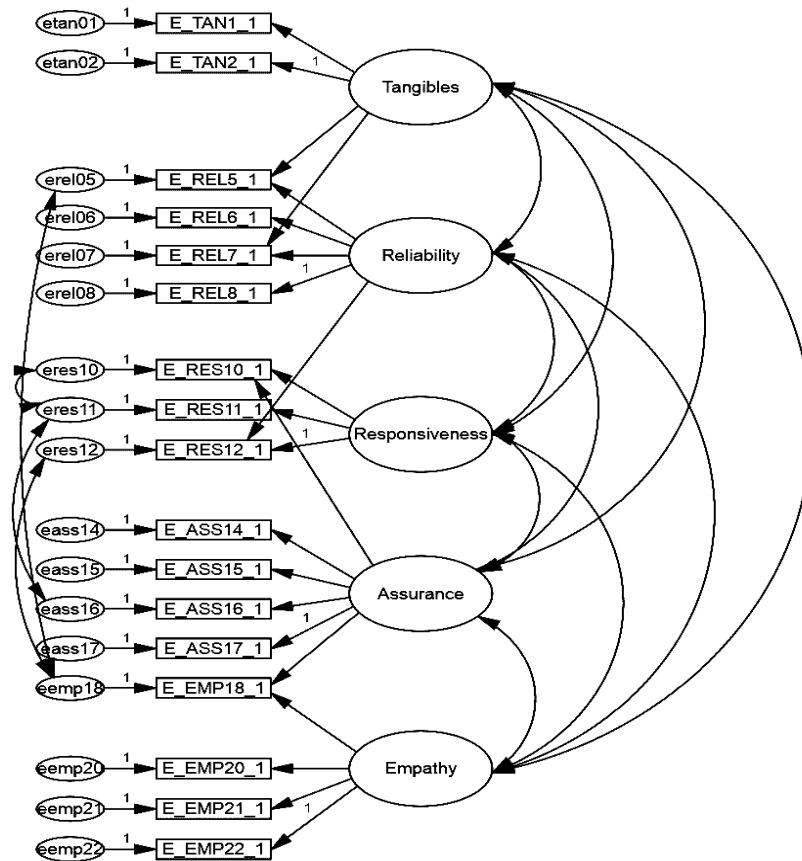


Figure 3: Confirmatory factor analysis of the SERVQUAL instrument

Source: Author’s own research results

The parameter estimates of the regression coefficients are provided in Table 3 and the estimated co-variances for the model are provided in Table 3. Table 5 provides a summary of the most important fit measures for the SERVQUAL model in Figure 3.

All the coefficients are positive and significant at the 5 percent level of significance, which is an indication that high levels on the latent variables will be associated with higher levels on the items. Although the regression weight $E_RES_10 \leftarrow$ Responsiveness is marginally non-significant, it was decided to retain the regression path in the model so as not to have to eliminate E_RES_10 from the model. For the model to be identified and to set the scale for the latent constructs, one of the regression paths is constrained to be equal to one. In the structural equation modelling (SEM) literature, this method of constraining one item path for each latent construct to be equal to one is generally recommended (Steenkamp and Baumgartner, 1998).

	Estimate	S.E.	C.R.	P
E_EMP22_1 <--- Empathy	1.000			
E_EMP21_1 <--- Empathy	1.143	.127	9.020	***
E_EMP20_1 <--- Empathy	1.274	.145	8.808	***
E_ASS17_1 <--- Assurance	1.000			
E_ASS16_1 <--- Assurance	1.040	.084	12.336	***
E_ASS15_1 <--- Assurance	.845	.088	9.607	***
E_ASS14_1 <--- Assurance	.864	.087	9.988	***
E_RES12_1 <--- Responsiveness	1.000			
E_RES11_1 <--- Responsiveness	.584	.083	7.056	***
E_RES10_1 <--- Responsiveness	.218	.116	1.880	.060
E_REL8_1 <--- Reliability	1.000			

			Estimate	S.E.	C.R.	P
E_REL7_1	<---	Reliability	.920	.113	8.166	***
E_REL6_1	<---	Reliability	1.375	.149	9.244	***
E_REL5_1	<---	Reliability	.473	.100	4.723	***
E_TAN2_1	<---	Tangibles	1.000			
E_TAN1_1	<---	Tangibles	1.093	.153	7.140	***
E_EMP18_1	<---	Assurance	.708	.094	7.551	***
E_REL5_1	<---	Tangibles	.227	.065	3.487	***
E_RES12_1	<---	Reliability	-.930	.251	-3.708	***
E_EMP18_1	<---	Empathy	.191	.088	2.165	.030
E_REL7_1	<---	Tangibles	.149	.056	2.637	.008
E_RES10_1	<---	Assurance	.580	.174	3.331	***

Table 3: Maximum likelihood estimates of regression weights for model in Figure 3

Source: Author's own research results

All the co-variances are positive and significant (Table 4).

			Estimate	S.E.	C.R.	P
Empathy	<-->	Assurance	.230	.056	4.081	***
Assurance	<-->	Responsiveness	.477	.097	4.920	***
Empathy	<-->	Responsiveness	.379	.091	4.149	***
Responsiveness	<-->	Reliability	.391	.100	3.906	***
Assurance	<-->	Reliability	.139	.043	3.226	.001
Empathy	<-->	Reliability	.145	.044	3.292	***
Reliability	<-->	Tangibles	.137	.053	2.569	.010
Responsiveness	<-->	Tangibles	.278	.100	2.791	.005
Assurance	<-->	Tangibles	.183	.064	2.864	.004
Empathy	<-->	Tangibles	.276	.071	3.897	***
eemp18	<-->	eres12	.041	.017	2.385	.017
eemp18	<-->	erel05	.042	.017	2.505	.012
eres11	<-->	eres10	.096	.026	3.770	***
eass16	<-->	eres11	.038	.013	2.996	.003

Table 4: Estimated co-variances for model in Figure 3

Source: Author's own research results

5.3.1 Measures of fit

The Chi-square statistic is not always suitable in the case of large samples; however, in the case of this research it can be used as a measure of the fit of the model. Since the Chi-square tests the null hypothesis that the data fits the model well, the idea is to get a non-significant result so that the null hypothesis cannot be rejected. For this expectation data the non-significant result ($\chi^2(100) = 118.381$, $p = 0.101$) indicates that the data fits the model in Figure 3 well. A number of the most important fit measures with their evaluation criteria are listed in Table 5, showing that some of these fit indices confirm the Chi-square result. The acceptable levels of fit are indicated in parentheses for each of the listed indices.

Model	CMIN ($p > 0.05$; CMIN/DF ≤ 2)				
	NPAR	CMIN	DF	P	CMIN/DF
Default model	53	118.381	100	.101	1.184
Saturated model	153	.000	0		
Independence model	17	1266.691	136	.000	9.314

RMR, GFI (RMR close to 0; GFI close to 1)

Model	RMR	GFI	AGFI	PGFI
Default model	.026	.883	.821	.577
Saturated model	.000	1.000		
Independence model	.243	.227	.130	.202

Baseline Comparisons (0.9 and above)

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.907	.873	.984	.978	.984
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA (.05 and below)

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.044	.000	.073	.596
Independence model	.299	.284	.314	.000

Table 5: Summary of important fit measures for the SERVQUAL model in Figure 1

Source: Author's own research results

Thus, it seems that the SERVQUAL instrument, when used to measure the expectations (importance) of service quality aspects according to business owners in South Africa, functions largely as intended with only four of the items that are not quite interpreted as intended.

5.4 Perceptions

Each construct with the associated items was assessed individually and P_TAN_3 (Employees will be neat in their appearance) and P_RES_13 (Employees are never too busy to respond to customers' requests) were found not to contribute to the solution with squared multiple correlations below 0.3; it was therefore left out of the initial model. The initial model also had no co-variances between error terms, and no cross-loading of items to other latent variables. However, the modification indices indicated that a path coefficient could be included between the latent variable "assurance" and P_EMP_20. Theoretically, the addition of this path coefficient could be justified from the item content. Thus, based on the responses from the current sample of SME owners, it seems as though in a South African context, this cross-loading should be allowed when applying CFA to the SERVQUAL instrument when it is used to measure business owners' perceptions of the extent to which service aspects are realised in their businesses. The addition of this parameter to the model improved the fit. Due to indication from the modification indices that the model fit will improve by allowing P_TAN_4 to cross-load on all of the other latent constructs, it was decided to drop this item from the model, which resulted in a substantial improvement in fit. Modification indices that indicated large possible improvements in model fit statistics were between errors terms P_TAN_01 and P_RES_12, P_REL_5 and P_RES_10, P_REL_6 and P_RES_12, P_REL_8 and P_EMP_22, P_RES_11 and P_EMP_18, P_RES_12 and P_EMP_19 as well as between P_EMP_20 and P_EMP_21. From the item content, the inclusion of these co-variance parameters between the error terms of the items could be theoretically justified. For example, there could be some overlap in interpretation of "Reliable" (reliability) and "Employees will tell customers exactly when services will be performed" (responsiveness). Subsequently addition of these error co-variance parameters to the model improved the fit.

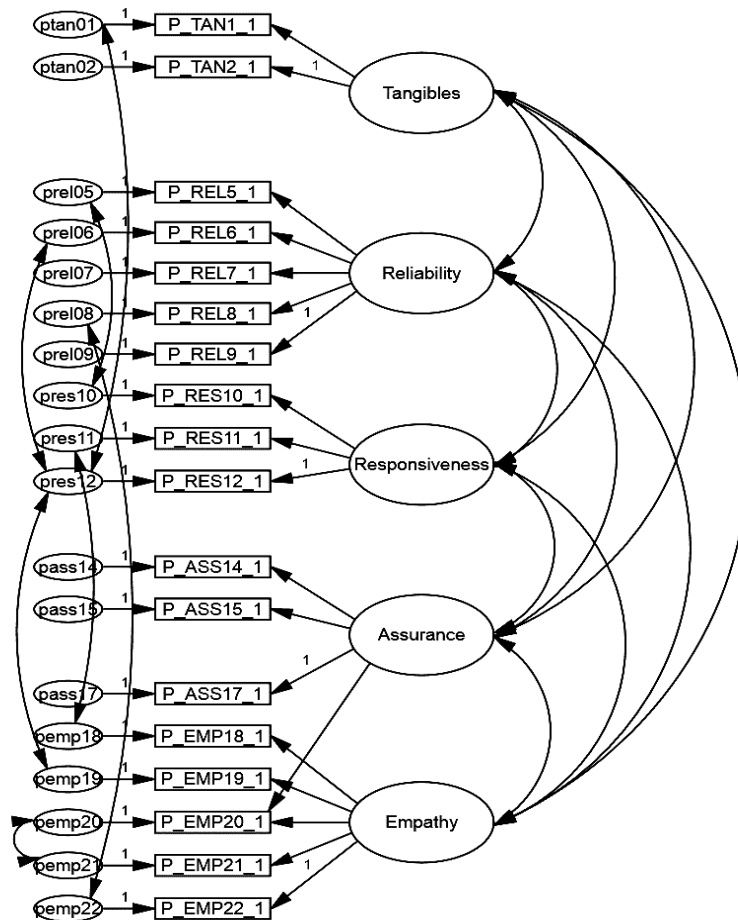


Figure 4: Confirmatory factor analysis of the SERVQUAL instrument
Source: Author's own research results

The parameter estimates of the regression coefficients are provided in Table 6 and the estimated co-variances for the model are provided in Table 7. All the coefficients are positive and significant at the 5 percent level of significance.

	Estimate	S.E.	C.R.	P
P_EMP22_1 <--- Empathy	1.000			
P_EMP21_1 <--- Empathy	.952	.068	14.038	***
P_EMP20_1 <--- Empathy	.500	.189	2.646	.008
P_EMP19_1 <--- Empathy	.926	.112	8.242	***
P_EMP18_1 <--- Empathy	1.027	.073	14.006	***
P_ASS17_1 <--- Assurance	1.000			
P_ASS15_1 <--- Assurance	.964	.124	7.776	***
P_ASS14_1 <--- Assurance	1.222	.159	7.697	***
P_RES12_1 <--- Responsiveness	1.000			
P_RES11_1 <--- Responsiveness	1.092	.134	8.161	***
P_RES10_1 <--- Responsiveness	1.237	.146	8.446	***
P_REL9_1 <--- Reliability	1.000			
P_REL8_1 <--- Reliability	.780	.106	7.364	***
P_REL7_1 <--- Reliability	.918	.119	7.690	***
P_REL6_1 <--- Reliability	.905	.136	6.640	***
P_REL5_1 <--- Reliability	.978	.133	7.363	***
P_TAN2_1 <--- Tangibles	1.000			

	Estimate	S.E.	C.R.	P
P_TAN1_1 <--- Tangibles	.945	.117	8.071	***
P_EMP20_1 <--- Assurance	.646	.201	3.214	.001

Table 6: Maximum likelihood estimates of regression weights for model in Figure 3

Source: Author's own research results

All the co-variances are positive and significant (Table 7).

	Estimate	S.E.	C.R.	P
Empathy <--> Assurance	.207	.041	5.078	***
Assurance <--> Responsiveness	.205	.044	4.686	***
Empathy <--> Responsiveness	.202	.040	5.055	***
Responsiveness <--> Reliability	.254	.053	4.775	***
Assurance <--> Reliability	.244	.052	4.687	***
Empathy <--> Reliability	.227	.046	4.940	***
Reliability <--> Tangibles	.255	.070	3.633	***
Responsiveness <--> Tangibles	.236	.062	3.823	***
Assurance <--> Tangibles	.131	.056	2.315	.021
Empathy <--> Tangibles	.143	.054	2.647	.008
pres12 <--> prel06	.100	.025	3.959	***
pemp21 <--> pemp20	.029	.012	2.495	.013
pres12 <--> ptan01	-.076	.024	-3.172	.002
pemp18 <--> pres11	.041	.013	3.147	.002
pemp19 <--> pres12	.088	.023	3.782	***
pres10 <--> prel05	-.077	.021	-3.694	***
pemp22 <--> prel08	-.045	.011	-4.099	***

Table 7: Estimated co-variances for model in Figure 3

Source: Author's own research results

Table 8 provides a summary of the most important fit measures for the SERVQUAL model in Figure 4.

5.4.1 Measures of fit

As for the expectation data, the non-significant Chi-square result for the perceptions data (χ^2 (117) = 139.510, $p = 0.076$) indicates that the data fits the model in Figure 4 well. Other fit statistics are listed in Table 8.

CMIN ($p > 0.05$; CMIN/DF ≤ 2)

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	54	139.510	117	.076	1.192
Saturated model	171	.000	0		
Independence model	18	1456.902	153	.000	9.522

RMR, GFI (RMR close to 0; GFI close to 1)

Model	RMR	GFI	AGFI	PGFI
Default model	.024	.863	.800	.590
Saturated model	.000	1.000		
Independence model	.229	.169	.072	.152

Baseline Comparisons (0.9 and above)

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.904	.875	.983	.977	.983
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA (.05 and below)

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.045	.000	.072	.585

Model	RMSEA	LO 90	HI 90	PCLOSE
Independence model	.303	.289	.317	.000

Table 8: Summary of important fit measures for the SERVQUAL model in Figure 4

Source: Author's own research results

Thus, it seems that the SERVQUAL instrument, when used to measure the perceptions of service quality aspects according to business owners in South Africa, functions largely as intended. However, four of the items that are not quite interpreted as intended.

6. Conclusion

To stimulate economic growth, job creation within the small business sector is desperately needed (Affirmative portfolios 2016; Statistics SA 2015), especially since small businesses are relatively more labour intensive (relating to the unskilled to semi-skilled labour). In view of the low-skilled labour (elementary and domestic workers occupations) employment numbers compared to the semi-skilled labour (clerks, sales and services, machine workers, skilled agriculture) and skilled labour (managers, professionals and technicians), there is an overflow of unemployed unskilled labour in South Africa. Service quality is a differentiating strategy that promotes economic growth objectives and profitability (Owusu-Frimpong and Nwankwo 2012:694), which is promoted to small businesses to utilise. The SERVQUAL model is an instrument that can be used to measure and manage service quality. This model measures the gap between customer expectations and experience on five dimensions comprising reliability, responsiveness, assurance, empathy and tangibility. Expectations have an overall Cronbach's alpha of 0.932 while Perceptions have an overall Cronbach's alpha of 0.946 – which are both very high reliability of the scale.

Thus, it seems that the SERVQUAL instrument, when used to measure the perceptions of service quality aspects according to business owners in South Africa, functions largely as intended. However, four of the items that are not quite interpreted as intended. For this expectation data the non-significant result ($\chi^2(100) = 118.381, p = 0.101$) indicates that the data fits the model. As for the perception data, the non-significant Chi-square result for the perceptions data ($\chi^2(117) = 139.510, p = 0.076$) indicates that the data fits the model. For expectations the p-value = 0.101, while for perceptions the p-value = 0.076. There is no evidence that the model does not fit the data and it is deemed acceptable at a confidence level of 95 per cent or alpha at 0.05 with the p-value of expectations and perceptions, which are at 0.101 and 0.076 respectively. However, small businesses have to take what they can from the SERVQUAL model, in realising that what is suitable to large businesses does not automatically become suitable for small businesses. Large businesses have the resources to measure service quality with the SERVQUAL model, because of the access to human resources, finances and technical equipment. A small business will have either to employ someone or outsource the task to conduct the research by adjusting the statements of the SERVQUAL to their business offering. The employee will have to conduct the actual research, followed by the data collection and analyses. For analysis to occur, the necessary hardware and software need to be in place.

Furthermore, an employee would need to be able to interpret the results which is rather complex when specialised knowledge is required to do so. This study revealed that the factor structure of the service quality dimensions as determined by the SERVQUAL model, for both the data representing the expectations of service quality as well as the data representing the perceptions of actual service quality as seen by management, is largely supported by data obtained from South African SMEs. The SERVQUAL model is not ideal for small businesses when the entire model cannot be interpreted as intended, considering that only four items are not quite interpreted as intended. However, the SERVQUAL model does not measure service quality in its entirety, as there are aspects that differ between large and small businesses that are not addressed in the SERVQUAL model. The current study on the discrepancy in large and small business service quality is a contribution to the field of study in that it indicates possible adaptation of SERVQUAL to SME's. Small business owners will benefit from having a SERVQUAL model that differs from large businesses, in that they have a more specific and adapted model could be a better indicator of SME's service quality delivery. An adapted model of SERVQUAL may be more suitable for SMEs or a new model that will take in the unique characteristics of small businesses thus a model for

small businesses should be researched to determine whether specific service quality aspects arise that differ from that of the SERVQUAL model.

6.1 Research limitations and future research

Limitations of the study include the restricted number of completed surveys in addition to the cities where the survey was distributed. The survey could have been distributed in other cities across the country in order to gain a wider South African view of service quality at small businesses.

Further research can be done on the matter of a service quality measurement model for SMEs. A study delving deeper into the service quality dimensions that would relate to small businesses in South Africa might be required. As South Africa has unique characteristics regarding its markets and where small businesses are located, such as in informal settlements or rural areas (beyond urban areas) a study could look at what service quality dimensions are unique to South African business owners and customers alike. Future studies can also look at overcoming the limitations presented in the current paper, regarding completed surveys and extending the reach to respondents in other geographical areas/cities in South Africa.

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The impact of social media brand communication on consumer-based brand equity dimensions through Facebook in fast moving consumer goods: The case of Egypt

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Social media, Facebook, CBBE dimensions, Brand equity, FMCG, Egypt context

Abstract

The purpose of this paper is to examine the impact of firm-created and user-generated social media brand communication on five consumer-based brand equity (CBBE) dimensions through Facebook on the Egyptian fast-moving consumer goods (FMCG) industry.

This paper used quantitative approach, which consists of distributing, collecting, and analyzing large-scale questionnaire survey. Questionnaires were administered personally and electronically distributed. Data were collected from 400 customers based on quota sampling technique to cover the Egyptian population distribution and analyzed by using Structural Equation Modelling (SEM).

The results of our paper showed that firm-created social media brand communication has a significant positive direct impact on only four CBBE dimensions (brand awareness, brand perceived quality, brand associations and brand trust). Whereas user-generated social media brand communication has no significant impact on brand perceived quality, brand loyalty, and brand trust. Additionally, it has been found that user-generated social media brand communication has a negative impact on brand awareness and brand associations.

This paper adds to the body of knowledge by focusing on the impact of two different types of social media communication (firm-created and user-generated social media brand communication) on 5 CBBE dimensions (brand awareness, brand perceived quality, brand associations, brand loyalty, and brand trust) in new context, which is the Egyptian FMCG industry. On the other hand, this paper provides vital information to the marketing specialists and brand managers to understand how CBBE dimensions could be built via two different types of social media communication.

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1. Introduction

Social media has evolved as new technological tool, it uses mobile and web-based technologies to generate very interactive and collaborative platforms through which individuals and societies can share, discuss, and amend user-generated content (Kietzmann et al. 2011). This type of media includes diverse outlets such as: social networking sites (SNS), creativity works sharing sites, business networking sites, collaborative websites, etc. (Mangold & Faulds 2009). In the past few years, SNS has grown rapidly and has become the main media through which people develop their personal network online (Bruno & Dabrowski 2015). The rapid growth of SNS is not only among individuals and societies but also amongst companies who started using SNS to promote and communicate information about their brands (Bruno & Dabrowski 2015, Kaplan & Haenlein 2012).

Social media is considered to be a strong communication channel for brands that seek to connect with their customers and enhance their brand equity (Khalid 2016). Based on the Internet World Stats

(2017) over than 49% of the world's population have access to the internet and around 1.86 billion active users use SNS of which 32 million are in Egypt. Therefore, social media has changed the traditional one-way communication to multi-dimensional, two-way and peer-to-peer communication (Berthon et al. 2008). However, it is really important that we differentiate between the two types of social media communication as one is controlled by the firm, whereas the other is independent of the company's control (Bruno & Dabrowski 2015).

Despite, the fast growth in popularity of social media across consumers and companies, few studies focused on the impact of these two types of social media brand communication on two or maximum three CBBE dimensions (such as: Bruhn, Schoenmueller & Schafer 2012; Bruno & Dabrowski 2015). Besides, these previous studies were conducted in European context and in different industries like clothing and mobile network providers. Based on Bruno and Dabrowski (2015), there is a need to further examine the impact of these types of social media in other countries and also in other industries.

Therefore, this paper provides a better understanding by filling the gaps found in the previous studies through answering the following research question: How do firm-created and user-generated social media brand communication impact 5 CBBE dimensions in the Egyptian FMCG via the most popular SNS in Egypt-Facebook. Consequently, we developed a conceptual framework to examine the impact of firm-created and user-generated social media brand communication on brand awareness, brand perceived quality, brand associations, brand loyalty and brand trust on the Egyptian FMCG industry. In Egypt, the household FMCG expenditure is ranked second with value of (US\$27.6bn) which represents almost 34.4% from the family income (KPMG Africa report 2016, Capmas 2017).

2. Literature review

2.1 Social Media and Facebook

Social media is becoming an integral part of everyday life for communicating, sharing information and content (Khalid 2016). It has brought revolutionary new ways of interacting, participating, cooperating and collaborating amongst individuals and companies (Bruhn, Schoenmueller & Schafer 2012). An Integral Part of social media is the user-generated content, which allows people to connect through a "many-to-many", rather than the traditional "one-to-many", communication approach (Pralhad & Ramaswamy 2004). Among social media platforms, Facebook is the most widely used (Arenas-Gaitan et al. 2013).

In 2017, the population of Facebook exceeded the population of China making it the largest "virtual" country in the world (Schwab 2017). Egypt is considered a regional leader in MENA in the number of Facebook users covering 26.4% of the total number of users in the region (E-marketing Egypt platform 2016). Furthermore, SNS particularly Facebook is not only used among customers, but it also provides businesses with a relatively quick and low-cost method of connecting with customers (Fischer & Reuber 2011). Traditionally, marketers viewed value as something created within the firm and then offered to customers who decide their willingness to pay (Vargo & Lusch 2004). However, value creation is now becoming a process of co-creation involving both firm and customer through an ongoing dialogue of experiences and transparent communications (Saarijärvi, H., Kannan, P.K. & Kuusela, H 2013).

2.2 Firm Created and User generated social media brand communication

For the past few years, social network services (SNS) have become very popular for millions of users, becoming their daily practices (Boyd & Ellison 2007). According to Shi et al. 2010 this wide spread and increasing influence on society increased the commercial value of SNS. As a result, a firm's SNS page became an essential part of its business and an essential tool for many service functions toward customers (Bruno & Dabrowski 2015). There are many benefits that a firm can achieve through its SNS page such as (1) an additional communication channel and a link with its devoted users (Jang et al. 2008), (2) a cost reduction form that can be used in customer retention and customer service, and (3) a tool to increase sales, customer satisfaction, and brand image (Banks & Daus 2002).

However, in the participatory context of SNS, firms do not have the monopoly of brand-related communications anymore. The emergence of user generated social media brand communication has caused a paradigm shift from the publisher to the user-centric media model (Christodoulides, Jevons & Bonhomme 2012). According to Christodoulides et al. 2012, user generated social media brand

communication can be stated as any material that is created outside professional practices, and have been published online. User generated social media brand communication can have various forms; the most common being consumer-produced reviews and recommendations (Muñiz & Schau 2007). Recent studies (e.g., Goh, Heng & Lin 2013, Bruno & Dabrowski 2015) highlight the persuasive and convincing power of user generated social media brand communication over marketer-generated content. Since SNS are really dynamic and easy to use consumers are becoming pivotal authors of brand stories (Gensler et al. 2013). In this paper, firm-created and user-generated social media brand communications are considered to be independent variables and are expected to positively impact the CBBE dimensions.

H1: Firm-created social media brand communication has a significant positive direct impact on 5 CBBE dimensions.

H2: User-generated social media brand communication has a significant positive direct impact on 5 CBBE dimensions

2.3 Social media brand communication impact on CBBE dimensions

Models of the CBBE construct have evolved over time, and have been a subject of controversy. Aaker (1991) defined CBBE based on a set of dimensions, which include brand awareness, brand associations, perceived quality, and brand loyalty. In addition to other proprietary brand assets such as competitive advantage. Keller's (1993) original model of CBBE involved two dimensions, brand awareness and brand image. Brand equity from this perspective occurs when a consumer is familiar with the brand and holds some favourable, strong, and unique brand associations in memory. However, Lassar et al. (1995) argue for a five-factor conceptualization comprised of performance, social image, value, trustworthiness, and attachment. Moreover, Yoo et al. (2000) stated that the CBBE dimensions include brand perceived quality, brand loyalty, and brand associations combined with brand awareness. Recently, few studies involved trust in their CBBE dimensions due to its importance. For example, Atilgan et al. (2009) included trust as possible CBBE dimension, which includes brand associations, perceived quality, loyalty and trust. Kimpakorn and Tocquer (2010) mentioned that CBBE dimensions include brand awareness, brand perceived quality, brand differentiation, brand associations, brand trust and brand relationships. Bruno and Dabrowski (2015) indicated that the CBBE dimensions comprise brand loyalty, brand awareness/associations and brand perceived quality.

From the previous studies, it has been shown that numerous researchers have suggested different CBBE dimensions that can be linked to a brand. These different CBBE dimensions are interrelated. In other words, there are interrelationships that exist among the CBBE dimensions (Yoo et al. 2000; Atilgan et al. 2005; Tong & Hawley 2009; Xu & Chan 2010; Torres et al. 2015). Based on the literature, the common dimensions in all models are the usage 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. Therefore, the researchers examined the effect of these dimensions (brand awareness, brand associations, brand perceived quality and brand loyalty) in addition to brand trust due to its vital role as a risk-reducing tool that helps reassure customers (De chernatony & Dall'Olmo Riley 1999; De chernatony & Cottam 2006). The five CBBE dimensions are presented as follows:

2.3.1 Brand awareness

Brand awareness is the ability of a buyer to identify and recall that a brand belongs to a particular product category (Aaker 1991; Atilgan et al. 2005). According to Vrontis and Pappasolomou (2007), a powerful brand benefits from a high level of consumer brand awareness. Buyers are exposed to a lot of products from different brands; hence the brands that customers are familiar with are usually taken into consideration in the pecking order. The most favoured brands are those that are easily recognizable or identifiable, categorised and eventually purchased (Baldauf et al. 2003). Previous researches have reported that brands have a good chance of being incorporated into the customer's consideration set by using brand communication to improve brand equity. Thus, increasing the probability of a brand choice will lead to a shorter decision-making process and turning that choice into a habit (Yoo et al. 2000). According to Hutter et al. (2013), there is a strong relationship between the consumers' engagement with a Facebook brand fan page and their brand awareness. Therefore, we assume that there is a positive impact of firm-created and user-generated social media brand communications on brand awareness.

H1a: Firm-created social media brand communication has a significant positive direct impact on Brand Awareness.

H2a: User-generated social media brand communication has a significant positive direct impact on Brand Awareness.

2.3.2 Brand Perceived quality

Brand Perceived quality refers to the perception of the superiority of the product compared to others in the same category or close substitutes (Yoo et al 2000). As explained by Baldauf et al. (2003), the quality of a product is a very important aspect that enables the firm to achieve competitiveness. According to Hamann et al. (2007), branding contributes greatly to assure customers of the quality of products. Consumers generally perceive extremely advertised brands as higher quality brands (Yoo et al 2000). Therefore, in the SNS, we assume that consumers will perceive the quality of the firm-created social media brand communication with the quality of the brand itself similarly to traditional media. Moreover, Li and Bernoff (2011) mentioned that user-generated social media brand communication has become an integral source of information to consumers. It complements or even substitutes other forms of firm-to-consumer and consumer-to-consumer about product quality. Riegner (2007) stated that online user generated brand communication is an important mean whereby customers can get information about products or service quality. Consequently, we assume that consumers will interpret user generated communication to be derived from other peers' satisfaction of product and brand quality, therefore, influencing their own perceptions of brand quality. Thus, we assume that social media brand communication including firm-created and user-generated have a positive impact on brand perceived quality.

H1b: Firm-created social media brand communication has a significant positive direct impact on Brand Perceived Quality.

H2b: User-generated social media brand communication has a significant positive direct impact on Brand Perceived quality.

2.3.3 Brand associations

Brand associations refer to the relative strength of a consumers' positive feelings towards the brand (Lassar et al. 1995). It has been argued by some researchers that when the customers' experience of a brand is positive, the brand becomes stronger (Bruno & Dabrowski 2015). Brand associations may reflect the product features and other aspects independent of the product (Chen 2001). Particularly, 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). Based on, Bruhn et al. (2012), individuals' perception of brands in the context of social media brand communication positively influences brands identity. Additionally, Bruno and Dabrowski (2015) indicated that social media brand communication help build unique and positive associations in the consumers' mind. Thus, we assume that there is a positive impact of firm-created and user-generated social media brand communications on brand associations.

H1c: Firm-created social media brand communication has a significant positive direct impact on Brand Associations.

H2c: User-generated social media brand communication has a significant positive direct impact on Brand Associations.

2.3.4 Brand loyalty

Brand loyalty is the strong commitment by consumers to repurchase their preferred product or service on a continuous basis in the future in spite of influences (Atilgan et al. 2005). When a customer is loyal they are not affected by the strategies that are employed by competitors to attract (Tong & Hawley 2009). Unlike the other aspects of brand equity, brand loyalty develops from actual buying and usage of the product or brand (Baldauf et al. 2003). It is also important to mention that brand loyalty is based on customers' interactions with the company (Palmatier et al. 2007). This interaction can be in the form of firm created social media brand communication or user-generated social media brand communication. Based on Khalid (2016), the firm-created social media brand communication has a significant positive

impact on brand loyalty. Differently from firm-created social media brand communication, user generated brand communication is thought to be unbiased because other consumers adopt the message as credible and trustworthy (Christodoulides et al. 2012). Thus, it's considered a validator of a brand's attractiveness. Therefore, we assume that social media brand communications (firm-created and user-generated) have a positive impact on brand loyalty.

H1d: Firm-created social media brand communication has a significant positive direct impact on Brand Loyalty.

H2d: User-generated social media brand communication has a significant positive direct impact on Brand Loyalty.

2.3.5 Brand trust

Brand trust is defined as the willingness of a buyer to rely on the capability of a brand to fulfil the communicated functions and features, which is measured by the brand's ability to deliver its promises (Kimpakorn & Tocquer 2010). Brand trust is a part of customer's relationship with the brand (Atilgan et al. 2009). Based on Lassar et al. (1995); Luk and Yip (2008); Rios and Riquelme (2008); Rauyruen (2009); Yacout and Elshah (2011) and Kumar et al. (2013), brand trust has been conceptualized as one of the CBBE dimensions affecting the overall brand equity. These previous studies mentioned that trust is derived from the customer interaction with the brand. Few studies have examined the impact of social media brand communications on brand trust. Based on Khalid (2016) the firm-created social media brand communication shows positive influence on brand trust. He mentioned that the most important point of this finding is the source of reliability. Moreover, he stated that customers can rely deeply on the firm created contents, friends, and other consumers regarding the brand. Therefore, we assume that firm-created and user-generated social media brand communications have a positive impact on brand trust.

H1e: Firm-created social media brand communication has a significant positive direct impact on Brand Trust.

H2e: User-generated social media brand communication has a significant positive direct impact on Brand Trust.

This paper helps to fill the gaps found in the previous studies by examining the impact of social media brand communications (firm-created and user-generated) on the five CBBE dimensions as shown in figure (1) in the Egyptian FMCG industry.

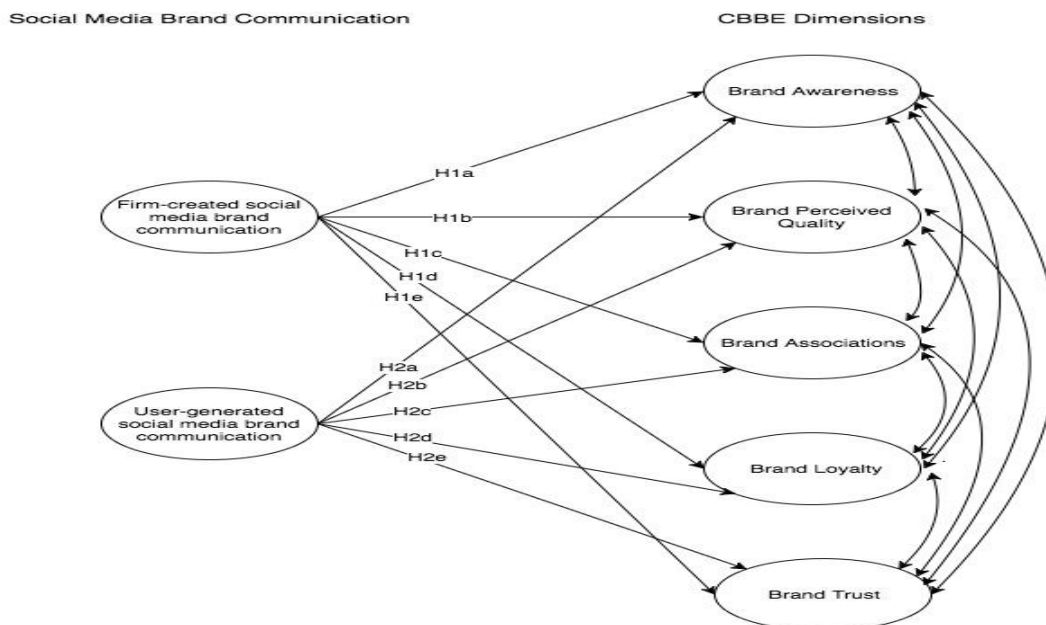


Figure (1): proposed model

3. Methodology

A quantitative approach was conducted, which consists of distributing, collecting and analyzing large-scale questionnaire survey. Questionnaires were administered personally and electronically distributed to test the research hypotheses. The items of each research variable were adopted from the literature and adjusted to the (FMCG) industry. For the brand awareness, six items were adopted from Yoo et al. (2000) and Kumar et al. (2013). For brand perceived quality, ten items were adopted from Yoo et al. (2000) and Buil et al. (2013). For brand associations, ten items were adopted from Yoo et al. (2000) and Tong and Hawley (2009). For brand loyalty, nine items were adopted from Yoo et al. (2000) and Tong and Hawley (2009). For brand trust, ten items were adopted from Dimitriadis and Kyrezis (2008). For firm-created and user-generated social media brand communication four items were adopted from Magi (2003); Tsiros et al. (2004); Bruhn et al. (2012) and Bruno and Dabrowski (2015). A quota sampling technique was used because this paper was not able to gain hold on a sampling frame. The quota sampling comprises two steps. The first step was to select the regions that cover all Egypt. Based on Central Agency for Public Mobilization and Statistics, Egypt CAPMAS (2017), there are a total of seven major regions, each one consists of number of cities that cover the Egyptian population as shown in the following table:

Table (1): The seven major areas that cover Egypt

Region #	Region Name	Governorates
1	Greater Cairo	Cario, Giza, Qalyobeya
2	Alexandria	Alexandria, Matrouh, Behera
3	Delta	Dakalia, Kafr al Sheikh, Ghahrbya, Monofeya, Demietta
4	Suez Canal	Portsaid, Suez, Ismailia, North Sinai, South Sinai, Sharkia
5	Northern Upper Egypt	Beniseuf, Menya, Fayoum
6	Asyut	Asyut, El Wadi Al Gdeed
7	Southern Upper Egypt	Sohag, Qena, Luxor, Aswan, Red Sea

After the selection of regions, the researchers conducted the second step, which was to select the respondents from each region respectively to its percentage of the Egyptian population as shown in table (2). The researchers were able to distribute the questionnaire electronically using google forums to reach more people all over Egypt via sending direct messages with the Survey link to respondents through Facebook messages and also by sharing the link on some of the Facebook groups that are targeting respondents in different regions. Besides on various days of the week, the researchers visited some of those regions and began to approach the respondents. Respondents were approached and asked if they would like to participate in a research project. Those who agreed were given a questionnaire to fill out. The researchers shared the shorten URL survey link to target respondents in different regions to be able to measure the conversion rate. The conversion rate was 30.5% as 297 was completed out of 973 checked survey. The remaining 103 were collected face to face. The total questionnaires were 400, which were analyzed by using the (SEM), AMOS 22.

Table (2) illustrates the major regions the percentage of regions' population, the number of respondents and their percentage in each region.

Region #	Region Name	Governorates	% of population	Respondents
1	Greater Cairo	Cario, Giza, Qalyobeya	24.80	99
2	Alexandria	Alexandria, Matrouh, Behera	12.50	50
3	Delta	Dakalia, Kafr al Sheikh, Ghahrbya, Monofeya, Demietta	21.70	86
4	Suez Canal	Portsaid, Suez, Ismailia, North Sinai, South Sinai, Sharkia	10.82	44
5	Northern Upper Egypt	Beniseuf, Menya, Fayoum	12.85	52
6	Asyut	Asyout, El Wadi al Gdeed	5.11	20
7	Southern Upper	Sohag, Qena, Luxor, Aswan, Red Sea	12.22	49

	Egypt			
		Totals	100%	400

4. Results and analysis

Before testing the hypotheses, a number of tests were conducted such as: reliability analysis, validity of scales, and measurement model fit indices.

4.1 Reliability analysis

Testing the reliability is vital as it shows the extent to which a scale produces consistent result if measurements are made repeatedly. The following table (3) summarizes the results of Cronbach's alpha coefficient

Table (3) Reliability analysis

Variables names	Cronbach's alpha coefficient
Firm-created social media brand communication	0.877
User-generated social media brand communication	0.872
Brand awareness	0.860
Brand perceived quality	0.901
Brand associations	0.851
Brand loyalty	0.892
Brand trust	0.890

From the above table, Cronbach's alphas values ranged between 0.851 and 0.901, which indicate an acceptable level of scale reliability for theory testing research (Nunnally and Bernstein, 1994). This means that each scale will produce consistent result if measurements are made repeatedly.

4.2 Validity of scales

Validity of scales was tested through explanatory and confirmatory factor analysis.

4.2.1 Explanatory factor analysis

Explanatory factor analysis using the principal component analysis was used to examine the validity of the social media brand communication (firm-created social media brand communication and user generated social media brand communication) and CBBE dimensions (brand awareness, brand perceived quality, brand associations, brand loyalty and brand trust). For researchers using factor analysis, consider factor loadings of 0.30 or more significant for sample sizes of 350 or greater will be suitable (Hair *et al.*, 2010). In this paper, the factor loading of each item of the research variables were above the recommended level demonstrating the significant contribution of the items in measuring their variables. Moreover, the explanatory factor analysis was used to detect the unidimensionality of each construct. Unidimensionality is an evidence that a single construct underlies a set of measures (Anderson and Gerbing, 1988). Based on Hair *et al.* (2010), the unidimensionality was expressed by the Average Variance Extracted (AVE) that should be greater than 50%. In this paper, the researchers deleted some items to enhance the quality of measures and to be able to identify the unidimensionality (for example, the researchers used nine items instead often in measuring brand perceived quality. In addition, seven items were used instead of ten in measuring brand associations and finally nine items were used instead of ten in measuring brand trust).

4.2.2 Confirmatory factor analysis

Confirmatory factor analysis using the maximum likelihood estimates was used to test whether measures of a construct are consistent with a researcher's understanding of the nature of that construct. Thus, the objective of confirmatory factor analysis is to test whether the data fit a hypothesized measurement model (Hair *et al.*, 2010).

The following table summarizes the research variables, their items, explanatory factor analysis (EFA), confirmatory factor analysis (CFA) and the AVE of each variable.

Table (4): The research variables, their items, explanatory factor analysis (EFA), confirmatory factor analysis (CFA) and the AVE of each variable.

Variables	Items	EFA	CFA	AVE
Firm-created social media	I am satisfied with the company's social media communications conducted via Facebook for this brand	0.899	0.886	73.331%
	The level of the company's social media communications conducted via Facebook for this brand meets my expectations	0.857	0.824	
	The company's social media communications conducted via Facebook for this brand are very attractive	0.878	0.824	
	The company's social media communications conducted via Facebook for this brand perform well, when compared with the social media communications of other companies	0.787	0.715	
User-generated social media	I am satisfied with the content generated on Facebook by other users about this brand	0.826	0.748	72.393%
	The level of the content generated on Facebook by other users about this brand meets my expectations	0.867	0.863	
	The content generated on Facebook by other users about this brand is very attractive	0.839	0.862	
	The content generated on Facebook by other users about this brand performs well, when compared with other brands	0.870	0.801	
Brand awareness	I am aware of this brand.	0.728	0.671	62.299%
	When I think of FMCG, this brand is one of the brands that come to mind.	0.574	0.484	
	I can recognize this brand among other competing brands.	0.799	0.749	
	I know this brand very well.	0.845	0.769	
	This brand is very familiar to me.	0.882	0.899	
	I can quickly recall this brand.	0.866	0.816	
Brand perceived quality	Compared to other brands, this brand is of high quality.	0.720	0.680	56.620%
	This brand is the best brand in the FMCG.	0.601	0.514	
	This brand consistently performs better than all other brands.	0.784	0.752	
	I can always count on this brand for consistent high quality.	0.763	0.738	
	This brand offers products with excellent features.	0.820	0.812	
	I believe this brand offers superior products in every way.	0.777	0.754	
	The overall quality of the products provided by this brand is excellent.	0.741	0.732	
	The quality of the products provided at this brand is impressive.	0.754	0.691	
	The products provided by this brand are of high standard.	0.791	0.745	
This brand appears to be of poor quality.				
Brand associations	Some characteristics of this brand come to my mind quickly.	0.592	0.480	53.530%
	I remember the logo of this brand.	0.710	0.657	
	I have difficulty in imagining this brand in my mind.			
	This brand has a strong personality.	0.823	0.782	
	I have a clear image of the type of person who would use this brand.			
	This brand has a strong image.	0.816	0.790	
	This brand has a favorable image.	0.832	0.824	
The intangible attributes of this brand are reason enough to use this brand.	0.652	0.600		

	This brand is good value for money.			
	This brand has a unique image in my mind compared to other competing brands	0.656	0.588	
Brand loyalty	I consider myself to be loyal to this brand.	0.797	0.747	54.202%
	This brand is my first choice when I am buying FMCG products	0.767	0.673	
	I will not switch to other brands if this brand is available.	0.666	0.552	
	I intend to continue using this brand's products in the upcoming years.	0.694	0.678	
	I recommend this brand to my friends and relatives.	0.807	0.769	
	I will continue to be a customer of this brand even if it reasonably raises its price.	0.692	0.635	
	I regularly use this brand.	0.682	0.648	
	I am proud to use this brand.	0.755	0.771	
	I prefer this brand to other brands.	0.750	0.685	
Brand trust	This brand considers my needs and wishes as very important.			54.215%
	This brand would not do anything against my interests.	0.627	0.575	
	This brand never declares anything that is not valid.	0.718	0.681	
	This brand is always honest to me.	0.779	0.762	
	This brand has the ability to meet its promises.	0.831	0.791	
	This brand can properly handle my complaints.	0.665	0.591	
	This brand is remarkably expert in its field.	0.565	0.547	
	I never doubt this brand's promises.	0.814	0.759	
	This brand behaves consistently.	0.751	0.705	
	This brand keeps its promises.	0.828	0.837	

Note: The shaded rows represent the deleted items to enhance the quality measures

We included all independent and dependent latent variables in one multifactorial CFA model. This model shows a satisfactory fit to the data. As shown in the following table (5), The χ^2/df value was 3.427, the Comparative Fit Index (CFI) value was 0.812, The Goodness of Fit Index (GFI) was 0.791 and the Average Goodness of Fit Index (AGFI) value was 0.701. To test the hypothesis, we used SEM in AMOS 22. The χ^2/df value was 2.869, the CFI value was 0.886, the GFI was 0.789 and the AGFI value was 0.744. All the values were within the range of the permitted threshold (Hair *et al.*, 2010).

Table (5): Model Fit Indices

Model	χ^2/df	CFI	GFI	AGFI
The measurement model	3.427	0.812	0.791	0.701
SEM model	2.869	0.862	0.789	0.744
The best result according to Hair <i>et al.</i> , (2010)	Not more than 5, (closer to 1 is better)	Range from 0 to 1 (Closer to 1 is better)	Range from 0 to 1 (Closer to 1 is better)	Range from 0 to 1 (Closer to 1 is better)

From the above table, it has been showed that the χ^2/df , CFI, GFI and AGFI for the proposed model indicate that this model is acceptable.

4.3 Testing hypotheses

The AMOS output for the model parameter estimates is presented in table (6). Based on Hair *et al.* (2010), any number of a critical ratio above 1.96 or P-value less than 0.05 is considered to be significant in the model.

Table (6): The Unstandardized Estimate, Standardized estimate, SE, CR, P-value and the result of the direct effects

	Unstandardized estimate	Standardized estimate	SE	CR	P Value	Results
BA <--- FC	0.355	0.433	0.058	6.078	***	S
BPQ <--- FC	0.219	0.305	0.056	3.947	***	S
BASS <--- FC	0.341	0.429	0.063	5.440	***	S
BL <--- FC	0.094	0.117	0.057	1.659	0.097	N.S
BT <--- FC	0.190	0.247	0.056	3.365	***	S
BA <--- UG	-0.263	-0.314	0.058	-4.541	***	N.S
BPQ <--- UG	0.010	0.014	0.052	0.193	0.847	N.S
BASS <--- UG	-0.199	-0.245	0.059	-3.399	***	N.S
BL <--- UG	0.033	0.040	0.056	0.583	0.560	N.S
BT <--- UG	0.016	0.020	0.056	0.284	0.777	N.S

Notes: * is significant at 0.001 S: Supported hypotheses and N.S: Not supported**

The obtained statistics indicate that all path coefficients results appeared to be significant except the following paths: the path coefficient from firm-created social media brand communication to brand loyalty, user-generated social media brand communication to brand perceived quality, user-generated social media brand communication to brand loyalty and user-generated social media brand communication to brand trust. All these paths were found insignificant as the P- Values are 0.097, 0.847, 0.560 and 0.777 respectively. Their P-Values are greater than 0.05, which indicates the insignificant paths. The first hypothesis, which generally states that: "the firm-created social media brand communication has a significant positive direct effect on CBBE dimensions" was partially supported. It has been found that firm-created social media brand communication has a significant positive direct effect on brand awareness, brand perceived quality, brand associations and brand trust. This result indicates the importance of firm-created social media in creating awareness, in mirroring the brand quality, in building associations and building trusty relationships towards the brand. Additionally, it has been found that the firm created social media has the strongest impact on brand awareness with a standardized estimate of 0.433. However, the firm-created social media brand communication has no impact on brand loyalty. This lack of impact is based on the Egyptian customers in the FMCG industry, for them brand loyalty may be built based on other factors such as the brand place, the brand price, the product features or other communication channels such as the face-to-face communication, T.V advertising, etc.

The second hypothesis, which generally stated that: "user-generated social media brand communication has a significant positive direct impact on CBBE dimensions" was not supported. It has been found that user-generated social media brand communication has no direct impact on brand perceived quality, brand loyalty and brand trust. Moreover, it has been found that there is a significant negative impact on brand awareness and brand associations. This result indicates that in FMCG, consumers don't rely on user-generated social media brand communication. In addition, there is a negative impact in creating awareness and building associations. When the user generated social media increases, the customers' awareness towards the brand decreases as they skip the user content due to the large volume of posts. Furthermore, the brand associations are negatively affected by user generated brand communications since most of the Egyptian consumers only post online when they are having a bad experience or want to deliver a complaint. After analyzing the research hypotheses, the final model is presented in Figure (2).

This paper used quota sampling, which is a non-probability sampling technique due to the lack of sampling frame. However, the researchers tried to reduce bias and to increase the level of generalizability by selecting respondents from all over Egypt. In other words, from the seven regions in Egypt and according to their population percentage. Like many other developing countries, Egypt shows vital interregional differences. Future research could examine the differences between two or more regions and make a comparison study. Additionally, cross-sectional data were used in this paper. So, Future research can collect longitudinal data. Also, since this paper was conducted in the Egyptian FMCG; a replication can be done within other industries because the impact of the different types of social media brand communication on the CBBE dimensions may vary from one industry to another. Moreover, the main focus of this paper was on the firm created social media and user generated social media brand communications, other communication tools could be tested such as the role of influencers on building brand equity and other communication tools (such as: TV, radio, book media). Not only media tools but also future research can focus on some extended marketing mix elements that can contribute on building brand equity (such as distribution channels, price or product).

