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THE IMPACT OF FIRM CHARACTERISTICS AND CORPORATE GOVERNANCE ATTRIBUTES ON INTERNET INVESTOR RELATIONS - EVIDENCE FROM BAHRAIN

Desoky, Abdelmohsen M.
University of Bahrain
a.desoky@buss.uob.bh

Mousa, Gehan A.
University of Bahrain
gmousa@buss.uob.bh

ABSTRACT
This research provides insights into the dissemination of investor relations (IR) information on corporate web sites. Extensive literature examines the determinants of Internet disclosure. The paper extends this literature by examining the relationship between IR disclosure by companies listed on the Bahrain Stock Exchange (BSE) at their web sites from one side and firm characteristics and corporate governance attributes from the other. An index of 31 items of IR disclosure was used. It was found that of the 40 companies included in this research, 34 (85%) had accessible web sites and of the 34 companies, only 9 (26.47%) companies had a separate section for IR information in their web sites. On average, the level of IR disclosure by Bahraini listed companies is relatively high. The univariate statistics showed that there is a significant association between the dependent variable (IR disclosure index) and most independent variables. This association is positive for firm size, board size, and board composition, while it is negative for firm type and firm performance. The regression analysis provides some support for the results which were already obtained in the univariate tests especially for the board size.

INTRODUCTION

There has been considerable interest in recent years in the topic of corporate governance (CG). Awareness of CG increased significantly due to company scandals. Therefore, the need for adapting CG is critical for all companies. CG is rules and procedures that achieve the optimum protection and balance between the interests of directors, shareholders and stakeholders. It extends beyond legal provisions to form guidelines for the correct and proper conduct of corporate management, according to international practice and standards that achieve an equitable arrangement of stakeholders' interests (Allen, 2005). The availability of information plays a significant role in decision making, performance evaluation, knowledge about the companies' conditions and assessing the credibility of the companies with those that deal with them. Therefore, transparency and disclosure are considered basic pillars in CG.

In 2002, McKinsey & Company conducted a survey titled "Global Investor Opinion Survey" and highlighted CG as a significant investment criterion. Investors

have higher confidence in companies with good CG (Bhat et al., 2006). Fianna and Grant (2005) argued that good CG helps to bridge the gap between the interests of a firm, by increasing investor confidence and lowering the cost of capital for the firm. Furthermore, they also add that it helps in ensuring the firm honours, its legal commitments and forms value-creating relations with stakeholders. Internet disclosure has provided corporations with a unique channel to communicate with customers, suppliers and investors. Many companies provide web sites which include large amounts of information on a rich range of different matters. Companies are free to present the amount and type of investor relations (IR) information that they desire on their web sites. The growth of interest in, and influence of CG, has led to companies maintaining more transparent and wide-ranging communications with their stakeholders (Bollen et al., 2008). Therefore, IR disclosure is an important part of CG (Abdul Hamed, 2005).

The US National Investor Relations Institute (NIRI) defines IR as a strategic management responsibility using the disciplines of finance, communication and marketing to manage the content and flow of firm information to financial and other constituencies to maximize relative valuation (NIRI, 2003). Deller et al. (1999) argue that IR activities are used as an instrument to reduce information asymmetry between the firm and market participants, by providing information that may be relevant for the pricing of the firm's shares. Therefore, IR web sites provide a broad set of information concerning the financial performance of the firm as well as nonfinancial information that may be relevant for financial markets (Bollen et al., 2006). Therefore, it is expected that the Internet can be qualified as a medium for IR activities that can help to apply good CG by meeting the information needs of different stakeholders.

This research extends the prior research on IR disclosure and provides insights to IR disclosure in a Bahraini environment. It aims mainly to investigate empirically the relationship between firm characteristics and CG attributes from one side, and the IR disclosure by Bahraini listed companies at their web sites from the other. The current research is vital since IR information is critical for the functioning of a stock market. IR information, which helps in reducing investors' uncertainty, improves the market transparency to investors and other stakeholders.

The Kingdom of Bahrain, which is a member of the Gulf Co-operation Council (GCC), is the focus of the current study. It is one of the most open economies in the Middle East and North Africa region and has been experiencing solid economic performance in recent years (CBB, 2007). Moreover, it is one of the world's leading international finance centres. The Bahrain Stock Exchange (BSE), which officially commenced operations in 1989, has grown significantly in the number of listed securities with currently 49 companies. As at end of May 2009, market capitalization stood at US$17,350 billion (Bahrain Economic Development Board, 2008). Therefore, there is a growing concern emerging with a great profile regarding the CG in Bahrain. The corporate governance code (CGC) of Bahrain will be applicable in the near future to all companies and the enforcement of the code will lead to accountability, transparency and fairness for all shareholders, investors, managers and others.

The current study is justified on the following grounds: (1) it provides a starting point for research involving IR disclosure in a Bahraini environment. This study is one of the first empirical studies that investigate the relationship between IR disclosure and both firm characteristic and CG attributes as determinants of such disclosure. (2) Relatively little is known about IR disclosure by listed companies in

Bahrain and determinants of such disclosure. The current research may make a general contribution in this area. (3) The empirical investigation of this study could help in provide benefits to investors and regulators, especially because the Bahraini government is going to issue the CGC in the near future. (4) It may help in studying other capital markets in the area especially the Gulf Cooperation Council countries which may also contribute to the accounting literature on emerging markets (EM).

The remainder of this paper is organized as follows. The next section presents the need for IR disclosure. Section 3 reviews literature on IR disclosure. Section 4 provides the profile of CG in Bahrain. The hypotheses are developed in Section 5, followed by a description of the research method in Section 6. Section 7 discusses the results and conclusions are drawn in Section 8.

THE NEED FOR INVESTOR RELATION DISCLOSURE

The primary objective of IR disclosure is to provide information needed by investors to make effective investment decisions. IR activities can be classified into formal or informal. According to Brennan and Kelly (2000), formal IR activities include annual reports, interim reports, and shareholder meetings, while informal IR activities include mailing information to analysts and fund managers, answering queries, providing feedback on analyst's reports, and press releases of various formats. Thompson (2002) noted that IR has an important role in minimizing investors' risk by providing clear and understandable information with the aim of full and fair disclosure. IR is thus important in increasing shareholders' value.

Several studies (Ashbough et al., 1999; Deller et al., 1999; Ettredge et al., 2001) provide a number of motivations for IR disclosure on the web sites. IR disclosure may decrease agency costs through the reduction of information asymmetry between principals and agents. Ashbaugh et al. (1999) found that firms engaged in Internet disclosure placed greater emphasis on communications with potential and existing shareholders. Interviews conducted by Ettredge et al. (2001) found that IR directors do see the web site as a means of reducing administrative costs and argued that internet disclosure helps provide a common level of disclosure to all stakeholders. Further, Elton and Gruber (1995) argue that a corporation may influence its market value by presenting 'new' information to the market. IR disclosure should present an accurate picture of corporate performance and prospects, thus allowing the investment community, through an informed market, to determine a realistic share price. Such information can have a positive impact on a firm's market value and cost of capital relative to its industry sector and the overall economic climate (Deller et al., 1999). Lang and Lundholm (1996, p. 467) summarise the benefits of disclosure as being "increased investor following, reduced estimation risk and reduced information asymmetry, each of which has been shown to reduce a firm's cost of capital in theoretical research". Finally, Lev (1992) recommended that ongoing information to shareholders on the firm's activities minimizes uncertainty among investors, thus minimizing negative impacts on share prices.

THE PROFILE OF CG IN BAHRAIN

The Kingdom of Bahrain is the financial capital of the Middle East, enjoying a geographical and time-zone location mid-way between the Asian and European markets. It has launched a wide range of economic initiatives aimed at diversifying the economy and stimulating growth and economic stability. The formulation of the Bahrain Monetary Agency (BMA) in 1973 added impetus to Bahrain's aspirations of

establish a banking centre of excellence. Bahrain aims to create the right climate to attract more foreign investment in order to ensure sustainable growth and to create increased employment opportunities. This leads to a growing concern for a high profile regarding CG in Bahrain. Such critical interest attracts a great deal of attention from practitioners and communities such as managers, shareholders, investors and regulatory agencies. A number of conferences on CG were held in Bahrain. These conferences have provided several detailed reports, training and workshops, assessments and identification of the government of Bahrain and evaluation of applications for the CG guide. The 2004 conference was organised to provide in-depth knowledge on CG by addressing recent developments and issues surrounding effective and efficient CG, as well as presenting the latest executive management guidelines and practices for responsible organizational direction and management. Moreover, the 2009 Conference aimed to promote on awareness to companies about the importance of good CG and guide them in their preparation for its implementation.

A Corporate Governance Code (CGC) in Bahrain aims to make the CG system transparent and understandable for both national and international investors in a well liberalized and transparent economic system. As an instrument in lifting ethical standards in its relations between market participants, it aims to ensure accountability and fairness for all stakeholders and organizational efficiency and is therefore considered central to boosting investor confidence. The National Committee for the CGC has been working to align the draft code to the requirements of the Kingdom of Bahrain. Although the Kingdom of Bahrain does not have a CGC until now, the role of directors in companies is defined in accordance with the Commercial Companies Law 2001 and its Executive Regulations. The above law specifies the requirement for a board of directors, its overall responsibilities, the composition of the board of directors and voting rights. Amendments to the law were generally directed towards CG issues such as the annual meeting, communication with third party, relationships with shareholders and disclosure requirements (Hussain and Mallin, 2003).

LITERATURE REVIEW

The accounting literature provides significant evidence on the IR disclosure. The discipline of IR disclosure has grown significantly in the last 20 years, particularly in countries with advanced capital markets. Allam and Lymer (2002) find that 99% of large international companies sampled in five developed countries, had a web site, all with an IR section disclosing financial and other information. Brennan and Kelly (2000) investigated Irish companies IR material on the Internet. The results indicate that Irish public companies provide web sites for investor relation purposes. Deller et al. (1999) compared the IR disclosure activities provided at firms web sites in three countries namely the US, the UK and German corporations. They reported that, in the USA, IR disclosure via the Internet is more common and offers more features than in the other two countries. In the USA, substantially more firms used the Internet for IR activities (91%), compared to the UK (72%) and Germany (71%). In a country of emerging capital market, Abdul Hamid (2005) investigated the utilization of the internet by 100 Malaysian listed companies on Kuala Lumpur Stock Exchange for IR disclosure. The study utilized the checklist instrument categorizing IR disclosure into six groups: background of companies and financial data; share price and shareholder data; ratio analysis; press release and presentations; frequently asked questions; and IR contact details and online investor service. Abdul Hamid (2005) revealed that only 70 firms provided investor-related materials on their web sites. The results confirm

that a gap exists between developed countries and developing countries with respect to the utilization of the internet for investor-relations purposes.

In the US, Ashbaugh et al. (1999) used a sample of 290 listed companies. The results indicated that of the four independent variables, only firm size had significant association with IR disclosure. Furthermore, Marston and Polei (2004) examined the use of the Internet for the disclosure of financial and investor-related information by German companies between two points of time (2000 and 2003). The results showed that firm size is the only significant explanatory variable for the amount of IR disclosed at corporate web sites. Ettredge et al. (2002) investigated whether Web-based dissemination of information for investors can be explained by theories of incentives to voluntarily disclose information for investors at corporate web sites. The results indicate that required items are significantly associated only with the firm size, while voluntary items related to firm size and raising capital. Khadaroo (2005) compared the internet reporting practices of Malaysian listed companies with those in Singapore. The results indicate that listed companies in Singapore have a greater web presence compared with Malaysia. In an international study, Bollen et al. (2006) examined the use of the Internet for IR activities by investigating web sites of 270 companies listed in six countries (Australia, Belgium, France, the Netherlands, South Africa and the UK). The results show that the IR section of its web site is an established element in a firm's Internet presence as, on average, over half of the 29 IR characteristics were found on the firm web sites. Bollen et al. (2006) reported that firm size, level of internationalization (foreign listing and foreign revenue), proportion of shares available to individual investors and disclosure environment are significantly related to the extent of IR disclosure on the Internet.

In addition to the above prior research concentrating on the IR disclosure on the firm’s web site, the literature provides extensive evidence of the relationship between general internet disclosure from one side and company characteristics (Debreceny et al., 2002; Desoky, 2009; Ismail, 2002; Joshi and Al-Modhakhi, 2003; Juhmani, 2008; Oyelere et al., 2003; and Xiao et al., 2004), and CG attributes (Chen and Jaggi, 2000; Ezat and El-Masry, 2008; Forker, 1992; Gul and Leung, 2004; Ho and Wong, 2001; Huther, 1997; Xiao, et al., 2004) from the other.

Regarding the Kingdom of Bahrain, several studies were carried out in relation to CG (Al-Ajmi, 2009; Hussain and Mallin, 2003), Internet disclosure (Ismail, 2002; Joshi and Al-Modhakhi, 2003; Juhmani, 2008). For instance, Al-Ajmi (2009) investigated the relationship between CG and audit quality, and documented that credit and financial analysts see the credibility of financial statements to be a function of the size of the auditing firm. Another study conducted by Hussain and Mallin (2003) has examined the CG in Bahrain, by analysing the board structures of the sampled companies. They surveyed companies listed on the BSE and carried out interviews with some individual directors in these companies. The aim of the survey was to elicit information regarding the structure and responsibilities of corporate boards in listed companies in Bahrain. The findings of the study show that non-executive directors dominate the board composition and there is a separation between the roles of chair and CEO. Moreover, Joshi and Al-Modhakhi (2003) who carried out a study in Bahrain and Kuwait reported that 47.6% (for Kuwait) and 48.5% (for Bahrain) of sample companies had a web site, and among six firm characteristics investigated, firm size (total assets) and firm type were the main factors which influenced the financial reporting practices of companies on the internet. Juhmani (2008) revealed that 82% of Bahraini listed companies had a web site and most of them disclose full corporate reports through their web sites. Four firm characteristics

(firm size, profitability, leverage, and type) were investigated and only profitability is significantly and positively related to the existence of a web site.

From the above discussion, it is obvious that most studies in the area of IR disclosure were carried out in countries with advanced capital markets. In contrast, the present study extends the literature by examining the use of the internet for IR disclosure by listed companies in Bahrain as one of the developing countries. The use of the Internet as an instrument for IR disclosure has been increasing, although the results vary across countries. It can be also concluded that certain firm characteristics (such as firm size) appear to be positively related to the level of IR disclosure. The current research investigates whether web-based dissemination of information for investors can be explained by the firm's characteristics and CG attributes. Moreover, the study will be the first explanatory research covering IR practices of Bahrain.

HYPOTHESIS DEVELOPMENT

Seven independent (explanatory) variables are employed in this investigation.

FIRM CHARACTERISTICS HYPOTHESES

The literature on the relationship between Internet disclosure and firm characteristics includes a number of different characteristics such as, firm size, profitability, leverage, liquidity, systematic risk, performance, issue of shares, percentage of free float, and type of business. In the current study, four variables related to firm characteristics are selected as follows:

FIRM SIZE

Size represents one of the most common variables in determining the extent of disclosure. Larger firms are more complex and information disclosure is necessary to allow existing and potential investors to make efficient investment decisions (Debreceny et al., 2002; Ettredge et al., 2002; Ismail, 2002). Such firms look forward to increasing their outside capital to enhance their performance – to disclose more information on their web sites to assist them in the marketability of securities and to achieve their objectives (Bonsón and Escobar, 2002). Watts and Zimmermann (1978) argued that larger firms face higher political costs. Therefore, they are more likely to attract the attention of regulatory agencies and voluntary disclosures are a possible means of reducing political costs. A positive relationship has been reported between firm size and the amount of information for investors by Ashbaugh et al., 1999; Ettredge et al., 2002; Marston and Polei, 2004; and Bollen et al., 2006. Therefore, it is expected that big firms disclose more information for investors. Based on these arguments, the first hypothesis is:

H1: There is a positive relationship between firm size and the amount of IR information disclosed on its web site.

TYPE OF BUSINESS ACTIVITY

The amount of information disclosed by firms may vary according to its industry type. Literature on the relationship between disclosure of information for investors and type of business activity has mixed results. Some of the studies show that there is a significant relationship between online disclosure and type of business activity (Ashbaugh et al., 1999; Bollen et al., 2006; Bonsón and Escobar, 2002; Brennan and Hourigan, 2000; Ezat and El-Masry, 2008; Ismail, 2002; and Oyelere et al., 2003). However, the others show an insignificant relationship (Debreceny and Rahman, 2005). The second hypothesis is formulated as follows:

H2: There is a significant relationship between type of business activity and the amount of IR information disclosed on a firm web site.

FIRM PERFOMANCE

A number of studies have used profitability as a measure of a firm's performance. It was suggested that investors are thought to perceive the absence of voluntary disclosure as an indication of "bad news" about a firm (Lev and Penman, 1990). It was argued that profitable firms have the incentive to distinguish themselves from less successful firms to raise capital at the lowest possible price. Voluntary disclosures on the web are one way to achieve this (Marston and Polei, 2004). There are many reasons for the importance of studying the relationship between profitability and online disclosure. According to agency theory, managers of the highly profitable companies are motivated to disseminate more information on the firms' web site to achieve personal advantages such as the continuance of their positions and compensation justification (Haniffa and Cooke, 2002; Wallace et al., 1994).

Mixed evidence has been reported regarding the relationship between firm profitability and the amount of internet reporting. Ettredge et al. (2002); Oyelere et al. (2003); and Marston and Polei (2004) reported a negative relationship. Conversely, a positive relationship was reported by other studies (Ismail, 2002; and Juhmani, 2008). The hypothesis to be tested is:

H3: There is a significant relationship between the firm's performance and the amount of IR information disclosed on its web site.

THE ISSUANCE OF SHARES

The issuance of shares is an important factor that may impact corporate disclosure. Most companies seek to increase their capital by more than one resource, and one of these resources is issuing more shares. Frankel et al. (1995) argued that firms that access the capital markets are more likely to engage in voluntary disclosure. Companies, which need new financing, will seek to disclose more information on their web sites to attract more investors and increase their confidence about the position of the companies, which may encourage those investors to invest in them (Ezat and El-Masry, 2008). Geerings et al. (2003) argue that increasing globalisation of capital markets will lead to a strengthening and expansion of IR activities as companies need to attract more foreign investors in the face of greater competition for capital. The literature revealed a significant association between the issuance of new shares and Internet financial disclosure (Ettredge et al., 2002). Therefore, based on the above arguments, the third hypothesis is:

H4: There is a significant relationship between the firm issuance of shares and the amount of IR information disclosed on its web site.

CG HYPOTHESES

The literature on principles of CG (John and Senbet, 1998; Kiel and Nicholson, 2003; Pye, 2000) has greatly emphasized a number of issues that play a vital role in the effectiveness of the board of directors in corporate decision-making. These issues are: board size, board composition, board compensation, and board leadership structure. The board of directors of any firm plays an important and decisive role in setting the firm's strategic goals and in selecting the strategies and general policies that govern the work flow inside the firm. It is central to CG mechanisms and is viewed as the primary means for shareholders to exercise control of top management (John and Senbet, 1998). In practice, corporate boards delegate most of their duties to the

management team but retain the power to hire, compensate and, if necessary, replace the top executives (Fama and Jensen, 1983). The ultimate responsibility for corporate decisions, however, remains with the board. In the light of the above, three variables related to CG attributes are selected as follows:

BOARD SIZE

The number of directors on the firm's board can play a critical role in monitoring of the board and in taking strategic decisions. Prior studies show that a board's ability to monitor and make important corporate decisions increases with its size (John and Senbet, 1998; Kiel and Nicholson, 2003). A large number of directors, arguably, will subject the management and operations of the firm to a greater scrutiny and provide access to a wider range of resources (Kiel and Nicholson, 2003). Because large boards are more likely to be controlled by the CEO, and are prone to coordination and communication problems, Jensen (1993) suggests a limit to board membership to make it an effective governance mechanism. Further, Pye (2000) argued that well informed and challenging corporate dialogue is difficult to achieve in large boards. The literature on the relationship between the board size and Internet disclosure presents mixed results. Kiel and Nicholson (2003) and Singh et al. (2004) confirm that a large board assists in increasing the pool of expertise that yields from the diversity of the board and eliminates environmental uncertainties, alleviating the dominance of the CEO. Consequently, the larger the number of the board's directors, the greater the desire for Internet disclosure. However, Huther (1997) and John and Senbet (1998) show that a large board causes poorer communication and processing of information. In the light of the above arguments, the fourth hypothesis is:

H5: There is a significant relationship between the firm's board size and the amount of IR information disclosed on its web site.

BOARD COMPOSITION

Board composition refers to the number of non-executive directors to the total number of directors (Haniffa and Cooke, 2002). Fama and Jensen (1983) argue that non-executive directors act as a reliable mechanism to diffuse agency conflicts between managers and owners. Pye (2000) argued that outside directors now seem to be more influential in terms of board decision making. These decisions may occur in the IR information disclosed in their web sites. The literature on the relationship between this variable, board composition, and disclosure are mixed. Some prior research revealed a positive association (Chen and Jaggi, 2000; Xiao, et al., 2004), while others reported a negative association (Ho and Wong, 2001). Based on the above arguments, the sixth hypothesis is formulated as follows:

H6: There is a significant relationship between the number of non-executive directors and the amount of IR information disclosed on a firm's web site.

BOARD LEADERSHIP STRUCTURE

One of the essential concerns in CG is the board leadership structure. The CEO is a full-time position and is responsible for the daily management of the firm as well as setting and implementing firm strategies. On the other hand, the chair of the board of directors is usually part-time and the main responsibility is to ensure the effectiveness of the board (Weir and Laing, 2001). Practically, the positions of the chair and the CEO might be held by different persons (dual leadership structure) or by one person (unitary leadership structure). Forker (1992) presented evidence of a relationship between disclosure quality and board leadership structure (measured as CEO and

board chair combined). Furthermore, Gul and Leung (2004) and Haniffa and Cooke (2002) found that board leadership structure, (unitary leadership structure or role duality), is associated significantly with a lower level of voluntary disclosure. Hence, based on the above arguments, the seventh hypothesis is formulated as follows:

H7: There is a significant relationship between the board leadership structure and the amount of IR information disclosed on a firm's web site.

METHODOLOGY

This section on research methodology helps explain where the researchers obtained the data, how we operationalized the dependent and independents variables, and the form of data analysis being undertaken to test the hypotheses developed earlier in this research.

CONSTRUCTION OF A DISCLOSUE INDEX

There is no general theory that offers guidance on the selection of items to measure the extent of voluntary disclosure (Marston and Shrives, 1991). The IR disclosure index used in this research was developed from prior research (Deller et al., 1999; Ettredge et al., 2002; Marston and Polei, 2004; Abdul Hamid, 2005; Khadaroo, 2005; Bollen et al., 2006; and Ezat and El-Masry, 2008). Furthermore, the definitions of items included in the index were derived from the above prior research. A score of ''1'' was recorded if a given item was disclosed and a score of ''0'' if it was not disclosed. Therefore, all IR disclosure items noted on the web sites of Bahraini companies were considered equally important. This un-weighted disclosure index, which has become the norm in disclosure studies because it reduces subjectivity (Ahmed and Courtis, 1999), was adopted by Cooke (1989) followed by many authors (e.g. Ettredge et al., 2002; Desoky, 2009). The number of items included in the index varies between studies. It ranges from only 16 items (Ettredge et al., 2002) to 224 items (Cooke, 1989).

The index, which ultimately consists of 31 items of IR disclosure, was developed in a manner that covers most IR information presented on the firm's web site. Total score of items (31 items) included in the index (IRSCORE) was divided into four main groups namely, access to the IR information (GROUP1), timeliness of IR information (GROUP2), CG and social responsibility information (GROUP3), and other information (GROUP4).

After a careful review of prior research, the index initially included 42 items of IR disclosure. To make the index more reliable and fit the Bahraini environment, several conditions were applied in the selection of items. For instance, the item must have been used in more than one previously published research (Hossain et al., 1994); items that have never been provided in web sites of firms listed in the BSE over the research period of study were excluded from the index. The initial index was shown to several colleagues in the accounting department (University of Bahrain) chosen on the basis of their expertise and knowledge of both the research subject and local accounting practices to express their comment about the inclusion of items included in the index. Appling the above conditions led to the elimination of 11 items of IR disclosure from the original list and left the index with a final list that includes 31 items. Example of excluded items includes "information on employees' safety and health", and "segmental reports". The total IR score (IRSCORE) which is the main measure in this research is computed according to IR disclosure items presented in a particular firm's web site. For each firm, the total IR score is measured as the percentage of the actual score awarded to the maximum possible score. The complete

checklist is reproduced in Tables 4 (GROUP1), 5 (GROUP2), 6 (GROUP3), and 7 (GROUP4) below.

DEPENDENT AND INDEPENDENT VARIABLES

The purpose of the empirical survey is to test whether the IR disclosure score achieved by a firm is related to a number of independent variables which were divided into two main categories. First, firm characteristics including 4 variables namely firm size (FSIZE), type of business (FTYPE), performance (FROA), and issuance of shares (FISSUE). Second, CG attributes including 3 variables namely board size (BSIZE), board composition (BCOMPO), and board leadership (BLEADER). Independent variables, their predicted sign, and related proxies are summarised in Table 1 below:

Table 1: Independent variables, their predicted sign and related proxies

Variable	Predicted sign	Related proxy
1- Firm size (FSIZE)	+	Market capitalization (at end of May 2009)
2- Type of business (FTYPE)	+ or -	BSE's All Companies Index
3- Firm performance (FROA)	+ or -	Return on assets*
4- Issuance of shares (FISSUE)	+ or -	If the firm issued new shares in the last 2 years
5- Board size (BSIZE)	+ or -	Number of the board of directors
6- Board composition (BCOMPO)	+ or -	% of non-executive members to total board members
7- Board leadership (BLEADER)	+ or -	If the chairman is the same as the CEO

* Return on assets was computed from companies' balance sheets of the year ended in Dec. 31, 2008.
- Sources of needed data are third party web sites, Bahrain stock exchange, and companies' annual reports of the year ended Dec. 31, 2008.

THE SAMPLE

By the end of April 2009, 49 companies were listed on the BSE. Due to de-listing and suspension, only 40 companies are included in the "Bahrain All Share Index" which is the main index of the BSE. They were considered for inclusion in the current survey. Companies listed on the BSE are classified into 6 main sectors: Commercial banks, Hotels and tourism, Industrial, Investment, and Service. This classification is based on the BSE sectors. Table 2 summarises the distribution of companies by sectors. Information related to firm characteristics and CG attributes were collected from several sources including the companies' paper-based annual reports, the BSE's web site, listed companies' web sites and other related web sites which include data bases of Bahraini listed companies (e.g. www.mubasher.net). The web site of each firm was visited and examined in detail to gather the information required. As company web site is dynamic, the objective was to collect IR information on the company web site within a short time period (May 2009).

DATA ANALYSIS

The Statistical Package for Social Sciences (SPSS) was used in the data analysis. Both the descriptive statistics and a statistical analysis (unvariate and multivariate analysis) were carried out. Independent variables in this research include 4 continuous variables (FSIZE, FROA, BSIZE, and BCOMPO) and 3 non-continuous variables (FTYPE, FISSUE, and BLEADER). Pearson correlation, which can be used to explore the strength of the relationship between two continuous variables (Pallant, 2007), was used for the main continuous dependent variable (IRSCORE) and independent variables, and Spearman's rho for other non-continuous

variables. Five linear regression models with enter method were performed for 5 continuous dependent variables (IRSCORE, GROUP1, GROUP2, GROUP3, and GROUP1) and 7 independent variables. The regression equation used is as follows:

$$Y = \beta_0 + \beta_1 FSIZE + \beta_2 FTYPE + \beta_3 FROA + \beta_4 FISSUE + \beta_5 BSIZE + \beta_6 BCOMPO + \beta_7 BLEADER + \varepsilon$$

where Y = the total IR disclosure index (IRSCORE); β_0 is a constant; $\beta_{i,\ i=1,\ \ldots,\ 7}$, is parameters; and ε is error term. By using the "enter" method (a standard regression), the models involve all of the 7 independent variables being entered into the equation at once and a probability of $F \leq 0.05$ is included in the model.

RESULTS

Descriptive results are reported in Table 2 below. It gives the distribution of companies across sectors. Of the 40 companies included in this research, 5 companies had no web sites and another company with a web site under construction (not accessible web site). The six companies were contacted to assure that there is no accessible web site. Accordingly, a number of accessible web sites were found for 34 companies (85%) and only 9 (26.47%) companies with a separate section for IR information. This percentage is considered relatively high for a country with an emerging market. Three industries had 100% representation on the web: Commercial banks, Insurance, and Investment.

The above result can be compared with other previous studies. Juhmani (2008) in the same country, Bahrain, revealed that an almost similar percentage of 82% of Bahraini listed companies had web sites. Ezat and El-Masry (2008) and Desoky (2009) in another emerging market, Egypt, reported that 67.5 and 64.7 of Egyptian listed companies had web sites respectively. Similar trends with high percentages have been reported internationally: in Germany (Marston and Polei, 2004), China (Xiao et al, 2004), Malaysia and Singapore (Khadaroo, 2005), Malaysia (Abdul Hamed, 2005), and an international comparison (Bollen et al., 2006).

Table 2: Companies included in the study, having web sites, and having a separate IR section

Sector	***Companies***					
	included in the study		**having a Web site**		**having a separate IR section on the web site**	
	N	**%**	**N**	**%***	**N**	**%****
1- Commercial banks	7	17.5	7	100	1	14.3
2- Hotels & tourism	5	12.5	3	60	0	0
3- Industrial	2	5	0	0	0	0
4- Insurance	5	12.5	5	100	1	20
5- Investment	12	30	12	100	6	50
6- Service	9	22.5	7	77.8	1	14.3
Total	40	100	34	85	9	26.47

* *Percentage of companies having web site to companies included in the study.*
** *Percentage to companies having web sites.*

Table 3 below provides descriptive statistics for all dependent and independent variables. It shows that across the 34 companies, the mean score for IR disclosure index (IRSCORE) is 51.14 with a standard deviation of 20.86. The highest total score

achieved is 93.55% (29 items) and the lowest score is only 3.23% (1 item). The above result indicates that there is a high variation in the IR disclosure of the sampled companies. The results suggest that the IR disclosure by Bahraini listed companies is relatively reasonable as compared to other countries especially those with advanced capital markets. For example, Bollen et al. (2006) reported that the IR disclosure index of sampled companies from six countries is above 50%.

Table 3: Descriptive statistics of the dependent and continuous independent variables

Continuous variables:		**Min.**	**Max.**	**Mean**	**Std. D.**
IR score (IRSCORE) (%)		3.23	93.55	51.14	20.86
Firm size (FSIZE) (BD million)		5.635	955.295	177.464	230.705
Firm Performance (FROA) (%)		1.09	23	9.87	6.019
Board size (BSIZE) (No.)		5	15	9.43	2.076
Board composition (BCOMPO) (%)		0	100	55.37	42.883
Categorical variables:		**(No.)**	**(%)**		
Issuance of shares (FISSUE)	Yes	8	23.5		
	No	26	76.5		
Board leadership (BLEADER)	Yes	2	5.9		
	No	32	94.1		

1- Firm size (FSIZE) is the market capitalization in BD million at the end of May 2009. (US$1 = BD 0.377); 2- For (BCOMPO), percentage of non-executive board members to total board members; 3- For (FISSUE), (Yes) if firm issued new shares in the last 2 years, and (No) if not; 4- For (BLEADER), (Yes) if the chairman is the same as the CEO, and (No) if not.

Concerning the firm size (FSIZE), it can be seen that on average, sampled companies have a market capitalization of BD 177,464 million with a large standard deviation of 230,705 million. Further, the average (FROA) for the total companies was 9.87%, with a minimum of 1.09% and maximum of 23%. The minimum board size (BSIZE) of Bahraini listed companies was 5, while 15 members were the maximum number of board of directors. From the same table, it can be shown that 8 (23.5%) of the companies have issued shares to increase their capital during the last two years. Moreover, in the majority of the firms (94.1%) the chairman is not the same as the CEO. This means that most firms separate between the chairman and the CEO. Finally, the mean of the non-executives to the total number of the board members is (55.37%) with a large standard deviation of 42.883. This result indicates that more than half of the members in Bahraini listed companies are independent. This finding is in line with what has been reported in Bahrain by Hussain and Mallin (2003).

Results related to the first group of items “Access to the IR information” were reported in Table 4 below. Three items (No. 1, 4 and 6) were found to exit in a large number of firms, of 32, 28, and 32 representing 94.1%, 82.4%, and 94.1% respectively. However, other items (no. 2, 3, and 5) were found to be present in a small number of companies. This result is in line with prior studies (e.g.: Abdul Hamid, 2005; Bollen et al., 2006; and Brennan and Kelly, 2000). For instance, “Background about the firm” was found in 94.1% of firms included in the current study, was the highest-ranking IR item in prior research, Abdul Hamid (2005), revealed that 70% of Malaysian firms provided investor-related materials on their web sites. Brennan and Kelly (2000) reported that Irish public companies provide web sites for investor relation purposes, and similar findings were reported by Bollen et al. (2006). Furthermore, IR information in sound and video files were found in only 5 (14.7%) firms in the current study, this was generally less available on companies web sites of the six countries included in an international study carried out by Bollen et al. (2006).

Table 4: Access to the IR information (GROUP1)	No.	%*
1. Background about the firm	32	94.1
2. Separate IR section on the Website	9	26.5
3. Phone number, address and E-mail hyperlink to IR department	10	29.4
4. Links to other IR information	28	82.4
5. IR information in sound and video files	5	14.7
6. Availability of downloading IR information	32	91.4

* Percentage to companies having web sites (34 companies).

Concerning the second group of items "Timeliness of IR information", only two items (no. 2 and 3) were found on 31 and 30 firms representing 91.2% and 88.2% respectively. This finding is consistent with most of the previous studies (e.g.: Marston and Polei, 2004, Ezat and El-Masry, 2008) that revealed that "Current year financial reports" and "Current press releases" were found in most sampled companies. However, other items were found in a small number of Bahraini firms. These results are inconsistent with Marston and Polei (2004) and Ezat and El-Masry (2008). For example, it was reported that item no. 1 "Current share price" was found in 67.6% of listed companies in Egypt (Ezat and El-Masry, 2008); 93% of German firms (Marston and Polei, 2004).

Table 5: Timeliness of IR information (GROUP2)	No.	%*
1. Current Share Price	11	32.4
2. Current year financial reports	31	91.2
3. Current press releases	30	88.2
4. Indication of the latest update	1	2.9
5. Monthly and/or weekly operating data (sales or products)	3	8.8
6. Current dividends announcements	8	23.5
7. On line investor information order services	10	29.4

* Percentage to companies having web sites (34 companies).

Most items in group 3 (Table 6 above) "CG and social responsibility information" were found in a large number of Bahraini listed companies. Reasons behind this result may be that most listed companies in Bahrain are now preparing to apply the CGC which is expected to be issued in the near future. For example, items no. 4, 5 and 9 were found in more than 90% of firms' web site. However, few firms (only 11.8%) provided a separate section for CG on their web site.

Table 6: CG and social responsibility information (GROUP3)	No.	%*
1. Separate CG section on the Website	4	11.8
2. Availability of CG information	15	44.1
3. Information on audit committee	15	44.1
4. Information on board size	32	94.1
5. Information on board composition	32	94.1
6. Information on board compensation	4	11.8
7. Information on board leadership structure	31	91.2
8. Information on the members of board of directors	28	82.4
9. The ownership composition	21	61.8
10. Corporate social responsibility information	15	44.1

* Percentage to companies having web sites (34 companies).

Table 7 shows mixed results regarding items included. Some items (no. 2, 3, 4 and 5) were found in more that 50% of Bahraini listed companies. This finding is consistent with some of the previous studies (e.g.: Abdul Hamid, 2005; Bollen et al.,

2006; Khadaroo, 2005). For instance, item no. 2 "Financial reports of previous years" was found in 66% (Bollen et al, 2006), 37% (Abdul Hamid, 2005). Item no. 3 "Interim reports and/or summary reports" was found in 94% (Bollen et al., 2006).

Table 7: Other information (GROUP4)	**No.**	**%***
1. Financial analysis reports and forecasts	12	35.3
2. Financial reports of previous years	32	94.1
3. Interim reports and/or summary reports	24	70.6
4. Financial highlights	17	50
5. Separate press release section on the Website	28	82.4
6. Types and number of shares	8	23.5
7. Share price history and graphing	6	17.6
8. Calendar for future financial events	4	11.8

* Percentage to companies having web sites (34 companies).

A summary of the IR disclosure scores for companies included is presented in Table 8. The level of IR is relatively high as 14 (41.18%) of Bahraini listed companies scored more than 50%. Conversely, only 2 (5.88) disclosed less than 10% of items contained in the IR disclosure index.

Table 8: Disclosure scores for sampled companies

Disclosure score (%)	**<=10**	**11-20**	**21-30**	**31-40**	**41-50**	**>50**	**Total**
No. of companies	**2**	**0**	**4**	**6**	**8**	**14**	**34**
% of companies	**5.88**	**0**	**11.76**	**17.65**	**23.53**	**41.18**	**100**

STATISTICAL ANALYSIS (UNIVARIATE ANALYSIS)

A number of significant associations among the dependent and independent variables was shown in Table 9. The results confirm a significant association among some independent variables such as FSIZE vr BCOMPO (0.589), FSIZE vr BSIZE (0.476), and BSIZE vr FISSUE (0.375). However, this correlation does not indicate a serious multicollinearity problem in the current research. Tabachnick and Fidell (1996, p.86) argued that we must "think carefully before including two variables with a bivariate correlation of, say, .7 or more in the same analysis". Accordingly, inter-correlation among independent variables does not appear to be problematic, and multicollinearity should not be a serious concern in the current study.

Table 9 shows that there is a significant association between the dependent variable (IRSCORE) and most independent variables. This association is positive for some independent variables (FSIZE, BSIZE and BCOMPO), however, it is negative for others (FTYPE and FROA). As predicted, there is a positive medium relationship (0.358) between the dependent variable (IRSCORE) and the firm size (FSIZE) as measured by market capitalization, indicating that larger companies have more advanced IR websites. This relationship is significant ($p>0.05$). This finding is consistent with most of the previous studies which revealed that large companies tend to have web sites and disclose more investor relation information on these web sites (Ashbaugh et al., 1999; Bollen et al., 2006; Brennan and Hourigan, 2000; Ettredge et al. 2002; Ismail, 2002; Joshi and Al-Modhahki, 2003; Marston and Polei, 2004; Oyelere et al., 2003; Xiao et al., 2004). Accordingly, H1 which states that there is a positive relationship between firm size and the amount of IR information disclosed on its web site is accepted.

Table 9: Correlation Coefficients

	FSIZE	FTYPE	FROA	FISSUE	BSIZE	BCOMPOS	BLEADER
1. FSIZE	1						
2. FTYPE	**-.148**	1					
3. FROA	**-.128**	.300	1				
4. FISSUE	.316[a]	.117	.049	1			
5. BSIZE	.476[b]	-.012	-.075	.375[a]	1		
6. BCOMPO	**.308**	-.268	.218	.269	.366[a]	1	
7. BLEADER	**.589[b]**	**.250**	**.222**	.100	**-.130**	**-.175**	1
8. IRSCORE	**.358[a]**	**-.148**	**-.075**	.316[a]	**.503[b]**	**.559[b]**	**.019**

a- Correlation is significant at the 0.05 level; b- Correlation is significant at the 0.01 level.
Notes: 1- Pearson correlation was performed (results in **Bold**) for continuous variables (i.e.: FSIZE, FROA, BSIZE, and BCOMPOS), while Spearman's rho correlation was performed for non-continuous variables (i.e.: FTYPE, FISSUE and BLEADER). 2- All coefficients are based on 34 observations.

Additionally, the results suggest that there is small association (-0.148), not significant, between the dependent variable (IRSCORE) from one side and the firm type (FTYPE) from the other. This result does not support the argument that the amount of IR information disclosed by firms on their web sites may vary according to its industry type. A large body of empirical research on internet disclosure (Ismail, 2002; Joshi and Al-Modhahki, 2003; Oyelere et al., 2003; Bonson and Escobar, 2006; and Bollen et al., 2006) has reported that there may be an industry effect. Conversely, Desoky (2009) and Juhmani (2008) did not find any effect of industry type. On the other hand, findings imply that the IR disclosure on web sites is not influenced by firm performance (FROA) when measured by return on assets. The univariate results show that the coefficient for (FROA) is negative, very small (-.075) and not significant. Therefore, the second and third hypotheses are rejected. Prior studies (e.g. Ettredge et al., 2002; Oyelere et al., 2003; and Marston and Polei, 2004) reported a negative, though not significant, relationship. However, other studies reported a positive association (Ismail, 2002; and Juhmani, 2008).

A significant moderate positive association (0.316) was found between dependent variable (ISCORE) and the firm issuance of shares (FISSUE) at the 0.01 levels. These findings indicate that Bahraini firms which issued new shares in the last two years disclose more IR information than those with no issuance of new shares. This result supports the argument that the issuance of new shares is an important factor impacting corporate disclosure and companies, which need new financing, will seek to disclose more information on their web sites to attract more investors and increase their confidence about their position. The above finding is in line with other prior studies which show a significant relationship between this variable and the Internet disclosure (Ettredge et al., 2002; Sriram and Laksmana, 2006). Therefore, the related hypothesis, H4, can be accepted.

Concerning variables of CG, findings show that there is a significant strong positive association between the dependent variable (IRSCORE) on the one hand and board size (BSIZE) and board composition (BCOMPO) on the other. The above results are highly significant (p<0.01). These findings support the argument that the larger the size of the board of directors the more likely is voluntary disclosure. Furthermore, it is consistent with some prior research. For example, Ezat and El-Masry (2008) reported a positive association and concluded that the greater the number of the board of directors, the better the timeliness disclosure on the Egyptian companies' web sites. In relation to the board composition, the results indicate that a higher proportion of independent directors encourage the companies to disclose more

IR information on their web sites. This supports the argument that independent directors playing a monitoring role and increasing companies' voluntary disclosures. This finding is consistent with the findings of prior research (Chen and Jaggi, 2000 and Xiao et al., 2004). For instance, Chen and Jaggi (2000) reported that a higher proportion of independent directors are associated with more comprehensive financial disclosure. In the light of the above findings, H5 and H6 which state that there is a significant relationship between the board size and board composition of a firm from one side and the amount of IR information disclosed on its web site from the other are accepted.

Table 9 confirms a small positive association (0.19) between the dependent variable and the board leadership (BLEADER). However, this association is insignificant. This confirms that the board leadership of Bahraini listed companies has a small effect on the IR disclosure on their web sites. Therefore, the related hypothesis, H7, is rejected. The above finding is in line with other prior research which confirmed an insignificant association (Ghazali and Weetman, 2006).

STATISTICAL ANALYSIS (MULTIVAIATE ANALYSIS)

Findings of the regression analysis which was run using the "enter" method are reported in Table 10. It shows the results of the five models (IRSCOE, GROUP1, GROUP2, GROUP3, and GROUP4). Table 10 shows similar finding with regard to the significance levels (p<.05) for the first three models, however, insignificant results were found in the last two models (GROUP1 and GROUP2).

Table 10: Regression models

	IRSCORE	GROUP1	GROUP2	GROUP3	GROUP4
No. of Obs.	34	34	34	34	34
R^2	.454	.468	.439	.316	.376
Adjusted R^2	.295	.313	.275	.117	.194
F value	2.854	3.014	2.681	1.586	2.063
P value	.026*	.020*	.034*	.188	.088

*** Significant at the 0.05 level. Group 1: Access to the IR information; Group 2: Timeliness of IR information; Group 3: Financial reports and financial analysis information; and Group 4: CG and social responsibility information.**
Note: Full regression models in Appendix A.

The results show the explanatory power of each of the five models as measured by the adjusted R^2 and the F value which used to test the overall fit of the model (Field, 2005). Values of the adjusted R^2 are .295, .313, and .275 for the first three models IRSCORE, GROUP1, and GROUP2 respectively, all with F value of more than 1 which indicates that all are good models. According to Field (2005), a good model should have an F-ratio greater than1. Prior research reported mixed results for the adjusted R^2, for example 0.257 (Bollen et al., 2006); 0.400, 0.374 and 0.377 (Desoky, 2009); 0.175 (Ettredge et al., 2002); and 0.08 (Xiao et al., 2004). In conclusion, it can be said that the regression analysis provides some support for the results which were already obtained in the univariate tests. For instance, board size (BSIZE) appears to be significant explanatory variables for IR disclosure (IRSCORE).

SUMMARY AND CONCLUSIONS

This research provides insights into dissemination of IR information at corporate web sites. It investigates whether web-based dissemination of IR information can be explained by CG attributes and the firm characteristics. An index of 31 items of IR disclosure by companies listed in the BSE was used. Descriptive results showed that of the 40 companies included in this research, 34 (85%) the number of accessible web sites and only 9 (26.47%) companies with a separate section for IR information. The level of IR is relatively high as 14 (41.18%) of Bahraini listed companies scored more than 50%. Conversely, only 2 (5.88) disclosed less than 10% of items contained in the IR disclosure index. The univariate statistics showed that there is a significant association between the dependent variable (IRSCORE) and most independent variables. This association is positive for firm size (FSIZE), board size (BSIZE), and board composition (BCOMPO), while it is negative for firm type (FTYPE) and firm performance (FROA). These findings are partially in line with prior research.

Among the main conclusions of the current research are: First, a higher proportion of independent directors encourage the companies to disclose more IR information on their web sites. Second, the larger the firm size and the size of the board of directors the more likely the IR information disclosed on the firm web site. Third, Bahraini firms which issued new shares in the last two years disclose more IR information than those with no issuance of new shares. Last, the board leadership of Bahraini listed companies has a small effect on the IR information disclosure on their web sites. The regression analysis provides some support for the results which were already obtained in the univariate tests especially for the board size. Results give strong support for all hypotheses tested with the exception of firm performance hypotheses.

This research has a number of limitations. First, the research scope was limited to all listed companies in Bahrain. A comparative study of the IR disclosure for different countries might also be fruitful. Therefore, it would be interesting to duplicate this study in other Gulf Co-operation Council (GCC) and other Arab countries which have many similarities to the Bahraini environment. Second, the findings of such research may not be generalizable to different countries at different stages of development, or with different business environments and cultures. Third, this research is limited to only 31 items of IR disclosure across four categories. A number of other IR disclosure items is still uncovered in the current research and could be subject to further research. Fourth, though an un-weighted IR disclosure index was used in this research, the findings might be different if a weighted disclosure index was used. Fifth, the explanatory power (adjusted R^2) in the main regression model (IRSCORE) is .295 which means that the multiple regression model which contained seven variables, explains about .295 of the variation in the IR disclosure. Although this percentage is acceptable, it means that other variables that were not included in the study affect the IR disclosure. Future research could investigate the impact of other potential explanatory variables such as those related to audit committee formation, board compensation and audit firm size which were out of the scope of the current study.

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A CONCEPTUAL FRAMEWORK OF POSITIONING STRATEGIES: THE ROLE OF PRODUCT CATEGORY, STAGE OF LIFE CYCLE AND BRAND EQUITY

Aydın, Aslı E.
Istanbul Bilgi University
aeaydin@bilgi.edu.tr

ABSTRACT
The main aim of this article is to examine major positioning strategies and to develop a framework that facilitates the process of determining and implementing effective positioning strategies for different product types. For this purpose, the classification made by Murphy and Enis (1986) is employed in order to be able to understand the distinctions among various product types and determine most suitable strategies addressing these distinctions. In addition to that, the impact of stage of life cycle and brand equity on these strategies has been integrated into the framework as well.

INTRODUCTION

Positioning is the fundamental concept of both product and business strategy. Many theorists drawn attention to the concept of positioning and suggested that developing, communicating, and maintaining a competitive positioning strategy is crucial for long-term success of any product. Arnott (1993) defined positioning as: "…deliberate, proactive, iterative process of defining, measuring, modifying and monitoring consumer perceptions of a marketable object…"(as cited in Blankson and Kalafatis 1999). Likewise Ries and Trout (1981) identified the fundamental approach of positioning as manipulating the substances in minds rather than creating something new. Developing effective positioning strategies requires defining the perceptual space accurately representing consumers' perceptions, identifying product's position within that space, and modifying the perceptions and the products to shift to ideal positions (Blankson 2004).Since consumers' perceptions of products and brands have an important role in shaping their attitudes towards that brand, the process of determining effective positioning strategies is essential.Yet there are not many conceptual studies concerning the processes of selection of suitable positioning strategy.

The main objective of this article is to examine positioning strategies and to develop a framework that will aid the understanding of implementation of various positioning strategies for different product types. In addition to that, the impact of stage of life cycle and brand equity on these strategies has been integrated into the framework as well. The main value of this study is incorporating these various concepts to analyze the interrelationships and provide a comprehensive representation of positioning strategies.

In order to clarify the strategic issues related to positioning firstly a thorough review of literature is made and different positioning types are examined. Then, positioning strategies covering the primary strategic options are identified and described in detail. Following this stage a conceptual framework analyzing various aspects of positioning strategies is developed. The framework examines positioning alternatives with respect to different product types, while considering the influence of stage of life cycle and brand equity. Finally in the disscussion part appropriate positioning alternatives are suggested considering the type of product, stage of life cycle and level of brand equity.

POSITIONING STRATEGIES

An extensive review of the literature on positioning strategies is summarized in Table 1. The main focus of the studies, the positioning alternatives proposed and major findings illustrated by these studies are outlined. These studies either examined the implementation or management of a particular strategy or proposed a new positioning approach.

TABLE 1: SUMMARY OF STUDIES ON POSITIONING STRATEGIES

Author & Year **Research focus**	**Positioning Strategy**	**Observations**
Ries and Trout (1981) Positioning strategies	Market leader, follower, reposition competition, use brand name, line extension	The main focus of positioning is establishing a favourable location for brands in the minds of the consumers
Aaker and Shansby (1982) Positioning strategies	Positioning by attribute, price–quality, application, product–user, product class, competitor	The selection of a positioning approach includes identifying competitors, relevant attributes, competitor positions and market segments.
Berry (1982) Retail positioning strategies	Value retailing, time-efficient retailing, high-contact retailing, sensory retailing	Value retailers focus on providing better value than competitors; time-efficient retailers focus on convenience; high-contact retailers focus on providing strong customer service; sensory retailers focus on making the shopping experience exciting.
Gavish, Horsky and Srikanth (1983) A positioning model	Attribute positioning	Using methods for estimation of ideal points and attribute weights from individual consumers a procedure that will identify optimal positioning of a new product in a space of attributes is developed.
Doyle and Saunders (1985) Positioning in industrial markets	"Me-too" positioning attribute positioning	In order to convert basic products into specialty products, companies should assess the competitive environment, segment market and develop positioning strategies that will appeal to the most attractive segment.
Crawford (1985) Positioning practices	Feature positioning, benefit positioning, surrogate positioning	Surrogates permit a seller to communicate product attributes without having to describe them, and permit the description to be tailor-made to each individual who reads the advertisement.
Park, Jaworski and Maclnnis (1986) Brand concept management	Image positioning	The general brand concept (functional, symbolic, or experiential) should be managed with appropriate positioning strategies through introduction, elaboration and fortification stages of life.
Shostack (1987) Service positioning	Positioning through complexity and divergence	By manipulating complexity and divergence services can be strategically managed for positioning purposes.
Droge and Darmon (1987) Advertising for positioning	Associative positioning	Comparative ads are superior to non-comparative ads in anchoring a new brand closer to a dominant brand
Dobson and Kalish (1988) A model for positioning decisions	Attribute positioning	Using heuristics it is possible to aid managerial decisions on product line pricing and positioning issues.
Johar and Sirgy (1989) A positioning model	Image strategy, unique selling proposition	The effectiveness of selection of multi-attribute attitude models or self-image congruence models for positioning strategies depends on situational variables

Sujan and Bettman (1989) Effects of positioning on brand perceptions	Superior attribute, niche positioning	Amount of relative differences between brands and the product category determine the position of that brand in the market as niche and differentiated positions.
Easingwood and Mahajan (1989) Positioning of financial services	Branding as a positioning strategy	Market positioning strategies should be developed from a consideration of the marketing implications of the special service attributes of intangibility, heterogeneity, and simultaneity.
Choi, Desarbo and Harker (1990) A model of positioning and pricing	Attribute positioning	An optimal product positioning methodology using MDS is constructed which also determines the pricing strategy under price competition
Fisher (1991) Service positioning	Durable service differentiation	Differentiation of services is effective only when they are valuable to consumers and only when they cannot be easily imitated by competitors.
Penchman and Ratneshwar (1991) Advertising for positioning	Positioning by association, positioning by differentiation	The categorization of a brand is influenced both by the differentiated attribute and by the way this difference is communicated.
Dibb and Simkin (1993) Positioning in services	Attribute positioning, value positioning	After reviewing the positioning strategies, it is seen that the role of positioning in the service sector is not any less developed than other sectors of commerce.
Carpenter, Glazer and Nakamoto (1994) Differentiation and preference formation	Irrelevant attribute differentiation	Brands can achieve competitive advantage through differentiating not an important, valuable attribute but through the addition of a distinguishing, unique and irrelevant attribute
Bennion and Redmond (1994) Positioning strategies in business markets	Positioning based on service, product, support, price	Both positioning strategies and choice criteria influence organizational buying behavior.
Bingham and Raffield (1995) Positioning in business markets	Price, technology, image, product quality, service distribution, positioning	Positioning in business market is perceived as a part of the activities like establishing sales objectives.
Nowlis and Simonson (1996) New feature and product characteristic relation	Unique feature positioning	A new feature tends to contribute more to high-priced brands, especially those that are relatively less-known in the marketplace
Peterson (1997) Impact of internet on consumer marketing	Internet based positioning	Some consumers may be willing to pay higher prices for products and services marketed through the Internet due to increased variety and convenience
Kalra and Goodstein (1998) Positioning and price sensitivity relation	Value, minor vs. premium brand, unique feature, premium versus premium brand, celebrity endorser, meaningless attribute positioning	Except for celebrity endorser and meaningless attribute positioning, all other positioning strategies have significant relationships with price sensitivity and willingness to pay.
Venkatasubramani and Moore-Shay (1998) Role of brand equity in differentiation	Irrelevant attribute differentiation	Meaningless differentiation strategy is successful only when the attribute is added to a high equity brand

Hooley , Broderick and Moller (1998) Competitive positioning strategies	Price, quality, innovation, service, benefit, tailored positioning strategies	The proposed six positioning dimensions enable marketers to gain an understanding of the competitive behavior of modern companies
Alden, Steenkamp and Batra (1999) Positioning through advertising	Global, foreign, local consumer culture positioning	Global signs can be used in advertising to associate brands with global consumer culture through a process of meaning transfer.
Dube and Schmitt (1999) Effectiveness of positioning strategies	Similarity and dissimilarity focus in positioning strategies	Marketers' should employ positioning by similarity or by dissimilarity only when consumers have sufficient knowledge of features of product category
Kalafatis et al. (2000) Positioning strategies in business markets	Continuity of supply, product, relationships, price	Within industrial marketing a successful positioning strategy can be established by operational and experiential effects instead of the promotional factors which is important in consumer marketing
Blankson and Kalafatis (2001) Generic typology of positioning strategies	Value for money, reliability, attractive country of origin, the name, social class	A generic typology of positioning strategies with several dimensions is developed and empirically supported.
Punj and Moon (2002) Theoretical basis of positioning strategies	Exemplar-based positioning, abstraction-based positioning	Consumers process information easily when the positioning strategy uses the appropriate benchmark for association
Jewel and Barone (2007) Role of marketplace comparisons in positioning	Competitive positioning	For competitive positioning the competitor that creates differentiation within the product category has an impact on focal brand attitudes.

From the review of the studies related to positioning, several alternative positioning strategies are identified covering the main strategic options. These strategies are: attribute/benefit positioning, value positioning, competitor positioning, and niche positioning.

ATTRIBUTE/ BENEFIT POSITIONING

This is the most generic and common type of positioning strategy. In attribute/ benefit positioning the product is associated with a product characteristic/ an advantage that enhances the welfare of the consumer (Aaker 1982). Generally the product is positioned with an emphasis on a single attribute or benefit. Also called *unique feature positioning,* the strategy can be employed when the product offers something that cannot be easily replicated by the competitors (Frazer 1983). Thus, unique feature positioning is more effective when employed for hi-tech products for which the impact of the innovation and competitive advantage lasts longer. New products can be developed with a distinguishing feature and be positioned based on this unique feature. Besides, it is possible to apply this strategy to existing products by introducing new features and enhancements. It is suggested that a new feature adds greater value when the product has relatively inferior existing features and perceived as low quality (Nowlis and Simonson 1996).

Traditionally, the attributes that are selected for differentiation are valuable for consumers, yet in today's competitive markets it is difficult to find a point of differentiation that has not been mastered by other competitors. Consequently, in order to be distinguished and perceived as unique, brands differentiate themselves based on immaterial features. It is suggested that consumers respond positively to meaningless differentiation since they assume some rational value (Carpenter et al. 1994). Furthermore, distinctive, novel and unique qualities cause better brand evaluations and facilitate decision-making (Carpenter et al. 1994). It is found out that this strategy is successful when the attribute is added to a high equity brand rather than a low equity brand (Venkatasubramani and Moore-Shay 1998).

VALUE POSITIONING

Some products offer more performance, reliability, extended features and services along with the product for higher prices whereas others attempt to be perceived as providing same level of quality at lower costs (Batra et al. 1996). Value positioning is defined as: "delivering quality products at competitive prices" (Tay 2003, p.28). Value positioning incorporates dimensions such as being reasonably priced, delivering value for money and being affordable for customers (Blankson and Kalafatis 2001). Without directly referring to price aspects this strategy attempts to ensure customers that they are getting a good deal (Kalra and Goodstein 1998). In addition to value positioning, price is also used to position a product as high quality. Price is perceived as an indicator of quality hence signalling quality through pricing is employed as a positioning strategy to attract consumers who value quality (Fill 1995).

COMPETITIVE POSITIONING

The definition of the positioning concepts entails a comparison with competitor thus for any positioning strategy competitors are implicitly referred to. Yet for competitive positioning the most assertive aspect of the strategy is placing the product in a place that is defined with respect to a competitor. Competitor positioning is especially advantageous for products that are difficult to evaluate on their own that contains intangible or incomparable attributes (Aaker 1982). It enables consumers to make a relatively more tangible evaluation by benchmarking to an example in the market (Punj and Moon 2002). The competition that the strategy refers to, can be selected from both within and outside the product category. Targeting within category competitors will aim to gain the market share of substitute brand whereas between category comparisons suggests new usage contexts and tries to increase the demand for the product (Jewel and Barone 2007).

The positioning by competitor strategy can be employed for two purposes. The first objective is being associated with the selected competitor. Associative positioning strategies aim for achieving perceived similarity with a strong competitor hence gaining a similar strong position in the market (Droge and Darmon 1987). The second objective is being differentiated from the competitor. By mentioning an attribute that is superior than the competitor or that the competitors don't have, the products will be distinguished from the rivals. If the attribute is valued enough by the consumers, the product will be preferred to others (Penchman and Ratneshwar 1991).

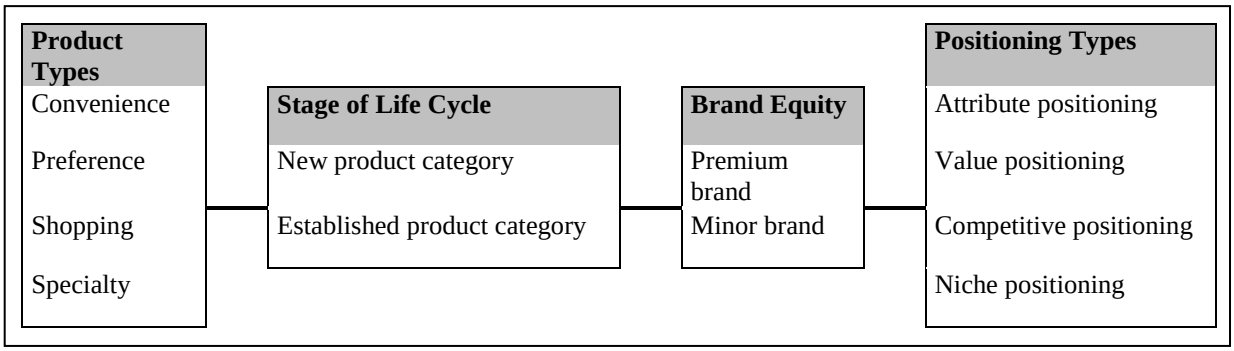
NICHE POSITIONING

Unlike the most of general differentiation strategies niche positioning attempts to create a separate submarket for the product that is marketed (Sujan and Bettman 1989). Rather than differentiating a typical attribute that is identified with typical brands, an attribute that is not related to well-known brands yet important for a segment of the market is differentiated (Penchman and Ratneshwar 1991). In niche positioning it is important to create a perception of a specialized brand that will address the needs and preferences of a focused market (Porter 1980). Niche positioning is seen as an effective positioning strategy since the brand is separated from the rest of the market and does not face any direct comparison due to this position. Moreover, it is suggested that the market performance and returns are contingent on the size of the segment targeted with this niche positioning and on the significance of competitive advantage (Day et al. 1979).

THE POSITIONING FRAMEWORK

A framework of positioning strategies is demonstrated in Figure 1. The framework includes four sections. The first section defines product typology, which is composed of convenience goods, preference goods, shopping goods, specialty goods. The second section specifies stage of life cycle of the product category. Moreover, the concept of brand equity is incorporated into the model as well. The final section represents the major positioning alternatives that have been discussed above.

FIGURE 1: FRAMEWORK



PRODUCT TYPES

Product classifications received considerable attention from scholars. Classification made by Aspinwall (1958), Luck (1959), Miracle (1965), Ramond and Assael (1974) are a number of examples. However, Copeland's (1923) classification has been the most well known and is used commonly even now with some minor modifications. According to this classification, three types of goods are distinguished as convenience goods, shopping goods and specialty goods based on consumers' shopping habits.

On the other hand several other researchers questioned the foundation of Copeland's classification and suggested advantages of using other dimensions than consumers' shopping habits to categorize goods. Kaish (1967) suggested using consumers' physical and mental effort as dimensions to distinguish goods. Holbrook and Howard (1977) concentrated on the dimensions of *product characteristics* such as the magnitude of purchase, *consumer characteristics* such as involvement, confidence and *consumer responses* such as physical and mental effort. Moreover they have altered the trichotomy by incorporating preference goods as a fourth category. Enis and Roering (1977) integrated buyers' and sellers' perspective together. A focus on perceived risk and expected effort from the buyers' perspective whereas a focus on product differentiation and marketing differentiation from the sellers' perspective is proposed. Murphy and Enis (1986) integrated the categories of previously mentioned scholars and developed a classification system applicable to all products. The classification is made based on buyers' assessments of costs of products related to effort and risk that consumers incur. Effort dimension includes monetary and non-monetary aspects such as travel time, time to search and shop around, time to wait for getting a service and receiving the product and time to see the product perform. The risk dimensions on the other hand are analyzed considering the financial, psychological, physical, functional and social aspects.

This article utilizes the classification of Murphy and Enis (1986) since it is seen as the most actionable among all others in terms of marketing strategy development. This classification takes into consideration the buyer's perceptions as well as marketers' goals; hence it is useful in directing efforts for employing suitable strategies. According to this classification *convenience products* are described as causing minimum levels of effort and risk. This category consists of impulse items such as gums and batteries. Persistence of quality standards is important since any dissatisfaction causes total abandonment of product. *Preference products* entail more risk, psychological or social risks in particular, according to buyers' perceptions. The risk perceptions are shaped by marketers in order to create loyalty for certain brands with lower risks. Examples of preference goods include soft drinks and beer. *Shopping products* are those that involve more risk and require more effort from buyers. For this category consumers feel the need to shop around, compare prices, and examine different alternatives. Products like clothing and furniture belong to this category. *Specialty products* necessitate the most effort and carry the highest risk among all other products. An extensive decision making process occurs for this type of product, and too much effort will be

exerted in order to purchase the desired item. Vintage imported wine is an example of this product category.

STAGE OF LIFE CYCLE

In order to analyze stage of life cycle concept several issues related to market should be considered. Firstly, the changes in extent of competition during the life cycle of a product category should be examined. Moreover, the nature of the market in terms of existence of turbulence and uncertainty has important strategic implications. Finally, the varying attitudes of consumers during product's life should be studied.

During early stages of life cycle the product category consists of the pioneer and a few early entrants and consequently there is a mild competitive environment (Punj and Moon). From consumers perspective, they are not knowledgeable about the attributes and don't have established preferences during early stages of product life cycle. It is suggested that a successful new product can determine the importance of attributes and shape preferences (Carpenter and Nakamoto 1989). Considering the environment, the market has highest level of uncertainty due to unknown demand and difficulty in estimating sales for a new product (Robinson and Min 2002). Moreover technological uncertainties exist as well since it is not known whether the new product's technology will be accepted or not (Robinson and Min 2002).

In new product categories the market is expanding, thus the aim is to attract new consumers and create awareness for the category (Stewart and Kamins 2003). The benefit offered by the product should be communicated in order to initiate sales. Even though not many competitions exist within the product category immediately, substitute products may exist in other categories (Day 1981). Therefore, it is important to communicate the superior aspects of the product category in general so that the product will be protected from substitutes in other categories. In order to reach to consumers, a number of issues should be addressed such as perceived risk associated with novelty, perceived relative advantage of the new product, and product benefits (Day 1981).

In an established product category, the uncertainty hence the risk is reduced, since the first movers have created the demand and the basic design of the product is determined (Urban et al. 1986). Market potential differs significantly compared to the new product state when awareness is low and cost of attaining trials is high (Shankar 1998). Even though the market conditions are more favourable for brands, the barriers for entry are lowered so number of competitors increases a lot. The presence of many competitors also has an impact on diffusion by contributing to the credibility of the category (Shankar 1998). Compared to the introduction stage, consumers are more informed about the product category thus they can better evaluate the differences among competitors (Shankar 1999). On the other hand consumers generally become more price sensitive and less responsive to advertising (Gatignon and Soberman 2003).

In an established product category the aim is creating loyalty rather than creating awareness alone. It is also suggested to employ expansive strategies that will encourage usage of the product in new contexts so that aggregate demand increases (Wansink 1994). In a crowded marketplace differentiation is necessary to attract attention. In order to stand out among many others following a "me too" strategy, it is important to develop a distinguishing identity (Punj and Moon 2002).

BRAND EQUITY

The main objective of positioning strategies is placing the brand name in a desired spot in consumers' minds (Trout 2005). Consequently, the brand has a central role in development and implementation of positioning strategies. Once a brand is built positioning strategies enable marketers to communicate the benefits and personality of that brand to consumers.

Brands may have high equity or low equity due to several reasons. The essential condition of a high equity brand is achieving high awareness (Aaker 2008). Brand awareness is a key strategic asset that provides competitive advantage. It is related to the probability that the brand will be recognized or recalled during product decisions (Keller 1993). Moreover, awareness creates a sense of familiarity with the brand which enhances the attitudes toward the brand (Aaker 2008).

Perceived quality is another important dimension of brand equity (Batra et al. 1996). It is demonstrated that consumers use brand name to assess the product quality so that the level of perceived risk will be reduced (Dawar and Parker 1994). Brand name is perceived as a reference for quality since the potential losses of reputation for known brands due to low quality are quite high (Wernerfelt 1988) and since consumers lack the ability to assess the quality of the products for many product categories (Rao and Monroe 1989).

A further dimension of brand equity is brand image. Brand image represents the personality of a product, which captures the core values of that product (Fill 1995). Through marketing efforts the substance of the personality of the brand is communicated and the image of the brand is built. It is suggested that in addition to being familiar with a brand, having favourable, consistent, strong and unique associations with it results in higher levels of preference (Keller 1993).

A final dimension of brand equity is brand loyalty. A loyal segment of customer contributes to brand equity on account of various grounds. Presence of loyal customers produces a barrier of entry to competitors (Aaker 2008). Another reason is that, since loyalty requires satisfaction, the satisfied group of customers create a successful product image. Furthermore, a competitive advantage is gained through loyalty in terms of reduced marketing costs due to less expensive nature of maintaining customers (Aaker 2008).

As a result, in order to have high equity a brand should have high awareness, an image producing favourable associations, high quality perceptions and a loyal customer base. The marketing efforts towards building and positioning the brand have a direct impact on market performance. The management of brand equity should be concerned with identifying basic customer needs and positioning the brands and effectively responding to them.

DISCUSSIONS

Based on the product classification and the properties of each product category it is possible to make suggestions regarding the most beneficial positioning strategies for all product types. Moreover, the impact of brand equity and stage of life cycle will also be incorporated while considering the appropriate positioning strategies.

In general it is possible to say that during early stages of life cycle attribute/ benefit positioning strategies are more effective. Since awareness at early stages is low, the consumers should be informed about the product and what is offered by it, namely its attributes and benefits for consumers. Uncertainties exist within the market such as the risk of not gaining acceptance for new technologies so communicating the benefit of using the product is essential. On the other hand for an established product category the selection of suitable strategy depends on product type and brand equity. During the introduction stages of a brand, it is essential to enter the consideration set of consumers thus associative strategies will be more effective. By pointing out the similarities of attributes with a dominant brand in the product category the new brand will be placed close to others of that product category in consumers' minds (Punj and Moon 2002). Moreover, a new entrant to an establish category should target to achieve awareness as well as to encourage trials (Stewart and Kamins 2003). Since the category is already established this can be done by attracting consumers of competitor products.

In the case of brand equity, it is possible to distinguish brands with high or low equity based on their awareness, loyalty, perceived quality, strength and favourability of associations. In general all product categories might encompass brands with high and low equity. On the other hand, typically convenience products are of low equity as branding is not the primary concern and specialty products are of high equity as these products are valued, desired by anyone. Another point is that new products, introduced recently to the market, mainly have low equity due to low consumer awareness (Batra et al. 1996).

For convenience products differentiation is difficult to achieve due to homogeneous nature of products. At early stages of life, products in this category should focus on positioning by product benefit since consumers don't have much familiarity. It is important to communicate the benefit gained from the product in order to get consumer attention and interest. Competitors can easily replicate any modifications made with the product in this category. Therefore, within established product categories, it is important to the stress quality standards and price aspects in order to maintain existing customers. A value positioning strategy is appropriate for this product category, which will emphasize high levels of quality for affordable prices.

Preference products tend to bear social and psychological risks that are related to consumers' ego or peer group. Through the product the users want to communicate superiority. During initial stages of product life, consumers tend to focus on the attributes in order to understand their importance. Based on these attributes consumer preferences are formed (Carpenter and Nakamoto 1989). Preference products should be differentiated ideally by focusing on an attribute that is better, more preferred than the competitors or unique within the product category. During later stages of life introducing a new, unique feature adds more value to brands with low equity as this strategy enables the minor brand to increase its prices (Nowlis and Simonson 1996). Moreover low equity brands can employ competitive positioning that enables them to associate with higher equity brands (Penchman and Stewart 1991). The high equity brands positioning by attribute to claim superiority, however competitive positioning strategies should not be employed hence they might create a similarity perception rather than a differentiation (Kalra and Goodstein 1998).

Consumers are eager to spend time and money in order to get the best option when purchasing an item from shopping goods category. It is important to differentiate the product so that through the comparisons the product will stand out. In addition to that, the marketing program, placing and promotion strategies should be designed to differentiate the product from its actually similar competitors. For shopping goods financial and functional risks are important considerations for consumers. Therefore, it will be beneficial for low equity brands to employ a value positioning approach during early periods of life cycle. This strategy will address both monetary and functional risk considerations by implying good quality for good prices. During later stages, high equity brands can be differentiated by a unique, relevant attribute or by a meaningless attribute since distinctive and unique attributes ease choices for consumers when there are to many items to compare. It is demonstrated that meaningless attribute positioning is successful for high equity brands, even when the trivial nature of the attribute is revealed (Venkatasubramani and Moore-Shay 1998). In addition to that, lower equity brands can employ competitive positioning strategies and try to increase the similarity perceptions with higher equity competitors.

For specialty goods, differentiation of both the product and the marketing mix is viable. Specialty products have high requirements for both monetary and non-monetary effort. During early stages of life cycle consumers are not very informed on the product characteristics so they face difficulties in making an evaluation. Considering the financial value at stake, they might be relieved if they are presented with more tangible comparisons. As there are not many competitors at this stage products from other categories that are well known and share communalities with our product, can be used to benchmark (Punj and Moon

2002). Consequently employing a competitive positioning will be effective. For later stages of life consumers become more knowledgeable and capable of appreciating distinguishing characteristics. Since the effort needed for this category constitutes part of its appeal, it should be further emphasized with the positioning strategy. A niche positioning will be a suitable strategy for this stage. By limiting the availability and distributing exclusively the effort dimension necessitated by this type of products can be underscored.

CONCLUSION AND DIRECTIONS FOR RESEARCH

In this article, a conceptual framework is developed for marketing managers that will facilitate selection and implementation of positioning strategies for a number of product types. For this purpose, the classification made by Murphy and Enis (1986) is employed in order to be able to understand the distinctions among various product types and determine most suitable strategies addressing these distinctions. Furthermore, major positioning strategies are identified based on a thorough review of research on positioning. Positioning alternatives are proposed for different product types while considering the impact of stage of life cycle and brand equity.

The framework represented a number of concepts and their relationships nevertheless further research can refine this work and suggest other implications. Firstly, according to Ries and Trout (1981) even though positioning starts with the product, it is more concerned with the consumers and their minds. In order to better interpret the consumer aspect, the concepts of product involvement and product meaning can be integrated to the framework.

In addition to the stage of life cycle for the product category, the life cycle of the brand can be incorporated in the framework as well. Park, Jaworski and Maclnnis (1986) investigated different types of brand concepts that address various needs namely functional, symbolic and experiential needs. They have provided a framework that facilitates the management of the brand concept through the stages of selection, introduction, elaboration, and fortification. These stages of the brand present implications for the positioning strategies as well.

Furthermore, it is suggested that positioning is a fundamental ingredient in choosing type of value that will be offered (Kotler and Keller 2006). This article concerns with selecting positioning strategy hence value offered, however how it will be created and communicated has not been covered. The types of marketing programs that will support the positioning strategy and the influence of marketing mix elements for different product types at different periods of life constitutes another opportunity for research.

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FACILITATOR: THE LUBRICANT AND CATALYST FOR ORGANIZATIONAL LEARNING

Cao, Chris R.
MEEM, City University of Hong Kong,
ruicao2@student.cityu.edu.hk
Chuah, K.B.
MEEM, City University of Hong Kong,
Bing.Chuah@cityu.edu.hk
Chau, Y.C.
SAE Magnetics (HK) Ltd
ycchau@sae.com.hk
Kwong, K. F.
SAE Magnetics (HK) Ltd
kf_kwong@sae.com.hk
Law, Kris M.Y.
ISE, Hong Kong Polytechnic University
mfkris@inet.polyu.edu.hk

ABSTRACT

Nowadays, increasing number of Chinese manufacturing enterprises are putting resources into brand building, original R&D, process and quality improvements etc. to cope with increasing global competition in the post WTO entry era. More attentions have also been paid to the improvement of their organizational capabilities to keep pace with the rapid advances in technology and changes of the international market condition. In the last few years, SAE Magnetics has persisted with its adoption of the OL vehicle, Project Action Learning of Law and Chuah (2004) to improve its performance and sustain its competitiveness. Learning facilitation is one of the supporting pillars of PAL implementation. When the effectiveness of OL process is hampered by some unprecedented events and organizational changes, the need for better OL facilitation becomes greater and more urgent. This paper first delineates some OL implementation problems encountered by SAE Magnetics in its OL journey. Based on the integration of literature findings and field study results, a practical PAL facilitation model is expounded. The implementation issues of this PAL facilitation model are discussed.

INTRODUCTION

This research is part of an on going company based collaborative learning organization (LO) and organizational learning (OL) project between SAE Magnetics and City University of Hong Kong. SAE Magnetics is a very successful Hong Kong based electronic component manufacturer with very large manufacturing factories located in Dongguan, Southern China.

As a supplier of high-tech electronic components, SAE needs to keep abreast of the cutting edge technology and cope with the rapid market change. Its OL journey started from 2002, when the top management decided to adopt OL as a strategy to maintain its competiveness. The Project Action Learning (PAL) framework (Figure 1) developed by Law and Chuah (2004, 2006) had been adopted as the OL vehicle in SAE's Business Unit 1 since 2004. Built on the theoretical foundation of action learning (Revans, 1982), PAL is a practical OL solution that uses goals and project setting to drive both individual as well as team learning in a systematic way. Earlier research of Law and Chuah (2004, 2006) has found that four supporting pillars namely as Policy and Strategy, OL Facilitation, Technology and Resources, and Performance Management are crucial to PAL implementation success. The present study concentrates on one of these pillars, the OL Facilitation.

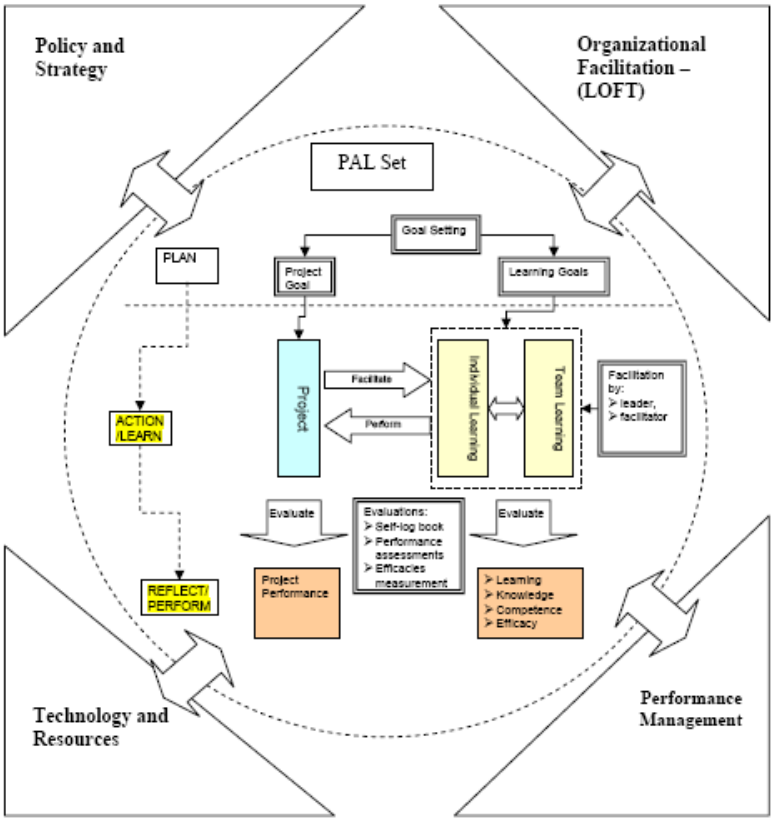

Figure 1 PAL Framework

The implementation of PAL based OL from 2004 to 2006 achieved some measurable degree of success (Chuah & Law, 2006). Subsequently, a series of adverse economic factors and sudden change of business circumstances led to several big organizational restructures such as downsizing and merger of business units/departments and introduction of some austerity measures, which inevitably dampened staff morale, expectation and motivation. The organizational changes also intensified staff's defensive behaviour. Staff turnover of the business units rose considerably, which impaired both the operation efficiency and PAL effectiveness. Fortunately throughout these harsher times, management support for OL in SAE never waivers. It is in this context that this research into OL facilitation is carried out.

LITERATURE DISCUSSION

The concept of OL & LO has drawn the attentions of academics for a long time, and has been expounded by numerous scholars from different perspectives (Argyris & Schon, 1978; Revans, 1982; Senge, 1990; Pedler 1991; Lyles, 1992; Garvin, 1993; Tsang, 1997; Garratt,

1999 etc.). The definitions of OL usually focus on the change in behaviour, mindset and state of knowledge and expertise of individual member, and eventually how the change influences the norms, cultures, adaptabilities and competences of teams or even the entire organization, while the studies of LO intersect at the ideas of "continuous improvement, competence acquisition, experimentation, and boundary spanning" (Argyris, 1999). In contemporary business context, OL is "the process by which the organisation constantly questions existing product, process and system, identifies strategic position, applies various modes of learning, to achieve sustained competitive advantage." (Wang & Ahmed, 2003) And LOs are places "where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together" (Senge, 1990).

Facilitation is often used when a group encounters some issues or situations that it cannot easily handle on its own. Facilitated groups in general are found to be better at generating ideas, breaking deadlocks, involving people, thereby gaining greater commitment to course of action and team building (Esther, 2005). A facilitator is a person who helps a group or team to work together in a collaborative way, by focusing on the mechanics and process of how the team's participants work together (Havergal & Edmonstone, 1999). The facilitator should give the notion of empowering and supporting participants to interact, collaborate as well as develop and learn in an action on experiential learning group (Heron, 1999). Additionally, the roles of facilitator may also include enabling reflective dialogue (Senge, 1990; Isaacs, 1999), helping participants to recognize and understand their defensive behaviours and actions (Agris, 1999), managing the dynamic of the group and maintaining it in positive forms (Esther, 2005), recognizing the symptoms of process problems, diagnosing the underlying patterns, and intervening when necessary in the group process (Havergal & Edmonstone,1999), raising participants' capacity for respectful exploration of others' views, balancing advocacy with inquiry, making one's own thinking visible (Burson, 2002) etc.

So what is the role of the OL facilitator in the PAL driven OL setting? Law and Chuah (2004)'s earlier field study in SAE Magnetics has found the need for the OL facilitation outside the PAL team membership. Indeed, the LOFT (Learning Organization Facilitating Team) which mainly plays the roles of PAL process administrator and resources coordinator and as mentioned earlier is one of the four supporting pillars of PAL based OL practice. However, further research is still needed to reexamine the roles of facilitators in the OL setting that is much harsher and more uncertain than the environment in which PAL was founded. The following sections will firstly address the development of PAL facilitation model, and then discuss the difficulties and issues of its implementation.

DEVELOPMENT OF PAL FACILITATION MODEL

The PAL facilitation aims to help to reinforce learning motivation and effect team reflection in addition to the originally envisaged supporting role of the LOFT in the PAL based OL. As noted earlier, the external factors and internal environment of SAE Magnetics have changed in the last few years. The more difficult environmental context of SAE's PAL based OL implementation has to be carefully considered in the development of this PAL facilitation model. The unavoidable changes have led to the following difficulties in the recent rounds of PAL implementation:

- Certain participants lacking of motivation to involve and contribute in PAL, regarding it as an additional workload.
- Some members' unwillingness to genuinely share their insights and reflect on their learning during PAL review sessions.
- Some members' tendency to either argue, be defensive, or remain silent when encountering conflicts during PAL review sessions.

- Some participants' tendency to focus on local or self benefits and not the benefits of the whole PAL team.

The previous LOFT mainly played a rather passive house keeping role of ensuring that the mechanics of the PAL process had been followed. It is increasingly evident that this is quite inadequate. The lack of learning motivation and the aggressive/defensive behaviour in the face of conflicts compounded into producing superficial learning outcome. A more proactive and engaging OL facilitation process is needed. Although a wide range of factors influencing OL have been identified by researchers, in most instances a facilitator could only control or influence a limited number of these human factors during the OL journey. So before we discuss about the PAL facilitation model, let us first clarify the definition and role of the PAL facilitator.

To promote PAL implementation within this rather harsher and more changing context, we argue that the new OL facilitation process should extend beyond the administration and coordination of PAL mechanics and incorporate the more proactive functions of boosting learning motivation of PAL participants, improving PAL team communication and enabling deep learning of PAL teams. In SAE's PAL implementation, the LOFT is made up of normally three members. These LOFT members are PAL facilitators. To extend beyond the passive roles of the old LOFT, the PAL facilitators not only administrate and coordinate PAL projects, but also play an active role to help the teams and participants to achieve higher level of performance and learning. In other words, they are instrumental in ensuring better team communication and focus, sustaining the PAL teams' momentum, and finally helping them to fulfill their predefined project performance and learning goals. PAL facilitators can be viewed as lubricant and catalyst in the PAL based OL process.

We are proposing that the PAL facilitators are also "learning motivation reinforcer" and "team reflection effecter". This first extended role will have three major functions including conveying useful information to all PAL stakeholders, triggering PAL members' intrinsic learning needs and enhancing the extrinsic motivators. The second extended role will be a proactive enabler of team dialogue and reflection. These two extended roles are needed to help PAL participants to:

- Identify the focus and value of their PAL project
- Reflect on and build up their positive attitudes toward PAL
- Resolve team conflicts and reduce aggressive/defensive behaviours by using dialogue
- Achieve deeper learning in their PAL project through facilitated team reflection

The work of the PAL facilitator to achieve the above is through a series of periodic or timely "interventions", which we would describe as "catalytic engagements". The proposed PAL facilitation model that incorporates the two extended roles is shown in Figure 2. The model consists of two sets of interventions associated with the two new roles of PAL facilitators respectively. They are like "to do" lists. The meanings and justifications for each intervention are elaborated below.