7. References

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An empirical investigation into the relationship between sustainability and supply chain compliance within the South African Public and the private sector

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Keywords

Compliance; Supply Chain; Leadership; Sustainability; Procurement

Abstract

The objectives of the study were to comprehend the influence of regulatory compliance on the adoption of sustainable procurement practices by organisations, whilst examining whether decision makers in supply chains have the capacity to balance compliance and the interests of various stakeholders in supply chain management decision making processes. This research submits that supply chains play a significant role in ensuring that the contribution towards sustainability goals is enhanced, using the lens of stakeholder theory, institutional theory and the PESTEL framework. The approach adopted for the present research involved descriptive statistics and hypotheses tests that were utilised to quantitatively investigate primary research data that was collected using a survey involving 247 supply chain and sustainability practitioners within the public and the private sector. It was observed that practitioners are able to incorporate and translate stakeholder considerations into compliant requirements. Finally, the results demonstrated that there is a significant relationship between regulatory compliance and sustainability, highlighting the contribution of supply chain compliance towards driving sustainable development. The implications for academicians, researchers and practitioners were identified, in which new approaches to existing concepts were established. This research contributes to contemporary knowledge on sustainable procurement and supply chain management. Additionally, the empirical findings concluded that regulatory compliance has a direct influence on the acceptance of sustainable procurement by organisations particularly through internal policies that are tailored to emulate the business environment and culture.

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Introduction

Sustainability has evolved into a business mega-trend that influences the expectations placed on business culture and governance in various fundamental ways, thus imploring a new type of leadership within organizations (Tideman, Arts & Zandee, 2013). It is therefore incumbent on the private and the public spheres to serve as enablers for business in order to increase the influence of sustainable development through responsible leaders and responsible business globally (Tavishvili, 2015). The private and the public sector have a role to play in adopting responsible sourcing and engaging in sustainable procurement approaches. Griggs (2013) suggests that a shift in the economic landscape is imperative in order to achieve sustainable and significant impact for societies. Stank and Autry (2011) postulate that the supply chain arena is a key business function and an imperative driver for financial performance as the function has direct cost implications on the bottom line and improved customer service. For Mashele (2016), the benefit that is sought in the long run across the board revolves around advancing considerations that have a long-term impact on the social, environmental and economic facets of the society. Sustainability, therefore, carries an opportunity for business to adopt strategies that will align their contribution with the global sustainable development goals that are set by the United Nations (Wiggins, 2015).

Problem Statement

Pagell and Shevchenko (2014) assert that sustainability in supply chains is a topical research area that has moved from the periphery to mainstream research in the past two decades. Furthermore, research suggests that while much progress has been done to address social and environmental issues, the question of how to create truly sustainable supply chains remains unanswered (Metcalf & Benn, 2013; Cuthbertson, 2011; Meehan & Bryde, 2011). It is purported that there are various facets that encompass societal concerns that affect sustainability strategies which are influenced by factors external to the organisation (Touboulic, Chicksand, & Walker, 2014). To that end, power dynamics of various stakeholders come into play in shaping the organisation's response to societal issues that emanate from stakeholder pressure. For this reason, this research study set out to investigate the influence of stakeholder pressure that emanates from the regulatory environment for procurement and supply chain management in South Africa and the associated impact on achieving sustainable development objectives.

This paper is therefore presented as follows: The first section outlines the theoretical grounding for the research study constructs, followed by the development of the conceptual framework. The research design methodology, results and findings are provided in the subsequent section. Lastly, the conclusion and the recommendations of the study are presented.

Literature review

Creswell (2014) posited that literature serves as a roadmap for ongoing dialogue around an area of research while assessing and results of prior studies. Furthermore, literature acts as a conduit to introduce hypothesized relationships in a particular research study. This section explores the theoretical adopted for the present study.

Stakeholder Theory

Freeman (2011) argued that stakeholder theory revolves around management of the different interest groups and their interconnectedness in the process of creating value for organisations. The role and responsibility of leaders towards their organisations and stakeholders was elevated by the global economic crisis (Doh & Quigley, 2014). Furthermore, Doh and Quigley (2014) explored the relationship between stakeholder theory and responsible leadership where they suggested that responsible leaders should leverage expertise and organisational intelligence in order to influence organisational outcomes. Similarly, Mashele (2016) advanced that responsible leaders are able to direct outcomes of the organisation through their interconnected networks and various interactions within the organisation. Despite this, stakeholders have diverse values and needs, and thus, due to limited resources, there will be a disposition to select the most suitable alternative which prioritises the interests of the organisation within a decision-making process (Pagell & Shevchenko, 2014). In view of this, Pagell and Shevchenko (2014) recommended that future research was required to explain how managers make responsible decisions in a complex and adaptive supply chain system.

Meehan and Bryde (2011) highlighted that the role of supply chains in driving forward the corporate sustainability agenda is critical, given its position and its ability to influence the external environment through the procurement function. The concept of sustainability in business is often located within the context of corporate social responsibility which is concerned with the role of business and the inherent responsibility that business has towards diverse stakeholders. According to Christensen, Mackey and Whetten (2014) sustainability as a philosophy is centered on the extent of the influence of organisations. This influence is a collective effort that is shaped by actions of individuals that lead, support and drive sustainability strategy and initiatives that contribute to wider long-term benefits. It was therefore important in this research study to understand the influence of the individual behaviours relating to the adoption of sustainability within organisations particularly within a supply chain context. Consequently, prior research has shown that it is critical to understand the macroeconomic context which governs the landscape upon which sustainable practices are implemented (Ferri, Oelze, Habisch & Molteni, 2014; Yüksel, 2012; Meehan & Bryde, 2011). Carbone, Moatti and Wood (2012) highlighted the role of stakeholder pressures as a contributing and guiding factor in the adoption of sustainability practices within the organisations. Notwithstanding this, Hoejmose and Adrien-Kirby (2012) recommended that future research should aim to contextualise the influence of political and government

factors that inform the regulatory universe of business and organisational policies. By the same token, Ferri, et al (2014) suggested that future research should aim to highlight the influence of local regulations on decision making processes relating to sustainable procurement.

Institutional Theory

Institutional theory suggests that business practices and organisational behaviour are influenced by institutional structures that are affected by political, social, economic and cultural forces (Nurunnabi, 2015). Equally, private organisations are renowned for operating in a domain and a context that is different from the public sector and thus would be generally be subject to differing regulatory requirements. Though this is the case, research suggests that the business decisions for advancing inclusive procurement conform to institutional structures that embody organisational values and appeal to various stakeholders (Theodorakopoulos, Ram, & Kakabadse, 2015). Vracheva and Mason (2015) argued that institutional theory aims to explain the inherent regulatory, social and cultural factors in various industries that impose inflexibility on how organisations strategically respond to external pressures. Consequently, organisations will be inclined to behave and act in a socially responsible manner within a context where regulatory compliance is enforceable (Vracheva & Mason, 2015). On the contrary, Yüksel (2012) suggested that macro-economic contexts may have a direct influence on the ideologies that are adopted by organisations and encouraged that it is necessary to recognise the connection and the interdependence that may exist considering that political context might have economic, social, environmental and legal implications.

Regulatory Compliance

According to Brammer and Walker (2011), supply chain management represents an important policy tool that could help to achieve outcomes that are consistent with broader societal policy goals. By the same token, Ambe and Badenhorst-Weiss (2012) argued that, the public supply chain management process in South Africa is supported by the provisions of the *Constitution of the Republic of South Africa* in order to address past inequitable policies and practices. In order to ensure that this objective is achieved, a point system for awarding preference within government supply chain management processes was introduced by the National Treasury as a means to achieve socio-economic objectives (Ambe & Badenhorst-Weiss, 2012). Silvestre (2015) in his study observed the implementation of sustainable supply chain management in emerging economies and found that the ecosystem within which organisations operate shapes and affects the acceptance of sustainability objectives within its business practices. On the other hand, Adam et al. (2012) posited that the focus on strict compliance to regulatory requirements contributes to the administrative burden and complexity within decision making processes for procurement. In addition, they held that managers who are involved in both the public and private procurement domain are often subjected to constraints within the decision-making processes. In view of this, Adam et al. (2012) recommended that future research should seek to assess how an amicable balance is achieved to promote efficient process and ethical behaviour by managers operating in these environments.

The PESTEL Framework

It has been suggested that the PESTEL framework, as shown below, may be used to understand the drivers that influence sustainability practices within organisations. The framework demonstrates that it is imperative to consider the context within which the organisation is situated in order to understand the influences by political, economic, social, technological, environmental and legal factors that may affect the organisation (Yüksel, 2012). To that end, it is asserted that sustainability encompasses various aspects of this framework which are positioned to focus on regulatory compliance with a view to address socioeconomic as well as environmental objectives.

Figure 1: The PESTEL Framework

(Source: Yüksel, 2012, p.57)

Figure 1 above presents the PESTEL (Political, Economic, Social, Technological, Environmental and Legal) framework which was adopted for this study. For Phakathi (2015), inclusive growth in an economy is a mechanism that will intensify the impact of sustainability and encourage shared hope and development of communities. Conversely, stringent rules are an obstacle to economic development and for progressive contribution that will shrink the widening gap of inequality globally (Phakathi, 2015). According to Turley and Perera (2014), the governing legislation in South Africa, provides opportunities for promoting social priorities that provide sufficient space to pursue environmental sustainability and economic development objectives. Jeffery (2013), however, on the contrary, argued that the regulatory prescripts that are intended to advance socio-economic goals in South Africa are too rigid to allow for inclusive participation and serve as a barrier to development and sustainability.

Research Methodology

The study adopted a positivist approach which was quantitative in nature. The software used for analysis was the Statistical Analysis Software (SAS ®) and survey administration was conducted using Survey Monkey™. The decision to use Survey Monkey™ was made as it was deemed an appropriate tool to access respondents that were geographically dispersed more effectively and more efficiently. Descriptive statistics were conducted on that research data in-order to make logical inferences from that data. Furthermore, model fit checks and as well as hypotheses tests were conducted.

Population and Unit of Analysis

The area of study focused on respondents working in the Gauteng province of South Africa where research data was collected from 247 supply chain and sustainability managers within the public and the private sector.

Sampling Method and Sample Size

The researchers used a combination of purposive and expert sampling which are non-probability sampling methods. Purposive sampling was considered appropriate for this research study as it allowed for the selection of cases that would answer the research questions in relation to the objectives of the study (Bryman & Bell, 2011).

The Research Instrument

According to Maziriri (2016) a questionnaire is defined as any set of specific questions for obtaining information from the participants in order to meet the objectives of the study. A 5-point Likert scale questionnaire was developed for this research study. The rating scale was based on 1- 5, where 1 was "strongly disagree" and 5 was "strongly agree". According to Kumar (2014) using a Likert scale to collect data is valuable as it indicates the strength of competing views on a subject. The author posited that a questionnaire is a convenient and economical form of collecting data from a large population; however,

the limitations of a questionnaire include the fact that information cannot be improved by further questioning or observations from respondents.

The questionnaire consisted of 51 questions spread across five subsections; Section A, B, C, D & F. Section A was demographics of the respondents. Section B consisted of statements around the opinions of the respondents regarding the level of adoption of sustainable practices by their respective organisations. Bryman and Bell (2011) posited that the use of existing questions from previous research studies may be considered in the questionnaire design, either with the intention of replication or as input into designing questions for the research study. The author suggested that the inclusion of pre-existing research questions may be convenient as the questions have already been pre-tested.

The research questions in this research study were largely based on the literature reviewed; where in Section C, D and F, the questions were linked to the literature themes for this research study. The questionnaire consisted of questions which were informed by previous research studies and were adapted for this study as shown in Table 1.

Table 1 Research Questions Adapted from Previous Studies

Theme	Ref No.	Measure	Source
Section C: Regulatory Environment	C6	I believe that regulatory standards aim to balance the interests of various stakeholders in order to achieve favourable outcomes	Botha (2006)
	C11	It has been easy for my organisation to influence consultations before changes to regulatory standards are introduced	
	C2	My organisation has an enterprise wide policy that promotes sustainability	Meehan & Bryde (2015)
	C3	Compliance to regulatory standards allows for improved spending with local suppliers	
	C8	Compliance to regulatory standards allows for improved spend with black owned suppliers and small enterprises	
	C9	Compliance to regulatory standards allows for improved spend with black owned suppliers and small enterprises	
Section D: Sustainable Procurement practices	D2	My organisation has set corporate targets for the achievement of sustainability and environmentally friendly practices	Meehan & Bryde (2011)
	D6	Our staff members have received training on the impact of sustainability on procurement processes	
	D8	My organization favours suppliers that rate highly on sustainability during the tender process	
	D10	My organization specifies criteria for social objectives and green and environmentally friendly products in our supplier agreements	

Results of the study

Descriptive Statistics

A total number of 247 respondents participated in the survey that was administered via Survey Monkey™. The breakdown of the demographics of respondents in the sections that follow:

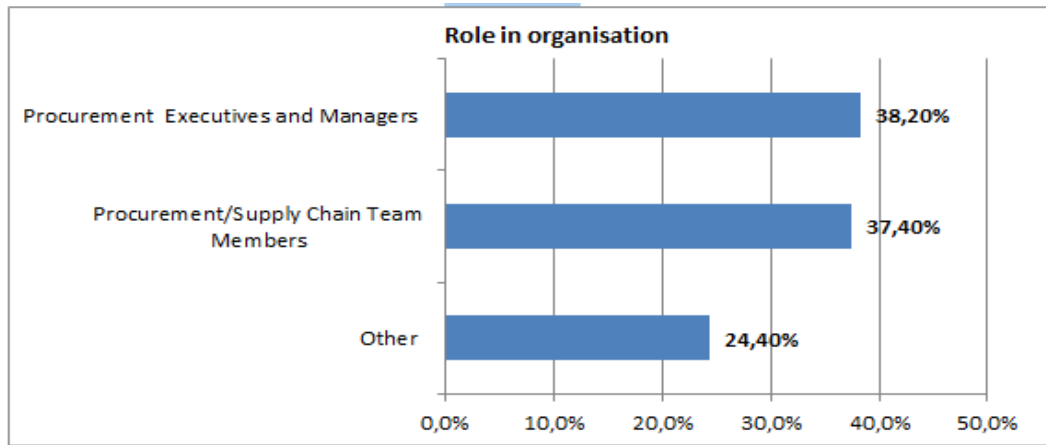


Figure 2: Role in Organisation

The results in figure 2 above indicated that the majority of the respondents were at executive director and procurement and supply chain manager level at 39%. More than a third of the respondents (37%) were practitioners that are involved in various supply chain and procurement project teams with 24% of the respondents were classified as “other” which is a provision that the researchers used to accommodate the difference in terminology and designations that are adopted within various organisations.

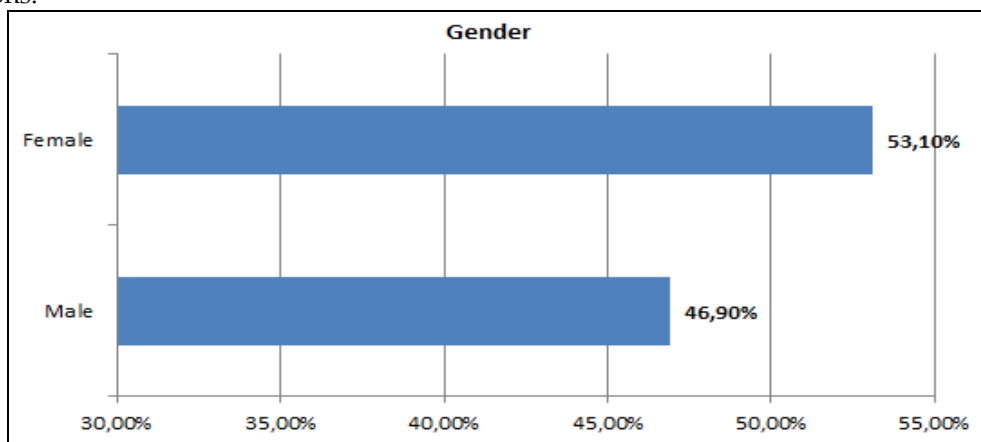


Figure 3: Sample distribution by Gender

Figure 3 above shows the respondents according to gender. The results indicate that there was a majority proportion (53%) of female respondents that participated in the research survey compared to males at 47%.

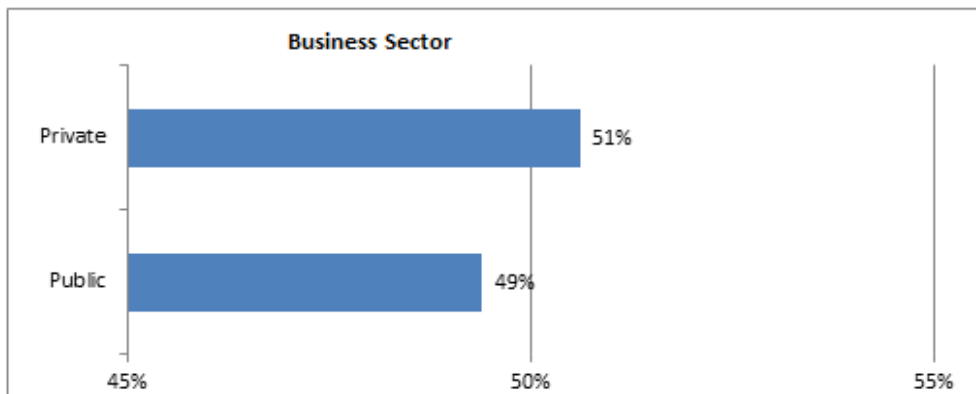


Figure 4: Sample distribution by Business Sector

Figure 4 depicts the distribution of the respondents according to business sector. The results indicate that there was an almost equal spread in terms of business sector with the majority of the respondents being employed within the private sector at 51% and a slight variance being employed within the public sector at 49%.

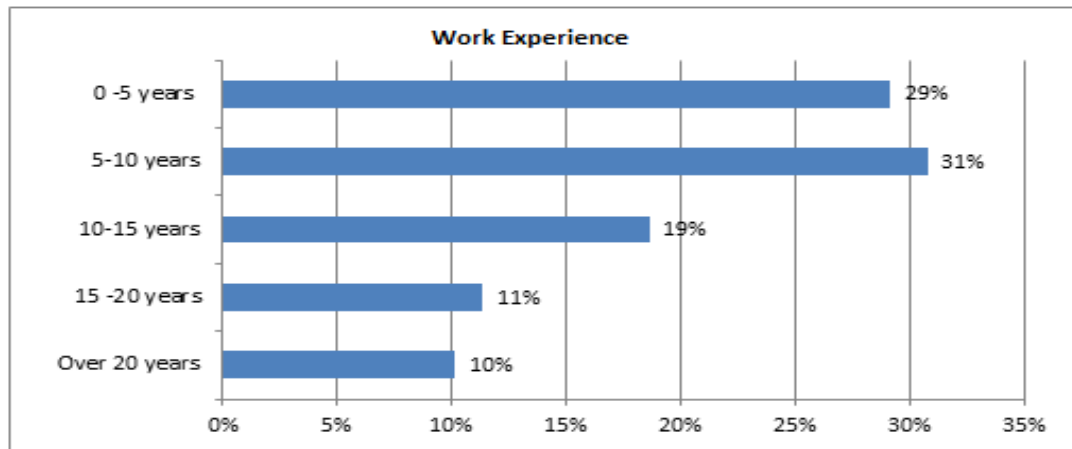


Figure 5: Sample distribution by Work Experience

Figure 5 indicates that 29% of the respondents had less than 5 years of work experience while the majority accounting for almost a third of the respondents (31%) have between 5 and 10 years work experience. Of the 247 respondents that participated in the survey, it was observed that a third of the respondents have more 10 years work experience with 10% being a seasoned and mature calibre of practitioners with over 20 years work experience within the area of procurement and supply chain management.

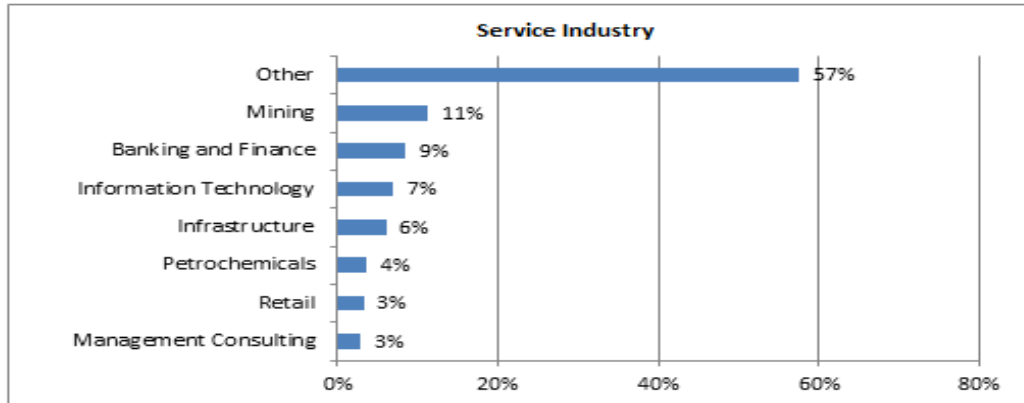


Figure 6: Sample distribution by Service Industry

Figure 6 presented the distribution of the respondents according to service industry. The results show that the respondents are employed across various service industries with the majority of the respondents at 57%. The results depict that over a tenth of the respondents (11%) were within the mining industry while 9% were employed within the banking and finance industry. Further to this, the figure indicates that 7%, 6% and 4% were employed respectively within the information technology, infrastructure and petrochemical industries. The least number of the respondents (3%) were from retail and management consulting services.

Research Question

Does supply chain compliance influence the adoption of sustainable procurement by organisations?

Research question was intended to test empirically whether supply chain compliance, in the absence of other influencing factors, has an influence on sustainability within supply chain management processes.

The hypothesized association is indicated in Figure 7 where regulatory compliance was the dependent variable and sustainability was the independent variable. The results of the basic path analysis that was carried out to test the relationship between the two variables is presented in Table 2.

The goodness of fit test is indicated in Table 3.

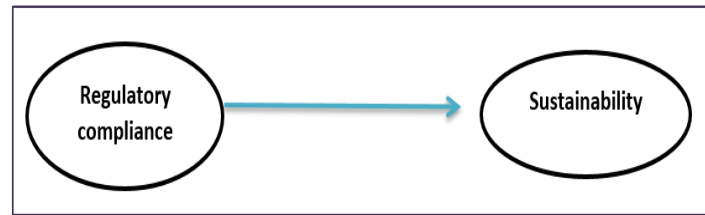


Figure 7: Relationship between regulatory compliance and sustainability

It was found that regulatory compliance indeed influenced the adoption of sustainability within supply chain management processes by organisations as supported by the other findings of the study.

Research Hypothesis

The researchers formulated a hypothesis that was tested at a 95% confidence level.

Research has suggested that regulatory compliance, particularly in a procurement context, generally differs across the business sectors and various industries (Nurunnabi, 2015; Theodorakopoulos, Ram, & Kakabadse, 2015). It was therefore important to understand the impact of regulatory compliance on sustainability, within the public and the private sector. To this end, while both the public and the private sector are guided by internal policies, it was assumed that a highly regulated environment would be subject to both internal and external regulation. The hypothesized association is depicted in Figure 8.

The hypothesis was set out as follows:

Null Hypothesis (1): $H_0: \rho = 0$, There is no association between a highly regulated procurement environment and the successful adoption of sustainable procurement

Alternative Hypothesis (1): $H_1: \rho > 0$, There is an association between a highly regulated procurement environment and the adoption of sustainable procurement.

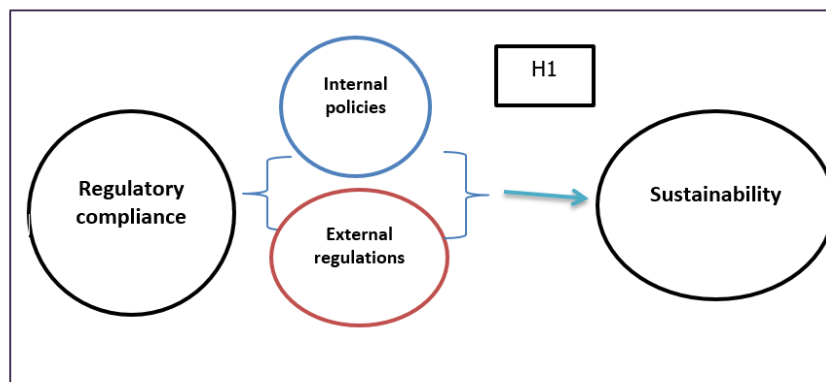


Figure 8: Research Hypothesis: Internal Policy, External Regulation and Sustainability association

Figure 8 indicates the association where internal policy and external regulations are the dependent variables and the sustainability is the independent variable. The results of the test that was run are shown in Table 2 and the outcome of the goodness of fit test is indicated in Table 3.

The CALIS Procedure						
Covariance Structure Analysis: Maximum Likelihood Estimation						
PATH List						
Path		Parameter	Estimate	Standard Error	t value	
Internal Policy	====>	Sustainability	_Parm1	0.49287	0.04878	10.10343
External Regulations	====>	Sustainability	_Parm2	0.24146	0.06592	3.66290
Variance Parameters						
Variable Type	Variable	Parameter	Estimate	Standard Error	t value	
Dependent	External Regulations	_Add1	0.38715	0.03743	10.34408	
Independent	Internal Policy	_Add2	0.70696	0.06834	10.34408	
Independent	Sustainability	_Add3	0.21714	0.02099	10.34408	
Covariances Among Independent Variables						
Var1	Var2	Parameter	Estimate	Standard Error	t Value	
Internal Policy	External Regulations	_Add4	0.32959	0.04227	7.79758	
Squared Multiple Correlations						
Variable	Error Variance	Total Variance	R-Square			
Sustainability	0.21714	0.48990	0.5568			

Table 2: Covariance Structure Analysis

Based on the results in Table 2, it can be concluded at a 95% confidence that a significant relationship exists between both internal policy criteria and that a significant relationship also exists between external regulations as the t-values are above 1.96. It is interesting to note that internal regulations variable has a higher value (10.10) when compared to external regulations (3.66). The r-squared value is 0.55 which indicates a strong relationship between the variables as the number tends towards 1.

Fit Summary		
	Number of Observations	215
Modelling info	Number of Variables	3
	Number of Moments	6
	Number of Parameters	6
	Number of Active Constraints	0
	Baseline Model Function Value	1.3193
	Baseline Model Chi-Square	282.3317
	Baseline Model Chi-Square DF	3
	Pr > Baseline Model Chi-Square	<.0001
Absolute Index	Fit Function	0.0000
	Chi-Square	0.0000
	Chi-Square DF	0
	Root Mean Square Residual (RMR)	0.0000
	Standardized RMR (SRMR)	0.0000
	Goodness of Fit Index (GFI)	1.000

Table 3: Model Fit Summary

The p-value for the structural model as shown in Table 3 is less than 0.0001 which is lower than 0.05. This signifies that the hypothesized association between the two variables is confirmed and suggests that there is a significant relationship between regulatory compliance and sustainability is significant. The goodness of fit index for the model is 1 which shows that a good fit between the data and the model.

Contributions to research

It is believed that this research study contributed to existing literature as follows:

Firstly, it contributed to existing research study around the adoption of sustainable supply chain management. Secondly, the empirical research that was conducted has confirmed that supply chain compliance influences the adoption of sustainable supply chain management by organisations while adding to the existing body of knowledge by indicating that internal policies have a higher influence on the adoption of sustainable supply chain management. This new insight implies that internal policies can drive better sustainable supply chain management practices as they are adapted to resonate with the business environment and culture.

Limitations of Research

The following limitations should be noted:

- The impact of sustainable procurement on the overall performance of organisations was beyond the scope of this study
- The research sample may not be representative of the entire population as purposive sampling was used for this study. It is noted that membership to the procurement professional body which the majority of the respondents were affiliated to, is not compulsory for procurement and supply chain management practitioners in South Africa
- The research study does not look at the impact of supplier relationships on sustainable procurement
- The leadership lens does not extend to leader-follower relationships which may be an element that influences the adoption of sustainable development

Managerial implications

Recommendations for regulators

The findings of this study have shown that regulatory compliance contributes to business decisions that ultimately contribute towards advancement of social, economic and environmental considerations. In view of this, regulators should endeavour to create an enabling regulatory environment through progressive prescripts that guide inclusive development by business and government.

Recommendations for organisations

To reiterate, the private and the public sector have a role to play in advancing social, economic and environmental considerations through the day-to-day business activities. The procurement function cuts across various business requirements that are key to the functioning of the organisation. For this reason, organisations should realise that beyond the compliance lens that is often used to look at the role of procurement lies a key proposition to deliver and enhance the impact on development outcomes.

Recommendations for managers

The findings of this research have suggested that managers consider processes that involve adopting sustainable procurement practices. To this end, it is recommended that organisations should aim towards implementing and driving internal policies that consider compliance whilst offering flexible models for advancing sustainability objectives.

Last, but not least, this research study has highlighted the important role that is played by leaders in the adoption of sustainable procurement within the organisation. It therefore is encouraged for managers in their interactions with various stakeholders should aim to interpret sustainability objectives to users and translate it back in a manner that is cognisant of compliance requirements.

Recommendations for academicians

Lastly, recommendations for academicians were established. Academicians stand to benefit from the literature review that was conducted for purposes of this study as well as an enhanced comprehension

of the PESTEL framework, stakeholder theory and institutional theory within the context of supply chain management.

Conclusions

The present study was an empirical investigation into the relationship between sustainability and supply chain compliance within the South African public and private sector. It was established that there is an association between a highly regulated procurement environment and the adoption of sustainable procurement. Further research could, extend the present study by incorporating the impact of collaboration and supplier relationships on sustainable procurement. Lastly, future researchers could consider utilising different research frameworks as to those of this study so as to observe if the same results could be replicated.

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The mediating effect of competitive strategy on the relationship between market development, product development and performance of manufacturing based SMEs in Nigeria

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Keywords

Firm performance, market development, product development, competitive strategy.

Abstract

The aim of this study is to examine the mediating effect of competitive strategy on the relationship between growth level strategies, and firm performance. Data was compiled from the manufacturing based SMEs operating in the North-West region of Nigeria, using cross-sectional research design. This study adopted cluster sampling and randomly selected 453 respondents and questionnaires were proportionately distributed and collected through personally administered method. PLS-SEM was used to test the hypotheses. The results found positive impact to both market development and product development on the SME performance. It is expected that market development and product development will improve the competitive advantage and enhance performance of manufacturing based SMEs. The study found that competitive strategy empirically mediates the relationship between the strategic growth of manufacturing based SMEs and performance. Therefore, the findings of this study contribute to the literature and practice of SMEs owners-managers, policy makers, and researcher with better understanding on the role of competitive strategy in mediating the relationship between growth strategies and firm performance. The study also assessed the effect size, as well as the predictive relevance. Finally, limitations and suggested for further studies were represented.

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Introduction

The focus of today's business operations, for both developed and developing countries, is how to improve Small and medium enterprises (SMEs), towards growth and sustainability. Hence, Small and medium enterprises (SMEs) are gaining more concerned from institutions, for example; Non-Governmental Organization (NGO), research institutions, practitioners and so along. Moreover, SMEs has been realized as the engine of economic growth and development, not only to the developing economies, equally the developed countries to benefits enormously from the SMEs (Kongolo 2010). SMEs contributes greatly to job creation, youth innovation, increases production, technology growth, resource utilization, GDP and above all the poverty reduction (Abiodun 2014; Washington 2014).

The United Nations Industrial Development Organization (UNIDO) confirmed that in most countries, SMEs account for about 50% to 70% of the businesses operating and contributes about 50% of the turnover generated from the private sector (UNIDO, 2016). For instance, statistics have shown that

Ghana received 85% to total employment and 70% of GDP, where 92% of the enterprises operating in Ghana are SMEs, South Africa's SMEs contributes 62% and 57% to employment and GDP respectively. However, in Nigerian SMEs account for 98% of the total businesses operating, contribute only 25% to the total employment and 47% of the annual GDP (SMEDAN & NBS 2013; NBS & SMEDAN, 2012; Kongolo, 2010; Irura, Onyango, & Kerre, 2011).

However, in that respect, many strategies were implemented by firms, such as growth strategies (Hussain, Khattak, Rizwan, & Latif, 2013; Weber, Geneste, & Connell, 2015). Previous studies recognized that growth strategy can increase firm's sales, market share and enhance competitive advantage, for instance; market development and product development strategy can improve firm's competitiveness (Propfe, Kreyenberg, Wind, & Schmid, 2013; person 2007; Tavakolizadeh, 2014). Few studies have establish the empirical relationship bewtween growth strategies and firm's growth, sustainability, and market performance (Hussain et al., 2013; Gmelin & Seuring, 2014; Lamore, Berkowitz, & Farrington, 2013). Though growth strategies were not directly examined on the firm performance and these studies were conducted in the Europe and Asian nations on servicing organizations.

Previous studies empirically prove that competitive strategies significantly influence firm's competitiveness, competitive advantage and enhance performance (Uchebulam, Akinyele, & Ibidunni, 2015; Teeratansirikool, Siengthai, Badir, & Charoenngam, 2013; Rosli 2012; Wu, Gao, & Gu, 2015; Banker, Mashruwala, & Tripathy, 2014). Furthermore, competitive strategy enables an organization to produce greater value for its stockholders, and add more values to its customers (Wilson, 2012; Tanwar, 2013). For SMEs to remain competitive and maintain competitive advantage in a competitive environment, appropriate strategies should be integrated, configured, and rebuild firm's competency in order to sustain competitive advantage and enhance performance (Teece, Pisano, & Shuen, 1997; Dauda & Ismaila, 2013; Teece & Pisano 1994). Strategically matching firm's based strategies is still at early stage (Beatrice, Ojera, Ochieng, & Aila, 2015; Teece, 2012).

Specifically, no study found in the existing literature that looks into the mediating effect of competitive strategy on the relationship between growth level strategies and firm performance. Though very few surveys were found to have established the mediating effect of competitive strategy (Hernández-Perlins, Moreno-García, & Yañez-Araque, 2016; Lechner & Gudmundsson, 2014; Soni & Kodali, 2011). Therefore, the main objective of this study is to examine the mediating effect of competitive strategy on the relationship between growth strategies and firm performance.

2.0 Literature Review

2.1 Firm performance

Firm performance is one of the fundamental beliefs in strategic management literature. Firms are measured based on their performance (Prajogo & Sohal, 2006). Hence, performance is determined by appropriate strategic choice, which improves firm's competitiveness, competitive advantage and creates superior performance (Ferreira & Otley, 2009). In fact, to achieve competitive advantage, firms must integrate, reconfigure and rebuild strategies that are valuable to provide them with a competitive advantage and create sustainable performance over competitors (Teece & Pisano, 1994; Teece et al., 1997). Kaplan and Norton (1996) argued that firm performance should be appraised as a multidimensional concept, which enables firms to assess the current level of their financial and non-finance position, besides both are important aspects of firm performance, which relates to the firm effectiveness. The current study adapts the firm performance measurements developed by Kaplan and Norton, (1996) which provides a combination of serious coverage of firm performance called Balanced Score-Card (BSC).

2.2.1 Market development

Market development strategy is defined as a decision of an organization with the intent to increase the volume sales, revenue and sustain market share (Hussain et al., 2013). Therefore, MD focuses to improving firms to obtain new users in the current and potential market who may likely have other essential needs that are not being offered by competitors in the market (Leitner, 2014).

Nonetheless, for a firm to achieve competitiveness, MD strategy enables market expansion through marketing activities, in order to gain customers and market requirements by exploring into new market segment (Hussain et al., 2013). MD will allow SMEs to compete and improve their existing

markets and provide them with sources of competitive advantage (Leitner, 2014; Titman, Wei, & Xie, 2013). MD would enable SMEs to capture more segments and increase sales volume and market share, this would help owners-managers with the ability to coordinate their operations. Market development significantly influence competitiveness and improve growth, in turn enhance firm performance (Hussain et al. 2013). MD strategy would enable SMEs to increase competitive advantage and improve performance. Thus, based on above the study hypothesize the following:

H1: Market development is significantly related to the firm performance.

2.2.2 Product development

Product development is defined as an essential strategy that enables firms to innovate and modify existing products with intention to add greater value to customers (Henrique, & Gilberto, 2013), which creates firms to sustain competitive advantage. Product development is one of the critical strategies that gives firm the ability to manage their product lifecycle effectively (Gmelin & Seuring, 2014). Moreover, product development provides firms to operates in line with the trend of the market changes, which support firms to update and or create a new product that will improve firm competitive advantage and enhance performance (FME, 2003). SMEs can succeed in this capability, through effective research and development, marketing capabilities, and communication with customer to enable effective product development.

Hussain et al. (2013) examined the relationship between product development, environment and firm growth, and reported that PD is positive and significant related to firm growth. Firm's product innovation and product modification are processes of product development strategy, PD creates valuable source of competitive advantage and enhances market share (Navarro et al., 2012). Hence, based on above views this study hypothesize the following:

H1: Product development is significantly related to the firm performance.

2.2.3 Competitive Strategy

Competitive strategy refers to firm's ingredient of competition in an industry (Beard & Dess 1981), competitive strategy emphasis is on how a firm competes with its' products or market segment in an industry. The strategy enable firm to create unique product and services in the process to sustainin competitive advantage (Slater & Olson, 2001). Therefore, competitive strategy can enhance firm's competitiveness and performance (NBS & SMEDAN, 2012). The logic is to integrate, reconfigure and build SME competency, in order to enhance their product market competitive advantage and enhance performance. previous studies have examined the mediating role of competitive strategy (see. Gmelin & Seuring, 2014; Hernández-Perlínset al., 2016; Lechner & Gudmundsson, 2014), these studies were conducted in the European countries. In a competitive environment like Nigeria, a competitive strategy would support SMEs to improve in research and development (R&D), innovation, technological development, and marketing, which in turn will increase competitive advantage and sustain performance. Therefore, based on above views the study hypothesises the following:

H3: Differentiation mediates the relationship between market development and firm performance.

H4: Differentiation mediates the relationship between product development and firm performance.

3.0 Research Framework

Below framework illustrates the mediating effect of differentiation on the relationship between market development, product development, and firm performance.

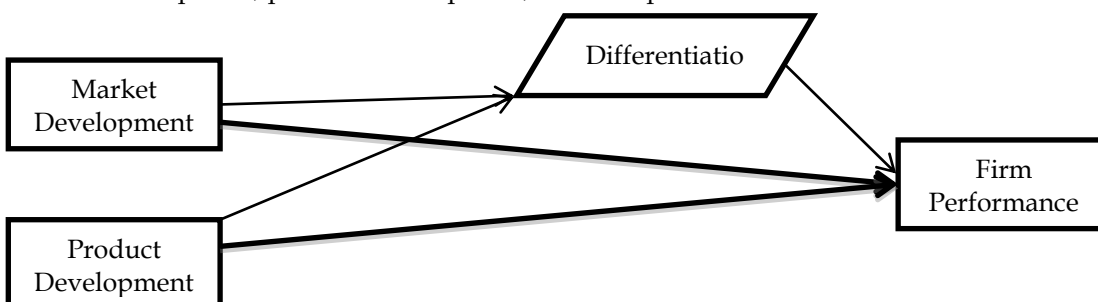


Figure 1.1-Research framework**4.0 Methodology****4.1 Sample and data collection**

The study investigates the registered manufacturing based SMEs in Nigeria (NBS & SMEDAN, 2012) that comprise the population of 1,814 in the Northwest. About 1,420 SMEs equivalent to 78% are located in three states. The study is in line with the previous studies of (Gado & Nmadu, 2012; Sokoto & Abdullahi, 2013). This study has a sample of 302 SMEs (Sekaran & Bougie, 2013). The sample was increased to 453 (Bartlett et al., 2001), to avoid nonresponse and sample size error. 453 questionnaires were proportionately distributed to SMEs located at; Kaduna 87, Kano 312 and Sokoto 54. The study received 329 (73%) out of 453 questionnaires, 26 questionnaires were rejected, left with 303 (67%). SPSS V23 was employed for the data screening, for further SEM analysis. 10 items were replaced for missing data, and 26 cases having ± 3.29 was deleted for the univariate outliers. The study was left with 277 (61%) cases, which were used for further analyses.

5.0 Data Analysis**5.1 Demography of Respondents**

The profile of respondents, descriptive result revealed that 35% of the respondents are managers, while 27% and 21% are owners and CEO respectively. About 70% are male, while only 30% are female. The educations of the respondents 35% with first degree, while 30% have ND or NCE, while 20% have SSCE, only 15% have a master degree and only 0.7% has Ph.D. The results show 25% are sole proprietorship; 26% are limited liability firms, and 41% are in partnerships, while 9% are joint ventures. The analysis indicated that the majority of SMEs are medium with an average of 57.8%, whereas 42.2% are small firms. As for the location of the business, Kano with about 67.5%; 19.9% located at Kaduna and Sokoto have only 13%. In response to the years of operation, the result shows 39% are between 1 to 5 years, while 21% are between 6 to 10 years. Only 18% operates between 11 to 15 years.

5.2 Measurement Model Analyses

To determine the individual constructs measures validity and reliability, the two-step modelling approach was used as recommended by Henseler, Ringle and Sinkovics (2009). First started with measuring the convergent validity and reliability, followed by discriminant validity. Below Table 1 indicates the internal consistency and reliability. As suggested the rule of thumb, construct validity is to determine if the loadings each item are greater than 0.7; composite reliability also is greater than 0.7; average variance extracted should be greater than 0.5 (Henseler, Ringle, & Sarstedt, 2014).

Constructs	Items	Loadings	CR	AVE
Market Development	MD_1	0.800	0.820	0.530
	MD_2	0.720		
	MD_3	0.600		
	MD_4	0.760		
Product Development	PD_1	0.720	0.760	0.510
	PD_2	0.730		
	PD_4	0.690		
Differentiation	DF_2	0.720	0.820	0.530
	DF_4	0.700		
	DF_5	0.750		
Firm Performance	DF_7	0.750	0.830	0.550
	FP_1	0.820		
	FP_2	0.800		
	FP_3	0.710		

FP_5 0.640

Table 1. Result of Measurement Model Reliability and Validity (n=277)

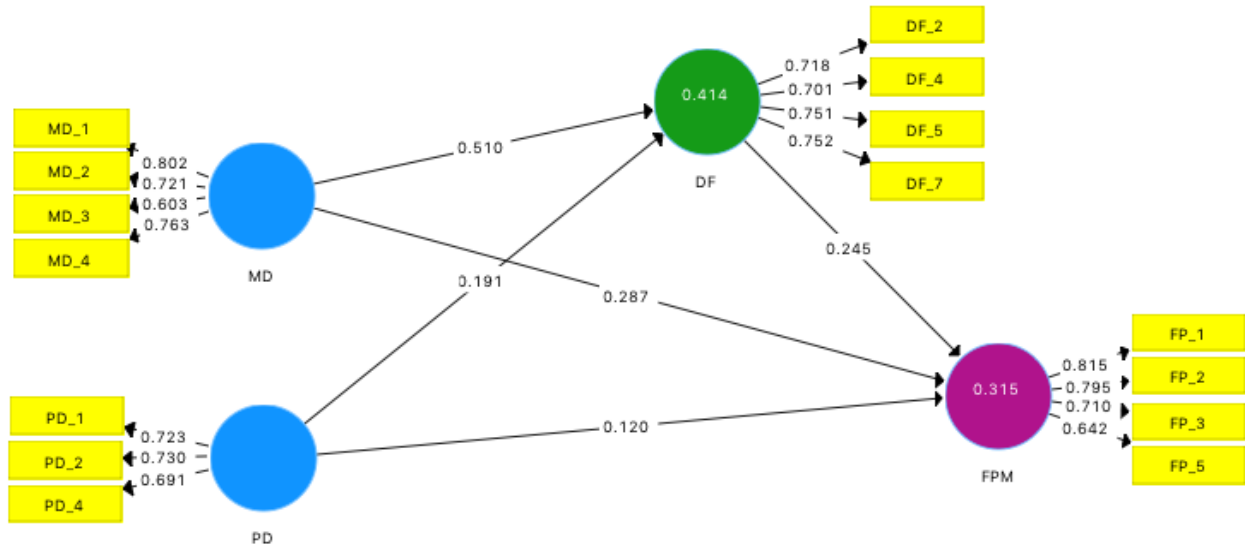


Figure 1 SmartPLS Algorithm (Measurement Model)

In order to meet the threshold of CR 0.70 and above, and AVE 0.50 and above, the following items were deleted MD 2 items, PD 3 items, DF 4 items, FP 6 items, as recommended by (Hair, Hult, Ringle, & Sarstedt, 2014). In this study CR value for all the constructs were above the threshold value, the CR range from 0.760 to 0.830, this indicates the reliability of the measurement model. The convergence validity of the constructs, where the constructs explain half of the variance of their indicators, the result indicates the AVE values ranging from 0.510 to 0.550; this concludes that the convergent validity is established.

Constructs	1	2	3	4
Market Development	0.730			
Product Development	0.600	0.720		
Differentiation	0.620	0.500	0.730	
Firm Performance	0.510	0.410	0.480	0.740

Table 2. Discriminant validity (Fornell-Lerckert)

Constructs	1	2	3	4
Market Development				
Product Development	0.990			
Differentiation	0.860	0.810		
Firm Performance	0.690	0.670	0.680	

Table 3. Discriminant validity (HTMT)

Discriminant validity was measured to see the uniqueness of each construct (Hair et al. 2014). The study measured discriminant validity using Fornell-Larckert criterion (Hair et al. 2014), and Henseler’s heterotrait-monotrait ratio (HTMT) of correlation as recommended by Henseler et al., (2014). Thus, the discriminant validity was measured by comparing the square root of the AVE for each construct with the correlation presented in the matrix. Table 2 above presents the results of the Fornell-Lerckert. Also supported by HTMT result presented in Table 3, thus, discriminant validity is established with HTMT_{0.90}.

5.3 Hypotheses Testing and Results

This study tests the relationship between market development and product development on the performance of manufacturing based SMEs in Nigeria. The result of the hypotheses is summarized in Table 4 below. H1 result indicates that market development has positive and significant influence on firm performance (Beta value at = 0.410; t =5.640). Hence, H1 is supported. Similarly, the hypothesis H2 the result shows that product development has positive and significant impact on firm performance (Beta values of = 0.170; t = 2.330) and therefore, H2 is supported.

Hypo.	Relationship	Beta	STD Error	T-Value	Decision
H1	Market Development -> Firm Performance	0.410	0.070	5.640*	Supported
H2	Product Development -> Firm Performance	0.170	0.070	2.330**	Supported

Table 4. Structural Model; Bootstrapping for Direct Relationship (n=277)

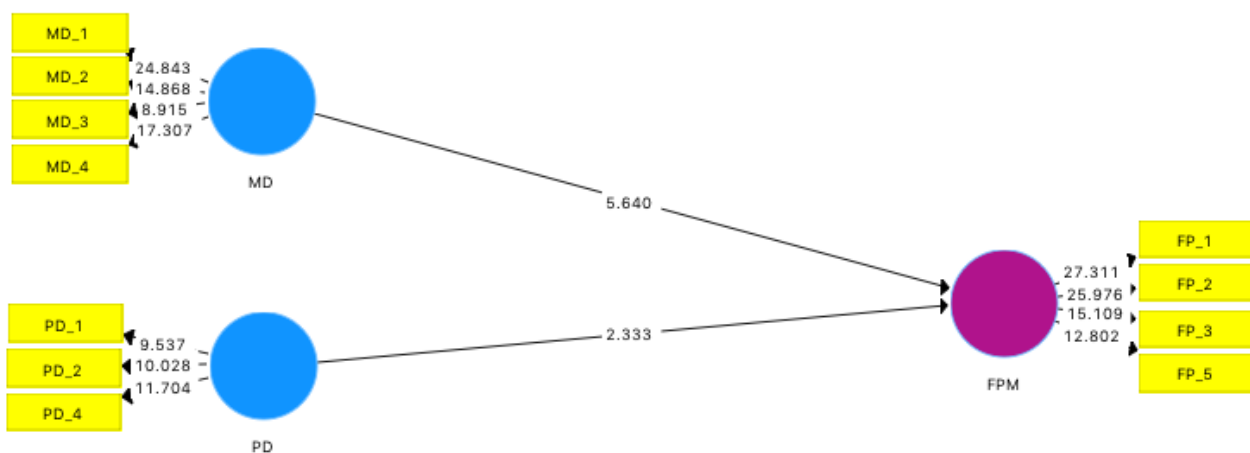


Figure 2 SmartPLS Bootstrapping (Direct Relationship)

The study also measures the total effect size (f^2) to see the contribution for each construct. Table 5 below demonstrates the measurement of the total effect size f^2 . Is consistent with the rule of thumb for f^2 , the effect size for the MD contributions can be considered as small the f^2 is 0.146; for the PD effect size the contributions can be interpreted as small the f^2 is 0.025 as suggested by Cohen (1988).

Effect Size	Included	Excluded	f^2	Effect size
Firm Performance	0.281			
Market Development	0.281	0.176	0.146	Small
Product Development	0.281	0.263	0.025	Small

Table 5. Total Effect Size (f^2)

The study measured the predictive relevance, which indicates the predictive relevance of the model, shows the Q² values achieved 0.14, using blindfolding procedure, to confirm the Q² is greater than zero (Hair et al. 2014) see Table 6 below. The result indicates that the variables contributes only 14%, this indicates there are other factors that can enhance the model.

Total	SSO	SSE	Q ² (=1-SSE/SSO)
Firm Performance	1,108.00	948.81	0.14

Table 6. Predictive Relevance (Q²)

The test of mediating effect of differentiation was determined using advanced PLS-SEM bootstrapping. Table 8 below presents the results summary. As the standard error (SE) is determined on the basis of bootstrapping results of the indirect effects (bootstrapping a*b), whereas t value was determined as a*b/SE (Hair, Hult, Ringle, & Sarstedt, 2016). Based on the results below, differentiation strategy mediates the relationship between market development and firm performance (Beta value at =0.125, t =2.907). Also, differentiation mediates the relationship between product development and firm performance (Beta value at =0.047, t =2.323). Hence, H3 and H4 are supported. This indicates that the two-indirect effect was empirically supported, as presented in Table 8, the confidence interval supported the results, also relies on the bootstrapping standard error (Hair et al. 2014; Hayes & Preacher 2010).

Hypo.	Indirect Relationship	Beta a*b	STD Error	T Value	Decision
H3	MD ->DF*DF->FPM	0.125	0.043	2.907*	Supported
H4	PD->DF*DF-> FPM	0.047	0.020	2.323**	Supported

Table 7. Structural Model; Test of Significance for Mediating Relationship

Hypothesis	Path a	Path b	Beta (a*b)	LL2.5%	UL97.5%	Decision
H3	0.51	0.245	0.125	0.040	0.245	Supported
H4	0.191	0.245	0.047	0.008	0.126	Supported

Table 8. Structural Model: Confidence Interval for mediating Relationships

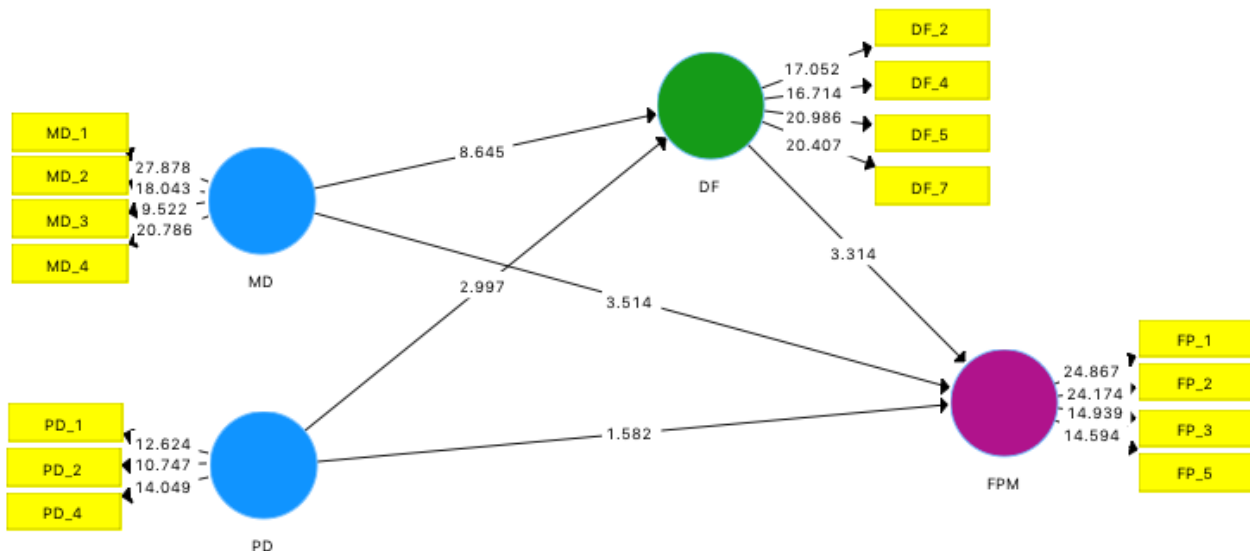


Figure 3 SmartPLS Bootstrapping Structural Mode (mediating Effect)

Table 9 presents the full model predictive relevance using blindfolding result of the cross-validated redundancy (Q^2) of the predictive endogenous latent constructs of this model indicates the Q^2 values is greater than zero for each predictive endogenous latent construct. The indicates 16% predictive relevance of the model, as such there are other factors that influence the model.

Total	SSO	SSE	$Q^2 (=1-SSE/SSO)$
Differentiation	1,108.00	878.542	0.207
Firm Performance	1,108.00	929.961	0.161

Table 9. Predictive Relevance (Q^2) for mediating Relationships

6.0 Conclusion

The main objective of this study is to investigate the mediating effect of competitive strategy on the relationship between growth strategies and firm performance of manufacturing based SMEs in Nigeria. The hypotheses were tested, and the results revealed all the hypotheses (H1, H2, H3 and H4) were supported. The result of H1 indicates that MD significantly influence performance, the result is similar to the findings of Hussain et al. (2013) and Leitner (2014). This indicates that market development has positive impact on SME performance. Similarly, H2 result shows that PD has a significant influence on the performance of manufacturing based SME in Nigeria. The result support the findings of Hussain et al. (2013) and Leitner (2014), the finding of this study is also supported by resource based view as a theory.

The study examined the mediating effect of competitive strategy (indirect relationship) hypotheses, H3 and H4. The PLS-SEM path results revealed that H3 differentiation mediates the relationship between MD and firm performance. The findings supported the study of Hernández-Perlines, et al., (2016). H4 the result indicates that differentiation explained the relationship between PD and firm performance. This result also supports the previous study of Lechner and Gudmundsson, (2014). Previous studies have shown that MD and PD can sustain firm performance through mediating effect of other factors (Hussain et al., 2013; Leitner, 2014). Products innovation and marketing capabilities on product-market development can improve competitive advantage and sustain performance (Lechner & Gudmundsson 2014), also confirmed that competitive strategy matters for SMEs, as differentiation strategy appears to require little investment with less risk to position firm's competitiveness in the industry, and improve product quality and innovation. Therefore, the results of this study support (Lechner & Gudmundsson 2014), proving the mediating effect of competitive strategy on the relationship between growth strategies and SME performance.

7.1 Contributions

The results of this study show that all the sample study engage in growth strategies and competitive strategy to enhance performance. the study supports assumption that competitive strategy matters for SMEs. Also supports the claims that growth strategies can be enhance performance through mediating variable. Therefore, all SMEs are struggling to competitive, especially in developing countries like Nigeria. These firms operate in a highly competitive environment where virtually the products being produced in the country are imported. Research in strategic alignment suggests that superior performance is function of integrating appropriate firm's internal and external resources. However, strategic fit on the impact of competitive strategy on growth strategies and performance is yet to be known for SMEs. Therefore, it important for SMEs to align growth strategies with competitive strategy to create competency and enhance competitive advantage. By pursuing market development, product development and differentiation strategy to create entry barriers to their limitations.

The current study makes an empirical contribution by matching firm's strategies between growth strategies and competitive strategy to enable manufacturing based SMEs sustain performance. The finding of this study contributes to literature of growth strategies, competitive strategy and performance of manufacturing based SMEs. In addition, the findings would support management of manufacturing based SMEs toward making strategic decision, particularly, in matching a specific growth strategy with competitive strategy to remain competitive and enhance competitive advantage and sustain performance. Hence, this indicates that owners and managers of manufacturing based SMEs in Nigeria have shown the importance of strategic match between firm's specific growth strategy and competitive strategy toward creating competitiveness and sustain competitive advantage for superior performance.

7.2 Limitations and Direction for Future Studies

This finding of this study has some limitations. First the study was limited to two growth strategies of Ansoff, and only one Porter's generic typologies, hence, an extension of this work would be interesting to examine the the relationship between growth strategy, competitive strategy and performance that include sample of both small and large manufacturing based firms. That would enhance the researchers understanding and support further generalizability of the findings. Also, the measurements of variables used in this study was limited to adapted measures from the Western countries, future studies may develop indicators that may more appropriate in this context. Secondly, the study is cross-sectional in nature, and limited to manufacturing based SMEs that operates in Northwest of Nigeria.

Therefore, an extension of this survey to other sectors and regions is suggested for future research. The study was conducted based on a single data source, caution must be considered when generalizing the findings. Finally, the survey investigates the mediating effect of differentiation strategy on the relationship between market development, product development, and firm performance of SMEs operating in the Northwest of Nigeria. An extension to other regions and comparative study would further improve our understanding on strategic match between firm's strategic orientations and competitive strategy.

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Developing customer orientation to enhancing salesperson performance

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Keyword

Salesperson Training Program, Salesperson Relationship Competence, Customers' Orientation, Salesperson's Performance.

Abstract

This study aims to develop empirical model the relationship between salesperson training program on salesperson relationship competence and customer orientation, the relationship between customer orientations on salesperson's performance. The sampling technique use purposive sampling with 158 salespersons on consumer goods in Central Java Indonesia. The data were gathered by interview and questionnaire combination given to respondents. The data were analyzed using SEM (Structural Equation Modelling). The finding of this study showed that salesperson training program has a positive effect on salesperson relationship competence. Salesperson training program has a positive effect on customers' orientation. Salesperson relationship competence has a positive effect on customers' orientation. Customers' orientation has a positive effect on salesperson's performance.

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Introduction

The globalized era demands organizations to manage internal resources to be able to face the competition (Kak and Sushil 2002). The study of Taiwo (2010) explain that organizations had to develop the capability to reach the goal and organization targets. Meanwhile, other researchers also emphasize the importance of organization in managing the information on competition and economic growth to develop their business (Zhang et al. 2015). The organizations with wide market information have big chance to achieve the competition.

One of the attempts executed by firms to develop their business in this global market is increasing the competence of salesperson. It is important for salesperson to manage the information on market condition through direct interaction with buyers (Rocco and Bush 2015). The effort of salesperson influences the decision of consumer to buy the product or service and affect the performance of salesperson's performance (Punwatkarn and Varghese 2014).

The organizations needs to do to improve salesperson's performance is including giving training program (Rahman et al. 2015). Training will influence the ability of salesperson to adapt to competition and effort on developing knowledge of salesperson on the offered products.

Therefore, salesperson also has to be competence in doing orientation with customers (Román et al. 2015). Selling activities done by a salesperson includes; (1) customer identification, an activity of analyzing the situation and real condition at the field especially one related to customers potential, (2) *Customer development*, it is information gathered then analyzed to then drawn a conclusion on how to do next step, (3) *Direct selling*, it is an activity when a salesperson communicate with customers directly face

to face in form of written secondary communication through phone or other media (Kiumarsi et al. 2014). To do the selling activity well needs a relational competence coming from the salesperson himself (Retnawati and Nuryakin 2016). Relational competence of a salesperson according to Saleh and Omarb (2015) is a competence owned by a salesperson to build a relationship with customers and the environment. Furthermore, Peterson and T (1990) assert that salesperson has to be a designer of positive relationship with customers.

The aim of this study is to investigate the mediating effect of customers' orientation on the correlation between salesperson training program and relationship competence to enhancing salesperson's performances. Especially, this research contribution is focused on how the contribution of adaptive customers' orientation is able to explain the correlation between on salesperson's performances on the previous studies.

Theoretical review and hypothesis development

The Relationship between Salesperson Training Program with Salesperson Relationship Competence

Peterson and T (1990) said there are five main dimensions in training program; clear objectives, relevant content, effective technique, trainers' competence, and trainers. This implies that qualified trainers affect the success of training. This success is related to upgraded knowledge and competence of trainees which are the indicators of sales training effectiveness and leading to the improvement of salesperson's performance.

While Dhal (2014) found nine important factors that influence the effectiveness of training program; course plan, trainers, pedagogic, course design, schedule, non-academic infrastructures support, result learning, class environment, and objectives of the program which is considered relevant and important affecting the effectiveness of training program.

Other research done by Honeycutt et al. (1995) found that salesperson training needs more attention from the organization. More, explained on training that is asked to mention the topics in training from an organization, there are five important findings in training program; product information (35%), sales technique (30%), market information (15%), firm information (10%), other factors (10%). While Pettijohn et al. (1994) mentioned the dimensions of training program for a salesperson consists of *personal skills, sales skills, product information, environment knowledge, general competence* that can improve the relationship competence with customers.

Roman et al. (2002) stated that the content of sales training tends to be similar from time to time which focuses on the knowledge of products, market, firms, and sales techniques. One of factors that influences the effectiveness of sales training is course design of the training (Dhal 2014). Other researchers found that sales training program gave positive effect on relationship competence of salesperson. Based on the explanation, a hypothesis formed:

H1: Salesperson training program gives positive effect on salesperson relationship competence

The Relationship between Salesperson Training Program and Customers' orientation

Sales training program is a key factor of personal selling success (Pettijohn et al. 1994); (Asfaw et al. 2015). There are many advantages from sales training, some of them are to overcome problems or failures frequently occur, improve the productivity, to increase the moral, to reduce the worker turn, to improve good relationship with customers, and to improve the time and place arrangement. (Wilson et al. 2002) defined sales training as knowledge provider, e.g.: products knowledge, market and company policy on selling, e.g.: how to sell.

The attempt done by organization to improve long-term relationship between customers and salesperson can be valuable business asset (Matsuo et al. 2002). While Pettijohn et al. (1994) stated that successful salesperson is the one who is able to do adaptive approach to customers and to interact with the customers. Christiansen et al. (1996) stated that sales training for a salesperson consists of selling techniques, company products, communication skill, time management, strategy planning, and company policy. Other researchers said that the point of sales training tends to be similar from time to time which focuses on the knowledge of products, market, firms, and sales techniques (Roman et al. 2002).

Sales training for sales program according to Wilson et al. (2002) defined as a training system aimed to improve skill, rules, concepts, and attitudes that raise the performance. Sales training has close

relationship with increasing knowledge, concepts, and competence that will improve the salesperson competence.

Based on the theory, a hypothesis is formed:

H2: Salesperson training program positively affects the customers orientation

The Relationship between Salesperson Relationship-Competence and Customers' orientation

From the study of Badger and Smith (2000), competence influences the improvement of performance and activities of salesperson, which are based on some causes. First, salesperson with competence will use strategies got to improve the quality of their attitude and activities. Second, the competence adopted in activities will intellectually lead them to think creatively and get profit from their job; maintaining the performance.

Liu et al. (2001) stated that certain job or situation and standard reference, perfect performance/effective, and characteristic of an individual have causal relationship, competence can be defined as motivation, right of ownership and abilities, self-reflection, or the image of social roles, or competence owned by those who have knowledge. Competence clearly differentiates high performance and ordinary one, or distinguishes individual with effective performance and not. Rentz et al. (2002) added that salesperson who is able to reach the sales target determined by the firm is because he has communication skill, selling skill, and technical knowledge. This conclusion is similar with (Cross et al. 2001) who found that salesperson with higher performance focuses on selling to customers and building more personal communication with the customers and being more oriented to build relationship with customers. Contradictory, salesperson with low performance is more oriented to sales and treat every customer in similar way in every selling activity. The study of Navarro et al. (2006) stated that relational competence can be measured by using the ability to communicate ideas about company products as the indicator, to build relationship with customers, and ability to cooperate with other salesperson. Relational competence is described as the ability of salesperson to build good relationship with others. So, relational competence is expected to push the improvement of salesperson's performance.

Based on the theory, a hypothesis is formed:

H3: Salesperson's relationship competence influences the customers' orientation positively.

The Relationship between Customers' Orientation and Salesperson's Performance

The study of (Barker 1999), (Saleh and Omarb 2015) the performance of salesperson is measured through his ability to reach high market for the firm, the improvement of products sales, and the ability to sell products with high profit margin. While the study of (Sujan and Kuman 1994), the performance of salesperson (Rajan 2015) can be measured through some indicators such as; the ability of salesperson to contribute in firm to reach the market target, to sell new products quickly, and to reach beyond target of sales.

Performance, based on Osabiya and Joseph (2015) is defined as real achievement reached by someone or an organization because he executes his duties well. And performance of salesperson is a result from operational process of a salesperson in playing strategic role of a salesperson. Furthermore described that performance is an effect of salesperson's aggressiveness to approach and serve the customers well (Spiro and A. Weitz 1990). Performance can be measured with sales volume as an indicator, sales growth rate, and customers. The performance of salesperson is an evaluation of salesperson contribution in achieving the organization goals (Baldauf et al. 2002).

Previous research by Baldauf et al. (2002) stated that the performance of salesperson conceptually has a function to evaluate the performance related to attitude or activities done by salesperson, and the result can be distributed to their attempts. The dimensions of the performance are shown as attitude performance and the result performance. Salesperson's performance is evaluated using factors that can be controlled by salesperson himself based on the attitude and the result from salesperson. The study of (Baldauf et al. 2002), the performance of salesperson gives positive effect on the effectiveness of sales organization, besides other factors that can influence the effectiveness as a whole and other factors beyond salesperson control, e.g.,; competition, market potential, market change.

According to the theory, a hypothesis is proposed:

H4: Customers' orientation gives positive effect on salesperson's performance

Research Sample

The study took 158 salespersons in Central Java Indonesia area as the samples. The the total sample 158 still able to coverage the sample adequacy referring to opinion (Hair et al. 2010). The technique was purposive sampling which was based on the consideration which salespersons that have taken any training programs held by organizations. Besides, the experiences of salesperson on selling the products also became opinions in choosing the respondents. After data screening, the respondents left to be observed and seen as qualified were 135 respondents.

The technique of data gathering in this study was primary data with direct observation and gave questionnaire to respondents. The design was made as efficient as possible with tools and techniques and characteristics of respondents. The distribution was done by giving written answers for information of questionnaire from the researcher. This was done to the respondents chosen based on researcher criteria; 5 years minimum experiences, selling consumers' products such as food and beverages and daily needs products.

Measuring Scale

Each construction of this research consisted of one external construction; salesperson training program. While internal construction consisted of salesperson relationship competence, customers' orientation and salesperson's performance. Each construction was measured using seven points of *Likert scale* with (1-7) scale to determine the questionnaire responses. Scale 1 showed strongly disagree and scale 7 showed strongly agree.

Research Instrument Testing

The validity test of the construction was done by looking at loading factor value which has loading factor more than 0.60. The result using AMOS program showed that all construction had loading factor value more than 0.60 so all items were stated as valid. The reliability test of the instruments used Cronbach Alpha. The sample observed in this reliability test was 112 respondents. Table 1 showed Cronbach alpha of each item in this research.

Table 1. Measurement scales, confirmatory factor analysis results, and Cronbach's Alpha Coefficient.

Construct and Measurement Item	Standardized Loadings Factor	Cronbach's Alpha
Salesperson Training Program		
Sales skill training program	0.774	0.720
Product knowledge training program	0.800	0.735
Attitude training program	0.712	0.752
Salesperson Relationship Competence		
The ability to build relationship with customers	0.750	0.726
The ability to communicate with customers	0.728	0.655
The availability of customers database	0.679	0.665
Customers' orientation		
The liveliness to interact with customers	0.751	0.722
The creativity in responding customers request	0.716	0.663
The responsiveness in giving information to customers	0.692	0.725
Salesperson's performance		
The improvement of product sales	0.881	0.814
The improvement of customers account	0.824	0.831
The improvement of profit	0.834	0.833
Customers loyalty	0.670	0.886

Findings and Discussion

The hypothesis testing in this study used analysis program called *Structural Equation Modelling* (SEM) AMOS program. The result of analysis from *Structural Equation Modelling* (SEM) in full model can be seen on figure 1. The result of full model confirmatory test showed good result which fulfilled the criteria of *goodness of fit*. The model structure used to describe causalities models with tiered relationship.

The result showed the criteria of goodness of fit fulfilled the *Chi-Square* of 106.701. The probability value was 0.000. TLI values was 0.925, GFI value was 0.896, AGFI value was 0.845 and RMSEA values was 0.075 indicated that those values matched with determined cut-off.

Figure 1. Full Model the Relationship between Salesperson Training Program, Salesperson Relationship Competence, Customers’ orientation and Salesperson’s performance.

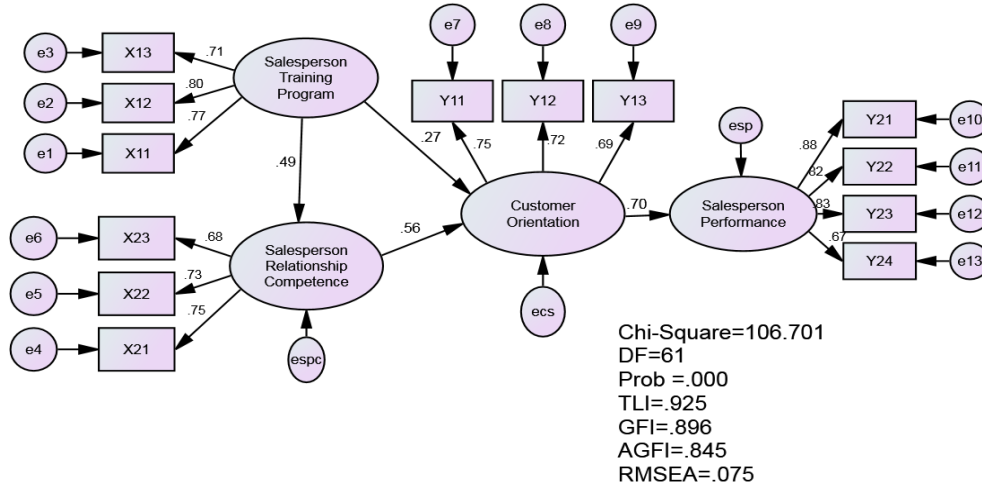


Figure 1 described *standardized path coefficients value* of the relationship between salesperson training program, salesperson relationship competence, customers’ orientation and salesperson’s performance. The result of this research is also shown in table 2 forming 4 hypotheses.

Table 2. Coefficient Test Result of the Relationship between Salesperson Training Program, Salesperson’s Relationship Competence, Customers’ Orientation and Salesperson’s Performance.

Hypothesis		Standardized coefficients	t value	Prob.	Result
H1	Salesperson training program→ salesperson relationship competence	0.519	4.240	0.000	Significant
H2	Salesperson training program→customers’ orientation	0.271	2.417	0.016	Significant
H3	salesperson relationship competence→customers’ orientation	0.526	4.359	0.000	Significant
H4	customers’ orientation→Salesperson’s performance	1.003	6.677	0.000	Significant

Note: *Significant at $p \leq 0.05$; if $(t) \geq 1.96$

H1: *Salesperson training program gives positive effect on salesperson relationship competence.* The hypothesis was shown at estimation parameter of 0.519 with value 4.240, with significant rate $0.000 < 0.05$. So, the hypothesis 1 can be accepted. This gets along with(Peterson and T 1990); (Dhal 2014), who found that salesperson training program gave positive effect and significant on salesperson relationship competence. This research also gets along with Pettijohn et al. (1994) who defines the dimensions of salesperson training program consist of *personal skills, sales skills, product knowledge, environment knowledge, attitude, and other general competencies* that improve the relationship competence with customers.

H2: *Salesperson training program positively affects the customer's orientation.* This was shown at estimation perimeter 0.271 with t value 2,417, with significant rate $0,016 < 0, 05$. Therefore, hypothesis 2 can be accepted. This gets along with(Honeycutt et al. 1995) who stated that *quality training content* gives positive effect and significant on sales training effectiveness. It also matched with the research done by

Wilson et al. (2002) who stated that training system aimed to improve *skill, rules, concepts, and attitudes* resulting improvement of performance. Sales training has close relationship with information adding, concepts, and abilities that will improve the competency of salesperson.

H3: Salesperson relationship competence influences the customers' orientation positively. This was shown at estimation parameter 0.526 with t value 4,539, with significant rate $0,000 < 0,05$. Therefore, hypothesis 3 can be accepted. This is suitable with (Honeycutt et al. 1995) who stated that *quality training content* gives positive effect and significant on sales training effectiveness. This study matched with Matsuo et al. (2002) who found that relationship competence gives positive effect and significant on the effectiveness of sales training in the attempt of getting customers. Similar finding also found by Navarro et al. (2006) who stated that relational competence can be measured by using the ability to communicate ideas about company product as the indicator, also the ability to build relationship with customers and the ability to cooperate with other salesperson.

H4: Customers' orientation gives positive effect on salesperson's performance. This is shown at estimation parameter 1.003 with t value 6,667, and significant rate $0,000 < 0,05$. So, hypothesis 4 can be accepted. This goes along with Baldauf et al. (2002) about the measurement of salesperson's performance related to attitude of salesperson. The study of (Baldauf et al. 2002) also matched with the finding of this research that described the performance of salesperson that gave positive effect on the effectiveness of sales organization.

Discussion

Based on the findings, there are some policies implications with priority can be used as input for management on training program held for salesperson.

The attempt that needs to be done to improve the performance of salesperson, the organization should not only focus on the knowledge or competence related to sales but also giving the knowledge on how to deal with complaints and trauma of customer, analyze their characters, be a good listener, and understand the customers. Besides, giving information on products is also important if it is done consistently and renewably along with the growth happens.

To improve the performance of salesperson, he has to own high performance and focuses more on selling to customers, building more personal communication with them, or to be more oriented on building interaction with customers and improving the knowledge and competencies to reduce failures.

Limitation and Contribution

This study gives the contribution not only in academy research finding, but also the contribution to sales people who work in consumer goods of this sample. This research adds the literatures regarding of salespeople training program and competence and link to salesperson performance study in Central Java Indonesia. As expected by the previous researchers who suggested doing a research regarding the role of salesperson in consumer goods in a country which are developing service business except other countries that have been researched. The results of hypothesis examination with the previous researches are expected to enrich the literatures and further academic research development in the ability of salesperson in giving the sales people training program and the competence of salesperson.

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Tenant mix in shopping centres: South Africa and the United Kingdom compared

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Keywords

Tenant mix, property asset managers, tenant location, tenant mix policies, monitor tenant mix.

Abstract

The management of tenant mix by shopping centre managers in South Africa was compared with that found to have been used by shopping centre managers in the UK (Downie et al., 2002). Relevant aspects included how to maintain an effective mix, the factors influencing the location of tenants, the extent that tenant mix policies are documented by property asset managers and the monitoring of tenant mix. A total of twenty responses were received from leasing executives (letting agents), retail asset managers, investors, centre managers and property managers in South Africa, representing shopping centers totaling more than 1, 25 million square meters GLA.

The study found that similar levels of importance were given to each aspect by respondents in both the countries. In both studies, anchor tenants were seen to be the most important factor of determining tenant mix and the image of a shopping centre. In the UK retail store specialists played a more dominant role than in South Africa in influencing the shopping centre tenant mix decision and the location of stores within the shopping centre. The lack of required unit sizes and vacant units was found to be the greatest hindrance to the updating of the tenant mix in both studies. A formal tenant mix policy updated on a frequent basis was found to be a determining factor in the keeping the tenant mix relevant and reflecting modern retail trends. The monitoring of turnover by evaluating monthly turnover figures or accessing a turnover index on a monthly or yearly basis was seen as the most important tool to monitoring, and thereby managing, the effectiveness of the tenant mix.

The study provides guidelines to owners, asset managers, managers and investors in South African shopping centers on commonly accepted techniques to maintain a satisfactory tenant mix.

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1. Introduction

For a shopping centre to maintain its asset value, the landlord needs to monitor and adjust the tenant mix (Downie, Fisher & Cheryl 2002:5). This study compares the research findings of Downie et al. (2002:3–23) on the management of the tenant mix in shopping centers in the UK with the management of tenant mix by shopping centre property asset managers in South Africa.

The importance of the present study is that it highlights the methods that property asset managers in South Africa and the UK use to manage tenant mix in shopping centers that are similar. This will be relevant to property owners, property asset managers, property managers and investors who are active in the South African and the UK shopping centre environment, as the lifecycle of shopping centers will be extended by continuous adjustment of tenant mix to meet the changing demands of their customers.

2. Literature review

2.1 Tenant mix

Tenant mix is critical to the success or failure of a shopping centre (Greenspan, 1987:31; Brown, 1992:384; Kirkup & Rafiq, 1994:29; Grenadier, 1995:357; Bruwer, 1997:170; Yim Yiu & Xu, 2012:524). The main success factors of a shopping centre are quality of location; accessibility; catchment area size and quality; provision of car parking; internal layout; and environment, with tenant mix being the most critical to the success of a centre (Kirkup and Rafiq 1994:29).

Greenspan (1987:27) defines 'tenant mix' as follows: "Quite simply, a good tenant mix means having a variety of stores that work well together to enhance the performance of the entire centre as well as perform successfully as individual business." Kirkup and Rafiq (1994:29) and Brown (1992:385) cite Dawson (1983) who states that tenant mix considerations revolve around two major issues: (i) the number, nature and size of the stores in a shopping centre, and (ii) the placement of stores relative to one another and points of entry into the shopping centre. With tenant mix being critically important to shopping centers, the management and monitoring of this mix is a prerequisite (Downie et al., 2002:9).

2.2 How to determine tenant mix

Greenspan (1984:28) states that common sense is all that is required to determine the right tenant mix. Hernandez and Bennison (2000:357) state that the decision-making process is based on personal experience and instinct, and call the process "an art". Yiu and Xu (2012:524) refer to the tenant mix decision as "determined by gut feeling and experience".

Greenspan (1987:28), however, concluded that research is required to determine tenant mix (cf. Kirkup and Rafiq 1994:36). Bruwer (1997:170) created a cost-effective research methodology that could be used to determine the tenant mix of a shopping centre scientifically. The research model developed was on the attitude of the surrounding potential shopper population.

2.3 Management of tenant mix

A shopping centre can be differentiated by the unique tenant mix it offers (Kirkup & Rafiq, 1994:29). A good tenant mix will attract shoppers from other established shopping centers and win market share for the shopping centre under management.

The management of tenant mix is crucial to the pedestrian flow within a centre. Downie et al. (2002:4) pointed out that the location of anchor and large-space users within a shopping centre draw shoppers through the centre via its access points, assisting retailers that rely on comparative and convenience shopping to survive and thrive. Wakefield and Baker (1998:515) showed that tenant mix had a strong influence on shoppers' level of excitement, which is positively linked to the levels of spending, desire to stay in a shopping centre and their intention to return in the future.

Due to the changing demographic environment surrounding the shopping centre, new store entrants and possible failures of existing stores, the tenant mix needs constant monitoring and management.

2.4 The location of tenants in a shopping centre

The location of tenants in a shopping centre is critical (Brown 1992:386). The placement of tenants in a shopping centre comprises certain rules: (i) place the magnet stores at opposite ends of the mall; (ii) ensure that the anchors and the entrances are sufficiently far apart; (iii) pull the shoppers past the line stores; (iv) avoid dead ends; (v) place service-orientated tenants in side malls, and close to entrances and exits; (vi) keep pet shops and dry cleaners away from food shops; (viii) keep food stores away from fashion outlets; (viii) keep an even distribution of customers within a multiple-storey mall by creating vertical access and spreading food stores.

The traffic flow within a centre is determined by the location of tenants and their requirements. Shops that pay the highest rentals are typically located within the highest traffic flow areas (Lam & Chua, 2012:164).

3. Research methodology

This research compared the findings of Downie et al (2002:3-23) on the management of tenant mix in shopping centers in the UK with that in South Africa. The research design follows the quantitative

structure of the research questionnaire used in Downie's approach; this allowed the findings of the two studies to be directly comparable to each other.

3.1 Population sample

The criteria of the population chosen for the UK study had been that the sample be restricted to investors, asset managers, letting agents and retail asset managers, and that the minimum size of the centers that they managed had to be 25,000 square meters in size (Downie et al., 2002:11).

The present study differs from the UK study in the sample population selected in some respects: shopping centre managers and property managers were included in the study, due to their direct involvement in the management of tenant mix. Also, the sample of members was not limited to shopping centre size.

Table 1 indicates the number and percentage of respondents per position. The highest number of responses was received from property managers, who accounted 50% of the sample.

The questionnaire requested the sample members to indicate the square meters (size) of retail space and the number of shopping centers they oversaw. The size of retail centers overseen was divided into the number of shopping centers to arrive at an average. This average of the square meters was used as the square meter indicator required differentiating the retail space into smaller and larger shopping centers as per the UK study.

The shopping centre sizes ranged from 20,000 square meters to 150,000 square meters with a median of 31,250 square meters. Smaller centers had a size range of zero square meters to 31,250 square meters and larger centers had a size range of 31,250 square meters to 150,000 square meters. The divisions are based on the method used in the UK study and were used to compare the possible similarities and differences between the two shopping centre sizes. The breakdown of the square meters overseen by the respondents is represented in table two with property managers overseeing 555,000 sqm of retail space as reflected in Table 2.

Position	Sample size in number	Percentage
Centre manager/Leasing executive	7	35%
Property manager	10	50%
Portfolio manager	2	10%
Asset manager	1	5%
Investor/Owner	0	0%
Total	20	100%

Table 1: Sample population size by number and percentage

Position	Sample size in square metres	Percentage
Centre manager/Leasing executive	495,000	40%
Property manager	555,000	45%
Portfolio manager	87,000	7%
Asset manager	100,000	8%
Investor/Owner	0	0%
Total	1,237,000	100%

Table 2: Sample population by retail square meters under management

The UK research utilised a postal survey: the questionnaire designed was posted to the sample population and sample members were requested to respond by returning the questionnaire. A total of 104 questionnaires were sent, with 30 responses received, which is a response rate of 28 per cent (Downie et al., 2002:11).

The present survey followed the same methodology and question sequence as the UK research. A structured questionnaire was sent out as an email attachment. A total of twenty responses to the questionnaire were received, which compares favourably with the thirty responses received in the UK survey. The majority of the responses were gathered from centre managers/leasing executives (seven) and property managers (ten). Two responses were received from portfolio managers and one from an asset manager.

4. Research findings, data analysis and comparison

4.1 Evolving tenant mix

Respondents in the South African study were asked to evaluate the importance of seven considerations for the management of the evolving tenant mix in their respective shopping centers. Each consideration was to be rated as 'not applicable', 'minor', 'important' or 'critical'. The average score of the respondents was taken into account.

Both studies consider maintaining effective anchors as the most important criteria for the management of the evolving tenant mix. This is consistent with the literature that the anchor tenant is pivotal in the creation of the image of the shopping centre and attracting shopper traffic and other tenants to the shopping centre. The most glaring difference in the survey is that in the UK study, meeting occupier demand was seen as an "important to critical" consideration. In the South Africa study meeting occupier demand was viewed as the second last consideration of importance in the management of tenant mix. Consumer demand is directly linked to the popularity of a store and the amount of traffic that is generated to the store. Downie et al. (2002: 12) was surprised that meeting unmet consumer demand was rated less than important in the UK study. They stated that shopping centre managers relied too much on retailers' demand for space and the research done by retailers for new store locations. This could potentially negatively affect the tenant mix as it would not fully reflect the demographics of the surrounding area.

The South Africa study results show that meeting unmet consumer demand is the second most important consideration in the management of tenant mix. Meeting demands from tenants is seen as the second last consideration of importance. This result could point to the fact that South African managers are more aware of their customers' requirements or that more research is done to evaluate shopper requirements. Maximising rental values and securing strong lease covenants were regarded as important in both the surveys. The South Africa study responses were sourced from the listed sector where maximisation of shareholder short-term growth is important. This is similar to the UK study. The opportunity to change tenant mix can be curtailed by the requirement to keep a tenant in occupation so as to ensure maximising rental income where a more imaginative and reflective tenant mix of the surrounding demographic could result in longer-term performance.

Of least important in both studies is that the tenant mix should reflect local stores in the surrounding areas. The indication is that managers of shopping centers compete with other shopping centers and not the retail surrounding the shopping centre.

4.2 Location of stores

The respondents were asked as to evaluate eight considerations which are important to the location of a store in a shopping centre as being "not applicable", "minor", "important" or "critical". Both the studies view the management of pedestrian flow through the mall as the most important factor to consider when locating a tenant within a shopping centre and are consistent with the literature.

The two studies differ as to what is regarded as the second most important factor. The UK study considered good access to catering as being the second most important factor and the reasons given are that the location of stores in UK shopping centers was mainly driven by experienced retailers who guided shopping centre managers. This was not the case in the South African study and good access to catering

and separate incompatible retailers were rated sixth and seventh respectively out of eight. The influence of experienced retailers seems to have a lesser impact on the managers of South Africa centers.

The South African survey attaches greater importance on building malls for shopping centre profile and planning of mall merchandise by zoning of tenants. This is indicative of the fact that malls are seen to cater for the different images that the shoppers have of a shopping centre and that shopping centers cater for different demographic profiles that surround the shopping centre.

Separating competing stores is seen as the least important factor in both the studies. This is consistent with the literature which found that competing stores were perceived to complement one another, and served to increase traffic flow and turnover in a specific area (Downie et al. 2002:14, Greenspan 1987:29).

4.3 Policies for managing tenant mix

Respondents were requested to indicate the status of their tenant mix policy. Less-developed tenant mix policies were found to be informal, outlined and unwritten and more-developed policies were found to be formal, detailed and written.

It was found that managers with a less-developed tenant mix policy for the shopping centre for which they were responsible were more open to being influenced to changing the tenant mix. This could further result in managers and investors having to defend their current tenant mix decision related to a shopping centre.

Figure 1: UK data: Status of the current tenant mix policy. Source: Downie et al. (2002:14)

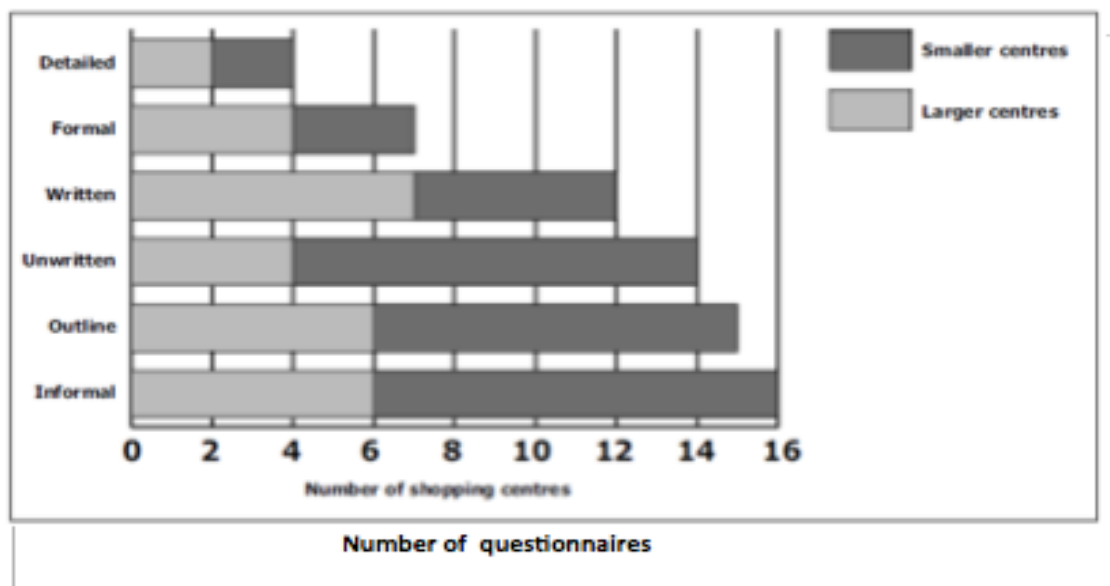


Figure 2: South African data: Status of the current tenant mix policy Source: Survey data

The South Africa study showed a more developed tenant mix within large and smaller shopping centers than what was found in the UK study. The greatest contrast was that none of the South Africa larger centers that participated in the study had an informal tenant mix policy (figure 2), while in the UK study four shopping centers in the larger centers category had an informal tenant mix policy (figure 1). This highlights the importance of tenant mix among the regional and super regional centers in South Africa.

The more developed policy of smaller shopping centers indicates that the management of tenant-mix policy is more hands-on in South Africa than in the UK. This allows the management of these shopping centers to defend their position more easily.

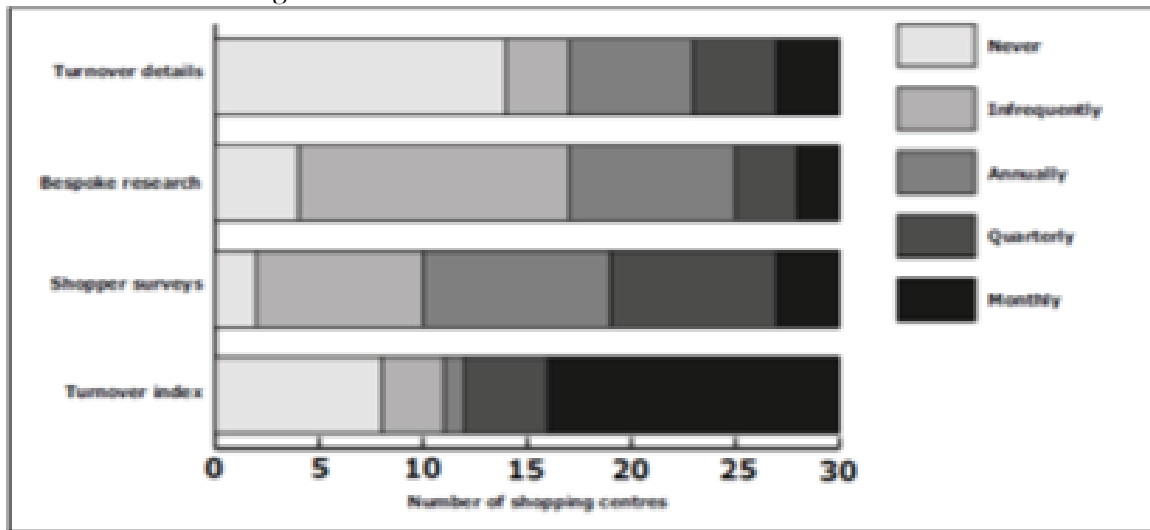
4.4 Monitoring tenant mix effectiveness

The tenant mix is crucial to the success of a shopping centre and it follows that the monitoring of the effectiveness of this aspect is crucial. Monitoring of the tenant mix falls within the responsibility of the asset manager of the shopping centre (Downie et al., 2002:9, Greenspan, 1987:27, Cloete 2002:238).

Greenspan (1987:30) recommends that the monitoring of tenant mix takes place as and when letting activity happens, and the time to act with regards to monitoring of tenant performance should start approximately one year before the evaluation of the retention of a tenant within the current tenant mix of the centre.

The respondents were requested to indicate (a) which of the following four methods, namely (i) evaluating the turnover details of the tenant, (ii) conducting retail research surveys, (iii) conducting shopper surveys and (iv) accessing turnover index data, were used monthly, quarterly, annually, infrequently or never in determining the effectiveness of tenant mix and (b) whether the tenant mix policy was reviewed annually, at irregular intervals, quarterly or with each letting activity.

Figure 3: UK data: Methods used to monitor the effectiveness of the tenant-mix



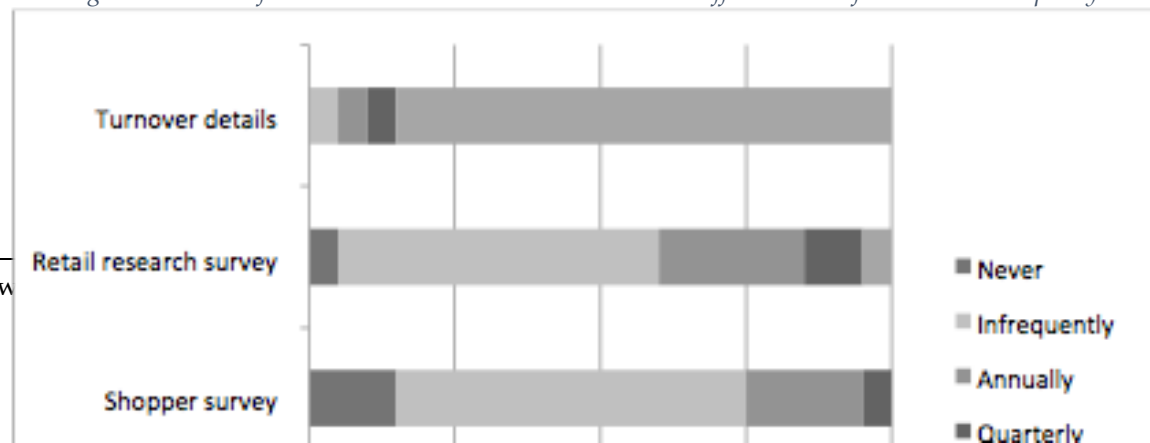
policy.

Source: Downie et al. (2002:16)

Marked differences in the monitoring of tenant mix policy and methods were found to occur between the two studies.

The respondents in the South Africa study placed a high premium on gathering turnover data: 85% of the respondents indicated that they gathered turnover data monthly (figure 5) whereas less than 50 per cent of the UK respondents used turnover details to monitor effectiveness of tenant mix - this was actually the least favoured method used (figure 4). This could be indicative of the low prevalence of turnover rental leases in the UK, in conjunction with the fact that retailers deem turnover data to be sensitive and therefore are reluctant to disclose the information. (Downie et al. 2002:15-16) The disclosure of turnover in South Africa is an indication of the success of tenants and the amount of traffic that they generate to the store and the shopping centre, in accordance with the literature, (Downie et al. 2002:16, Kirkup & Rafiq 1994:31, Greenspan 1987:21)

Figure 4: South African data: Methods used to monitor the effectiveness of the tenant-mix policy.



Source: Survey results.

Shopper surveys is the second most used method used in the UK, whereas the South African study shows shopper surveys to be the least used method of monitoring tenant-mix effectiveness. This is possibly an indicator of cost sensitivity on the part of South African managers or that South African managers do not have the necessary skill to conduct or evaluate the results of a shopper survey study.

The above-mentioned confirms the finding in both surveys that the review of tenant-mix policy comes from other stimuli such as letting activity or tenant failure, or is reactive to events such as extensions and refurbishment of a shopping centre.

4.5 Implementing tenant mix policy

The UK study identified ten methods of implementing tenant-mix policies: (i) extending the shopping centre, (ii) giving concession in rentals, (iii) concluding leases of ten years or more, (iv) surrendering the leased premises without paying a premium for cancellation, (v) inserting landlord break clauses for termination of the lease, (vi) moving tenants to alternative locations, (vii) buying out tenants from their lease agreements so as to allow a change in the mix, (viii) amalgamating units to create store sizes that suit new tenant requirements, (ix) inserting clauses that limit the usage of the store and (x) inserting alienation clauses to restrict transfer of rights.

The most popular method used to implement tenant mix policy in South Africa is the least popular in the UK. This could indicate the process of development and expansion of South African shopping centers in contrast with the UK.

The most popular method used in the UK is restrictions on the alienation clause, which scored close to "often" (a score of three). It is suggested in the literature that this method should always be used. The South African study found that it was utilised less frequently (a score of two to three).

The usage clause determines the range and type of goods a tenant can sell, and is fundamental to identifying the tenant placement in the tenant mix. Restrictions placed on the usage of the premises were seen as the second most often used method to influence tenant mix in both the UK and South African studies.

The least popular method to implement tenant mix in the South Africa study was to buy tenants out of their lease agreements. In the follow-up interviews in the UK study the interviewed respondents indicated that this was the most proactive way of changing the tenant-mix policy, namely to buy out tenants and thereby allowing new entrants into the shopping centre and it also allowed the manager to change unit sizes to accommodate the retailer's unit size needs.

4.6 Tenant mix obsolescence

The final two questions of the study were focused on the obsolescence of the current tenant mix: whether the tenant mix of the shopping centre had kept up with modern retail trends and what factors hindered updating the tenant mix policy if it had not kept up with modern retail trends. The shopping centers had been split into larger and smaller centers to determine if there was any significant difference of opinion between the two centre sizes regarding the two questions. To evaluate the extent that the shopping centers had been able to keep up with modern retail trends, the respondents were asked to choose between the following descriptions, "poorly", "partially", "fairly", "well" and "completely".

The respondents were also requested to identify which of the following factors hindered the updating of the tenant mix and if they were critical, important, minor or not applicable: lack of proactive management, lack of investment, lack of retailer demand, long lease, lack of vacant units and inappropriate unit sizes. The two surveys follow the same pattern, with the majority of managers of larger shopping centers feeling that their centers kept up to date with modern retail trends well, and the smaller shopping centers managers only partially kept up to date with modern retail trends.

The results of the factors that hinder the updating of tenant mix in both surveys were similar, indicating that similar concerns are prevalent in the UK and South Africa. Lack of vacant units and inappropriate unit sizes were seen to be the "most important to critical" factor in the UK and South Africa, with inappropriate box sizes in the UK survey and the lack of vacant units in the South African survey being the most important factors respectively. Larger centers regard the hindrance of a long lease to updating tenant mix as being more important than do the smaller centers in both the studies. This

indicates that larger space users are more prevalent in larger centers and request longer leases so as to have an opportunity to recover their initial capex cost.

Both surveys scored “lack of proactive management” and “lack of investment” as being either a minor hindrance or not applicable to updating the tenant mix in shopping centers. This finding indicates that proactive management prevails among the shopping centre managers in the UK as well as in South Africa and that if investment opportunities required the updating of tenant mix, managers were allocated the necessary investment funds to update the tenant mix.

5. Summary, conclusions and further research

5.1. Introduction

The present study has established that while the management techniques employed by managers of shopping centers in the UK and South African were similar and also conformed to extant literature on the subject, techniques used for some of the objectives were the complete opposite of each other in a few cases. These findings could possibly be ascribed to the differences in the countries’ economic, cultural and legislative environments.

5.2 Summary

5.2.1 First objective: To determine what is required to maintain an effective tenant mix in shopping centers.

The respondents in both studies regarded maintaining effective anchors as being the most important consideration for shopping centers and for positioning the shopping centre image in the minds of shoppers. The anchor tenant was also instrumental in positioning the shopping centre in relation to its competitors, and attracting complementary tenants and shopper traffic to the shopping centre.

Customers’ unmet demand for retail stores in shopping centers were rated highly by South African managers, while UK managers viewed unmet demand by customers as less than important. The explanation in the UK study was that demand was driven by specialist retail operators who were aware of their store requirements and that the UK managers were guided by these requirements.

The means used to implement tenant-mix policy showed the following similarities between the two studies: managers inserted usage clauses in lease agreements to control the allowed usage, and also inserted alienation clause restrictions in lease agreements, allowing control of the tenant mix. The following differences were found: in South Africa the extension of a shopping centre to maintain an effective tenant mix was used often and buying out tenants was seldom used. In the UK extending the centre was the least most popular method used and the method of buying out tenants was sometimes used too often. The differences highlighted the level of maturity of the two countries’ shopping centre environments: rather than waiting for a vacancy to place a tenant in a UK shopping centre, buying tenants out of their lease was a consideration.

The two studies showed similar responses in respect of factors that hindered the updating of tenant mix in shopping centers. Managers in both studies considered the ability of shopping centre managers to access vacant units and unit sizes that fitted the requirements of retailers to be “critical to important “. This would give managers the ability to meet retailers’ demand for vacant units and appropriate unit sizes, and therefore also meet the requirements of shoppers for the placement of retailers to meet the shoppers’ unmet demand in the shopping centre.

5.2.2 Second objective: To determine the factors that influences the location of tenants in a shopping centre.

The management of pedestrian flow was seen by both studies as the most important factor that influenced the location of a tenant in a shopping centre and the literature confirms this finding. Consistent with the consideration of an effective tenant mix the UK managers regarded factors that related to retailer demand as important to critical. Factors such as good access to catering and separation of incompatible retailers within the shopping centre environment were viewed as being important; again, highlighting the influence of retailers’ requirements and choices of specific location. In contrast, the South Africa managers regarded the building of malls for different shopper profiles and the grouping of comparison retailers as being important considerations.

5.2.3 Third objective: To determine to what extent tenant-mix policies are documented by property asset managers.

The tenant-mix policy in both the studies tended to be informal for smaller centers and more formal for larger centers. The formal approach adopted by larger centers indicated the importance of a more formal tenant-mix policy within a larger centre environment which, due to the larger scale and number of tenants, would guide and direct the execution of policy.

The frequency of tenant-mix policy reviews followed the same pattern as the status of the policy. Shopping centers that had a more formal tenant mix policy being reviewed at fixed intervals (either quarterly or annually) and shopping centers with an informal policy reviewed their policies on a more ad hoc basis. The even split of shopping centers along the median of square meters could influence this result, as smaller shopping centers were typically found to have a more informal status regarding tenant mix and therefore a more informal policy.

Larger shopping centers with their more formal tenant mix policy guidelines and with more reviews at set periods indicated that they were more responsive to modern retail trends. A consequence of an informal policy that was only reviewed on an ad hoc basis was a tenant mix that only partially or fairly reflected the changes in modern trends.

5.2.4 Fourth objective: To determine the main methods used to monitor tenant-mix policies.

The respondents were questioned on the frequency with which methods were used to monitor tenant mix.

The monitoring of turnover showed the highest frequency of use in both studies. In the South African study, the monitoring of tenants' retail figures was done on a monthly basis. Owing to restrictions on the disclosure of turnover figures, managers in the UK utilised the turnover index as a monitoring tool of the tenant mix policy.