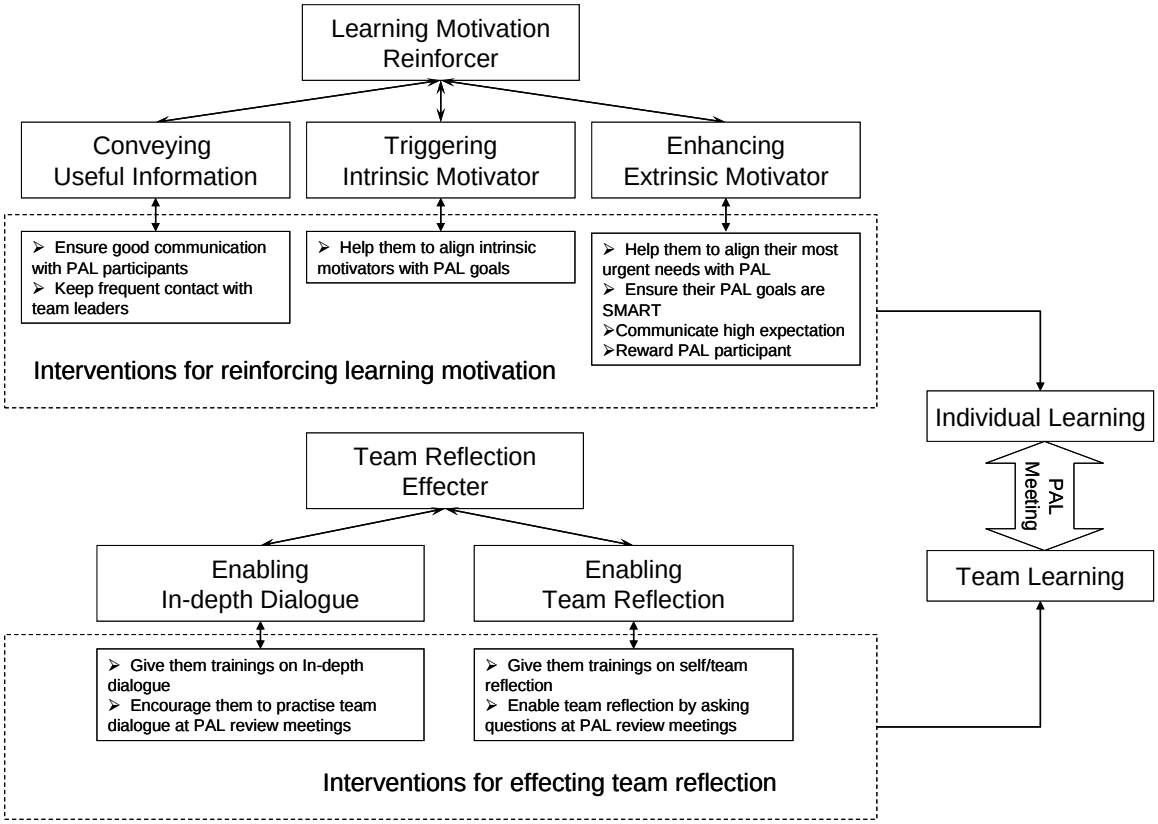

Figure 2 A Facilitation Model for PAL Facilitator

INTERVENTIONS OF LEARNING MOTIVATION REINFORCER

Convey useful information to PAL participants.

- Ensure good communication with PAL participants to convey the latest information about the company's OL strategy, developments, activities and achievements. With this intervention, PAL facilitators could help to solve participants' puzzles and doubts about PAL mechanics, and gradually change their negative attitudes toward PAL. "An effective communication program can minimize the uncertainty and fear of the unknown associated with change," while "the lack of reliable information leads to rumors and uncertainty" (Brown & Harvey, 2006).

- Keep frequent contact with team leaders in and out of PAL review sessions. This will help to reinforce their beliefs in the importance of the PAL projects, thereby arousing their intents to be actively involved. Lessons could be learned from similar interventions for enhancing student learning motivation in higher education by Chickering & Gamson (1987). Here, we emphasize that PAL facilitators should have active contact with the team leaders and help them to get through tough times and maintain the PAL project activities and momentum. The forms for communication include face to face talk, phone call or email, while the contents would cover project progress, difficulties encountered, helps needed, encouragements, helpful guidance and suggestions, news and latest developments and so on. Through these contracts and interactions, a facilitator would gradually build up credibility and gain acceptance.

Cultivate and trigger PAL participants' intrinsic learning motivators.

- Help PAL participants to align their intrinsic motivators, such as personal interests, needs for growth, achievement and career development with the PAL project goals and learning

goals. The needs for growth and achievement have always been accepted as the principal drive to excel, to achieve, to strive, to succeed, and are generally regarded as a form of intrinsic motivation (McClelland, 1961). Although people's motivation and performance vary according to the strength of one's need for achievement (Kreitner & Kinicki, 1998), learning is intrinsically motivated by a desire to grow, develop or a search for recognition and respect from others. To usefully tap into this inner power, a PAL facilitator should try to channel people's individual learning efforts in line with the needs of organization. A useful message is to point out the linkage between the participants' needs (like to advance technical and professional competence, enhance employability and to get better promotion opportunity) and the benefits and learning outcomes of PAL projects. It means that participants must be persuaded and convinced that their needs will be met and efforts in PAL appreciated. Moreover, PAL projects will develop them to become more valuable and well-rounded individuals to the organization rather than just train them a narrow scope of skills. The recognition of this linkage would encourage them to see PAL not as something that "we have to do" but rather something "we need".

Enhance and capitalize on available extrinsic learning motivators.

- Help PAL teams to choose the topic aligning with their most urgent needs at work. There is great advantage if PAL projects are able to help meet urgent needs at work. For example, if a batch of new products frequently suffers from quality problems, complaints from client and criticisms from higher level management will be inevitable and serious blows to the production team. The PAL facilitator could use this case to provide the external motivator needed to get them engage in a PAL project to solve the quality problem. The PAL facilitator must be equipped with the skills to ask probing questions to get the PAL participants to distinguish between the "must do's" and "nice to do's".

- Ensure their PAL goals are SMART. Here SMART, the well-known recipe for effective action-planning stands for specific, measurable, achievable, relevant and time-specific. Although goal setting methodologies have been elaborated in PAL framework at length, how to execute them remains a problem. The PAL participants have identified the importance of a SMART goal, but they still could not find the right way to be really SMART. To improve this in practice, facilitators should ask participants simple yet probing questions that would help decompose the PAL project goals into specific milestone objectives that are clear and measurable. The facilitator could then help the PAL team to translate these measurable objectives into meaningful evaluation rubrics. Once agreed, the rubrics will be used by themselves as well as their managers to assess their efforts and contributions. Meanwhile the facilitation would also help the team to develop their action plans in line with the SMART objectives.

- Communicate high expectations from top management to PAL participants. "High expectation" is a potentially potent external force which can be translated into external motivation. "Expect more and you will get more. High expectations are important for everyone, for the poorly prepared, for those unwilling to exert themselves, and for the bright and well motivated" (Chickering & Gamson, 1987). Hence a facilitator should reinforce the message to both team leaders and members that top managements really have high expectations about their PAL projects, and believe that they could yield substantial benefits to themselves, their department and the organization in the long run.

- Encourage PAL participants with material rewards from top management. In general, most middle, lower and operation level employees are more sensitive to material reward. Availability of these rewards is a quick-acting stimulus to spur many staff's involvement in PAL projects. Again, past research shows that "once PAL related evaluation has been included as part of the staff's overall performance measurement, PAL gradually but surely becomes accepted as part of the organization's practice and culture." (Kwong, Chau, Law and

Chuah, 2006). The PAL facilitation should help to publicise the "attraction" of such rewards to the right audience.

INTERVENTIONS OF TEAM REFLECTION EFFECTER

Enable in-depth dialogue among PAL team members.

- Give PAL participants trainings on team dialogue. This intervention aims to impart the concept and practice of team dialogue and how it can be used as a powerful tool to resolve group conflict or overcome aggressive/defensive behaviours, improve the quality of collective thinking and communication by many scholars (Senge, 1990; Isaacs, 1999; Burson, 2002). Isaacs particularly pointed out that dialogue is the creation of common meaning through an interactive process of active listening, respectful exploring of assumptions and differences, and building a context for thinking together. "It's a conversation with a centre, no sides". If the PAL facilitator can instill the practice and mindset of team dialogue, PAL team members would have the built-in capability to look for more constructive solutions to deal with conflicts or threatening issues in the team.

- Encourage PAL participants to employ team dialogue to resolve conflicts and overcome aggressive/defensive behaviours during PAL review sessions. Firstly, a facilitator should help PAL team leaders to shape the communication style of their teams by establishing the dialogic ground rules (See Table 1). The facilitator should convince the leaders to genuinely support the "Ground Rules" and adopt it right from the PAL team formation stage.

GROUND RULES FOR PAL MEETING
• Treat each other as comrade rather than leader and member • Listen to the whole story and participate within the whole, not pieces • Be aware of your thoughts and inference • Suspend reaction and judgment until you understand • Inquire if you don't understand • Speak out your views and ideas • Surface your latent inference and assumptions • Inspect your own views and ideas based on the comments from others • Don't argue with each other • Be honest, open and respectful

Table 1 Ground Rules for PAL Meeting

Secondly, facilitators should pay attention to the subtle changes of emotions and behaviours during team discussion. Feelings of safety and trust are crucial for participants, especially lower level staff, to express freely their views and ideas. To achieve this, team leader or the one who possesses the highest position within team should show genuine respect for and sincerely encourage different views, as well as stress the common objectives of the PAL team. As team members bring their differences to the open, the stress and anxieties of suppressed emotion will diminish or even disappear. Nevertheless it will be helpful for the facilitator to act like a container to hold the pressures and prevent things from becoming "too hot" (Isaacs, 1999). The PAL facilitator should try to help participants to suspend or tone down their outbursts and identify the alternatives open to them, give them time and space to reflect on their own assumptions and rules, ask them to elaborate and exemplify their views and ideas in respectful way, and allow them to express their doubts, anxieties and worries publicly. "Instability in the container" could produce sufficient discomfort or even polarization to jeopardize the process. The importance of the facilitator will be embodied by his or her ability to deliberately steer the team toward the safer territory of purposeful discussion protocols, or

redirect the focus on a specific issue away from the "sored-spots", so that the team is ready to move on again (Burson, 2002).

Thirdly, while a facilitator can get things moving, he or she must move out of the position of control so that the awareness of the process is owned and shared by everyone (Isaacs, 1999). Facilitators wishing to add dialogue skills to their repertoire will benefit from participating in conversations in which they can themselves work with the building blocks of dialogue theory (Burson, 2002). Again, to take the advantage of social learning, they should set up learning models for team members, which means both the facilitator and the team leader should participate in team meeting practising dialogic behaviours actively as models for the other members. It will be beneficial, if team leader could reflect publicly on his or her own assumptions, behaviours, reactions and what took place within him or her, acting as a model.

Fourthly, positive feedbacks (like encouragement, expression of understanding, smiles, eye contact, elaborating enquiries etc.) should be given to those practising dialogue skills (like respectful exploration of others' assumptions, balancing advocacy with inquiry, making one's own thinking visible, recalling and pondering one's past behaviours, or confessing one's mistakes).

The last but not least, a facilitator can supplement these with the tools from action science such as "the left-hand column" and "the ladder of inference" (Argyris 1999). They are of most value when a facilitator works with a particular group over time (Burson, 2002). By using these tools in the context of PAL meetings, team members get to identify and understand their defensive behaviours.

Enable facilitated team reflection.

- Give PAL participants trainings in self/team reflection. This action helps them to identify the notion, significance and method of reflection as an important on-site learning approach which allows them to internalize and integrate their project learning experience. Revans (1982) found that learning was best derived from mutual reflection on real issues, through which the owner of the problem would ultimately figure out the solution of it, assisted by discoveries made with others in the team. Again, it is generally believed that people do best when they get prompt and accurate feedbacks on how well they are progressing toward their goals. And study shows that self-generated feedback in which the employee is able to monitor his or her own progress has been demonstrated to be a more powerful motivator than those generated externally (Ivancevich and Mcmahon, 1982). So we consider using facilitated team reflection to generate effective self feedbacks of PAL members, and enable their critical reflection on their PAL experience. To ensure the depth and quality of reflection, Hatton and Smith's (1995) four level reflection model is introduced. For each level of the reflection model, corresponding PAL related themes are put forward. The themes include the descriptions of PAL focus and project progress; the explanations, analysis and inquiries of the problem; the proposition and selection of solutions; and the generalization and extrapolation of PAL gain. More detailed items are listed to elaborate the reflection outcomes of each level (See Table 2). The training covers all of these.

Reflection Level	Relevant PAL Themes	Reflection Outcomes by Asking Questions
Level One	Descriptions of PAL focus and project progress	• Recall their PAL topic • Recall their project performance and learning goals • Describe their project status quo and the problems • Describe their current methodology and action plan • Describe their project progress
Level Two	Explanations, analysis and inquiries of the problems	• Interpret the problem • Explain the methodology used for problem analysis • Reflect on possible individual mistakes • Analyze the problem from individual perspective • Interpret and integrate different views, and rethink the causes of the problem systematically
Level Three	Proposition and selection of solutions	• Propose and explain possible solutions • Identify the relevant requirements for competence and resources • Select the most viable solution • Construct the action plan
Level Four	Generalization and extrapolation of PAL gains	• Evaluate their project progress or the contributions to both department and organization with concrete evidence • Evaluate both individual and team learning progress or achievements with concrete evidence • Fine-tune PAL goals if needed • Remark needs for improvement & future application

Table 2 PAL Reflection Framework

- Enable team reflection by asking questions. This action enables PAL participants to evaluate their project progress and diagnose their own knowledge and capabilities systematically by asking them a series of probing and reflective questions. The questions are designed by facilitators or team leaders with the intention of making PAL participants achieve the reflection outcomes of each level mentioned above. PAL teams are encouraged to explore the answers to these questions through the balanced use of both open discussion and in-depth dialogue which is smoothed by the PAL facilitator. The whole reflection process is illustrated by Figure 3 below.

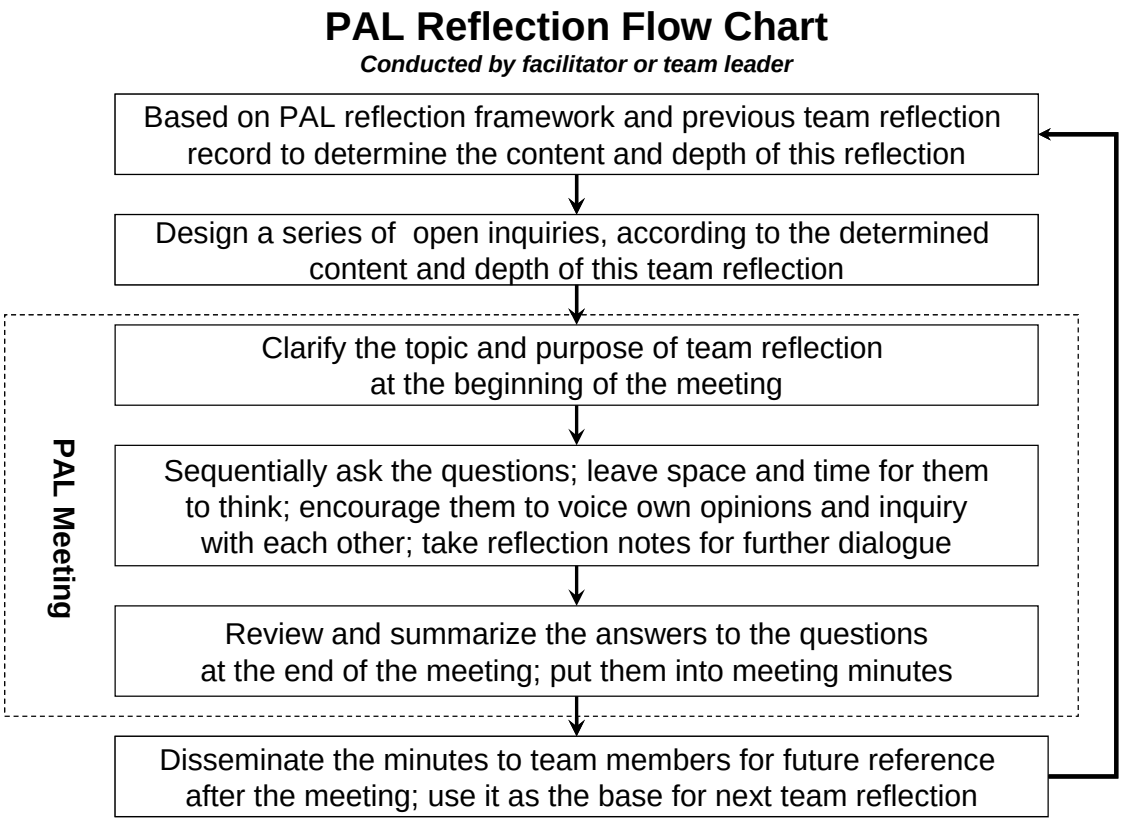

Figure 3 PAL Reflection Flow Chart

IMPLEMENTATION ISSUES

The latest round of PAL has been carried out from October 2008 to March 2009 with totally eleven PAL teams, meanwhile the facilitation model has gone through its pilot run, and some issues and difficulties have been encountered.

- The first challenge is that we do not have enough number of qualified facilitators to support all the PAL teams. Only two of the teams without previous PAL experience were fully facilitated. And we have received some positive feedbacks at the present stage, for the team leaders felt that the interventions described in the PAL facilitation model could spur and guide them to learn more from their projects. How to solve this manpower problem? It is generally accepted that project manager usually needs to function as a facilitator to manage conflicts in the project environment (Mantel, Meredith, Shafer and Sutton, 2005). Coetzer (2006) also believed that managers and supervisors could play an important role as facilitators of learning in small companies. Can the PAL team leaders also assume the roles of the OL facilitators? In the next round of PAL, we plan to provide trainings on PAL facilitation to all the team leaders and encourage them to take on the facilitation roles for their PAL projects.

- Supports from middle managers are crucial for PAL facilitation and success. As they play important roles of conveying and executing the PAL strategy from top management, their positive attitudes and genuine involvements could directly drive their subordinates to contribute more. However, some of them have not shown strong interest in this kind of self directed learning program. The indifference may be due to the following two reasons. Firstly, quick working pace and heavy workload sometimes prevents managers and other participants from taking part in training and learning. Secondly, thinking that the OL process has only intangible and rather uncertain long term benefits, managers are more apt to focus on efforts that are linked to the solid operational data that reflects their performance directly. The facilitator cannot solve this problem on his or her own. The middle managers' mindset can

only be changed by clear, repeated message of committed support from top management and some concrete results being shown by successful PAL projects.

- The very nature of dialogue has posed a big challenge to facilitator (Burson, 2002). It is hard to make people reduce their reluctance and readily voice out their deep thinking openly, mostly because of self-defensive routines (Agris, 1999), individual anxieties and threatening issues (Heron, 1999). Besides, the influence of Chinese culture is deeply rooted. Confucius once told people the right code of conduct was to learn extensively and speak carefully, and Chinese idiom says adversity could be incurred by careless words, which hints that silence is golden. All of these are barriers for Chinese staff to practise dialogue with fellow members of the PAL team. Again, as Isaacs (1999) points out, "when we are trying to move into dialogue, conventional, structured approaches to facilitation can be debilitating." The environment and mindset for open communication could not be formed overnight.

- It is important for facilitator to build up trust with PAL participants, but it takes time. Actually at the beginning of the facilitation, they would show some respects to a facilitator, seemingly being quite cooperative. But they would not necessarily simply accept the suggestions and follow the guidance unless the facilitator's words and behaviours have enkindled their inner resonance which is in essence a kind of trust and recognition. Some useful actions for a facilitator to build the trust include practise openness, tell the truth, fulfill the promise and demonstrate his or her competence in team learning and facilitation process.

CURRENT AND FUTURE WORK

This research aims to identify and substantiate the roles of OL facilitators as well as the way to promote PAL based OL from the facilitators' perspective. Built on literature findings and field study results, we proposed and elaborated a PAL facilitation model, discussed its implementation issues and difficulties based on the experience of a pilot run. For future work, the refined facilitation model would be put into execution in SAE, and we expect that the PAL teams being facilitated will outperform the others that are not. We will study the correlations between OL facilitation and learning progress and outcome. Moreover a detailed learning monitoring and evaluation system will be developed to gather more empirical evidence needed to testify the model's validity.

Admittedly, like in other case based researches, our exploration of OL facilitation and the roles of OL facilitators is carried out in the context of PAL based OL process, which may be viewed as a limitation of this research. Also, the case study has just been conducted in one manufacturing company, which would restrict the generality of the research findings. Nevertheless, the continuing PAL based OL in SAE provides an excellent opportunity for a series of longitudinal OL case researches that is rare and valuable.

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DICHOTOMIZATION OF A TEST IN TWO PARALLEL HALVES AND ESTIMATION OF RELIABILITY IN A UNIQUE FASHION

Chakrabartty, S.N.
Indian Maritime University
snc12@rediffmail.com

ABSTRACT

In this study, an iterative method has been described to dichotomize a test in two parallel halves ensuring that the halves are almost equal in terms of mean and SD. This type of dichotomization helps to estimate reliability of a test from a single administration in a unique fashion via estimation of error variance of the entire test using N-Dimensional Persons Space. The advantages of such approach have been discussed. An empirical verification with real life data pertaining to a selection test has also been covered. Illustrative future research problems are also indicated.

INTRODUCTION

Reliability has been defined by various authors in different fashions. Berkowitz el. al. (2000) has defined reliability as the degree to which test scores for a group of test takers are consistent over repeated applications of a measurement procedure and hence are inferred to be dependable and repeatable for an individual test taker. Jacobs (1991) has opined that another way to express reliability is in the terms of standard error of measurement. Test score should be considered as an estimate of student's achievement level. How good the estimate depends on the magnitude of the standard error of measurement. Rudner and Schafes (2002) mentioned that it is impossible to calculate a reliability co-efficiency that conforms to the theoretical definition. There is also a view that reliability cannot be calculated since true scores of individuals taking the test are not known. Available methods of finding reliability of a test can be classified under the following groups:

- Test retest reliability : Requires more than one administration of the test to the same sample on two different occasions. The assumption made in the approach is that there is no substantial changes in the construct being measured between two occasions. However, the correlation between test scores coming from two administrations depends on the time gap between measures since the sample may learn or forget something in between and also on the acquaintance to the test. Different values of reliability can be obtained depending on time interval between the two administrations.
- Internal consistency reliability :Here attempts are made to see how well the items reflect the same construct. Various methods used in this context are
  - Average Inter – item correlation : Simply the average of all entries in the item correlation matrix.
  - Average item total correlation : Here, in inter-item correlations matrix, the total score is taken as another variable in the analysis. An average item – total correlation is the average of all such correlations.
  - Cronbach's Alpha (α) : This is mathematically equivalent to the average of all possible split - half estimates though computation procedure is different and considers sum total of variance of items and variance of the test. Here, it is

assumed that the average covariance among non-parallel items is equal to the average covariance among parallel items. Cronbach's Alpha can be shown to provide a lower bound for reliability under certain assumptions. Too high value of α , say over 0.9 probably indicates redundancy of items (Streiner, 2003).

- Parallel – forms reliability : Here attempts are made to ensure that the two tests are parallel i.e. true scores of individual remain same irrespective of which form we use. Splitting half a test in two parallel halves is popular since we can find the reliability of the test in a single administration. However, methods of splitting half a test in two parallel halves differ. The resulting co-efficient will vary as a function of how the test was split (Rudner et. Al. 2002). One need to ensure that after splitting , the two halves are really parallel.

Each of the above-said reliability estimators has certain advantages and disadvantages. Each such method gives a different value for reliability.
In general, test retest reliability with significance time gap is lower in value than the parallel forms and internal consistency . On the other hand Cronbach's Alpha does not consider redundancy in items. Thus, there is a need to estimate reliability in a unique fashion from a single administration of the test using theoretical definition of reliability as a ratio of true score variance and observed score variance. Chakrabartty (2007) approached the theory of mental testing through N-dimensional person space which may help to find reliability of a test as per its definition.

Here an iterative process is described to split half a test in two parallel halves ensuring almost equality of mean and variance. A method is also described to estimate error variance from the data using N – Dimensional Persons Space which will help us to find reliability more precisely as a ratio of true score variance and observed score variance. First, N – Dimensional Person Space is introduced.

METHODOLOGY

Suppose there are two subjects 1 and 2 on whom a test has been administered. The situation can be presented in a 2-dimensional person space where each subject will be represented on axis. The scores obtained by the subjects may be represented by a point X with coordinates X_1 and X_2 where X_1 denotes the score of subject one. X_2 is define accordingly. Another point I in the same space can be considered with coordinates I_1 and I_2 to represent maximum possible score which can be obtained by a subject. In the present case $I_1 = I_2 =$ Total Number of items in the test. Thus, one can have two vectors namely, OX and OI . Let the angle between these two vectors be denoted by $Ø_x$ Obviously, the angle between each axis with the vector OI is 45^0. Let us call vector OI as ideal vector.

MEAN

Draw XM perpendicular from X to OI.

$$\text{Now } \cos Ø_x = \frac{X_1 I_1 + X_2 I_2}{|X|\ |I|} .$$

$$\Rightarrow X_1 + X_2 = \frac{|X|\ |I| \cos Ø_X}{I_1}$$

$$= \frac{|X|\ |I|\ OM}{I_1\ |X|} = \frac{|I|\ |M|}{I_1}$$

$$= \sqrt{2}\,|M| \quad \ldots\ldots \quad \ldots\ldots \quad \ldots \quad (1.1)$$

i.e. sum of components of the vector X is |M| times a constant.

The equation (1.1) can be generalized to higher dimensions i.e

$$\sum_{I=1}^{N} X_i = \frac{|I|\,|X|}{I_1} \cos Ø_X = \sqrt{N}\,|X| \cos Ø_X$$

$$\text{or } \bar{X} = \frac{|X| \cos Ø_X}{\sqrt{N}} \quad \ldots \quad \ldots\ldots \quad \ldots\ldots \quad (1.2)$$

$$\text{Similarly, } \bar{T} = \frac{|T| \cos Ø_T}{\sqrt{N}} \quad \ldots \quad \ldots \quad (1.3)$$

where $Ø_T$ is the angle between true score vector and ideal vector

VARIANCE

Geometrical interpretation of test variance can also be obtained from person – space. For two subjects, the test variance S_x^2 is

$$S_x^2 = ½ \Sigma (X_i - \bar{X})^2$$

$$= ½ \Sigma x_i^2 \text{ where } x_i \text{ 's are deviation scores}$$

$$= ½ \,|x|^2$$

$$\text{For N – persons, } S_x^2 = \frac{1}{N} |x|^2$$

$$\text{Or } S_x = \frac{|x|}{\sqrt{N}} \quad \ldots \quad \ldots \quad (1.4)$$

Thus, SD of a test is the norm of the deviation score vector divided by $\sqrt{N}$

Relationship- between | x | and | **X** | can be easily derived as

$$|x|^2 = |\mathbf{X}|^2 \sin^2 Ø_x \quad \ldots\ldots \quad \ldots\ldots \quad (1.5)$$

$$\text{Similarly } |t1^2 = |T|^2 \sin^2 Ø_T \quad \ldots\ldots \quad \ldots\ldots \quad (1.6)$$

Test variance can also be looked in terms of $Ø_X$

$$S_x^2 = \frac{|x|^2}{N} = \frac{|\mathbf{X}|^2 - N\bar{X}^2}{N}$$

$$= \frac{|\mathbf{X}|^2}{N} - \frac{|X|^2}{N} \cos^2 Ø_X \quad \text{using (1.2)}$$

$$= \frac{|\mathbf{X}|^2}{N} (1 - \cos^2 Ø_x)$$

$$= \frac{|\mathbf{X}|^2}{N} \sin^2 Ø_x \quad \ldots \quad \ldots. \quad (1.7)$$

Proceeding in same fashion, it can be shown that

$$S_T^{\,2} = \frac{|\mathbf{T}|^2}{N} \sin^2 Ø_T \quad \ldots.. \quad \ldots.. \quad (1.8)$$

RELATIONSHIP BETWEEN $Ø_x$ and $Ø_T$

From (1.5) and (1.6), one can write

$$\sin^2 Ø_x = \frac{|x|^2}{|\mathbf{X}|^2} \text{ and } \frac{|t|^2}{|\mathbf{T}|^2} = \sin^2 Ø_T \ldots. \quad \ldots\ldots \quad (1.9)$$

Now since $\bar{X} = \bar{T}$

$$|X| \cos Ø_x = |T| \cos Ø_T \qquad \text{from (1.2) and (1.3)}$$

$$\text{or} \quad \frac{|T|}{|X|} = \cos Øx \sec Ø_T \quad \ldots. \quad \ldots\ldots. \quad (1.10)$$

$$\text{or} \quad \cos^2 Ø_T = \frac{|X|^2}{|T|^2} \cos^2 Ø_x \quad \ldots. \quad \ldots\ldots \quad (1.11)$$

Above equations give relationships between $Ø_x$, $Ø_T$, $|x|$, $|t|$ etc. Each equation involves two unknowns viz. $\cos Ø_T$ and $|t|$ or $|T|$. Knowledge of one of the unknowns will help us.

RELIABILITY

Reliability (r_{tt}) of a test can be defined as $r_{tt} = \frac{S_T^2}{Sx^2}$

Thus, to know r_{tt} one needs to know value of at least one of the following

- $|T|$
- $\cos Ø_T$
- angle between true score vector and observed score vector or S_T^2.

For this, let us concentrate on parallel tests. As per classical definition, two tests "g" and "h" are parallel if

$$T_{ig} = T_{ih} \text{ and } S_{eg} = S_{eh}$$

In the N – dimensional person space , we can have two points X_g and X_h corresponding to tests g and h. Now

$$X_g = T_g + E_g \text{ and } X_h = T_h + E_h$$

If g and h are parallel,

$$X_{gi} - X_{hi} = E_{gi} - E_{hi} \text{ since } T_{gi} = T_{hi}$$

$$\Rightarrow |X_g|^2 + |X_h|^2 - 2\,|X_g|\,|X_h| \cos Ø_{gh} = |E_g|^2 + |E_h|^2 - 2\,|E_g|\,|E_h| \cos Ø_{Egh}$$

where $Ø_{gh}$ is the angle between the vectors X_g and X_h and $Ø_{Egh}$ is the angle between the vectors E_g and E_h.

$$\Rightarrow |X_g|^2 + |X_h|^2 - 2\,|X_g|\,|X_h| \cos Ø_{gh} = |E_g|^2 + |E_h|^2$$

Since E_g is orthogonal to E_h
So $\cos Ø_{Egh} = 0$

$$\Rightarrow |X_g|^2 + |X_h|^2 - 2\,|X_g|\,|X_h| \cos Ø_{gh} = N\,S_{Eg}^2 + N\,S_{Eh}^2$$

Since $S_E^2 = \frac{1}{N} \Sigma E_i^2$

Since $S_{Eg} = S_{Eh}$ for parallel tests

.

$$\Rightarrow |X_g|^2 + |X_h|^2 - 2\,|X_g|\,|X_h| \cos Ø_{gh} = 2\,N\,S_{Eg}^2 \quad \ldots \ldots \quad (1.12)$$

The equation helps to find from the data the value of $|E_g|^2$ or error variance if we have two parallel tests or if a test can be dichotomized in two parallel tests.

Since $|E_g|^2 = N\,S_{Eg}^2$, error variance of the test combining g-th test and h-th test will be $2\,S_{Eg}^2$. Thus , error variance S_E^2 of the entire test is given by

$$S^2_E = 2\,S_{Eg}^2 = \frac{1}{N}\left[\,|X_g|^2 + |X_h|^2 - 2\,|X_g|\,|X_h| \cos Ø_{gh}\right] \ldots. \quad (1.13)$$

If we can dichotomize a test in two perfectly parallel haves , we can get value of error variance and true score variance which in turn will help us to find value of reliability in a unique way.

$$\text{Now reliability } r_{tt} = \frac{S_T^2}{S_x^2} = 1 - \frac{S_E^2}{S_X^2}$$

$$\text{or} \quad r_{tt} = 1 - \frac{\left[\,|X_g|^2 + |X_h|^2 - 2|X_g|\,|X_h| \cos Ø_{gh}\right]}{|X|^2 \sin^2 Ø_x} \quad \ldots \quad \ldots \quad (1.14)$$

Equation (1.14) gives an unique way to find reliability of a test from a single administration.

It can be proved that S_E^2 = zero if $|X_g|^2 + |X_h|^2 = 2X_g^1\,X_h$ … …(1.15)
which is not possible. However, closeness of value of the RHS and LHS of (1.15) will maximize reliability. Higher value of $|X|^2 \sin^2 Ø_x$ i.e. NS_x^2 will also tend to give higher value of reliability.

DICHOTOMIZATION OF A TEST

For better splitting half, attempt was made to dichotomize a MCQ type test consisting of 50 items, sample size being 911. The following iterative process was adopted.

I Find itemwise total score for each item.

II Arrange the itemwise total score in increasing order. Let us denote these by S_1, S_2, S_3 ……. S_{50}.

III Choose the item with highest total score and allocate it to the g-th test. The item with second highest total score to be allocated in the h-th test. Put the item with the third highest scores to h-th test and 4-th highest in the g-th test. In other words , allocation of items to be as follows :

g-th test (1)	h-th test (2)	Difference (3)
S_1	S_2	$S_1 - S_2$
S_4	S_3	$S_4 - S_3$
S_5	S_6	$S_5 - S_6$
S_8	S_7	$S_8 - S_7$
:		
:		
:		
and so on		

IV Find separately sum of scores of g-th and h-th test, difference of which will depend on values of Column (3) above. If the difference is close to zero stop the process , otherwise go to next step.

V Find the row with highest difference. Swipe the corresponding two items i.e. replace the item from g-th test to h-th test and vice – versa. Calculate sum of the revised, g-th test and h-th test. If the difference of sum is close to zero, stop the process otherwise follow next step

VI Repeat step V

Results obtained from such iteration are given below.

g-th test		**h-th test**		Difference (g – h)
Item	Score	Item	Score	
41	113	40	30	83
5	158	16	143	15
7	171	43	187	-16
20	194	28	191	3
47	197	30	221	-24
49	230	15	222	8
19	239	17	243	-4
11	256	26	248	8
21	273	27	273	0
2	283	18	285	-2

10	294	32	310	-16
50	328	6	325	3
23	348	42	375	-27
29	386	48	385	1
13	393	22	410	-17
14	417	3	411	6
38	452	34	470	-18
39	491	12	493	-2
36	507	4	519	-12
24	534	25	520	14
46	551	45	558	-7
35	595	9	570	25
37	601	31	630	-29
8	654	33	645	9
1	670	44	672	-2
Sum	9335		9336	-1
Mean	10.25		10.25	0
Sum of Square	4149085		4199310	
SD	66.70		67.11	-0.41 ((1.92)

Note : Figure within brackets indicate figure obtained by splitting the test considering odd and even items.

Splitting half of the test by the iterative process is better since it gives

- equality of means for the g-th and h-th tests
- marginal difference (0.61%) between the SD's of the g-th and h-th tests (much less than the same obtained from odd – even split half).

Accordingly, splitting half as per the iterative process was considered for empirical verification of error variance, reliability etc. It may be noted that dichotomization by the iterative process based on item scores is same as those obtained from item difficulty values.

EMPERICAL VERIFICATION

DATA: An objective type (MCQ) Selection Test was conducted to fill up posts of zn Assistant of a Government organization.

Here, for the test

N = 911, Number of items = 50

$|X|^2 = 424509$, $|X| = 651.54$, $|I| = 1509.14$

$\cos Ø_x = 0.94944$

$\sin Ø_x = 0.31395$

The co-ordinates of the point X when arranged in descending order will give the merit list.

TEST MEAN :

By usual method $\bar{X} = \dfrac{\text{sum of individual score}}{\text{Number of candidates}}$

$$= \frac{18671}{911} = 20.49506057 = 20.50 \text{ (say)}$$

For Person – space by (1.2)

$$\bar{X} = \frac{|X| \cos Ø_x}{\sqrt{N}}$$

$$= \frac{(651.54)\,(0.94944)}{\sqrt{911}} = 20.49507064 = 20.50 \text{ (say)}$$

TEST VARIANCE

By usual method $S_x^2 = \dfrac{424509}{911} - (20.49506037)^2 = 45.93$

For Person – space by (1.7)

$$S_x^2 = \frac{|X|^2 \sin^2 Ø_x}{N} = \frac{(651.54)^2\,[1-(0.94944)^2]}{911} = 45.93$$

Error variance

By (1.13)

$$S_E^2 = \frac{1}{N}\,[\,|X_g|^2 + |X_h|^2 = 2\,|X_g|\,|X_h| \cos Ø_{gh}\,]$$

In the instant case, $|X_g|^2 = 4149085$

$|X_h|^2 = 4199310$

$\cos Ø_{gh} = 0.998617683$

Thus, S_E^2 works out to be 12.83315201 = 12.83 (say).

Reliability : By (1.14)

$$r_{tt} = 1 - \frac{|X_g|^2 + |X_h|^2 - 2\,|X_g|\,|X_h| \cos Ø_{gh}}{|X|^2 \sin^2 Ø_x}$$

$$= 1 - \frac{911 \times 12.83315201}{424509\,[1-(0.94944)^2]}$$

$= 0.72058878 \qquad = 0.72$ (say)

Alternatively $S_T^2 = S_X^2 - S_E^2$

$= 45.93 - 12.83 = 33.10$

$$\therefore \quad r_{tt} = \frac{S_T^2}{S_x^2} = \frac{33.10}{45.93} = 0.72$$

CONCLUSIONS

- Through N – dimensional person space, it is possible to compute the usual test parameters primarily in terms of $|X|$, $|I|$, $\cos Ø_x$ etc

- The iterative process followed for dichotomization of the test in two parallel halves was found to be better than the usual odd – even splitting. Following this type of approach, value of error variance of the test was obtained which in turn helped to find value of S_T^2 and reliability. The method gives a unique way to find value of reliability from a single administration of test, using the definition of reliability.

FUTURE PROBLEMS

- Since $r_{xt} = \sqrt{r_{tt}}$, we can get value of the angle between true score vector and observed score vector. Knowledge of this angle along with knowledge of value of error variance may help to find interval estimation of true scores.
- Find item statistics and other parameters of a test through N-dimensional person space.
- Comparative study of various methods of obtaining reliability.

- Distribution of reliability and estimation of reliability for the population and development of statistical test of significance.

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NORMATIVE INTEGRATION IN MULTINATIONAL COMPANIES

Cicekli, Elif
Istanbul Bilgi University
ecicekli@bilgi.edu.tr

ABSTRACT

This paper explores the under-researched topic of normative integration in multinational companies. There are a few studies on normative integration, however no studies has covered all the aspects enclosed in the present paper, namely the definition of normative integration, how it is related to and different from socialization, its advantages and disadvantages, the methods used to create normative integration, operationalization of normative integration, and criticisms for normative integration. The paper also includes a discussion on the gaps in literature and directions for future research.

INTRODUCTION

Multinational companies (MNCs) aim to control their subsidiaries to ensure that the behaviors and outputs in the subsidiaries are aligned with the goals of the MNC (Fenwick et al., 1999). There are three major control mechanisms used in MNCs: Centralization, formalization, and socialization. In centralization, decision-making is centralized, and top management at the headquarters intervenes directly in key decisions in subsidiaries (Bartlett et al., 2007). In formalization formal rules, procedures, and policies are used to control the activities in subsidiaries. However, both mechanisms have drawbacks. Centralization causes headquarters overload and formalization brings inflexibility. In macro terms, socialization is "the process of learning the rules and behavioral patterns appropriate to one's society" (Cavusgil et al., 2008: 129). In the context of MNCs, socialization is the process by which the employees in the subsidiaries of a MNC learn the objectives, values and behavioral patterns appropriate to the culture of the MNC.

The aim of corporate socialization is to create normative integration in a MNC. Birkinshaw (1999) asserts that socialization and normative integration are the same thing. He states that individuals' beliefs, values, and norms of behavior converge through the process of socialization or normative integration. However, in this paper it is argued that socialization is a process of learning, and normative integration is the outcome of this learning process. Normative integration is the "convergence" of objectives, values, and norms of behavior in the subsidiaries of a MNC. In normative integration, actions of organizational members are constrained by shared values and objectives (Nohria and Ghoshal, 1994). As a MNC becomes more normatively integrated, the MNC's dominant values and beliefs, i.e. its culture, becomes the controlling force in the organization (Sharfman et al., 2004). The reason why socialization and normative integration are sometimes used interchangeably may be that socialization is the only mechanism that has been discussed in literature as leading to normative integration.

Normative integration, as an outcome of socialization, overcomes headquarters overload of centralization and inflexibility of formalization. Relying on shared values and objectives makes it a more robust and flexible means of coordination. Decisions, which are reached by negotiations between knowledgeable groups with common objectives, are much better than those made by superior authority in centralization or by standard policy in formalization

(Bartlett and Ghoshal, 1989). However, even when a MNC uses socialization as the major means of control, there is still a need for rules, regulations, procedures, and reporting systems. The issue is how much a control mechanism is used as opposed to other mechanisms (Fenwick et al., 1999).

Socialization has been used as a traditional means of control and coordination for many years especially in European MNCs. Many European companies began expanding abroad in an era of slow and expensive global communication, thus, they could not rely heavily on centralization. Moreover, they did not have the systems expertise of their American counterparts. In many European companies, management of subsidiaries was left to family members or trusted retainers. The control of the subsidiaries was achieved through subsidiary management's understanding of corporate objectives and on their close personal relationships with headquarters. Thus, many European companies have used socialization as the dominant control and coordination mechanism (Bartlett and Ghoshal, 1989) and have been normatively integrated.

ADVANTAGES OF NORMATIVE INTEGRATION

As stated earlier, decisions reached by negotiations between knowledgeable groups with common objectives, are much better than those made by superior authority in centralization or by standard policy in formalization (Bartlett and Ghoshal, 1989). The key advantage of normative integration is its ability to pool the resources and competencies of both the headquarters and the subsidiaries, thus allowing a MNC to benefit from the complementarities in those competencies (Ghoshal and Nohria, 1989). Organizational units are more likely to transfer resources and exchange complementary knowledge as more different units share long-term visions and goals (Björkman et al., 2004).

Ghoshal and Bartlett (1988) carried out a three-phased study, which included case research in nine MNCs, questionnaire surveys in three MNCs, and survey of the chairmen or CEOs of 66 North American and European multinationals. The result of the study of Ghoshal and Bartlett (1988) showed that normative integration was positively and significantly related to creation and adoption of innovations in MNCs. Similarly, based on data from 134 Finnish and Chinese MNC subsidiaries, Björkman et al. (2004) found that utilization of socialization mechanisms in the MNCs had a positive influence on inter-unit knowledge transfer in the MNC. Likewise, having studied 74 subsidiaries in 12 MNCs, which had their divisional headquarters in Sweden, Persson (2006) found that normative integration had a positive influence on outbound knowledge transfer in MNCs.