The respondents in both studies found utilising shopper surveys and retail research surveys prohibitive from a cost and skills analysis requirement point of view.

5.3 Conclusion

This study established that, generally, the same techniques were used by respondents in South Africa as had been found in the UK, and that a similar level of importance and frequency of use were attached to each technique. The monitoring of turnover by evaluating monthly turnover figures or accessing a turnover index on a monthly or yearly basis was found to be the most important tool to monitor, and thereby manage, the tenant mix.

The anchor tenant was seen as the most crucial element of the tenant mix of a shopping centre, because it attracts complementary large- and small-space user stores to the shopping centre. It plays a large role in determining the image of the shopping centre in the mind of the shopper. Determining the requirements of an effective tenant-mix policy in the UK was guided by retail store specialists, who guided shopping centre managers in the placement of stores, merchandising of the tenant mix and the clustering of comparative stores. Managers in South Africa utilised expansion of shopping centres and sourcing tenants to meet shopper demand as a more frequently used method to maintain an effective tenant mix, indicating a more shopper-centric approach to tenant mix.

In both studies the lack of vacant units and inappropriate unit sizes for retailer requirements were seen as the biggest hindrances to updating the tenant mix. Ironically, failure of a tenant (which could be seen as a failure of the effectiveness of the tenant mix) allowed the opportunity for a shopping centre manager to update the tenant mix.

Attracting shoppers to shopping centres and managing pedestrian flow between stores was seen as the most important factor in locating tenants within a shopping centre in both studies. The specialist store retailers in the UK had a greater influence on the location of tenants than was the case in South Africa shopping centres. This conforms to the influence that specialist retail stores have on the effectiveness of tenant mix in the UK. In contrast, managers in South African centres regarded the building of shopping centres as reflecting the surrounding demographics of the area and the clustering of compatible retailers as being more important than adhering to retailer demand.

A more formal tenant-mix policy that is reviewed at fixed intervals resulted in a tenant mix that better reflected modern retail trends. In both studies it was found that the larger shopping centres had

more formal tenant-mix policies in place than the smaller shopping centres, with the respondents of larger shopping centres being more comfortable that their shopping-centred tenant mix reflected modern retail trends.

The respondents in both the surveys acknowledged the importance of turnover monitoring by frequently monitoring either monthly turnover amounts (in the case of South African centres) or, if due to restrictions on gaining access to turnovers, the use of turnover indexes (in the case of the UK centres). Alternative methods of monitoring effectiveness of tenant mix through conducting of shopper surveys and through retail research were deemed to be restrictive from a cost and skills perspective in both studies.

In conclusion, it was found that respondents in both the surveys managed tenant mix in accordance with the findings in the literature.

5.4 Further research

The management of tenant mix is of critical importance to the success or failure of shopping centers. During the research, questions and statements that were pertinent to tenant mix were raised that did not form part of the study and further research is recommended in answering the following questions and statements:

- i. Who is responsible for determining the tenant mix policy of a shopping centre?
- ii. How can centers update their tenant mix without relying on vacancies to occur?
- iii. The development of a template for a formal tenant mix policy.

In view of the expansion of South African shopping centre ownership in Africa, Eastern and Southern Europe, it will also be interesting to ascertain whether the same similarities and differences as had been found in UK and South Africa also prevail in other countries with different cultures.

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Strategies of global recession for small business enterprises in emerging markets: Case of South Africa

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Key words

Strategies of Global Recession SMEs; Reducing costs strategies; increasing growth strategies

Abstract.

The aim of this chapter was to examine strategies of global recession for SMEs in emerging markets such as South Africa. A recession is considered as one of the most crucial environmental threats to SMEs' viability, profitability and survival. Sensitive SMEs may close down, and many decrease their production capacity due to insufficient consumer demand which is a cause of global recession. Secondary examination of references indicates that it seems that South African SMEs in times of recession uses reducing costs and increasing growth strategies to survive global recessions. Luckily, SMEs have flexible managerial structures and therefore can adapt their strategies in times of recessions to survive.

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Introduction

A recession is considered as one of the most crucial environmental threats to small business enterprises' (SMEs) viability, profitability and sustainability (Pearce and Byars, 2012). Recession is a phenomenon of decreasing demand for raw materials, products and services. SMEs are also influenced in different ways by economic crises. Sensitive SMEs may close down, and many decrease their production capacity due to insufficient consumer demand. Ntsika (2012) observes that input prices of raw material increase which mean higher input costs which consequently increases prices of products. Pearce and Byars (2012) explain that specifically in a recession SMEs need to reduce operational costs and improve efficiency to be competitive. The recent global economic crisis did not economical influenced only large companies, but because of their size also SMEs (Nieman, Hough and Niewenhuizen, 2012 and Alstete, 2014). The economic recession affects SMEs marketing strategies decisions as well as consumers' perceptions and behaviours. The marketing function of SMEs plays a vital role to assist them to survive as SMEs need to stay profitable and consumer responsive even more so in recessions. Therefore, the global recession creates challenges which contribute to the failure of SMEs also in South Africa. It seems that SMEs have little flexibility to cope with decreasing demand, scarcer financing and delayed payments. The research examines strategies of global recession for SMEs in emerging markets such as South Africa. The research will assist SME managers to formulate strategies to fight the global recession.

Research methodology

Secondary sources were used to gather information and to construct a literature review for this chapter because secondary data is the cheapest and easiest means of gathering information. The main sources of secondary sources were journals, articles, press reports, books, and research studies.

Literature review

Defining Small Business Enterprises in Emerging Markets: Case of South Africa

It is difficult to formulate a universal definition of a small business enterprise because the economies of countries differ, and people adopt particular standards for particular purposes. Secondary research [Bowler, Dawood & Page (2014) Phakisa (2013)] indicated that there are no universally accepted

small business definitions. What is regarded in the US as a small business by definition would often be regarded as a medium sized business elsewhere in the world. Small business definitions differ vastly in smaller countries like New Zealand and South Africa to their bigger counterparts in the US and the EU. In South Africa Phakisa (2013) defines an enterprise with less than 100 employees as a SME. Small business undertakings create about 80 percent of all new job opportunities and according to Bowler, Dawood & Page (2014) more than 70 percent of all South Africans are employed in the small business sector. The small business sector is an essential factor in promoting and achieving economic growth and development and the widespread creation of wealth and employment. Nager, Swanepoel and van der Merwe, (2008: 37) indicated that small business development should be an essential component of all reconstruction and development initiatives and this has the potential to economically empower the majority of the country's people. However, secondary resources revealed that 40 percent of new business ventures fail in their first year, 60 percent in their second year, and 90 percent in their first 10 years of existence (Pearce & Byars, 2012).

Overview of SMEs

It is universally recognised that SMEs play an important role in helping to diversify a country's economic base by providing it with opportunities to respond to varying local market conditions (Bennet, 2009; Browser, 2013 and Boyd and Larreche, 2014). In today's age SMEs adoption of Internet technologies is vital for their on-going survival in an increasingly competitive marketplace locally and globally. Porter (2009) explains that the motive for this is that the Internet offers direct links with trading customers and suppliers by facilitating information transfer which brings with it certain efficiencies. Hallberg (2014) regards SMEs as an important economic performance accelerator of a country because they make up most of the businesses and employment. They have huge potential for innovation which is a value added to the economic wellbeing of a country. SMEs are highly focussed at high product quality, responsiveness to consumer needs and flexibility. To stay competitive with large scale enterprises. SMEs around the world contribute significantly to job creation and the national economy. 90 percent of the number of businesses in the United States is run by families. These family businesses employ half of the USAs workforce (2008) which produced half of the United States gross national product. It is also worth to mention that in this nation 78 percent of all new jobs are employed by family businesses (McCann et al, 2008).

The European SMEs' impact on the European economy as various recent studies has demonstrated that SMEs on average account for 50% for the Gross Domestic Product (GDP) in these high-income countries. In the OECD (Organisation for Economic Co-operation and Development) countries 75 percent of the formal workforce is employed by SMEs. In the EU-27 in 2008 on average 57.9 percent of the SMEs added to the GDP and accounted for over 67 percent of the employment. Between 2002 and 2008 SMEs grew employment by an average of 1, 9 percent per year in contrast with the large-scale enterprises which grew only with 0.8 percent per year.

A Global view of SMEs

SMEs are defined differently across the world. Definitions are usually based per country on the number of employees in the SME, the number of sales or gross profit or the total of assets the SME holds. According to a report by Dalberg (2011) in Egypt a SME is defined as having more than 5 and less than 50 employees. Compared to another developing country for example Vietnam where they consider a SME to have between 10 and 300 employees. Delving onto the developed countries the Inter-American Development bank defines SMEs as having a maximum of 100 employees and fewer than \$3 million in revenue per year. Comparing this to the European definition of SMEs to have less than 250 employees and in the United States is set at less than 500 employees per SME (Natarajan & Wyrick, 2011).

Here below follows a table presenting SME definitions by multilateral institutions.

Institution	Maximum # of Employees	Max. Revenues or Turnover (US \$)	Maximum Assets (US \$)
World Bank	300	15 000 000	15 000 000
MIF - IADB	100	3 000 000	(none)
African Development	50	(none)	(none)

Bank			
Asian Bank	Development	No official definition. Uses only individual national governmental definitions.	
UNDP		200	(none) (none)

Table 1: SME definitions used by multilateral institutions in the world

Source: Natarajan & Wyrick, 2011

As shown in table 1 there is substantial variance in how these institutions define the characteristics of SMEs in the world. For example, take the World Bank Group. It includes businesses three times larger by employees and five times larger by turnover or assets than the largest SME under the Multilateral Investment Fund (MIF) as can be seen in the table here above. When taking into consideration that the developing members countries of the World bank average gross national income per capita (PC-GNI) is significantly smaller in value than the average PC-GNI for the countries of Latin America and the Caribbean served by the MIF. No explanations exist for the differences in defining SMEs articulated by these institutions (Tom, 2008). Within the same context, we should consider the official definitions of SMEs in a group of economically and geographically diverse set of countries. Table 2 below shows the group listed by each country's rank in the PC-CNI and the second table next to it ranked to the maximum employment of an SME as stated by their national government.

Country ranked by PC-GNI	Max. # Employees	Country ranked by SME Size	Max. # Employees
Norway	100	Vietnam	300
Switzerland	250	Belarus	250
Australia	200	Moldova	250
Brazil	100	Switzerland	250
Belarus	250	Australia	200
Thailand	200	Morocco	200
Peru	200	Peru	200
Moldova	250	Thailand	200
Morocco	200	Bangladesh	100
Egypt	50	Brazil	100
Nicaragua	100	Ghana	100
Pakistan	50	Nicaragua	100
Vietnam	300	Norway	100
Bangladesh	100	Egypt	50
Ghana	100	Malawi	50
Tanzania	20	Pakistan	50
Malawi	50	Tanzania	20

Table 2: Official National Definitions of SMEs ranked by PC-CNI and their maximum number of employees

Source: Natarajan & Wyrick, 2011

Considering the table above, it is peculiar that the largest SME is three times the size of an SME in Norway, whereby logically one would expect a wealthier economy would have larger size businesses relative to other businesses in the country. In particular looking at PC-GNI, a SME in Egypt is half the size in employees in comparison to Ghana, although Egypt's PC-GNI is roughly three times larger than Ghana's (Tom et al. 2008). A recent study Oxford Economics (2013) has shown that SMEs across the BRICS countries are acting on international scale, competing with ever larger rivals. They are investing into technology to improve operations and become more agile. Overall the findings are showing a strong transformation that is changing the global markets for companies of all sizes and bringing the newest innovations to the forefront.

The SMEs in the BRICS countries in the study strongly agree that global competition has substantially increased in the last two years. SMEs are increasingly focused on penetrating new geographical markets. At least two thirds of the SMEs are now competing against larger companies than in the past. (Oxford Economics, 2013). Emerging markets are considered as Brazil, Chile, China, Colombia, Czech Republic, Hungary, India, Mexico, Russia, and South Africa. South Africa is part of

the BRICS countries, but how are SMEs seen in the South African context? In the next section the SME will be shown in South African context.

SMEs in the South African context

SMEs are defined in different ways, with reference to the number of employees or to turnover bands (as in the National Small Business Act 1996, which also allows for variations according to industry sector). In South Africa, a 'small business' is official defined in Section 1 of the National Small Business Act of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act) as a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy (National Small Business Act of 1996).

The NSB Act also categories small businesses in SA into distinct groups, namely; survivalist, micro, very small, small and medium, hence the use of the term "SMME" for small, medium and micro-enterprises. However, the terms 'SMME' and 'SME' are used interchangeably in SA. The SME definition uses the number of employees (the most common mode of definition) per enterprise size category combined with the annual turnover categories, the gross assets excluding fixed property. The National Small Business Act (Act 102 of 1996) provides definitions for various SMME categories as identified in Table 3.

Enterprise Size	Number of employees	Annual turnover	Gross assets, excluding fixed property
Medium	Fewer than 100 to 200, depending on industry	Less than R4 million to R50 million, depending upon industry	Less than R2 million to R18 million, depending on industry
Small	Fewer than 50	Less than R2 million to R25 million, depending on industry	Less than R2 million to R4,5 million, depending on industry
Very small	Fewer than 10 to 20, depending on industry	Less than R200 000 to R500 000, depending on Industry	Less than R150 000 to R500 000, depending on industry
Micro	Fewer than 5	Less than R150 000	Less than R100 000

Table 3: Definitions of SMEs given in the National Small Business Act.

Source: Dockel, J. A. and Ligthelm, A. A. (2012) *Factors that contribute to small business survival*. Article submitted for publication. Pretoria: Unisa

The most widely used framework in South Africa is the definition of the National Small Business Act, which defines five categories of business as follows:

Survivalist enterprise: The income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers. (In practice, survivalist enterprises are often categorised as part of the micro-enterprise sector.)

Micro enterprise: The turnover is less than the VAT registration limit (that is, R150 000 per year). These enterprises usually lack formality in terms of registration. They include, for example, *spaza* shops, minibus taxis and household industries. They employ no more than five people.

Very small enterprise: These are enterprises employing fewer than 10 paid employees, except mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees. These enterprises operate in the formal market and have access to technology.

Small enterprise: The upper limit is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.

Medium enterprise: The maximum number of employees is 100, or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterised by the decentralisation of power to an additional management layer.

The promotion and development of SMEs in South Africa is currently the focus of much attention in a wide variety of fields because it is regarded as a major key to economic development and wealth creation, thereby contributing towards social prosperity and upward mobility. The demand for an entrepreneurial - driven economy in South Africa is increasing particularly because of the employment creation benefits it offers. The SME sector is globally regarded as the driving force in economic growth and job creation (Lunsche and Barron, 2010).

Impact of global recession on SMEs

The impact of recession on SMEs can be viewed from vulnerability and resilience views as Driver, Wood, Segal and Herrington, (2011) point out. SMEs are vulnerable because of external factors in their business environment such as changes technology, politics, and government legislation on which the SME has no control over (Goldstuck, 2012). The resilience view stresses that SMEs are flexible because of their size and their ability to take quick managerial decisions. SMEs can quickly adjust resources and processes to survive in difficult economic times such as global recessions. The global recession is creating threats to small businesses, but luckily their flexibility and small size are assisting them to survive. However, it has compelled SMEs to rethink their business strategies. I study done by Hin, Kadir and Bohari (2014) indicate that SMEs after a global recession use a combination of corporate strategies which include the following integration strategy, product development, as well as stability and defensive strategy.

Marketing Strategies for South African SMEs

Research shows that the failure rate among small businesses is high, although in most cases many such failures could have been avoided if SMEs give attention to developing appropriate marketing strategies. Downie (2012) states that an often reiterated "fact-that eight out of every ten start-ups in South Africa fail. Poor marketing strategies have been cited by various researchers as one of the reasons for SME failure. According to Mabaso (2008) and Brink, Can't & Ligthelm (2003:1) the failure rate of small, medium and micro enterprises SME's is estimated to be between 70 and 80 per cent. Brink, et al. (2003:1) goes further to state that often the ideas are good and the people behind them are capable, but that they have no idea about how to run a business and develop marketing strategies. The concept of marketing strategy refers to the unique and differentiable positioning of the enterprise's towards its customer's needs. In order for this to be the case the firm would have to clearly understand the environment within which it operates, know the client and competitor's strengths and weaknesses well, and tactically align its own resources and capabilities to meet client's needs profitably. This approach to strategy is symptomatic of the views expressed by Redsicker (2014), where they track the origins of marketing strategy back to warfare. In the words of General Karl von Clausewitz, also referred to by Redsicker (2014) as one of the world's greatest marketing strategist', the celebrated German army General says that:

'War belongs to the province of business competition, which is also a conflict of human interests and activities.

Clausewitz was first to assert that war (and marketing) is based on two immutable characteristics: strategy and tactics. This articulation of marketing goes beyond the traditional definition of marketing as provided by Hussaina, Si and Wang (2013). 'Marketing strategy is a process of identifying customer needs, conceptualising those needs in terms of an organisation's capacity to produce, communicating that conceptualisation to the appropriate laws of power in the organisation, conceptualising the consequent output in terms of the customer needs earlier identified, and communicating that conceptualisation to the customer.'

The fault line with the above stated definition of marketing in Redsicker (2014) opinion is that it assumes that the organisation with the best marketing research capability will win the marketing war. This marketing philosophy is based on a singular notion of customer focus. An obsession of which becomes problematic particularly when every company becomes customer-oriented and seeks to serve the same customer needs. In this scenario (scenario where every company seeks to serve the same customer needs) the race for marketing becomes a defeatist one-prize-race, where there can only be one winner. The 'winner' is often the biggest (in terms of size and resources) in the 'race' or industry, has traditional or historic claims to the crown, and barring any major deviations shall forever remain in pole-position. According to McCue (2009) marketing strategy is a method of focusing an organization's energies and resources on a course of action which can lead to increased sales and dominance of a targeted market niche. A marketing strategy combines product development, promotion, distribution, pricing, relationship management and other elements; identifies the firm's marketing goals, and explains how they will be achieved, ideally within a stated timeframe. Marketing strategy determines the choice of target market segments, positioning, marketing mix, and allocation of resources. It is most effective when it is an integral component of overall firm strategy, defining how the organization will successfully engage customers, prospects, and competitors in the market arena.

According to different researchers such as van Scheers and Radipere (2007:1) and Parson (2010) it is evident that small business owners lack certain managerial skills such as financial management and marketing and human managerial skills to operate their businesses successfully. The research of van Scheers and Radipere (2007:1) confirm that SME owners are in need of support services and that they are constrained by financial as well as non-financial factors such as lack of education, inadequate technical skills, poor access to markets, lack of information and reliable infrastructure. The research established that the lack of managerial skills has negative impact on the success and viability of small businesses. According to McCue (2009) marketing strategy is a method of focusing an organization's energies and resources on a course of action which can lead to increased sales and dominance of a targeted market niche and increase the viability of the SME. A marketing strategy combines product development, promotion, distribution, pricing, relationship management and other elements; identifies the firm's marketing goals, and explains how they will be achieved, ideally within a stated timeframe. Marketing strategy determines the choice of target market segments, positioning, marketing mix, and allocation of resources. It is most effective when it is an integral component of overall firm strategy, defining how the organization will successfully engage customers, prospects, and competitors in the market arena.

As the customer constitutes the source of a company's revenue, marketing strategy is closely linked with sales. A key component of marketing strategy is often to keep marketing in line with a company's overarching mission statement (McCue, 2009). According to Taiwo (2010) to achieve a set organizational goals and objectives, companies conceptualized, design, and implement various strategies. These strategies can be corporate, business, or functional. Marketing strategies constitute one of the functional strategies amenable to application by contemporary companies in order to enhance performance. Nerurkar (2014) explains that a marketing strategy has been a salient focus of academic inquiry since the 1980s. There are numerous definitions of marketing strategy in the literature and such definitions reflect different perspectives. However, the consensus is that marketing strategy provides the avenue for utilizing the resources of an organization in order to achieve its set goals and objectives. Generally, marketing strategy deals with the adapting of marketing mix elements to environmental forces. It evolves from the interplay of the marketing mix elements and the environmental factors.

According to Naude and Havenga (2014) the aim of the development of an organization's marketing strategy development is to establish, build, defend and maintain its competitive advantage. Mutula and Van Brakel (2010) observe that the benefit of having a good marketing strategy for SMEs is important. The first advantage it gives in an entity is to make it known to the consumer if a product is available. The SME owners can never stop to promote and market their product or service to the consumer and that one advantage of marketing strategies is to increase sales and revenue. When the consumer knows about the product if it was marketed correctly, customers will be motivated to buy it.

Creating a Marketing Strategy

Marketing strategy planning means to find attractive opportunities and develop profitable marketing strategies. A marketing strategy specifies a target market and a related marketing mix. A marketing mix has four major points: The four P's, Product, Place, Promotion, and Price shown in Figure 1



Figure 1: Marketing Mix

As indicated in figure 1, the customer is placed in the centre of the four Ps because the customer should be the focal point of all marketing efforts and really all business efforts. Without potential

customers--and eventually satisfied customers--there is not much point in any company effort. Almost any product, for example ball point pens or sports shirts, might be used to illustrate the way that products can and should be designed with the customer in mind, made conveniently available, promoted to these potential customers, and priced attractively or competitively--again with the customer in mind. The interrelatedness of the decisions (as shaped by the needs and attitudes of the various potential customers) illustrates the innovative approach to marketing strategy. Kotler (2012) take the dimensions of marketing strategy innovation further as they look at the new marketing concepts for times of economic recessions, as tabled below.

<u>Conventional marketing strategy</u>	<u>The new Marketing strategy</u>
Organize by product units	Organize by customer segments
Focus on profitable transactions	Focus on customer lifetime value
Judge performance primarily by financial results	Look at marketing metrics as well as financial ones
Focus on satisfying shareholders	Focus on satisfying several stakeholder groups
The marketing department does the marketing	Everyone in the company does marketing
Build brands primarily through advertising	Build brands through company behaviour
Emphasize customer acquisition	Emphasize customer retention
Measure customer satisfaction	Measure customer value and loyalty
Over-promise to get the order	Under-promise to over deliver
Make the firm the unit of analysis	Make the value chain the unit of analysis

Table 4: Dimensions of Innovation

Source: Kotler, P. (2012). 'Kellogg on Marketing'

Table 1 shows the new approach to creating a marketing strategy. An important point mentioned is that everyone in the company should do marketing.

Market share defence in times of recessions

The impact of globalisation and Internet technology has made it difficult and increasingly complex to predict where the next competitor will surface especially in times of recessions. The speed by which new players can enter a market is also increasing day by day, making it ever so difficult to speak of a static market share. These changes have made the traditional concept of market share hollow. The type of marketing strategy explored earlier revolves around notions of business concept innovation, the customer's total economic equation, and a militarist approach to competitive strategy. This view redefines the notion of markets in its suggestion that a set number of players must converge at a single summit of a single mountain. Marketing strategies, in time of recession, thrives on creating new summits, redefining 'the market' as something bigger than just a place for product/service competition but rather an individual economic customer. Marketing strategy formulation is a powerful process that gives an organization a competitive advantage in the marketplace. While just defining a marketing, strategy will not automatically create a competitive advantage, it will allow the organization to concentrate its (always limited) resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage. The word *strategy* comes from the Greek word *strategos* meaning *general*. Strategy is what generals use to win battles. Thus, properly understood, marketing strategy is a high-level exercise involving the "generals" of the organization in determining how to build on the firm's strengths while (ethically) taking advantage of competitors' weaknesses? Marketing strategy is most effective when it is a vital component of corporate strategy, defining how the organization will engage customers, prospects and the competition in the market arena for consistent success. In implementing a marketing strategy various change situation may occur. The achievement of the objectives of successfully implementing a market strategy leads to organisational effectiveness in the short term but it can inhibit necessary change in the long term. SME owners should be responsive to change in a dynamic post-recession business environment. For example, Nikon when it was confronted with technological changes such as digital cameras it quickly created a new digital camera. SMEs just as Nikon need to be adaptable and change it

marketing strategy whenever it is needed. Luckily, SMEs have flexible management structures which could change rapidly so that the SME can survive global recessions.

Competitive Strategies in times of recessions

Competitive strategies can be defined as the basis for much of modern business strategy and form an important strategy in times of global recession. Strategy for SMEs is to know where the SME is today, where the SME owner wants to take it, how the SME owner is going to get there. Competitive Strategy as per Porter, firstly look at the five competitive forces which determine the rules of competition (Porter, 2014) the entry of new competitors, 2) the threat of substitutes, 3) the bargaining power of buyers, 4) the bargaining power of suppliers, and 5) the rivalry among the existing competitors.

		Competitive Advantage	
		Lower Cost	Differentiation
Target Competitive Scope	Broad	Cost Leadership	Differentiation
	Narrow	Cost Focus	Differentiation Focus
Target			

Figure 2: Porter's Generic Strategies

Source: Adapted from Porter, M.E, 2014

Secondly (see Figure 2), Porter then argues that competitive strategy involves the leveraging of the company's strengths by either cost advantage or differentiation over competitors; as can be found in Porter's Generic Strategies (Porter, 2014). Cost leadership targets broad markets whereby you need to be producing at costs lower than the average market and Cost Focus just has a narrow segment strategy. Differentiation strategy calls for the product or service to have unique attributes that are valued by customers and perceived to be better than the rest of the market whilst Differentiation Focus just has a narrow market strategy approach. All of these strategies are employed in order to gain an advantage over competitors for increased market growth.

Gopal (2012) show, from their survey of small UK businesses during recession, that many exhibit resilience, flexibility, adaptability and absorptive capacity underpinned by personal sacrifices of the owners: "survival, almost regardless of personal cost, is instinctive". SMEs survival strategies in times of recessions can be grouped into two groups, namely: reducing costs and increasing growth. The reducing cost strategy includes downsizing the workforce, reducing products and reducing stock whereas growth strategies include offering new or improved products and competing on price as observed by Xia and Tang (2011); Mohamad and Ching (2008).

Conclusion

The aim of this chapter was to examine strategies of global recession for SMEs in emerging markets such as South Africa. It seems that South African SMEs in times of recession uses reducing costs and increasing growth strategies to survive global recessions. Luckily, SMEs have flexible managerial structures and therefore can adapt their strategies in times of recessions to survive. Future research can be based on exploring global strategies for SMEs in emerging markets such as South Africa in prosperous times.

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Survivability of Black Small-Scale Sugar-cane Growers in the Ugu District Municipality of KwaZulu-Natal, South Africa

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Abstract

This research sought to determine survivability of Black Small-Scale Sugar-cane Growers (BSSSGs), in the Ugu District Municipality of KwaZulu-Natal, South Africa, amid the severe decline in the sugar-cane industry. The qualitative research approach was employed. Fifteen in-depth, semi-structured interviews were conducted. Data were analysed using thematic analysis. The study revealed, among other things, that the majority of respondents were optimistic about the future of the industry, and as such, were planning to add to the existing hectares of sugar-cane planted. Notwithstanding evidence of the decline in profitability, which is advanced as one of the drivers of the industry decline, most BSSSGs stated profit as the motive for the planned increase in hectares. On the causes for the industry decline, only a handful of farmers linked this to international competitiveness, while others indicated transport costs as one of the drivers of the decline. Furthermore, the Reconstruction and Development Programme (RDP) Housing Scheme and the Land Restitution Programme were also mentioned by farmers as contributing significantly to loss of productive cane land to competing uses, for reasons discussed in detail in the study. Key lessons may be learned from this study to enhance survivability within the industry. The research findings are critical for addressing challenges that impede the survivability of BSSSGs in South Africa.

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Introduction

The sugar-cane industry within the Ugu District Municipality in KwaZulu-Natal, South Africa, has experienced a sharp downturn of recent times (Phatisa, 2010a; Phatisa, 2010b). In terms of agriculture, sugar-cane is an important output for the Ugu District (Davis, Zunckel & Kruger, 2012; Ugu District Municipality, 2012; Ugu District Municipality, n.d.). Ortmann (2005) observed declining employment in the agricultural sector, caused by substitution of labour by automation, labour contractors, and other labour-saving technologies. The sugar-cane industry of Ugu District Municipality was under siege by factors emanating mostly from the international arena, as well as, to some degree, the domestic. Black Small-Scale Sugar-cane Growers (BSSSGs), for a number of reasons, tend to be inherently more vulnerable than commercial farmers. The study therefore explored to what extent BSSSGs in the Ugu District Municipality are surviving in an industry which is under siege from international competition, and which has recorded an *en masse* exodus of large-scale commercial farmers (Phatisa, 2010a; Phatisa, 2010b).

Tables 1, 2 and 3, highlight total cane delivery, area under cane production and area harvested respectively within Ugu District Municipality.

Table 1: Total tons of Cane Supply Deliveries in Ugu District Municipality during seasons 2006/7 and 2015/16

Scale of Grower	Season 2006/2007	Season 2015/16	Output Decline in tons	% Decline
Large-scale growers	2,376,595	1,680,107	616,488	29%
Small-scale growers	252,428	135,788	116,640	46%

Source: South African Cane Growers' Association: Statistical Data 2006/7-2015/16

Table 2: Total area under cane in hectares in Ugu District Municipality during seasons 2006/7 and 2015/16

Scale of Grower	Season 2006/2007	Season 2015/16	Output Decline in tons	% Decline
Large-scale growers	52,288	48,233	4,055	8%
Small-scale growers	8,840	4,412	4,428	50%

Source: South African Cane Growers' Association: Statistical Data 2006/7-2015/16

Table 3: Total area harvested in Ugu District Municipality during seasons 2006/7 and 2015/16

Scale of Grower	Season 2006/2007	Season 2015/16	Output Decline in tons	% Decline
Large-scale growers	34,905	29,667	5,241	15%
Small-scale growers	5,809	3,025	2,784	48%

Source: South African Cane Growers' Association: Statistical Data 2006/7-2015/16

The above tables provide empirical evidence of the decline in cane production within the Ugu District Municipality. Of significance is that small-scale growers appear to be most vulnerable to this, with large-scale growers appearing to be less vulnerable. For example, across all three indices of cane supply, area under cane and total areas harvested, small-scale growers fared significantly worse at 46, 50 and 48 % respectively during the comparative analyses period. By comparison, large-scale growers experienced 29, 8 and 15% decline respectively during this period which, although still a major cause for concern, performed significantly better by comparison. Based on these statistics it is clear that small-scale growers, being the focus of this study, have been severely affected by the decline.

Overall, the significance of the decline lies in the fact that as a primary component of the sugar-cane industry value chain, its impact is likely to extend to other value chain components such as haulage/transportation, milling, pesticides, and insurance, accounting services, fertilizer, packaging and many other components of the value chain. As such, the impact of the decline in cane production reverberates through the economy with its more likely and immediate effects being pronounced in a drastic decline in employment. In the medium to long-term, other sectors of the local economy consequently experience the shrinkage. The Sugar Industry Assessment Study Reports highlighted the following alarming statistics about Ugu (Phatisa, 2010a; Phatisa, 2010b).

- By 2009/10, sugar-cane had lost 6.5% more hectares of land in the previous five years than other economic sectors.
- In the same period, both Umzimkhulu and Sezela Sugar Mills processed less than three million tons of cane feedstock.
- By contrast the combined capacity of both mills was 3.8 million tons of cane, indicating the dire extent of underproduction.
- The report projected that the combined tonnage would further drop to 2.6 million.
- Most alarming, the report stated that over 1 000 jobs were lost during the same period.
- The same study concluded by pointing out an urgent need to plant a further 200,000 tons of sugar-cane and set out various steps and supporting interventions that are critical to achieving this as a remedial intervention if drastic, adverse changes to the socio-economic prospects of the region are to be mitigated against.

In view of the foregoing, the main aim of the research was to explore factors that account for the survival of BSSSGs in Ugu District Municipality, in the face of the severe challenges that beset the district's sugar-cane industry. The objectives of the study were to ascertain BSSSGs' perceptions of the overall sugar-cane industry, to ascertain BSSSGs' perceptions of farm-specific/micro-economic attributes that make them susceptible to failure, to ascertain whether they employ deliberate strategies to mitigate

the causes and/or effects of the decline, and to ascertain BSSSGs' perceptions of land tenure and farm-size effects on their survivability.

Literature Review

It is widely acknowledged that the demands of globalization make it imperative for producers across the globe to stay competitive. Nowhere is this more evident than in the case of Ugu, where the overall economic performance has suffered the most adverse consequences of this phenomenon. This is most notable in the agricultural sector, which ranks among the worst casualties (UGDS, 2030 Vision, n.d.). It has been highlighted that "there is still significant development potential in the agricultural sector, even though its economic contribution to Ugu has declined over the past few years...." (COGTA, n.d., 5). Globalisation and allied pressures to stay internationally competitive are among the principle drivers behind the decline, with Ortmann (2005) confirming that both large-scale and small-scale farmers are exposed to the changes of the dynamic global trade environments caused by the liberalization of international trade markets.

Numerous other authors (Murphy, 2010; Young, Schafers & Bruwer, 2012; Aliber & Hart, 2009; Gerwel Proches & Bodhanya, 2015; Gerwel Proches & Bodhanya, 2013; Gerwel et al., 2011; SASA, n.d.; Dubb, 2013; James & Woodhouse, 2017) provided further insights into the onerous conditions facing the sector, based on pressures from various origins. Murphy (2010) commented on the paucity of skills with reference to farmers, together with other endemic challenges that inhibit this sector from flourishing. He added that the challenges that are besetting small-scale farmers include a lack of acceptable inputs, a lack of good-quality land, insufficient smart technologies, and a lack of capital markets. All of these challenges go to the heart of the input-output/production function, ultimately affecting competitiveness.

Further evidence of an absence of skills is evident in Maloa (2001), who referred to the practical steps that were undertaken to enhance the skills levels of Black growers within the South African context. In this case, the author outlined a number of steps which Black growers implemented to enhance their proficiency in productivity and therefore their growth prospects. Among such steps, the author listed "dedicated economic, resource utilization (productivity and costs minimization), database information systems, and organisational management advisory service by cane growers" (Maloa, 2001: 2). The agricultural sector is exposed to many challenges, some of which are fostered by international competition which appears to be the most severe, as well as changing weather patterns which cause a great deal of crop uncertainty, and sometimes poor yields.

Ortmann and King (2007) recommended cooperatives as a form of producer organisation for small-scale farmers within Impendle and Swayimane in KwaZulu-Natal, as an adaptive strategy for, *inter alia*, mitigating transaction costs, which the authors term, "horizontal coordination". Providing empirical evidence in support of horizontal coordination, Church et al. (2008) noted that small-scale farmers participating in the Dwangwa Cane Growers Limited and Kasinthula cooperatives benefited substantially from bulk-purchasing discounts arising out of horizontal coordination. This is an example of farmers pooling their purchasing power and therefore increasing their bargaining power as an adaptive strategy, wielding this to improve their position.

The prevalence of transaction costs as a prohibitive force, ostensibly necessitating individual and/or collective action by farmers, was also echoed by Ortmann and King (2010) as being among those obstacles facing small-scale growers. The authors proposed vertical integration as a mitigation measure in this case, and considered vertical integration as a strategy for enhancing access to markets.

It is clear that, under certain circumstances, economic organisation has the potential to enhance the survivability of farmers in general. However, in the case of Ugu District Municipality, two observations are relevant. Firstly, as far as sugar-cane production is concerned, Illovo Sugar is the only market, and the economies of scale required are too prohibitive to consider establishing an alternative market, which negates vertical coordination.

On the other hand, fragmented, individual cane growers, without some institutional arrangement that lobbies on their behalf, remain vulnerable as price-takers of an international commodity. For this reason, vertical and horizontal strategies are much more likely to help farmers leverage the power of numbers. Forming themselves into cooperatives may at least help them purchase raw materials, reduce transportation costs, and access accounting services so that they may obtain bulk-buying discounts.

While there is overwhelming support for an inverse relationship between farm size and productivity, based on empirical research findings (Assunção & Ghatak, 2003; Heltberg, 1998; Barrett, 1996), consensus remains elusive on its fundamental causes. Authors such as Barrett (1996) contend that it is not the farm size that is behind the inverse relationship, but rather market failure or miscalculation of some other yet-to-be-known underlying variable. Making a crucial observation in this regard, he noted that, if the inverse relationship were to be explained purely on farm size alone, it would provide a strong argument for the subdivision of farms handed over to land-redistribution recipients, owing to “inherently greater efficiencies” associated with smaller farms. For South Africa, this phenomenon would hold significant relevance, given the fact that the country is grappling with the problem of land redistribution amid discouraging results on productivity and other fronts.

It is clear that there is a plethora of challenges faced by contemporary farming. While some challenges arise from economic globalisation via the Structural Adjustment Program (Eakin, Tucker & Castellanos, 2006; Leichenko & O’Brien, 2002; Bryceson, 1999), others stem from a lack of access to capital and markets, extreme weather patterns with attendant effects on infrastructure, or severe droughts. Further challenges, particularly in the case of South Africa, include imports of capital goods and inputs which make the domestic farming sector susceptible to currency fluctuations. Over and above these adverse factors, the literature has exposed the paucity of technical and business acumen, especially among the emerging farming community, which is characterised by an across-the-board high rate of business failure, all of which points to endemic weakness in the farming sector.

Methodology

The qualitative research approach was employed. Data were collected using convenience and snowball sampling. Fifteen respondents from two areas in which sugar-cane is grown within the district, namely Qhubekani Farmers Association, and Minini-Mfume Farmers Association, were interviewed.

Data were collected using semi-structured interviews. Each respondent received an Informed Consent Form detailing the purpose of the study. Ethical clearance approval was obtained. Interviews were conducted in the vernacular of the respondents, lasting from 45 minutes to an hour, depending on the level of depth that flowed from the discussions. The interview protocol, which comprised 15 open-ended questions, was designed to elicit the challenges, views, mindsets and perceptions of the participants, in respect of the research topic and study objectives.

Thematic analysis was used to analyse the data from the interviews by identifying themes and patterns. Given that this was a qualitative study, careful attention was paid to ensure that the process of transcribing and analysing data was credible, trustworthy and dependable. Guiding principles outlined by Corley (2012) were followed.

Results

Table 4: Details of respondents

Respondent	Age	Hectares	Profitable	Gender	Farming experience in years	Highest standard in education	Estimated annual turnover	1 st , 2 nd , or other generation farmer	Other business interests unrelated to cane farming	Number of people employed
1	55	15 ha	No	Male	2 years	Std 10	R350,000	2 nd Generation	Yes	300 in the season Aug-Oct
2	45	5 ha	Yes	Female	4 years	Std 9	R600,000	1 st Generation	Yes	Farming conducted through contractor scheme
3	64	2 ha	Yes	Male	8 years	Std 2	R672,000	2 nd Generation	No	Farming conducted through contractor scheme
4	80	4 ha	Yes	Male	22 years	Std 10+	R26,000	1 st Generation	No	Farming conducted through

											contractor scheme
5	60	20 ha	Yes	Male	32 years	Std 8	R50,000	2 nd Generation	No	Farming conducted through contractor scheme	
6	62	3 ha	Yes	Male	1 year	Std 10	Not available	1 st Generation	Employed full-time elsewhere	Farming conducted through contractor scheme	
7	57	25 ha	Yes	Male	10 years	Std 10+	R40,000	2 nd Generation	Taxi and full-time employment elsewhere	Farming conducted through contractor scheme	
8	64	4 ha	Yes	Male	1 year	Std 2	Not available	1 st Generation	Taxi	As above	
9	53	35 ha	Yes	Male	31 years	Std 8	R300,000	1 st Generation	Taxi	13 employees	
10	64	4 ha	Yes	Male	24 years	Never attended School	R100,000	1 st Generation	Spaza shop and shebeen	None (because of season)	
11	71	12 ha	No	Male	20 years	Std 6	Don't know	1 st Generation	None	Farming conducted through contractor scheme	
12	44	5 ha	Yes	Male	12 years	Std 10	Don't know	2 nd Generation	Full-time employee elsewhere	As above	
13	71	3 ha	Yes	Male	11 years	Std 6	R8,000	1 st Generation	None	None at present, owing to season	
14	54	3 ha	Yes	Male	17 years	Std 8	R18,300	1 st Generation	Gum-tree felling, Pig farming	None at present, owing to season	
15	66	5 ha	Yes	Male	17 years	Std 10	R36,000	2 nd Generation	Vegetable farming	4 for vegetables; (7 to 8 for cane)	

Table 4 shows that BSSSGs in this sample were predominantly male. This could be as a result of the patriarchal nature of the research setting. The average age of the respondents was 60. This raises questions regarding the present- and medium-term future of farming. In addition, one farmer indicated during the interviews that physical exertion required by farming was very taxing on his body. Against this backdrop, in which comparatively low levels of mechanization were noted, this observation apropos of age becomes pertinent. On the other hand, age may have its own positives in the sense that these farmers are highly experienced in their work.

Over half of the respondents fell within the category of Standards 6-10. Other respondents had achieved an educational level above Standard 10, whereas some had only attended school to Standard 5. One respondent had never attended school. The comparatively low levels of education raise questions about the adaptability of respondents, especially regarding the sophisticated decision tools and agronomic practices that seem to be demanded in contemporary farming.

Just under half of the respondents were second-generation farmers. This is positive in the sense that, should this trend persist, it may mean that there is a likelihood of a family member taking over the family farm from current BSSSGs in the event of retirement or death. This may also mean that the sector is able to attract new farmers into its fold.

Table 4 shows the extent of employment created per respondent at one particular time. The first observation to make about employment trends are that they are seasonal, lasting only during the farming and harvesting season. The second, and most intriguing aspect, is that in just over half of the cases, no employment was recorded. The reason for this is that the farming is conducted through a third party contracting under the government-sponsored scheme. This has given rise to the phenomenon of "passive farming".

A further observation is that if one excludes income of the four top earners from the calculations, the average income per respondent falls drastically to R4,166 per month, with the majority of these respondents earning R50,000 or less per annum. A further aspect of concern revealed by these figures is

the number of cases in which non-availability of data was recorded, calling into question the farmers' ability to manage the microeconomic aspects of their businesses. Overall, the figure depicts an income distribution that indicates that BSSSGs could, in the main, be struggling financially.

Perception of the overall state of Ugu sugar-cane industry

A total of six respondents (40% of the sample) assessed the industry as being on the decline, as opposed to five (33% of the sample) who felt that the industry was stabilising. This difference in the given assessments of the industry is cause for great concern. It may also mean that there are no measures to deal with the stagnation/decline at farm level, for the farmers concerned. What was also interesting to note is that, apart from the remaining two respondents who assessed the industry as being "stable", two did not know, or were undecided. Overall, there is an urgent need for the BSSSGs to appreciate and become more aware of the gravity of the industry's predicament.

Intention to expand or decrease sugar-cane planting in the near future

An overwhelming number of BSSSGs (80%) indicated their plans to increase sugar-cane planting. Within the context of an overall industry that is ailing, this observation is encouraging, and at face value indicates a guaranteed participation of BSSSGs in the foreseeable future.

Factors that exacerbate the decline, leading to farms going bankrupt

An analysis of the responses revealed that there is a strong apportionment of blame among BSSSGs for the manner in which the government and the mill handled the Recapitalisation Programme. These respondents were the current recipients of the Recapitalisation Programme, where farming is done on their behalf by a third party who is paid by the government via the miller under the programme. Participants are only required to provide land and the rest is done under the contractor farming programme. This study showed that this might have attracted people who were not of the right calibre for farming, who possibly for all intents and purpose were neither farmers nor entrepreneurs. Further criticism was levelled at the government by respondents through its implementation of other programmes such as the Reconstruction and Development Programme (RDP) and the Land Restitution Programme. For example, 27% of the sample blamed the government and the mill for the Recapitalisation Plan and the Contract Farming Programme, with all of the BSSSGs alleging misappropriation of funds intended for this programme.

Similarly, 27% of the respondents blamed land restitution and competition from other farming sectors, which, according to the respondents, were responsible for the declining share of sugar-cane in land allocation. Surprisingly, these respondents limited this competition to the forestry sector and the government's RDP Programme, or simply cane land which they observed being turned into residential use, either through formal proclamation, or informally. Respondents excluded commodities such as macadamia nuts and tea-tree plantations.

The next group of responses to this question referred to cost competitiveness, import effects, and the fact that the industry structure favours everyone from the contractor to the cane hauler, transporter, and the mill, with genuine instances in which the farmer gains nothing from the harvest. This group of respondents accounted for 20% of the interviewees. Other notable responses to this question were a failure by BSSSGs to reinvest in their businesses, government dependency by BSSSGs (characterised by unfulfilled expectations in this regard), a lack of farming skills amongst BSSSGs, and high transport costs.

Implementation of microeconomic measures that mitigate the decline

An analysis of the responses to the above question revealed that two respondents claimed that they were not aware of the industry's deterioration. Upon further probing, this became a cause for concern when it appeared that one of the respondents was actively involved in and sits on various committees that deal with matters pertaining to the sugar-cane industry in the district. He argued that the discourse that he was exposed to in these committees indicated that the industry was on an upward trend.

The responses indicated a significant adoption of improved agronomic practices. It is also interesting to note that the mill was mentioned by at least one respondent as playing a pivotal role in the propagation of new seedlings, and as being responsible for research into improved cane cultivars with direct benefits to BSSSGs.

One respondent claimed that he did not implement any agronomic practices because there was nothing wrong with the industry, but that the problem lay with the mill and the government around the Recapitalisation Programme, which it claimed would take care of all problems. Yet, this respondent was responsible for the most employment created in one season, and his turnover figures placed him in the top-earning income bracket. This respondent may have perhaps implemented improved agronomic practices, and his responses could have merely been a reflection of his feelings towards the Recapitalisation Programme.

It may be argued that the farmers still retain the ultimate responsibility for any improvement in agronomic practices as business owners, irrespective of outside interventions, such as the Recapitalisation Programme. A significant number of respondents claimed to be implementing agronomic practices; their answers in this regard were backed with a certain degree of conviction. Some respondents displayed positive turnover figures and a propensity for income diversification, with three of the farmers having gone out and forged relationships with established commercial farmers, whom they credited with the improvements they subsequently achieved.

The last notable group of responses elicited under this question revealed a “passive” farming phenomenon. These respondents were recipients of the Recapitalisation Programme, in which farming is conducted on their behalf, under the programme, by a third party paid by the government, via the mill. This group constituted 40% of the sample and were a source of great concern given that, in the main, they are hardly distinguishable from landlords who offer land for commercial activity and in return take rent, without being hands-on in the actual business. One encouraging aspect of this is that one respondent appeared to be very knowledgeable on the agronomics of farming. She was actively attending training to improve her technical farming skills. It was also interesting that the mill, despite receiving much criticism, also received praise concerning the propagation of a new variety of seedlings, which were not only easier to plant, thereby cutting production costs substantially, but also had a shorter harvest cycle. Furthermore, respondents claimed that these varieties were resistant to numerous cane diseases.

Effects of Farm Size on Survivability

An analysis of the responses in this regard showed that 40% of respondents were neutral with respect to farm size as a factor in survivability. A further 47% of respondents felt advantaged by their small-size farm in one way or another. The remaining 13% of respondents felt disadvantaged by their small farm size. The latter group of respondents generally associated small farm size with lower profitability, while others in the same group indicated that it posed constraints in terms of expanding, which there was a definite appetite for among BSSSGs, evident in the question that dealt with industry outlook.

Discussion

The study aimed to explore factors that account for the survival of BSSSGs within the Ugu District Municipality in KwaZulu-Natal, South Africa. The research highlighted the significance of passive farming, the lack of technological uptake, and income diversification strategies.

The study revealed a significant amount of passive farming among BSSSGs at 40% prevalence, which, upon further investigation, was found to have been perhaps linked to the manner in which the Recapitalisation Programme had been implemented. These findings regarding passive farming simultaneously confirmed the scarcity of technical farming proficiency and business acumen, as asserted by Maloa (2001) and Murphy (2010). Furthermore, based on the fact that these farmers played no part in their farming operations, these BSSSGs were presumed to be lacking in key attributes that are deemed by several researchers to be drivers of success in business (Rauch & Frese, 2000; Shane, Locke & Collins, 2003; Baum & Locke, 2004; Sumner, 2011; Young et al., 2012).

The study also found that, among the BSSSGs, a small percentage were highly motivated, directly involved in their farming businesses, and, to some degree, displayed the traits needed for success in business as alluded to above, including a perception of themselves as entrepreneurs upon whose efforts and decisions the success of their operations depended. The attributes displayed by these respondents are consistent with the motivational and individual psychological traits put forward by Shane et al. (2003), and Baum and Locke (2004), amongst others. These respondents distinguished themselves with a comparatively high level of technical acumen in farming practices, had forged relationships with their

commercial farmer counterparts, and were responsible for significant employment creation and high turnover. This level of proficiency was more in line with the prediction of Maloa (2001) and Ortmann (2005); however, all the respondents lacked the degree of technological integration in their businesses that was envisaged by Van den Berg and Smith (2005).

Another finding was that the respondents fell short of the expectations implied by the assertions of authors such as Sumner (2011), Beckford et al. (2007), and Genis (2012), when it comes to the degree of integration of measures that these authors prescribed as critical for success. In addition, these BSSSGs had comparatively low capitalisation levels, which is an indication of farm operations that are relatively small and largely constrained in their level of absorption of technology and other contemporary facets of farming, as envisaged by Ortmann (2005) and Van den Berg and Smith (2005). Conversely, passive farming is consistent with the predictions of Olawale and Garwe (2010), and Urban and Naidoo (2012), who spoke about the general lack of skills in the SMME sector, which in turn causes a high rate of failure.

The findings on the low levels of turnover and profitability experienced by the BSSSGs appear to contradict the assertions of several authors such as Ortmann (2005), Van den Berg and Smith (2005), and Sumner (2011), which in turn raises serious doubts as to the BSSSGs' competitiveness. However, at an average of R49 992 per respondent per annum, the income that accrues to BSSSGs is substantially higher than the R5, 000 projected annual start-up incomes for the Recapitalisation Programme (Kaye, 2013). The picture changes slightly, and income drops, when calculations are based on the lower-income bracket of respondents, whose income fell between R0-150,000 at an average of R21 429 per respondent per annum.

The majority of BSSSGs appeared to be operating largely at a survivalist level, in which the scale of farming operations is negligible. Even those belonging to a high-income bracket had a lower level of mechanization than those envisaged for commercial farmers in terms of degree of mechanisation, labour force, transport facilities, and access to credit (Kaye, 2013). It is not surprising that the majority of respondents stated a lack of transport, or high transport costs, and the general problems of logistics for sugar-cane hauling and transporting to the mill, as among their major problems.

Passive farmers are often detached from their farms, which perhaps means that they cannot be regarded as farmers, in the strictest sense of the word. Viewed in light of existing literature, this situation poses serious challenges for the state of BSSSGs' survivability, and raises general concerns for the industry as a whole. Regarding these farmers, practices of critical importance to them and the industry, as espoused by authors such as Beckford et al. (2007) and Ortmann (2005), with regard to the embracing of relevant technology, were absent. The study further found that this group of farmers was particularly lacking an appreciation of the agronomic practices that drive success in the industry, which was termed the bedrock of a competitive industry, by Ortmann (2005). These findings are at odds with the farmer envisaged by Maloa (2001), who is not only adept at leveraging information systems as a business operation managerial tool, but is also highly proficient in both technical farming skills and business acumen. These findings are furthermore at odds with an entrepreneur, as envisaged by various authors such as Young et al. (2012) and Van den Berg and Smith (2005).

The findings regarding agronomic practices indicated that an overwhelming majority of respondents appeared to be following basic agronomic practices. As such, there appeared to be no concerns regarding fertilisation, application of pesticides, improved variety of seedlings, and many basic agronomic practices. However, one area that stood out as lacking was in terms of the farmers' uptake of decision-support tools. Evidence of this is that not a single respondent indicated that he/she was using a computer as a decision-support tool. In this context, it should be noted that Van den Berg and Smith's (2005) crop-modelling support-decision system requires some degree of computer literacy. This further contradicts Maloa (2001), who envisaged a farmer leveraging information systems as a tool to enhance business decision-making and overall farming proficiency. This represents a serious limitation in the BSSSGs' capacity to move a notch higher in, for example, employing the crop-growth modelling as envisaged by Van den Berg and Smith (2005). Another observation was that, although farming practices have evolved to such an extent that there is a certain degree of automation, practices remained at a marginal level amongst the BSSSGs. This is another area of possible improvement, the degree of mechanisation likely to be a factor in international competitiveness.

At 67% overall diversification propensity, the BSSSGs seemed to fare reasonably well in terms of diversification strategies. This supports the patterns observed by authors such as Reardon and Taylor (1996), Bryceson (1999), Barrett and Reardon (2000), Barrett et al. (2005), Eakin et al. (2006), Beckford et al. (2007), Wouterse and Taylor (2008), and Aliber and Hart (2009). Whilst the sugar-cane industry appears to provide substantial opportunities for diversification, a sizeable number of BSSSGs have diversified outside of the industry. Three respondents indicated that they had business interests in the taxi industry; one had a successful construction business; one was retailing in liquor and groceries; one was involved in other crops such as vegetables; and another was involved in tree-felling and piggeries. In total, this diversification accounted for 47 percent. The majority of these respondents also extended their diversification activities to contract farming. A further three were employed elsewhere to make up 67% income diversification. This income-diversification pattern occurred from the mid-income category to the top-earning bracket.

As such, while these findings support the prediction of most authors regarding diversification behaviour by small-scale farmers, they also differ from the variant of Beckford et al. (2007), which predicts farm fragmentation as an integral part of their diversification strategy to take advantage of spatial variations and environmental conditions. Also, noteworthy in the study, the majority of diversification happens outside of the farming enterprise, thus confirming the predictions of Reardon and Taylor (1996), Eakin et al. (2006), and Wouterse and Taylor (2008). Furthermore, this confirms Barrett and Reardon's (2000) previous findings, which noted that non-farm income sources constituted 45% of total income. Likewise, this somewhat supports Barrett et al. (2005), who noted that in North Central Kenya, the highlands of Rwanda, and Cote d'Ivoire, livelihood strategies associated with non-farming activities offer the most income.

Three of the respondents were employed full-time elsewhere; this kind of income diversification is not the most ideal. This statement is based on the reasoning that full-time employment places its own onerous demands on individuals that ordinarily would cause grave conflicts of interest, ultimately leading to one of the jobs being seriously compromised. However, in this particular instance, passive farming through third-party contract farming under the Recapitalisation Programme, makes this ordinarily untenable situation possible. As such, a high percentage of BSSSGs seemed reasonably diversified; diversity was spread across income opportunities to avoid being exclusively dependent on sugar-cane farming income. This is evidence that BSSSGs in the sample were able to hedge income variations from sugar-cane farming by relying on other sources. At the same time, this may raise other questions about those BSSSGs who hold a permanent job while participating in the industry.

Conclusion

The research indicated that successful BSSSGs have been creative in dealing with their problems, including forging strategic partnerships with commercial farmers. They stated that these linkages had greatly enhanced their farming operations. This group had also shown themselves to be generally aware of the decline of the industry, attributing it to globalisation and imports. The group was largely unhappy with the role of the government and the mill regarding the implementation of the Recapitalisation Programme, notwithstanding this, these respondents have confronted their challenges head on.

At the other extreme, there is a group of passive farmers, an unintended consequence of the Recapitalisation Programme, whereby participants are only required to provide land. The rest is conducted on their behalf under the contractor-farming programme. Entrepreneurship, and the key role it plays in business survival, was reiterated. There may be "spoon-feeding" and a climate in which it is possible for the misallocation of harvests, given that there is a group of farmers who are not sufficiently knowledgeable about, even detached from, their farming operations. Some farmers may not take full responsibility for any of the problems afflicting the industry, deflecting the blame on the government and the mill. It is important to note, however, that even the progressive farmers blame the government and the mill for their problems, particularly accusing the government of inculcating a culture of dependency, among other things.

Another highlight of the study was the high optimism levels regarding the industry, which was gleaned from the respondents' intentions to expand sugar-cane farming. Even more interesting in this regard is the fact that they cited a profit motive as their rationale.

Throughout the study, a deep sense of mistrust was directed at the government, the mill, and the contractors. It is thus recommended that future phases of the Recapitalisation Programme be implemented alongside genuine partnerships between the mill, the provincial government, and farmers, through the farmers' associations. Under the revised implementation model, these three organisations could establish a representation model which would formulate, plan, and agree upfront on specific targets and outcomes, together with the modus operandi, including a monitoring and evaluation framework. While the project is being implemented, these parties should meet regularly and share information and concerns, as guided by the predetermined and agreed targets. Issues such as the selection and role of contractors, their performance, and the overall financial information of the project, should be shared in this forum to prevent accusations of impropriety by any party, and to engender co-ownership of the project.

A structured programme which would enhance technical proficiency and business acumen should thus be integrated into future phases of the Recapitalisation Programme. To this end, participants should be placed within business-incubator models for intensive training in sugar-cane farming, and thereafter be sent back to their farms to apply the knowledge that they gained. Respondents should be assigned mentors who could ensure follow-up training, assess how these emerging farmers are coping with practical challenges, and evaluate the way in which the theoretical training assists these farmers to adapt to the practical demands. Information obtained through mentorship follow-up should then be fed back into the system to enhance areas of strength, whilst improving on weaknesses. To this end, the role of the contractor system must be transitional, and should not be used as a substitute for the farmers.

This study falls within a qualitative and non-positivist paradigm which is geared towards understanding a phenomenon in greater depth, with a view to eliciting context-specific knowledge and insights. Therefore, unlike a quantitative design, it did not aim to test hypotheses, nor to generalise results from the study. The study did not intend to test relationships between any variables. The study limitations therefore include a limited sample size, with only a very limited number of individuals in one stakeholder group. The study should therefore be interpreted with these limitations in mind.

Future research could target a larger sample to include key diverse stakeholder groups. Such a study could be of a mixed-methods nature. Another area of possible future research is a comparative study of the degree of institutionalisation of automation/mechanization, and the extent to which this correlates with industry success between local small-scale sugar-cane growers and their international counterparts. A related study could determine the differences in size of capitalisation of local farmers and their international counterparts.

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Relationships between the advertising appeal and behavioral intention: The mediating role of the attitude towards advertising appeal and moderating role of cultural norm

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Keywords

Advertising appeal, Behavioral intention, Attitude, Cultural norms, Theory of Planned Behavior, and Global Leadership and Organizational Behavior Effectiveness (GLOBE).

Abstract

Studies have identified the importance of the attitude in the association with advertising appeal. However, the factors involved in direct and indirect effects of attitude remain unaddressed in the advertising appeal literature. This article aims to provide insight of the theoretical framework that addresses cultural norms based on Global Leadership and Organizational Behavior Effectiveness (GLOBE) cultural dimensions as the moderating factor in explaining the association between the advertising appeal and behavioral intention. In addition, this paper explores the possibility of the mediating role of the attitude in the association between advertising appeal and intention which may be studied further to determine the empirical finding based on the Theory of Planned Behavior.

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1. Introduction

Studies have indicated that not only attitude predict the behavioral intention, in fact, recent studies based on planned behavioral intention framework have outlined many antecedents of behavioral intention (Kenney and Khanfar, 2009). Therefore, scholar such as Walden (2012) has called more studies to identify the underlying attitude process variables linking advertising appeal and behavioral outcomes in advertising. To date, the direct and indirect effect of attitude on behavioral intention remains lacking in term of empirical evidence in advertising studies. In fact, previous studies assume that attitude is directly link to advertising appeal and the behavioral intention specifically in the attitude towards advertising brand or product (Zarantonello and Schmitt, 2010). The recent direction in advertising appeal studies suggests that attitude might be the underlying mechanisms that link advertising appeal and behavioral intention. However, it remains lack of the systematic inquiry in explaining the mediation of the attitude to predict the behavioral intention and its association with the advertising appeals (Zarantonello and Schmitt, 2010).

Ajzen (1991) Theory of Planned Behavior (TPB) has been criticized in several meta-analyses (see Armitage and Conner, 2001, Glasman and Albarracín, 2006, Sniehotta, Pesseau, and Araújo-Soares, 2014) as attitude explaining only 27% to 39% of the variance in predicting behavioral intentions. Mullan, Wong, and Kothe, (2013) assert that the other key antecedents of behavioral intentions need to be accounted for further investigation to clarify the part of the attitude. Many studies assume that advertising appeal due to its persuasion characteristic can be one of the antecedents in predicting intention (Ajzen, 2014, Crano and Prislín, 2008, Sniehotta, 2009). However, previous studies remain unclear in explaining attitude as the underlying mechanisms within the framework of the (TPB). Thus, this current study contributes to

an enhanced understanding of the mediating relationship of the attitude with the behavioral intention and the advertising appeal.

Furthermore, substantial body of literature addresses the factors that influence the behavioral intention based on the theory of the planned behavior (TPB) model (for review, see Mäntymäki, Merikivi, Verhagen, Feldberg, and Rajala 2014) only a few studies (e.g., Aaron, Jayne and Fam, 2013) have investigated how cultural norms influence effects of the advertising appeal on the behavioral intention. It is a notable development in a line of research that conceptualizes behavioral intention as a global phenomenon and closely examines the behavioral intention process and outcomes. Despite its emphasis on the dynamic of behavioral intention and the context of behavior promising findings in initial investigations, the TPB model remains largely detached from a consideration of the impact of cultural relational norms. We argue that incorporating the effects of cultural relational norms constitutes a significant advance in the model of TPB.

To address this research lacuna, this article explores the interaction effects of cultural norms and advertising appeal on behavioral intention. Broadly speaking, the theory of planned behavior suggests that the formulation of the intention-behavior due to the individual contextual factors (Aizen and Klobas, 2013). From this short description alone, we can see that the “contextual” approach to the behavioral intention requires a rethinking of the cultural variations. As stated by Ajzen (2011), it is not only the social pressure characteristics that determine behavior and attitude - behavior intention is also a function of individual cultural norms and value within the social context of that individual environment.

Therefore, this study contributes to enhance the understanding of the scope of the advertising appeal effects on the behavioral intention in line with the phenomena of the effects of cultural values (Zhou, Poon and Wang, 2015) within the cultural dimension's framework of the Global Leadership and Organizational Behavior Effectiveness (GLOBE) (House, Quigley and de Luque, 2010). To date, the connection of advertising appeal with the behavioral intention based on cultural variation by utilizing the cultural dimension's outline presented in the (GLOBE) which remains limited in marketing and communication literature (Terlutter et al., 2006, Teagarden, 2005). GLOBE cultural dimensions provide a more comprehensive framework to tap the cultural values compared to the Hofstede, Schwartz, Smith, and Inglehart frameworks.

2. Review of literature

Theory of Planned Behavior: The basic approach of the theory of planned behavior (TPB) shows the factors involved in the development of the certain intention (Ajzen, 2011). Though, it also indicates that how certain factors contribute to the processing of the individuals involved in the formulation of the intention to take a decision about the adoption of the behavior (Aizen and Klobas, 2013). According to the TPB, the intention to take the decision is determined due to the involvement of the certain deliberation which is consequent of the antecedents of the theory (Ajzen, 1991, 2011). However, each antecedent has its own impact on the intention formulation as its predictor. Chen and Tung (2014) noted that these antecedents of the (TPB) theory possibly get affected by many stimulus elements and need to be re-conceptualized. Therefore, studies such as Walden (2012) suggested working on said postulations to address this detachment of (TPB) with some factors like the advertising. Previous studies on (TPB) identified that some of the antecedents such as subjective norm and behavioral control remain weaker predictors of the intention (Sniehotta, 2009). Therefore, the inconsistency in predicting intention remains an issue in the literature based on the several reasons. For example, one of the studies identified that the notion of the subjective norm in the (TPB) is only limited to address the family influences. Therefore, it needs a more intensive explanation to improve the predictivity of the intention outcome. Similarly, Ajzen (2012) pointed toward the value of the element of the accurate information its effect on the individual's judgment about taking the decision about the intention. They also explain that how accurate information and previous knowledge can, in fact, affect attitude which is an important antecedent of the (TPB). Moreover, previous studies also indicate the disassociation of the stimuli factors such as information seeking and advertising with the behavioral intention. However, Ajzen, Joyce, Sheikh, and Cote (2011) indicated that predictors of the theory work positively in case if the information related to the values that individual holds. Subsequently, it enhances the scope of the cultural explanation of the (TPB) in the

context of the advertising appeal which also serves as the stimuli for the measures of the theory (Tsongkuangand Dong, 2009), but remains disassociate with such explanation.

Global Leadership and Organizational Behavior Effectiveness (GLOBE): House, Javidan, Hanges and Dorfman (2002) explained that behavioral practices of individuals of any culture can be examined by measuring individuals' responses on the cultural dimensions presented in GLOBE project. Additionally, these dimensions facilitate to improve different modes of learning about the cultural expectations in the response to any external phenomena involved to pursue the individuals of the said culture (House et al., 2002). However, the notion of norms is considered as the expectation related to the culture that one how to behave in a specific situation. Many researchers utilized this approach to measure the responses of the individuals to understand the diversity of any culture in terms of explaining the cultural variability (Minkov and Blagoev, 2012). Therefore, GLOBE dimensions are highly useful in different disciplines and its utilization in the sphere of advertising to explain cultural influences on the effects of advertising on the intention remains a minimal issue in the previous literature.

Further, the GLOBE dimensions of culture unlike previous cultural frameworks such as Hofstede and Schwartz have fewer validation issues. Hence, House et al. (2010) stated that GLOBE framework may be used to better interpret the cultural aspects to measure cultural influences on individuals' actions on the individual and societal level at a time. Diehl, Mueller, and Terlutter (2014) also noted that notion of the cultural variation can be helpful to understand the cultural context in the discipline of the advertising. For example, it may help to explain that how individual thinks to adopt a certain behavior in the response to an advertisement. Therefore, the GLOBE dimensions can also be supportive to explain the role of the advertising about the cultural preferences of the individual towards the behavioral intent (Engelen and Brettel, 2011). However, some previous studies considered GLOBE dimensions to measure the influence of the culture on the advertising effects and utilized some of its dimensions but remain minimal explanatory because of the limited consideration of dimensions in term of measuring the relation (Terlutter et al., 2006). Consequently, the deliberation of all nine dimensions presented in the GLOBE framework can explicit the diverse relation of the influence of the cultural norms and in defining the advertising link to the individual's culturally preferences towards the magnification of the intention.

The relationship between Advertising Appeal and Attitude: "Advertising appeal is the defined as the features of the advertising managed and arranged in the advertisements to grab the attention of the potential purchasers" (Schmidt and Eisend, 2015p.231). Advertising appeal is also considered as the key objective of the advertising as it tempted to give appeal to the targeted audience. The advertisers use several modes of the advertising ranging from the television advertising to the billboards and appropriate appeals are designed to it. Additionally, this is also one of the vital aims of any advertiser to use the appropriate advertising appeal in the advertisements. As Wang, Shih and Peracchio (2013) also noted that the use of appropriate appeals probably increases the chances to attain the basic objectives of the advertising. Whereas, attitude is considered as an expression of the goodwill or the disapproval of the thing, idea or the person. Attitude is also described as the position of the individual based on its internal evaluation in respect of the tendency or the orientation towards the person, character or the object and depends on the experiences and motivation (Sallam and Wahid, 2012). Furthermore, attitude differs based on the motivation asked towards the specific stimulus in the form of an idea, person or product so that the attitude formulation is highly dependent on the position of the asked phenomena. Dianoux, Linhart, and Vnouckova (2014) explained that advertising motivates the individual to adopt positive attitude through manipulating the thought process of an individual.

Furthermore, the advertising is the input for constructing, generating and supporting the ideas. Therefore, advertisements may participate a key position in convincing, enlightening and deliberate both probable and existing consumers towards changing their attitude which consequences positive intention (Bisht, 2013, Luna-Nevarez and Torres, 2015). Therefore, advertising appeal takes part in the significant and visible change in the attitude by shaping imaginings and ambitions which help individuals to take conscious behavioral decisions.

Therefore, based on the above-review of literature, it is expected that attitude and advertising appeal have a direct dynamic connection. This further defines the relationship between advertising and behavioral intention. This issue remains some uncertain phenomena in the body of literature. Therefore,

there is a probability that in the case of the positive attitude-advertising appeal connection, a positive intention may be formulated. At the same time, there is the probability that in the case of negative connection, the results may be reversed. Thus, we propose the following proposition:

Proposition 1: There is a direct positive relation between Advertising appeal and attitude.

The relationship between Attitude and Behavioral Intention: The Behavioral intention is known as “the individuals' apparent chance of the likeness or subjective prospect to adopt or engage in the certain behavior” (Ajzen, 2011 p.13). Besides, it is also an assumption of the TPB model that attitude is the direct predictor of the behavioral intention. As Kidwell (2007) explained it as the one's readiness and willingness to complete the certain action. Additionally, behavioral intention is a well-established predictor of one's behavior, but on the other hand, its formulation depends on one's attitude as deliberated in the (TPB). As Zemore and Ajzen (2014) stated that the attitude is one of the significant predictors of the intention.

In the existing literature on the process formulation of the behavioral intention, attitude is considered significant among all the involved antecedents in the dimension to the effect and explaining behavioral intention (Ajzen, 2011, Alam and Sayuti, 2011, Glasman and Albarraçin, 2006). Many studies in the previous literature indicate that attitude is a powerful predictor of the behavioral intention. Hence, it has a significant relationship with the process of the developing behavioral intention of the individual towards any phenomena (Amaro and Duarte, 2015).

Additionally, there is enough literature is available which suggested some other factors like low involvement and high involvement also directly affects the attitude in the direction of the behavioral intention (Chun, Song, Hollenbeck and Lee, 2014, Sallam and Wahid, 2012). Chun et al. (2014) consequently in their study found that individuals demonstrate more inclined and have a positive attitude towards contextually appropriate advertising which enhances the involvement of the individual towards the behavioral intention. However, attitude gets direct influence from the certain advertised aspects which help to determine the behavioral intention but needs systematic explanation. Therefore, the current study is a focus to explain this mediating effect of the attitude on the behavioral intention. Therefore, to explain the said phenomena we propose that:

Proposition 2: There is a positive relation between attitude and behavioral intention

The relationship between Advertising Appeal and Behavioral Intention: It is suggested that advertising appeal has more effectiveness and its exposure is considered as the foremost instrument frequently used in the marketing to persuade the individuals. For instance, repetition of the advertising appeal is effective in the marketing strategy to enhance the chances to get the behavioral change. As suggested by Bisht (2013) that the intentional related changes may be routed through the effect of advertising initially on the attitude. There are many other studies such as Dianoux, Linhart, and Vnouckova (2014) which tempted to address the effectivity of the advertising appeal and its connection with the behavioral intention. However, previous studies also found involvement of many significant factors in giving strength to their direct connection (Alam and Sayuti, 2011, Bamoriya and Singh, 2011).

Cochoy (2015) explicit that advertising serves as a tendency to act in response to a positive or adverse mode to precise advertising motivation through its exposure. Furthermore, he found that advertising enhances the aspiration of the individuals which lead them to the reshaping of their behavioral intent by influencing their attitude at the same time. Therefore, the attitude of the individuals towards the advertising has a strong relationship which further engages noteworthy role in the modification the behavioral intent (Myers, Royneand Deitz, 2011).

Whereas, individual's behavioral intention has a direct link to the advertising appeal as it has specifically designed contents and considered as the deliberate effort to reshape the behavior of the people (Dao et al., 2014, Tsung-kuang and Dong, 2009, Fullerton et al., 2013). However, this is also a fact that advertising success is also measured the change in the behavior of the individuals as it is amongst the vital objective of the advertising appeal (George, 2004). Hence, there are many previous studies accessible which indicate the significance of this relationship, but, remain less explained in terms of addressing this relationship by using TPB framework. Therefore, we propose following a proposition:

Proposition 3: There is a positive relation between the advertising appeal and behavioral intention.

The Mediating Effects of Attitude: Fullerton et al. (2013) conducted a study and explored that there is inconsistency in the results of the previous studies in defining the relationship of the attitude and behavior. This provides strength to the idea of mediation of attitude as intention may have an indirect connection with the advertising appeal. For example, advertising appeal may improve the attitude which leads towards the definite behavioral intention (Upadhyay, 2014, Wang and Sun, 2010). Myers et al. (2011) also indicated that the primary objective of the advertising is to manipulate the behavior which may be routed through the attitude. Furthermore, this link is highly appraised and depended on the content of the advertising as well. Therefore, Upadhyay (2014) suggested for conducting more effort to give a better explanation of the relationship between the behavioral intent and advertising appeal as their link is highly dependent on the factor of attitude formation.

On the other hand, advertising may consequence a positive behavior towards the ideas, products, or services by affecting the intention of the individual (Cochoy, 2015, Raza, Bakar, & Mohamad, 2017). Therefore, the advertiser uses such advertising appeal that may affect the intention of the individuals through changing attitudes. For example, nowadays advertisers are using more innovative and sophisticated ways such as using folk music in the advertisements to pursue the attitude of the individuals which may affect their behavioral intentions (Carlson, 2015). Many studies (for review see Myers et al., 2011, Wang and Sun, 2010) conducted in the past found a significant level of the manipulation of new innovative ideas through the advertising. Hence, these studies also indicated some mediating factors and suggested to do more research to explicit this phenomenon. Thus, the use of innovative contexts in future studies may suggest interesting findings by considering the attitudes underlying mechanism. Based on the above gap in the literature, we propose that:

Proposition 4: The relation between the advertising appeal and behavioral intention is mediated by attitude.

Moderation of Cultural Norms in the Relationship between Behavioral Intentions and Advertising Appeal: There is a growing number of the literature which points towards the cross-cultural perspective to determine the effect of the cultural differences in the formulation of the behavioral intention. However, researchers found it as a significant factor which influences the behavioral intention (Muk and Chung, 2014, See, 2013). Muk and Chung (2014) described that there is an affirmative relation to the influence of the culture on the intention in its link with the advertising as they found consistency variation of 0.81 to 0.95. However, these findings clearly indicate that more work in this discipline because the nature of the culture is the aspect which can determine the variation of the culture. Therefore, the influence of the culture on the intention can be clearly explicit by considering the factor of variation by applying appropriate cultural dimension model which also determines the dynamics of cultural norms in detail in respect of their influence on the individual's culturally preferences towards the intention (de Mooij and Hofstede, 2010).

Despite, that the cultural norms affect the intention by influencing it on the motivational level of the individual it would be interesting to find that how it determines the ad-intention link (Lee and Sean, 2015). Additionally, it is also suggested in the literature that there is enough evidence that the advertising appeal stimulates the desired intention towards the idea or thing (Fullerton et al., 2013, Hsiao and Chang, 2013, Lee, Hamand Kim, 2013). Consequently, it shows that this relationship is complex in nature and need more insight view by consideration of the dynamics of cultural varies to determine the significance of this influence on the link between advertising appeal and behavioral intention (Mueller, Diehl and Terlutter, 2015, de Mooij and Hofstede, 2010).

Therefore, the current study is proposing a model based on the GLOBE dimensions which may contribute to give a cultural insight of the dynamic link between advertising and intention. It also may improve the prediction of the intention through TPB notion of the subjective norm as we proposed to re-conceptualize it with GLOBE dimensions. The cultural context of the individuals that they utilize to evaluate the advertising is not fully cleared as the previous models used the ecological approach instead of onion one (Diehl et al., 2014, House et al., 2010). Even though, Fullerton et al. (2013) found that the advertising stimulates the individuals to motivate them towards the desired behavioral intention. However, how intention in the result of the advertising appeal can be predicted based on the cultural

preferences of the individuals is still an unaddressed query in the literature. For that reason, we propose the following proposition and conceptual model to tap the influence of the cultural norms in the relationship of the advertising appeal and behavioral:

Proposition 5: The relation between Advertising appeal and Behavioral Intention are strongest when the individual's predisposition is positive towards the Advertising appeal due to its similarity to the cultural norms.

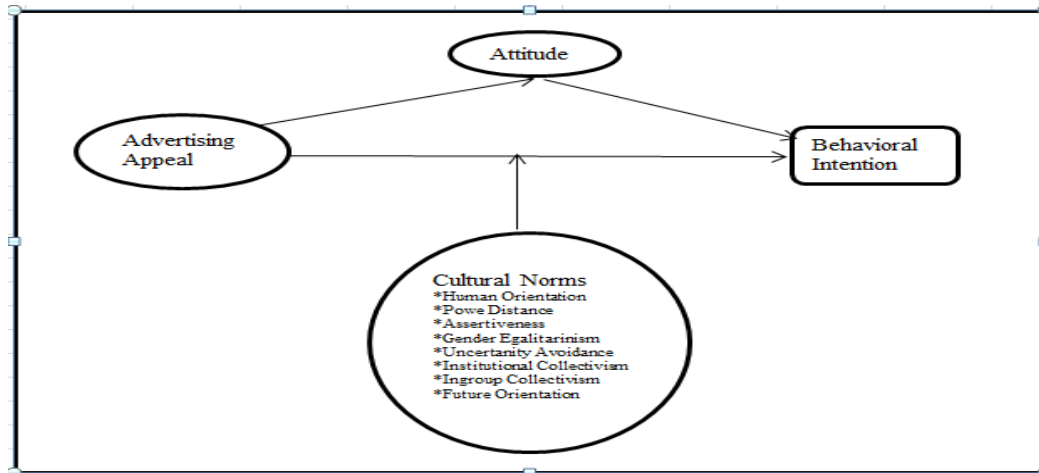


Figure 1: Proposed Conceptual Model.

3. Limitations and future directions

The paper is a theoretical contribution, but still, some limitations are expected. The vital limitation of this paper is the only temp to explain the advertising appeal-behavioral intention relation by identifying some possible moderated and mediating variables such as the attitude. Prior studies remain inconsistent in explaining some elements like dependency of individuals for the purpose of the information seeking on the advertising and modern usage or involvement of digital age on advertising. These factors may be explained in future research to fully understand some more antecedents which possibly affect the behavioral intention. Bamoriya and Singh (2011) suggested doing future research on these aforesaid areas; it would be interesting to study these elements and their effects on the mediating role of the attitude.

Secondly, there are few limitations of the current study, there is need to have cultural explanation of the relationship between the advertising appeal as it is mentioned in the literature (e.g Minkov and Blagoev, 2012, Terlutter et al., 2006) that the cultural dimensions proposed in the GLOBE project enhance the scope of the determining the cultural aspects of the advertising effects on the individuals. Diehl et al., (2014) suggests that these dimensions are useful to understand the process of the individual's perception towards the adoption of the certain intention so it is quite interesting to determine the cultural influence in the dynamic link of the advertising with the intention, but it is not the predictor of the actual behavior of the (TPB). At the same time, the cultural explanation of the (TPB) in this context has a limitation of this study just limited to identifying the cultural influence on intention but remains unclear about the behavior actions.

Lastly, as this paper is only a theoretical exploration, not the empirical one. It is probable that this conceptual model may improve the understanding about moderation of the norms and the mediating role of the attitude to address the relation of the advertising appeal and intention. The proposed model may be empirically examined in different contexts and culture to determine the cultural explanation of the (TPB). This is in line with the Mäntymäki et al., (2014) suggestion to further explain the (TPB)'s antecedents and their positioning which is not completely investigated specifically, about the explanation of the mediating roles of (TPB) antecedents.

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Country of origin as a moderator of halal label and purchase behavior

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Keywords

Halal label, country of origin, purchase behavior, frozen food, imports

Abstract

The research aimed to examine the influence of the halal label, and the role of country of origin as an independent variable and moderator variable on the purchase behavior of the imported frozen foods. The research was conducted in North Sumatera, and the measurement of respondent numbers was based on the sampling fraction from sub-districts in Medan. Data collected from 110 respondents with definite criteria. Analysis of the data was applied the moderate regression analysis. The results of the research found that the halal label had a positive and significant effect on the purchase behavior. Furthermore, the country of origin also had an effect on purchase behavior. The role of country of origin as a moderator variable had a positive and significant impact on the halal label and purchase behavior of the imported frozen food. The negative value of country of origin could reduce the impact of a halal labeling on purchase behavior of the imported frozen food. The country of origin as a "quasi"-moderator meant it could use it as an independent variable or moderator variable. The authors recommend that institutions issued the Halal certificate collaborate with LPPOM-MUI. This case intended to anticipate the suspicions of Muslim communities in Indonesia

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Introduction

Islam is a religion that gives a mercy, and peace. It is not surprising that the number of people who follow it is growing across the world. Besides Asia and Africa, Islam has developed in the Americas and Europe. The CIA World Factbook states that Muslims number almost 22,74% of the world's population, and it is projected to increase by 20 percent in the next 20 years. Moreover, The Pew Forum on Religion and Public Life (2011) reported that in 2010, the Muslim population would reach 2.2 billion in 2030, up from 1.6 billion in that year. A study of Tajamul Islam conducted in 2013 reported that East Asia dominated the geographical distribution with amount 63 % of adherents, which was followed by the Middle East and North Africa (20%) and sub-Saharan Africa (15 %), while the area of Europe had 2.7 % and America 0.3 %.

Moreover, Indonesia becomes the fourth position of great population in the world, which the substantive of its societies are Muslim's adherents. According to the report of CIA's World Factbook, Muslim population reached 87.2 % of the whole of Indonesian citizens. The report showed that Indonesia had the largest potential halal market in the world. The rapid growth of the Muslim population has impacted the local and global corporations to increase the variety of halal products, for instance, food and beverages, medicine, education services, entertainment, hotels, and tourism. In addition, in line with their religion command, Muslim's awareness of the importance of halal products that they are safe to consume them and related to health and goodness. Islam leads the followers' behavior to know how the adherents think, feel, and act. Consequently, they have to search, process to evaluate, acquire and consume the complying products in the terms of Islam. They consume them and avoid the unlawful products (Wilson, 2010; Shahrudin, 2010).

Furthermore, one of the various halal food which distributed is frozen food. The Halal frozen foods are not considered only from the food container but also from the food processing allows being contaminated by things unlawful or non-halal. Therefore, to ensure the product is halal, it needs to be confirmed by the halal guarantee test, from the source of materials until the end of the product. The institution which is responsible for auditing namely LPPOM -MUI. The products already have the halal statutes from MUI and will obtain the halal certificate, which means they are guaranteed as halal. Besides that, they are identified as halal on the packages. They must have halal labels derived from their particular countries. The countries can be a priority if they already cooperate with LPPOM-MUI. This case aims not to generate unrest among Muslims regarding whether the frozen food is halal.

Literature review

Halal Label

The majority of Muslims have more attention for the halal foods. The research conducted by (Bonne, 2008) highlighted that religious values have an effect on consumer intentions of consuming meat and its derivative products. Muslims consumers fear to consume the derivative products of meat that use packaging derived from non-halal materials. The study by Marzuki (2012) described about how important it was that non-halal elements did not contaminate raw materials. The study suggested the need to assure products were halal assurance by determining supply chain materials. Just in case, to prove the products are guaranteed halal, they must have the halal certification. Besides being meaningful to consumers, halal certifications also provide benefits for the manufacturer, such as making it easier to gain market share.

According to the Minister of Trade Regulation Number. 31, the year 2011, food label is food description in the form of a picture, writing, or combination of both, as well as other shapes inserted or affixed to the packaging. The halal label is a permissible statement on food packages to show the status of a product. In Indonesia, some institutions have the authority to issue the logo. The Institute has the authority to certify the halal products. LPPOM-MUI technically oversees the halal certifications issued by the Indonesian Ulama Council (MUI).

Meanwhile, halal labeling is managed by the National Agency of Control for Food and Drugs. Halal Labelling was implemented before the existence of official halal certification. It is now regulated by the Minister of Health and the Minister of Religion Affairs, 427/Menkes/SKBMII/1985 and Number 68/1985 about the inclusion of the Halal Food Label. The imported frozen foods require the existence of the halal certificate of foods derived from animals and of derivatives such as goat and duck meat, sausages and nuggets, as well as milk and its derivative products such as cheese, skim milk, whey, and powder (halalmui.org).

Country of Origin

The research of Ozretic (2007) cited in Rezvani (2012) mentioned that the country of origin is the source of product evaluation for consumers. Some cases are caused by an acceleration of globalization, a rapid flow of information, and also the diversity of products in an emerging market complex. Country of origin as an arena of corporate competition occurs in the contexts of global market expansion. Besides that, the country of origin provides an experience to acquire products from various countries. Along with this explanation, Lee (2009) added that the country of origin is the first signal for consumers due to the limited information and knowledge of the product.

Hence, consumers evaluate and search for information about the products derived from a particular country, using the label "made in" as evaluation criteria (Ha, 2012). Consumers assess countries such as America, Japan, and Germany as producing high-quality products, while developing countries associated with the low-quality or inferior products (Abedniya, 2011). Countries of origin with negative consumer perceptions will affect purchase behavior and could even result in the boycott of the products. Such as the case of Danish cartoons, which led the Muslim world to boycott products from Denmark (Alserhan, 2010). Institutions from other countries that issue halal certificates must be audited by the Indonesian Ulama Council (MUI) before exporting their products into the country (LP.POM-MUI).

Purchase Behavior

Kotler (2006) mentioned that consumer behavior is influenced by several factors, namely culture, social or society, and personal beliefs. Cultural aspects associated with desire and individual behavior are

fundamental. Subcultures are national, religious and ethnic groups within a society. Thus, the influence of social aspects is closely associated with the subgroup to which the consumer belongs.

Usually, each group has different influence levels on consumer trends in the other groups. For instance, certain groups are opinion leaders and others are followers. Family members provide a substantial impact on purchasing behavior. Each position's status reflects the overall award presented following the role of the community.

The purchase decision is also influenced by the characteristics of personality, including the terms of the age of work, the condition of the economy and lifestyle. Another primary factor that affects the purchase decision is the mental aspect. This element consists of motivation, learning perception, confidence, and attitude. The relation of the first factors and the sub-factors have influenced the consumers' acquisition of the product.

Method

Conceptual Framework

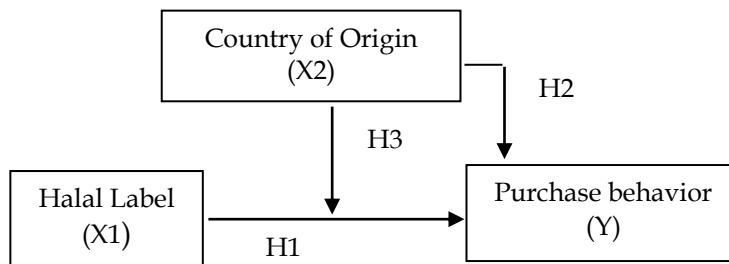


Figure 1. Conceptual framework of the research

In accordance with the literature review and conceptual framework. The study developed the following hypotheses:

- H1: Halal labels have a positive and significant effect on the purchase behavior of the imported frozen foods.
- H2: Country of origin has a positive and significant effect on the purchase behavior of the imported frozen foods.
- H3: The role of the country of origin moderates the relationship between the halal label and purchase behavior of the imported frozen foods.

Research Method

The research method applied quantitative descriptive research (Malhotra, 2010). In this method, authors analyzed data using the model of moderated regression analysis, the aim of which was to test whether the moderator variable strengthens or weakens the relationship between the independent variables and dependent variables. The research was carried on for six months, from September 2015 to February 2016. The research data were the primary data that were collected from the distribution of the questionnaire to the Muslims community of 21 sub-districts in Medan, Indonesia. The research population was Muslim consumers who purchased the imported frozen food labeled halal in Medan. Therefore, the numbers of the population were unknown definitely.

The samples were obtained using sampling techniques with non-probability in particular criteria. As many as 110 respondents were obtained using sampling fractions from each sub-district in Medan. The arrangement of the questionnaire was adopted and modified from the previous study and in the dissemination of the survey. Several assistants assisted the authors with the first validity test for each item in questions of the questionnaire.

Findings and Analysis

Validity and Reliability Test

The results of the validity test for the questionnaire showed all items, including valid questions. The results of the validity tests of the subject questions based on the variables of having a halal label, country of origin, and purchase behavior could be seen as the following:

**Table 1: Validity Test
Items of Halal Label**

	Corrected Item-Total Correlation	Requirements	Conclusion
Having more attention to check the Halal label before purchasing the frozen foods	.575	.300	Valid
Halal Label will assist to identify the quality of frozen foods	.923	.300	Valid
Halal Label will ease to receive the information of frozen foods origin	.939	.300	Valid
Halal Label will provide the confidence to purchase frozen foods	.945	.300	Valid
Halal Label will influence to purchase decisions	.837	.300	Valid

The calculation mentioned above showed that the validity test value of each item presented in the column "Corrected Item-Total Correlation" was valid, proved by all coefficient values were greater than 0.30.

**Table 2: Validity Test
Items by Country of Origin**

	Corrected Item-Total Correlation	Requirements	Conclusion
Preferring the halal products originating from Muslim countries because of the guaranteed quality	.552	.300	Valid
Preferring the halal products originating from predominantly Muslim countries because of a valid halal certification standard	.889	.300	Valid
Preferring the halal products originating from Muslim countries because of a trust institution issues it	.859	.300	Valid
Preferring the halal products originating from Muslim countries because they have guaranteed in the process of production until to warehouse	.892	.300	Valid
Preferring the halal products originating from Muslim countries because they have the transparency in the process of certification	.797	.300	Valid

In the table mentioned above, the values in the column "Corrected Item-Total Correlation" were all valid that proved by all coefficient values were greater than 0.30.

**Table 3: Validity Test
Items by Purchase Behavior**

	Corrected Item-Total Correlation	Requirements	Conclusion
Buying Halal frozen foods is a prove the compliance of the religion	.856	.300	Valid
Believing the family environment motivate to buy the halal frozen foods	.778	.300	Valid
Living in an Islamic society environment	.841	.300	Valid
Feeling safe to purchase the halal labeled foods	.844	.300	Valid
Feeling the food products halal have quality and goodness	.878	.300	Valid

In the table above, the values were shown in the column "Corrected Item-Total Correlation" can be declared valid proved by all coefficient values were greater than 0.30.

Table 4: Reliability Test

Variables	Cronbach Alpha Values	Result
Halal Label	0,940	Reliable
Country of Origin	0,920	Reliable
Purchase Behavior	0,889	Reliable

The results of the reliability test in the table above showed that all variables had been qualified for reliability when the Alpha Cronbach's value was greater than 0.6, and the research variables met the criteria

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
	.490a	.240	.226	1.069

A. Predictors: (Constant), Country of origin, Halal Label

B. Dependent Variables: Purchase Behavior

In the table above, the Adjusted R Square value showed 0,226. The result explained that 22,6% described the purchase behavior capable, country of origin and halal label, while the 77,4 % influenced by the other variables were not examined in the research.

The effect of the halal label and the country of origin on the purchase behavior simultaneously.

Table 6: Simultaneous Results Tests

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	38.683	2	19.342	16.921	.000 a
Residual	122.308	107	1.143		
Total	160.991	109			

A. Predictors: (Constant), Country of origin, Halal Label

B. Dependent Variables: Purchase Behavior

This table presented the results test of the effect of the halal label and the country of origin on the purchase behavior simultaneously. According to the table above, the simultaneous analysis (F) showed that the country of origin and the halal label had an effect on the purchase behavior significantly, which was proved by probabilistic value sig ($0,000 < 0,05$).

The effect of halal label and the country of origin on the purchase behavior partially.

Table 7: Partial Result Test

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	9.204	2.171		4.239	.000		
Halal Label	.304	.079	.368	3.836	.000	.773	1.294
Country of Origin	.243	.120	.193	2.017	.046	.773	1.294

A. Dependent Variables: Purchase Behavior

This table described the partial results of testing the effect of halal label and country of origin on purchase behavior. In line with the table mentioned above, the regression coefficient value of the halal

label was positive and was shown by a beta of 0.304. The results showed that halal label had a positive effect on purchase behavior with a probability value or Sig of 0.000, which was smaller than 0.05. The statistic results explained that halal label had a significant effect on purchase behavior. Meanwhile, the result of the regression coefficient from the country of origin was also a positive value with a beta of 0.243. The results show that country of origin has a positive effect on purchase behavior with a probability value or Sig. of 0.000, which was smaller than 0.05. The statistic results elaborated that the country of origin had a significant effect on purchase behavior.

The role of the country of origin in moderating the relationship between halal label and purchase behavior

Table 8: Moderator Result Test

Model	Coefficients				T	Sig.
	Unstandardized Coefficients		Standardized Coefficients	Beta		
	B	Std. Error				
(Constant)	2.754	.960			2.868	.005
Purchase Behavior	-.107	.047	-.212		-2.260	.026

A. Dependent Variables: absolute_residual_moderation_X2X1

This table presented that the moderator results test from the country of origin to moderate the relationship between the halal label and purchase behavior. Based on the results of regression, the coefficient value of the purchase behavior was a negative value (-0.107) and significant ($0.026 < 0.05$). The result showed that the role of the country of origin as a moderator has a significant effect on the halal label and consumer purchasing behavior. The result following the statement was that a variable was supposed to be a moderate independent variable if the regression coefficient variable depended on a negative value and was significant (Hair, 2010).

Prediction of the negative value indicated that the effect of moderation was negative. The result showed that the country of origin's effect could reduce the effect of the halal label on the purchase behavior of the imported frozen foods. The results test indicated that the role of the country of origin as independent and moderator variables had significance concurrently. Therefore, the conclusion was that the country of origin variable as a quasi-moderator variable meant the variable could be used as an independent variable and as a moderator variable.

Discussion & Conclusion

The results of the research showed the halal label had a positive and significant effect on the purchase behavior of imported frozen foods that were presented with a beta value of 0.304 and probability value or Sig. 0.000. This case proves that the first hypothesis (H1) is accepted. For the second hypothesis (H2), the country of origin had a positive and significant effect on the purchase behavior of frozen food imports, which was pointed out with a beta value of 0.243; and the probability value or Sig. 0.000, is smaller than 0.05. This case shows the second hypothesis (H2) is proven and can be accepted. Meanwhile, if the role of the country of origin was redirected as a moderator variable for the third hypothesis (H3), the role of the country of origin could moderate the relationship between the halal label and consumer purchasing behavior significantly.

The results test was confirmed by the value of the purchase behavior regression coefficient as being a negative value (-0.107) and significant ($0.026 < 0.05$). This test proved the third hypothesis could be accepted. It is in line with the explanation by Hair, (2010) that a variable is supposed to be moderate as an independent variable. The regression coefficient variable depends on the negative value and the significant. The role of the moderator from the country of origin can weaken the influence of the halal label on purchase behavior of the imported frozen food.

The conclusion taken from the testing results is a moderator variable demonstrated significant influence from the effect of halal label on purchase behavior. Prediction of a negative value indicates that the effect of moderation is negative, and it means the country of origin reduces the influence of halal label

on purchase behavior. The test result confirms that the country of origin and moderator are both significant simultaneously. It can be concluded that the variable of the country of origin include as moderation facades (quasi-moderator) or it can be used as an independent variable and as a moderator variable.

The supplier companies of the frozen foods and institutions that issue the halal certificate come from certain countries must have cooperation with LPPOM-MUI. It aims to anticipate the suspicion of Muslim communities in Indonesia. Halal Labels on the frozen foods will be a prior consideration for Muslims in selecting and consuming. Halal labels also facilitate the differentiation of the halal frozen foods derived from Muslim countries which offer customers' ability in evaluating the products. The tendency of Muslim consumers doubts the halal labels on the imported frozen foods is caused by the consumers' perception of the non-Muslim countries of origin of the frozen foods.

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The impact of humorous advertising on consumers' buying, word of mouth and recall

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Keywords

Humor, Advertising, Recall, WOM, Attitude, Consumer

Abstract

This paper aims at investigating the effect of "humorous advertising" on the Egyptian viewer. It is studying the effect of humorous advertising (HA) on the consumer's buying behaviour, probability to purchase and actual sales, as mediated by the attitude; along with studying its effect on recall and Word of Mouth. The research depends on both qualitative and quantitative data. Qualitative data includes five interviews with advertising experts and two focus groups, one with youth and another with adults. Quantitative data were collected through a survey. The data revealed that using humour in ads affects positively and strongly consumer attitude which has positive strong effect on probability to purchase; yet the consumer attitude effect on actual purchase choice was direct weak. Humour in ads has positive strong effect on word of mouth; as well as on recall. The marketers can use the humorous execution to lead to branding. As well as the paper clarifies for advertising agencies that this appeal needs special care in its creation to lead to the intended result; otherwise, it could lead to the opposite result. This paper fulfils an identified need to know the best marketing objective that can be achieved through humorous advertising.

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Background

There are two types of ads, cognitive and emotional. Advertisers and marketers attempt to select the right type to achieve the campaign objective by getting a certain reaction out of the viewers, that can be characterized as "advertising stimulus effects" (Percy and Rossiter, 1992). Humor in ads is categorized as an emotional appeal. Although humorous ads cannot be purely categorized as emotional appeals because not all their types require emotional processing, some of them need cognitive processing as well (Spielmann, 2014).

Previous research resulted in finding a relation between perceived humor and affective factors, such as attitude towards the ad (Gelb & Zinkhan, 1986). This research though is mainly about studying some cognitive factors, namely "recall and persuasion". However, the relation between persuasion, which is represented in that research as consumer's buying, and Humorous Ads (HA) is mediated by the attitude. Previously both ads and Word of Mouth (WOM) were considered as alternatives (Huang, Cai, Tsang & Zhou, 2011), but now they seem more as complementary. Because advertisers and companies should focus on the types of ads that can promote positive WOM about the brand and products (Casielles et al., 2013), one of this paper objectives is to answer if Humorous Ads (HA) can promote positive WOM about the brand, along with studying the recall and persuasion as mentioned above.

Humor

A humorous Ad can be described shortly as a funny ad. The humor does not have a clear definition as it has many dimensions; Humorous Ads (HA) become successful when the audiences have positive responses for it (Fugate, 1998).

There are different techniques of humorous ads, such as arousal- safety (A-S), incongruity resolution (IR) (Spielmann, 2014) and humorous disparagement (Hatzithomas et al., 2011; Brown et al., 2010; Alden et al., 2000). Arousal- safety (AS) comes from the relief theory (Brown et al., 2010); the situation can be funny after being sure that things are safe (Spielmann, 2014). Incongruity resolution (IR), as stated in two theories in psychology, is mostly a reflection of incongruity and incongruity resolution that causes laughter (Duncan, 1982). One theory demonstrates that incongruity alone is sufficient to create humor; the other one says that incongruity alone might make the audience confused, as they simply did not get the joke; therefore, its resolution is necessary to be humorous (Alden and Hoyer, 1993; Alden et al., 1993). Humorous disparagement (HD) as mentioned by Brown et al. (2010) is the disparagement humor that could be elicited by the desire to feel superior; as it is based on laughing at people in an attempt to feel you have control over them.

Recall

The exposure of the population to the advertising along with recall is the first sign to be effective for a media campaign (Dunlop et al., 2014). The memory network in our brains works through what is called "spreading activation" theory; that theory states that in our subliminal level certain nodes are activated when we are exposed to certain stimuli, this activation moves from nodes to other nodes through links (or associations) among them; the amount that moves the activation depends on the strength of the link; the nodes are the pieces of information, such as brands, product features and attributes... and so on; this network is called "the cognitive structure". The information of these nodes moves from subliminal level to conscious level when activation overrides specific threshold (Grunert, 1996). Though most of the recalling process or information is made in the subliminal level, called "automatic process", the conscious level, called "strategic process", interferes as well sometimes; for instance, if someone asks you certain question, you start consciously the activation process to recall the information. One of the things that enhance the subliminal processing is the context in which the advertisement is placed; because "perception of the context facilitates perception of the advertisement" if they are related to each other (Grunert, 1996). Moreover, the similar the ad's source and even non-source cues to its target, the better; because that closeness will cause better automatic activation in the memory (Brumbaugh, 2002). Dunlop et al. (2014) mentioned that recency, being exposed recently to the ads, causes more recall along with the idea in its launch phase, novelty, more than replicating it with other executions. In addition, the more frequent the target audience is exposed to the ad, the better their recall gets. The frequency can be measured through "commercial TV ratings data providing Gross Rating Points or GRPs".

Gelb & Zinkhan (1986) debate that humor does not positively affect comprehension and "specifically, the ability to "play back" a message accurately", but also there was no significant difference if the ad was serious. There was other research suggesting that humor causes less comprehension because of distraction (Bergeron & Vachon, 2008) that is changing the people's focus from the content to the context (Spielmann, 2014). However, there were some who concluded that humor causes better memorability and recall (Alden et al., 1993; Miller, 1996; Alden et al., 2000) along with the ad's attention (Tomkovick et al., 2001; Brown et al., 2010). Therefore, this paper is to examine which one of these contradicting results is the case in Egypt.

Persuasion

Persuasion is defined in the literature as the attitude and consumer's buying. Further, consumers' buying is represented as purchase intentions and actual choice (Gelb & Zinkhan, 1986). The attitude can be defined as, the tendency to have favorable or unfavorable response to a certain ad exposure. It is mentioned in more than a study that attitude towards the ad is usually reflected on the brand and products, namely, if the attitude for the ad is favorable, that will be the case of its advertised product and brand as well as the purchase intentions (Tomkovick et al., 2001).

Probability to purchase or purchase intention can be defined as the desire to repurchase a product from the same provider. It includes several factors such as the probability that the person will actually repurchase, and the time expected to repurchase (Bergeron & Vachon, 2008). The purchase intent is studied massively in both marketing and economics fields; in marketing, it helps predict the sales; in

economics, it helps measure the confidence level of the economy (Bemmoor, 1995). In marketing, there are different factors that affect the intentions of purchase, such as store image, perceived value, pricing, discounts... and so on (Grewal, Krishnan, Baker & Borin, N.D.).