DISADVANTAGES OF NORMATIVE INTEGRATION

Ensuring that employees share objectives, values, and norms of behavior throughout a MNC has its costs. Normative integration requires socialization, which is the most expensive means of coordination since it involves substantial investment in indoctrination and training. Moreover, in general, decision-making is slower more ambiguous, and more complex than it is with centralization or formalization (Bartlett and Ghoshal, 1989; Ghoshal and Nohria, 1989).

CONTINGENCIES FOR NORMATIVE INTEGRATION

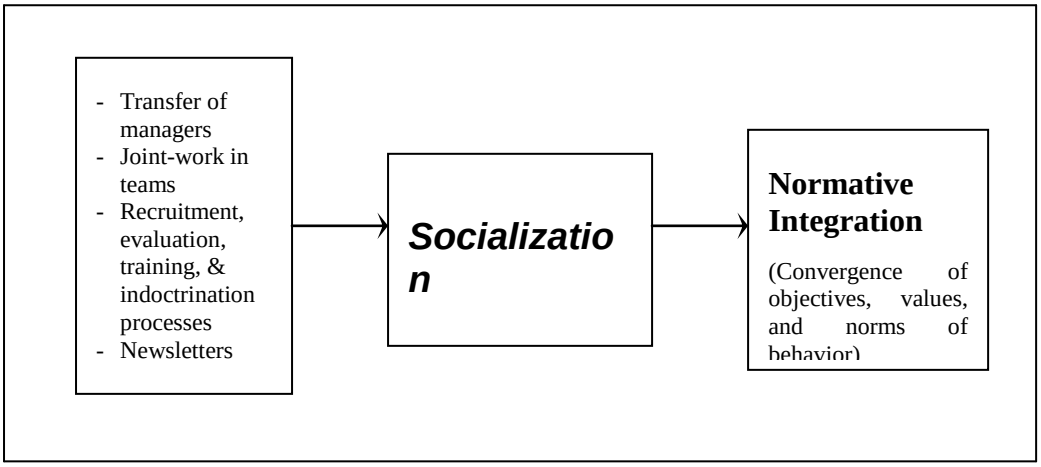
Normative integration is most appropriate when the external environment of the MNC is complex, when the development of entrepreneurial and innovative capabilities is critical for the MNC (Bartlett and Ghoshal, 1989), and where local resources of a subsidiary is scarce

since normative integration allows the headquarters and the subsidiary to pool their competencies and facilitates joint decision-making (Ghoshal and Nohria, 1989).

HOW TO CREATE NORMATIVE INTEGRATION

MNCs use different methods to create normative integration through socialization such as transferring managers from the headquarters to the subsidiaries and vice versa, joint-work in teams (Ghoshal and Bartlett, 1988), training programs and newsletters (Birkinshaw, 1999). Transfer of managers, i.e. expatriates, enables MNCs to develop operations in subsidiaries that are consistent with the headquarters' values and objectives (Bartlett and Ghoshal, 1989). Other mechanisms used to achieve socialization include selective recruitment, evaluation, training, and indoctrination of organizational members in MNCs (Bartlett and Ghoshal, 1989).

Figure 1 Antecedents of Normative Integration



Methods for creating normative integration in MNCs are summarized in Figure 1. Socialization is the process by which the employees in the subsidiaries of a MNC learn the objectives, values and behavioral patterns appropriate to the culture of the MNC. MNCs use many methods to achieve socialization. The objective of socialization is normative integration, i.e. is the convergence of objectives, values, and norms of behavior in the subsidiaries of a MNC. Just like use of transfer of managers from the headquarters to subsidiaries, joint-work in teams, or other methods does not guarantee that employees in subsidiaries will be socialized (i.e. learn the objectives, values, and behavioral patterns appropriate to the culture of the MNC), socialization does not guarantee normative integration in a MNC. Normative integration requires convergence throughout the MNC. Socializing a few members will not result in convergence. Even when all the members of a specific subsidiary are socialized, still, a MNC may not be normatively integrated because of the diverse objectives, values, and norms of behavior in other subsidiaries. Socialization is a more individual-level concept, which can be achieved on an individual-by-individual (or subsidiary-by-subsidiary) basis whereas normative integration is an organization-level concept, which is related to the whole MNC.

HOW TO MEASURE NORMATIVE INTEGRATION

Normative integration in MNCs has been operationalized using different measures in different studies. Ghoshal and Bartlett (1988) measured it with three items:

1) The amount of time the subsidiary manager had worked in the corporate headquarters of the MNC,
2) Whether a mentor for the subsidiary manager existed at the headquarters, and
3) The number of trips the subsidiary manager made to the headquarters.

In the second phase of their study, Ghoshal and Bartlett (1988)additionally asked the CEO of the company or a manager responsible for overall assessment of the company's international operations to:

4) Rate each of the foreign subsidiaries on its "shared goals and values with the parent company" (Ghoshal and Bartlett, 1988: 381).

Only the last item of Ghoshal and Bartlett (1988) measures normative integration according to the model of this paper as depicted in Figure 1 above. The other items merely measure antecedents of socialization.

Ghoshal and Nohria (1989) measured normative integration at two levels: Headquarter level and subsidiary level. At the headquarters level, they measured normative integration by stating:

> "Some of your national organizations, compared to others, may be relatively more in tune with the overall goals and management values of the parent company. Let us call this the extent of shared values. On a scale of 1 [low shared values] to 5 [high shared values], rate each of the following national subsidiaries'" (Ghoshal and Nohria, 1989: 335).

This item by Ghoshal and Nohria (1989) measures normative integration as discussed in this paper and summarized in Figure 1 above.

Ghoshal and Nohria (1989) also used a subsidiary level instrument to check for inter-rater convergence among headquarters- and subsidiary-level respondents, which was high. In the subsidiary-level instrument, the responses of subsidiary managers on three indicators were aggregated. These indicators were:

1) "extent of time the respondent actually worked in the headquarters"
2) "perception of having a mentor at the headquarters, positive responses being scored as 1 and negative responses as 0"
3) "the number of headquarters visits per year" (Ghoshal and Nohria, 1989: 336).

As discussed in this paper and shown in Figure 1, these items do not measure normative integration. They measure antecedents of socialization. Ghoshal and Nohria (1989) measured them just to check for inter-rater convergence. The convergence was high, which is not surprising because, as discussed in this paper, antecedent of socialization lead to socialization which in turn leads to normative integration. Thus, it is expected to have the antecedents of socialization and normative integration to be significantly related.

Birkinshaw and Morrison (1995) measured normative integration by asking subsidiary managers "the extent to which `managers share a common mission/set of goals' and the extent to which `managers share a common organizational culture'" (Birkinshaw and Morrison, 1995: 743) which is in line with the conceptualization of normative integration adopted in this paper.

CRITICISMS FOR NORMATIVE INTEGRATION

Welch and Welch (1997) argue that having a set of shared values among staff may be an unattainable goal since many employees, including top managers, vary in the extent to which they internalize the company's values. They discuss that some employees may strongly believe in the company's values and some others may not believe in the company's value

system at all although they may overtly say that they do. Moreover, even if an employee shares the values of the company, there is no guarantee that he/she will not change as a result of what they experience over time (Welch and Welch, 1997).

Welch and Welch (1997) argue that even when normative integration is attainable, its desirability is questionable. Diversity, changeability, and global competitiveness in the external environment of MNCs demand a high level of flexibility. While MNCs respond to environmental changes, they may need to change their values. Welch and Welch (1997) discuss that MNCs should not be promoting conformity to a given corporate culture; they should be encouraging mixed voices, critique, and diversity of perspectives.

CONCLUSION

Socialization is the process by which the employees in the subsidiaries of a MNC learn the objectives, values and behavioral patterns appropriate to the culture of the MNC. Normative integration is the outcome of a successful socialization. It is the convergence of objectives, values, and norms of behavior in the subsidiaries of a MNC (Birkinshaw, 1999). Expatriates, joint-work in teams (Ghoshal and Bartlett, 1988), training programs and newsletters are used to socialize organizational members in MNCs (Birkinshaw, 1999). The reason why socialization, antecedents of socialization, and normative integration are sometimes used interchangeably may be that socialization is the only mechanism that has been discussed to lead to normative integration in the literature so far. Some scholars measured antecedents of socialization while they were in fact aiming to measure normative integration in MNCs.

Normative integration has many advantages such as better decision-making through common objectives (Bartlett and Ghoshal, 1989), ability to pool the resources and competencies of both the headquarters and the subsidiaries allowing a MNC to benefit from the complementarities in those competencies, creation and adoption of innovations (Ghoshal and Nohria, 1989), and high level of knowledge transfer (Björkman et al., 2004; Persson, 2006). Disadvantages of normative integration include high costs associated with socialization processes. Moreover, decision-making is slower more ambiguous, and more complex than it is with centralization or formalization (Bartlett and Ghoshal, 1989; Ghoshal and Nohria, 1989). Some scholars argue that normative integration is most appropriate when the external environment of the MNC is complex, when the development of entrepreneurial and innovative capabilities is critical (Bartlett and Ghoshal, 1989) and where local resources of a subsidiary are scarce (Ghoshal and Nohria, 1989). Yet, other scholars argue that normative integration is unattainable and even if it were it is not desirable because MNCs should be encouraging mixed voices, critique, and diversity of perspectives instead of conformity to a given corporate culture in a diverse, changeable, globally competitive external environment (Welch and Welch, 1997).

So far no studies have made the distinctions between antecedents of socialization, socialization, and normative integration as discussed in this paper and depicted in Figure 1. This model on antecedents on normative integration should be further explored and empirically tested in future research. A comprehensive set of items should be produced based on both review of previous literature and qualitative data obtained through focus groups and in-depth interviews in MNCs. Then factor analyses should be carried out in order to create reliable scales to measure each construct in the model. The issues of whether normative integration is attainable, whether it is desired in a changing external environment, and whether there are mechanisms other than socialization that leads to normative integration should also be explored in future research.

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THE BUSINESS OF RETIRING

Dannenberg, Mark E.
National University
mdannenberg@nu.edu

ABSTRACT
This paper reviews the financial planning needed for the soon to be retiring baby boom generation in the United States. Examined are the history, culture, and economic impact of the largest demographic generation to retire in the history of the world. The idea of a potential labor shortage, expectant lower tax brackets, the need to preserve capital, and lower expected post retirement expenditures are reviewed. Consumer beliefs about actual post retirement health care costs are examined. The paper considers the affects of new concepts of retirement and pension plans. The results suggest a new paradigm shift for retiring "boomers". The new frontier includes redefining retirement, new trends in the retirement phase, new markets, new products and new investment methods needed to survive retirement risks, market risks, inflation risks, and longevity risks in order to survive and thrive twenty to thirty years of retirement.

The paper studies the financial strategies the baby-boomer generation needs to take now in the short time they have left before retirement to defuse the financial time bomb that awaits those who do not prepare for retirement. Most workers spend too much time trying to outguess the market then putting together a sound retirement financial plan. That is why workers need strategies not stock tips. Items studied help answer questions such as how to protect your retirement money from excessive taxation, how much money one needs to retire comfortable, creating the best estate plan, what kinds of insurance one needs in their retirement years, and whether it is better to sell your existing home and buy a cheaper one when retiring.

Keys to a comfortable retirement, assessing the basics to becoming financially independent, understanding social security, assessing health, determining cash needs during retirement, and where and what are the resources to pay for retirement are examined. Numerous pertinent questions are answered concerning retirement.

These questions and more are researched as a means of devising retirement planning that seeks to improve the quality of life in retirement with funding for enrichment activities rather than just subsistence and survival necessities. It identifies such things as travel, continuing education, using ones personal computer, health care living and planning, and recreational activities. The paper concludes with the study of what elements are necessary to create an estate plan, the need for a will, and considerations when writing a will.

INTRODUCTION

Research which combined economic forecasting, demographic modeling, and market research on a cross section of baby boomers approaching retirement has revealed that despite the unprecedented economic power of the boomer generation, many soon to be retired workers face the prospect of shattered expectations. As a McKinsey Quarterly report states, "A generation that lived through unprecedented prosperity and has correspondingly high hopes for its golden years must cope with significant financial, physical, and social challenges." It reveals that 60 per cent of boomers will not be able to maintain a lifestyle close to their current one without continuing to work (Court, Farrell, & Forsyth, 2007). This paper addresses what one needs to do prevent a personal economic meltdown during ones retirement years.

BACKGROUND INFORMATION

There are many explanations for the phenomenal growth in accumulated wealth, a projected $45 trillion, in the United States during the last fifty years (Futrelle, 2008). One explanation is as the baby boomers saved for retirement; their aggregate savings supplied the capital for business and industry to continue sustained growth. Another is that the United States was among the safest places to place money in the post war era. The world collectively recognized the U.S. as the best possible place to invest, more and more money flowed into the U.S. financial and stock markets enhancing total returns. The U.S. dollar continued to appreciate as demand for the dollar accelerated adding ever bigger returns for overseas investors. This scenario in part allowed the stock market to achieve 15% plus returns on the average for decades. For a few baby boomers their retirement account balances soared. As this economic success unfolded more and more people wanted in from the inside. Immigrants both legal and illegal came to the U.S. creating more demands on production, accelerating housing needs, and demanding services and capital for their personal and business needs. Real Estate responded as well, as the average cost of a house was $39,500 in 1976. By 2008, even after what some are calling the worst bear market ever experienced in real estate, home prices average $244,100 (Futrelle, 2008). Some economists rely on this explanation to predict that when baby boomers retire, they will sell their homes to generate cash. But the escalating national debt now estimated to be above $11 trillion and the current administrations willingness to add to this debt via requests for another stimulus package in the trillions and a national healthcare program estimate to cost in the ten trillion dollars range over the next ten years means future retirees must estimate future inflation and taxes before deciding if this is a valid plan if action. If current polices are continued, federal debt held by the public will rise from 41% of the Gross National Product (GNP) to at the end of 2008 to 87% by 2010. Inflation may well turn into super inflation and taxes must increase substantially to prevent an economic disaster (Anonymous, 2009). Workers will be held accountable for not getting the proper investment education, knowledge, and tools to make savvy investment decisions. The punishment for not making retirement a business could well be years of retirement spent in poverty. A sad reality is that in this case retirees who fail to act now will get the test first and the lesson afterward.

STATEMENT OF THE PROBLEM

According to the Life Insurance Marketing Association now called LIMRA, recent research conducted with representatives of the US Department of Labor's ERISA Advisory Council Working Group on Financial Literacy found that the primary source of income in retirement, apart from Social Security, is employer-sponsored plans. Yet from 22% to 33% of retirees said they did not completely understand the various options of the plan Research also indicates that the goal of securing adequate resources for retirement living is not being obtained or even reasonably considered and planned for by most workers.

Current workers of all ages continue to be taught particular skills sets or professions but lack any general fundamental knowledge of financing, wealth accumulation, wealth protection or retirement planning. With 80 million workers within ten years of retirement the paradigm of financial planning, retirement planning and financial knowledge has to change. The idea that "my company" and/or the government will provide for my needs (dependency idealism) needs to be reformulated to an independent "I am on my own" approach and mentality. It is becoming increasing clear the lack of financial planning is almost certain to entrap many retirees in a sub-optimal financial situation for decades (Greenwald, 2008).

PURPOSE OF THE RESEARCH PROJECT

The purpose of this study is to address the need for retirement planning and keep the largest and richest generation in the history of the world from retiring into an abyss of terminal financial chaos and unhappiness. Workers need to realign their thinking of retirement as a passive happening in life and align their beliefs about retirement with business like methodologies including sound strategic planning, investing, organizing, communication,

control, and planning. Second, workers need to recognize that retirement in the future will vaguely if at all resemble the retirement of our forefathers. Third, this study will provide critical and comprehensive strategies for retirement planning.

RESEARCH DESIGN

The research design of this study utilizes a reference review study approach. The researcher was attempting to identify future economic and financial occurrences without benefit of historical perspective. The largest, wealthiest generation in the history of the world will retire in the next ten years and is woefully unprepared and uneducated. What decisions are being made are being done so under a cloud of ignorance. The drama is that one only gets one chance to plan and save for retirement. Research suggests most of the baby boomers have been identified and categorized as being years behind where they need to be in financial performance in order to realistically achieve the post retirement life style they envision. The results of the research show that a third of today's workforce has no retirement savings set aside at all (Silbiger, 2005).

Various retirement concepts and historical planning methods were analyzed based upon their continued relevance to retirement planning decisions in today environment. Additionally, government and private surveys were analyzed, staff notes scrutinized, and observations made. Both qualitative and quantitative data analyses were contained with studies that were analyzed. Resource data was aggregated in a variety of ways: demographics, surveys, myth orientation, and financial planning methodology.

Education is the key to righting the financial boat. Numerous sources were examined including financial planners, universities, the International Monetary Fund, government agencies and resources, books, periodicals, private surveys, and private and public industry publications. Every attempt was made to find additional evidence to support research in underscoring the necessity and the need to support the necessity to propagate a new paradigm of financial planning for all stages of life, in particular, retirement planning.

REVIEW OF THE LITERATURE

The purpose of this project was to determine the detrimental effect of improper financial education and planning on the general public, especially those nearing retirement. More specifically, it was to examine what is occurring in the baby boomer's generation's financial thinking, beliefs and consequential retirement planning. And additionally, examination of the generation's financial acumen, beliefs, attitudes and how those characteristics have permeated nearly 77 million people's retirement hopes and dreams.

Baby boomers, those who were born between 1946 and 1964, formed the wealthiest generation in American history. Nearly all additional wealth created in the USA since 1989 has gone to people 55 and older, according to Federal Reserve data. Most boomers live in two-income households, with a median income in 2005 of $64,700, which is 31 percent higher than the median for all households. This generation makes up 37.5 percent of U.S. households, but receives nearly half of all aggregate household income (Boston College, 2007). Baby boomers make up nearly a third of the U.S. population and account for more than $2 trillion in spending power. Also, this wealth growth has been escalated due to inflation. The average historical inflation rate in the U.S. is 3.78% annually based on the U.S. Department of Labor data. In other words, while it takes more wealth to sustain a modest lifestyle for the younger generation, baby boomers enjoyed their wealth growth as their assets and equity in their homes grew. Consequently, it is anticipated that baby boomers will be responsible for the largest net transfer of wealth from one generation to the next. That amount is estimated to be $45 trillion by the year 2040 (Futrelle, 2008). On the other hand, baby boomers will be some of the poorest seniors, with many forced to go back to work in low-paying jobs following retirement, due to their extended life spans, lack of Social Security benefits and lack of financial skills or training. According to the study conducted by AARP

and Public Policy Institute, among baby boomers, 80% of wealth was held among top 20% of population in 2000.

In the past, age 65 was considered retirement age. Retirement benefits were available at age 65. Today, workers face many choices regarding retirement age. Many people are more active, healthy, and productive in their 60s than ever before. It is getting more difficult to completely retire because of the practical issue, as people live longer lives; it is simply more costly to sustain retirement lifestyles. Life expectancy is the average number of years a human has before death, conventionally calculated from the time of birth. In 1900, the average life expectancy in the U.S. was 47 years. According to the data released by Department of Health and Human Services, the life expectancy for the U.S. population reached a record high of 76.9 years in 2000. If the life expectancy in the U.S. increases at its historical rate, many baby boomers can live to their 90s or even into the100s. Therefore, many will be retired as long as they have worked whether they realize it or not.

People often underestimate the level of savings it takes to sustain their current lifestyle. They don't think about how many years they may be spending in retirement. The average 50- year-old can expect to live until 75 or 80. A recent report by Ibbotson Associates, a leading authority on asset allocation, highlights the dramatic trend toward longevity and its ultimate effect on retirees. According to the research, approximately 40% of individuals currently age 65 will live to be age 90. The results also point out that of married couples currently age 65, there is a 63% chance that at least one spouse will live to age 90.

Few people know whether they will be able to retire with any level of comfort.
Studies indicate that most Americans choose to ignore the subject. The amount of investment capital required to replace pre-retirement income is more than most people think. Annual withdrawal rates of 4% to 6% require that there be $16 to $25 of capital at work producing income. An individual's income needs depend partly upon expectations for a retirement lifestyle. Many retirees find that they need as much or more than before retirement; a retiree probably should not expect to be satisfied with less than 75% of pre-retirement income. People must also account for inflation. A plan that doesn't account for inflation is doomed to fail. The highest risk factor a retiree faces, and the only decision directly under his control is the withdrawal rate.

As more people find themselves active and healthier than ever at their retirement, a traditional view of retirement is changing. Retirement is no longer the end of working life. It is expected that baby boomers will fundamentally reinvent retirement. According to the study conducted by AIG Sun-America, which specializes in retirement savings and investment products and services, satisfaction is positively related to the number of years one saves for retirement. According to an AIG internal survey sixty-one percent of those who saved for 25 years or more reported being extremely satisfied with retirement; 51% who did so for 15 to 24 years were extremely satisfied; and 46% who saved for less than 15 years were extremely satisfied. One of the most compelling findings was the connection between feeling financially prepared for retirement and satisfaction with the retirement experience. Although it is intuitive, it is evident that ideal retirement does not come cheap. The shifting view of retirement as a "new exciting active life" rather than "end of working days" requires more capitals than ever.

A concept that has gained attention recently is phased retirement, a process of transitioning employees from fulltime work to full-time retirement. According to a recent study conducted by AARO "80 percent of baby boomers expect to keep working in retirement jobs" (Gist & Wu, 2004). Many retirees find themselves still in workforce but with fewer hours or responsibilities and lower stress levels. Many of them are working at completely different jobs which they have had strong passions for during their full-time working era. Some of the most popular options for retirement jobs are teachers, consultants, or volunteers at local community programs.

There are many reasons why people are delaying retirement. One of the main reasons is increasing cost of medical care. According to a study conducted by Urban Institute, "...the premium costs associated with retirement before age 65 and expected out-of-pocket health care costs after 65 substantially delay retirement" (Johnson, Penner, & Toohey, 2008). As costs of medical care and health insurance premium increase, more employers are choosing to shift the responsibilities of health care cost of retired workers. Some employers offer health insurance to retirees, but many firms are cutting retiree health benefits by passing more costs to retirees or eliminating benefits altogether. Retiree health insurance offers dropped sharply about fifteen years ago. "The share of private firms with 200 or more employees providing retiree health insurance fell from 66 percent in 1988 to 36 percent in 1993" (Boston College, 2007). Median out-of-pocket health care spending as a share of income totaled 14 percent for adults' age 65 to 74 in 2003 and 22 percent for those age 85 and older.

I do not have to worry because the government will take care of me is a common enough statement from many workers. For seventy years workers basked in the promise of the federal government and employers combined to provide for retired employees by assuming liability for retirement and the risks of old age. For almost a century the government asked workers to be loyal employees, work hard, improve productivity and show dedication to their employer in exchange for a guaranteed monthly check and health benefits in their retirement years. Their reward for doing just that started unveiling itself in 2006 as corporate America began a stampede to renege on its promise aided and abetted by government. The New York Times reported, "Many Companies Ending Promises for Retirement." The airline industry abandoned pension funds that owed their retirees hundreds of millions of dollars. The federal government also, sanctioned Verizon, Lockheed-Martin, Motorola, IBM, General Motors, NCR and numerous other companies to abandon, freeze or close employee pension plans (MacDonald, 2006). Furthermore, the government has allowed companies to under fund pension funds by billions of dollars or years.

Does America's pension system deliver what workers have a right to expect? James Smalhout (Smalhout, 1995) argues that Americans not saving enough for retirement is not their fault. He believes a plethora of Ponzi-scheme entitlements siphoned huge transfers from young savers to old spenders in particular Social Security and Medicare. Both are in serious financial difficulties as the moneys collected were not invested but spent by politicians. Craig S. Carpel in his book "The Retirement Myth" states, "…the baby boom generation has virtually no hope of retiring in comfort. Most elderly people (59%) depend on the government for more than half their income. Twenty-four per cent depend on it for more than 90% of their income. The United States government itself, in particular, the Social Security administration acknowledges Social Security is doomed to failure if drastic action is not taken. This is what they admit. Should one wonder how bad things really are? This dooms day forecast is mailed to workers fifty years old and older on a yearly basis by the Social Security Administration itself via "Your Social Security Statement". On the very front page of this statement under the section entitled "About Social Security's future…" it states after assuring readers how America has kept its promise of security for workers and their families, "…the Social Security system is facing serious financial problems, and action is needed soon to make sure the system will be sound … Without changes, by 2041 the Social Security Trust Fund will be exhausted (Astrue, 2008).

Today most of us work under a system where neither the government nor our employers gives us much of a guarantee about our retirement security. Our debt is plentiful, we are frequent victims of layoffs, downsizing, and organizational bankruptcy. We have no or very little education on personal finances and look to the media for advice. This dysfunctional approach to retirement planning leaves us completely ignorant about how to plan our retirement in a businesslike fashion. Baby-boomers have spent, spent, spent for decades and developed little discipline in the systematic disbursement of accumulated assets. That is

where the problem lies: to much spending and little to nonexistent savings. The generation did not get to this point overnight so the lesson to be learned from this is it will take an extreme changing of financial practices and properly fashioned financial planning to ensure that members of this generation do not run out of money in retirement.

"This generation wants choice. They almost demand choice," says Sheila Bugdanowitz, of the Rose Community Foundation, a philanthropic organization that focuses on programs catering to the aging and education. Pondering retirement comes which a multitude of choices and questions that must be decided and answered prior to formulating an effective retirement plan. The following are but a few of these questions.

Am I ready to retire? If you do not know what you have covered or you do not have covered or what it is you are supposed to cover the answer is absolutely no.

What do people who successfully retire have in common? The answer is a financial plan including a diversification strategy, emergency fund, no credit card debt, fully funded retirement accounts, home ownership, and an education in investments.

What can I do now to have my finances in order before and after I retire? Max out retirement savings (401(k), IRA, 403(b), 457 plans, SEP-IRA etc.). If you are over 50-plus take advantage of the catch-up contributions, which allow you to contribute an extra $5,000 in your 401(k) and an extra $1,000 in a Roth IRA. Get out of debt (pay off credit cards, car loans, mortgage etc.). If you have self employment income you can set up a SEP and contribute to it in additional to a company plan.

I've procrastinated about saving money for my retirement. How do I jump-start my savings plan? Start by writing down every daily expense you incur. Look for at least five expenses you can cut that will immediately start saving you money. For example review your phone and eliminate the charges for call waiting, caller ID etc. Stop buying that $5.00 cup of coffee. Stop the daily paper and read it on the internet.

I have $25,000 to invest now. Where should I invest it? Start shifting your priorities from wealth-building investments to "making it last" investments. Investments that can produce a steady stream of income will be critical in your retirement years such as bonds.

In order to save money I need money to save. What can I do? Increase income or reduce spending. If you do not control your income at work start your own business in addition to work and create multiple sources of income. Reduce spending by stopping credit card usage and eliminating credit card debt. Pay off high-interest debts first. Refinance you mortgage if it can be done at lower interest rates taking into consideration closing costs. Increase your monthly debt payments. Consider doing work on the side and put the money towards debt and into savings.

Baby-boomers must start with a sound financial strategy and eschew the "eat more and still lose weight" fantasies of their early years. The strategy must give one the encouragement to stay with it and stay with long-term investments. First, one must learn the rules! Rule number one is: it is not what you make but what the government lets you keep that really counts. What good is making $250,000 a year if the government taxes you an effective 50, 60 or 70 per cent? What good is making a 50 per cent on an investment if the government taxes you 70, 80 or 90 per cent? Action step one is immerse oneself in studying the tax code. No single factor is more important or significant to your living the life style you want now or in retirement or passing the assets on to your loved one than protecting it from the government.

Research shows most workers fail to recognize that they are in denial. 80% of all college graduating seniors have credit card debt before they even have a job. Too many potential

retirees have too much debt, too little savings, and no sense of control over their financial lives. Workers continue to want to do it their way but their way is not working. Action step two therefore is to become financially independent which includes learning the fundamentals of debt and getting out of debt. For retiring Americans debt brings on enough risk to offset any advantage that could be gained through leverage of debt (Ramsey, 2003). Being financially independent means having the ability to do whatever you want to do whenever you want to do it, regardless of the costs. Achieving financial independence involves choices and more questions that need answering.

What are the basic steps one must take to become financially independent? This entails getting a handle on your spending, control over your spending habits, and establishing a budget. The first item in the budget is a contribution to your savings every month. After paying off your debts increase the amount you save each month. If your employer allows you to make automatic deposits into a savings vehicle sign up for it. If you get an unexpected gift, bonus, tax refund etc. put it in savings. Payoff your home mortgage earlier by making regular extra mortgage payments each month. Buy used cars instead of new ones. The depreciation on a new car is about 50% in the first two year.

What money-saving steps can I take to help reach my retirement goals? After completing your budget begin thinking about these simple steps. Identify necessary expenses from luxury expenses (cell phone, unnecessary charges on your phone and cable TV bills). Prioritize your budget and begin accessing what you can do away with or cut back. Finally, critically review miscellaneous spending to determine bad spending habits and patterns that need to be modified.

What can I do to get my spending under control before I retire? Start with your budget and eliminate any unnecessary expenses. Down grade what expenses you can. Take the frills off your telephone bill (call waiting, caller ID etc.), cable bill (three movie channels, the sports channel etc.). Use the internet to cut expenses. For example car rental fees in Tennessee the third week of June 2009, were $64-$104 a day. Consumers where renting cars for $18 a day by utilizing Prieline.com. Three star hotels for the same period ranged from $85-$125 per night. Consumers “naming their own price” on Priceline.com got rooms for as little as $28 per night. The same can be done for flights and numerous other consumer items.

Do I need to know what my expenses are today and to project what my expenses in retirement? Yes, you need to project what expenses you will be able to do without in retirement such as, high speed internet required by you job today but not necessary in retirement. Multiple phone lines for internet, faxes etc. that you have today that you will not need in the future.

How do I stop spending a fortune on credit card debit? What steps can I take now, before I retire, to get off the credit card merry-go-round? Start by spending less than what you make. Quite buying what you absolutely do not need. Establish your own personal credit card spending limit. If you add the limits on your credit cards it probable is more monthly debt than you can handle so establish your own limit. Limit yourself to one or two cards (Note: Closing your other cards will negatively affect your credit score. If you do not want this to occur just file them away or cut them up.) Only buy items on your credit card that are not perishable. That is, that will not be consumed before you pay off the credit card (groceries, gasoline, etc). Use cards that have no annual fees and a reasonable rate of interest. Best of all only use credit cards to the extent that you can payoff the bill each month. Any more than that is too much credit card use.

If I have to borrow money, what is the best way to do it? The best way to borrow money is from the lowest effective cost source available. Lowest effective cost means the lowest after tax cost. In other words borrowing interest free money from friends or relatives (generally not

a great idea) is the lowest cost. Determining the lowest cost loan with interest charges takes some calculations. A loan at 6% interest may be more expensive than an 8% home equity loan which has tax benefits. If one is paying a 40% marginal tax than the tax effect of the 8% loan would include a write-off of 3.2% interest on your taxes making the 8% loan an effective 4.8% loan. Notice one's tax bracket in not of value here only the marginal tax being paid. Tax brackets are the starting point of what a taxpayer owes. After adjustments for exemptions, deductions and application of credits is one able to determine a marginal tax rate or the per cent of taxes paid on the next dollar earned. This rate determines the net cost of the loan.

After answering the above questions one must develop both short and intermediate goals within their financial plan. The short term goal is to get out of debt, stay out of debt and maximize your retirement contributions. Walter Upgrave of Money magazine believes an important consideration is the debt the government is taking on to deal with today's crisis. It will strain the federal budget in coming years, increasing the possibility of cutbacks in programs like Social Security and Medicare and possibly start a new round of inflation perhaps even creating a period of super-inflation. Your retirement security will depend more than ever on how successful you are at managing your retirement planning. This is not the time to cut back, but to move forward with short term, intermediate term, and long planning goals. A second and just as important short term goal should to understand your retirement account options.

The structure of the U.S. retirement financing system consists of three levels. The first level—public pensions—consists of two elements. First, there is the Old Age Survivor's and Disability Insurance program (i.e., OASDI), which is more commonly referred to as "Social Security." OASDI is a compulsory, contributory benefit program "...in which a recipient's benefits are based on one's earnings history" (Hershey, Henkens, & Dalen, 2007). For approximately 20% of Americans 65 years old and older, OASDI payments represent their only stream of income (U.S. Department of Labor, 2005). The second element of publicly provided pensions is Supplemental Security Income (SSI), which, like OASDI, is a program administered by the Social Security Administration. SSI is a means-tested scheme that is designed to provide an income "safety net" for individuals with little or no Social Security or other income and limited resources.

The second level of support in the U.S. consists of employer-sponsored pensions. American employers are not required to provide pension benefits for their employees, and those that do offer pension contracts are not required to cover all of their employees. According to the Bureau of Labor Statistics, over 75 percent of the full-time employees in private establishments with 100 or more employees and about one-half of the full-time employees in private establishments with 99 or fewer employees are covered by at least one retirement program to which their employers contribute in addition to the Social Security program. The designs of private sector retirement programs vary greatly, although all have the Social Security program as their base. Some employers' programs have both defined benefit and defined contribution plans.

Defined benefit plans specify formulas for computing benefit amounts payable at retirement typically based on an employee's age, length of plan participation, and salary history. In contrast, defined contribution plans specify amounts that the employer (and employees, if required) will contribute to the plan. The accumulated contributions, plus investment earnings, constitute the source of employee retirement benefits from a defined contribution plan. Also, some employers' programs have defined benefit plans only, and others have defined contribution plans only in addition to Social Security.

In years past, most Americans were covered by defined benefit pension plans. Since 1997, however, the number of individuals who participate in employer-sponsored defined contribution pension programs has outnumbered those who participate in defined benefit

plans. In fact, as of 2004, some 70% of the employer pensions in the U.S. are defined in terms of a worker's level of contributions. The most common type of defined contribution program is a 401(k) plan (named for the section in which it is described in the Internal Revenue Service code), in which workers make voluntary saving and investment choices, encouraged by federal tax benefits and employer matching contributions.

The third level of the U.S. pension system—voluntary saving arrangements—is made up of private saving instruments such as annuities, IRAs (Individual Retirement Account) and other forms of personal investments. In 1998, Social Security accounted for 38 percent of the income of those aged 65 years and older and 52 percent of the income of those aged 85 years and older (Wiatrowski, 2001)). Moreover, Social Security was the only source of income for 17 percent of those aged 65 and older in 1998, and only 43 percent had income from an employer retirement plan. Finally, a little more than a third of this age group had no income from assets. Changes to retirement age requirements introduced in the late 1950s and early 1960s largely reinforced the fact that retirement occurred no later than age 65. Social Security introduced early retirement benefits at age 62, but maintained 65 as the age at which unreduced benefits were available. Employer defined benefit plans also introduced early retirement features, often for employees as young as age 55.

There is much evidence over the past quarter century that a single standard retirement age no longer exists. There is also evidence to suggest that more changes will occur in the future. New types of retirement plans are regularly being developed, and there continues to be many debates among policymakers about the future of Social Security, including proposals to further increase the retirement age and to establish individual accounts. A still higher Social Security retirement age would separate further Social Security and employer retirement plans, while the introduction of accounts may lead to calls for account access prior to Social Security retirement age.

The private pension structure in the United States, once dominated by defined benefit (DB) plans, is currently divided between defined contribution (DC) and DB plans. Wealth accumulation in DC plans is determined by the amount he or she has contributed, the amount of employer contribution, and the performance of the market on the participant's contribution behavior and on financial market returns, while accumulation in DB plans is determined by a formula based on earnings history and years of service. Typically, the employee contributes nothing to the fund DB plans. One of the most popular forms of DC plans is 401(k). With recent trend of increasing popularity of DC plans due to the increasing cost and liability of managing DB plans, retirees must increasingly rely on their own self-directed savings rather than defined-benefit pension plans to fund retirement.

A quick run down on retirement plans is revealing. A 410(k) is for employees working for a business run for profit. An employee can contribute up to 15% of their salary or $9,500 whichever is less. A 403(b) is for employees who work for nonprofit companies. They can contribute of to 20% of their salary or $9,500 whichever is less. An IRA allows anyone with an earned income to contribute up to $5,000 depending on age and is for those who do not have a pension plan or who have contributed the maximum into their company plans. A SEP is for self-employed people who are sole proprietors and can contribute up to 13% of self-employment income or $22,500 whichever is less. A profit-sharing Keogh is for self-employed and employees of unincorporated small businesses. Contributions are limited to 13% of self-employment income or $22,500 whichever is less. Money purchase Keogh is for the same individuals but allows larger contributions. Maximum contributions are up to 20% of net self-employment income or $30,000 whichever is less. Defined Purchase Keoghs are for the same individuals as the Profit Sharing Keoghs. The maximum needed to fund it is $120,000 or three years' average income, whichever is less. A variable annuity is for anyone and has no limit but the funds are tied up for ten years. A fixed annuity is also for anyone and has no limit to contributions and carriers very little risk.

In 1992–93, 32 percent of private-industry workers participated in a defined benefit plan, while 35 percent participated in a defined contribution plan. "By 2005, the number of employees participating in defined contribution plans had increased to 42 percent, while the number participating in defined benefit plans had fallen to 21 percent" (Costo, 2006). The change from DB to DC plans inevitably shifted much of the burden for retirement security from employers to individuals. In contrast to DB plans, where the employer generally bears all the risk and responsibility, most DC plans place responsibility on the employee to decide to participate, save adequately and invest appropriately.

A simultaneous second step is to conduct a self assessment about ones future. Ask yourself where do I want and need to be financially when I am 60, 70 and 80. The answer depends on how much you will be spending at those ages, what assets you have to work with, and when you get started on a well thought out financial plan. That is why you do a budget. It gives you an idea of what you are spending now and that helps you determine what you might be spending in the future. This will tell you how much money you will be drawing from your nest egg. The general rule of thumb today is 4% the first year and 3% to 4% each consecutive year. A study by the Boston College Center for Retirement Research showed that a typical married adults aged 65 and older spends 29 per cent of their budget on housing, 20% on health care, 13% on food, 2% on clothing, 12% on transportation, 10% on entertainment, 10 % on gifts, and 4% on other stuff. One can use these figures as a guide.

Next determine you estimated income at retirement. The most obvious first thought is Social Security (SS). You can get this number if you are over 50 from the form the Social Security sends you every year with the estimate right on it. But you SS income will depend on when you take it. Should you take it at age 62 or wait? According to Money Magazine's December 2008 issue each year you delay taking benefits beyond age 62, you can increase you payout by about 8%. The advantages of taking SS at age 62 are you get a check for 36 months longer than if you wait. A dollar now is worth more than a dollar three or four years from now and receiving an SS check at 62 may delay the need to draw down your retirement portfolio, giving it a chance to grow. Also, the longer you wait the longer the government has to reduce benefits. Finally, if you think you won't live longer you maximize your SS benefits. The disadvantages of taking SS at 62 are you will get only about 80% of the check you would receive at a later age and if you continue to work between 62 and your full retirement age, $1 in benefits will be deducted for each $2 earned above an annual limit. Also those making more than a certain amount of adjusted gross income may have 50 to 85% of their SS benefits taxed. Other questions to ask ones self and answer follow.

How much SS can I count on in retirement? Currently, your payment is based on 90% of the first $592 of you monthly income, 32% of the next $2,985, and then 15% of the amount over $3,567. The maximum you can receive at age 65 is $1,874 per month.

When does Medicare start? At age 65 and if you are collecting SS at full retirement age, then your Medicare hospital starts automatically.

What does Medicare cover and not cover? Part A covers hospital bills and bills from skilled nursing homes (this benefit is very limited in duration of a stay and has a waiting period), hospice care, and a certain amount of home health care. Part B is optional and covers doctor bills, outpatient surgery, emergency room treatment, X-rays, laboratory tests, a portion of prescription drugs, and medical equipment such as wheelchairs.

Other assets to work with in retirement could be 401(k)/403(b)/457 retirement funds, Traditional IRAs, Roth IRAs, CDs, bank accounts, money market funds, stock/mutual funds in non-retirement accounts, insurance cash values, REITs, pensions, residual income, and other investments. Take the total and multiple it by .4 and that figure is the amount your

yearly draw down of you assets will be based on in retirement. If you are retiring in five years, multiple this number by 1.3; if retiring in 10 years, multiple by 1.7; 15 years by 2.2; or in twenty years by 2.9. This assumes your portfolio will grow by 5.5 per cent with no future contribution. Next add in how much your can expect from pensions, how much from other sources such as real estate, how much from SS, and how much from working will in retirement. This total is your total expected yearly income in retirement. Compare this with your estimate retirement expense budget. If you expected expenses exceed your projected income you have four options (1) reduce your spending; (2) increase your projected income; (3) work longer; (4) work in retirement.

For those of blind faith it might prove beneficial to remember that financial decisions made today could affect their standard of living for the next twenty to thirty years. A mistake in trusting the "company" could leave one without health benefits and uninsurable leaving other retirement assets at risk. Inflation can have a devastating effect on retirement assets. Even at a relatively low 2%, the purchasing power of a dollar is reduces close to 40% over a twenty year span. People get one shot at retirement the most likely and severe risk to optimal retirement is inadequate preparation. It is difficult to mitigate the consequences of insufficient asset accumulation, health care provisions, income sources and planning (Lynch, 2007). There is no way to harness the power of inertia. Your must act today to ensure that your retirement income is adequate and that it will outlast you.

It is imperative than that one understands investment options such as stocks, bonds, and mutual funds and products such as insurance to protect your assets. Most are familiar with these. Annuities are insurance products that can provide guarantees that traditional investments do not, such as a guaranteed-floor interest payments and principle guarantees, while investing in stock-like accounts. A fixed annuity promises to send you a check for the rest of your life or for a specified period of time and in effect is a quasi pension. One in nine employees will be disabled for more than a year in their working life time. Disability insurance is designed to pay you up to 67% of your income if you are unable to work due to an illness or accident. In order to minimize the need to withdraw retirement funds prematurely because of loss of income a good disability product is worth considering. Life insurance can be use to create tax free income as well as cover the loss of income and the associated expenses related to the death of a spouse which can also derail the best of retirement plans. Long-term care insurance protects each spouse from losing everything to long-term care needs which are costing upwards of $3,000 per month. Protecting you assets during the accumulation stage of life as well as during retirement is essential and a good insurance program is worth every penny spent on it.
Assets accumulation, investment, and protection is a crucial part of the picture. Making mistakes can be very expensive and you do not get a mulligan.