Actual willingness to pay and purchase is defined as, the actual maximum payment an individual will pay to get the product (Barber et al., 2012). Bemmoor (1995) stated that the intent to purchase is not a precise predictor of the actual behavior (Barber et al., 2012) for many reasons; one of them is that the respondents of a survey that asks them about their intent to buy may actually change their intention after the survey time. In addition, one of the reasons could be lack of information at the time of the intention that is discovered at the actual buying time (e.g., actual price).

This research is studying the effect of humor on consumer's buying represented as both purchase intentions and actual choice. The attitude towards the ad is mediating the relation between HA and consumer's buying as Gelb & Zinkhan (1986) found that there is a significant positive relation between the humorous ad (HA) and attitude; while the relation between HA and purchase intentions, and HA and actual choice were positive but not significant. Thus, this research assumes that attitude mediates the relation between humor and consumer's buying represented by two elements purchase intentions and actual choice. As Alden et al. (2000) stated that for a factor to be a mediator between other two factors, there are mainly four terms, three of them are about having direct relations on each other; that is each independent factor affects directly on a dependent one. The fourth is that the direct relation between two factors is affected when the third factor changes.

Word-of-Mouth

WOM is an abbreviation for "Word-of-Mouth"; that is telling others about the product of a certain supplier from a non-marketing source (Bergeron & Vachon, 2008). As far as to the researcher's knowledge, Bergeron & Vachon (2008) were the first to link humor and WOM in the financial advising field, as it depends on social networks that humor increases, they found that there is a very strong positive relation between them; namely, the better the advisors' skills of humor, the more the probability of their customers to engage in WOM (Söderberg, 2013). In advertising field, according to Bussiere (2009), there was only one study that examined the impact of humorous ads on stimulating WOM and it was found that HA positively affects the willingness of the audience to WOM.

WOM importance is well known in business and marketing. It is seen as the most powerful tool (Lau and Ng, 2001). It was proven that there is a direct positive relation between the WOM and sales. The sales increases if WOM is positive and decreases in the opposite case (Barreto, 2014). It was also proven that WOM is nine times more effective in changing people's attitude than advertising, seven times more effective than newspapers ads, that was the first study about WOM effect (Trusov, Bucklin & Pauwels, 2008), four times than direct sales, three times than advertising in promoting purchases and twice than radio advertising over different researches and years since the 50's (Goyette et al., 2010). That importance and strong relation came because of many reasons one of them is that the teller of WOM is not a marketing source, so WOM is perceived as more credible (Casielles, Álvarez & Río-lanza, 2013; Spreng, Harrell & Mackoy, 1995) than other marketing tools as the teller has no self-interest to give the recommendation (Lau and Ng, 2001; Bergeron & Vachon, 2008).

The basic difference between traditional WOM and mass communication is that WOM is a face to face interaction, while mass communication has different media methods to transfer information; also WOM has more influence on consumers than mass communication; it easily transfers low cognition and effect into high; moreover, the face-to-face and interpersonal features facilitate access to information and make receivers judge its information heavily, which increases the actual choice probability; the receivers usually attempt to get information through WOM to reduce the perceived risk while they are making their decision to purchase (Lau and Ng, 2001). WOM was found to be more effective than traditional marketing (O'Reilly & Marx, 2011) in acquiring new customers online; as the signing up effect through WOM could last for three weeks, while through traditional marketing last from three to seven days; new members lead to WOM just as it leads to new members, these members do not necessarily have to be the targeted ones as the targeted ones could add others easily, which increases the acquisition possibility even if there were no traditional marketing activities; over and above "signup gains today may translate into higher signup gains tomorrow"; WOM was found also to be effective for longer time than traditional marketing which

gives companies stronger reason to motivate people to WOM through their activities; WOM has better effect on brand choice than advertising or personal search. (Trusov et al., 2008)

Since WOM is important for companies, they attempt to know what could lead to positive and successful WOM to be able to benefit from it, and attempt to motivate people towards positive WOM (Barreto, 2014) through ads and sponsorships of different events, hoping that WOM about the events might generate WOM about their brands (Lau and Ng, 2001). In other words, companies attempt to promote the WOM; that can be called WOMM (Word-of-Mouth Marketing) (O'Reilly & Marx, 2011). There are campaigns now that are designed for that purpose, such as viral marketing, buzz marketing and referral programs; which is called "fertilized WOM" instead of waiting for the traditional WOM to happen (Trusov, Bucklin & Pauwels, 2008; Barreto, 2014). Therefore, this paper is studying if HA is one of the traditional marketing ways that can promote positive WOM about the brand.

1. Model & Hypotheses

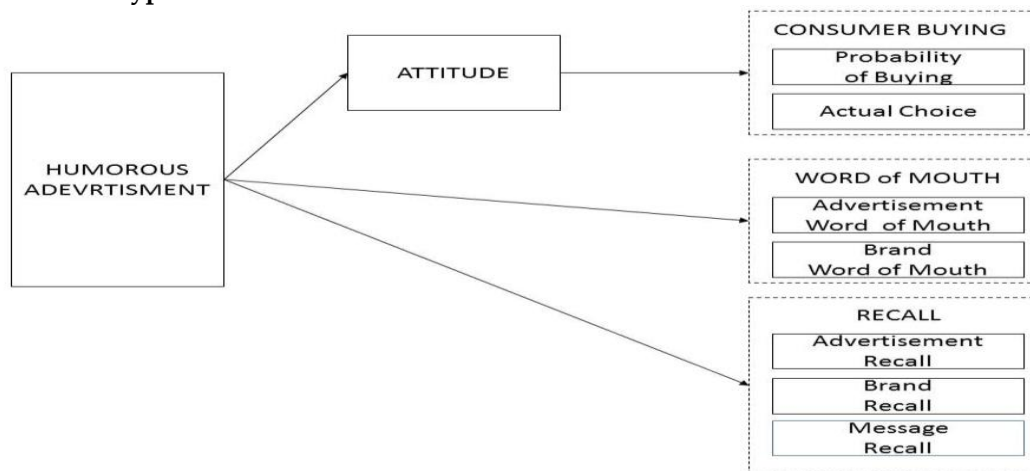


Fig.1 The Research Model

1.1 The Model Variables

A) Humorous Ads (Independent Variable) the model is mainly made to know the effects of humorous ads generally on the other variables in the Egyptian market.

B) Attitude (Mediating Variable) the attitude towards the ad in this paper is a mediating variable between HA in one hand and consumer's buying on the other.

C) Consumer's Buying (Dependent Variable) that variable includes two elements; the probability to purchase or the purchase intentions and actual choice. That is because actual choice is not necessarily the result for buying intentions in all situation.

D) Word-of-Mouth (Dependent Variable) studying if WOM can be promoted by using a humorous ad was not much researched. This research is of interest in that topic. Along with knowing if that WOM would be about the ad's humorous situation only or also the brand.

E) Recall (Dependent Variable) studying if using humor in ads may enhance the recall of the message and the brand, or only enhances the recall of the humorous situation, or does not help recall at all.

1.2 Research Hypotheses

Hypothesis 1: There is a positive relation between humorous ads and attitude towards them.

Hypothesis 2: There is a positive relation between attitude towards humorous ads and consumer's buying.

Hypothesis 3: There is a positive relation between humorous ads and Word-of-Mouth.

Hypothesis 4: There is a positive relation between humorous ads and recall.

2. Method

2.1 Design overview

This research is based on both qualitative data represented in focus groups and interviews, and quantitative data represented in survey. The qualitative data shall give insight as well as ensuring the results of the quantitative data as it “reveals the story behind the quantitative analytics” and enable businesses to make informed decisions.

A) Focus Groups

Two focus groups were conducted and recorded. One included 8 persons whose ages ranged from 14 to 21 representing teenagers. The other group included 6 persons whose ages ranged from 43 to 59 representing adults. Although the age in that paper is not used as moderating variable, the groups were divided in terms of the age just to enlighten this part. Both groups included males and females. The number of persons in both groups, 6 and 8, is particularly chosen in order to get better indepth discussion as well as controlling them at the same time. First, they were shown a recent ad of a network. Second, they were asked questions regarding every variable in the study that are clarified in the analysis (e.g., did you really buy the product that the ad was about?). The chosen ad for the focus group was because of its recency. They were asked about another ad without showing it for testing the recall.

B) Interviews

Five interviews were conducted with advertising agencies' experts. Three of them worked in humorous ads campaigns and two did not. They were interviewed face to face or through the telephone.

C) Survey

Though many past researches on such topics used lab experiment with control group, in this research a TV ad was demonstrated first then the respondents were asked the variables questions with no control group, which is also a method used in previous research (Spielmann, 2014). The questionnaire was 5-points Likert scale and cross-sectional. The questionnaire was distributed online and offline. The online distribution ensures the variety of the sample but the offline was used because it was quicker in getting the responses. The questions are validated as they were taken from previous researches that measure the same variables, but some wording changes existed to make the questions suitable for that research. The demographic variables do not have a moderating effect based on the background. The sources and questions will be demonstrated in Table-1 below. Also for the sake of validating the questions, a pilot survey was conducted before the distribution. The opinions of five advertising and marketing professors were taken along with the opinions of ordinary respondents. The total number of these surveys was 15.

The ad that was shown before answering was chosen carefully among the recent different humorous ads. Finally, the ad was not only chosen for its recency, but also because consumer's buying can be easily measured as its product does not cost much, only one pound. Moreover, there are no switching costs in buying its competing products. Accordingly, the income and switching costs will not moderate the relation between the attitude and the buying behavior.

Variables	Sources	Contribution
Humorous Ads (Independent Variable)	<ul style="list-style-type: none"> ➤ Alden, Hoyer & lee, 1993 ➤ Alden & Hoyer, 1993 ➤ Spielmann, 2014 	<ul style="list-style-type: none"> ➤ Do you believe humor was intended in this ad?
Attitude (Mediating Variable)	<ul style="list-style-type: none"> ➤ Spielmann, 2014 	<ul style="list-style-type: none"> ➤ Do you like humorous ads in general? ➤ -- ad easily entertains me ➤ Humorous ads put me in a good mood ➤ I immediately had a nice feeling about - ad ➤ Humorous ads generally does not make me happy ➤ -- ad is what I would consider a “feel-good” ad ➤ I can easily relate happy memories with Humorous ads

Consumer's buying (Dependent Variable)	<ul style="list-style-type: none"> ➤ Akhter, 2010 ➤ Bergeron & Vachon, 2008 ➤ Tang, Luo & Xiao, 2011 ➤ GREWAL, KRISHNAN, BAKER & BORIN, N.D. ➤ The researcher validated by the pilot survey 	<ul style="list-style-type: none"> ➤ Purchasing -- is good ➤ I expect to purchase (or repurchase) products and/or services from the brands of humorous ads in the future ➤ Purchasing -- is reasonable ➤ Purchasing a brand of a humorous ad is rewarding ➤ The probability that I would consider buying products and/or services from the brands of such ads is low ➤ I am likely to purchase "--" within a month ➤ Were you a regular buyer for "--" before the ad? ➤ After the ad did you buy "--"?
Word-of-Mouth (Dependent Variable)	<ul style="list-style-type: none"> ➤ Bergeron & Vachon, 2008 ➤ Goyette, Ricard, Bergeron & Marticotte, 2010 	<ul style="list-style-type: none"> ➤ I spoke of -- ad much more frequently than other ads ➤ I spoke of -- ad to many individuals favorably ➤ I mostly say positive things to others about humorous ads ➤ I mostly say negative things to others about humorous ads ➤ I spoke of -- much more frequently than its competitors ➤ I recommended -- for others ➤ I speak about the good sides of -- ➤ I strongly recommend people buy products from the brands of humorous ads ➤ I have spoken badly of the brands of humorous ads to others ➤ I discuss the variety of products offered by the brands of humorous ads
Recall (Dependent Variable)	<ul style="list-style-type: none"> ➤ Malik & Sudhakar, 2014 ➤ Cline & Kellaris, 2007 	<ul style="list-style-type: none"> ➤ The humorous ad made me recognize - among competing brands ➤ Humorous ads helps me to recall its brand before shopping ➤ Is there a name of brand that only comes to your mind associated with a humorous ad when you make a purchase decision? ➤ <i>If yes please mention the brand name</i> ➤ What did the commercial say? ➤ Please, do not get back to -- ad when answering the following questions <ul style="list-style-type: none"> • What major claims did the ad make? Please list as many as you can remember • What other details about the ad do you recall?

Table-1 Info about the survey questions

2.2 Sampling Methods

A sample of 200 received the questionnaire, after removing all questionnaires that were incomplete, the sample becomes 169. The sampling technique used was convenience that is a non-probability method.

3 Analysis

3.1 Qualitative Data Analysis

3.1.1 Focus Groups

A. the Teenagers and Youth Group:

The results of that group indicated that not all humorous ads create positive attitude. If the idea was bad or was not represented well, it actually could create the opposite attitude among young people. The ad or the humorous situation is what is mostly recalled, then the message, then the brand. The humor did not seem to overcome the message for that group as they knew what the watched ad was about except for two. Though they recalled humorous ads they liked, which means they had positive attitude towards them, they did not buy just because of that attitude except only one person who actually did. It also did not necessarily motivate the intentions just because of the positive attitude. In addition, some mentioned

that even any other type of ads would not motivate them. The word-of-mouth would not be made by the group, but they did not like the humor in the watched ad and thought that it was quite silly.

B. The Adults Group:

Again, like the younger group, if the idea is not good even if it meant to be funny, it actually creates negative attitude. The attitude here actually had an effect on both probability to purchase and actual sales unlike the younger group. Word-of-mouth seems to be made, putting into consideration that this group was asked for the WOM about the ad they watched and generally too, unlike the first group that was asked about the watched ad only. They would talk about the ad, but they said they would talk about the brand if they are interested in the product. Recalling a humorous ad is very strong as they remembered old ads, but could be related to the age somehow because the younger group remembered recent ads, but adults remembered the ads of their young days, so maybe humor gets more attention and effect at young ages. Moreover, unlike the other group, the humor seemed to overcome the message for the watched ad except for two.

3.1.2 Interviews

All of them said that the type of the ad is determined by the clients in their brief. Some said they can suggest that type only if the clients did not determine one and are not sure which type is the best for their product. Two out of those who worked in humorous campaigns mentioned the target audience is another factor for determining whether humor should be used or not. They said they are usually not involved in the results of the ad in terms of sales, yet there are some case studies that talk about an increase happened in sales after a humorous campaign. There is one who said when it comes to humor, things could be quite tricky, that is the ad could be very reputable, but the sales are not necessarily affected by that success. There is one of those who worked in a humorous campaign said that the sales of the product increased. Also, all of them believe that humor induces word-of-mouth. Some of them believe that the WOM could be for the ad itself not the brand, especially if the brand is not mentioned a lot during the ad. They all agreed that good humor creates surly good attitude. Yet, not all ads succeed in delivering good humor, which causes negative attitude for the ad that is perceived as silly or even provoking.

3.2 Quantitative Data Analysis

A "Chi Square" independent test is computed first in order to know if the variables of the paper are dependent on each other, namely they have a significant relation, or not. Then, if the variables are dependent, a "contingency coefficient", the suitable correlation measure because the data are interval, is computed to know if the relation between them is strong or weak and if it is a direct or indirect relation. The following Table-2 will summarize the acceptance of the hypotheses, along with the type of the relation:

No.	Hypotheses	P-value		Relation	
1	There is a relation between humorous ads and attitude towards them	0.000	accepted	0.707	Direct strong
2	There is a relation between attitude towards humorous ads and consumer's buying	Probability 0.000	accepted	0.754	Direct strong
		Actual choice 0.006	accepted	0.299	Direct weak
3	There is a relation between humorous ads and Word-of-Mouth about the ads and brands	0.000	accepted	0.707	Direct strong
4	There is a relation between humorous ads and recall of the brand, ad and message	0.000	accepted	0.707	Direct strong

Table-2 Summary of the relations

Most of the respondents were females, as they represent approximately 64%, and most of them were youth that ranged from 20 to 35; as they represent approximately 34% and least were old that start from age 60 and above; as they represent approximately 1%, the rest of them were either less than 20 or ranged from 36 to 59. Men represented approximately 36% who ranged mostly from 20 to 35 as well; as they represent

approximately 26% and no men in the participated sample were 60 years old or above, the least percentage in men were the adults who ranged from 35 to 59; as they represent approximately 1%, the rest of them were less than 20.

Discussions and conclusions

The quantitative data indicated that there is indeed a relation between humorous ads and attitude. The relation is direct which means the more the humor in the ad, the better is the attitude, namely humor leads to positive attitude. This relation is strong which supports what the experts mentioned in the interviews that humor leads to positive attitude. Yet, they also made a clear warning that humor should be well applied; otherwise the viewers may perceive it as silly or provoking, like the ad watched in the focus groups where humor was intended but the idea was provoking and not well executed.

There is also a significant relation between attitude and probability to purchase in Egypt. That relation is direct which means positive attitude leads to positive probability to purchase, namely increase the probability. That relation is strong as well which is supported by the older focus group; the young group mentioned that loving a humorous ad "positive attitude" will not increase their probability to purchase but that applies to loving any other type of ads too.

Actual sales and attitude relation in Egypt is significant and direct as well, but weak. That is explained by the focus groups as most of them clearly stated that loving ads is not enough to actually buy a product; even though the older group mentioned it may increase their intentions, it is quite different when it comes to paying actual money. Moreover, this result is supported by the experts in the interviews who mentioned that a humorous successful loved campaign does not always lead to sales increase. Another variable studied was the word-of-mouth. The research explored if there is a relation between humorous ads and WOM in Egypt dividing it into two separate parts; word-of-mouth about the ad itself and word-of-mouth about the brand of the ad.

Both relations are direct and strong. That means; the better the humor, the more the viewers are induced to talk about both the ad and the brand. That is supported by both the experts and the older focus group; most of the experts, mentioned that the viewers talk about the brand as well as the ad especially if it was mentioned more than once in the ad. That was supported by the older focus group who mentioned that they talk about the brand if they were interested in its products as well as the ad; the younger group about one ad which they perceived as silly rather than humorous, so their negative answers could be because of that. The last variable the research studied with humorous ads is the recall. Recall in that research was divided into three parts, recalling the brand, the ad and the message. The quantitative data result is the same for the three divisions; there is a significant strong direct relation between the humorous ads and the recall in Egypt. Namely, the better the humour, the higher is the recall. That is supported by the focus groups, as they all in both groups were able to remember humorous ads. Yet, the adults group, all but one, recalled old ads not recent, taking into consideration that most of the researcher's sample was young, maybe the recall of ads, message and brands are strong at younger ages than older. Specially, after taking care that the humor in the watched ad at the young group did not overcome the ad's content, unlike what happened with the adults group. Therefore, maybe if the sample was mostly consisted of old people, the research may have a different result. Moreover, usually the brand was remembered well if it was mentioned in the ad more than once.

This research paper is beneficial for marketing and advertising professionals. The recommendations of the researcher to the marketers are mainly based on the "advertising stimulus effects" mentioned above. Based on the results they can clearly use the humorous execution in order to lead to many responses:

- They should use it when their objective is to create favorable attitude towards the brand over time, using this type of ads may cause positive classical conditioning with the brand.
- The results strongly show that "a good joke leads to a good talk". In other words, marketers can use HA to generate positive Word-of-Mouth.
- The strong positive recall caused by that appeal gives it a special importance because the target will not just recall the ad but also the brand and even the message that means that humor is associated with information processing especially if their target market consisted of young people. Therefore, marketers should use it for grabbing the attention, awareness and branding.

- The results indicate also that this type of ads might not be the best to use if the objective is to increase sales in a short period. In fact, the young focus group did mention that neither this type of ads nor any other type of ads would lead them to purchase. Therefore, maybe marketers should use other promotional tools if their objective is making sales in a short period like sales promotion.

Recommendations that could be directed to advertising agencies are:

- The most important thing they should care for when they try to create a humorous situation is to understand the target very well because it is clear from the focus groups that the ad may not be funny although humor is intended. The problem of doing humorous ads that are not perceived as funny by the target market is that it creates a negative attitude and is perceived as provoking. The script and character used are very important as well. In short, this appeal needs special care in its creation to lead to the intended result not the opposite.
- Moreover, they must ensure that the brand is mentioned more than once throughout the ad in order to grab attention and achieve good recall.

Research limitations and direction for further research

One of the limitations in this research is that the constructs which are examined in the research are only those mentioned in the model; therefore, a future research may include other constructs, such as the product type and prior brand evaluations. Another limitation is that the researcher could not make a situation in which the respondents have to choose among different products; therefore, the measurement used in the research is considered as just an indication for the relation between the attitude and actual purchase. A future research could have better age and gender distribution; as most of that sample was young and women, it may even use them as moderating variables in order to know if there is a significant difference for that conclusion between both genders and among different age stages. The young focus group mentioned that their positive attitude caused by HA will not lead them to purchase but that is the case with the other types of ads as well, so a future research may compare the effect of the attitude created by HA on consumer's buying with the other types of ads.

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The impact of foreign direct investment inflows on economic growth: evidence from Bangladesh

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Keywords

FDI Inflows, Economic Growth, FDI and GDP growth relationship, Vector Error Correction Metrics.

Abstract

The research finds out that there is a causal relationship between Foreign Direct Investment Inflows (FDI) and Gross Domestic Product (GDP) Growth. The study also reveals that the issue of Foreign Direct Investment (FDI) Inflows has become a vital weapon of Gross Domestic Product (GDP) growth for Bangladesh, bringing in technological development, capital investment and knowledge also needed for economic growth. According to this view, this paper purposes to study the relationship between FDI and economic growth in Bangladesh by the co-integration and Vector Error Correction Metrics (VECM) Test. The empirical analysis has conducted by using annual secondary data for the year of 1990-2015 of Bangladesh, to investigate the relationship between FDI Inflows and Economic Growth in Bangladesh. Paper finds out the positive relationship running from FDI Inflows to GDP in the long-run and short-run. The study suggests that Bangladesh government can create foreign investment-friendly policies, transfer of knowledge and trade promotion as well. This paper also advocates that the country's capacity to improve on economic growth will subject to promote more FDI Inflows.

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1. Introduction

Bangladesh is a least developed country (LDC), during the liberation ruined about one-fifth of the country's economy and over the past two decades the country gears up a small economic growth. The Bangladesh economy had accelerated by the outstanding turn-around from 1990 in the growth of multi-factor productivity. According to the statistical analysis, the country has shifted from the agricultural economy to the industrial and service economy over the past few years. The growth of internationalization is operated by economic and technological forces. In this context, it has been a matter of greater concern for the economists how FDI affects economic growth of the recipient economy. Over the two decades, FDI is the prominent drivers of economic growth and development in developed countries even in developing and less developed countries. Moreover, FDI can move faster the Gross Domestic Product (GDP) growth, and investment can increase human capital development, domestic production, and infrastructure development as well. In the early 1980s, Organization for Economic Cooperation and Development (OECD) recognized that traditional reporting frameworks could not account for the abolition of regulatory obstacles to cross-border investments. Resulting OECD implemented an advanced "Benchmark Definition of Foreign Direct Investment" which contributes a comprehensive set of rules to improve statistical measures of FDI, OECD (2008). FDI inflows provide the financial stability, the creative capacity, the labor productivity growth, the new technology transfer, international marketing networks,

and skills, and thus help to enhance the economic growth. So FDI is a vital factor in the emerging market economy in current globalization. Some global organizations, for example, the United Nations Conference on Trade and Development (UNCTAD), the OECD, World Bank and the International Monetary Fund (IMF) inspire especially developing countries to accept more liberalized policies in goods and services to FDI and International Trade respectively. Simultaneously, international trade stimulates economic growth through investment. Because Bangladesh's imports are greater than exports, means there is huge trade gap. Damijan and Rojec (2007) investigated that FDI can decrease trade gap in the Central European Countries (CECs) and can play a significant role in productivity growth in those countries. FDI also influences the consumer, tax revenues, government expenditure, exchange rate, inflation and economic development. However, (Cevis and Camurdan 2007) concluded over the panel data set of 1989-2006 of the developing countries and transition economies such as in, Asian, Eastern European and Latin American countries.

The economic growth rate, the interest rate, the inflation rate and the trade openness rate were the key drivers affecting FDI inflows in the host country. The investment is not only supposed to financial investing but also productive one (Mankiw 2012), which refers buildings, equipment, machinery, structures and such as the residential construction and allows increased production of goods and services. Bangladesh also influences export-oriented multinational companies (MNCs) to earn foreign exchanges based on several investment incentive packages, because the country always encourages economic development policies and regulations for industrial development. Through, classical and neo-classical economic framework, GDP growth depends on the supply of funds as well as the provision of skilled labor and new technology. Usually, LDCs have insufficiency of the fund for significant investment as like as Bangladesh which can be well-adjusted with an inflow of capital from foreign (public or private) investor. Bangladesh is a frontier of emerging market economies (EMEs), so there is a lot of potentialities to invest FDI in Ready Made Garments (RMG), Textile, Leather, Pharmaceuticals, Information and Communication Technology (ICT), Marine, Tourism, and Agro-based Industries, etc. Alam and Chang (2012) empirically found that Korean investment is a real contributory factor to the Bangladesh's economic growth and development. Moreover, the exports earnings allow for the imports of qualitative inputs, for example, capital goods for domestic production and exports, thus increasing the country economy's production potentialities.

In the last decade, the country has achieved GDP growth rates near 6% because of the development of the RMG industries and microfinance. The interim approximate for Bangladesh's GDP growth in the fiscal year 2015 (ended 30 June 2014) is smaller than the 6.6% recorded in the fiscal year 2015. Figure 1 shows some key statistics about GDP Growth of Bangladesh.

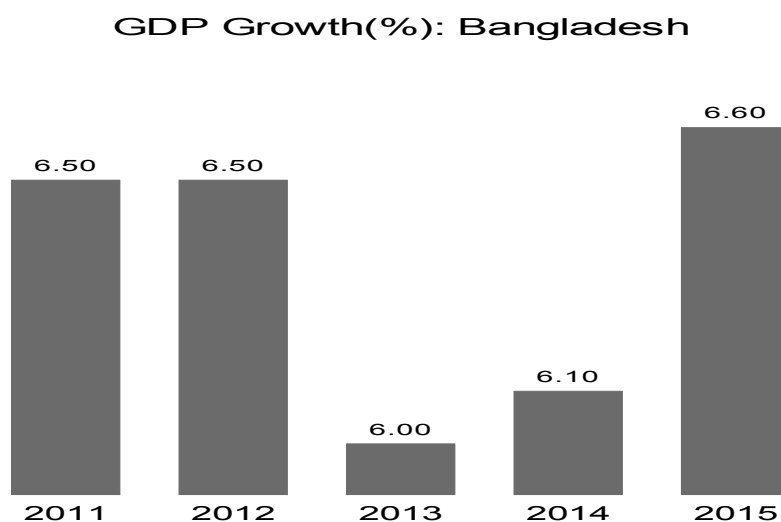


Figure 1: GDP Growth: Bangladesh

Conversely, from the middle of the 1990s, the supply of public funds has been diminishing from developed to developing countries for all over the world, while the FDI inflows rained thrust over the few

decades. Ahamad et al. (2010) investigated that higher GDP growth attracts more FDI in Bangladesh. In the meantime, LDCs like Bangladesh plays a vital role with countries like South Africa, Brazil, Vietnam, Venezuela, India, Indonesia, Laos, and many other countries to attract foreign funds. The OECD (2008) also referred FDI as "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor." The contribution of FDI is essential elements for boost up of a country's economic growth. Nevertheless, the country has very high population density like 160 million people and scarce resources. Almost one-third of Bangladesh's people live in extreme poverty. As a result, without steady growth of the economy, it will not be possible to elevate such as a massive population out of poverty. Hence, emphasis should be employed on foreign investment and trade.

In this paper, we examine the significant role of FDI in the procedure of economic growth of Bangladesh. We observe the relationship between the GDP growth rate, FDI, Export, Import, Inflation, and Exchange Rate over the time series annual data from 1990-2015 with the help of co-integration and Vector Error Correction Model (VECM) analysis. Moreover, different studies (Andraz and Rodrigues 2010; Miankhel et al. 2010; Acaravci and Ozturk 2012; M. Seyoum et al. 2015; Fadhil and Almsafir 2015 & Gupta and Singh 2016) used different methods and variables in their studies for obtaining positive results. For instance, we have used co-integration test and VECM metrics which are similar as some papers methods, but variables are different in this study for identifying the relationship between FDI inflows and GDP growth of Bangladesh. Following the Introduction in Section 1, the paper is structured as follows: Section 2 provides the literature review and objectives of the study, while Section 3 presents the data and methodological framework. Section 4, provides the empirical results, and Finally, Section 5 concludes with research limitations and direction for further research of the study.

2. Literature Review

The Economic point of view FDI refers that MNCs have significant complementarities with local industry and welfare and stimulate development in the host economy. FDI inflows also affect the host countries economy in multifariousness. It conveys capital accumulations and technological diversification that enhances of the recipient economy (Borensztein et al. 1998; Dunning 1993; Blomstrom et al. 1996 and Irandoust 2016). Acaravci and Ozturk (2012) investigated that FDI and export have the causal relationship between economic growth in four out of ten European countries using quarterly data from 1994 to 2008. They evaluated between FDI and export on economic growth, FDI is a vital factor in boosting economic growth in those countries. Carlos and Eddie (2015) empirically analyzed by VAR model to Brazil, China, Mexico, Peru and South Korea, that there is no causal relation between FDI and GDP in Brazil, Mexico, Peru and South Korea. But only China has a little relationship between "FDI as a percentage of total gross fixed capital formation (GFCF) and economic growth," i.e., vice versa. Furthermore, some study suggested that have a positive relationship with FDI flows on economic growth both in the short run and long run. Andraz and Rodrigues (2010) found in their study that there is a positive relationship between FDI, Exports and Economic Growth in the long-run using data from 1977 to 2004 in Portugal. Besides, Miankhel et al. (2010) VECM analysis results found substantial evidence on the relationship between FDI and trade on economic growth in the East Asia region. Babatunde (2011) inspected the interaction between FDI, economic growth, trade openness and infrastructure development using a panel data of 42 sub-Saharan Africa (SSA) countries over the period 1980-2003. The empirical study specified that trade openness and infrastructural development encourage the inflow of FDI and the research revealed a positive and statistically significant relationship between the interaction of trade openness with infrastructural development and FDI, FDI and infrastructural development contribute towards enhancing economic growth in the SSA countries.

Vollmecke et al. (2016) aimed to investigate an infinite first-order Markov chain approach in European 269 regions over the data between 2003 and 2010 that they found a weak process of overall income convergence among all EU regions. Also, they investigated for poor regions in lower income classes being caught in a "poverty trap" in Central and East European countries (CEECs) regions. In particular, given that the capital regions of the Central and East European countries (CEECs) enjoyed high per capita growth rates, the positive spillover effects from FDI contributing to catch-up and regional

convergence are strongly localized. Furthermore, Su and Liu (2016) empirically investigated with Chinese cities that FDI and human capital are the vital contributors to economic growth and human capital is an initiator for the new technology diffusion embodied in FDI. Human capital speeds up the percentage of technological revolution through investments in education, workforce skills, scientific knowledge and social institutions (Nelson and Phelps 1966; Benhabib and Spiegel 1994 and Acemoglu 1998). Iamsiraroj (2016) examined between FDI inflows and per capita GDP growth among 124 cross-country data from 1971 to 2010 using the simultaneous system of equations model, the econometric results show that FDI is linked to higher rates of GDP growth and vice versa while other controlled variables can stimulate economic growth further.

In the study observed causal relationship in the long run among FDI growth, terms of trade volatility (TOTV) and GDP growth by constructing a multivariate VAR model over the period of 1993–2014 consisting of 3 Baltic economies (Estonia, Latvia, and Lithuania). During the period Estonia was well performed within the Central Eastern European countries (CEEC) group, whereas FDI inflows were 7.24 % in Estonia, 3.87 % in Latvia, and 2.91 % of GDP in Lithuania (Irandoust 2016). However, he clarified by the Granger Causality test that there is bi-directional causality in Estonia and unidirectional causality in Latvia and Lithuania running from FDI to growth. Latvia and Lithuania might stem from the fact due to lack of bi-directional causality, so both countries have not moved faster as Estonia with the timing and the execution of the economic reforms and have no capability to carry out enough reforms in the areas of enterprise and competition policy compared to Estonia. M. Seyoum et al. (2015) investigated two-way Granger causality link between FDI and economic growth: Empirical evidence from 23 African countries for the period from 1970 to 2011. The study results also portrayed unidirectional causality from FDI to GDP growth in three countries (Egypt, Gabon, and Mauritania) and they also found unidirectional causality from GDP growth to FDI in four countries (Cote d'Ivoire, Kenya, South Africa and Zambia).

Asheghian (2016) observed that the major determinants of GDP per capita growth in Iran are value added growth and domestic investment growth. There is no causal relationship among FDI growth, GDP per capita growth and value added growth in either direction. Because Iran was infected in multiple events, i.e., including regime change of 1979, the two oil shocks (1973 & 1979), the Iran–Iraq war (1980–1988), American hostage crisis (1979–1980) and scared off potential foreign direct investors. Jun (2015) empirical analysis also investigated the outcomes of FDI on SAARC (Afghanistan, Bangladesh, India, Nepal, Maldives, Pakistan, Sri Lanka and Bhutan) countries annual panel data over the period 1960–2013. On the end of 2013, Bangladesh's nominal GDP was 2nd largest in the SAARC region. The Granger causality results revealed that there are bi-directional causal relationships between FDI and real GDP as a whole. SAARC countries also attracted more FDI over the period due to the continuous output of growth. Gupta and Singh (2016) aimed to test using VECM estimation technique over the period 1992–2013 individually for BRICS countries, which finds the higher economic growth in Brazil, China, and India cause of higher Inwards FDI in the long run. Conversely, the study claims that Inwards FDI and GDP are not co-integration for the Russia and South Africa in the long-run; FDI and GDP are independent of each other. Based on Nath (2009) presented a fixed effect panel data approach to investigate the effects of FDI and trade on per capita GDP growth in 13 transition economies of Central and Eastern Europe (CEE) and the Baltic region over the period from 1991 to 2005. The study suggested that there is a significant positive effect of trade on economic growth, but there is no significant positive impact of FDI on economic growth. Nevertheless, he implied that when controlling the effects of domestic investment and trade on FDI, it shows to be a significant determinant of growth for the period after 1995.

Boateng et al. (2015) used a quarterly data of macroeconomic policy over the period from 1986–2008 in Norway. FMOLS method inspected that the real GDP, the sector GDP, the trade openness and the exchange rate contribute positively and significantly to FDI inflows. However, money supply, interest rate, and unemployment employ negative influences on FDI inflows in Norway. However, the technology spillovers of FDI inflows are still not sufficiently associated with human capital to contribute to the economic growth. By Fadhil and Almsafir (2015) revealed by time series data from 1975 to 2010 that the FDI inflows together with the human capital accumulation strongly lead to the Malaysian economic growth, conversely, the technology spillovers of Inwards FDI are still insufficiently linked with human capital to contribute to the host countries economic growth. On the other hand, Chen and Zulkifli (2012)

study investigated with Outward FDI as the independent variable and labor and domestic investment as the controlled variables by VECM, the study found that there is a positive long-run relationship between outward FDI and growth as well as long-run bi-directional causation between them. They do not find Granger-causality between outward FDI and growth in the short-run.

Amoah et al. (2015) aimed to study for Ghanaian economy over the period of 1980 to 2013 using co-integration and Granger causality analysis that there is a long-run equilibrium relationship between all variables. However, Granger causality test revealed bidirectional causality between Inflation rate and Exchange rate and also between Inflation rate and GDP. And there is unidirectional causality between GDP growth rate and exchange rate; while FDI does not Granger cause exchange rate, Inflation rate, GDP i.e. vice versa. Another empirical study results investigated that Inflation, Exchange Rate, and Foreign Direct Investment significantly affect Economic Growth, while capital stock (GFCF) has no significant effect on economic growth. But FDI has a positive relationship with GDP growth of Pakistan. They suggested that the country needs to attract more foreign investors for increasing the growth of the economy (Ahmad et al. 2013). Likewise, Garcia-Fuentes et al. (2016) study results showed that the remittances on U.S. FDI flows could increase per capita GDP growth to the Latin American Countries (LACs) and the study also suggested that foreign remittances may positively affect the economic growth of developing countries. Thus, it can be understood from above literature review that FDI is an important tool for economic growth for any developing country. Therefore, the study also attempts to find out the important economic determinants affecting FDI inflows in Bangladesh by formulating a model with the help of preferred variables.

The above literature indicates that various researchers have investigated in the past this issue of linkage between FDI and GDP in the perspective of different developed or developing countries. The main objective of this paper aims to investigate the impact of the Foreign Direct Investment on Economic Growth in Bangladesh. In addition, we want to check co-integrated relationship and the causality (long-run and short-run) between FDI inflows and Economic growth in Bangladesh.

3. Data and Methodology

3.1 Data

For the study the relationship between FDI Inflows and Economic Growth, the time series secondary data are used for the period of 1990 to 2015 of Bangladesh. All data compiled from World Bank Development Indicators which published by World Bank. In this paper, following procedures were implemented. Thus, the First step, we check all variables for stationary or non-stationary by unit root test using both Augmented Dickey-Fuller (ADF) test and Phillips-Perron (PP) test which can be made by differencing. As a Second step, we fixed optimum lag selection criterion to select the optimum number of lags by using the unrestricted VAR model. In terms of the Third step, after selection of optimum lags Johansen's co-integration test is employed to the variables are co-integrated or not. In the Fourth step, we apply Vector Error Correction Model (VECM) to examine in the short-run and long-run causality among variables. Finally, we run for diagnostics and stability test of the model for checking the strength of the model and verify the outcomes. All the above techniques in details are described in an empirical methodology of the paper. The variables are used in this study follows as Table 1:

3.2 Empirical Methodology

Usually, most of the empirical findings integrate either the FDI or Economic Growth hypotheses follow a traditional model, i.e., the application of Foreign Direct Investment Inflows (FDI) and GDP Growth Rate (GDP). Alongside Inflation (IF), Exports (EXP), Imports (IMP) and Exchange Rate (EX) as additional factors are manipulating the total output and growth of an economy.

The Econometric model can be indicated as follows

$$GDP = f(FDI, EXP, IMP, EX, IF)\varepsilon \dots\dots\dots(1)$$

Whereas the empirical model will be implied as follows:

$$GDP_t = \beta_0 + \beta_1 FDI_t + \beta_2 EXP_t + \beta_3 IMP_t + \beta_4 EX_t + \beta_5 IF_t + \varepsilon_t \dots\dots\dots(2)$$

Where;

t = Represents the time from 1990 to 2015,

ε = Represents the Error term,
And $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4$ are the relevant parameters.

In this study, GDP is a dependent variable and FDI with other variables like EXP, IMP, EX & IF are the independent variables. We expect, FDI to have a positive relationship with Economic Growth and other variables to have a positive relation with Economic Growth of Bangladesh.

Variable	Definition	Measurement	Source
GDP	GDP growth (annual %)	Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.	World Bank national accounts data, and OECD National Accounts data files.
FDI	Foreign direct investment, net inflows (BoP, current US\$)	Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy.	International Monetary Fund, Balance of Payments database, supplemented by data from the UNCTAD and official national sources.
IMP	Imports of goods and services (BoP, current US\$)	Imports of goods and services comprise all transactions between residents of a country and the rest of the world involving a change of ownership from nonresidents to residents of general merchandise, nonmonetary gold, and services. Data are in current U.S. dollars.	International Monetary Fund, Balance of Payments Statistics Yearbook and data files.
EXP	Exports of goods and services (BoP, current US\$)	Exports of goods and services comprise all transactions between residents of a country and the rest of the world involving a change of ownership from residents to nonresidents of general merchandise, net exports of goods under merchanting, nonmonetary gold, and services. Data are in current U.S. dollars.	International Monetary Fund, Balance of Payments Statistics Yearbook and data files.
IF	Inflation, consumer prices (annual %)	Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used.	International Monetary Fund, International Financial Statistics and data files.
EX	Official exchange rate (LCU per US\$, period average)	Official exchange rate refers to the exchange rate determined by national authorities or to the rate determined in the legally sanctioned exchange market. It is calculated as an annual average based on monthly averages (local currency units relative to the U.S. dollar).	International Monetary Fund, International Financial Statistics.

Table 1: Explanatory variables, definition, measurement and source the World Bank

4. Empirical Results

Table 2 shows that Augmented Dickey-Fuller and Phillips-Perron Unit Root Test are employed to investigate the stationary property of the particular data series. The study indicates that all variables are not stationeries at level in both unit root test, only IF was stationary at level on Augmented Dickey-Fuller

Unit Root Test and only EXP was stationary at level on Phillips-Perron Unit Root Test. But, when both series are converted to the first difference, both series are become to be stationary and also integrated at the Lag [Order] of one, $I(1)$. These (ADF and PP Unit Root Test) results will overlay for running lag selection criterion.

Variables	ADF				PP			
	AT LEVEL		AT 1 ST DIFFERENCE		AT LEVEL		AT 1 ST DIFFERENCE	
	t-stat	Prob*	t-stat	Prob*	t-stat	Prob*	t-stat	Prob*
GDP	-2.504757	0.1263	-7.580954	0.0000	-2.504751	0.1263	-12.01526	0.0000
EX	-0.702365	0.8285	-3.865299	0.0081	-0.730078	0.8212	-4.226437	0.0033
EXP	2.743399	0.6223	-1.055957	0.0000	3.412640	0.0048	-4.154886	0.0038
IF	-3.597618	0.0133	-6.614501	0.0000	0.614250	0.9871	-10.46529	0.0000
FDI	4.582717	0.4546	1.709435	0.0000	7.598149	1.0000	-5.400928	0.0002
IMP	1.698616	0.5571	-1.413173	0.0000	2.360973	0.9999	-4.595500	0.0014

Table 2: Augmented Dickey-Fuller and Phillips-Perron Unit Root Test

Table 3 shows that there is a limited number of observations in the model. The model directed us to consider with a maximum of 2 lags and the outcomes of lag length for GDP model which is the lag 2. Results of this study depend on LR, FPE, AIC, SC and HQ criteria as advised by Engle and Granger (1987).

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-1749.343	NA	1.36e+56	146.2785	146.5731	146.3567
1	-1652.951	136.5551	9.84e+53	141.2459	143.3075	141.7928
2	-1585.014	62.27502*	1.35e+53*	138.5845*	142.4132*	139.6003*

Notes: * indicates lag order selected by the criterion, LR: sequential modified LR test statistic (each test at 5% level), FPE: Final prediction error, AIC: Akaike information criterion, SC: Schwarz information, and HQ: Hannan-Quinn information criterion.

Table 3: Lag selection criterion

According to this paper, the study uses a small sample of annual data, selecting more lags would reduce the degree of lack of restrictions. Johansen and Juselius (1990) theory advised that for small samples the best lags should be limited to 1 or 2 for the well-organized results. The optimum lags selected in this model is 2 which already have written in Table 3. The existence optimum lag will be using in the Johansen Co-integration test and Vector Error Correction Model (VECM) test as well.

Hypothesized	Eigenvalue	Trace	0.05	Prob.**
No. of CE(s)		Statistic	Critical Value	
None *	0.966767	179.6110	95.75366	0.0000
At most 1 *	0.883310	97.90968	69.81889	0.0001
At most 2	0.698088	46.35197	47.85613	0.0688
At most 3	0.335178	17.60908	29.79707	0.5950
At most 4	0.228045	7.811412	15.49471	0.4858
At most 5	0.064474	1.599524	3.841466	0.2060

Notes: Trace test indicates 2 cointegrating eqn(s) at the 0.05 level, * denotes rejection of the hypothesis at the 0.05 level, and **MacKinnon-Haug-Michelis (1999) p-values.

Table 4: Co-integration Rank Test (Trace)

The results for both the Trace statistic in Table 4 and the Maximum Eigen statistic observed in Table 5 indicated a maximum rank of one for the scenario selected at the 5% significance level; the Johansen co-integration test has allowed one co-integrating vector or rank; hence one rank is applied to establish the VECM. Therefore, we conclude that there is one long-run co-integrating relationship among Variables in this model. According to the definition of co-integration, Engle and Granger (1987) refers that if a set of variables are co-integrated, then there exist valid error correction representations of data. Also, this theory is widely recognized as Granger's Representation Theorem. The VECM is estimated here, and its results are presented in the Table 6 and the Table 7

Hypothesized	Eigenvalue	Max-Eigen	0.05	Prob.**
No. of CE(s)		Statistic	Critical Value	
None *	0.966767	81.70137	40.07757	0.0000
At most 1 *	0.883310	51.55770	33.87687	0.0002
At most 2 *	0.698088	28.74289	27.58434	0.0354
At most 3	0.335178	9.797670	21.13162	0.7634
At most 4	0.228045	6.211888	14.26460	0.5862
At most 5	0.064474	1.599524	3.841466	0.2060

Notes: Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level, * denotes rejection of the hypothesis at the 0.05 level, and **MacKinnon-Haug-Michelis (1999) p-values.

Table 5: Co-integration Rank Test (Maximum Eigenvalue)

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-1.872272	0.757635	-2.471206	0.0330

Table 6: VECM long-run relationship

According to Table 6, the optimum lags selection is 2. For instance, the Johansen's co-integrating test, 1 co-integrating vector indicates that there is long-run causality running from FDI, EX, EXP, IF, and IMP toward GDP because probability value is 3.3% which is significant, and the coefficient is approximately 187 % which is negative. Thus, Co-integrating equation one CE (1) is significant. The estimated coefficient of the error correction vector is 1.87, means CE (1) is the speed of adjustment correcting back disequilibrium at the rate of 187 percent annually i.e.; the speed of adjustment of disequilibrium is extremely fast. The negative sign of coefficient and the significant of probability value signify the existence of co-integration among variables. Estimation technique shows that approximately 187% of the previous year's disequilibrium in the economy is corrected in the long-run. There exists causal relationship running from FDI, EX, EXP, IF, and IMP toward GDP.

Variables	Test Statistic	Value	df	Probability
GDP	Chi-square	1.221940	2	0.5428
EXP	Chi-square	3.951187	2	0.1387
EX	Chi-square	1.383938	2	0.5006
IF	Chi-square	3.305318	2	0.1915
FDI	Chi-square	6.981773	2	0.0305
IMP	Chi-square	1.383123	2	0.5986

Table 7: VECM short-run relationship using Wald Test

Table 7 indicates that there is short-run causality running from FDI inflows to GDP by using Wald Test. Because the probability value of FDI is 3.05%. While the rest of the variables such as EXP, EX, IF and IMP with probabilities of 13.87%, 60.06%, 19.15% and 59.86% respectively determined that there is no short-run causality running from EXP, EX, IF and IMP toward GDP.

	Obs*R-square	F-statistic	Prob*
Serial correlation: Breusch-Godfrey Serial Correlation LM Test	0.558811	0.099604	0.7562
Heteroscedasticity Test: Breusch-Pagan-Godfrey	19.09701	2.283361	0.2094

Table 8: Diagnostic test.

Table 8 also shows the diagnostic test of the residuals of serial correlation using Breusch-Godfrey Serial Correlation LM and Heteroskedasticity Test using Breusch-Pagan-Godfrey. The estimated results show that the probability value of 75.62% residuals are not serially correlated, and the probability value of 20.94% concluded that the residuals are homoscedasticity as well thus our model is free from serial correlation and Heteroskedasticity.

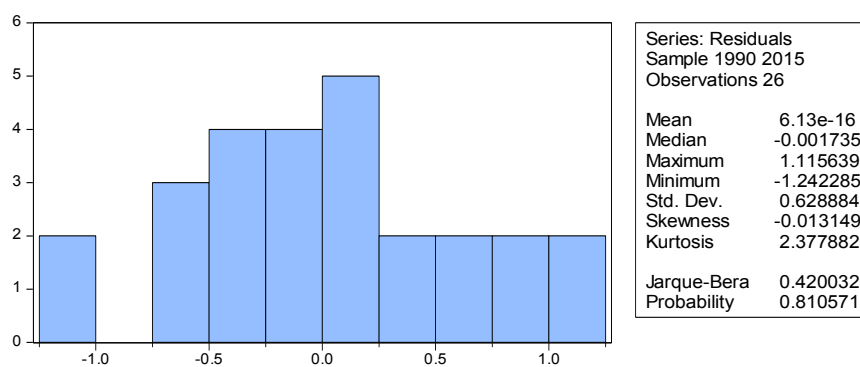


Figure 2: Normality test

Figure 2 shows the test of normality of the residuals using Jarque-Bera Normality test. The residual normality test of probability approximately 81.06% reveals that residuals are multivariate normal. The empirical results imply that the null hypothesis of residuals are normally distributed which accepted at 5 percent level of significance.

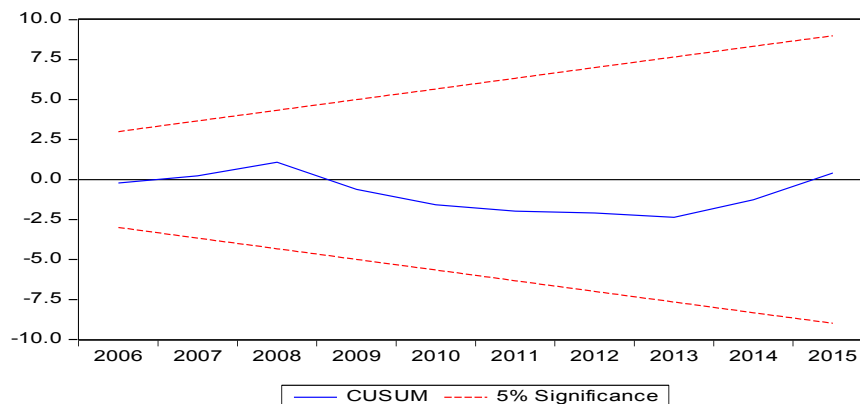


Figure 3: Stability test

Figure 3 shows the stability of the model using CUSUM test at 5% significance level. From this figure reveals that the model of the data are stable because blue line is within the red lines which imply that the model is structurally stable.

5. Discussions and Conclusions

The purpose of this research was empirically examining the impact of FDI inflows on Economic Growth in Bangladesh by compelling FDI, EXP, IMP, IF and EX as independent variables. We investigated that there is a relationship among Foreign Direct Investments, Export, Import, Inflation, Exchange rate and per capita GDP Growth rate for Bangladesh with the help of annual time series secondary data for 1990 to 2015. The VECM model analysis found that there is a long-term relationship among these variables. In the short run analysis, there is no causal relationship between these variables except FDI has a short-run relationship between Economic Growth. To check the validity of the VECM model, we employed diagnostic and stability tests and found that the residuals of the regressions are normally distributed, and there is no auto-correlation. And our model is also structurally stable. Our study results are similar to Ahmad et al. (2013) for Pakistan and Andraz and Rodrigues (2010) for Portugal in the case of FDI Inflows and Economic Growth. However, Nath (2009) study did not find a positive relationship between FDI and GDP for Central and Eastern Europe (CEE) and the Baltic region. Also, we have used different variables for obtaining good results for Bangladesh case while these studies did not use as like as our variables. Since VECM model exists a long-term and short-run relationship between FDI inflows and GDP Growth, we suggest that Bangladesh government can create foreign investment-friendly policies, transfer of knowledge and trade promotion. These also it needs to take a destructive policy of promoting the trade sector by safeguarding duty-free access to developed countries.