With the end goal clearly define by the budgeting process and the with the short-term goal of getting out of debt in action, it is time to work on the intermediate goal of the financial strategy. There are three types of investments that need to be made. The goal of the first is for the money we need to live on which requires near-zero risk. This money goes into a very safe, low growth but liquid vehicles such as CDs, money markets, Treasury instruments, fixed or immediate annuities, short-term bonds or bond funds. Drawing down both principle and interest from these investments will provide a stable stream of income one can live off of for a certain number of years. The second investment pool is invested slightly more aggressively. The focus will be on medium-term investments with manageable risks such as bonds, fixed, indexed, or certain variable annuities; and corporate bonds. When the first "risk-free" money runs out or is depleted these funds will provide income for another number of years. The third group if for long-term investments and is intended for the retirement years. The investments are more risky but that risk is mitigate over time. These are investments in stocks and real estate. Larry Swedroe, in his book *Rational Investing in Irrational Times*, says, "With at least a 50% allocation to equities, the historical evidence suggests that you will have less than a

five percent chance of outliving your assets…." Some of the questions that need answer with regard to investing include many of the following.

How do I establish my investment goals and objectives? Start with a financial analysis of you current investment positions. Your goals should include preservation of capital, appreciation of principle, and the generation of stable after-tax income.

How much of my income should I save? The typical rule of thumb is 10% of your salary. However, many people need to up that to 20% to catch up with what they did not save earlier in life.

SUMMARY AND CONCLUSIONS

The research supports the hypothesis that baby boomers are substantially undereducated in "life financial skills and retirees of one of the most educated generations in history have never been taught fundamental personal finance. Education is needed regarding retirement options in the financial markets, such as the fundamentals of how stock and bonds trade, what creates or destroys value, the different types and functions of bonds and stocks, the function of interest rates, currency exchanges, taxes, government, derivatives, options, call, puts, life insurance products and their various uses, the types of annuities and their appropriate uses, reverse mortgages and other "creative" mortgage options, credit use and abuse, credit scoring and resultant effects thereof, the net present value of money, and so on and so forth. Secondly, the research clear shows that the retiring baby-boomer generation needs to have a multitude of answers to questions regarding retirement and investments and a strategic retirement plan developed and implemented. It also confirms workers desperately need professional help in creating and implementing a sound financial plan.

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UTILIZING THE *NEW APPROACH TO DIVERSITY* IN TEACHING CLASSES ON WORKFORCE DIVERSITY

Carnes, William J.
Metropolitan State College of Denver
wcarnes1@mscd.edu

Holloway, Madison
Metropolitan State College of Denver
hollowam@mscd.edu

ABSTRACT

Previous research disagrees on the effectiveness of diversity training in organizations. Some researchers believe that diversity training brings positive results (Demeuse, Hostager & O'Niell, 2007; Harvey & Allard, 2005). Primarily, diversity training tends to focus on the legal awareness of discrimination, with some secondary emphasis on cultural awareness and sensitivity training (Mathis & Jackson, 2006; Roberson, 2006), and can sometimes lead to the creation of more problems than it fixes. The current researchers propose the use of the New Approach to Diversity (Carnes & Holloway, 2008) in presenting Workforce Diversity training. The New Approach includes 1) The use of Appreciative Inquiry (Cooperrider & Srivastva, 1987) in instructing Workforce Diversity courses; 2) the use of the expanded definition of diversity—a definition that is inclusive of all regardless of race, gender or other status (Carnes & Holloway, 2008); and 3) the belief that managing teams effectively equals managing diversity effectively (Schneider & Barsoux, 1997). The current researchers believe that through using the New Approach to Diversity (Carnes & Holloway, 2008), workers will be more accepting of each other's differences, will feel more involved in the inclusiveness of diversity and will further appreciate the different opinions individuals bring to the workplace.

INTRODUCTION

There have been many studies conducted on the effects of employee training indicating that most HR professionals see this training as having a positive effect on the organization (Demeuse, Hostager & O'Neill, 2007). An ancient Confucius saying stipulates, "Tell me and I will forget. Show me and I will remember. Involve me and I will understand". Training similarly lasts longer and can be more effective if the employees have some engagement in the training and feel emotionally involved in the process (Woolnough, 2007; Lewis & Van Tiem 2004). The same sentiment goes for diversity training, and using Appreciative Inquiry (AI) (Cooperrider & Srivastva, 1987) in teaching diversity does just that—it allows employees to become more active in the diversity training process. In the past, either Workforce Diversity classes/sessions tried to convert those who were different from us, or we tried to avoid those individuals or groups (Harvey & Allard, 2005).

The bottom line is that differences are not problems that need solving. Differences should be viewed as 1) providing opportunities to share points of view and knowledge, 2) allowing for increases in creativity that those who think alike cannot bring forth, 3) providing challenges to the thinking and actions of the status quo (Olson-Buchanan & Boswell, 2007).

When a person meets someone who is different from him or her, the person experiences a reality that he or she could not possibly fathom before meeting such a person. The differences between people evoke emotions in individuals and these emotions can be positive, negative or indifferent. The authors also believe that a new approach should also help individuals in understanding when and how they perceive mistreatment in the workplace (Olson-Buchanan & Boswell, 2007).

A broad definition of diversity is one that includes the social make-up of individuals and how they interact with each other in the workplace (Harvey & Allard, 2005). Diversity is also much more than identifying prejudices and stereotypes, or taking positive steps toward Affirmative Action. In the traditional problem solving approach to teaching Workforce Diversity, the faculty focus their attention—and the attention of their students—on the differences among people, how various groups of people have been treated unfairly in the past (and present). In addition, instructors discussed action steps employers can take to be more inclusive of diverse individuals and the value added these actions bring to organizational success (Carnes & Holloway, 2008, Demeuse et al, 2007, Harvey & Allard, 2005). Primarily, the traditional problem solving approach to diversity training tends to focus on the legal awareness of discrimination, with a secondary emphasis on cultural awareness and sensitivity training (Mathis & Jackson, 2006; Roberson, 2006).

In some situations, workshops using the traditional problem solving approach actually created more problems than cures and led to increased tensions between members of different groups. Additionally, the traditional approach to teaching managing workforce diversity has a tendency to focus on "political correctness," which tends to blame the individuals who are in the majority, generally white males, for past discriminatory practices (Mathis & Jackson, 2006). The categorization of individuals into groups causes, or at least contributes to the increasing tensions between individuals and groups (Carnes & Holloway, 2008).

Research also indicates that managing diversity effectively should lead to 1) better problem solving, 2) an increase in recruiting of talented minorities and women, 3) a reduction in turnover, and 4) marketing efforts that are more successful (Demeuse, et al, 2007). The reviews on the subject of diversity training are mixed. While some studies show positive results in diversity training, other studies show negative results, most notably, that diversity training results in no increase in organizational performance and no reduction in discrimination complaints (Mathis & Jackson, 2006; Jehn & Bezrukova, 2004; Kochan, Bezrukova, Jackson, Joshi, Ely, Jehn, Leonard, Levine & Thomas, 2006).

TRADITIONAL PROBLEM SOLVING APPROACH VERSUS AI

The traditional problem solving approach focuses on defining the problem, focusing on righting past wrongs and fixing what is broken. AI (Cooperrider & Srivastva, 1987) focuses on searching for solutions that already exist; amplifying what is working and focusing on organizational life giving forces (Hammond, 1996; Vanstone, 2004). One of the basic assumptions of AI (Cooperrider & Srivastva, 1987) is its importance in valuing differences (Hammond, 1996). Current researchers will show that the differences in instructional methods, such as the *New Approach to Diversity* (Carnes & Holloway, 2008), is the reason behind the more positive outcomes of the past study and not because of the teaching style or popularity of the instructor. Previous research found that the instructor's commitment to the instruction and concepts was more important in predicting student's satisfaction, than was the instructor's race, gender or style (Holloway, Taylor & Fredrick, 2006). The authors goal is to show that the differences in instructional methods, such as the New Approach to Diversity (Carnes & Holloway, 2008), is the reason behind the more positive outcomes of the 1997 study rather than the teaching styles or popularity of the instructor.

BASIC ELEMENTS OF APPRECIATIVE INQUIRY

Appreciative inquiry is a form of action research, which helps organizations create new images based upon the positive aspects of the organizations' past (Cooperrider & Srivastva, 1987; Bushe, 1998). The 1997 study took diversity training in a new direction, using it to positively tackle real-world issues in a positive manner where formerly past practices produced mediocre results at best (Carnes & Holloway, 2008).

There are four characteristics needed to address an organizations' life regarding appreciative inquiry (Cooperrider & Srivastva, 1987). That is, the inquiry should be 1) appreciative, 2) applicable, 3) provocative and 4) collaborative. This encompasses the four D model of discovery, dream, design and destiny (Cooperrider & Srivastva, 1987; Bushe, 1999; Lewis & Van Tiem, 2004). The discovery phase, allows organizational members to identify and value its best practices. In the dream phase, members envision what the organization might develop into if it expands upon its best practices. In the design phase, members are attempting to make the organization more effective through overcoming personal and organizational barriers. The destiny phase implements these newly designed processes at many levels within the organization (Cooperrider & Srivastva, 1987).

THE NEW APPROACH TO DIVERSITY

The authors propose the use of the *New Approach to Diversity* (Carnes & Holloway, 2008) in teaching Managing Workforce Diversity courses. The New Approach focuses on three concepts not normally associated with teaching Workforce Diversity.

<u>Concept 1</u>
The use of Appreciative inquiry (Cooperrider & Srivastva, 1987) allows individuals to work to their full potential through focusing on the positive aspects of individual differences. This results in a workforce that is more accepting of each other's differences and is more productive and efficient.

<u>Concept 2</u>
The expanded definition of diversity (Carnes & Holloway, 2008) is a broad based definition that is inclusive of everyone. This allows for more buy-in from all participants and provides the participants with a sense of being included in the general topic area of diversity. The expanded definition of diversity considers the fact that people of the same race, ethnicity or gender do not think alike or believe the same things. A woman cannot and should not be expected to be able to speak for all other women. Each person is unique in his or her way of addressing and confronting issues, and we must therefore afford the employees the opportunity to express their views openly without fear of reprisal or intimidation (Carnes & Holloway, 2008; Holloway & Dolan, 1998).

<u>Concept 3</u>
This concept focuses on the belief that if you are effectively managing teams, a group of unique individuals, then by default, you are also effectively managing diversity. After all, you cannot get any group of people to work well together unless they are accepting of one another's differences (Schneider & Barsoux, 1997).

PREVIOUS STUDY – 1997

Earlier research, prior to 1997, led to the development of the *New Approach to Diversity* (Carnes & Holloway, 2008), based on the three distinct, yet related concepts mentioned above. When studying workforce diversity, awareness of our differences can either lead to avoidance of the differences in others, tolerance for the differences in others or an appreciation for the differences in others (Harvey & Allard, 2005). It is the appreciation of the

differences in others that should be foremost in the minds of trainers when teaching workforce diversity and the current researchers believe that the *New Approach to Diversity* (Carnes & Holloway, 2008) allows for and fosters that appreciation. The new approach, because it fosters an appreciation of diversity, should also lead to fewer incidences of discrimination and incivility—the unfair and unintentional mistreatment of others (Cortina, 2007) in the workplace.

The research and data collection of the previous study occurred in college classroom setting using a Study and Control Groups. The Study Group received additional instruction using AI (Cooperrider & Srivastva, 1987) and incorporated materials such as *The Thin Book of Appreciative Inquiry* (Hammond, 1996). The Control Group's instruction used the traditional problem-solving approach.

Through the collection of post-class questionnaires, the authors concluded that there is support for using the *New Approach to Diversity* (Carnes & Holloway, 2008). Although the research did not conclusively establish that Appreciate Inquiry (Cooperrider & Srivastva, 1987) is the best method for teaching Workforce Diversity, it did show some promise. For example, the post questionnaires did indicate that in comparison to the responses of the Control Group, the Study Group felt 1) better equipped to express themselves with those who are different, 2) that they had something to learn from those who are different, 3) more comfortable working in diverse teams, 4) better equipped to apply their knowledge of diversity, 5) that they had a better understanding of diversity and 6) that they have a better understanding for the need to study diversity. However, there were some limitations with the study's data collection (Carnes & Holloway, 2008).

LIMITATIONS OF THE ORIGINAL STUDY

1. The study included only four different classes of instruction as test subjects, two using AI and two using the traditional problem-solving approach, totaling seventy-four test subjects. Although there were more than seventy-four test subjects in the four classes, only seventy-four subjects returned questionnaires. Further studies are in the planning stages, which should result in developing more support for the AI approach.

2. With the limited size of the subject pool, can the question, "Was the AI approach more effective in teaching Workforce Diversity?" be answered? Based on the limited responses received, further research in the area should provide an answer to the above question.

3. The researchers' failure to accurately record demographic data, such as race, gender and age, may skew the results of the study. In future studies, this type of data is included on the questionnaires. Collecting demographic data might also shed light on any differences in responses other than using the new concepts. For example, if the majority of the study group subjects were minorities and the majority of control group were white males, this may contribute more to some of the differences in responses than the teaching method.

4. Another factor, and probably the most important factor is that there was no pre-questionnaire administered. All of the data was collected after the classes were completed. Therefore, we are unable to compare pre and post opinions of the test subjects.

5. The questionnaires in this research asked only for yes or no responses from the subjects. The yes or no responses limited the researches ability to determine significant differences between the responses of the two groups. The

questionnaires did show differences in raw data, allowing the researchers to make some inferences as to the viability of the new approach, but had low statistical validity (Carnes & Holloway, 2008).

RECOMMENDATIONS DERIVES FROM THE 1997 STUDY

1. Conduct both pre and post-questionnaires in Study Group and Control Group courses. Changing the questionnaires to include subject responses on a Likert scale will enhance the study and allow for higher statistical accuracy within question groups through the evaluation of the subject responses between the Study Group and Control Group.

2. Collect demographic data on all subjects to analyze differences in outcomes amongst different groups.

3. Increase the study pool over a two-year period. This will allow for eight Study Group classes and eight Control Group courses, totaling approximately 400 test subjects (Carnes & Holloway, 2008).

RESEARCH QUESTIONS FOR FUTURE STUDIES

The current researchers wish to know if the *New Approach to Diversity* (Carnes & Holloway, 2008) is valid for teaching workforce diversity courses within an academic setting and if there is direct transferability of the concepts of the *New Approach to Diversity* (Carnes & Holloway, 2008) to enhance training components of organizations within the general community. To answer this question, the authors are engaging in an extended study to evaluate the use of the *New Approach to Diversity* (Carnes & Holloway, 2008).

METHODOLOGY FOR FUTURE STUDIES

The authors plan to conduct this study in two phases. Phase I will be conducted in a classroom setting using a Study Group and a Control Group over a two year period. Phase II will be conducted in the workplace over a three year period using the *New Approach to Diversity* (Carnes & Holloway, 2008) and will implement the lessons learned from the Phase I research and from 1997 research.

HYPOTHESES FOR FUTURE STUDIES

1. Subjects participating in the Phase I Study Group and those in the Phase II Study Group will be able to work better in teams and will be more committed to the *New Approach to Diversity* (Carnes & Holloway, 2008) since they feel included in the concept of diversity.

2. Since the Phase I Control Group will not have the exposure to the *New Approach to Diversity* (Carnes & Holloway, 2008) their ability to work with, and communicate effectively with others will remain relatively unchanged. In addition, the Control Group subjects will see less value in studying workforce diversity.

3. The Phase II workplace subjects will have a better appreciation for diversity in comparison to previous diversity training in which they participated.

PHASE I

Beginning in January 2008, an in depth research study into the utilization of Appreciate Inquiry (Cooperrider & Srivastva, 1987) in teaching courses on Managing Workforce Diversity commenced. One professor using the *New Approach to Diversity* (Carnes & Holloway, 2008) led the Study Group, which includes the use of Appreciative Inquiry (Cooperrider & Srivastva, 1987), the expanded definition of diversity (Carnes & Holloway, 2008), and managing teams effectively equals managing diversity effectively (Schneider & Barsoux, 1997).

A different instructor using the traditional problem solving approach to teaching diversity taught the Control Group. The study will occur over two academic years. Each academic semester, contains four different classes on Workforce Diversity. Two classes will become a part of the Study Group and two classes will be a part of the Control Group. Therefore, there should be eight classes of students for each group and approximately 200 subjects in each group. The students will not be aware of the study prior to signing up for the classes, thus preventing students from volunteering to participate in one group or the other.

Both groups will have the following learning objectives for their respective courses of instruction.

1. Increase awareness and understanding of culture and the impact that it has on individual and on organizational performance.

2. Increase the understanding of the viewpoints, experiences, values and norms of some of the diverse people in the workplace.

3. Increase appreciation of the American culture and the diverse groups that contribute to it.

4. Improve ability to analyze workplace issues and identify relevant cultural aspects and positive management strategies to enhance individual and organizational performance.

5. Practice in communication, conflict resolution, and teambuilding skills needed for living and working together in a multicultural world.

The three areas that the researchers measured in the questionnaires completed by the subjects in the 1997 study were acceptance of personal, interpersonal and organizational values and differences; inclusive personal, interpersonal and organizational communication; and productive personal, interpersonal and organizational team building. These three areas encompass the five objectives for a Managing Workforce Diversity course and will be used in all subsequent studies.

CONTROL GROUP COURSE OF INSTRUCTION

The Control Group's focus will be on cultural and ethnic minorities in the US. Participants will conduct a research paper on African Americans, American Indians, Asian Americans, Arab Americans or Latino Americans. This centers on the understanding of the socialization process, identity development, stereotyping, prejudice, corporate culture, and the consequences of discrimination. The primary focus is on culture and the affects of culture on people that live and work together in an increasingly diverse work environment. This course will primarily uses the traditional problem solving approach in teaching workforce diversity. It centers on the negative aspects of the past and trying to correct past wrongs with the

associated finger pointing that does not occur with AI (Cooperrider & Srivastva, 1987). This course does not consider the expanded definition of diversity.

STUDY GROUP COURSE OF INSTRUCTION

The Study Group will use the *New Approach to Diversity* (Carnes & Holloway, 2008) as a basis for the course. They will review some of the problems associated with the traditional problem solving approach to diversity. While the subjects will receive the same basic instruction as the Control Group, they will also focus on the expanded definition of diversity (Carnes & Holloway, 2008) in developing a better understanding for the inclusion and contributions of those who are different. Participants will develop an understanding for the contributions of diversity to team building and the management of teams and diversity (Schneider & Barsoux, 1997). Participants will also study Appreciative Inquiry (Cooperrider & Srivastva, 1987), comparing AI to the traditional problem solving approach in understanding workforce diversity. The research conducted by the subjects includes introducing AI (Cooperrider & Srivastva, 1987) in helping to analyze the various levels of organizational diversity. The *New Approach to Diversity* (Carnes & Holloway, 2008) uses the positive aspects of AI (Cooperrider & Srivastva, 1987) to help people to be more accepting and feel that they are an integral part of diversity.

SUBJECTS

The subjects for the Phase I study will be comprised of students who are taking the Workforce Diversity class as a graduation requirement, or as an elective. The subjects will have either a Junior or Senior academic standing and be comprised of older, non-traditional students attending an urban commuting institution, either as a full-time or part-time student. The subjects will be unaware of the study or of which professor is teaching the Study Group and which is teaching the Control Group when they register for the course. However, that is not a problem because the study is assessing two different approaches to teaching the same course, in which individual faculty members emphasize certain aspects of the course that they believe are relevant. The only difference between the two courses is the presentation of additional course content. It is not a research situation where the subjects have the ability to opt out of the study. The course itself is a graduation requirement.

MATERIALS

Pre- and post-questionnaires (questionnaires are available from the authors upon request) will be given to students that measure their individual views of the personal, interpersonal and organizational or class level of the organization. The personal level is the development of the awareness and ability to analyze one's cultural beliefs and biases. The interpersonal level is the cultural interaction and interpersonal skills development between members of an organization. The organizational, or class level calls for the organization to commit to using AI (Cooperrider & Srivastva, 1987) in the creation and implementation of the organization's vision and mission statements (Carnes & Holloway, 2008, Holloway & Dolan, 1998).

Subjects will complete the pre-questionnaires during the first few days of the class. The instructors will inform the student subjects that they are looking for individual views on diversity today and will conduct a post-questionnaire during the final week of the class to determine if any views have changed because of the course.

DATA ANALYSIS

An analysis of the data will compare the results of the pre-and post-questionnaires looking for significant differences in the responses between the Study Group and the Control Group. A chi square and Pearson correlation will look for correlations between and within groups. A

two paired t-test will look for significant differences between and within the group responses. The results of the data analysis will indicate whether the hypotheses are correct.

PHASE I HYPOTHESES

The researchers hypothesize that the results from this study will mirror the results of the smaller 1997 study conducted previously. The authors expect similar responses to the questionnaires, which will indicate that using the *New Approach to Diversity* (Carnes & Holloway, 2008) to teaching Workforce Diversity is preferable to using the traditional problem solving approach. The difference between the pre and post questionnaires for the Study Group should reflect significant transformations in the subject's opinions, while the difference between the Control Group pre and post questionnaires should be negligible. Further analysis will explore the difference in responses on an individual level to determine if any of the demographic differences might be attributable to individual responses.

PHASE II

During Phase II of the research, which may sometimes run concurrently with Phase I, the researchers will conduct the *New Approach to Diversity* (Carnes & Holloway, 2008) training in the work environment. Several companies are in consideration to participate as subject companies. The selected companies will need to have conducted some type of diversity training within the past two years in the following areas:

- Sexual Harassment
- Affirmative Action Awareness Workshops
- Diversity Awareness Workshops
- Employee Communication Differences
- ADA Issues
- Cultural and Sensitivity Awareness

Sometimes, research conducted in the educational arena lacks the real-world applicability and does not always work outside of the controlled environment. Phase II of the study will provide the direct application of the *New Approach to Diversity* (Carnes & Holloway, 2008) in a business setting and should emphasize the importance and adaptability of the approach outside of the controlled environment.

In addition to the pre and post questionnaires administered to the Phase I subjects, Phase II subjects will also receive a follow-up-questionnaire ninety days after the completion of the Workforce Diversity training to add to the assessment of the success of this approach. During Phase II, all participants will receive workforce diversity training using the *New Approach to Diversity* (Carnes & Holloway, 2008); Appreciative Inquiry (Cooperrider & Srivastva, 1987), the expanded definition of diversity (Carnes & Holloway, 2008), and managing teams effectively equals managing diversity effectively (Schneider & Barsoux, 1997). Since the researchers feel that the new approach is appropriate for all workforce diversity training, there will be no Control Group in the Phase II study using the traditional problem solving approach.

WORKFORCE COURSE OF INSTRUCTION

The authors are currently in the process of developing the Phase II course of instruction. The idea is to focus of the *New Approach to Diversity* (Carnes & Holloway, 2008), that could be presented in two different four-hour blocks of instruction, that would be convenient for the organizations to implement given their time limitations.

SUBJECTS

Subjects for the Phase II study will be from participating companies. In addition, all participants in the Phase II study will have attended diversity training within their respective organizations in the past one to two years. Having recent workforce diversity training within the current organization will allow the subjects to relate and compare their previous training to the training they receive using the *New Approach to Diversity* (Carnes & Holloway, 2008).

MATERIALS

Pre- and post-questionnaires (questionnaires are available from the authors upon request) will be given to participants that measure their individual views of the personal, interpersonal and organizational or class level of the organization. The personal level is the development of the awareness and ability to analyze one's cultural beliefs and biases. The interpersonal level is the cultural interaction and interpersonal skills development between members of an organization. The organizational, or class level calls for the organization to commit to using AI (Cooperrider & Srivastva, 1987) in the creation and implementation of the organization's vision and mission statements (Carnes & Holloway, 2008): Holloway & Dolan, 1998).

Subjects will complete the pre-questionnaires during the first day of the course. The facilitators will inform the participant subjects that they are looking for individual views on diversity today and will conduct a post-questionnaire on the final day of the course to determine if any views have changed because of the course. Participant subjects will receive the same pre-questionnaire as the subjects in Phase I. However, slight modifications to the post-questionnaire were necessary to reflect data collection from the work environment. Additionally, the participant subjects will receive a follow-up questionnaire 90 days after the completion of the training to see if the training is long-term.

DATA ANALYSIS

The researchers will analyze the data in Phase II in the same manner of Phase I. Chi Square will be used to determine the significance of the data, while a Pearson correlation will be used to look for correlations between the respondents within the Phase II study group and with the Phase I study and control groups. In addition, a two paired t-test will look for significant differences between and within the group responses. The results of the data analysis will indicate whether the hypotheses are correct.

PHASE II HYPOTHESES

The traditional problem solving approach to teaching courses in managing workforce diversity centers on the disparate treatment of protected individuals. Therefore, this leads the creation of more problems than cures and leads to increased tensions among team members as previously mentioned in this paper. The *New Approach to Diversity* (Carnes & Holloway, 2008) increases the buy-in of people in understanding the inclusive nature of diversity. This allows them to embrace the positive differences of others when working together in groups or teams for the enhancement of the overall organization.

The authors believe that the results will be similar to those from Phase I and from the previous research. The researchers expect to prove the hypothesis that the Phase II subjects will have a better appreciation for diversity in comparison to previous diversity training in which they participated.

DISCUSSION

The authors understand that there are limitations to conducting theoretical research in a controlled environment such as a college classroom. The question usually arises, "Does this research transfer to the real world?" Ideally, theoretical research should lead to practical applications. The practical application is one of the reasons the authors are choosing to conduct their research in two Phases.

Phase I is concerned only with college students taking a Managing Workforce Diversity class. In Phase I, the current researchers will attempt to refine the "so-called" theoretical classroom research. They plan to survey approximately 400 students from eight Managing Workforce Diversity classes over a two-year period, correcting some limitations of the study.
It is important to note that the current researchers are also interested in improving the quality outcomes of the Managing Workforce Diversity classes. These outcomes include providing the students with useful skills and competencies that are transferable to the organizations in which they are currently working or which might be employing them in the future. Phase I will seek to ascertain if the skills and competencies derived from the *New Approach to Diversity* (Carnes & Holloway, 2008) have practical applications in the workplace in which they might be employed.

Phase II of the study will include members of participant organizations. In Phase II, the participants will only receive instruction using the *New Approach to Diversity* (Carnes & Holloway, 2008) rather than the typical legal views of discrimination, sexual harassment and other training programs. The researchers firmly believe that the *New Approach to Diversity* (Carnes & Holloway, 2008) will help workers within organizations to understand that: 1) Differences provide opportunities to share points of view and knowledge. 2) Differences allow for increases in creativity that those who think alike cannot bring forth. 3) Differences allows for challenges to the thinking and actions of the status quo (Olson-Buchanan & Boswell, 2007). In addition the authors believe that using the *New Approach to Diversity* (Carnes & Holloway, 2008) will result in positive and lasting effects on the individual participants, both personally and professionally, which will provide positive benefits to their organizations, regardless of their generation.

Using Appreciative Inquiry (Cooperrider & Srivastva, 1987), will help workers to focus on the positive aspects of the differences individuals bring to the workplace. The Expanded Definition of Diversity (Carnes & Holloway, 2008) helps all employees feel as though they are a part of diversity, thus respecting each other's differences. Further, when an organization is effectively managing teams, teams consisting of unique individuals, the organization is in effect managing diversity at the same time (Schneider & Barsoux, 1997). In a time where global competition is ever increasing, diversity becomes a key issue in organizational success. It is the intent of the authors to show how the *New Approach to Diversity* (Carnes & Holloway, 2008) benefits the organization and helps prepare the workers to deal with others in a more positive manner.

CONCLUSION

The current authors believe that the *New Approach to Diversity* (Carnes & Holloway, 2008) will enhance the effectiveness of diversity training and cause individuals to be more accepting of each other and of the differences that make each of us unique. The *New Approach to Diversity* (Carnes & Holloway, 2008) includes 1) The use of Appreciative Inquiry (Cooperrider & Srivastva, 1987) in instructing Workforce Diversity courses; 2) the use of the expanded definition of diversity—a definition that is inclusive of all regardless of race, gender or other status (Carnes & Holloway, 2008); and the belief that managing teams effectively equals managing diversity effectively (Schneider & Barsoux, 1997). The researchers believe

in this new approach and feel that their research will show significant results that support this approach. They also predict that the *New Approach to Diversity* (Carnes & Holloway, 2008) will lead to: 1) better problem solving, 2) an increase in recruiting of talented minorities and women, 3) a reduction in turnover, and 4) marketing efforts that are more successful within the organization (Demeuse, et al, 2007), as previously mentioned in this paper.

An additional limitation of conducting theoretical research in a college classroom focuses upon replicating the study later, especially if the instruments used by the researchers are attitudinal questionnaires. The attitudes of students in 1997 might be completely different from the attitudes of students in 2009 because the average age of students will have changed. The ages of the students in 1997 that were taking the Managing Workforce Diversity classes ranged from the mid twenties to the early forties, for an average age of 32. In 2009, students attending the Managing Workforce Diversity classes were in their mid twenties—based on the college wide average age, for an average age of 25. Thus, two factors: 1) the time the questionnaires would be given and 2) the ages of the students involved would indicate the possibility that two different generations would be given the same attitudinal survey. Attitudes of different generations will most likely change because our cultural landscape is constantly changing (Schneider & Barsoux, 1997). General attitudes toward specific groups of people have evolved over the past twenty years. Within younger generations, some attitudes are no longer acceptable and some word usage is no longer politically correct.

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COMPARATIVE STUDY ON THE IMPACTS OF THE TWO FINANCIAL CRISES ON THE STOCK MARKETS IN THE US AND ASIA

Rim, Hong
Shippensburg University
hkrim@ship.edu

Setaputra, Robert
Shippensburg University
rsseta@ship.edu

ABSTRACT
This study is to analyze the impacts of the two (the US and Asian) crises on the financial markets and economic activities. The Asian crisis had been relatively confined within the region without having serious impacts on other economies, but the US crisis spread out fast to other economies. In relation to the Asian economic crisis, the US crisis had much more significant negative impacts on various entities (e.g., governments, banks, tax payers, and investors). In the future, governments need forward-looking policies such as establishment of systemic-risk measures at the national level and measures for fast reaction to high systematic risk to prevent bubbles and minimize the amplification effects.

INTRODUCTION

In recent years, financial markets around the world become more integrated, investors and financial institutions became more exposed to additional risks (e.g., economic or business risk, financial risk, market risk). As more financial market become open to foreign investors, global trading and cross-border investing increased fast, and globalization (foreign entries, trade liberalization) provides better opportunities for domestic firms to improve their competitiveness (e.g., products and services). It is of great importance for investors and policy makers to understand how economic/financial information and shocks are transmitted between the real sector and the financial sector across borders. In practice, it is also important to know the dynamic linkages between financial markets for investors and portfolio managers to better manage risk related to foreign investments, especially, during the period of high volatility. In a similar vein, policy makers need to know how to reduce or reduce the impacts of economic or financial crises on economic activities.

Though the bubbles and crises are not new phenomena in economic history, their frequency and severity have been on the rise in recent years. The economic/financial crises raise serious questions on the costs of financial integration and the benefits of financial innovations to corporations. Bubbles are not evidence of investors' irrational expectation but the result of plausible expectations to exploit better investment opportunities. Interestingly, most bubbles occurred in an era of fast financial innovation (e.g., tech bubble in March 2001). In practice, crises have led to significant legislation efforts to prevent the crises in the future. For example, the Federal Reserve Act (1913) due to the financial panic in 1907 created the Federal Reserve as the central bank. The Glass-Steagall Act (1933) established the Federal

Deposit Insurance Corp. (FDIC) to separate commercial from investment banking activities. The thrift crisis in the late 1980s led to the FDIC Improvement Act (1992) to mandate prompt resolution of failing banks and new standards for bank supervision, regulation and capital requirements. The Sarbanes-Oxley Law (2002) due to the collapse of major corporations (e.g., Enron, WorldCom, and Adelphia) was designed to improve the accuracy and reliability of corporate financial disclosures. The tech bubble in the 1990s focused on the promising but unrealized profits of new technologies, reflecting investors' optimism on high-tech industries. The current US financial crisis raised serious questions on understand how economic/financial information and shocks are transmitted between the real sector and the financial sector across borders. Empirical results suggest that financial shocks had been transmitted through equity prices in the short run but other variables (e.g., cost and amount of credits) became more important in the long run: Among others, the stock price was the main channel of information transmission across financial markets and borders during the time of high market volatility. The objective of this study is to analyze the impacts of the two crises, the Asian economic crisis (June 1997) and the US financial crisis (Sept. 2007), on the financial markets and economic activities in the US and Asian markets. This study proceeds as follow. Section II provides in-depth analyses of the impacts of the two crises on financial markets and economic activities. Section III provides Summary and Conclusion and some policy issues to prevent bubbles in the future.

COMPARATIVE ANALYSES OF THE ASIAN AND US CRISES

This section is to discuss important features of the two crises, as in Table 1. The two crises had distinctive features of underlying causes, triggering events, affected parties/countries, and impacts on financial markets and economic activities.

THE ASIAN ECONOMIC CRISIS

In the 1960s, the countries in Southeast Asia (mainly ASEAN countries: Indonesia, Malaysia, the Philippines, Singapore, and Thailand) pursued open economic policies for strong economic growth for fast accumulation of physical and human capital, balanced fiscal condition, stable inflation and exchange rates with strong investments. These countries kept the key interest rates high enough to attract more foreign investments. During 1994 – 1996, the amount of foreign capital inflow into this region topped US $184 billion. With huge amount of foreign capital inflow, these economies experienced high growth (i.e., 8~12% annual GDP growth), subsequently creating bubbles in a few sectors (e.g., real estate, stocks, land, and currencies). As their financial markets had become more liberalized, banks and corporations started borrowing aggressively from abroad and offshore banking centers without having proper hedging facilities (with implicit government guarantees). The short-term debt ratio (short-term debt / foreign reserves) increased as much as 150% during 1994 - 1997, increasing the financing costs of financial institutions and corporations. Unfortunately, foreign debts were unsustainable and poorly utilized for unprofitable investments even in non-tradable sectors. Quite a few banks managed their credits poorly by borrowing short in the US dollars and lending out long in local currencies (i.e., maturity mismatching). Much of the lending was based on a collateral basis (not on a cash-flow basis), and further overinvestments in some sectors and excessive lending by financial institutions caused high inflation, creating bubbles in real estate and financial assets. In addition, the fast appreciation of local currencies increased the financing costs of corporations. The sharp increase of commercial loans made financial institutions exposed to more (asset, currency, financial) risk, eroding their capital base by decreasing the earnings and profitability. These economies had been significantly contracted by diminishing returns on investments, increasing non-performing assets, the loss of firms' competitiveness, vast trade deficit, and higher unemployment. When the stock and the foreign exchange markets collapsed, investors lost their confidence in financial sector and local currencies, panic investors started withdrawing their investments from this region and corporations became unable to service their foreign debts. To make it worse, foreign banks refused to roll over the short-term debts, which prompted additional short-term borrowing of foreign capital by local firms. Among others, the banking sector was most adversely affected by increasing bad loans and non-performing assets. Since most external liabilities were not fully backed by liquid assets, financial institutions became more

vulnerable to external shocks. In late 1997, the capital outflow from this region reached $102 billion, which caused a big economic shock in this region.

In this region, Thailand felt the most pressure from the foreign exchange market due mainly to increasing amount of trade deficit and short-term debts. When Bank of Thailand abandoned the defense of Thai baht from speculative attacks after several months of unfruitful interventions, investors began withdrawing their investments from Thai market. In the end, the stock markets and the foreign exchange markets collapsed, resulting in significant negative impacts on local economies coupled with suspension of large government economic projects and fast liquidation of corporate assets. The Asian crisis broke out in July 1997 and became more exacerbated by diminishing returns on investments, declining earnings and cash flows, poor regulations on banking system, and uncertain political environment in some countries. As the crisis began spreading out to more countries in this region, their stock markets and financial institutions collapsed, and more firms became unable to service their debts. In late 1997, the International Monetary Fund (IMF) came to help these economies with rescue funds to reform the banking system in this region, limit fiscal deficits, control inflation rates, and enhance investors' confidence. The IMF policies had been mainly aimed at enforcing banks' capital adequacy standards, tightening domestic credits, reducing fiscal spending, and repaying foreign debts with the IMF bailout funds. In essence, the Asian crisis is caused by financial liberalization and deregulation, which reflect a sort of excessive gambling and stealing by banks.

In sum, it is worth noting several important features of the Asian crisis. The declining imports by the crisis-stricken Asian counties retarded economic growth in other countries (negative impact) whereas the lower import prices from Asian economies held down the inflation and interest rates in other countries (positive impact). After the Asian crisis, other economies made strong economic growth with increased foreign investments. it is suggested that policy makers need to:

a) restructure banking system to restore investors' confidence;
b) establish policies to finance current account imbalance;
c) enhance the competitiveness and comparative advantages with open economic policies;
d) intervene the foreign exchange markets with strong financial system (with the ability of handling long periods of high interest rates); and
e) establish effective regulation and supervision system on banking sector through financial liberalization process.

THE US FINANCIAL CRISIS

In the early 1990s, the key interest rate IN the US was kept low to sustain strong economic growth. As interest rates started increasing in the late 1990s, bubbles in high-tech industries busted in early 2001. Coupled with the 9-11 Incident in Sept. 2001, the US economy fell into recession. When the Federal Reserve Bank (FRB) began to cut interest rates to limit the damages to the economy, mortgage loans increased sharply to boost the property values. As such, homeowners took advantage of the increased property values to refinance their homes with the second mortgages even for consumer spending. Due to easy credit and the expectation of increasing property values, subprime mortgage loans continued to gain in popularity during 2001 – 2005, and the increasing demand for homes created bubbles in real estate. To meet high demand for mortgage loans, financial institutions introduced a plethora of complex, innovated financial instruments to slice up and resell the mortgage-backed securities. The US mortgage loans significantly increased to 73% of the US GDP

in 2008 from 46% in the 1990s. The US household debt grew from $705 billion (60% of disposable income) in 1974 to $7.4 trillion in 2000, reaching 134% of disposable income ($14.5 trillion) in mid-2008. Though the mortgage industry ramped up high profits, the quality of the mortgages sharply declined.

As the interest rates increase from 2005, the mortgage loans were reset at higher interest rates with more monthly payments, homeowners began falling behind in mortgage payments, and more properties were on sale or foreclosed. Mortgage lenders, investment banks, real estate investment trusts, and hedge funds all began experiencing significant losses. The sharp increase of foreclosures since January 2007 became a clear evidence of real estate bubbles. Many banks found their securities tainted as toxic assets or non-performing assets. Finally, the subprime mortgage markets collapsed in March 2007. Increasing foreclosures and the sharp decline in the value of mortgage–backed securities (held by banks) significantly reduced the cash flows to the banks. The entire financial system became so fragile that they could not make any additional mortgage loans. The concerns over the health of financial institutions became a full-blown banking panic, leading to the failures of big investment bankers (e.g., Lehman Brothers) and government takeovers (e.g., Fannie Mae, Freddie Mac). As the financing costs for financial institutions and corporations sharply increased, the amount of available funds for buyouts, takeovers, and the US economy fell into deep recession with high unemployment. Especially, real estate investments significantly declined (around 47%) in the last quarter of 2008.

As the volatility of the stock markets was matched by upheaval in currency trading, investors sought shelter in safer currencies (e.g., Japanese yen), and the currencies of developing countries (including the euro and the British pound) became significantly depreciated. The US economy fell further into recession along with the bust of real estate bubbles, lack of risk control, poor regulations on banking system, mismanagement of foreign loans, increasing amount of non-performing loans, collapse of stock markets, and even the pervasive moral hazard in financial markets. When the US government introduced various stimulus programs to enhance the liquidity and solvency of the financial sector, the panic subsided somewhat after October 2008. As the stock markets in the US, Europe and Asia continued to plunge, the central banks took drastic measures to cut interest rates in October 2008. After a week of nearly 20 percent decline of stock prices, the US and European officials coordinated to take equity stakes in a few major banks ($250 billion in the US). The credit markets became slowly eased up with the help of government funds to strengthen banks' balance sheets.

In sum, the US financial crisis became very contagious with strong spillovers across borders, causing significant negative impacts on other stock markets and economies with deep recession (i.e., high unemployment and bankruptcies). The US stock market (DJIA) declined as much as 53% (14,165 (10/2007) to 6,627 (3/2009)). When the FRB cut the key lending rate (i.e., mere 1 percent in Oct. 2008), the European Central Bank and Bank of England followed similar steps to cut their interest rates (Nov. 2008). The US federal officials put together plans to help homeowners at the risk of foreclosures with smaller monthly payments by shouldering some losses to the banks. These actions helped to stabilize the economy and improve investors' confidence in the financial system. From Jan. to Oct., 2008, the US investors lost around $8 trillion in the stock markets whereas investors in other countries lost around 40% of their investments. The significant losses in stock markets and real estate sector put more downward pressures on consumer spending, leading to further economic downturns. In addition, oil-producing countries were hit hard by the reversal of fortune as the oil price was cut in half by October 2008 due to the gloomy economic outlook around the world. In November 2008, leaders of developed and emerging countries had a meeting to formulate strategies for the US financial crisis. As the US crisis began spreading fast to emerging and European countries, more countries asked for financial aid from the IMF to stabilize their economies.

The US financial crisis raised serious questions on the transmission of financial shocks across countries. This crisis revealed strong interaction between initial crisis conditions and the amplification mechanisms during the crisis. In practice, policy makers need to establish policies to avoid the recreation of the initial conditions for the crisis and to minimize the amplification effects in the future. Therefore, several challenges are in order. The first challenge is how to prevent complexity from turning into opacity when designing new derivative securities. The second one is how to more closely monitor the cross-border investing and off-shore financial activities. The third one is how to measure the overall leverage level of the economy, beyond and above the leverages of

individual banks or sectors. Since financial institutions and corporations with high leverages become exposed to more risk, it is necessary to have better monitoring and regulating systems to reduce inherent risk at the early stage due to high leverages. This can be done by increasing the perimeters in monitoring and regulating system for the overall financial system. In essence, the US financial crisis emphasizes the importance of effective risk management and the dangers of using over-calibrated models in valuing complex financial securities in the short run.

SUMMARY AND CONCLUSIONS

This study analyzed the impacts of the Asian and US crises on the financial markets and economic activities. The bubbles in real estate and stock markets in this region were created by increased foreign capital and the current account surplus. The bubbles got busted due to various reasons such as diminishing returns on investments, declining foreign investments, depreciation of local currencies, decreasing earnings and cash flows, increasing trade deficits, continuous speculative attacks on local currencies, and lack of proper hedging facilities. The Asian crisis became more exacerbated by lavish government spending, mismanagement of foreign capital, suspension of government projects, increasing non-performing assets, lack of supervision and regulations on banking system, and pervasive moral hazard. Some of most adversely affected parties by the Asian crisis are governments (e.g., suspension of projects), commercial and investment banks (non-performing assets), tax payers and the IMF (rescue funds), and investors (loss of wealth). The Asian crisis had significant adverse effects on three countries including Indonesia, Malaysia, and Korea. However, the crisis had been relatively confined within the region, and other economies (e.g., US) had gained benefits from strong economic growth and low inflation rates. The IMF rescue funds greatly helped to enhance investors' confidence in this region. Interestingly, the financial markets in Asia became more integrated after the Asian crisis whereas the relationships between developed and emerging financial markets became somewhat weaker.

The US bubbles in real estate and financial sector were gradually created by low interest rates, easy credits, and generous lending practices by banking sector. The bubbles got busted along with the significant increase of defaults and foreclosures, lack of risk management, increasing amount of non-performing assets, poor supervision on banking system, and pervasive moral hazard. When the stock markets in the US and other countries collapsed, their economies fell into deep recession with high unemployment. The most affected parties are mortgage banks (non-performing loans), financial institutions (toxic assets), tax payers (rescue funds), investors (loss of wealth), and governments (rescue funds (i.e., TARP)).

To prevent bubbles in the future, it is necessary to initiate new policies. First, policy makers need to establish new measures of systemic risk at the national level (beyond the individual level) because some information may not be readily available (e.g., the CDS positions in the markets). Second, they need to react to the situations when systemic risk rises unexpectedly high in the market. A good example might be the pro-cyclical capital ratio, which increases in response to economic activities or some index of systemic risk. This can be a good stabilizer to dampen the buildup of risk and/or to minimize the amplification effects.

Table 1: Comparison of the Two Crises

Analyses	The Asian economic crisis	The U S financial crisis
1) Existing conditions (before the crisis)	**H**igh interest rates (to attract more foreign investments) **I**ncreased (massive) capital inflow **H**igh GDP growth rate **C**urrent account surplus **I**ncreased prices of assets (e.g., stocks, real estate)	**L**ow interest rates to boost economy **H**igh economic growth **I**ncreased mortgage loans (more sub- prime **)** **I**ncreased prices of assets (e.g., stocks, real estate; expectation of higher property prices)
2) Originator(s)	**T**hailand (Thai baht; June 1997) Speculative attacks on local currencies	**US** (dollars; Sept. 2007) **B**ubbles in real estate and financial assets
3) Affected countries	**Heavy**: **I**ndonesia, **M**alaysia, Korea. **Moderate**: Japan, Singapore, Hong Kong, China, the Philippines, Laos, Taiwan, Russia; Mexico, Brazil, Argentina, Peru, Chile, Colombia, and Ecuador, Haiti, Venezuela.	**Heavy**: China, UK, European countries. **Moderate**: Australia Germany, Japan, Canada, India, Haiti, S. Africa, Ireland, Iceland, Baltics (Estonia, Latvia, Lithuania).
4) Triggering events	**O**ver investments in not-tradable sectors. **F**ast devaluation of local currencies (e.g. Baht, Won) Too much short debt (high short-term debt ratio (short-term debt / foreign reserves). **I**ncreasing trade deficits. **C**ollapse of stock markets. **M**assive capital outflows. **I**ncreased foreign borrowing without having hedging facilities.	**S**harp increase of mortgage (sub-prime) loans **M**ismanagement of risk controls (bad loans). **C**ollapse of stock markets.
5) Underlying causes	**W**eakened financial sector. **S**aturation of domestic markets. **I**ncreasing current account deficit. **U**nable to control vast capital inflow. **R**eckless lending practices. **U**nsustainable real estate prices. **C**rony Capitalism. **S**harp increase of government spending. **M**ounting loans at banks **L**ack of Transparency in financial market. **P**ervasive moral hazard. **M**isjudgments by policy makers	Reckless (too much) lending practices. **I**ncreasing defaults, and foreclosures. **U**nstable underwriting facilities. **P**oor regulations on financial markets and exotic securities (collateralized debt, credit default swap). **M**ounting bad loans (banks). **M**ismanagement of bad loans. **P**ervasive moral hazard (banks, consumers, and investors (expected bailout by governments or international organizations)

	Mounting non-performing loans (assets).	
6) Major Effects	Domino effect in the region. **C**ollapse of foreign exchange markets (depreciation of local currencies). **S**harp decline of real estate prices. **H**igh volatility in stock markets. **P**anic among investors. **D**eclining oil prices (OPEC, Russia) **S**harp decrease of GDP growth. **L**oss of confidence by foreign investors. **E**xcess debt over foreign reserves. **I**ncreasing unemployment rates. **C**apital outflow flow (flight). Declining export revenues **D**ecline in purchasing power	Domino effects around the world. **D**epreciation of major currencies. **S**harp decline of real estate prices. **E**xcess volatility in stock markets **I**ncreasing panic by investors. **U**nstable global commodity prices. **D**ecreasing GDP growth **M**oney market frozen. **L**oss of wealth globally **B**lock of capital transfer **P**oor regulations on capital flows **S**evere loss of jobs **H**igh unemployment and poverty rates **D**eclining export (e.g., Japan, China) **D**eclining purchasing power **D**eclining industrial production **P**olitical instability **D**ecline of tourism incomes **I**ncreasing bankruptcies
7)Effect on specific countries	**Malaysia**: shrinking **c**onstruction and manufacturing sector; sharp currency devaluation (Ringgit). **Korea**: Banking crisis (takeovers); business bankruptcies; currency depreciation; stock market collapse. **Philippines**: Peso depreciation; slow **GDP** growth. **China**: Decreased foreign capital and Exports; high **u**nemployment. **Indonesia**: currency devaluation ; high unemployment; stock market crash. **Brazil**: Currency depreciation, slow GDP Growth.	**UK**: Volatile stock market; mounting losses to financial institutions; increasing bankruptcies. **Haiti**: Lack of funds for social projects. **OPEC**: Declining oil revenues **China**: Declining exports; political unrest; volatile stock market. **Russia**: Collapse of stock market; unstable political and economic conditions. **India**: Stock market crash; high unemployment rate; loss of confidence by investors. **France**: unstable political and economic conditions. **Iceland**: **C**ollapse of banking system; **h**uge losses in financial sector. **Canada**: High unemployment rate; declining consumer spending **Latvia**: Declining retail sales and industrial production; shrinking construction sector.

		Estonia: Declining industrial production and retail prices
8) Affected sector	**E**quity and debt markets **F**oreign exchange markets	**S**tock and real estate markets **I**nvestment banking sector **To**urism sector
9) Affected parties	**G**overnments **B**anks **IMF** **T**axpayers	**G**overnments **C**ommercial banks **IMF** **T**axpayers and **i**nvestors **M**ortgage banks **I**nvestment Bankers
10) Important features	Crisis spread to South East Asian nations **IMF** packages (Indonesia refused IMP aid to worsen the crisis)	**E**xpectation for increasing home prices (bubbles)
11) Policies or Steps taken to attack the crisis.	**P**egging the exchange rates **N**ationalization of banks and financial institutions **R**escue packages by IMF **C**losure of ailing banks **R**eforming corporate sector (business restructuring, and upgrading corporate governance. **H**igher interest rates, worsening the crisis.	**S**timulus packages (e.g., TARP) **N**ationalization of banks and financial institutions. **B**ailout packages by government. More public/private investments. **R**ecovery packages in Asian countries **E**mergency Economic Stabilization Ac 2008.
12)Policy responses by specific countries	**IMF:** emergency loans to Thailand, Korea, Malaysia and Indonesia; **R**aising Interest Rates **R**educing public spending **Singapore**: more construction projects **Thailand** : Free Trade Agreements (regional, bilateral) to promote exports **Korea**: Reforming financial sector and Chaebul (Korean conglomerates) **Malaysia**: Strong balance sheets in the banking and corporate sectors.	**Australia**: Injection of $1.5 billion into the banking system. **India**: Increasing money supply for refinancing. **China**: Economic stimulus plans, cutting interest rates. **Europe:** Stimulus proposals (200 billion Euros) **UK** : Rescue packages for banks

(Note) IMF: International monetary Fund; TARP: Troubled Assets Relief Program.

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A CONSUMER CENTRIC MODEL FOR MOBILE MARKETING

Varnali, Kaan
Boğaziçi University
kaan.varnali@gmail.com

Toker, Aysegul
Boğaziçi University
tokera@boun.edu.tr

Yilmaz, Cengiz
Boğaziçi University
cengiz.yilmaz@boun.edu.tr

Abstract

The proliferation of mobile technology and the growth in the business potential of the mobile medium gave rise to the phenomena called "mobile marketing". Mobile marketing encapsulates a large set of applications which enable distribution of interactive and personalized information to the consumer at the most effective time and place, and in the right context and has the potential to create exceptional value to both consumers and business entities if and only if its true essence and unique properties are truly understood by all members of the mobile value chain. The present article proposes a consumer centric model for successful mobile marketing strategy that that incorporates an extensive review of academic research on mobile marketing and field experiences of mobile marketing department of a pioneer mobile network operator company. The suggested conceptual model shall provide a basis for establishing best practices for members of the mobile value chain and offer fruitful research avenues for marketing scholars.

Introduction

Recent transformation of mobile handsets from technologically limited mobile phones into true hybrid mini-computers, and the transition to 3G networks, converted the mobile medium into an attractive value delivery channel for business entities. Thanks to the inherent characteristics of mobile handsets such as "exceptionally personal", "always on", "always connected", and "always with the user", the mobile medium presents an unprecedented opportunity to establish a direct link with the customer, which makes it the ultimate tool of one-to-one marketing and customer relationship management. According to Juniper Research (2008) the penetration rate of mobile handhelds exceeded 100% in Europe and in several Middle-Eastern and Asia-Pacific countries. It is also rising steadily and is currently above 80% in Americas. Globally the total number of mobile subscribers was 3 billion by the end of 2007. The proliferation of the mobile technology and the use of personal mobile and wireless devices as a medium for communicating with and delivering value to consumers by

business entities gave birth to “mobile marketing”, which quickly became an emerging research stream within the marketing discipline. Its relative novelty, rapid growth, unique features, and growing business potential made mobile marketing an attractive area of research for the last couple of years.

Firms have already realized the importance of mobile medium in terms of establishing a virtual presence alongside their customers. They use the mobile medium for various marketing oriented purposes such as delivering promotional offers and personalized advertisements, providing value generating services, facilitating word of mouth, awarding customer loyalty, collecting feedback and engaging with customers through incentive-based interactive campaigns. Mobile marketing encapsulates a large set of applications and has the potential to create exceptional value to both consumers and business entities if and only if its true essence and unique properties are truly understood by all members of the mobile value chain. Prior academic research on mobile marketing has identified an extended set of factors that may have an influence on the acceptance and adoption of mobile marketing practices by consumers. However, the accumulated academic knowledge is highly fragmented and scattered across various journals of several disciplines, and hence it is quite difficult and impractical for practitioners to identify and track those articles, and to translate their findings into strategic implications.

The purpose of this article is to present a consumer-centric conceptual model of successful mobile marketing that incorporates findings of a comprehensive review of mobile marketing literature and field experiences of the mobile marketing department of Turkcell, the leading operator of Turkey and nearby regions, and a member of the Board of Directors of GSM Association since 2003. Turkcell has been doing mobile marketing since 2002, and has successfully executed more than 1000 campaigns involving targeted SMS, MMS, IVR, mobile coupons, mobile tickets, sponsored info packages, RBT, mobile banners, mobile quizzes, participatory and instant win themes and location based applications with response rates varying between 5% and 25%.

Research Method

A comprehensive bibliography of the academic literature on mobile marketing was compiled by searching the following online databases: ABI/INFORMS, EBSCOhost, Emerald, IEEE Xplore, Inderscience Publishers, Science Direct and Wiley InterScience. The literature search was limited to peer-reviewed journals and was based on keywords: “mobile marketing”, “mobile commerce”, “mobile advertising”, “mobile consumer”, “mobile business”, and “mobile services”. All relevant articles were reviewed in order to identify factors that influence mobile marketing adoption and acceptance by end users. The resulting list of potential predictors was summarized in a preliminary model, which was refined iteratively throughout six discussion meetings with the members of the mobile marketing department of Turkcell. They have provided a valuable field perspective which helped authors to clarify the meanings of concepts and constructs included the conceptual model and the proposed relationships among them. The discussions were conducted in a structured format through which the participants have analyzed real market mobile marketing cases (executed by Turkcell) and tried to improve the conceptual model in order to increase its explanatory power with respect to campaign facts and figures.

The Conceptual Model

It has been long acknowledged that the primary requirement of strategy development is to understand the needs, aspirations and perceptions of the target consumers. Consumer centric approach dictates that the first step in model development should be identification of specific aspects of the mobile medium that are decisive in determining the acceptance of mobile advertising and the use of mobile services by the end users. Such knowledge would enable marketers to develop applications and services that manifest those aspects of the mobile medium in order to improve their offerings' value proposition. Therefore, the present study places consumer at the heart of mobile marketing and proposes a process model (shown in figure 1, below) that integrates literature based factors that influence consumers' behavioral intentions to engage in and accept mobile marketing in a single framework.

The proposed model of mobile marketing strategy starts with targeting and personalization process. Targeting involves establishment of segments with distinct customer profiles according to various explicit and implicit customer data and selection of desired segments for communication. Then the marketing stimuli or various features of the service to be provided are fine-tuned according to the characteristics of the target customer segment through personalization. When the message is ready, the next stage is to execute the mobile marketing campaign and communicate with the target users. This stage involves important strategic decisions on behalf of the mobile marketer such as message delivery time and location, the level of user control provided, and the level of viral marketing elements to be included. These message related strategic decisions and other target, medium and source related facilitators determine consumers' experience with mobile marketing. The third stage of the model captures consumer attention, perceptions, attitudes which collectively predict behavioral outcomes of the mobile marketing campaign that can be measured with a great precision.

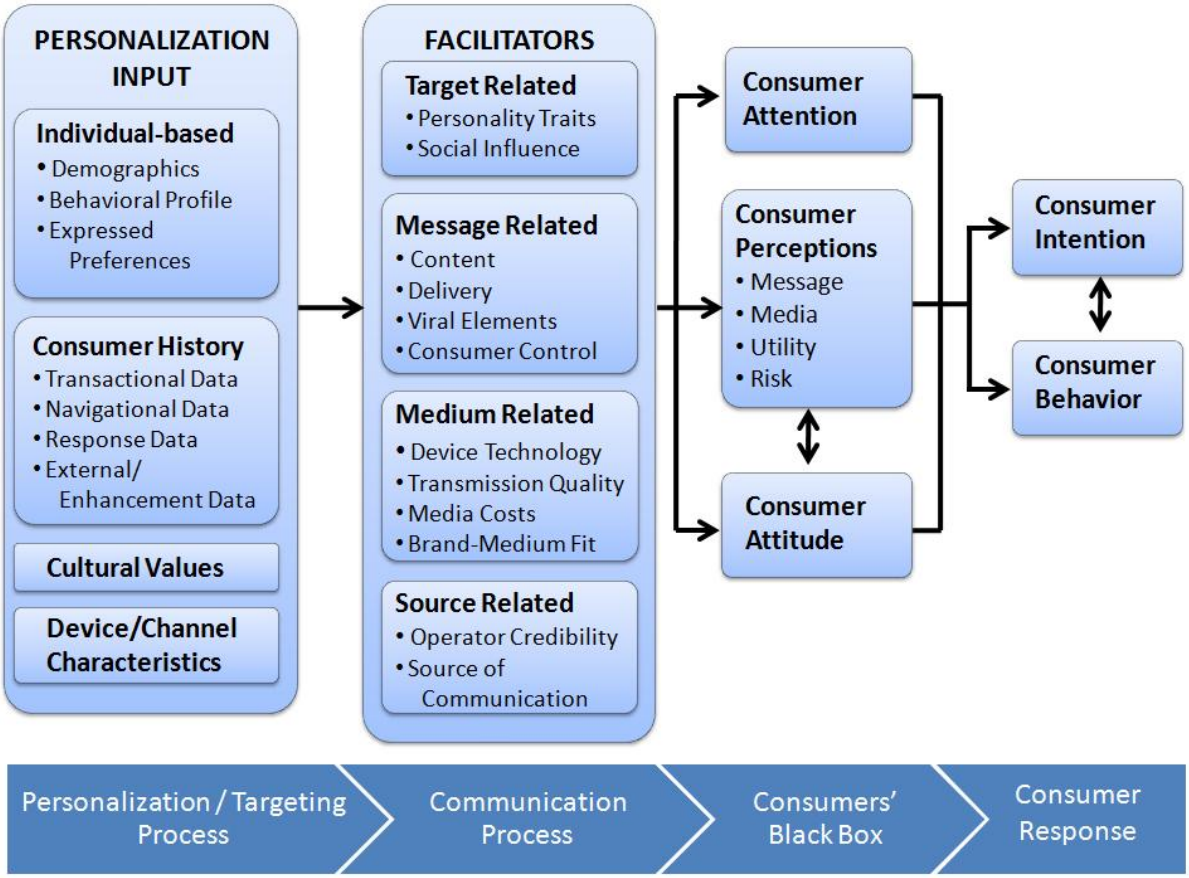

Figure 1. A Consumer Centric Model of Successful Mobile Marketing

Personalization/Targeting Process

Customers may perceive the value of an offering differently based on their personal values, needs, perceptions, interests and financial resources (Ravald and Gronroos, 1996). Therefore, personal characteristics and predispositions of mobile users are important predictors of how mobile marketing practices will be evaluated by different segments of consumers. Personalization is the degree to which a service/message is tailored to meet the needs and wants of a target segment of consumers. Personalization increases relevance, which is one of the most important factors affecting consumer attitudes toward mobile marketing initiatives. Relevance does not only make marketing messages more interesting and useful, but also attenuate their intrusiveness. Rettie, Grandcolas and Deakins (2005) found that people who find mobile marketing campaigns relevant are more likely to take actions such as visiting a web site, visiting a shop, replying to the message, providing personal information, engaging in word of mouth, or buying the product.

Effectiveness of personalization depends on the richness of data available in customer databases and adequacy of profiling techniques. Since each mobile handset is typically used by a sole individual, mobile operators can track and store high levels of personal behavioral data. When this data is combined with expressed preferences, and demographics of the customers, the resulting database allows for advanced customer profiling and hence precise targeting.

Personalization schemes typically use explicit data collected through various customer interfaces and by recording users' activities such as demographics (e.g., age, gender, income, education, occupation, marital status), expressed preferences (e.g., favorite sports club, leisure activities, holidays, music and media interests, community memberships, type of Internet access), mobile device characteristics (e.g., brand, model, device capabilities), and consumer history (e.g., prior transactions, responses to marketing efforts, participation in campaigns, navigational patterns) to create consumer segments having distinct profiles and then determine the type of information and services that will be delivered to the target customer groups, and customize the content, design and delivery terms of them. In some instances, external enhancement data provided by advertiser brands, market research companies and strategic partners are also used as inputs. Although the use of explicit data suffices in most of the real market cases and generates acceptable return rates, a more innovative and comprehensive targeting and personalization scheme may also utilize implicit data (e.g., need based or personality based segmentation) that can be derived from explicit data by using conjunctive rules such as association and classification rules. Effective personalization significantly increases the likelihood of acceptance and the effectiveness of mobile marketing practices (Xu, 2006/2007).

A majority of the existing academic literature suggests that an individual's demographic profile has a significant influence on adoption and usage of different mobile services and effectiveness of mobile marketing practices (Anckar and D'Incau, 2002; Barnes and Scornavacca, 2008; Karjaluoto et al., 2008; Mort and Drennan, 2005; Nysveen, Pedersen and Thorbjørnsen, 2005; Oh et al., 2008; Okazaki, 2004; Suoranta and Mattila, 2004; Yang, 2005). For example, Grant and O'Donohoe (2007) found that young people use mobile phones primarily for socialization and convenient entertainment rather than informational and purchasing reasons, which are more appealing to older and more educated users. Nysveen, Pedersen and Thorbjørnsen (2005) investigated the moderating effects of gender in explaining intention to use mobile chat services and found that social norms and intrinsic motives such as enjoyment are important determinants of intention to use among female users, whereas extrinsic motives such as usefulness and expressiveness are key drivers among men. Several other individual based characteristics such as prior non-store shopping experience, prior usage of mobile services, and prior usage of the Internet are also influential in willingness to engage in and accept mobile marketing. For instance, individuals with different experience levels differ considerably in terms of their attitude towards mobile advertising, entertainment and shopping (Suoranta and Mattila, 2004).

Cross-cultural research consistently shows that consumers' behavioral patterns in different cultural contexts show considerable differences, and mobile consumers' behavior is no exception (Lee et al., 2002; Harris, Rettie and Kwan, 2005; Weitenberner et al., 2006). For instance, Muk (2007) found that American consumers' decisions on accepting SMS ads are based solely on attitudinal considerations, whereas Taiwanese consumers are influenced by both social norms and attitudinal factors. Since users in individualist societies rely more on their own experiences when forming their attitudes, trialability of mobile services should be more influential on their intention to adopt mobile services when compared to their counterparts in collectivist societies. Similarly, individualist societies are more concerned about privacy issues and thus perceive SMS advertising as more intrusive than their

counterparts in collectivist cultures, who do not place a high value on them. These findings suggest that understanding the orientation of cultural values in a specific market and capturing those aspects within personalization schemes is an important prerequisite for successful mobile marketing.

Communication Process: Target Related Facilitators

Personality traits of consumers usually moderate the relationship between success factors of mobile marketing and behavioral/attitudinal outcomes. Mobile marketers should be aware of the significant influence of personality traits on service quality perceptions and consumer satisfaction. People with different tendencies and personalities may have divergent perceptions regarding the utility, emotional appeal or relevance of the same mobile marketing initiative. The academic literature have identified a long list of relatively enduring and stable personal traits that may influence an individual's perceptions regarding a mobile marketing message and intention to accept and use mobile services. For instance, mobile users who have a higher level of utilitarian tendency are found to have more negative perceptions on mobile Internet service quality (Kim and Hwang, 2006). Other personality traits that have been found to influence mobile consumer behavior include time-consciousness (Kleijnen, Ruyter and Wetzels, 2007), innovativeness (Mort and Drennan, 2005), information seeking behavior (Okazaki, 2004), concern for privacy (Junglas, Johnson and Spitzmüller, 2008), opinion leadership, optimism, confidence in technology (Marez et al., 2007), playfulness (Fang et al., 2005/2006), optimum stimulation level (Mahatanankoon, 2007) and personal attachment to the mobile phone (Rohm and Sultan, 2006).

Another target related facilitator is the perceived critical mass, which refers to the minimum amount of people who have already adopted the innovation necessary for adoption. Perceived critical mass is a reflection of social influence. Many researchers have successfully validated extended versions of Theory of Planned Behavior in the mobile context and found empiric support for the predictive power of social/peer influence on adoption of mobile services and acceptance of mobile advertising (Bauer et al., 2005; Bhatti, 2007; Khalifa and Shen, 2008; Rohm and Sultan, 2006; Wang, Lin and Luarn, 2006; Yang, 2007).

Message Related Facilitators

Design of the message content is the outcome of personalization process. Personalization increases the fit between message content and characteristics of the target consumer segment. Wording of the text, the length of the message, inclusion of graphical elements, , inclusion and the extent of "how to" directions, use of humor, informativeness of the message and inclusion of socialization and entertainment elements are all very important strategic message design issues that influence the acceptance and effectiveness of the marketing communication. Consumers with different personality traits and expertise levels will perceive different message designs as more appealing and enjoy different types of message content. So there is no global best way of designing a mobile marketing message. The most effective design depends on the target of the marketing message. Nevertheless, empiric studies and market-based evidence suggest that mobile marketing messages should be short and to the point, be interesting and relevant for the target group, call to action, include

incentives and include elements to facilitate viral effect (e.g., incentives for sharing, seem as little as advertising as possible, and include self-expressive aspects).

The literature unanimously agrees on the importance of the prior explicit permission of the consumer for the acceptance and success of a marketing message (Godin 1999; Barnes and Scornavacca 2004, Carroll et al., 2007). Prior permission is even more critical in the mobile context because in all other marketing channels, consumers may simply choose to ignore or get away from marketing effort if they are not interested in it or do not like it, which is not possible when the message is delivered to the personal mobile handset of an individual. Permission-based mobile marketing requires that consumers have to 'opt in' before they receive mobile advertising messages of any kind, have the ability to control timing and frequency of message delivery and the content of the message, and have the option to 'opt out' at any stage. Prior empiric studies found support for the claim that user control has a significant effect on consumers' attitudes toward mobile marketing and willingness to receive mobile advertising messages (Kleijnen, Ruyter and Wetzels, 2007; Maneesoonthorn and Fortin, 2006; Tsang, Ho and Liang 2004).

The situational context, especially time and location in which a mobile ad is received by a consumer is of crucial importance to how he/she reacts to it (Barnes and Scornavacca, 2004; Pura, 2005). Mobile marketing presents an unprecedented opportunity to deliver contextually congruent marketing messages. Location sensing ability and immediate message delivery features of the mobile medium enable marketers to communicate with their customer exactly at the time when the communication is most needed and when it is most likely to be effective. Therefore, an important success factor of mobile marketing is timing of message delivery (Chae et al., 2002). It should be contextually congruent both with the situation the user is in and the role the user plays at that particular time.

The mobile medium has a strong inherent viral element (Wais and Clemons, 2008). Anything that has a conversational value with a peer has a strong potential to be used by a person as a basis to interact with others in his or her social network. It may be considered as a convenient way to remind others that he or she is an active member of that community. Therefore, people basically engage themselves in disseminating, receiving or responding to socially relevant pieces of information to be a part of their peer community, and the most convenient way to engage in such activity is through the mobile medium because the mobile phone is ubiquitously connected to others. Mobile marketers can take advantage of this inherent viral element by designing and optimizing the content of mobile marketing messages to be passed on by users, which would multiply the reach of the campaign exponentially at almost no additional cost.

Medium Related Facilitators

Evidence suggests that attitudes toward mobile services improve as mobile devices and the underlying infrastructure proliferate in terms of usability, connection speed, quality and reliability. Nevertheless, there still exist technologically inferior handset models in the market and regions in the world which have not yet deployed 3G telecommunication technologies. Therefore, technological capability of one's mobile device and the speed, quality and reliability of the connection are still among important facilitators of mobile marketing adoption. In order to increase likelihood of compatibility, mobile marketers should deliver messages selectively to those handsets

that can attractively display the marketing message and are capable of supporting the elicited consumer response.

Brand-medium fit is another medium related facilitator of campaign success. For example, SMS proved to be particularly successful in promoting frequently purchased low-budget items. SMS and MMS are useful for targeting younger users to announce events or to introduce product launches (Scharl, Dickinger and Murphy, 2005). Statistics show that housewives are more likely to listen to IVR sound clips promoting FMCG products until the end of the message than any other consumer segment. The challenge is to choose the appropriate mobile application type for different marketing purposes, brands, messages, and target customers.

The last medium related facilitator is media cost. Anil et al. (2003) found that low costs and improved connection speeds were primary factors that would facilitate and encourage m-commerce. Bauer et al. (2007) identified cost and time related issues as decisive in adoption of mobile ticketing applications. Although the fierce competition in telecommunication industry lowered prices from their ever high levels, cost for consumers to engage in mobile marketing practices remains relatively high. Mobile marketers should seek for ways to lower the perceived expensiveness of engagement in mobile marketing practices by offering discounts on monthly bills on the basis of acceptance of mobile advertising or by providing incentives for participation.

Source Related Facilitators

In mobile marketing, the respondent can attribute positive or negative feelings to both the actual source of the message (sender of the message) and the operator who provides the medium for the message to be sent. Perceptions regarding both types of sources are equally important for the success of mobile marketing. Mobile operators' credibility depends on beliefs regarding their integrity, benevolence, competence, and predictability. Therefore, it is important for a mobile operator to improve its connection quality and ensure their subscribers that their personal information and privacy is being protected in order to provide its subscribers positive experiences, and hence establish a trust based reputation.

The identity of the actual sender of the message exerts significant influence on the acceptance of mobile marketing messages as well. Wais and Clemons (2008) found that people prefer to receive promotional messaging from another person rather than a company, would be more likely to perceive promotional messaging positively if it came from another person than if it came from a company, and the risk of brand damage is attenuated if promotional messaging comes from another person within one's community instead of a company.

Consumers' Black Box

The first two steps of the conceptual model include strategic success factors of mobile marketing that can either be controlled or observed by marketers. The fourth step includes behavioral outcomes that can be directly measured and assessed. Although these three steps sufficiently illustrate the mobile marketing process, they do not provide any explanation as to why and how the aforementioned factors result in desired customer responses. The explanatory power of the proposed conceptual model comes from the third part, which captures user perceptions, attitudes and attention.

Academic research in mobile consumer behavior suggests that intention to adopt and engage in mobile marketing practices is significantly affected by perceptions about the mobile marketing message, application and the medium itself. These perceptions predict consumers' attitude towards mobile marketing, which is together with social/peer pressure are the most important direct drivers of willingness to engage in and accept mobile marketing. Therefore, knowledge regarding user perceptions of various dimensions of mobile marketing would provide consumer-based meaning as to how and why aforementioned factors produce desired consumer responses.

User perceptions regarding the message content include perceived informativeness, entertainment, enjoyment, credibility, interactivity, simplicity, and usefulness. Informativeness, usefulness and credibility represent utilitarian benefits of a marketing message, whereas entertainment and enjoyment represent hedonic benefits. Although it is the value tendency of the individual or the purpose of usage that determines the relative importance of these benefits in influencing the intention to use mobile services (Fang et al., 2005/2006), generally both have been found to have significant impact on consumer attitudes (Bauer et al., 2005; Okazaki, 2004; Park, 2006; Tsang, Ho and Liang, 2004). Users who engage in mobile marketing in pursuit of a specific outcome (e.g., participating for a monetary gain, making an urgent transaction, booking a ticket, looking for a destination) would value informativeness, usefulness and simplicity of the marketing message more than its entertainment, and enjoyment.

Perceived credibility of the message content is related with trust towards the mobile marketer or towards the promoted brand, and has a direct positive and significant influence on consumer attitude toward mobile ads (Chowdhury et al., 2006).

Perceived interactivity is related to the perceived quality of interaction and navigational ergonomics, which can be improved by designing an easy to use, simple interaction interface, in which relevant information is in immediate reach and how to navigate is easy to understand (Chae et al., 2002; Dong-Hee, 2008). Design aesthetics of the mobile interface is another important predictor of perceived quality of interaction. It refers to the balance, emotional appeal, and aesthetic of the user interface and may be expressed through colors, shapes, fonts, music or animation (Cyr, Head and Ivanov, 2006).

User perceptions regarding the appropriateness of message delivery include perceived user control over frequency, timing and delivery of the message (Carroll et al., 2007; Kleijnen, Ruyter and Wetzels, 2007). If the user perceives that he/she is controlling what is being received as mobile marketing, he/she would have more positive attitudes toward the marketing effort (Maneesoonthorn and Fortin, 2006; Tsang, Ho and Liang 2004). Due to the personal nature of handheld mobile devices mobile marketing campaigns should be ultimately permission-based.

Application or service specific user perceptions include perceived technical excellence (performance expectancy), ease-of-use (effort expectancy), cost and trialability. Perceived technical excellence refers to the degree to which the mobile service is perceived as being technically excellent in the process of providing promised benefits (Kim, Chan and Gupta, 2005). Perceived ease-of-use refers to the degree to which a person believes that engaging with a mobile service would be free

of effort. Performance expectancy and effort expectancy, together with perceived connection quality and reliability determine the perceived convenience of the mobile service, which in turn has a strong impact on intention to engage in and accept it (Chae et al., 2002; Knutsen, 2005). In order to promote positive attitudes towards mobile marketing practices, marketers need to design mobile services that ubiquitously serve and support day-to-day individual and social practices which require very little prior experience and effort on behalf of the users.

Perceived trialability, which refers to the extent to which potential adopters can try out mobile applications, but decide to return to their prior conditions without incurring great cost, reinforces adoption of new mobile services (Marez et al., 2007), through reducing perceived risk and perceived cost.

Perceived risk is a major inhibitor of mobile marketing acceptance (Kleijnen, Ruyter and Wetzels, 2007). It refers to the subjective expectation of suffering a loss in pursuit of the desired outcome of using a mobile service. It includes both monetary risks, and privacy (Rohm and Sultan, 2006) and security (Fang et al., 2005/2006) considerations. Security considerations refers to the security of the transaction, whereas privacy considerations refers to the extent to which users perceive having control over sharing personal information with others. Methods to reduce perceived risk in mobile marketing include strengthening the trust towards the network operator via mass marketing and word of mouth marketing, establishing necessary technical protection measures against malicious third parties and making these measures visible to subscribers, explicitly stating the commitment of the mobile marketer for the protection of customer privacy, and increasing the trialability of offered mobile services.

Perceptions regarding the mobile medium itself include perceived connection quality, perceived risk and perceived expensiveness of subscription. Perceived connection quality refers to the degree to which users perceive that the connection between the mobile device and the internet is satisfying in terms of speed and reliability (Chae et al., 2002). Such perceptions are expected to improve significantly together with the transition to 3G networks.

Consumer attention, on the other hand, is another important antecedent of consumer behavior, which inserts the offering into consumers' cognitive set of available alternatives to try and sometimes may lead to impulsive trial of the offering. Drawing consumer attention is largely dependent on the content and context of the message.

Consumer Response

Consumer intention and consumer behavior are the success measures of the proposed conceptual model of mobile marketing success. An important advantage of mobile medium over traditional media is that it allows real-time micro-measurement of advertisement effectiveness. There are two kinds of mobile marketing response metrics: exposure rate and interactivity data. Exposure rate reveals the reach of the marketing communication and is usually measured by the number of times a visitor is exposed to the wireless ad. Although exposure measures are important in terms of measuring visibility of the ad, and its reach, they do not assess effectiveness of the ad

in terms of generating consumer response. Consumer response is measured by click through rate, which counts the number of visitors that actually click on a particular banner advertisement, respond via SMS or IVR, or downloads available mobile content. Exposure and click through measures are related to consumer awareness and attention, but they do not say much about consumers' like or dislike of the marketing communication, or attitude change toward the marketed brand or service.

On the other hand, interactivity data provides information about consumer behavior patterns and hints about consumers' like or dislike for the ads, the mobile application or the campaign as a whole. Through logging and tracking consumer response and navigational patterns (e.g., frequency of page visits, the number of repeat visits, where do the visitors come from, for how long do they stay, the average number of pages they visit, most popular navigation patterns through the site, the most and least popular pages, etc.) marketers can understand the extent to which mobile users actively engage with their mobile content.

Conclusion

Inherent characteristics of mobile devices, technological capabilities of the mobile infrastructure, and increasing penetration rates make mobile medium an attractive marketing channel that is substantially different than others in terms of its consumer-centric value propositions. Perceived value is especially important in marketing because it is the ultimate driver of acceptance and classification of all market offerings. Therefore, there is a need to understand which features of the mobile medium provide value from the consumers' perspective and how mobile value is created, so that mobile messages, services and applications can be designed to manifest those value propositions.

This paper presents a conceptual model that incorporates an extensive review of academic research on mobile marketing and field experiences of mobile marketing department of a pioneer mobile network operator company. The final outlook of the model has been decided upon a series of discussion meetings. The proposed model is thought to be beneficial to both academics by providing an integration of mobile consumer behavior research findings into a simple and coherent model of successful mobile marketing strategy, and to practitioners by providing insights into consumers' value creation process which would aid in setting up effective mobile marketing campaigns. The suggested conceptual model shall also provide a basis for establishing best practices for members of the mobile value chain and offer fruitful research avenues for marketing scholars.

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CAPITAL FLIGHT AND EXTERNAL RESERVE IN NIGERIA: A GLOBAL CHALLENGE TO DEVELOPING COUNTRIES

Mokuolu, Joseph O.
The University of Education, Ikere-Ekiti (TUNEDIK)
joemoks4ever@yahoo.co.uk

Oloyede, John A.
University of Ado-Ekiti, Nigeria
drjaoloyede@yahoo.com

ABSTRACT
Over the time, there has been serious debate as to the wisdom in accumulating foreign reserve by less developed countries given the high level of capital flight inherent in those countries. Different schools of thought have argued and justified their position. In this paper, we analyze the links between capital flight and external reserve in LDCs using Nigeria as a case study. This relates to whether exchange rates and other microeconomic variables encourage capital flight which eventually depletes the external reserve. The data used for this study is time series collected from different issues of the CBN statistical bulletin covering between 1986- 2006, a period of twenty years. The relationship and effect were investigated empirically and found a strong positive correlation between capital flight and external reserve and discovered that interest rate does not induce capital flight while overvalued exchange rate not only encourages it but contributed highly to capital flight. Provision of secured investment and political environment was tentatively suggested to induce both domestic and foreign investment and demonetization of politics as well as imposing stiffer punitive measures on erring corrupt leaders.

INTRODUCTION

The immediate past civilian government of Nigeria has been prudent and conservative in accumulating the country's foreign reserve from a mere $3.4billion in 1996 to about $47billion in 2007 reflecting a significant growth rate (CBN, 2007). This has engendered serious academic debate as to the wisdom in accumulating foreign reserve in the face of high level capital flight. Some scholars and policy makers argues and justify the desirability of external reserve for attainment of economic growth and development as it will accord the country international respect, recognition and acceptance.(Humphries,1990; Ford and Huang 1994). Justification of Nigerian position in accumulating foreign reserve was extensively documented by the Central Bank governor by siting the case of China which has over one billion dollar in her foreign reserve despite her large population (Soludo, 2000). The value of Nigerian foreign reserve in the year 2004 was given as U.S $17billion while that of China within the same period was estimated as U.S $822billion (CBN,2005; Russell and Torgersen,2007). Another reason posited by Yaguda (2003), Soludo (2005) and Nda (2006) is that external reserve will help build international community confidence in the nation's policies and creditworthiness as against lack of confidence in Nigerian economy as shared by (Humphries 1990; Archer and Halliday 1998).

However, the antecedent history of flight capital in Nigeria economy right from the era of the military regime to the present democratic dispensation has brought a question mark on the wisdom of this position in attaining economic growth and development given the level of

corruption and indiscipline inherent in the country coupled with the abject poverty been faced by the majority of the masses as a result of uneven distribution of wealth. Less developed countries generally faces scarcity of capital and should be net foreign borrower during the development process as supported by Ford and Huang (1994) findings that a country's foreign reserve position determine her rating in the global market and will make her appear financially responsible and credit worthy from the compass of other countries creditors and donors. Given that a country can attain a desirable growth path through supplementing domestic saving with external borrowings and do not have to rely solely on domestic reserves as a base for credit. The question then arise that why do residents in the Less Developed Countries often choose to invest their savings abroad at the same time that they are seeking external finance? Given the insatiable taste of Less Developed Countries individuals for foreign investment leading to high rate of capital flight from the Less Developed Countries to the Developed Countries in various form, will this not have a serious implication on the rate of exchange and other macroeconomics variables? These are some of the questions this paper poised to clarify to establish whether foreign reserve accumulation policy will achieve its desired objectives in the face of flight capital in Nigeria. The paper is structured into 5 sections. Sections 1 and 2 are the introduction and general review of literature, while section 3 and 4 dwell on the methodology and analysis of data and the last section is the conclusion and recommendation.

LITERATURE REVIEW

Capital flight is defined as the stock of claims on non residents that do not generate investment income receipts in the creditor's country's balance of payment data while foreign reserves are the stock of foreign currency deposits acquired from international transactions and held and controlled by the country's monetary authorities. The conventional perspective sees the external reserve as a store of assets that Central Banks could use to influence the exchange rate of their domestic currency (Nugee 2002: Williams 2003; IMF 2004). They are assets of the Central Bank which are held in different reserve currencies such as gold reserves in the International Monetary Fund (IMF), U.S dollar, Euro pound sterling, Yen etc and which are used to back its liabilities (Obajemu, 2007) Literature have shown that a variety of Less Developed Countries and some Developed Countries are showing increasing interest in accumulating foreign reserves (Mendoza 2004; Turne 2007,Mac-Andre et al 2005; Halliday 1998; Rajan 2002; Iyoha 1976; Russsell et al 2007; Heller 1966) for various reasons. However, the evidence from Asian financial crisis indicated that published data on official foreign exchange reserve may be misleading and inadequate to cushion the self insured role of external reserve (Stiglitz 2002). Archer and Halliday (1998) identified the reasons for holding foreign reserves to include among other things; foreign exchange market stability, exchange rate stability, exchange rate targeting, credit worthiness ,provision of emergency fund and having transactions safeguard, an opinion earlier shared by Humphries (1990).

The reasons advanced by Nugee (2002) and Reddy (2005) for accumulation of foreign reserves are to insure against abrupt reversal of capital flows; liquidity consideration related to exchange rate management and credit worthiness concerns; relieving upward pressure on a fixed exchange rate to help maintain trade competitiveness; as a formal backing for the domestic currency; tool of exchange rate or monetary policy; source of fund to pay for government expenditure overseas; defense against emergency or disaster and for investment purposes. Mendoza (2004) observes that reserve management in many countries is motivated by the need to guard against possible financial crisis.

Obajemu (2007) summarizes all the justifications for holding foreign reserves into three motives viz transactional motive; precautionary motive and speculative motives. According to him all the reasons put forward by other contributors will fit into any of the three groupings.

Dooley et al (2004) argued that reserve accumulation agenda in Asian Central Banks was to prevent their currencies from appreciating against the U.S dollar in order to promote their export led growth strategy.
However, there, both variable and on going costs are associated with holding external reserve. Iyoha (1976) examined the demand for external reserves in 29 Less Developed Countries comprising Nigeria and some Asian countries and found that a 10% rise in the opportunity cost of holding reserve would lead to a 9% decrease in the level of reserve holding which could possibly be attributed to capital flight.
Moreover, Vojtisck (2002) observed that a nation's external debt and reserve values are very important indicators of external vulnerability, which include current account indicators, liquidity indicators etc which Dornbusch (1994) and Cuddington (1985) earlier corroborated by shedding more light on why simultaneous borrowings and investing in international capital market by the LDC's has become more evident in recent years. They argue that outflow of capital or capital flight has caused serious economic differences for LDCs. It has caused the building up of the gross foreign debts, erosion of tax base and to the extent that there is no real resources transfer from the country.

It is necessary to distinguish between capital outflow motivated by normal portfolio decisions and those based on the desire to place assets beyond the control of domestic authorities. The former connotes normal or legal flow while the later connotes abnormal or illegal flows (Kindle Berger 1987). There are various reasons adduced for illegality of capital outflow which may imply that the concerned country imposes exchange or capital control as capital flight is not peculiar to LDC's alone. Capital flight has been recorded in countries that have no capital control such as Argentina, Mexico and Venezuela (Lesserd and Williamson 1987). Theoretically, macroeconomic volatility has been adduced as one of the reasons that tend to increase uncertainty and thereby reduce the risk-corrected returns on domestic investment which could tend to increase the proportion of the wealth portfolio held abroad. This phenomenon is mostly common to developed economy and has been proposed as an important explanation for the relatively low rate of domestic investment and high rate of capital outflows in the U.K (Barrell and Weale, 2003) Speculation may also induce capital flight especially if the real exchange rate is perceived to appreciate for instance in the era of relative political stability in a developing economy where the political situation has been volatile. Private agents can take speculative advantage of this temporary price change both by purchasing durable imports and by shifting capital abroad. Collier, Hoeffler and Patillo (2001,2002) posited in their standard analysis of capital flight make provision for some exchange rate incentive by including the premium on the parallel market exchange rate as an explanatory variable. A high premium indicates a large and probably unsustainable subsidy for purchases of foreign exchange at the official rate and so provides a powerful incentive for capital flight.