5.1 Limitations and Future Research

The empirical results of the test demonstrate that FDI has a positive effect on economic growth rate of Bangladesh. The study results must be interpreted comprehensively and thoroughly. This is related to some limitations which can be used as a basis for suggesting further research. We have used limited time from 1990 to 2015 (twenty-six years) for this study however in future researchers can be used the longer period for better results. In our study, the impact of foreign direct investment is linked with the GDP growth, export, import, exchange rate and inflation but in future impact of foreign direct investment can be measured by national expenditure, employment, foreign direct investment outflow, national income, etc. Policymakers should understand the importance of foreign direct investment and its impact on Economic growth whatever making the policies. They should encourage and assist foreign investors in enhancing the Foreign Direct Investment (Inflows), which will also make an advantage to increase the country's foreign reserves. Policy makers should also create a business-friendly environment to the foreign investors, and proper direction should provide to the foreign investors. Many studies have demonstrated that improvement of regulation and order, the formation of an investment-friendly environment, technology transfer and infrastructure development play a vital role in attracting foreign investment. According to this type of critical relationship, we leave it to future study on Bangladesh's economic growth and internationalization for further research.

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Using the technology acceptance model in understanding citizens' behavioural intention to use m-marketing among Jordanian citizen

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Keyword

M-marketing, Trust Factor, Perceived ease of use, Perceived usefulness, Technology Acceptance Model,

Abstract

This study aims to identify and understand factors that affect to acceptance M -marketing among Jordanian citizen. This study integrates technology acceptance model (TAM) with Trust factor. The primary data were collected from 1950 valid questionnaires, which were distributed, to random Jordanian citizen in three cities. The analyses of the gathered data employed the Partial Least Squares Structural Equation Modeling (PLS-SEM). The validity of the final overall model was evaluated using the statistics and acceptable fit of the measurement model to the data has been demonstrated. Based on the outcomes, the factors with the highest direct effect on Intention to use M- marketing appeared to be Attitude toward using M -marketing, while the factor with the highest indirect effect on Intention to use M- marketing appeared to be Compatibility. The main findings of the study are: trust factor has a positive and significant impact on perceived ease of use and perceived usefulness. Ease of use and perceived usefulness has the stronger impact on customers' attitude, which in turn influences customers' intention to use M -marketing services.

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I.1 Introduction

The current time regards mobile as an integral part of consumers. The swift global expansion in the sales and usage of Smartphone turns mobile marketing into a trending medium of marketing in today's world. Park and Salvendy (2012) reported the popularity of mobile phones over other mediums such as televisions and laptops, and this has made mobile phone advertising an expanding phenomenon as well. Mobile marketing allows freedom to point to certain consumers according to location, personalization of content, aside from offering a scope for interaction. ComReg (2014) reported that in 2013, almost all (97%) Irish consumers owned a mobile phone when compared to 69% who owned landlines. Within the marketing communications, mobile Marketing is now a global trend. This, according to Shankar and Yadav (2010), owes to its distinct characteristics including ultra-portability, location-sensitivity and channel independent. In the context of Jordan, users of Smartphone have grown in number. In fact, a report by Alrai Newspaper stated that by 2016, the ownership of Smartphone was at 75%. Then, in a report on the clothing retailing trends in Jordan released in December 2016, customers demand in-store innovative technology so that their experience of shopping could be improved. Over the years, the trend has grown; consumers now attempt to interact with retailers and brands using technologies including GPS, QR codes, Mobile websites as well as the applications of Mobile social networking. Mobile devices can become a gateway in the establishment of a relationship between a consumer and a retailer.

I.2 Literature review

Internet is now a valuable marketing platform for domestic and international transaction after it has become a global interconnection network for information sharing and delivering. According to A.T.

Kearney (2015) reported the growth of retail e-commerce reaching US 840 billion in 2014. The amount, according to the author, surpassed the sales of US 695 billion in the preceding year (2013) and it was projected to reach US 1506 billion in 2018. As sales are continuously increasing, it is clear that e-commerce has large market potential. Powerhouses in the e-commerce arena including Alibaba, Tenement, Amazon and Groupon have been successful and they become an example for corporates to switch from the traditional business to the brick-and-click type. Albeit the global flourishing of e-commerce, Malaysia's ranking had fallen in 2015, below its 30th position in the Top 30th Global Retail E-Commerce ranking (A.T. Kearney, 2015).

Consumer behavior has changed over the decade and this necessitates the retailers to attempt to comprehend the virtual consumers in terms of their psychology. Decoding the online consumer behavior is hard and the fact that there is no physical interaction during the transactions makes the problem more complicated (Jiang, Chen, & Wang, 2008). IPSOS Open Thinking Exchange (2012) reported that more than half (56%) of the respondents from 24 countries would rather do their shopping at a traditional store as opposed to the online stores (Marketing Charts, 2012). For instance, in the United States, which is one example of a developed country, 63% of its consumers reported that they would do a survey on the internet prior to making a purchase and yet, only half of them would actually purchase online (NPD Group, 2011).

People might have already been aware of the term Internet several years earlier (Hofacker, 2001). The Internet, which was created by computer software, comprises the overall devices interconnected by the Internet Protocol. As indicated by Rowley (1996), initially, the Internet was an academic network. However, after its usage started growing in business, the Internet is now accessible to small colleges, small businesses and libraries on a global scale. With respect to e-commerce, IBM described it as business to vendors, to customers, to employees, and to suppliers via Intranet, Extranets and in Internet E-Commerce, Internet is crucial as its main medium. Therefore, countries pursuing improved economy via e-commerce usage have to adopt the Internet and be prepared for both its advantages and disadvantages. Meanwhile, a number of factors causes the success and failure of e-commerce. In relation to this, the factor of trust could have potential in influencing users' intention to engage in online transaction. Thus, this factor is investigated in this study.

1.3 Theoretical Background

The Technology Acceptance Model (TAM) can assist in the comprehension about what determines user acceptance of M-marketing. Therefore, this model is highlighted as below: Davis (1986) created the well-known technology acceptance model (TAM). This model relates to technology acceptance and use. TAM is a theoretical model that contributes to the explanation and foretelling of user behavior of information technology (Legris, Ingham, & Collerette, 2003). This model is an influential extension of theory of reasoned action (TRA) by Ajzen and Fishbein (1980). TAM describes the reason a user accepts or rejects information technology by its adaptation of TRA (Davis, 1989). Using this model, researcher has a basis with which the way external variables affect belief, attitude, and intention to use is traceable. The two cognitive that TAM posits are perceived usefulness and perceived ease of use. TAM posits that the actual usage of a technology system by an individual is affected directly or indirectly by the behavioral intentions, attitude, perceived usefulness of the system, and perceived ease of the system of the user. The model also suggests that external factors influence intention and actual usage by way of mediated effects on perceived usefulness and perceived ease of use.

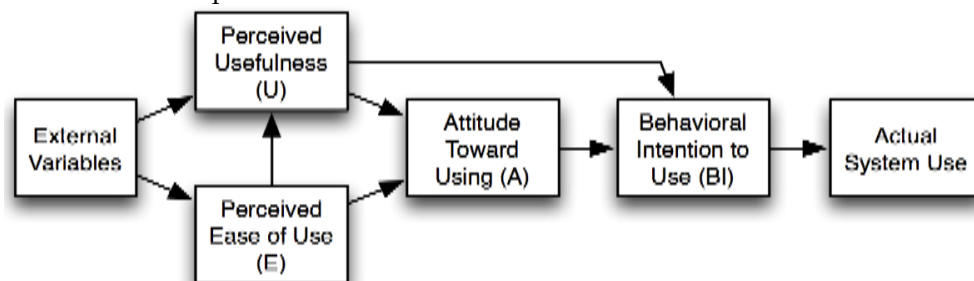


Figure 1: The original TAM (Davis, 1989).

I.4 Research Model Factors

A research model grounded on Davis's (1989) Technology Acceptance Model (TAM) with the inclusion of one more factor is proposed in this study. This model will be utilized in the examination of the factors that affect users' acceptance of M-marketing in Jordan. The following comprises the discussion on the constructs of the proposed model.

The technology acceptance model or TAM was created for describing the determining factors of user acceptance in a vast range of computing technologies of end-user (Davis, 1986). Tung et al. (2014) mentioned this model as grounded on the theory of reasoned action or TRA proposed by Ajzen and Fishbein (1980). In addition, considering that TRA is a well-established model, it has been used by numerous scholars in numerous domains to provide explanation and prediction on human behaviour. The first created TAM included five components: perceived ease of use (PEOU), perceived usefulness (PU), attitude toward using (ATU), behavioral intention to use (BI), and behaviour system use. In detail, PEOU signifies the extent to which a user feels that the utilization of certain service would be effort free, while PU signifies the extent to which an individual feels that the utilization of certain system would lead to improved performance of his or her job (Davis, 1989). PEOU and PU are regarded as the two most instrumental factors for system use. Liu and Han (2010) in fact stated that PEOU and PU are the primary beliefs leading to user acceptance of information technology. On the other hand, ATU directly foretells BI of the users. As from that,

Extensive research over the past decade provides evidence of the significant effect of perceived ease and perceived usefulness of use on usage intention, either directly, or indirectly, through its effect on perceived usefulness (Davis, 1989; Venkatesh and Morris, 2000).

I. Perceived Trust

As suggested by several researches, lack of trust in online businesses prevents many people from using the online services (Wu, & Chen 2005). User's trust is feeling secure and confidence about depending on a service. Meanwhile, Gefen (2000) stated that in the settings of e-commerce, familiarity, which comprises of an awareness of what, why, where, and when other parties do what they do, also contributes to trust. In addition, as suggested by past authors, the feeling of trust is formable via interactions. Meanwhile, in M-marketing, personal information privacy and concerns on data security are found to be the influencing factors for citizens' lack of trust in online technology. In respect to privacy, Benassi (1999) reported this factor as the leading Internet issue that consumers are facing. Many consumers remain doubtful when it comes to transmitting private information through this open electronic network, specifically financial information. Still, online commerce customers usually need more reassurance of privacy protection and greater degree of control over the releasable personal information (Khalifa & Shen, 2006).

The major factors contributing to trust in mobile marketing are privacy and security. This extends to electronic commerce (Cheng *et al.*, 2006). Wang *et al.*, (2003) argued that information privacy is vulnerable on the internet and can lead people away from using IB and online financial transactions

I.5 Research Framework and Hypothesis

The focal point of this study is the viewpoint of individual. Based on the TAM model, this paper attempts to provide prediction on mobile marketing intention of users in online marketing. This study attempts to ascertain if the original constructs of TAM namely perceived usefulness, Perceived ease of use impart impact on mobile marketing. The reason is that Perceived usefulness directly influences user behavior while the impact of trust on mobile marketing intention is worthy to be aware of. As such, the construct of trust is also included in the research model.

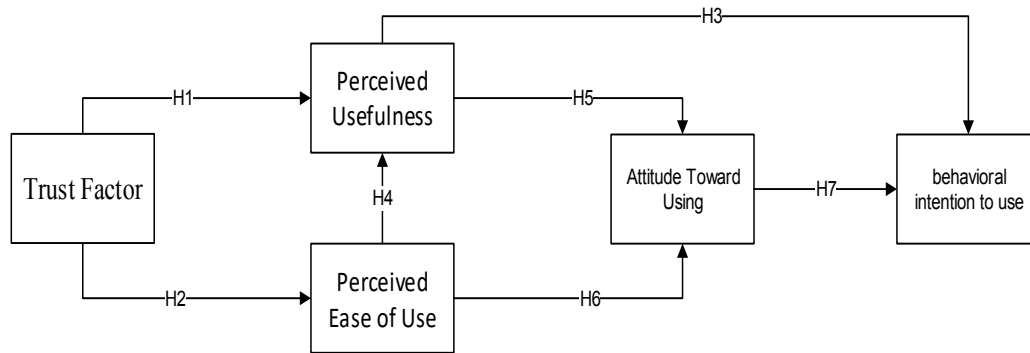


Figure 2: Research Model

I. Research Hypothesis

H1: Trust factor has a significant positive relationship with perceived usefulness in the use of M-Marketing.

H2: Trust factor has a significant positive relationship with perceived ease of use to use M- Marketing.

H3: Perceived usefulness has a significant positive relationship with behavioral intention to use M-Marketing.

H4: Perceived ease of use has a significant positive relationship with perceived usefulness to use M-Marketing.

H5: Perceived usefulness has a significant positive relationship with attitude toward using to use M-Marketing.

H6: Perceived ease of use has a significant positive relationship with attitude toward using to use M-Marketing.

H7: Attitude toward Using has a significant positive relationship with use behavior to use M- Marketing.

I.6 Questionnaire Development

This study employed a questionnaire that is based on the available literature on TAM and trust (e.g., Davis, 1989; Chen et al., 2004; Venkatesh et al., 2003; Lu, Zhao, & Wang, 2010; Wu, Chen, & Chung, 2010) with mobile marketing in consideration. The construction of the items was according to the instruments employed by the past scholars. This would reflect the general dispositions of consumers towards behavioral intentions. As the respondents of this study were Jordanians, translation was made to the original instrument, from English to Arabic. The questionnaire was finalized after the repeated translation processes. A five-point scale was used to evaluate each item. The scale ranges from 1 (strongly disagree) to 5 (strongly agree).

I.7 Research Methodology

This research employed 1950 citizens aged 18 and above enrolling in among Jordanian citizen as respondents. As for data, they were obtained online (online questionnaires at www.surveymshare.com). There is only one part to the questionnaire. This one part contains items, which represent several constructs. The 5-point scale was chosen for measuring the acceptance level of users. In order to measure the association between the six primary factors and behavioral intention to use M- marketing in Jordan, this study utilized regression analysis. This study attempts to construct an integrated framework with the capacity of measuring the citizen's readiness to interact with M-marketing. In the investigation of these citizen's readiness, validation to the trust factor with Technology Acceptance Model (TAM) has to be performed.

A. Instrument Development

The construction of the items was for determining the respondents' awareness of the online access to the M-marketing. Minor modification was made to the questionnaire based on respondent's comments. At the same time, the readability and validity of content were affirmed. Utilizing the Partial Least Squares Structural Equation Modeling (PLS-SEM), a pilot analysis was performed. This allows the examination on the reliability as well as validity of the initial construct. The Cronbach's alpha was used in

the pilot test. Factor analysis was also conducted on the data gathered from a sample comprising of 30 citizens with mobile marketing experience. The sample was obtained using the procedures of convenient sampling. All items appear to have value larger than the proposed cut-off of 0.70.

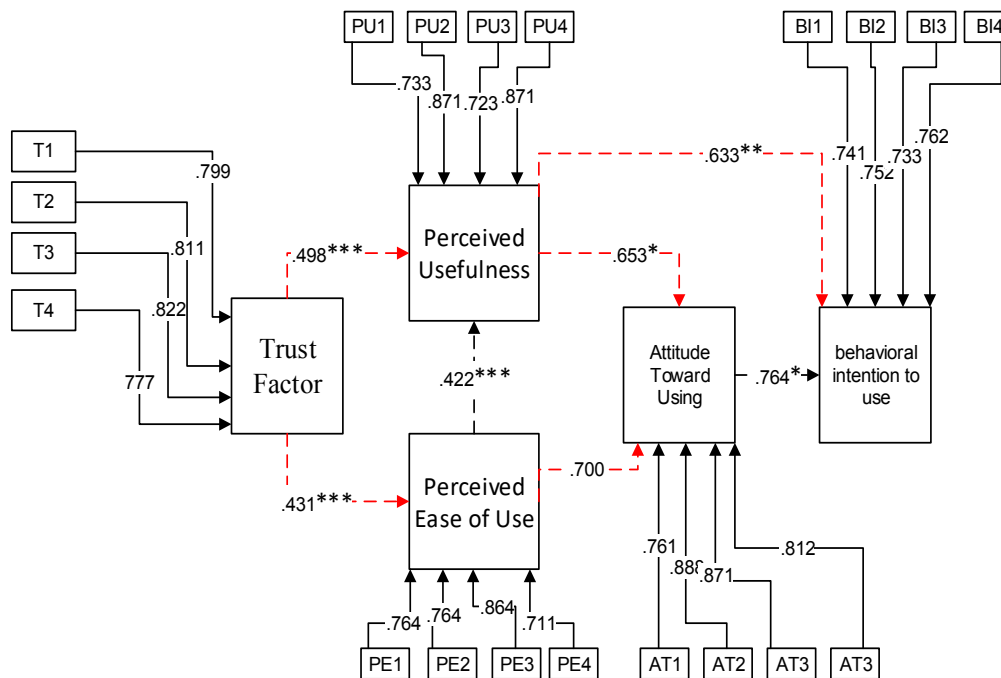
Table 1: Reliability Analysis

VARIABLES	ITEMS #	RELIABILITY
Trust	4	.733
Perceived usefulness	4	.831
Perceived ease of use	4	.901
Attitude toward	4	.801
Behavioral intention	4	.801

Data Analysis

Considering the measurement model, the assessment of the structural model was the subsequent step in the PLS Analysis; an analysis was performed towards the inner model. Hair et al.'s (2011) proposed requirements were perused. Thus, for the testing of hypotheses, the researcher employed bootstrapping to measure the significance level of the path coefficients.

The researcher applied the PLS-SEM structural model for testing the hypothesized relationships. Here, the PLS algorithm and bootstrapping algorithm in SmartPLS 2.0 3M were used. The path coefficients show high level of significance in PLS analysis. However, it should be noted that when paths are non-significant or show signs contradictory to the hypothesized direction, the earlier established hypothesis should be rejected (Hair et al., 2011).



Notes: * $t > 1.960$, $p < 0.05$; ** $t > 2.576$, $p < 0.01$; *** $t > 3.291$, $p < 0.001$

Figure 3: Measurement Model

In brief, the path coefficients for all hypotheses show significance, which means that at this level, each constructed hypothesis, is supported. Behavioral intention to use shows positive indirect linkage with the Actual system use while trustfactor also shows positive indirect linkage with the Perceived usefulness and Perceived ease of use. Likewise, the constructs of Perceived usefulness and perceived ease of use demonstrate positive indirect association with the Attitude toward. Additionally, there is positive indirect relationship between Perceived usefulness and Behavioral intention. Moreover, there is also positive indirect relationship between Attitude toward and Behavioral intention. Likewise, Behavioral intention has positive indirect relationships with the Actual system use. Table 2 presents the correlations for each factor in the proposed model.

Table 2: Summary of Hypotheses

Hypotheses	Variable	β	Supported
H1	Trust <input checked="" type="checkbox"/> Perceived usefulness	.498	Yes
H2	Trust <input checked="" type="checkbox"/> Perceived ease of use	.431	Yes
H3	Perceived usefulness <input checked="" type="checkbox"/> Behavioral intention	.633	Yes
H4	Perceived ease of use <input checked="" type="checkbox"/> Perceived usefulness	.422	Yes
H5	Perceived usefulness <input checked="" type="checkbox"/> Attitude toward	.653	Yes
H6	Perceived ease of use <input checked="" type="checkbox"/> Attitude toward	.700	Yes
H7	Attitude toward <input checked="" type="checkbox"/> Behavioral intention	.764	Yes

Discussion and Implications

The readiness to utilize M-marketing services among Jordanian citizens as investigated in this study particularly in terms of its extent. Here, the constructs employed and explained were those of trust, perceived usefulness, perceived ease of use, attitude toward, behavioral intention, and actual system use. As M-marketing usage among citizens should be increased, the government must tackle these factors. Data obtained were from different levels of citizens. A diverse pool of data increases the representativeness of the outcomes to the population. A model tailored to the environment of Jordan is proposed in this study. This model particularly takes in constructs from the Technology Acceptance Model (TAM). With respect to the constructs of trust, perceived usefulness, perceived ease of use, attitude toward, behavioral intention, and actual system use, there will be increase in citizens' intent to utilize M-marketing if they are convinced that the internet would increase their efficiency in obtaining information from the government and in their interaction with the government. The intent to use of these citizens would also increase if these citizens have better control when they interact with the government. The awareness of citizens about the services that are accessible to them online should be increased and therefore, the government should adopt an awareness initiative. In addition, the government must not neglect the current technology specifically the social media. The government should thus adopt the modern medium and abandon the traditional one. As such, the government would be able to provide the citizens with real time information.

1.8 Limitation

There are a number of limitations that this study has found. First, even though there has been wide usage of M-marketing worldwide, only the M-marketing members in Jordan were considered in this research. As found in the M-marketing literature, the samples obtained from Jordan universities typically are young and highly educated. This is different from those samples used in the studies conducted in other countries. As such, the factors that were assessed and identified on the re-usage intentions of M-marketing members are only confined to Jordan. Thus, future studies should compare their outcomes with those reported in studies in other countries.

Secondly, the modified TAM model that this study employs only tested the impacts of four independent variables and one external factor, that is, the trust variable. Thus, it would be beneficial if other factors were also investigated. As such, a comprehensive empirical research should be constructed to allow the evaluation of the effects of other factors as well.

Thirdly, this research concentrates on M-marketing usage intention with respect to products. Among industries, the most prevalent issue for them is the purchase intention of consumer following M-marketing usage. Thus, future researchers, retailers, and manufacturers could extend this research as well in order to allow the exploration of the relationship between M-marketing usage and the continuation of purchase intention of M-marketing members. Moreover, other industries could also be the focal point in the future studies.

Lastly, this study's proposed model could also be used and extended in the future study through the addition of other constructs including the construct of service quality and computer self-efficacy.

1.9 Conclusion

The last decade has witness the expansion of M-marketing in the developed nations. This has fascinated the developing countries especially the Middle East countries because the significant worth of being a player in the arena M-marketing is understood by these countries. Countries in the Middle East

must employ the technology of Internet technology particularly in the marketing field. Unfortunately, Internet users are still lagging for nearly all countries in the Middle East particularly with respect to the varied usage of Internet. In fact, very few M- marketing sites can be found in Arab countries. The outcomes generated by this study fulfil its key objective: to increase the intention to use Arabic M-marketing websites among Arab users. As such, the increase number of Arab e-commerce websites is expected to cause consumer to switch their online purchasing intentions towards the local Arab websites. This in turn will improve the microeconomics of Arab nations. The study offers a validated framework model for the establishment of Arabic Websites and online shopping industry. This study is also an addition to the body of knowledge on the fundamental level. The findings obtained by this study can be used as a key guideline to the academia and practitioners in their practices of business development.

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The impact of corporate characteristics on environmental information disclosure: an empirical study on the listed firms in Egypt

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Key words

Corporate Characteristics, Corporate Social Responsibility, Environmental Information Disclosure, Egyptian Stock Exchange

Abstract

Companies with good Reputations not only depend on financial results but also on their contribution in environment and social responsibility and sustained growth. This is what the researchers are trying to prove over the past 30 years but still there is no consensus on the validity of this statement, therefore it became one of the debatable areas whether the Corporate Social Responsibility (CSR) can affect the organization financially or economically. Environmental information disclosure (EID) has become an important part in the process of the annual report, the social responsibility report and other information disclosure. This paper aims to assess the impact of several Corporate Characteristics on environmental information disclosure of the listed firms in a developing country. It selects the 50 most active firms in the Egyptian stock exchange and the analysis is done using the financial statements from the disclosure book for the period 2007-2011, prior the revolution, along with the firms' annual reports. The final count for the firms is 45, after excluding banks and insurance companies, for having different disclosure requirements and different corporate governance code. The tests for this research are done using the multiple regression model applied using the SPSS. Findings found that there is an insignificant relationship between two factors of firms' characteristics (Firm Size and Firm Financial Leverage) and EID, while Firm's age showed a negative significant relationship with EID and finally Firm's Profitability showed a positive significant relationship with EID.

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1. Introduction

Countries try to develop by resorting to several technological techniques and methodologies that eventually might lead to the deterioration of the environment and polluting the climate leading to several natural problems. These nature changes set the alarm for different parties in the society in order for the corporations to show some concern with regard to the environment. It became an obligation on the firms to disclose their responsibility toward the society and the environment and since then environmental information disclosure has become an important part of the accounting information system (Iwata & Okada, 2011), (Pahuja, 2009) and (Ahmad & Mousa, 2010).

During the last twenty years, corporate social and environmental reporting became a point of interest for researchers. Environmental disclosure is one of the problems in the corporate environmental argument. Shareholders, the suppliers of foreign capital, the government, employees, customers and the general public, all claim a right to environmental information. Corporate environmental disclosure is a part of social reporting and the environmental disclosures are mainly non-financial in nature (Belal, 1999).

In recent years, Environmental information disclosure (EID) became a rising topic with the existence of an increasingly severe deterioration of the ecological environment, therefore environmental protection pressures from government, society and media, and stakeholders have progressively paid much attention to EID of the listed firms (Chang, 2011). Environmental information disclosure (EID) has

become an important part in the process of annual report, the social responsibility report and other information disclosure (Clarkson et al., 2008).

Academic research is heavily concerned with the area of environmental disclosure and the idea of corporate social responsibility as a broader aspect. Prior literature investigates the concept of social responsibility and the importance of disclosure. However, there isn't much empirical evidence on the environmental disclosure practices taking place in the developing countries (Saha & Akter, 2013) and (Uwuigbe, 2012) and very limited research is done to investigate the impact of corporate characteristics (Independent Variables) on Environmental Information Disclosure (Dependent variable) in the developing nations. Therefore, this research attempts to study this relation in some listed Egyptian firms, focusing on four main types of corporate characteristics which are firm size, firm age, firm leverage and firm's profitability.

The next section of this research shows the literature and the research hypotheses; section 3 presents the methodology, section 4 presents findings followed by the conclusion, finally section 6 provides the limitations along with few recommendations.

2. Literature Review

"Transparency via information disclosure is increasingly at the heart of a number of global environmental governance initiatives" cited by (Gupta, 2008). The requirements of environmental standards, issued by International Organization for Standardization (ISO) have been the basis to several researches on environmental responsibility. It is argued by (Neyland, 2007) that environmental information disclosure gives more transparency to the annual report.

Theories prove that social and environmental disclosure affects the corporations' economic, financial, environmental and social performances (Gray, 2006), hence it is thought that sustainability reporting may improve corporate behavior. Few theories are to be introduced; the first one would be the stakeholders' theory, according to (Roberts, 1992) the society is divided into subgroups, each affecting the firms differently but they all share a common nature which is the concern about the firm's responsibility towards the environment, it is added that information disclosure is the language between firms and stakeholders. Stakeholder theory is considered a broader view for the agency theory that states that there is an agency relationship between the principal (shareholders) and the agent (management) and that the agent should work for the interest of the principal to avoid any conflict of interest which leads to the agency problem, (Jensen & Meckling, 1976).

Moving to a further broader view, comes the legitimacy theory which takes the society as a whole and explains its effect on the firms' disclosure intensity (Cho & Patten, 2007). This theory focuses on the social contract that should exist between the corporations and the society, this contract states that there should be a link between the values of the corporation and the values of the society, if the firm couldn't satisfy the society then the contract is considered broken and thus the firms are negatively impacted and therefore to avoid this dilemma, firms try to enhance their environmental disclosure process (Milne & Patten, 2002), (Deegan, 2002) and (Patten, 1992).

A third theory that enhances the importance of the previously mentioned theories is the Voluntary disclosure theory which focuses on the amount of information to be disclosed and not only the type of information, as explained by (Clarkson et al., 2008). Brammer & Pavelin (2006) state that information asymmetry problem is reduced between the firm and the stakeholders through the efforts made by the firms to disclose as much information reflecting good environmental performance. Corporate characteristics can determine the quality of the information disclosed and every corporation has different characteristics that might have an impact on the disclosure process (Lang & Lundholm, 1993).

2.1 Firm Size and Environmental Information Disclosure

Previous literature has explained different relations between firm size and Environmental Information Disclosure. The majority of the research showed a positive relation between the two variables such as the research conducted by (Hartikayanti et al., 2016), (Andrikopoulos & Krikilani, 2013), (Michelon & Parbonetti, 2012) and (Montero et al., 2011). The main reason behind this positive relation is the idea of how visible the firm is to the society, so the larger the firm is, the more visible it becomes and therefore it is obligated to disclose more information (Patten, 2002) and (Cormier & Gordon, 2001). Other reason

stated by (Despina et al., 2011), is that larger firms care about their reputation and, so they try to increase their financial performance through disclosing more environmental information to gain the public trust.

Other researches find that the firm size has no effect on the level of environmental information disclosure like the study conducted by (Ebiringa et al., 2013) and (Veronica, 2009). A negative relation is not proven in studies concerning developing countries.

2.2 Firm Age and Environmental Information Disclosure

Age could actually help firms become more efficient. Over time, firms discover what they are good at and learn how to do things better (Arrow, 1962), (Jovanovic & Hart, 1982) and (Ericson & Pakes, 1995). They specialize and find ways to standardize, coordinate, and speed up their production processes, as well as to reduce costs and improve quality. A positive relation is suggested by prior literature explaining that if the firm has been established since a long time ago this shows that the firm is satisfying its stakeholders as it meets its financial and social/environmental obligations, this is mentioned in the research conducted by (Liu & Anbumozhi, 2009) and (Choi, 1999). A motive to meet these obligations could be to protect its reputation by being involved in the environmental information disclosure process (Roberts, 1992).

2.3 Firm Leverage and Environmental Information Disclosure

Agency theory argues that firm leverage is determined by agency costs, which results from potential conflicts of interests, leading managers to adopt leverage choices that improve their own private benefits rather than maximize shareholders wealth (Gray et al., 1995). Financial leverage is a very important corporate characteristic therefore many arguments exist showing different relations. Starting with studies proving a positive relation comes those of (Andrikopoulos & Krikhani, 2013) and (Clarkson et al., 2011) and the reason is because of the stockholders monitoring demand that increases when the level of firm's leverage increases leading firms to increase the level of disclosure. Ho & Taylor (2007), prove a positive relation by stating that this reduces the agency cost/ agency problem.

On the other hand, (Sembiring, 2005) explains the existence of a negative relation by stating that the firms do not want to be of point of concentration by the creditors. Nur (2012) supported this negative relation. Other reason mentioned in old literature by (Belkaoui & Philip, 1989) is that companies tend to lower all kinds of costs in order to increase their profits to satisfy some credit agreements. Finally, there are researches that say there is no relation between leverage and the environmental information disclosure such as (Permana & Raharja, 2012) and (Veronica, 2009).

2.4 Firm profitability and Environmental Information Disclosure

Profitability is defined as an indicator to the firm's performance in managing its assets (Juhmani, 2014). Based on the agency theory, profitability is considered an indicator for satisfying the shareholders' needs, especially when ROE is used as profitability measurement as it measures the firm's performance (Ebrahim et al., 2015). Positive and negative relations as well as no relation exists between the firm profitability and Environmental Information Disclosure, however the majority of prior literature explains the positive relation. Prior literature stating a negative relation (Huang & Kung, 2010) and (Kathyayini et al., 2012) while literature stating no relation includes (Zeng et al., 2012), (Cho et al., 2010) and (Ahmad et al., 2003).

Explanations for a positive relation focuses on two main points, first is that firms with high profitability try to increase their public image as well as attracting new investors therefore they tend to increase the level of environmental disclosure (De Villiers & Van Staden, 2011). Second, firms with high profits have better ability to pay for the costs of the environmental disclosure (Brammer & Pavelin, 2008). Based on previous studies and results, it can be seen that large sized firms, firm's age, firm financial leverage level, and firm's profitability can have significant effect on Environmental Information Disclosure; therefore, the research hypotheses are stated as follows:

- H1: There is a significant relationship between Firm size and Environmental Information Disclosure
- H2: There is a significant relationship between Firm Age and Environmental Information Disclosure

- H3: There is a significant relationship between Firm Financial Leverage and Environmental Information Disclosure
- H4: There is a significant relationship between Firm Profitability and Environmental Information Disclosure

3. Research Methodology

Statistical techniques and tools are applied to test the significance of the research hypotheses using theoretical and quantifiable data from the Disclosure book, annual reports and some data were purchased from the Egyptian Company for Information Dissemination (EGID). The statistical tools used are descriptive statistics, correlation analysis and regression analysis. Data is tested from the year 2007 until 2011 which is before the revolution, and the population used in this research is the Egyptian stock exchange (EGX), taking a sample of the 50 most active firms. In this investigation the ordinary least squares (OLS) method of regression was applied in executing the analysis, (Cohen et al., 2007).

3.1 Dependent Variable

In this study the dependent variable is the environmental information disclosure (EID), Environmental information (EI) must help the society and companies to recognize the impact of business decisions on the environment (Milne & Patten, 2002), (Kuk et al., 2005). One of the techniques is using measures that quantify the level of environmental disclosure (Milne & Adler, 1999), this could be done by counting the number of pages, sentences and words, amount of news including their types (bad, good, or neutral news) or the number of disclosure items. However, this technique has few disadvantages, such as not taking into account the use of non-textual information (McMurtrie, 2005) as well as the inability to assess the quality of the disclosed information (Patten, 2002).

The second technique is a scoring measure where the text is classified. By using this measurement tool, researchers quantify the provided environmental information by identifying specific environmental items, and then they analyze the disclosure on each item using a yes/no (1, 0) scoring. At the end, a score per firm can be calculated, this is based on (Al-Tuwaijri et al., 2004) and (Clarkson et al., 2008).

Several indexes are established to support the second technique, for instance (Clarkson et al., 2008) developed a content analysis index, based on the Global Report Initiative (GRI) reporting guidelines to assess the level of discretionary Environmental Disclosure (ED) in environmental and social responsibility reports. Another index measures the extent of information based on the firms' annual report by using a quantitative component as it applies a scoring system giving zero point in the absence of the item and one point in the item presence (Harris et al., 2005) and (Greene, 2012).

This research uses an index that suits the Egyptian firms which is appendix A, the index is suggested by (Carreira et al., 2014) and (Juhmani, 2014) containing a total number of 26 items, from Annual Report (16 items) and from Annex (10 items), which are other attachments to the annual report, by assigning a score of 1 if a firm discloses an item and a score of 0 if it does not. For each firm, a disclosure index was computed as the ratio of the actual score given to the firm divided by the total score.

3.2 Independent Variable

Table (1) shows the measuring tools that this research uses based on the prior mentioned literature and these are the most commonly used measurements.

Table (1): Independent Variables Measurements

Variables	Measurement	Reference
Firm size (FSIZE)	Natural log of total assets	(Barako et al., 2006) and (Lim et al., 2007)
Firm Age (FAGE)	Log of the number of years since the firm's foundation	(Arrow, 196 2), (Mueller, 1972), (Ericson & Pakes, 1995) and (Soliman, 2013)
Firm Leverage (FLEV)	Total Debt divided by the Total Assets of the firm.	(Chen, 2003), (Baharuddin et al., 2011) and (Buferna et al., 2005)
Firm Profitability (PROF)	Net income/total equity	(Julius, 2016) and (Juhmani, 2014)

3.3 Research Model

This research uses a multiple regression model to examine and test for the impact of multiple independent variables, which are the corporate characteristics, on the dependent variable, which is the environmental information disclosure, of the most active firms listed in the Egyptian stock exchange

$$EID = \beta_0 + \beta_1 FSIZE + \beta_2 FAGE + \beta_3 FLEV + \beta_4 FPROF + \epsilon$$

Where: EID: is environmental information disclosure, FSIZE: is Firm size, FAGE: is Firm age, FLEV: is Firm Financial Leverage, FPROF: is the firm's profitability, β : represents the regression coefficient, ϵ : represents the error term.

4. Findings and Discussion

Using SPSS, testing the hypotheses includes descriptive statistics followed by correlation analysis and then the regression analysis.

4.1 Descriptive Statistics

The aim of this analysis is to describe the variables by showing the mean, minimum and maximum values and the standard deviation of the dependent and independent variables

	N	Minimum	Maximum	Mean	Std. Deviation
EID	225	.00	.88	.2174	.22652
FSIZE	225	17.447634	25.276637	21.109474	1.689402
FAGE	225	14	37	23.96668	5.899404
FLEV	225	.000000	.998675	.20985174	.208265971
FPROF	225	-29.0000	104.0000	14.947059	18.2105062

Table (2): Descriptive Statistics

The table indicates that the environmental information disclosure in the sample companies is 22 % showing a low level of disclosure by the Egyptian firms. That isn't consistent with (Akbas & Canikli, 2014) in Turkish (93.55%), (Suttipon & standton, 2012) in Thailand (96%) and (Juhmani, 2014) in Bahrain (37%). It's also shown in the table that environmental disclosure score level has a minimum of 0% and a maximum of 88%. The low percentage of environmental information disclosure in annual reports could be referred to the fact that this type of information is voluntary in nature, and no efficient rules or regulations enforce companies to reveal it. While the maximum level by which Egyptian firms reveal their information reached 88%

Regarding the independent variables, Table (2) shows that the firm sizes have an average of 21% with a min of 17% and a max of 25%. It also shows an average firm age of 1.4324 years, a min of 14 and a max of 37. The leverage ratio in the Egyptian firms indicated an average level of is 20.89% and it tends to range between a minimum of 0% and a maximum of 99.86%, with a standard deviation of 20.82%. The last independent variable, which is the profitability level for Egyptian listed firms, tends to have an average of 14.95%, with extreme min and max levels as well as standard deviation.

4.2 Correlation Analysis

To assess for the correlation between the variables and determine whether there is a multicollinearity problem in the research model or not, the Pearson's Correlation Coefficient is employed. Table (3) shows the direction and strengths of the relationships between all variables with one another. According to (Bryman & Cramer, 1997), Pearson's correlation between the independent variables is not reflected as a problem unless it is higher than 0.80, because independent variables with coefficients greater than 0.80 are supposed of showing a multicollinearity. However, as long as the highest correlation in table (3) is still less than 0.80, so this confirms that there is no multicollinearity between the independent variables used in the research model.

	EID	FLEV	FSIZE	FAGE	FPROF
EID	1				
FLEV	.220**	1			
FSIZE	.117	.261**	1		
FAGE	-.200**	-.079	-.346**	1	
FPROF	.281**	.123	.198**	-.189**	1

Table (3): Correlation Analysis

4.3 Regression Analysis

Regression analysis is a more powerful tool than the correlation analysis as it doesn't only explain the trend and strength of a relationship, but shows the casual effect of this relationship. The multiple regression equation, stated previously, is analyzed with the ordinary least squared method (OLS) using the Statistical Package for Social Science (SPSS) program.

As long as the hypotheses formulated to analyze this relationship are declared without a particular direction, then the correlation and regression must be two-tailed as stated by (Ho, 2006). The regression analysis of the environmental disclosure of Egyptian firms shows that the significance of the model is 0.000, which indicates that it's highly significant, as long as it's far below 0.05.

Model		Sig.
1	Regression	.000 ^b

Table (4): ANOVA Model

EID = $\beta_0 + \beta_1$ FSIZE + β_2 FAGE + β_3 FLEV + β_4 FPROF + ϵ						
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	sig
1	(Constant)	.581	.300		1.938	.054
	FSIZE	-.003	.009	-.025	-.362	.717
	FAGE	-.267	.122	-.148	-2.196	.029**
	FLEV	.049	.168	.045	.292	.771
	FPROF	.003	.001	.237	3.626	.000***

Table (5): Regression Results

Data in the above table show that, a sig level of 0.717, greater than 0.05, for the firm's size indicates an insignificant relationship with environmental information disclosure of Egyptian firms, this result rejects the hypothesis of a significant relationship between the two variables in the Egyptian firms. Second, the firm age shows a significance level of 0.029 indicating the existence of a significant relation which is negative, and this makes the second research hypothesis acceptable. Moving the third hypothesis which is firm financial leverage, a significance level of 0.771, which is greater than 0.1, indicates an insignificant relationship between the firm financial leverage and environmental information disclosure, this result rejects the hypothesis of a significant relationship between the two variables in the Egyptian firms. Finally, the fourth variable that has an accepted hypothesis as well is the firm profitability that has a significance level of 0.000 showing a positive relation as well.

5. Conclusion

Many pressures cause the firms to disclose environmental information in the annual report, and these pressures come from different parties in the society like the stakeholders, the government and other forces surrounding the firm. Also, the fear of losing your public image and the urge to increase the firm's performance gives the firm a greater motive to disclose environmental information, this was suggested by (Suttipon & standton, 2012).

This research objective is to observe the effect of some variables on the environmental disclosure by Egyptian firms. Thus, for the purpose of this research, the impact of four independent variables which are firm size, firm age, firm leverage and firm profitability are analyzed in the research model. The research model is designed to measure the effect of these variables on the environmental disclosure of the 50 most active firms listed in the EGX from the period 2007-2011.

The findings of this study lead to the acceptance of two hypotheses which state that there is a significant relation between two independent variables which are firm age and firm profitability and the dependent variable which is environmental information disclosure, while the other two hypotheses are rejected referring to an insignificant relationship.

6. Research limitations and direction for further research

Research limitations exist in almost all researches and this is what makes research alive as to always try to solve the limitations. One of the limitations faced during this study is the use of the disclosure book as the last one was issued in 2011 so the sample of this research stopped at year 2011. Also, some data was not found as the most active firms are not constant because of the entering and

exiting of some firms from a year to another, though this was solved by using another data source which is the Egyptian Company for Information Dissemination (EGID).

Another Limitation is that there is no availability of previous research regarding this area of study especially in a developing country such as Egypt. Finally, the sample size used in this study is 45 firms and for a five-year study period. So, simplifying the results for all firms becomes limited due to the nature of the empirical model used and also the study is conducted only in Egypt due to inability to access data in other countries. And most of the Egyptian firms did not disclose information regarding the environment so this limited this study to include many firms in the analysis.

The corporate environmental disclosure is considered a sign of transparency or credibility for firms, which in turn helps in attracting new investors. Hence, a very minor change in a company's environmental disclosure level may affect the level of investments on the company's shares, and therefore, firms have to pay attention to their environmental disclosure level and give it some worthy considerations and concern. Therefore, as a direction for further research, other independent variables could be added to test their impact on the environmental information disclosure like adding the corporate governance factors as well as another research direction which is micro and macroeconomic factors.

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Appendix A- Index of Environmental Disclosure

Annual Report (16 items)	
1	Environmental programs and policies (0-1).
2	Preventive measures/environmental protection (0-1).
3	Compliance with environmental regulations (0-1).
4	Reference to certification (0-1).
5	Environmental investments/capital expenditures (past and in the current year) (0-1).
6	Environmental performance/risks and impact on the environment (quantitative information) (0-1).
7	Environmental indicators (0-1).
8	Environmental management system (0-1).
10	Training on the environment (0-1).
11	External environmental audit (0-1).
12	Future environmental investment & expenditures (0-1).
13	Awards and recognition related to the environment (0-1).
14	Mention of improvements made year by year (0-1).
15	Mention of an environmental/sustainability report (0-1).
16	Initiative, awareness campaign, study, conferences (0-1).

Annex (10 items)	
1	Measurement criteria related with the environment (0-1).
2	Environmental incentives (0-1).
3	Environmental expenditures allocated to results (expenses: operating costs) (0-1).
4	Environmental capitalized expenditures (investment) (0-1).
5	Environmental liabilities (0-1).
6	Environmental contingent liabilities (0-1).
7	Environmental provisions (0-1).
8	Fees/penalties relating to environmental issues (0-1).
9	Heading: "Information on environmental matters (0-1)."
10	Heading "CO2 licenses (0-1)."

Consumer's behavior and rice attributes for Thai HomMali Rice in Sichuan Province of China

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Keywords

China rice market, hedonic rice price, consumers' behaviors, market strategy

Abstract

Thailand has slowly regained its rice market share in China since 2014 after the abolishment of the rice pledging policy. With impressive economic growth, huge population and the Look West Policy of China created a great potential for a new market for Thai HomMali rice in Sichuan Province where there were 81 million people with 8-9 percent of economic growth during 2014-15. Chengdu, the capital, experienced an increase in GDP per capita 9-10 percent, and the food expenditure per capita grew at 8 percent. To facilitate a better understanding for this new market, consumers' preference for Thai HomMali rice is needed and the implicit price of the important attribute of HomMali rice should be investigated. This study employed consumer survey of 412 samples in Chengdu and used the hedonic price model to analyze the implicit price of each attribute for HomMali Rice. The results show that modern trade, supermarket, and convenient store are the main marketplaces to purchase rice of Chengdu consumers. The softness and taste of Thai HomMali are the major factors that consumers preferred. Those consumers buying Thai rice have comparatively higher income and education, and have more cheerful lifestyle. The empirical results of consumer preference reflected that significant attributes influencing price are color, the percentage of broken rice, new-season crop rice, rice standard, rice brand, softness, taste and fragrance. The implicit price of Thai rice depends more on cooking and eating quality. As a result, to make Sichuan province become a potential high-quality Thai rice market, Thai government and traders should create product differentiation by emphasizing on Thai rice quality and standard in terms of physical quality, cooking and eating quality according to the Chinese demand.

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Introduction

China is the number one importing country in the global rice market. Its rice import increased from 2.9 million tons in 2001/02 to 4.5 million tons in 2014/15 (USDA, 2014). Rice import to China is controlled by the central government under the import quota system at 5.22 million tons per annum in which 50% is for short grain rice imports while the rest is for long grain rice. China started importing long grain rice in 2002 with total quantity imports of 216,214 tons. During 2006- 2010, Thailand market share was the highest. On average, more than 90% of the long grain rice imports of China is from Thailand. However, the Thai market share of long grain rice decreased drastically to an average of 9% of total long grain rice import during 2012-2013 due mainly to the rice pledging program that raised the Thai rice price higher than the world price. As a result, Thailand lost its price competitiveness to other major rice exporting countries, especially Vietnam and Pakistan, and most of the Thai market shares are taken by those countries.

Nevertheless, the abolishment of the rice pledging program in 2014 led to the decrease in Thai rice import price in China which closed the rice price gap between Thai and Vietnam. Eventually, Thai rice gradually regained some of its market share, approximately to 37 percent in 2015.

With the existing large population and high economic growth rate, China has a high economic

potential in importing rice with strong demand for HomMali rice from Thailand. However, the preferences for rice consumption in China vary across regions. For example, the Chinese living in the Northern part of the Yangtze River prefer consuming short grain rice, while those living in the Southern part prefer consuming long grain rice. Guangdong province (Guangzhou city and Shenzhen city) is the major market for Thai HomMali rice; nevertheless, this market is facing with high tendency of price competition from the Vietnamese rice.

Provinces in the Western region of China, especially Sichuan Province, have a great potential for market expansion for HomMali rice. This due mainly to the "Look West Policy of China" that generated high economic growth to Sichuan Province which was more than 10% growth during 2010-2013, and between 8-9% during 2013-2014.

In addition, Sichuan Province is one of the most populated province in which 81 million people are registered. Chengdu, the capital of Sichuan, experienced the GDP growth of 9-10% during 2013-2014 with a sharp increase of GDP per capita of 9% growth rate. These increases enable people to enjoy better standard of living and changes of consumption behavior, especially the increase of food expenditure that increased by 8% and consuming more variety of quality food items. Particularly, those consumers under 35-year-old are spenders of high quality products. In addition, tourism to Thailand has become increasingly popular for people in Chengdu, and once these tourists experienced with fragrant and aroma taste of HomMali rice create a demand for more imports of HomMali from Thailand (information obtained from an interview with staffs of Thai Consulate in Chengdu during March 2014).

The acceptance of HomMali rice, the sharp increase of per capita income, and changing consumer food expenditure of young people in Chengdu are evidences of potential market expansion of Thai rice market in Sichuan province. Therefore, to have a better understanding and formulation of consumer behavior on Thai rice that enables an appropriate formulation of strategy marketing plan for this new market in Sichuan province of China, the study on Chinese consumer behavior of Thai Hom Mali rice and the importance Thai rice attributes are needed. The analytical of this paper only focuses on Chengdu consumers.

The concept and model of Hedonic Price

Theoretically, willingness to pay can be quantified either through revealed preference valuation or stated preference valuation. The revealed preference is obtained from experiment or market retail price responses, real purchase data, to cover the range of consumer preferences due to price variation. The stated preferences can be taken from direct surveys of the designed studies by asking the consumers about their willingness to pay for a particular product or by indirect surveys using ranking or sorting of product characteristics by applying conjoint analysis and discrete choice analysis (Bredert, 2006).

The hedonic price analysis is based on the revealed preference approach that uses real purchase data which has been incorporated information about their characteristics into the product price. It can identify customer-relevant characteristics to express consumer's preferences. In addition, it has been applied to identify characteristics of a product which significantly influence the price. The first contribution to the hedonic price method was done by Waugh (1929) to estimate the relationship between the prices of fresh asparagus and the quality (physical characteristics) of that vegetable. Although there were other studies, the major contributions of hedonic method come from the theoretical works towards New Consumer Theory of Lancaster (1966) and the work of Rosen (1974).

Unnevehr (1986) used implicit prices of grain characteristics in terms of physical characteristics (milling quality), chemical characteristics (cooking quality), and Gelatinization temperature (Alkali spread) to identify cooking time and aroma to evaluate the rice breeding in Thailand, Indonesia, and the Philippines. The physical characteristics include color, rate of breakage, shape of grain, percentage of chalky grain and purity. The chemical characteristics (cooking quality) include percentage of amylose content and gel consistency to measure softness of rice. Unnevehr's study found that demand for grain shape and some chemical characteristics, such as per cent of amylose, varies across these three countries. Kaosa-ard and Juliano (1991) and Kawamura (1999) have used a hedonic price model to study the relationship between physical characteristics of rice such as the length of rice, broken rice, purity and the decision to buy rice and found that physical properties have an influence on consumer decisions to purchase rice. Dalton (2004) conducted a study using hedonic price model to find the economic value of

the rice attributes for upland rice and found that rice varieties were significantly correlated with the characteristics of the rice milling, which is consistent with the study of Adesina and Baidu-Forson (1995) and Untong and Kaosa-ard (2010), analyzed relationship between price and quality of rice in modern trade market in China using hedonic price model involved with 102 samples obtained from survey of packaged rice in modern trade markets in Shenzhen and Guangzhou. The results revealed that factors had positive impacts on price of rice were the fragrant of HomMali followed by quality of package and rice brand. However, the certification logo of Thai HomMali rice standard was not included in the model and reflected that Chinese consumers do not concern about the certification logo in the short period of marketing. While the study of Sirisupluxana and Bunyasiri (2014) found that Thai rice consumers give a priority to physical quality such as purity and percent of broken rice than cooking quality such as fragrance and softness. From the empirical results, the main idea of hedonic price theory is based on the quality or the attributes of the products and the consumer preference derived from product characteristics not the product itself.