Another important factor that serves as channel to capital flight is corruption. The wisdom in prudence and conservatism of accumulating foreign reserve in an economy such as Nigeria has been questioned given the level of corruption and indiscipline inherent in the country. The most widely accepted channel of external reserve leakage to capital flight has been identified as corruption especially in developing economies (Collier, Hoeffler and Patillo, 2004). The corruption hypothesis depend upon two steps: accumulated external reserve increases and corruptly acquired assets are more likely to be placed abroad. There are spectacular and credible instances of external reserve being diverted by corrupt politician into Swiss bank accounts. Instances of such coruptlly acquired money and asset being held abroad are the estimated $4billion of former President Sanni Abacha of Nigeria. A former state governor James Ibori had his assets valued at about 35million frozen by an U.K court(wikipedia 2007). External reserve accumulation may directly create opportunity for public sector corruption through high expenditures on procurement. Knack (2001) using global data find some statistical evidence that external reserve is associated with corruption. Again, corruptly

acquired money and assets may be held more securely abroad since it has distinctive risk properties being as safe as honestly acquired assets when held outside the country.

Photograph of a Loot by an African Leader

Source: www.stuvs.com/events

Mondestus (2008) x-rayed capital flight in the light of local insurance companies inabilities to carry big ticket risks particularly in the oil and gas sectors thereby making the oil companies and multinationals to place their risks with their affiliate companies abroad which had resulted into loss of revenue the nation's economy. According to him the insurance industry in Nigeria is loosing N70billion premium annually from the oil and gas sector as revealed from the contribution to the nation's GDP at less than 1%.

METHODOLOGY

The period of analysis is 1986-2006 a period covering about twenty years since the structural adjustment program was introduced about this time and the float exchange rate system was also introduced about this time. The study employed secondary data obtained from the Central Bank of Nigeria (CBN) statistical bulletin. Econometrics tools of analysis was adopted employing regression analysis to establish the relationship existing between exchange rate, flow of capital and external reserve. The test statistics employed were the Regression Analysis of the Ordinary Least Square (OLS) method, the correlation analysisi techniques (R2), the Student T-test and F-test to measure the significance of the relationship that exists between the variables.

Model Formulation

In an attempt to investigate the link between the External reserve and capital flight, and that overvalued exchange rate encourages capital flight and that high interest rate also induces capital outflow in Nigeria simple and multiple techniques were adopted. Since the technique requires specification of a model describing the relationship between the variables under investigation, this study therefore specifies two models as follows:

Cf= f(er,int)……. (I)

extRsv= f(cf, int, er)…….. (II)

These models can be written into the following equation:

$Cf = b_0+b_1X_1+b_2X_2+e$…….. (III)

$ExtRsv= b_0+b_1X_1+b_2X_2+b_3X_3+e$……. (IV)

Where;

Cf= Cash Outflows

EXTRSV= External Reserve

b_0,b_1,b_2,b_3 = parameters of estimates

X_1= Cash Outflows

X_2= Real Interest Rate

X_3= Exchange Rate

In equation (I) the dependent variable is external reserve while the independent variable is cash outflows representing capital flight. Capital flight is measured in accordance with the world bank residual method which defined capital flight as the difference between the sources of funds and the uses of funds. The work by Claessens (1997), Chang, Claessens and Naudes (1993) however discusses the various methods of calculating capital flight measures in great detail and conclude that the different concepts broadly yield the same result.This equation intends to show how cash outflow has helped to reduce the external reserve. We expect a positive relationship between external reserve and cash outflows.

The second model attempt to examine the relationship and effect the exchange rate and the interest rate will have on the cash out flow resulting to capital flight as suggested in literature that they induces capital flight. In equation (II) the dependent variable is the cash outflows and the independent variables are the exchange rate and the interest rate. This is intended to investigate whether high interest rate induces capital flight and also show that overvalued exchange rate encourages capital flight. The a priori expectation is that exchange rate and interest rate will have a positive relation with capital flight.

RESULT AND INTERPRETATION

Table I Showing Regression Result of Effect of Capital Flight on External Reserve

	Constant	Explanatory Variable (Capital Flight)	R	R2	Adjusted R2	F-Statistics
β t-Statistics		.730 (4.659)	.730	.533	.509	21.786
Prob.		000				000

The result from the table above shows that there is a strong positive correlation between capital flight and the external reserve. This is explained by 73% correlation coefficient implying that as external reserve increases capital flight also increases showing that the increase in the size of external reserve induces and increases the tendency for corrupt politicians to siphoned funds to foreign countries. This result corroborate reviewed literature by Knack (2001) as large external reserve induces capital flight. The coefficient of determination of .53 further asserted that 53% of the total depletion in external reserve can be accounted for by capital flight. The t-statistic of 4.65 is significant at 5% significant level and

is a strong indication that the parameter of estimate is statistically significant in determining the level of capital flight out of the country. The F-statistic however tests for the overall significance of the equation and revealed that the equation is statistically significant and thus we can accept that capital flight have effect on external reserve.

Result of Model II

Table II: Showing the Regression Result of Effect of Interest Rate and Exchange Rate on Capital Flight

	Constant	Interest Rate	Exchange Rate	R	R2	Adjusted R2	F-statistic
β t-statistics	(.697)	-.115 (-1.835)	.957 (15.683)	.966	.933	.926	125.239
Prob.	0.495	.076	000				000

The multiple regression result indicates that about 93% of the variation in capital flight in Nigeria can be accounted for by interest rate and exchange rate. The F-statistic shows the overall significance of the regression equation. However when interest rate is regressed against capital flight the result shows an inverse relation. The negative correlation implies that an increase in the interest rate bring about a decrease in the rate of capital although this does not have a significant contribution which is about 11% as revealed by the t-statistic of -1.835. this result contradict reviewed literatures asserting that high interest rate induces capital flight and the simple explanation for this is that Nigerians are not influenced nor motivated by the fluctuations in the interest rate as they are mostly concerned with the political volatility in the country and the strong desire to loot the government treasury and since foreign countries provide a save haven for such , thus the massive capital flight from the country. Foreign investors likewise are not motivated by the interest rate because of the political volatility and insecurity in the country which is a reflection of what happens in other Less Developed Countries. But the regression result revealed a strong positive correlation relationship between capital flight and exchange rate. The implication of this is that the more the exchange rate of the country is being overvalued the more the tendency for capital flight to increase. This is expected according to reviewed literature and especially in the case of Nigeria which account for exodus of Nigerians overseas seeking greener pastures and also encourages capital flight. The t-statistic result of 15.683 confirms that exchange rate have a significant contribution of about 95% to capital flight.

SUMMARY AND CONCLUSION

In this paper we have analysed the links between capital flight and external reserve in LDCs using Nigeria as a case study. The data used is time series collected from different issues of the CBN statistical bulletin. Regression analysis of the Ordinary Least Square Method (OLS) method was employed using SPSS package to test the models specified to capture the relationship existing between the variables. The result obtained in most cases is in line with conclusion drawn from previous studies. We found out in this study that there is a strong positive correlation between capital flight and external reserve and made us conclude that accumulation of external reserve encourages Capital Flight. We also discovered that interest rate does not contribute much to capital flight and the relationship is negative implying that most incidents of Capital Flight is not attributed to interest rate volatility in most LCDs. However the contribution of Exchange Rate to Capital Flight is high and positive as revealed from this study. The implication of this is that an overvalued Exchange Rate greatly induces Capital Flight in LDCs.

RECOMMENDATIONS

As the problem of Capital Flight is becoming a global challenge to developing countries, the various LDCs government Nigerian inclusive should embark on policies to sustain this cankerworm gradually destroying the economic development of these countries which should include: Provision of secured investment environment to give foreign investors confidence in retaining their funds in the host country without having to illegally move it back to their home country. The case of Niger-Delta restlessness is an example that would motivate investors to cart away their fund as we have established that interest does not have anything to do with Capital Flight. The role of the Central Bank of Nigeria (CBN) in the management of the reserve is very vital, so policies should be developed to vet foreign fund transfer transaction especially of the fictitious contracts and business transactions for most corrupt LDCs leaders. The CBN in her role as the police of external reserve should go all out to monitor the activities of most of the new generation banks as they are mostly used as conduits to siphoned funds to safe haven abroad in their bid to make abnormal profit.

Again the CBN should be more vigilant to monitor and trace the origins of the businesses and contracts requiring foreign currency to be sure that they did not belong to most of the owners of this banks who establishes them with ill gotten money and thus uses them to move funds out of the country although the recent CBN corporate governance policy is trying to address this issue. The National Assembly should legislate a stiffer penalty on any corrupt politician found involved in Capital Flight although this may be difficult as most of them are guilty of this offence. The EFCC and ICPC should be made completely autonomous to investigate and decide cases without presidential interference for justice to take its toll on any erring citizen caught in the court of law.
A national conference on constitution review should be instituted to include a capital punishment for anyone involved in capital flight. The Conference in their review should also discourage money politics in the country so as to reduce the rate of Capital Flight as the Nigerian politicians sees politics as an investment and a do or die affair where the winner carry all and thereafter try to recoup its investments with profit. The welfare of the citizenry should also be improved upon to reduce the rate of human capital flight from the country. A situation where a school certificate dropped out councilor is earning more than triple what a university Professors earns which leaves a bitter taste in the mouth.

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THE ROLE OF POSITIVE ORGANIZATIONAL BEHAVIOR: A CONCEPTUAL MODEL

Varnali, Renin
Boğaziçi University
reninvarnali@gmail.com

ABSTRACT

The purpose of the present article is to propose a conceptual model investigating the interrelationships among constructs of perceived organizational climate, work value orientations, job satisfaction and organizational citizenship behavior (OCB) within the framework of positive organizational behavior (POB). Employees' perceived organizational climate and their work value orientations are influential in both their job satisfaction level and OCBs. Prior empiric findings support that job satisfaction and OCB are particularly relevant outcomes in positivity research. There is significant amount of literature accumulated on the topics of job satisfaction of employees, their level of engagement in OCBs, organizational climate and work value orientations. Although these constructs have been used together in conceptual models and tested in empirical researches, the acknowledgement of the role that POB plays in linking these constructs together is quite recent and provides opportunities for future research. The present article proposes a conceptual model that incorporates the aforementioned constructs in a single, comprehensive framework and presents a discussion regarding these constructs adopting the perspective of positivity research. The conceptual framework proposes that the existence of positive organizational behaviors would make these relationships more robust; which would highlight the importance of these positive organizational behaviors at workplace. The proposed model would be beneficial to both academics by providing fruitful empiric research avenues and to practitioners by directing them in recruitment, training and career development processes.

INTRODUCTION

The relationship between positive feelings of employees and their performance has been long recognized by the organizational behavior (OB) scholars. Its roots can be traced back to the Hawthorne Works of the Western Electric Company. However, both scholars and practitioners have arguably too often taken a negative perspective by trying to fix what is wrong with managers and employees and concentrating on weaknesses. Following the lead of recently emerging positive psychology, a stream of research started to focus on people's strengths and psychological capabilities, which resulted in the conceptualization of positive organizational behavior (POB) construct.

Prior empiric findings support that positive personality traits such as conscientiousness, emotional stability and positive affect are positively related to job satisfaction, which in turn is positively related to performance. Also, with respect to the desirable work outcomes, job satisfaction has been identified as a predictor of

organizational citizenship behavior (OCB). OCB is conceptualized as voluntarily going above and beyond the immediate tasks and short-term expectations. Examples of OCBs include helping others with work related problems; adhering to norms, policies, and procedures set forth by the organization even when no one observes; not complaining and exhibiting a positive attitude in the face of adversity; expressing a positive attitude about the organization to outsiders; etc. Therefore, job satisfaction and OCB are particularly relevant outcomes to be assessed in positivity research.

Employees' relations to their works, also known as work value orientations are also influential in both their job satisfaction level and OCBs. These orientations are shaped by employees' values, norms and how they view work as part of their lives. In addition to these self-driven values, perceived organizational climate provides employees values which are organization-driven. These values reflect the organization and how the employees view and perceive organizational values, norms and procedures. These are related whether the organization is open to change; encourages participation; supports empowerment; values creativity, positive thinking etc. These organizational values shape employees' perceptions about the job and organization, and play a role in creating their personal work value orientations. Thus, both employees' personal work orientations and their perceived organizational climate influence employees' level of job satisfaction and engagement in organizational citizenship behaviors.

There is significant amount of literature accumulated on the topics of job satisfaction of employees, their level of engagement in organizational citizenship behaviors, their work value orientations and perceived organizational climate. Although these constructs have been used together in conceptual models and tested in empirical researches, the acknowledgement of the role that POB plays in linking these constructs together is quite recent and provides opportunities for future research. The present article proposes a conceptual model that incorporates the aforementioned constructs in a single, comprehensive framework and presents a discussion regarding these constructs adopting the perspective of positivity research. The conceptual framework aims to assess the relative importance of self-driven work value orientations versus perceived organizational climate in determining employee job satisfaction and organizational citizenship behaviors. Furthermore, it is proposed that the existence of positive organizational behaviors would make these relationships more robust; which would highlight the importance of these positive organizational behaviors at workplace. With respect to the POB, the constructs of employees' happiness at work and their optimism about the work are selected and applied in the model. The proposed model would be beneficial to both academics by providing fruitful empiric research avenues and to practitioners by directing them in recruitment, training and career development processes.

Theoretical Background

As Luthans (2002b) defines, POB is "the study and application of positively oriented human resource strengths and psychological capacities that can be measured, developed, and effectively managed for performance improvement in today's workplace" (p.59). The construct encompasses many existing OB concepts from the domains of attitudes, personality, motivation, and leadership. Luthans (2002b) proposes several criteria for inclusion of traditional OB concepts in the domain of

POB. First of all, it is not enough to have a relationship between the construct and positivity, but it must also be relatively unique to the OB field. Additionally, it has to have valid measures, be adaptable to leader/management and human resource training and development, and most importantly, should be capable of contributing to performance improvement in today's workplace. The concepts that are identified and analyzed as most representative of the proposed POB approach are confidence/self-efficacy, hope, optimism, subjective well-being/happiness, and emotional intelligence. As Seligman and Csikszentmihalyi (2000) indicate, the levels of analysis can be summarized to be at the subjective level (i.e., positive subjective experience such as well being and contentment with the past, flow and happiness in the present, and hope and optimism into the future); the micro, individual level (i.e., positive traits such as the capacity for love, courage, aesthetic sensibility, perseverance, forgiveness, spirituality, high talent, and wisdom); and the macro group and institutional level (i.e., positive civic virtues and the institutions that move individuals toward better citizenship such as responsibility, altruism, civility, moderation, tolerance, and a strong work ethic).

There is strong support for the argument that dispositional factors are related to job attitudes (Staw et al., 1986; Staw and Ross, 1985). Wrzesniewski et al. (1997) believe it is important to understand the subjective experience of work; in other words, how individuals differ in their experience of the work they do. As Wrzesniewski et al. (1997) in their article point out employees' work value orientations can be categorized as being job or career or calling. This categorization is based on the work of Bellah et al. (1985). According to this categorization, people with job orientations would be focusing on financial rewards and necessity rather than pleasure or fulfillment. For career oriented people, the focus is on advancement and those who have a calling orientation would be focusing on enjoyment of fulfilling and socially useful work. In a more detailed manner, the authors characterized people with job orientations as they are only interested in the material benefits from work and do not seek or receive any other type of reward from it. For these people the work is not an end in itself, but instead is a means that allows individuals to acquire the resources needed to enjoy their time away from the job. Their major interests and ambitions are not expressed through their work. Unlike job orientation, career orientation characterizes people with a deeper personal investment in their work and marks their achievements not only through monetary gain, but through advancement within the occupational structure. These people are also interested in higher social standing, increased power within the scope of one's occupation, and higher self-esteem for the worker. People with calling orientations, on the other hand, are characterized by their way of looking at the work. As to these people, their work is inseparable from their life. These people view work not as a means for financial gain or career advancement, but instead for the fulfillment that doing the work brings to the individual.

As the authors James and Jones (1974) state organizational culture or climate is the shared perceptions of what the organization is in terms of practices, policies, procedures, routines, and rewards that are applied and also what is valued and what behaviors are expected and rewarded. According to the authors, these are all based on shared perceptions among employees within formal organizational units. Denison and Mishra (1995) suggest that organizational climate can be used in order to improve organizational performance, individual satisfaction, the sense of certainty about how problems are handled, and other aspects of work life. Throughout the literature, the

issue of positive organizational climate or culture has been studied. Martin (2004) argues that in order to increase satisfaction, motivation and productivity in the workplace, a positive organizational culture should be built and developed.

Ramlall (2008) tested whether work will be a significant source of happiness if the environment is appropriate to the employee and the employee has the ability to shape the environment that will create the happiness. The author found out that work is a significant contributor to one's happiness and allowing employees to contribute in creating a positive environment results in higher levels of happiness among the workforce. Another significant factor contributing to an employee's happiness is one's level of optimism. It is figured out that being optimistic leads to an employee's satisfaction and commitment to the company, and even to the employee's happiness. Also in the same study, the researcher tested whether organizations with a more positive culture will provide an environment that enhances happiness, commitment, satisfaction, and, ultimately, higher performance. Also in the same study, the author examined the extent to which employees' respective organizational cultures are perceived as positive and instrumental in creating an environment that fosters commitment to the organization, employee satisfaction, and happiness, and leads to higher individual and firm performance. The results showed a positive relationship between organizational culture and performance. In organizational behavior studies, the analysis of performance and job satisfaction as work outcomes is common. The relationship between supportive climate and employees' satisfaction and commitment is particularly investigated throughout the literature.

In 1977, Organ introduced the term "organizational citizenship behavior" (OCB) for the first time suggesting it to be a component of job performance. After a year, in 1978, Katz and Kahn argued that besides their prescribed roles, employees should engage in behaviors that go beyond formal obligations for effective functioning of organizations. The characteristics of OCB have evolved over the past two decades. There have been many modifications, additions, and enhancements since Smith et al. began exploring the topic in 1983 empirically. Organ has been an extremely influential pioneer on the topic of OCB. Organizational citizenship behavior (OCB) was defined by Organ (1988) as "individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization" (p. 4). According to Diefendorff et al. (2002), in general OCBs differ from in-role performance in two main aspects. First, as stated by Organ (1997) unlike in-role performance, OCBs do not directly support the technical core but rather influence the social and psychological environment of organizations, which in turn influences the technical core. Thus, it can be claimed that although both types of behaviors contribute to the organizational effectiveness, OCBs operate indirectly whereas task performance operates directly. Second, OCBs are more discretionary and less constrained by work-process technology and other task features than in-role activities. Task performance is influenced by individual ability and work-process technology; on the other hand, OCBs are influenced by what individuals think and feel about their jobs (Organ and Ryan, 1995; Penner et al., 1997). Throughout the literature, many scholars interested in the topic of OCB have established different dimensions for OCBs. Examples of these dimensions include altruism, conscientiousness, civic virtue, sportsmanship, and courtesy (Brief and Motowidlo, 1986; Podsakoff et al.,1990).

Interrelationships of the Constructs and the Propositions

According to Fredrickson's theory a number of positive emotions share the ability to broaden an individual's momentary thought-action repertoires through expanding the available array of the thoughts and actions that come to mind (Fredrickson, 1998, 2001; Fredrickson and Branigan, 2001) and these positive emotions support building the individual's personal resources. As Fredrickson (2001) suggests, this capacity to experience the positive is proposed to be central to one's ability to grow both mentally and psychologically. Similar to Fredrickson's broaden-and-build theory (2001), Wright (2005) has pointed out the contribution of positivity to building and developing psychological resources and consequently to enhancing job performance. Wright (2005) suggests that this perspective may be effective in conceptualizing, operationalizing, and testing the happy worker-productive worker thesis.

Over the years, in many studies OCB and satisfaction are used as outcome measures. Prior studies investigated these constructs both independently and within a relationship. In addition, empirical evidence supports that positive states and state-like constructs are influential on organizational behaviors and outcomes (Stajkovic and Luthans, 1998). The possibility of a moderating effect of positive emotion on the job satisfaction-job performance relation has been long recognized (Fisher and Hanna, 1931; Locke, 1976). Studies conducted in the past support that positive personality traits and emotional stability (Judge et al., 1999), and positive affect (Ilies et al., 2006), are positively related to job satisfaction (Judge et al., 2001; Wright, 2005). Also, job satisfaction has been identified as a predictor of organizational citizenship behavior (Ilies et al., 2006; Konovsky and Organ, 1996; Organ and Konovsky, 1989; Organ and Ryan, 1995). In other words, job satisfaction and OCB would seem to be a particularly relevant outcome to assess in positivity research.

The first set of propositions involves the three types of relations one can have with work (Bellah et al., 1985). It is expected that people with calling orientation would be more satisfied with their jobs and therefore engage in OCBs more compared to those with career or job orientations. Besides, personal work orientation is expected to have a direct influence on employees' level of engagement in OCBs. Accordingly the propositions are:

- P1a: Employees work orientations will directly influence their OCBs.
- P1b: Employees with calling work orientations are more willing to engage in OCBs than those with job or career orientations.
- P2a: Employees work orientations will have an indirect effect on OCB through job satisfaction.
- P2b: Employees with calling work orientations will be more satisfied with their jobs than those with job or career orientations.

In their study, Mercer and Bilson (1985) found out that there is a positive relationship between supportive organizational climate and employee outcomes such as organizational commitment and job satisfaction. Supportive organizational climate can be defined as the overall amount of perceived support employees receive from their immediate peers, other departments, and their supervisors. Perceived organizational climate is expected to have an impact on employees' personal work orientations. Additionally, in previous studies, supportive climate was found to be positively associated with both satisfaction and commitment. Specifically, it was

figured out that employees who perceive the climate in their organizations to be more supportive are more likely to experience higher levels of psychological capital (PsyCap) which is a construct studied in the POB approach. Related propositions are:

- P3a: Employees' perceived organizational climate will influence their personal work value orientations.
- P3b: When employees perceive organizational climate as supportive, they will have calling work value orientation.
- P4a: Employees' perceived organizational climate will influence their level of job satisfaction.
- P4b: Supportive organizational climate will increase employees' level of satisfaction.
- P5a: Employees' perceived organizational climate will influence their level of engagement in OCBs.
- P5b: Supportive organizational climate will increase employees' level of engagement in OCBs.

Among various constructs that belong to the domain of POB, optimism about work and happiness at work are included in the conceptual model. These constructs are expected to influence the strengths of the proposed relationships and make them more robust and meaningful. Thus, they will have moderating effects as follows:

- P6a: Job satisfaction will have a stronger effect on OCB for the employees who are more optimistic about their work.
- P6b: Job satisfaction will have a stronger effect on OCB for the employees who are happier at work.
- P7a: Personal work orientations will have a stronger effect on OCB for the employees who are more optimistic about their work.
- P7b: Personal work orientations will have a stronger effect on OCB for the employees who are happier at work.
- P8a: Perceived organizational climate will have a stronger effect on OCB for the employees who are more optimistic about their work.
- P8b: Perceived organizational climate will have a stronger effect on OCB for the employees who are happier at work.

The proposed Model

In this conceptual model, the constructs of perceived organizational climate, personal work orientations, job satisfaction and OCB are demonstrated as interrelated constructs; and the two constructs representative of the POB approach, optimism about work and happiness at work are included as moderators that strengthen the aforementioned relationships when they exist. According to Martin Seligman (1998), the recognized pioneer of the positive psychology movement, optimism is viewed as an attributional style that explains positive events through personal, permanent, and pervasive causes and negative events through external, temporary, and situation-specific ones (Peterson and Steen, 2002). Carver and Scheier (2002) suggest that, as a result of these attributional or explanatory style differences, optimists build positive expectancies that motivate their goal pursuit and approach coping behavior in the future.

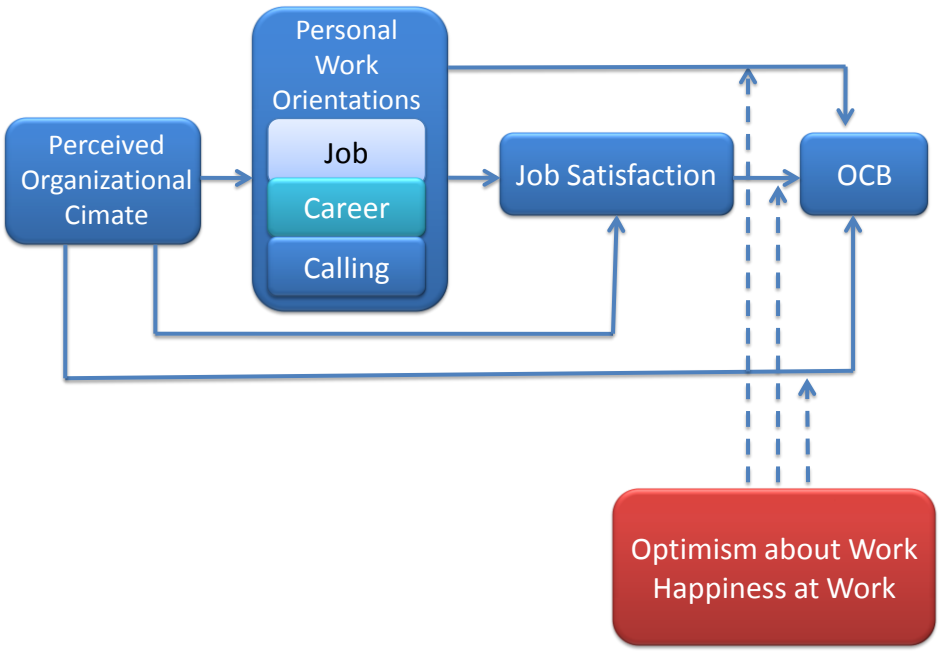

Figure 1. The Proposed Conceptual Model

Optimism is created, motivated, and developed in relation to the pursuit of personally valuable goals which makes the construct relevant to the personal work orientations of employees. Optimism is included in the POB due to its supported positive relationship with performance in various life domains (Peterson and Barrett, 1987; Prola and Stern, 1984), especially the workplace (Luthans et al., 2005; Luthans et al., 2007; Seligman, 1998; Youssef and Luthans, 2007).

With respect to happiness at work, as Diener (2000) argues, happiness encompasses positive cognitions, and emotions, that result in subjective sense of well-being and general life satisfaction. There are several studies that have shown that happy individuals are successful across multiple life domains, including marriage, friendship, income, work performance, and health (Lyubomirsky et al., 2005). It has been argued that the happiness – success link exists not only because success makes people happy, but also because positive affect engenders success. According to Wright (2005) well-being is the most relevant operationalization of happiness, which is also in line with positive psychology and its emphasis on health, well-being, flourishing, and actualizing one's potential. Luthans (2002b) suggests that well-being is related to the perception, emotional interpretation, and cognitive processing of events and situations rather than to actual conditions, which makes it particularly relevant to a broadened conceptualization of work related outcomes.

Wright and Cropanzano (2004) have found out that positive work behaviors have statistically significant relations to employee performance. Based on Fredrickson's broaden-and-build model, Wright et al. (2007) found that psychological well-being moderates the relation between job satisfaction and job performance. This finding is

important to reach a conclusion for the inconsistent results of previous studies solely focusing on the job satisfaction – job performance relationship to explain the happy – productive worker thesis. In a more specific manner, they have found out that job performance was highest when employees reported high scores on both psychological well-being and job satisfaction. This finding is relevant to OCB part in the model proposed. OCB can be predicted through positive personality traits, positive attitudes, and motivation (Organ and Ryan, 1995) and positive institutional characteristics such as organizational support and procedural justice (Moorman, et al., 1998). Recent empirical studies support the interaction between individual-level positive personality traits and states in predicting both the frequency and consistency of engaging in OCBs (Ilies et al., 2006). As Luthans et al. (2008) argue employees' psychological capital is positively related to their performance, satisfaction, and commitment and a supportive climate is related to employees' satisfaction and commitment. In their study, they have found out that employees' psychological capital mediates the relationship between supportive climate and their performance. Perceived organizational climate, personal work orientations and job satisfaction all have an impact on employees' level of engagement in OCBs. But in order to strengthen these relationships and have consistent results all over again, one should not solely focus on these relationships but also consider the moderating role of positive organizational behavior constructs like happiness at work and optimism about work.

Conclusion

The present paper proposed a conceptual model that places constructs of perceived organizational climate, work value orientations, job satisfaction, organizational citizenship behavior (OCB) and positive organizational behavior (POB) in a single and coherent framework which is hoped to be instrumental in better understanding factors that contribute to desired work related outcomes. The author adopts positivity approach in the formulation of the conceptual model. As Youssef and Luthans (2007) point out positive psychology and its recent application to the workplace as POB simply attempts to emphasize the importance of positive constructs such as positive affectivity (PA), positive reinforcement, procedural justice, job satisfaction and commitment, prosocial and organizational citizenship behaviors, core self-evaluations. This paper specifically investigates the moderating role of two positivity constructs, optimism and happiness, on the relationship between perceived organizational climate and personal work orientations with job satisfaction and OCBs. As Ramlall (2008) suggests, since positiveness, happiness, and organizational outcomes are interrelated, leading scholars on POB believe that positiveness and happiness should preoccupy not only philosophers and psychologists, but also managers and organizational leaders. The proposed conceptual model would be beneficial to both academics by providing fruitful empiric research avenues and to practitioners by directing them in recruitment, training and career development processes.

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THE PSYCHOLGICAL EFFECT OF GRADUATE UNEMPLOYMENT ON CRIMINAL INTENTIONS IN NIGERIA.

Mokuolu, Bolade O.
University of Ado Ekiti, Nigeria
boladem oks@yahoo.co.uk

ABSTRACT
This study was designed to examine the emergence of criminal intentions as a result of unemployment among graduates in Abuja, Nigeria, with specific focus on anxiety and self concept. Two hundred and three graduates participated in the study, which comprise of 101 unemployed and 102 employed graduates including male and female. Spielberger State Trait Anxiety Inventory form -2, Index of Self Esteem by Hudson (1952), and Psychopathic Deviate by Hathaway & McKinley (1967) were employed as instrument for the research. The result showed that unemployment has a significant effect on the criminal intention of Nigerian undergraduates $t(201) = 2.54$, $p<.05$. *Although the result indicated that the self- concept and anxiety level of the unemployed and the employed do not differ significantly, the result also showed that anxiety, self esteem, duration of unemployment and age jointly predict criminal intention among unemployed graduates* $F = 2.54$, $p<.05$. *Although the study did not infiltrate into testing antisocial problems generated by unemployment, it is not out of context to mention the generation of criminal tendencies traceable to unemployment as the individual will develop new attitude to cope with this imposed unemployment condition by the society mindless of the concomitant peril the new attitude to life will have on the society.*

INTRODUCTION

From time immemorial, most probably for many years to come, one of the major objectives of education has been and still would be, to provide recipients with skills to enable them participate actively in the development of their communities and the nation as a whole. Active participation in this context is possible when recipients are gainfully and meaningfully employed after the completion of the course of study in the University, on the other hand, one who is not in active participation can be said to be unemployed. Therefore unemployment in this context is referred to as the general phenomena of involuntary idleness and redundancy involving both male and female who are of working age and who desire to work for their livelihood but have not been gainfully employed. When these are considered along with other objectives of education, unemployment among Nigerians constitute an index of unfulfilled goal of education.

According to Prowel (1973), "Unemployment was scarcely a problem in traditional Africa, all persons had their assigned duties in tribal culture, whether tending crops, herding goats, acting as warriors or sitting in the council of elders. War, diseases, and poverty were the major problems not lack of job. This points out that unemployment in general and graduate unemployment in particular could be said to be a recent phenomenon. Traditional old Africa had witnessed rare criminal activities which might be deductible from the fact that all persons at every point in time had duties assigned to them or self assigned, which reduces to the barest

minimum the possibility of having criminal intentions lest to talk of partaking in anti-social activities. Intentions which are criminal in nature may be aroused on the unavailability of gainful employment, as put by Gallenson (1962) that, of the factors that have contributed to the unemployment problem now, none is more than the sheer growth of population. And that population growth is not only high but the rate of increase is itself growing.

Unemployment can be seen as a waste of national resources which has been invested in training the unemployed (Particularly graduates) and which would have been used to advance individual welfare and national objectives. Unemployment demoralizes, as unemployed may feel unwanted and lose self respect, which may result in helplessness and self depreciating dignity among family and friends. A lot of research has been carried out relating unemployment with mental health. Critically, unemployment is said by Jahoda (1980) to damage mental health because of the psychological deprivation of these consequences of employment which normally function as a psychological support. According to Adshead and Mezey (1997), the combination of work, family and friends can exacerbate feeling of isolation, betrayal and generalized suspiciousness, lower self esteem and increase anxiety and resentment. These factors according to them may independently make individuals liable to act in a reckless, hostile or self destructive way. Most of the past studies on the link between health and employment status in the literature have focused on the long term health consequences of unemployment experiences. Such studies showed that those who experience unemployment are more likely to die earlier than those who do not [Moser, Goldblatt, Fox, and Jones (1987); Gerdtham, and Johannesson (2003); Moser, Fox, Jones, and Goldblatt (1986); Martikainen, and Valkonen (1996)]. Lacking sense of belonging, the unemployed may resort to developing criminal intentions which may lead to anti-social behaviour with a view to expressing frustration or to publicize the imperfection of the prevailing social economic order and this bothers down on self concept of the unemployed graduates. This has to do with the interaction of the individual (unemployed) with other persons considered important to him and the ways he views the actions of others towards him or her. Baron and Hartnazel (2006) in a research that examines the role of familial, school, labour market and street factors play in criminality among youth reported that criminal behaviour is influenced by such immediate factors as homelessness, drug, alcohol use, and criminal peers who engage in illegal activities. They further reported that criminal behaviour is influenced by a lack of income, job experience and perception of a blocked opportunity structure. And that, while labour market conditions and reactions to those conditions have some effect on crime, the finding also suggest that lengthy unemployment, job experience and lack of income work in tandem with anger and external attributions to increase street youths criminal activities.

Unemployment and Anxiety

Another area of focus is the test of anxiety problem as associated with unemployment. This is an emotional state arising in situation of impending danger and manifested in expectation of unfavourable events. It is also associated with the expectation of failure in social interaction; the source of this anxiety is often unknown. Freud (1936) postulated that massive anxiety is a result of unacceptable Id impulses buried in the unconscious which launches itself physical expression of energy. The symptoms that may appear include: eccentricities, compulsions, obsessive thoughts are representative of the undesirable impulse and the energy that is connected with the undesirable act is channeled through the nervous system in such a way that it finds outlet in the unusual physical memories or expression. A frustrated person; like someone who is jobless can show symptoms of anxiety by being withdrawn from normal social life and isolate himself, thus triggering criminal intentions. Abraham Maslow (1969) postulated that man is guided by basic inherited characteristics which are common to the whole species. Each of us, according to Maslow, has inherited something which are quite unique. In the development of our unique potential if our basic nature is frustrated or denied, we may express basic frustration and inability to act. Maslow called the attainment of one's goal in life while one being guided by ones inner self; self actualization. Mental healthiness

manifests at times when we feel on top of the world, we feel worthwhile and important. Maslow called this "peak experience", this is the highest level of emotional satisfaction. This has been confirmed by the report of Frier (1995) that anxiety, depression, dissatisfaction with one's present life, experienced strain, negative self esteem, hopelessness regarding the future and other negative emotional states have each been demonstrated in cross-sectional studies to be higher in unemployed people than in matched groups of employed people.

Unemployment and Poor Psychological Health

Findings from Frier (1995) is one of the major achievements of recent research to have demonstrated beyond reasonable doubt that unemployment causes (rather than merely results from) poor psychological health. Studies spanning time, cultures, research groups and research methods converge in their conclusions that unemployment is associated with poor mental health. Based on the expectation of unfavourable events which may arise from been unemployed is the tendency to think of ways to alleviate from the present situation in order to attain high goal. This study was designed to examine the emergence of criminal intentions as a result of unemployment. According to Shaw et al (1987), criminal behaviour arises as a result of a complex interplay between the traumatic event and factors such as personality, coping strategies lifestyle and substance misuse. This phenomenon is particularly important because unemployed are somehow estranged, frustrated and feel socially unwanted, thereby nurturing intentions which are criminal in nature which will invariably generate change in behaviours. The individual will develop new behaviour and attitude to cope with this imposed condition by the society mindless of the concomitant peril the new attitude to life will have on the society. As posited by Adshead and Mezey (1997), crime may also be committed in order to support drug or alcohol misuse or to combat financial hardship due to unemployment, as a pragmatic but maladaptive coping behaviour. The incidence of "Advance Fraud" tagged 419 which is another monster the nation is contending with can be said to be the brainchild of unemployed people and the sophistication of recent crimes points to the fact that intellectuals, who lack means of livelihood are operators (unemployed graduates) of such crimes. Ultimately, this study measured the extent to which unemployed nurture criminal intentions as a result of their not actively involved in any form of meaningful and productive activity. The unemployment of these educated youths is not just an economic waste; it is also a pointer to possible future social unrest as viewed by Aragbada (1985) when he says "we are all sitting on a volcano. A nation that feels desensitized to the suffering of its large army of unemployed graduate is dangerously preparing the ground for potential Red Brigade". "Those who prevent the cause of peaceful change, always give way to violent revolution" as said by the Late US President John Kennedy. These authors are saying that graduate unemployment is a political and social time bomb, which when exploded would have a very serious adverse effect on the society unless something is done to alleviate the problem of graduates. There revolt is disastrous. Taking an in-depth look to this; an unemployed graduate end up been depressed, socially withdrawn and frustrated which may arouse criminal intentions which will ultimately lead to anti-social behaviour that are definitely not environment friendly.

METHODS

This is a survey research. The total respondents for this study comprised 203 persons, 102 employed graduates and 101 unemployed graduates including male and female were randomly selected from Abuja the Federal Capital Territory of Nigeria, Since the research is focused on graduates, it is the usual practice for people to migrate to urban areas in order to secure jobs, and FCT happens to be one of the major commercial centre. The unemployed graduates that were involved must have spent at least six moths at home without a job. The participants have the mean age of 28.48.

INSTRUMENTS

The instruments that were employed for the purpose of this study include: Psychopathic deviate scale authored by Hathaway & McKinley (1967). It is used to measure psychopathic personality, criminal behaviour; the Index of Self-esteem developed by Hudson (1982), it

consists of twenty five items which measured the self perceived and self-evaluative component of self-concept. And the state trait anxiety scale by Spiel Berger STAI form X-2, the form X-2 measures trait anxiety. This also contains 20 questions which are intended to measure the enduring relatively immutable attribute of the proneness of an individual to manifest anxiety state

RESULTS

Three hypotheses were tested in this study. Hypothesis 1 which stated that Unemployment will have significant effect on the criminal intentions of Nigerians was tested using independent t-test.

Table 1: Independent t-test table showing the difference in the criminal intention between the employed and unemployed graduates..

VARIABLES	N	χ	SD	SE	df	t	P
Employed	102	24.05	4.65	.46	201	2.54	<.05
Unemployed	101	25.80	5.02	.50			

The result shows that, there is a significant difference between the criminal intention of the employed and the unemployed Nigerian graduates. Unemployed mean score of 25.80 is significantly higher than the employed score of 24.05. The hypothesis is therefore confirmed: $t(201) = 2.54$, $p<.05$. as supported by the literature, Shaw et al (1987), Adshead and Mezey (1997), crime may be committed in order to combat financial hardship due to unemployment as a pragmatic but maladaptive coping behaviour.

Hypothesis 2 stated that Unemployment will have significant effect on the self-concept of individuals in Nigeria. This hypothesis was tested using independent t-test at $p<.05$.

Table 2: Independent t-test table, showing the difference between the self-concept and level of anxiety of unemployed and employed.

VARIABLES		N	χ	SD	SE	df	t	P
Self concept	Employed	102	45.80	5.92	.59	201	1.65	>.05
	Unemployed	101	47.05	4.76	.47			
Anxiety	Employed	102	47.44	9.33	.92	201	1.71	>.05
	Unemployed	101	44.81	12.35	1.22			

Based on table 2, there is no significant difference in the self concept and anxiety level between the employed and unemployed Nigerian graduates. The hypothesis is therefore not confirmed. According to Maslow (1969), individuals vary in the extent to which they perceive events in their lives to be contingent upon personal behaviour relative to external influences. The result obtained in this study is not supported by the finding of Goldstein (1940) that those who waver or give into defeatism tend to focus only on a dismal future and ignore all possibilities of the present. According to him such persons have an overwhelming fear of nothingness and helplessness and suffer a resulting catastrophic reaction or anxiety. The absence of a job for the individuals will invariably draw them to the midstream of despondency and make them feel powerless and resigned and the continuous existence of this state portends psychopathological part for them. Banks and Jackson (1982) also obtained a contrary result in a longitudinal study that controlled statistically for difference in sex, ethical group and educational qualification. They discovered that unemployed people were more at risk of minor psychiatric disorders than were those in paid work. This effect explains the fact that the experience of unemployment generates increased symptoms of anxiety in individual concerned. This result also went contrary with what was obtained from the study of Eisenberg and Lazarfield (1938) that unemployment causes a marked decline in self concept which indicated that. Unemployed persons were concerned about their self-image which can be attributed to variables such as no occupational status, no work at hand and no social support.

However the influence of anxiety, self esteem, duration of unemployment and age on criminal intentions among the unemployed as shown in this study indicated that anxiety has a significant main influence on criminal intention, and a significant joint influence of self concept, anxiety, duration of unemployment and age on criminal intention of the unemployed ($f = 2.54$, $p < .01$), as reported in table 3.

Table 3: Regression summary table showing the influence of anxiety, self esteem, duration of unemployment and age on criminal intentions of Nigerians

SOURCE		β	t	p	R	R^2	F	P
	Self Concept	-.018	-.26	>.05	.221	.049	2.54	<.05
	Anxiety	.200	2.85	<.05				
	Duration of Unemployment	.065	.485	>.05				
	Age	.162	1.21	>.05				

CONCLUSION AND RECOMMENDATIONS

This study is primarily on the psychological effect of graduate unemployment on criminal intentions. It measures the effect of unemployment on two psychological variables; self-concept, anxiety, and also the effect of unemployment on criminal intentions of individuals. The study revealed that unemployment arouses criminal intentions in unemployed graduates. Going through series of literature on employment it was discovered that factors such as increase in the turn-out of graduates without a corresponding increase in the job market, lack of foresight on the part of the policy makers and inability of our government to present and execute effective solutions to various factors stated by different scholars are related to unemployment in general and graduate unemployment in particular. The resultant effect of unemployment can also be summarized as being mass poverty, social and political violence, frustration, deprivation, political alienation, social withdrawal, criminal intents, and mental instability among others. The effect of unemployment status on anxiety and self concept which is not confirmed in this study contrary to what is obtainable in the literature calls for more research in this area especially with larger samples to ascertain what the situation is with Nigerians specifically, as most of the researches cited in the literature are foreign. However, this study will contribute to the understanding of the state of mind and mental health situation of the unemployed, which stands out as grave danger for the country if appropriate action is not put in place to arrest the situation. The indication of mental health situation of the unemployed will help in fashioning of appropriate remedial programmes to cater for this group of people.