A typical hedonic price function was employed to analyze the quality or characteristics of the product on product price. It can be indicated as $P_i = f(z_{i1}, z_{i2}, \dots, z_{im})$ where P_i is the price of one unit of i^{th} product and z_{ij} is the j^{th} characteristic ($j = 1, 2, \dots, m$) for one unit of i^{th} product contained. The implicit price or the shadow price of a characteristic (hedonic price) can be obtained from the partial derivative of the price function with respect to a particular characteristic as $\frac{\partial P_i}{\partial z_{ij}} = \frac{\partial f(z_{i1}, z_{i2}, \dots, z_{im})}{\partial z_{ij}} = p_j(z_{i1}, z_{i2}, \dots, z_{im})$ which indicated that if the amount of particular j^{th} characteristic changes, the price of i^{th} product will also change holding other characteristics constant. Thus, the market price of a product is the sum of all the implicit prices of the quality characteristics (Rosen, 1974).

Generally, the functional form of the hedonic price cannot be derived from the economic theory, empirically the most frequently functional forms used in the hedonic regression such as linear, log-log, or semi-log. The simplest one is a linear form given by (Unnevehr, 1986 and Ladd and Suvannant, p. 505, 1976)

$$P_i = \alpha_0 + \sum_{j=1}^m \alpha_{ij} z_{ij} + \varepsilon \quad (1)$$

Where P_i is the price of particular i^{th} product and ε is the error term, z_{ij} is the independent variable of the j^{th} attribute of i^{th} product and α_{ij} are unknown parameters needed to be estimated

$$\frac{\partial P_i}{\partial z_{ij}} = \alpha_{ij} \quad (2)$$

The regression coefficient α_{ij} for $j=1, 2, m$ is the marginal change in product price with respect to a change of a particular j^{th} characteristic or the implicit values of each attribute of i^{th} product.

The implicit values are used for estimating the consumer surplus obtained from the attribute of a product that related to the better quality. As a particular product attribute changes, the quantity of the product will change, causing the product demand curve shifted to the right, from demand curve DD to D^*D^* (Figure 1), holding the price of the particular product and all other attributes of the product are given constant. The increase of quantity demanded for consumption is reflected by the increase of consumer utility obtained from each unit of product consumed. The gain of consumer surplus from the quantity of product consumed is represented by the following equation.

$$G = \sum_{j=1}^m (z_{ij}^* - z_{ij}) * \alpha_{ij} \quad (3)$$

Where G is the gained consumer surplus obtained from additional consumed of product unit. α_{ij} is the implicit price of the j^{th} attribute (which derived from equation (2)). z_{ij}^* and z_{ij} are the new value and original value of the j^{th} attribute obtained from one unit of i^{th} product consumed given the implicit price of the j^{th} attribute and the consumer surplus is represented by the shaded area in figure 1 and it can be estimated by equation (4) as follow

$$CS = q_R G + \frac{1}{2} (q_R^* - q_R) G \quad (4)$$

Where CS is the total consumer surplus. q_R^* is the quantity of the product which reflects changes in

attribute of the product consumed by consumer.

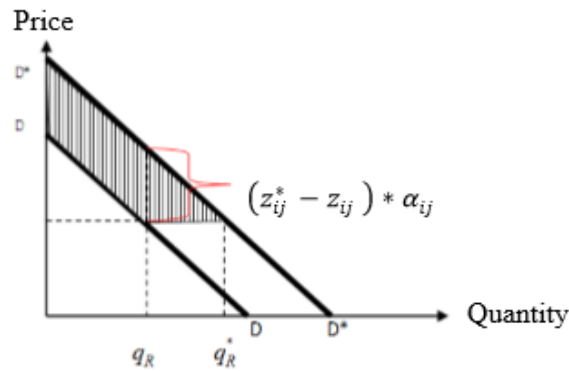


Figure 1 Consumer surplus after quality improvement

Research methodology

The research focuses on the rice consumer behavior in Chengdu using purposive sampling by interviewing respondents who are willing to participate in the research. The criteria for sample selection is based on the distribution of rice consumers with different age groups and are scattering around the rice retailing stores such as modern trade (Carrefour), supermarkets in the department stores (Ito, Isetan) and convenient store (Hongqi). The primary data was collected through field survey by using structured questionnaire targeted for a total 400 samples. However, the actual collected samples are 412 samples.

Both qualitative and quantitative approaches are employed in this research. In order to analyze the relationship among factors affecting rice consumption of consumer in Chengdu, the statistical testing of Chi-square, T-test and F-test are employed. The Hedonic price model is constructed for analyzing the relationship between rice quality attributes, particularly physical, cooking and eating quality and the price of rice. The Likert scale from 1 through 5 has been used to identify the importance of physical, eating and cooking characteristics that consumers in Chengdu preferred. Attributes and their expected effect on price of HomMalirice has been listed in Table 1 and will be utilized in the hedonic model.

Attributes	Unit classification	Expected effect
Physical quality		
Length of rice kernels	Shape of grain 1-5 (1 = shortest 5 = longest)	+
Color (whiteness)	Importance of whiteness of rice 1-5 (1 = least importance 5 =most importance)	+
Percentage of broken rice	% of broken rice: 1-5 (1=lowest 5= highest)	-
Rice standard	Importance of whiteness of rice 1-5 (1 = least importance 5 =most importance)	+
New crop rice	1-5 (oldest to newest)	+
Brand image	Importance of brand image (1 = least importance 5 =most importance)	+
Cooking quality		
Softness after cooking	Importance of softness after cooking (1 = least importance 5 =most importance)	+
Eating quality		
Rice taste	Importance of rice taste (1 = least importance 5 =most importance)	+
Fragrance of rice after cooking	Importance of fragrance after cooking (1 = least importance 5 =most importance)	+

Table 1 Selected attributes of hedonic price analysis and expected relationship between price and the attributes

Research results and discussions

The research results are indicated that most respondents are female (60.85 percent of the total sample) as they are likely to be the decision makers of household food purchasing with the average age of

29-year-old. The majority of the respondents are concerned as economic active labor forces and the potential future Thai rice purchasers (54% for 26-55-year-old). Most of the respondents had bachelor degree and higher (49% of the total sample) and the majorities are employers (41%). The average monthly income of the respondents is 5,459 RMB/month, and the highest income is more than 10,000 RMB/month.

Chengdu consumer preference

Majority of the people in Chengdu purchased packaged rice (66.4 % of the total respondents) and only 8 percent purchased un-packaged rice. In addition, those in the age group 26-35-year-old buy packaged rice more than all other age groups (Table 2).

Type of package	< 25 year-old	26-35 year-old	36-55 year-old	> 55 Year-old
Packaged rice	88 (59.1)	108 (74.5)	33 (67.3)	5 (50.0)
Un-packaged rice	21 (14.1)	7 (4.8)	2 (4.1)	2 (20.0)
Both packaged and un-packaged rice	40 (26.8)	30 (20.7)	88 (24.4)	3 (30.0)

Remark: There is a statistical significant relationship between type of package and age group at 95% confidence level (CI).

Table 2 Frequency and percentage of sample purchased packaged rice and un-Packaged rice

Most of the consumers, 57.4 % of the total respondents, purchased rice at the modern trade (Carrefour and Isetan) followed by the supermarket or convenient stores. Only few purchased rice at the wholesale market (7.7 percent). Considering the age group of rice buyers, the supermarket and convenient stores are the places where the young people with age of less than 25-year-old bought their rice (Table 3).

Location of purchase	Total	< 25 year-old	26-35 year-old	36-55 year-old	> 55 year-old
Modern trade	225 (57.4)	80 (49.1)	99 (63.5)	33 (60.0)	7 (53.8)
Supermarket/convenient Store	222 (56.2)	101 (62.0)	78 (50.0)	31 (56.4)	8 (61.5)
Wholesale market	30 (7.7)	16 (9.9)	6 (3.9)	5 (9.1)	3 (23.1)

Remark: There is a statistical significant relationship between modern trade and age group at 95% confidence level. The relationship between supermarket and convenient store is also found statistical significant at 90% confidence level. Respondents can answer more than 1 question

Table 3 Frequency and percentage of household rice purchasing classified by purchasing location and age groups

Mostly consumers in Chengdu purchased only Chinese rice. Majority of consumers purchased rice produced in the north-eastern province called "Tongbei rice". The second category purchased both Chinese rice and Thai rice, while only few purchased only Thai rice (Table 4). However, the type of rice purchased has no statistically significant relationship with the age group of consumers (Chi-square test equals 7.6, and P-value equal to 0.49).

Age group	Number of respondents			Percentage		
	Buying Chinese rice only	Buying Thai rice only	Buying both	Buying Chinese rice only	Buying Thai rice only	Buying both
Total	237	10	104	67.5	2.8	29.6
< 25 year-old	92	3	41	67.6	2.2	30.1
26-35 year-old	104	3	33	74.3	2.1	23.6
36-55 year-old	31	2	21	57.4	3.7	38.9
> 55 year-old	6	1	6	46.2	7.7	46.2

Table 4 Frequency and percentage of samples buying Chinese rice, Thai rice and both Chinese rice and Thai rice

Consumers who purchased only Thai rice had comparatively higher income and education. The average monthly income for the respondents indicated for purchasing only Thai rice is 17,000 RMB which is higher than those purchased only Chinese rice (5,371 RMB). It was found that there is a statistically significant relationship between household income and the type of rice purchased at the confidence level of 95%. In addition, respondents who purchased only Thai rice had an average year of education of 16 years which is higher than those purchased both Chinese rice and Thai rice (13.8 years). Furthermore, there is a statistically significant relationship between years of education of the household head and type of rice purchased at confidence level of 99%.

There are two popular types of Chinese rice, rice produced in Sichuan province and Tongbei rice. On the average consumers in Chengdu purchase Chinese rice two times a month, around 5-10 kg per each time with an average price of 6.1 RMB/kg and the most popular size of packaged rice is in the range of 5-10 kg. For those who purchase Thai rice, the amount of purchase is averaged at one time a month, around 5-10 kg with the average price of 11.3 RMB/kg. The popular size of packaged Thai rice is 5kg. It is clear that those respondents purchase Thai rice paid a comparatively higher price and higher rice consumption expenditure than those purchased only Chinese rice (Table 5).

Statistics	Chinese rice			Thai rice		
	Quantity purchased per month (Kg.)	Price per Kg. (RMB)	Expenditure per month (RMB)	Quantity purchased per month (Kg.)	Price per Kg. (RMB)	Expenditure per month (RMB)
Average	19.4	6.1	66	14.1	11.3	74.7
Minimum	1	1	5	1	1	3
Maximum	200	20	1,000	150	40	400
Std. Dev.	27.4	3.2	98	25.7	6.2	69.4

Table 5 Descriptive statistics of average monthly expenditure on Chinese rice and Thai rice purchasing

The most important factor that most consumers in Chengdu considered when purchasing Thai rice is the quality of Thai rice, especially the fragrance and the softness, followed by hygiene, brand, and price. All these factors are not different among age group of the respondents and types of rice consumers (Table 6-7).

Factors	20-25 year-old		26-35 year-old		36-55 year-old		> 55 year-old	
	Number	%	Number	%	Number	%	Number	%
Price	43	25.9	34	21.5	14	25.5	5	38.5
Hygiene	60	36.1	62	39.2	23	41.8	9	69.2
Quality ⁽¹⁾	137	82.5	130	82.3	45	81.8	11	84.6
Brand	38	22.9	40	25.3	14	25.5	5	38.5

Remarks: ⁽¹⁾ Softness and fragrance of rice.

Table 6 Frequency and percentage of most important factors in purchasing rice classified by age groups

Factors ⁽¹⁾	Total sample		Buying Chinese rice only		Purchased Thai rice ⁽²⁾	
	Number	Percentage	Number	Percentage	Number	Percentage
Price	97	24.3	57	24.4	29	25.4
Hygiene	159	39.8	93	39.7	47	41.2
Quality ⁽³⁾	327	81.8	197	84.2	92	80.7
Brand	97	24.3	93	39.7	31	27.2

Remarks: ⁽¹⁾ Respondent can answer more than one question; ⁽²⁾ Either purchased Thai rice only or purchased both Thai rice and Chinese rice; and ⁽³⁾ Softness and fragrance of rice.

Table 7 Frequency and percentage of important factors in deciding of rice buying classified by rice-type purchased group

The important physical characteristics that consumer in Chengdu considered when purchased rice are the cleanness (extremely important), followed by rice standard (extremely important), logo of safety/hygiene certification (very important), new crop rice (very important) and color of rice kernels (very important). The most important factor that consumers who buy only Thai rice concerned is information about special properties of Thai rice characteristic (extremely important), followed by cleanness (extremely important), new crop rice, the location of packing, logo of safety/hygiene certification and rice standard, respectively. However, the location of packing revealed that the score for packaged locally and packaged abroad are equal and indicated a very important factor (Table 8). This reflected that rice consumers in Chengdu are mostly unaware of the difference of packing location which is indicated by the barcode on the package. The barcode starting with number 69 indicated packaged locally, while starting with number 885 means packaged abroad. Furthermore, consumers who buy Thai rice only prefer new crop rice compared to those who buy only Chinese rice and concern more about type of packaging (there is a statistically significant difference among group of buying).

Considering, the difference among the three groups of purchasing rice (buying Chinese rice only, buying Thai rice only, and buying both Chinese rice and Thai rice), it was found that factors such as new crop rice, color of rice kernels (whiteness), type of packing, rice standard, detail of cooking method, history of rice/production process, and special property of rice information were statistically significant difference among these three groups. It is interesting to note that respondents buying Thai rice only give more weight on the importance of attributes on new crop rice, length of rice kernels, type of packaging, detail of cooking method, history of rice/production process, and special rice characteristic information more than those respondents who buy only Chinese rice (Table 8).

Physical characteristics	Total sample	Buying Chinese rice only	Buying Thai rice only	Buying both	F-Stat
Packed locally	3.36	3.41	4.00	3.19	0.729
Packed abroad	3.40	3.38	4.00	3.39	0.838
New crop rice*	4.05	4.08	4.10	3.97	2.388
Old crop rice	3.18	3.28	3.00	2.97	0.920
Percentage of broken rice	3.66	3.72	3.10	3.57	0.650
Length of rice kernels	3.41	3.35	3.50	3.52	1.407
Color of rice kernels***	3.89	3.95	3.86	3.78	4.723
Cleanness	4.51	4.56	4.29	4.41	0.413
Type of packaging** (vacuumed or not)	3.62	3.64	3.80	3.55	3.603
Rice Standard***	4.24	4.39	3.89	3.94	6.760
Logo of safety/hygiene certification	4.05	4.13	3.90	3.87	1.976
Detail of cooking method *	3.35	3.37	3.40	3.30	2.561
History of rice/production process**	3.52	3.61	3.90	3.29	3.603
Special rice characteristic information****	3.57	3.52	4.33	3.31	5.853
Brand image of the rice	3.56	3.65	3.60	3.36	0.758

Remarks: Score 1-1.8=unimportant; 1.81-2.6=somewhat important; 2.61-3.4=quite important 3.41-4.2 very important; and 4.21-5.0=extremely important. Where: *= significant at 90% CI; **=significant at 95% CI; and ***=significant at 99% CI

Table 8 Average score of physical characteristics that consumers emphasized in rice purchasing classified by rice-type purchased group

The physical factors that consumers in Chengdu placed important in purchasing rice are different among age groups such as factors on percentage of broken rice and type of packaging. Noticeably, the higher the age group gives higher weight on the importance of the percentage of broken rice, followed by the younger age group (those between 36 and 55-year-old places importance level at score of 3.82, 26-35-year-old places importance level at score of 3.68) and less than 26-year-old places importance level at score of 3.47, respectively. The similar raking was also found in the type of packing (Table 9)

Physical characteristics	<26 year-old	26-35 year-old	36-55 year-old	>55 year-old	F-test
Packed locally	3.31	3.28	3.38	3.64	0.584
Packed abroad	3.27	3.39	3.43	3.67	1.380
New crop rice	3.92	4.05	4.25	3.67	1.202
Old crop rice	3.03	3.27	3.42	2.83	1.596
Percentage of broken rice*	3.47	3.68	3.82	3.25	2.122
Length of rice kernels	3.33	3.31	3.52	3.75	0.594
Color of rice kernels	3.8	3.81	4.00	4.27	0.910
Cleanness	4.58	4.47	4.36	4.80	1.054
Size of packed rice (5 Kg.)	3.37	3.16	3.62	3.38	1.576
Type of packaging***	3.51	3.65	3.91	3.64	5.227
Rice Standard	4.24	4.28	4.20	3.75	0.789
Logo of safety/hygiene certification	4.09	4.11	3.89	3.92	0.432
Detail of cooking method	3.36	3.41	3.31	3.08	0.187
History of rice/production process**	3.57	3.59	3.43	3.17	0.801
Nutrition information	3.76	3.74	3.6	3.42	0.353
Special rice characteristic information	3.55	3.67	3.35	3.33	1.013
Brand image of the rice	3.34	3.37	3.42	2.78	0.674

Remarks: Score 1-1.8=unimportant; 1.81-2.6=somewhat important; 2.61-3.4=quite important 3.41-4.2 very important; and 4.21-5.0=extremely important. Where: *= significant at 90% CI; **=significant at 95% CI; ***=significant at 99% CI

Table 9 Average score of physical factors that consumer placed important in rice purchasing classified by age-group

The most important characteristic of rice cooking and eating quality considered by Chengdu rice consumers are taste of rice, followed by softness after cooking, and the fragrance, respectively. The ranking of these characteristics are the same among the respondent groups; however, those consumers who purchased Thai rice only concern more on taste and fragrance respectively. In addition, the same pattern of ranking is also found with statistically insignificant among respondents classified by age groups (Table 10 to 11). These results consistent with the study of Musa et al. (2011) indicated that cooking quality such as flavor and taste of cooking affects consumers purchasing behavior for rice in Malaysia.

Cooking and eating quality	Total sample	Buying Chinese rice only	Buying Thai rice only	Buying both	F-Test
Taste	4.30	4.43	4.50	4.34	0.217
Fragrance	4.13	4.14	4.20	4.11	0.066
Softness after cooking	4.19	4.22	3.70	4.16	1.147
Stickiness after cooking	3.99	4.03	3.70	3.93	1.155
Long lasting of the softness	3.86	3.90	3.80	3.77	1.027
Grain size after cooking	3.73	3.75	3.20	3.74	1.188
Fluffy (Swelling) rice after cooking	3.92	3.92	3.50	3.98	0.441
Uniformity of quality after cooking	3.96	3.96	3.60	3.98	0.380

Remarks: Score 1-1.8=unimportant; 1.81-2.6=somewhat important; 2.61-3.4=quite important 3.41-4.2 very important; and 4.21-5.0=extremely important. Where: *= significant at 99% CI; **=significant at 95% CI; ***=significant at 90% CI

Table 10 Average score of important factors of cooking quality of rice those consumers emphasized classified by rice-type purchased group

Cooking and eating quality	<26 year-old	26-35 year-old	36-55 year-old	>55 year-old	F-test
Taste	4.40	4.36	4.41	4.46	0.137
Fragrance	4.10	4.08	4.09	4.08	0.271
Softness after cooking	4.27	4.14	4.13	4.46	0.964
Stickiness after cooking	4.00	3.93	3.89	4.05	0.467
Long lasting of the softness	3.89	3.81	3.98	3.83	0.453
Grain size after cooking	3.71	3.66	3.75	4.08	0.525
Fluffy (Swelling) rice after cooking	3.91	3.82	3.98	4.08	1.352
Uniformity of quality after cooking	3.93	3.99	4.09	4.00	0.498

Remarks: Score 1-1.8=unimportant ;1.81-2.6=somewhat important; 2.61-3.4=quite important 3.41-4.2 very important; and 4.21-5.0=extremely important

Table 11 Average score of important factors of cooking quality of rice those consumers emphasized classified by age group

The empirical results from Table 12 showed that the most important psychology factors rated by all rice consumers in Chengdu is self-fulfilment followed by self-respect, fun and enjoyment of life, respectively. The average importance score of the psychological factor on fun and enjoyment of life was statistically differed among the respondents whereas respondents purchased Thai rice placed more important than those respondents purchased Chinese rice only (Table 12).

Psychological factors	Total sample	Buying Chinese rice only	Buying Thai rice only	T-stat	Sig.
Self-fulfilment	4.20	4.25	4.10	0.70	0.24
Being well respected	3.82	3.81	3.85	0.39	0.35
Fun and enjoyment of life *	4.14	4.09	4.24	1.44	0.08
Self-respect	4.15	4.15	4.13	0.09	0.46

Remarks: Score 1-1.8= unimportant; 1.81-2.6=somewhat important; 2.61-3.4=quite important 3.41-4.2 very important; and 4.21-5.0=extremely important. * significant at 90%CI

Table 12 Average score of psychological factors that consumers emphasized classified by rice-type purchased group

Effects of rice attributes on price of Thai HomMali rice (Hedonic model)

After testing for multicollinearity among all attributes and functional form of the model, the best model is in the linear form. The Least Squares (LS) has been used to analyze the relationship between the rice price and its attributes. It is hypothesized that rice price depends upon two main characteristics. The first one is physical characteristic of rice kernel which is visible from the appearance and rice package which included color of rice kernels in terms of white and transparent (COLOR), percentage of broken rice (PERCENTBR), length of rice kernels (LGRAIN), new crop rice (NEWRICE), rice standard (RSTANDARD), and brand of the rice (BRAND). The second is chemical characteristics which affect the cooking and eating quality. These can be characterized by softness after cooking (COOKSOFT), fragrance of rice after cooking (AROMA), and rice taste flavor (TASTE)

The estimated results found that the implicit price of the rice attributes (or characteristics) in China is affected by both physical and chemical characteristics. All these characteristics are statistically significant except the color of rice kernels (COLOR). Chengdu rice consumers are willing to pay premiums for better rice attributes and it seems to be that Chengdu rice consumers concern and value more on cooking and eating quality (AROMA) than physical characteristic (BRAND) (Table 13). These results were contrast with the study of Kasosa-ard and Juliano (1991), Kawamura (1999), Untong and Kasosa-ard (2010) and Sirisupluxana and Bunyasiri (2014) found that a consumer pay more based on physical attributes.

Items	Estimated Coefficient	T-stat
Dependent variable: price of rice (RMB/kg.)		
Constant term	3.7167	2.4781
Color of rice kernels (COLOR)	0.0607 ^{ns}	1.3532
Percentage of broken rice (PERCENTBR)	-0.3739 ^{***}	-2.3025
Length (long) of rice kernels (LGRAIN)	0.4274 ^{**}	2.0703
New crop rice (NEWRICE)	0.4546 ^{***}	3.1592
Rice standard (RSTANDARD)	0.4472 [*]	1.9265
Brand image (BRAND)	0.8912 ^{**}	2.0805
Softness after cooking (COOKSOFT)	0.7826 ^{**}	2.2365
Rice taste (TASTE)	0.4119 [*]	1.8958
Fragrance of rice after cooking (AROMA)	0.9165 [*]	1.6955
R ²	0.7722	
Adjusted R ²	0.7503	
Durbin Watson (DW)	1.5162	
Number of samples	104	
Remarks: [*] = significant at 99% CI; ^{**} =significant at 95% CI; ^{***} =significant at 90% CI		
Note: The reduction in sample size was due to missing data of the price of rice.		

Table 13 Estimated coefficients or implicit price of hedonic price regression

Summary and recommendation

The study found that rice consumers in Chengdu always purchase rice in the modern trade retailers, supermarket in the department stores, and convenient stores and often buy Chinese rice (Tongbei rice). The important factor in deciding to buy rice is quality of rice (fragrant and softness of rice). The main reason for buying Thai rice is the taste of Thai rice. It is also found that those Thai rice buyers comparing with those buying Chinese rice are having comparatively high income and education, and having higher degree of joyful lifestyle, especially, for those younger and labor-productive age group between 26 and 35 years old. Thus, Thai rice target group in Sichuan Province would be young consumers and consumers with more income and more year of education.

The study on the hedonics price analysis found that both physical characteristics and chemical characteristics significantly influence the rice price. The physical characteristics that will increase the price of rice are less percentage of broken rice, longer length of rice kernels, and newer crop of rice, higher rice standard, and higher-end brand of rice. Whereas the chemical characteristics (cooking and eating quality) have the positive impact on rice price are better softness of rice after cooking, more taste flavor and more aroma. In addition, fragrance or aroma has more impact on rice price followed by rice brand image. Thus, to enhance the Thai rice market in Chengdu, Thai rice breeders have to keep the consistency of fragrance, taste and softness of HomMali rice which are the major factors that the Chinese consumers need, and Thai rice traders have to produce packaged rice with brand image according to the taste of Chengdu consumers. In addition, Thai government and traders should promote and create the identity and difference of HomMali rice from Chinese rice by providing all information of Thai HomMali rice to consumers, particularly the unique quality and this information should be summarized in Chinese and printed on the rice package. Furthermore, Thai traders should build consumers' trust on the uniformity of taste and fragrance of HomMali rice and should be in cooperation with the modern trade retailers to provide consumer with actual experience in eating and testing of Thai HomMali rice to enhance Thai rice market share in Sichuan Province.

Further study

The limitation of this study is that the study was applied only on certain city in Sichuan. The further study should be extended to consumers in surrounding cities of Chengdu in order to get more information about the consumer perspectives on attributes of Thai rice and Chinese consumer preference in Sichuan Province.

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A pilot study of corporate governance and accounting fraud: The fraud diamond model

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Keywords

Corporate Governance, Accounting Fraud, Fraud Diamond

Abstract

This research aimed to analyze the risk factor of fraud diamond model towards accounting fraud and corporate governance as a moderating variable in relation with risk factor in fraud diamond model towards accounting fraud. This research using 12 fraud companies and 32 non-fraud companies listed by Indonesia stock exchange that breaking the article VIII.G.7 issued by Financial Services Authority. With using logistic regression, the research result shows that only change in direction that is affect significantly towards accounting fraud. The next result, it shows that board of commissioners, independent commissioners and institution ownership be able to weaken the relation of change in direction towards accounting fraud. This research can suggest to the investors to be more careful in investing their fund. Especially, in the company that carries out the higher change in direction, because it tends to have accounting frauds. Furthermore, the company can improve the board of commissioners, independent commissioners and institution ownership, so that the level of accounting fraud can be lowered.

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1. Introduction

Fraud diamond is a new viewpoint towards fraud phenomenon stated by (Wolfe and Hermanson, 2004). Wolfe and Hermanson (2004) Stated that there is a renewal of fraud triangle theory to improve the ability to detecting and preventing fraud by adding the fourth element: capability. Opportunity opens opportunities or opens the doors of fraud, while pressure and rationalization encourage people in doing fraud. According to Wolfe and Hermanson (2004), people whom carrying out the fraud must have the capability to realize the open doors as a good opportunity and to use it, not only once but for many times. This theory explains that the key on mitigating the fraud is to focus on certain situation occurred beside pressure and rationalization and also combination from opportunity and capability.

Financial reports are very vulnerable to fraud. Considering the importance of the financial statements that are free from of fraud, so that the preparation of financial statements must be in accordance with the actual circumstances and in accordance with the SAK. But in fact, there are many irrelevancies such as manipulation of the amount, disclosure, mark-up, and eliminating data in the presentation of financial statements. The irregularities in presenting the financial statements are the examples of accounting fraud.

Accounting fraud is not just occurred in developed countries like the Enron Case that is occurred in 2002 in the United States, where the company management engineered the financial statements so that profits occur up to USD 600.000.000, where the company actually suffered losses (Tuanakotta, 2007). Other case also happened in WorldCom. The Executive of the company engineered the financial statements by including USD 3.900.000 post investment which should be included as operating cost (Tuanakotta, 2007).

However, accounting fraud has also occurred in companies in Indonesia. An example of a case of accounting fraud that undermines the trust chains of users of financial statements with management is the unfolding case of PT. Kimia Farma which marks up their financial statements.

According to the previous research, it shows that there was an inconsistency of the research result related to the perspective of diamond fraud. First, Financial Target, done by (Ansar, 2012; Fimanaya and Syafruddin, 2014; Lou and Wang, 2009; Rahmanti and Daljono, 2013) where their research results showed the significant effect towards accounting fraud. Second, ineffective monitoring, done by (Antonia, 2008; Skousen, Smith and Wright, 2009) their research results showed the significant effect towards accounting fraud. However, the research results of (Rahmanti and Daljono, 2013; Ratmono, Avrie, and Purwanto, 2014; Skousen et al., 2009) showed that ineffective monitoring has no effect on accounting fraud. Furthermore, related to the rationalization, the research done by (Chen and Elder, 2007; Sukirman and Sari, 2013) showed that it has significant effect to accounting fraud. However, it was different with the research done by (Fimanaya and Syafruddin, 2014; Ratmono et al., 2014) where rationalization has no effect on accounting fraud.

Wolfe and Hermanson (2004) clearly explain that Change in Direction can cause stress period where lead to the fraud. Dechow, Sloan, and Sweeney (1996) in relation to the acts of fraudulent financial reporting has researched the issues of corporate governance structure and the level of concentration of ownership by the insider. His research showed that when the concentration of ownership is owned by the company, the fraud will be easily occurred. The fraudulent financial reporting is also associated with the issues of corporate governance structure. Dechow et al., (1996) clearly stated that the level of fraudulence mostly occurred in a company that has no good corporate governance structure. This research intended to examine and analyze the role of corporate governance mechanism in preventing accounting fraud in the perspective of diamond fraud by (Wolfe and Hermanson, 2004). This Study is only a pilot study because there are insufficient observations for a definitive study: the sample of 44 observations contains 12 fraud cases and 32 non-fraud observations. According to the phenomenon's and research gap, where there were inconsistencies in the results of the study, so it is motivating and interesting to do further research. This study considers the mechanism of corporate governance as a moderating variable to bridge the research gap. This research's question is whether corporate governance mechanism can prevent accounting fraud in the perspective of fraud diamond. The purpose of this research is as follows: (1) examine the influence of financial target against accounting fraud, (2) examine the influence of ineffective monitoring against accounting fraud, (3) examine the influence of change in auditor against accounting fraud, (4) examine the influence of change in direction against accounting fraud, (5) examine the influence of corporate governance mechanisms in relation with financial target, ineffective monitoring, change in auditor and change in direction against accounting fraud.

2. Literature Review and Hypotheses Development

Jensen and Meckling (1976) explain that the occurrence of agency problems is the result of a contract between the principal and the agent. In practice, corporate managers act as agents with the responsibility increasing the profits of the owners, but the managers also have an opportunity to maintain their welfare (Ujiyantho and Pramuka, 2007). The difference of interest between principal and agent resulted in a conflict of interest. With the existence of conflict of interest is causing various pressures for the company, where the company must improve its performance in order to provide rationalization. The possibility of fraud could easily occur when the management have the ability, access and strong and strategic position (capability) and also opportunities to do accounting fraud (opportunity).

The company uses agency theory in tracing the corporate governance mechanism. The rise of the accounting fraud cases has seized the attention of many academics and economists to develop various theories which are able to detect fraudulent activities. One of the theories is the fraud diamond risk factor theory. Therefore, this research put corporate governance mechanism as a moderating variable to complete the research gap on the relation of risk factors to accounting fraud. The relationship model between researches variables is shown in Figure 1 as follows:

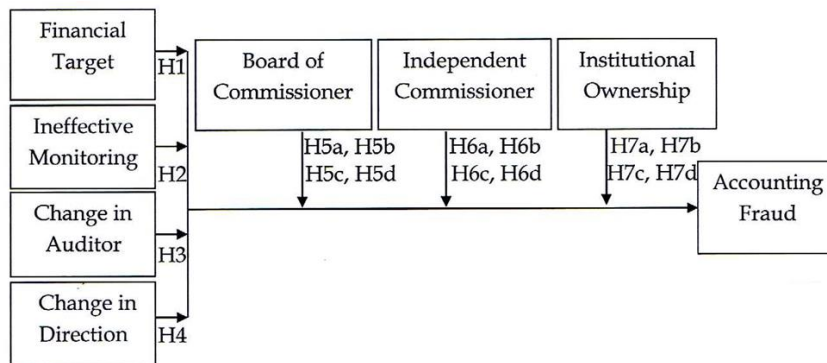


Figure 1. Research Model

2.1. The Influence of Financial Target on Accounting Fraud

Managers are required to work optimally in achieving company's targets. Managers try to improve its performance in order to achieve the targets of the company, one of them is financial target. Skousen et al., (2009) said that Return on Assets (ROA) is a ratio which measures operational performances where reflects the level of efficiency of assets used. It is supported by (Kasmir, 2013) who said that ROA is a result or return on the resources used. Therefore, ROA is used as a proxy for financial targets. Furthermore, ROA can be used by the company on measuring its performance on making a profit. The higher the ROA, the higher the profit obtained by the company and also the better the condition of the company if it seen from the use of its assets.

The achievement of ROA in current year can be used as a determination of financial targets in the following year. The higher the ROA, the better the performance of the management, which means the whole company's operations have been considered as effective. However, in improving its performance by targeting the higher ROA may allow management to commit accounting fraud. This is similar to the result of (Widyastuti, 2009) that when the company has a high profit, the level of fraudulence will get higher. Thus, the hypothesis in this study stated as follows:

H1: Financial Targets has Positive Influence on Accounting Fraud

2.2. The Influence of ineffective Mmonitoring on Accounting Fraud

The accounting fraud is one of the impact of weak monitoring level or even lack of adequate supervision system. Such conditions will lead to fraud because the opportunities to do things that may harm and break the company rules is very widely open (Andayani, 2010) Companies that have a low level of supervision has a lot of potential for all forms of crime including accounting fraud. The enforcement of standard operating procedures and implement a good supervision system becomes an obligation for the company to avoid fraudulences. So that the hypothesis of the research stated as follows:

H2: Ineffective Monitoring has Positive Influence on Accounting Fraud

2.3. The Influence of change in Auditor on Accounting Fraud

Rationalization is one of the risk factors of the fraud triangle that leads to fraud. The substitution of auditor or public accounting firm become the proxy of rationalization (Skousen et al., 2009). According to (Loebbecke, Eining, and Willingham, 1989; Stice, 1991) found that the fraud occurs during the auditor's tenure which is still in its first two years of service. This is similar to (Albrecht and Albrecht, 2002) who stated that auditor turnover is related to accounting fraud. The auditor turnover results in a stress period and the transition period of a company. One of the indications of accounting fraud is the change of auditor in two years period. The higher the auditor turnover, the higher the accounting fraud rate. So that the hypothesis of the research stated as follows:

H3: Change in Auditor has Positive Influence on Accounting Fraud

2.4. The Influence of change in Direction on Accounting Fraud

Wolfe and Hermanson (2004) argue that a fraud will not occur if it is not done by someone with the right ability and the right position to carry out every single detail of the fraud. Capability means one's efforts in committing fraud in order to achieve certain goals. Wolfe and Hermanson (2004) also explained

that position, effective lying, immunity to stress, brains, ego, and coercion skill are the elements capability. The position of CEO's, directors, and heads of other divisions are likely to be most appropriate to those characteristics. That position can become a determinant in act of fraud by using their position to influence others to expedite their acts of fraud.

Sihombing and Rahardjo (2014) use Change in Direction as a proxy of capability to identify the indications of accounting fraud. Change in Direction makes initial performance of the company not optimal. This is due to the company in transition period so that it takes a while to do some adjustment (Sihombing and Rahardjo, 2014) Change in Direction leads to conflict of interest because in general it is politically motivated and there are interests of certain parties.

Wolfe and Hermanson (2004) clearly stated that capability that proxied with Change in Direction becomes the background and triggered an act of fraud. Change in Direction can be considered as a strategy in eliminating traces of previous directors which is considered knowing the variety of fraud that has been done by the company. Change in Direction also cause a transition period and stress period that triggered the opportunities and the chance to do an act of fraud (Brennan and Kelly, 2007). So that the hypothesis of the research stated as follows:

H4: Change in Direction has Positive Influence on Accounting Fraud

2.5. The Role of the Board of Commissioners on the relationship of Financial Target, Ineffective Monitoring, Change Auditor and Change in Direction towards Accounting Fraud.

The board of commissioners has full authority and responsibility in controlling, supervising and directing the management of company resources (Syakhroza, 2005). When a company has a Board of Commissioners that works effectively then the performance of the company will also be good. The quality of this function is a determinant of corporate governance effectiveness. The differences of interests between the owners of the company and management can be aligned with corporate governance mechanism. The quality of corporate governance mechanisms is extensively related to the quality of the company (Tangjitprom, 2013). The monitoring done by the board of commissioners and shareholders is an important mechanism in aligning shareholder and management interests. The effectiveness of company monitoring conducted by an independent board of commissioners will minimize the fraud. Despite of the high rates of financial targets, ineffective monitoring, change in auditors and change in direction. The Board of Commissioners has the responsibility of supervising the management and ensuring the implementation of corporate management, enforcement of SOPs and obligations of corporate accountability in accordance with the results of the corporate governance forum in 2003.

The same thing was also delivered by (Dechow et al., 1996; Dunn, 2004) where the composition of the board of commissioners capable on preventing any act of fraud. Based on (Governance, 2004), the board of commissioners has responsibility and authority in the management monitoring process. The board of commissioners is a corporate governance mechanism that predicted can affect managerial opportunistic behaviour so that the hypotheses of the research stated as follows:

H5a: The Board of Commissioners has moderation on the relationship of Financial Target towards Accounting Fraud

H5b: The Board of Commissioners has moderation on the relationship of Ineffective Monitoring towards Accounting Fraud

H5c: The Board of Commissioners has moderation on the relationship of Change in Auditor towards Accounting Fraud

H5d: The Board of Commissioners has moderation on the relationship of Change in Director towards Accounting Fraud

2.6. The Role of the Independent Commissioners on the relationship of Financial Target, Ineffective Monitoring, Change Auditor and Change in Direction towards Accounting Fraud.

The effectiveness of the board of commissioners will strengthen the CEO, where CEO's strength is influenced by the level of independency of the board of commissioners. The Independent Commissioner is a member of the board of commissioners who is not affiliated with the controlling shareholder, between commissioners, the management, and other parties who capable of affecting their level of independency and only working for the welfare of the company.

Independent commissioner is a strategic position in carrying out supervisory functions in the implementation of good corporate governance. The research result of (Marrakchi Chtourou, Bedard, and Courteau, 2001) concluded that when there is an independent board of commissioners, it can affect accounting fraud since in the process of supervision they work independently. When an independent commissioner increases their supervision, the accounting fraud rate will get lower. This is similarly stated by (Lim, Matolcsy, and Chow, 2007) that the board of commissioners which is dominated by the internal directors tend to have weak corporate governance. Thus, accounting fraud can be minimized by presenting independent commissioners because an independent commissioner is an independent party that represents a shareholder whose job is to specifically oversee the managerial actions. Accounting fraud will be reduced because they are supervised by an independent commissioner although the rate of financial targets, ineffective monitoring, change in auditors and change in direction are high. So that the hypotheses of the research stated as follows:

- H6a: The Independent Commissioners has moderation on the relationship of Financial Target towards Accounting Fraud
- H6b: The Independent Commissioners has moderation on the relationship of Ineffective Monitoring towards Accounting Fraud
- H6c: The Independent Commissioners has moderation on the relationship of Change in Auditor towards Accounting Fraud
- H6d: The Independent Commissioners has moderation on the relationship of Change in Director towards Accounting Fraud

2.7. The Role of the Institutional Ownership on the relationship of Financial Target, Ineffective Monitoring, Change Auditor and Change in Direction towards Accounting Fraud.

Institutional ownership is a proxy for corporate governance mechanism that is predicted weakening the relationship of fraud diamond risk factors towards accounting fraud. Beiner, Drobtz, Schmid, and Zimmermann (2004) explain that the institutional ownership is seen based on the total percentage of voting rights which are owned by the institution. Institutional ownership has the ability to control management through effective monitoring so it will to minimizing the fraud. Cornett, Marcus, Saunders, and Tehranian (2007) stated that supervision done by institutional investors is also could encourage managers to prioritize the company performance that can minimize opportunistic management behaviour. The existence of institutional ownership will minimize the accounting fraud, so that the financial statements can describe the real concept even though the financial targets, ineffective monitoring, change in auditors and change in direction are high. So that the hypotheses of the research stated as follows:

- H7a: The Institutional Ownership has moderation on the relationship of Financial Target towards Accounting Fraud
- H7b: The Institutional Ownership has moderation on the relationship of Ineffective Monitoring towards Accounting Fraud
- H7c: The Institutional Ownership has moderation on the relationship of Change in Auditor towards Accounting Fraud
- H7d: The Institutional Ownership has moderation on the relationship of Change in Director towards Accounting Fraud

3. Data and Methodology

3.1 Data Collection

This study uses a quantitative approach because it leads to generalization, explains the various phenomenons and examines the theory with numeric variables, data analysis and multiple verification using statistical procedures. The population of this research that non-financial companies listed on the BEI. Furthermore, the selection of samples based on purposive sampling method.

3.2 Operational Definition of Variables

All the components of risk factors based on Fraud diamond cannot be observed directly. Furthermore, pressure is proxied with the financial target (ROA), opportunity is proxied by ineffective monitoring (BDOUT), rationalization is proxied by change in auditor (Δ CCPA) and capability is proxied

by Change in Direction (DCHANGE). Then, corporate governance mechanisms proxied with board of commissioners, independent commissioners and institutional ownership.

3.3 Data Analysis Method

This study examines hypotheses with binary logistic regression to analyze the effect of financial targets, ineffective monitoring, change in auditors, and change in direction moderated by corporate governance mechanisms against accounting fraud. According to (Ghozali, 2006) research with logistic regression ignores normality testing for independent variables. Due to this research using logistic regression where independent variables are combined non-metric and continue or metric categorical, so it also ignores the problem of heteroscedasticity. Regression model 1 is on the factors that affect accounting fraud. Furthermore, for model 2 with analysis technique based on interaction regression due to quasi moderating. Logistic regression model in hypothesis testing on model 1 is $\text{Ln} (F / 1-F) = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + e$ and hypothesis testing on model 2 is $\text{Ln} (F / 1-F) = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3 X_3 + \beta_4x_4 + \beta_5x_5 + e$. Where, $\text{Ln} (F / 1-F)$ = dummy variable, the company which commit accounting fraud represented with (1) and who did not commit accounting fraud represented with (0), X_1 = Financial Targets, X_2 = Ineffective Monitoring, X_3 = Change in Auditor, X_4 = Change in Direction, X_5 = Board of Commissioners, X_6 = Independent Commissioners, X_7 = Institutional Ownership, β_1 , β_2 , β_3 , β_4 , dan β_5 (regression coefficient) and e = error.

Based on SPSS output, testing was conducted with the various stages that must be passed as follows: first, assess the Hosmer and Lemeshow goodness of fit test or feasibility on the regression model. Second, the coefficient of determination. Third, the Overall Model Fit. Furthermore, descriptive statistical analysis which includes the number of samples, mean, maximum and minimum and standard deviation.

4. Discussion and Conclusion

4.1 Sample and Research Data

The following explanation is the result of sample selection based on purposive sampling which brings about 12 fraud companies and non-fraud companies of 32 for the period of 2011-2015, as shown in Table 1 and Table 2 as follows:

Table 1
Sample Selection Procedure for Fraud Companies

Sample criteria	Companies that meet the criteria
The population of non-financial companies where listing on the BEI in 2011-2015	411
Companies violating article 10. VIII.G.7 sanctioned by the OJK in 2011-2015	39
Companies which has a complete data in 2011-2015.	12
Total samples	12

Table 2
Sample Selection Procedure for Non-Fraud Companies

Sample criteria	Companies that meet the criteria
The population of non-financial companies where listing on the BEI in 2011-2015	411
Have a period of time and sector as fraud companies where violating article no. VIII.G.7 sanctioned by the OJK in 2011-2015	88
Companies which has a complete data in 2011-2015.	32
Total samples	32

4.2 Descriptive Testing

The following explanation is the result of data processing descriptive statistical analysis to obtain a general description associated with independent, moderating and dependent variables using SPSS 22.0 on the Table 3 below.

Table 3
Descriptive Statistics Results

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Financial Targets	44	-.12	.44	.0921	.12124
Innefective Monitoring	44	.14	.50	.03510	.09081
Change in Auditor	44	.00	1.00	.6410	.48597
Change in Direction	44	.00	1.00	.4103	.49831
Board of Commissioners	44	2.00	8.00	4.0513	1.45002
Independent Commissioners	44	1.00	3.00	1.3846	.54364
Institutional Ownership	44	.25	.91	.5685	.14730
Accounting Fraud	44	.00	1.00	.3573	.46757

4.3 Hypothesis Testing

The result of hypothesis testing using binary logistic regression presented in Table 4.

Table 4
Hypothesis Test Results

Variable	Significance	Description
X1 → Y	0.113	Hypothesis 1 Rejected
X2 → Y	0.226	Hypothesis 2 Rejected
X3 → Y	0.121	Hypothesis 3 Rejected
X4 → Y	0.011*	Hypothesis 4 Accepted
X1*Z1 → Y	0.567	Hypothesis 5a Rejected
X2*Z1 → Y	0.175	Hypothesis 5b Rejected
X3*Z1 → Y	0.831	Hypothesis 5c Rejected
X4*Z1 → Y	0.028*	Hypothesis 5d Accepted
X1*Z2 → Y	0.253	Hypothesis 6a Rejected
X2*Z2 → Y	0.427	Hypothesis 6b Rejected
X3*Z2 → Y	0.550	Hypothesis 6c Rejected
X4*Z2 → Y	0.023*	Hypothesis 6d Accepted
X1*Z3 → Y	0.645	Hypothesis 7a Rejected
X2*Z3 → Y	0.816	Hypothesis 7b Rejected
X3*Z3 → Y	0.240	Hypothesis 7c Rejected
X4*Z3 → Y	0.015*	Hypothesis 7d Accepted

*) Level of Significance: 0.05 (5%)

In Table 4, it shows that H1 test results obtained significance value of 0.113 (> 0.05) thus H1 rejected. This result in line with the research results of (Puspatriisnanti, 2014; Skousen et al., 2009; Sukirman and Sari, 2013) show that ROA has no effect on accounting fraud. H2 test results obtained significance value of 0.226 (> 0.05) thus H2 rejected. This results are similar to the research result of (Rahmanti and Daljono, 2013; Ratmono et al., 2014; Skousen et al., 2009) showed that ineffective monitoring has no effect on accounting fraud. Furthermore, testing H3 obtained significance value of 0.121 (> 0.05) thus H3 rejected. This result in line with the research results of (Fimanaya and Syafruddin, 2014; Ratmono et al., 2014) where rationalization has no effect on accounting fraud. Then, H4 test obtained significance value 0.011 (< 0.05) thus H4 accepted. Change in Direction is causing stress period, adaptation and adjustment which open opportunities for fraud.

The H5a test with significance value of 0.567 (> 0.05), H5b with significance value of 0.175 (> 0.05), H5c with significance value of 0.831 (> 0.05) and H5d with significance value 0.028 (< 0.05). Thus H5a, H5b, and H5c are rejected but H5d is accepted. Board of commissioners are able to moderate, in this case

weakening the relationship of change in direction towards accounting fraud because corporate governance mechanisms can be used by the company to align ownership and management interests.

The result of H6a test with significance value of 0.253 (> 0.05), H6b with significance value of 0.427 (> 0.05), H6c with significance value of 0.550 (> 0.05) and H6d with significance value 0.023 (< 0.05), then H6a, H6b, H6c hypotheses are rejected while H6d accepted. Independent commissioners are able to moderate, in this case weakening the relationship of change in direction towards accounting fraud because independent commissioners originated from outside the company, so it is more focused and not easily influenced by anyone in the monitoring, controlling and managing. So, it is used to weaken the accounting fraud.

Furthermore, H7a test results with significance value of 0.645 (> 0.05), H7b with a significance value of 0.816 (> 0.05), H7c with a significance value of 0.240 and H7d with a significance value of 0.015 (< 0.05). Those test results show that H7a, H7b, H7c are rejected, but for H7d is acceptable. Institution ownership is able to moderate, in this case weakening the relationship of change in direction towards accounting fraud because corporate governance mechanisms focused on the owners of these companies will certainly prevent accounting fraud.

Based on the test, H1, H5a, H6a, and H7a were rejected, test results H2, H5b, H6b, and H7b were rejected. For test results H3, H5c, H6c, and H7c rejected. For research results H4, H5d, H6d and H7d accepted.

5. Research Limitations and Direction for Further Research

5.1 Research Limitations

Limitations in this study is that the number of samples is relatively small, and due only conducted in manufacturing-companies only and only include 4 risk factors towards fraud and the only moderating variables is corporate governance.

5.2 Direction for Further Research

Based on the limitations of the research, it is necessary to do further development and improvement for the better subsequent studies. Some recommendations for further research are: (1) expanding the observation period for the larger amount of sample, (2) expanding the sample can be done by adding some other sectors or also including all companies listed in BEI, (3) furthermore, add other variables or predictors that may affect accounting fraud.

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Joint conference in association with Medgar Evers College of the City University of New York, USA

9-10th April 2018

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8th International Conference on Restructuring of the Global Economy (ROGE)

4th ILTTL 2018, London, UK

5-6th November 2018

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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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PRESS RELEASE!**Academic Powerhouses Forge Strategic Partnership**

One of New York, USA's most prestigious academic institutions, Medgar Evers College of the City University New York has signed a strategic partnership with the Academy of Business & Retail Management (ABRM), London. This agreement will see both institutions working together to establish Medgar Evers College of the City University of New York as a long term collaborative partner of *The Academy of Business & Retail Management* to **register the** University's academic staff and postgraduate/graduate students at International Academic Conferences organized by the Academy and be the Gold sponsor of *the* 7th ICBED-2018 in New York, USA.

The signing of this partnership Dr P. R. Datta, Director of ABRM paid particular tribute to the USA academics; *"This joint initiative will enable the wider world to gain a better insight into ground breaking and innovative research being undertaken by many Western academics, especially those from USA."* His London-based institution has built up a formidable reputation based on its trinity of services, namely the production of academic journals, *organization* of international academic conferences and the delivering of high impact training to institutional, business and legislative leaders. Dr Jo-Ann Rolle, Dean of *the School of Business at* Medgar Evers College, New York, USA was equally enthusiastic about this development; *"There is considerable synergy between our two institutions, and for our staff and students, this partnership sends out a strong message about shared values and the desire to work together for the betterment of mankind."*

The two institutions are also in discussions about the possibility of providing specialist training and publications. In an increasingly uncertain world they are eager to demonstrate that trust and partnership is the way forward.

Press Release jointly issued by:



Medgar Evers College of the City University of New York, USA (<http://www.mec.cuny.edu>)



Academy of Business & Retail Management (ABRM), London (www.abrmr.com)

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Journal of Business and Retail Management Research (JBRMR)

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