Consequent upon the findings of this study, the following recommendations are presented for the attention of government to ameliorate the scourge of unemployment and for citizen's personal safety precautions. The citizens of Nigeria should embrace the idea of self-employment to enhance creativity and self-reliance as an antidote to the excruciating effects of unemployment. The government of Nigeria should address himself to the pervasive cases of unemployment by establishing employment councils, where registration of unemployed citizens will be carried out and necessary action taken in the right direction towards job creation for jobless individuals in the society. The existence of National Directorate for Employment is praise worthy, though, the services of this body are not adequate and efficacious to requisite level; efforts should be stepped up further in that regard. A pertinent advantage derivable from this study is that unemployed graduates are prone to anxiety problems. This in effect means they are victims of psychopathological problems. For the citizens to enjoy sound mental health, government should give priority attention to unemployment problems and fashion how this group can be taken care of financially from the national purse pending the time they will be gainfully employed. It is hoped that if the above recommendations are positively prosecuted, the tumultuous tide of "Advance Fraud" (419)

and drug baron cases will nosedive into oblivion as the practitioners of those crimes will take solace in available job rather than involving themselves in high-risk business

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MOTIVATIONAL ASPECTS OF WORKPLACE DYNAMICS IN RECESSIONARY TIMES: AN EXPLORATORY STUDY OF IT SECTOR IN INDIA

Sengupta, Nilanjan
IFIM Business School, Bangalore, India
drnsengupta12@gmail.com

Sengupta, Mousumi
IFIM Business School, Bangalore, India
mousumi88@gmail.com

ABSTRACT

The IT sector in India is presently in a critical juncture due to the recessionary environment in which it finds itself. During these times, the greatest challenge lies in keeping the existing employees motivated, so that, their performance does not get adversely affected, which can pull down the bottom line of the organization. Maintaining employee motivation is an uphill task, since, both quantitative and qualitative parameters dictate the levers which can significantly affect the motivational environment and the overall organizational culture. Currently, in the recessionary times, the IT organizations find themselves in the wake of making some tough decisions which can affect employee motivation in several ways. A serious departure may have to be taken from making transitions from employee-friendly practices towards cost-cutting measures, which can create hiatus in the socio-psychological status of those organizations. The present study is an attempt to investigate the various factors which act as antecedents in influencing the motivational aspects of the middle level managers employed in Indian IT sector, during hard times. The study has brought up some of the issues and concerns that are currently plaguing the motivational aspects within the IT sector.

INTRODUCTION

The global recession and economic slowdown in recent times has lead to a liquidity crisis, and credit crunch causing economic uncertainty and a slowdown as a worldwide phenomenon. India is also not an exception to it. The IT sector in India is currently facing certain specific issues in this context, which are becoming causes for concern for this sector. Indian IT sector depends heavily on the international clientele, which, currently in the wake of the effects of recession, are trying to cut cost, fasten the product cycle, reducing the offshore business, and winding up the peripheral business. Consequently, the Indian IT sector needs to gear up to this challenge by increasing performance standards, offering clients services at lower costs, making optimal usage of human resources, and so on. Some of the issues in this context, which need serious attention, are job insecurity, reduction in employee benefits, increasing intolerance to benching, and decreasing the developmental opportunities. It may be predicted that, all the above-mentioned issues will have impact on employee motivation in the Indian IT sector.

In the light of the above, the objective of the present paper is to investigate the issues related to the employee motivation in recessionary times in the context of IT sector in India.

INDIAN IT SECTOR AT PRESENT TIME

As a significant number of companies in the IT sector in India are into client servicing activities and act as vendors, the changed nature of demands from clients are affecting their operations adversely, both in terms of their internal climate, and external responses. Some clients, in a demanding position or in a financial crisis themselves, may demand a cut in service rates. Service rates remaining flat, puts a pressure on maintaining existing margins levels although for existing long-term clients the impact may be low, as the team sizes and composition are usually favorable to the vendor. Non-renewal or delay in contact renewals impacts budgeting, resource planning, billing and revenue recognition Rate cuts eat into margins leaving the vendor with fewer options to recover.

The effects of this on the IT sector are (adopted from www.downstreamupside.com):

- Cuts in budget and longer approval cycles results into more focus on maintenance and support projects, rather than new product development.
- Clients demand for more cost cutting.
- Clients pay more attention o the timely delivery of the products, rather than appreciating the intricacies of the process of developing the same.
- Apart from the obvious problem of delayed revenues and increased sales efforts, vendors may be required to be more transparent in their proposals. Solutions provided will have to be innovative with a greater focus on increasing ROI or reducing time to market than on technological creativity.
- Vendors will have to significantly improve processes such that projects can run smoothly with minimum project management overheads. It is a reality that significant efforts are added to the overall project costing to allow for project management and process engineering effort that is more a requirement for the vendor (people motivation and certification requirements, amongst others) than for the client. Unless these efforts demonstrate a clear benefit, or it is demonstrated that reduction of this effort will be detrimental to the project, vendors will have to trim them down to minimal levels.
- Quality of code delivered is probably one of the biggest areas of concern for vendors today. When the efforts for fixing defects were absorbed in fixed price contracts or taken care of by employees working overtime this problem was overlooked to some extent. Now vendors will have to change the mindset of their development teams and impress upon them the costs of poor quality deliverables.

EMPLOYEE MOTIVATION: THE SIGNIFICANCE

The above analysis shows that companies need to reinvent many of their systems, structures, processes and policies to meet such tough business priorities. All this would definitely affect the internal organizational climate, and resultantly the employee motivational aspects, which will not only be firm-specific in particular, but also sector- specific in general. For this, the authors have summarized the various significant theories on motivation.

Organizations encourage employee motivation for their own survival (Smith, 1994). Motivation has been defined as: the psychological process that gives behavior purpose and direction (Kreitner, 1995); a predisposition to behave in a purposive manner to achieve specific, unmet needs (Buford, Bedeian, & Lindner, 1995); an internal drive to satisfy an unsatisfied need (Higgins, 1994); and the will to achieve (Bedeian, 1993). For the purpose of the present study, five major relevant approaches to employee motivation have been investigated: (a) Maslow's need-hierarchy theory, (b) Herzberg's two- factor theory, (c) Vroom's expectancy theory, (d) Adams' equity theory, and (e) Skinner's reinforcement theory.

According to Maslow, employees have five levels of needs (Maslow, 1943): physiological, safety, social, ego, and self- actualizing. Maslow argued that lower level needs had to be satisfied before the next higher level need would motivate employees. Herzberg categorized motivation into two factors: motivators and hygiene factors (Herzberg, Mausner, & Snyderman, 1959). Motivator or intrinsic factors, such as achievement and recognition, produce job satisfaction. Hygiene or extrinsic factors, such as pay and job security, produce job dissatisfaction. According to Vroom, employee effort will lead to performance and performance will lead to rewards (Vroom, 1964). Rewards may be either positive or negative. The more positive the reward the more likely the employee will be highly motivated. Adams' theory states that employees strive for equity between themselves and other workers. Equity is achieved when the ratio of employee outcomes over inputs is equal to other employee outcomes over inputs (Adams, 1965). Skinner proposed that those employees' behaviors that lead to positive outcomes will be repeated and behaviors that lead to negative outcomes will not be repeated (Skinner, 1953). Managers should positively reinforce employee behaviors that lead to positive outcomes. Managers should negatively reinforce employee behavior that leads to negative outcomes.

In the above context, the present research has been conducted to investigate the motivational aspects among middle level managers in Indian IT sector.

RESEARCH DESIGN

The present study has been conducted into three phases. In the first phase, total 37 middle level managers of work experience of 5-15 years, working in IT sector in India, have been personally interviewed by the authors to identify the critical issues in the context of motivation in IT sector. Based on the above, in the second phase, a questionnaire was designed and distributed (Appendix 1). The questionnaire has total 13 questions. In the first 12 questions, respondents were given five options to respond: (a) Strongly agree, (b) agree, (c) indifferent, (d) disagree, and (e) strongly disagree. Respondents were requested to indicate their choice for the respective questions, as they feel best-fit, according to their own experience at work place. Question no. 13 was open ended, where the respondents could put forward their views in a more detailed way. The questionnaire was distributed among 170 middle level managers (through random sampling) from 12 companies in IT sector, in four major Indian cities, such as, Hyderabad, Bangalore, Kolkata and Chennai. After one month, total 91 middle level managers [Male – 63 (69% of respondents), Female – 28 (31% of respondents)], age group 30-42 years, work experience 5-12 years, from 11 companies have filled up the questionnaire and sent it back for the purpose of research. Later, in the third phase, out of the 91 respondents, 42 respondents were personally interviewed by the authors for the purpose of the content analysis of the responses.

The data received was analyzed both quantitatively (percentage analysis) and qualitatively (content analysis) with the help of the above mentioned questionnaire and personal interview.

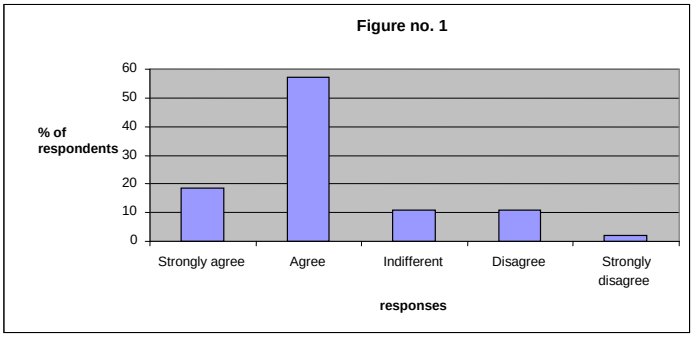
RESEARCH FINDINGS AND ANALYSIS

Based on the questionnaire survey and personal interview, data have been collected, which have been categorized into both percentage analysis as well as content analysis. In the present section, responses to each question have been analyzed both quantitatively (percentage analysis) and qualitatively (content analysis).

Question no. 1. Do you have tense relationship with your seniors?

Analysis of responses-

Percentage analysis: Out of total 91 respondents, 17 respondents strongly agreed (19%), 52 respondents agreed (57%), 10 respondents were indifferent to the question (11%), 10 respondents disagreed (11%) and 2 respondents strongly disagreed to the question (2%) [refer Figure no.1].

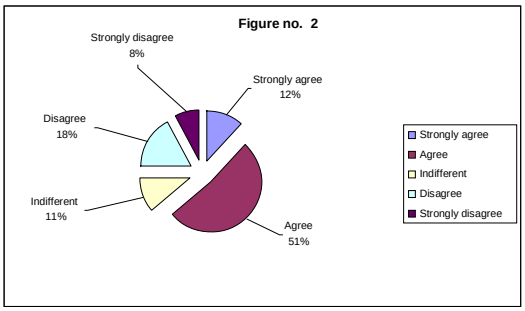


Content analysis : The employees were of the view that, they experience a lot of undue pressure because of the discomfort level between them and their immediate supervisors. It was found that majority of the employees did not share a good rapport with their Reporting Officers. The above is perceived by the respondents on the basis of their experience of going through strong and continuous monitoring for performance and target achievements by supervisors. Stricter measures like monitoring office timings, check on behavior during work hours , etc also contribute to the above.

Question no. 2. Is there a mis-match between your expectation and the expectation of the employer?

Analysis of responses-

Percentage analysis: Out of total 91 respondents, 11 respondents strongly agreed (12%), 47 respondents agreed (52%), 10 respondents were indifferent to the question (11%), 16 respondents disagreed (18%) and 7 respondents strongly disagreed to the question (8%) [refer Figure no. 2].

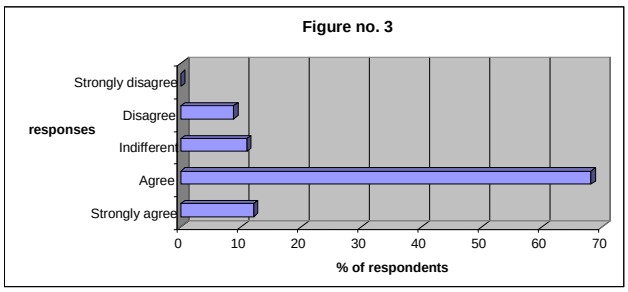


Content analysis : Data revealed that leaders who were able to convey their expectations clearly to their team members experienced less difficulty in achieving targets as compared to those, who were not able to lay down clear cut directions and expectations from their team members. Lack of clarity of thought process of leaders and amiguous directions created perceptual differences and led to faulty expectations on both ends, resutling in confusion and conflicts.

Question no. 3. Do you like the work you do?

Analysis of responses-

Percentage analysis: Out of total 91 respondents, 11 respondents strongly agreed (12%), 62 respondents agreed (68%), 10 respondents were indifferent to the question (11%), 8 respondents disagreed (9%). No of the respondents strongly disagreed to the question. [refer Figure no. 3]

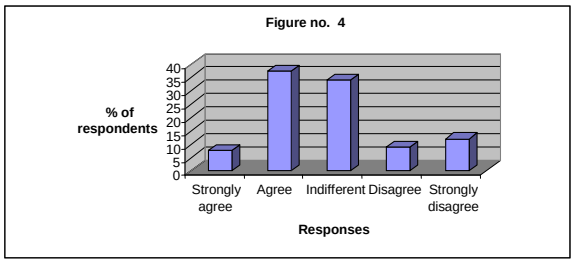


Content analysis: It was observed that, majority of respondents were intrinsically motivated to do their part of the work and loved their duties and responsibilities at work. They knew their job well and so did not require any external supervision and guidance. This is typical in knowledge based organizations that people require less supervision in technical work. However, those dissaitisfied, opined that not every thing was smooth when it came to non-technical and managerial job requirements. Getting job done under several constraints and poor communication skills or making tansitions from self-engaged technical work to team-based jobs can be strssful and lead to frustration in jobs.

Question no. 4. Are you happy with your pay package?

Analysis of responses-

Percentage analysis - Out of total 91 respondents, 7 respondents strongly agreed (8%), 34 respondents agreed (37%), 31 respondents were indifferent to the question (34%), 8 respondents disagreed (9%) and 11 respondents strongly disagreed to the question (12%) [refer Figure no. 4].

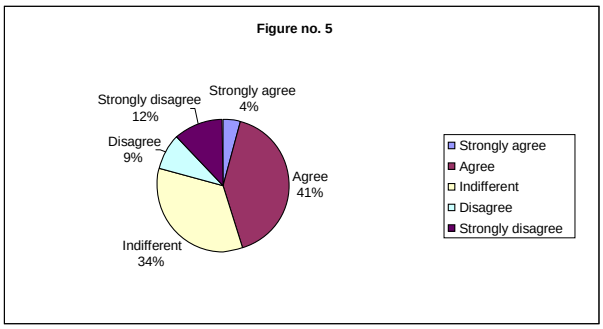


Content analysis: Those who were satisfied claim that, due to lack of other options they would consider the present package as the best. Those, who are dissatisfied, believed that favoritism, nearness to powers that be, or other factors, job criticality or choice of plum jobs, etc)can lead to job hike in the present job. There seems to be internal inequity issues to the unhappy respondents with their pay. A large number of respondents did not want to comment on the same issue.

Question no. 5. Do you like the working conditions?

Analysis of responses-

Percentage analysis - Out of total 91 respondents, 4 respondents strongly agreed (4%), 37 respondents agreed (41%), 31 respondents were indifferent to the question (34%), 8 respondents disagreed (9%) and 11 respondents strongly disagreed to the question (12%) [refer Figure no. 5].

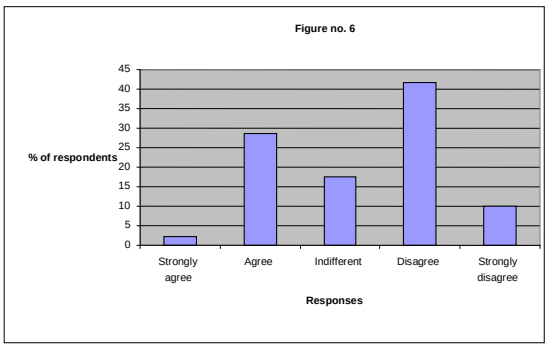


Content analysis: As expressed by the respondents, of late, due to recession, several benefits like food coupons, entertainment expenses, stationeries, toiletry items, outstation get-togethers, etc, have been withdrawn or reduced. Fun officers, trying to create fun atmosphere at work, have been asked to discontinue. Long hours of work and stricter control on movements and job insecurity in general are seen to contribute to uncongenial working conditions.

Question no. 6. Do you get adequate recognition for a job well done?

Analysis of responses-

Percentage analysis - Out of total 91 respondents, 2 respondents strongly agreed (2%), 26 respondents agreed (29%), 16 respondents were indifferent to the question (18%), 38 respondents disagreed (42%) and 9 respondents strongly disagreed to the question (10%) [refer Figure no. 6]

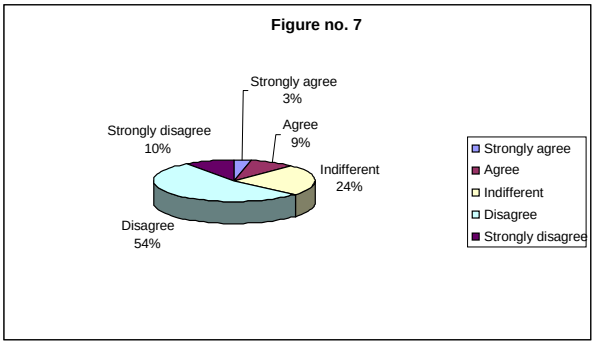


Content analysis: As data revealed, respondents perceived recognition in job is a relative term. As more qualified persons are now available in a given job, job standards and performance standards are being hiked. Also in recessionary times, clients are choosy and demanding. In the current context, recognition is not easy to come unless one continuously improves upon earlier standards. The sudden change in standards of performance and performance parameters and stricter performance feedback makes recognition norms tougher. This is the reason why respondents are not too happy with this aspect, especially those in client servicing activities.

Question no. 7. Are your abilities fully utilized in the current job?

Analysis of responses-

Percentage analysis - Out of total 91 respondents, 3 respondents strongly agreed (3%), 8 respondents agreed (9%), 22 respondents were indifferent to the question (24%), 49 respondents disagreed (54%) and 9 respondents strongly disagreed to the question (10%) [refer Figure no. 7].

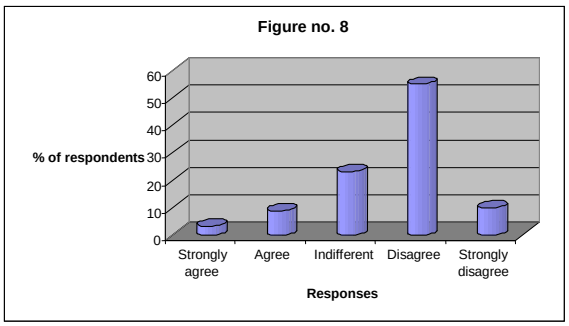


Content analysis: As a corollary of the above factors mentioned in the question number 5 and 6, according to the respondents, new demands are being made on the employees. This is making their existing skills redundant faster. So, many feel perhaps their abilities are not being fully utilized. Rather they are being asked to perform activities currently outside their domain.

Question no. 8. Is there adequate career growth and learning opportunities?

Analysis of responses-

Percentage analysis - Out of total 91 respondents, 3 respondents strongly agreed (3%), 8 respondents agreed (9%), 21 respondents were indifferent to the question (23%), 50 respondents disagreed (55%) and 9 respondents strongly disagreed to the question (10%) [refer Figure no. 8].

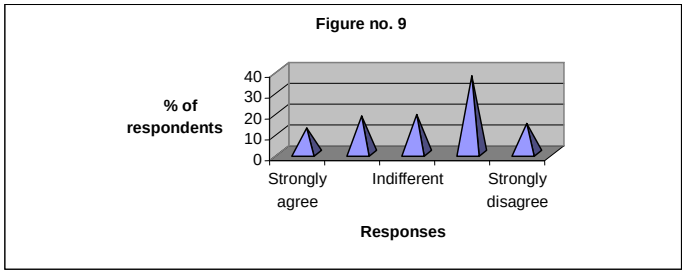


Content analysis: As experienced by the respondents, job recognition and job abilities are related to not only current levels of knowledge , skills and attitude (KSA), but also up gradation of the same. In recent times, instead of sponsoring employees for a program/ course, etc, many organizations are adopting the policy of exempting the cost of training incurred by the employees themselves as a tax emption from the total tax burden of the employee. Employees who are not to sure of being retained see this cost as a burden or are afraid will not be benefited if removed from their jobs. Also, the company is encouraging the employees for e-learning modes of training, whereas, employees see classroom based training more valuable. Time off from work for this purpose is often discouraged by organizations leading to inability of employees to upgrade themselves from leading institutes offering adult learning programs in class room nodes. Hence, a large majority of them seem to have shown dissatisfaction on this count.

Question no. 9. Is the organization sensitive towards employees' work-life balance?

Analysis of responses-

Percentage analysis - Out of total 91 respondents, 11 respondents strongly agreed (12%), 16 respondents agreed (18%), 17 respondents were indifferent to the question (19%), 34 respondents disagreed (37%) and 13 respondents strongly disagreed to the question (14%) [refer Figure no. 9].

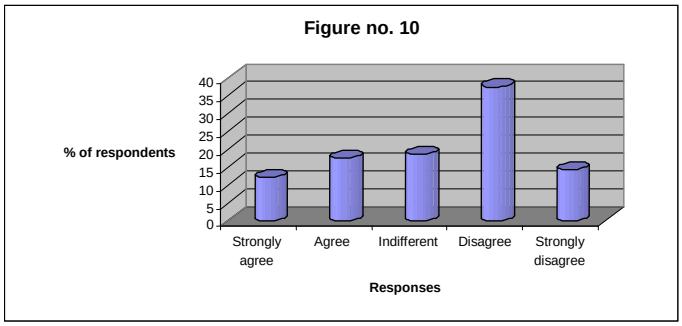


Content analysis: Due to recession, long hours of work are a common demand by organization. Also getting leave when required is substituted by forced leave to be taken in relation lull periods in clients' working cycles is creating a major dissatisfaction among employees. Having to take permissions for things like stationary, withdrawal of unlimited access to beverages and other goodies are seen as insensitive gestures on the part of organizations by employees.

Question no. 10. Are your personal problems taken care of?

Analysis of responses-

Percentage analysis - Out of total 91 respondents, 11 respondents strongly agreed (12%), 16 respondents agreed (18%), 17 respondents were indifferent to the question (19%), 34 respondents disagreed (37%) and 13 respondents strongly disagreed to the question (14%) [refer Figure no. 10].

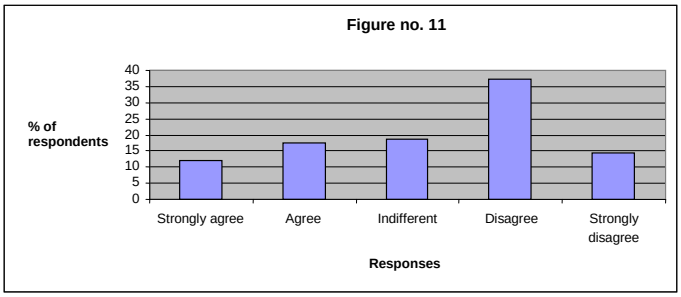


Content analysis: Many respondents feel that, many times personal problems are overlooked and organizational priorities are important. This may lead to cancellation of sanctioned leave, disallowing employees to leave station during exigencies at home (outside the place where the employee currently resides), lack of facilities like day care set-ups (for young and preschool children) create problems especially for working mothers. Also during financial crisis, employees may not be given loans, etc, even if there is a policy for it due to cost cutting strategies by organizations lead to feelings of being ignored on the personal front among employees

Question no. 11. Is communication transparent between boss and subordinate?

Analysis of responses-

Percentage analysis - Out of total 91 respondents, 11 respondents strongly agreed (12%), 16 respondents agreed (18%), 17 respondents were indifferent to the question (19%), 34 respondents disagreed (37%) and 13 respondents strongly disagreed to the question (14%) [Refer Figure no. 11].

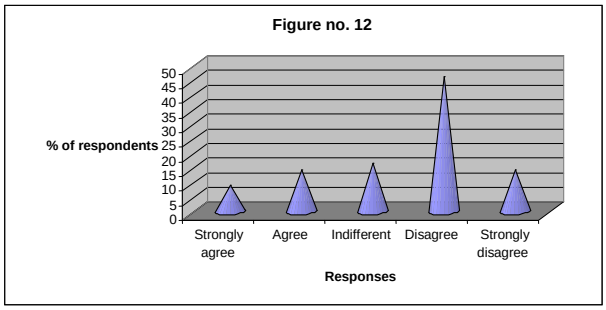


Content analysis: According to the respondents, bosses normally keep distance from the subordinates. Also, many bosses are perceived as inadequate, shy or ineffective communicators by the respondents. Also, it is not approved to ask too many questions to the boss, otherwise, the subordinates be viewed as incompetent by bosses. Hence, lack of ease in communication leads to wrong expectations and perceptions on both sides leading to inadequate communication in many cases. Communicating through virtual networks and environment (LAN, WAN, email, etc), may further complicate communication process.

Question no. 12. Do you get coaching and feedback at regular intervals?

Analysis of responses-

Percentage analysis - Out of total 91 respondents, 8 respondents strongly agreed (9%), 13 respondents agreed (14%), 15 respondents were indifferent to the question (16%), 42 respondents disagreed (46%) and 13 respondents strongly disagreed to the question (14%) [refer Figure no. 12].



Content analysis: A large number of respondents feel that, due to short term planning, targets and performance monitoring are one on a continuous basis through a dash board system. This creates tremendous stress for all. Coaching, if nay, under these circumstances are at best advises on target achievements. Long – term handholding for increased effectiveness is not seen as a goal by many bosses. This means little mentoring / coaching for long term success. Those in technical jobs may still feel the impact of not being coached relatively lesser, but those in the business of managing resources and people definitely feel dissatisfied on this count. This leads to lack of internal commitment or lack of bonding of the employees with their organizations affecting organizational citizenship behavior, adversely.

DISCUSSIONS

To investigate the trends in job motivation in Indian IT sector in the recessionary times, authors have conducted the current study in three phases by administering a questionnaire and personal interviews. Data have been analyzed by using percentage analysis and content analysis. It was found that, majority of the employees did not share a good rapport with their Reporting Officers. Leaders who were able to convey their expectations clearly to their team members experienced less difficulty in achieving targets as compared to those managers who were not able to lay down clear cut directions and expectations from their team members. It was observed that people were intrinsically motivated to do their part of the work and loved their duties and responsibilities at work. There seems to be internal inequity issues to the unhappy respondents with their pay. This is typical in knowledge based organizations that people

require less supervision in technical work. Recognition in job is a relative term, according to many respondents. In recessionary times, new demands are being made on the employees and this is making their existing skills redundant faster Job recognition and job abilities are related to not only current levels of knowledge , skills and attitude (KSA), but also up gradation of the same. Those in technical jobs may still feel the impact of not being coached relatively lesser, but those in the business of managing resources and people definitely feel dissatisfied on this count. This leads to lack of internal commitment or lack of bonding of the employees with their organizations affecting organizational citizenship behavior, adversely.

AUTHORS' NOTE

The present study has been exploratory in nature and dealt with the perception of middle level managers regarding job motivation factors in IT sector in recessionary times. A major challenge faced by the authors in the conduct of the study arose from the fact that IT sector was not only booming but was considered to be equated with many of the progressive HR measures seen to bring significant changes in the work place behavior of employees. However, with the onslaught of the recession, many companies in the IT sector had to abandon or are in the process of modifying many of their HR practices, erstwhile considered as people friendly practices. This timely study was an attempt to capture the mood of the employees and in their consequent perception and behavioral change in their workplace in these uncertain times. Conducting such a study against the tide in not-so- good times, was a major challenge to the authors. There was much resentment and indifference among respondents on many occasions which made the job even more difficult. It also calls for further investigation into many of the claims or opinions given by respondents from the point of view of their supervisors or bosses, adding to more authenticity and predictability of the outcomes of the present study more definitively.

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APPENDIX 1: QUESTIONNAIRE

Name (optional): _____

Designation: _____ Work experience: _____ yrs

Gender: _____ Age: _____ yrs

Name of the company: _____

Instruction:

Read each question and indicate your response.

1. Do you have tense relationship with your seniors?

Strongly agree	Agree	Indifferent	Disagree	Strongly disagree

2.Is there a mis-match between your expectation and the expectation of the employer?

Strongly agree	Agree	Indifferent	Disagree	Strongly disagree

3. Do you like the work you do?

Strongly agree	Agree	Indifferent	Disagree	Strongly disagree

4. Are you happy with your pay package?

Strongly agree	Agree	Indifferent	Disagree	Strongly disagree

5. Do you like the working conditions?

Strongly agree	Agree	Indifferent	Disagree	Strongly disagree

6. Do you get adequate recognition for a job well done?

Strongly agree	Agree	Indifferent	Disagree	Strongly disagree

7. Are your abilities fully utilized in the current job?

Strongly agree	Agree	Indifferent	Disagree	Strongly disagree

8. Is there adequate career growth and learning opportunities?

Strongly agree	Agree	Indifferent	Disagree	Strongly disagree

9. Is the organization sensitive towards employees' work-life balance?

Strongly agree	Agree	Indifferent	Disagree	Strongly disagree

10. Are your personal problems taken care of?

Strongly agree	Agree	Indifferent	Disagree	Strongly disagree

11. Is communication transparent between boss and subordinate?

Strongly agree	Agree	Indifferent	Disagree	Strongly disagree

12. Do you get coaching and feedback at regular intervals?

Strongly agree	Agree	Indifferent	Disagree	Strongly disagree

13. List out the most important factors which according to you, are responsible for attrition in IT sector.

_____
_____
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Any other comment:
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Thank you!

LEADERSHIP AND SCHOOL IMPROVEMENT IN A CHANGING WORLD OF GLOBALIZATION

Omolayo, Benjamin O.
University of Ado-Ekiti, Nigeria
droluomolayo@yahoo.com

ABSTRACT

This paper examines the concept and principles of leadership and its impact on school improvement in a world driven globalization. The imperatives of school improvement as a necessary ingredient for national development were extensively discussed within the context of those factors believed to be indicators of an improved school system and educational sector. The development of the Nigerian educational system in line with global standards and trends since the attainment of independence, under the various leadership styles of its administrators were also examined. The paper concludes that unstable and ineffective leadership of the Nigerian educational system at the primary, secondary and tertiary levels has adversely affected school improvement in no small proportions. Hence administration and leadership of education should be committed to individuals specially trained in the art of school/educational management and no effort should be spared in effecting changes in the educational sector to put it on good competitive standing among its contemporaries.

INTRODUCTION

Over the ages, it has been established as an indubitable fact that effective leadership is at the center of every single achievement of man. The leadership factor has been identified as the missing link between Nigeria's human, natural and material abundant resources and her development in all ramifications. Indeed, leadership is a very vital component that drives all other production factors towards the achievement of organizational goals. In any human organization, be it in business, schools, military, social and political institutions, leadership is required otherwise there will be complete chaos, disorderliness disobedience, lack of direction, and unity of purpose (Oyewole, 2002; Ibukun, 1997).

Leadership, according to Buchanan and Huczynski (1997) is a social process in which one individual influences the behaviour of others without the use of threat or violence. Leadership has also been explained by Lynch (1997) to mean influence, that is, the art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of the group's mission. The primary focus of the leader, according to Stacey (1996) centers on giving directives on organizational goals and tasks of the workgroup; monitoring the performance of the task in terms of goal achievement; ensuring that a cohesive team is built and motivated to perform the task; supplying skills or efforts that are missing in the team; and, articulating purpose and reducing the uncertainties that team members face.

Every institution especially at the school level needs a leader to instruct the followers of what to do. Hence, competent leaders are of vital importance to the success of every dynamic organization. Good leadership is about social influence (Bass, 1990; Hollander & Offerman, 1990; House & Podsakoff, 1994).

Various criteria have been used to categorized leadership and leaders. Some of these criteria include the psychological disposition of the leaders during the process of decision-making; the traits that characterize individuals occupying leadership positions; the leader and the

situation surrounding him; and, the impact the leader has on his followers. In the light of this, leadership as derived from the sequential criteria for categorization proffered above can be categorized into Autocratic, Democratic, Laissez-faire and Transactional leadership respectively (Ibukun, 1997; Brehm *et al*, 2002). Other classes of leadership identified by Ibukun (1997) include Ohio studies classification of initiating structure and consideration; Argyris (1957) immaturity-maturity continuum; Tannenbaum and Schiedt (1985) boss-centred and subordinate-centered; Fiedler's contingency model-task oriented and relationship oriented; Blake and Mouton (1964) managerial grid; and Reddin (1970) leadership styles-separated, dedicated, related and integrated. The basic objective of this discourse is therefore to investigate the extent to which leadership impacts school improvement and the educational sector at large, using the Nigerian experience after independence as a reference point; and how globalization drives new trends of school improvement and advancements in the educational sector in this century.

LEADERSHIP AND SCHOOL IMPROVEMENT IN THE EDUCATIONAL SECTOR

The significance of leadership for school improvement and indeed the development of any educational system in the world cannot be overemphasized. There is therefore the need to identify some of the leadership styles and examine their implications for the achievement of the educational goals in our schools. However, it is pertinent to note that school improvement refers to those internal and external factors that influence the teaching-learning process to attain an acceptable level of performance and to meet up with globally sanctioned standards (Seweje, 2004). Among the internal factors used to measure school improvement are attitudinal change; improved level of readiness and preparedness to learn; increased motivation to teach and learn; elicited interest of the learner; personality development and enhanced intelligence of the learner.

The external factors used in measuring school improvement include the learning environment; the teachers and their skills; resources available; the teaching-learning outcome, among others. It is also necessary to add that the overall goal of school improvement is to achieve quality, equitable and efficient education that will benefit the individual and the society.

Central to the achievement of improvement of schools and quality of education is the leadership factor. Three leadership styles will now be examined with a view to identifying their tendency to enhance or instigate school improvement. The leadership styles under consideration are autocratic, democratic and laissez-faire.

AUTOCRATIC LEADERSHIP

An authoritarian leader believes that the end justifies the means and supports the mechanistic interpretation of leadership. Ibukun (1997) noted, autocratic leader gives command and expects automatic compliance with his instruction. It is characterized by arbitrariness and subsequent abuse of authority. The Ohio studies classification of initiating structure type of leadership is similar to autocratic since it emphasizes protocols and principles. Argyris (1957) classified leadership type on two extreme with the syndrome of *wait for your time*. The leader craftily prevents the subordinates from participating in decision-making.

In terms of school improvement, the non-involvement of the subordinates in the policy formulation and administration often leads to lack of absolute co-operation. Also the absence of a sense of belonging in the administration of the school system can easily lead to chaos and disorderliness in the school system. Obstruction to the free flow in the communication process prevents cross-fertilization of ideas between the leader and the subordinates. In a secondary school setting, Oyewole (2002) noted that administrative process under an autocratic Principal will be (and is often) cumbersome since subordinates such as Vice-Principals and Heads of Departments are not directly involved in decision making.

DEMOCRATIC LEADERSHIP

This leadership type is participating and duly place strong priority on staff welfare. The leader takes into consideration the society, nature and man in the decision making process. Ibukun (1997) opined that the democratic leader believes in consultation and making decisions jointly with subordinates. Everybody in the system is actively involved in the administrative process through delegation and open administration. Hence, the leader performs the roles of a coordinator and an organizer of the several components of the system.

The Ohio studies classification of consideration supports the idea of democratic leadership type. The considerate type of leadership emphasizes concern for staff welfare. Hence, the staff can interact freely with the leader. Similarly, Tannenbaum and Schiedt (1985) leadership classification of high subordinate centered takes into consideration the role of the subordinates in the administrative process thereby giving room for commensurate authority that has to be granted to subordinates.

The democratic style of leadership can enhance school improvement to the extent that there will be involvement and participation of the subordinates in the decision making process through the use of committee system. In the school system, democratic type of leadership helps to raise productivity to an optimum level because members of staff (and other stakeholders) seem to be committed to duties assigned to them and the development of the system as a whole. It promotes co-operation and loyalty among members of staff. Oyewole (2002) concluded that teachers are highly motivated to perform better through the democratic techniques of open door administration. However, this technique can give room for undue rivalry between the leader and the subordinates. A leader who is highly deficient in self-initiative, direction of focus and inability to stand firmly may loose the total control of the school system.

LAISSEZ-FAIRE LEADERSHIP

The laissez-faire approach to leadership implies that things should be left to sort themselves out. The leader detests crisis situations, and thus tries to satisfy everybody in the system. This type of leader is disillusioned, disorganized, inactive and indolent. Blake and Mouton (1964) describes this leadership type as impoverished management whereby the leaders have little concern for job and staff welfare. Similarly, Reddin (1970) identified *separated* in his classification of leadership styles. The separated style is characterized by low task orientation and low relationship orientation, which is closely related to laissez-faire leadership style.

Under this leadership style, indiscipline is usually prevalent, as the school/educational leader commands no respect from the followers. He/she is perceived to be unserious, undedicated, inactive and indolent. Hence, there is a great tendency to loose absolute control of his/her administration. The working environment is also characterized by chaos and disorderliness. The leader fails to examine performance and check expected standard. Hence he/she cannot take necessary corrective measure when performances deviate from the plan or standard.

Based on the effects of leadership styles on school management and improvement, it has been realized that there is no single best technique of leading (Oyewole, 2002). However, a leader should display effectiveness and develop a combination of concern for productivity and concern for the subordinates purposely to achieve optimum productivity and derive best results in the achievement of educational objectives in a highly technology competitive world. It is, however, necessary to consider how this postulation corroborates the experience in the Nigeria educational sector in previous years. How has the various leadership of the nation's educational sector affected the improvement or otherwise of education at all levels in this globalization driven century?

GLOBALIZATION AND THE DEVELOPMENT OF NIGERIA'S EDUCATIONAL SECTOR: THE LEADERSHIP QUESTION

No economy in the world can afford to neglect education. One could think that globalization is only a matter of industry and business, and that education as a moral process is no part of this development. However, if we understand education as part of the information business, then, education can be seen as the core of the globalization process. With the general understanding of globalization as the rapid increase in cross-border economic, social and technological exchange, governments are trying to compete on the global markets by placing the onus on policy of education to produce the human capital most appealing to global competition. In other words, the level of advancement of a nation is measured by its educational improvement at all levels.

An overview of educational development in Nigeria in the post-independence period reveals that the first general statement on education as presented in the First National Development Plan of 1962-1968 advocated for an education programme designed to increase as rapidly and as economically as possible the high-level manpower which is indispensable to accelerated development. In the plan, three priorities were set on education namely:

(1) Reinforcement of secondary education, and the development of teaching training.
(2) Improvement of the quality of primary education through the building of better classrooms and the introduction of modern aids to teaching.
(3) Assistance to the regional universities.

Educational development during the First National Development Plan was adversely affected by the political crises of 1966 and the Civil War of 1967. The National Curriculum Conference that was held in Lagos in September 1969 was the first National attempt to change the colonial orientation of the Nigerian educational system and promote national consciousness and self-reliance through the educational processes. This paved the way for the institution of the Universal Primary Education (UPE) scheme, which was launched by the General Olusegun Obasanjo regime on the 6th of September 1976. The scheme was in line with the educational development plans, which UNESCO proposed for its less developed members.

However, the misconception by the states and local governments that the UPE was the baby of the Federal Government, and hence it should be solely financed by it, resulted in the ineffective implementation of the UPE scheme. This made the Federal government to summon a seminar of distinguished educationalists under the chairmanship of Simeon O. Adebo. Some of the recommendations of the seminar were modified and constituted the National Policy on Education, which was first published in 1977 and revised in 1981, 1983, 1985 and 1989. The National Policy on Education was able to introduce the specific reforms tagged the 6-3-3-4 system (Ajayi and Ayodele, 2002).

In realization of the importance of education as a tool for technological and economical advancement, it was stated in the National Policy on Education (1981) that the Federal Government of Nigeria has adopted education as an instrument par excellence for effecting national development. However, it must be stressed that sustainable development can only be guaranteed through functional literacy. To this end, Nigeria was a signatory to the 1990 Jomtiem Declaration of Education for all by year 2000. As at 1999, the literacy rate was estimated to be 52%. In order to ensure total eradication of illiteracy in the country through the provision of education for all, the Federal Government of Nigeria introduced the Universal Basic Education (UBE) on September 30, 1999. From one University College at the time of national independence, Nigeria has over 30 well-established universities as at 2003. This has nevertheless not translated into real economic development (Osezuah, 2003).

The point of emphasis here is that even though there have been spirited attempts to improve education in Nigeria since independence, inconsistency, insincerity and unstable administration of the country and its educational system has been the bane of Nigeria's educational and technological advancement. For example, the incessant inclusions of the military into the administration of the country and the attendant destabilization of existing structures in form of change of policies and administrators without recourse to efficiency and capabilities. Many policies instituted by one regime were easily jettisoned by incoming regime.

Even during democratic or civilian administration, unstable leadership at the helms of affairs especially at the national level has severely mitigated against the development of the educational sector. For instance, between 1999 and 2007, Nigeria had nothing less than six ministers of education, each hardly settling down in office before he/she is removed for one political reason or the other. This adversely affects leadership and school improvement.

CONCLUSION

There are diverse ways in which education is being shaped by global processes. Effective leadership is imperative for educational improvement. The widening spread of knowledge is also creating a skill revolution where commanding and controlling is becoming obsolete. The skills needed in the working life are critical thinking, consultation, negotiation and collaboration skills. One of the major problems of education in Nigeria is the access to basic education, not to mention the digital device in the developing countries.

Looking at the recent developments in the education sector in Nigeria, leadership demands for school improvement involves; demand for widening the access to education for all; continuous life-long learning; creation of new educational network organization; changing of educational management from hierarchical institutions to equal distributions of network organizations, and from commanding to negotiating; and acquisition of more flexible and general skills such as problem-solving skill, information-searching skill, and learning skills.

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VICARIOUS LEARNING, LOCUS OF CONTROL, DEVELOPMENT NETWORKS AND SALES FORCE BEHAVIORAL PERFORMANCE: A QUALITATIVE ANALYSIS OF ACCOUNT RELATIONSHIP MANAGERS (ARMS) IN UGANDA'S COMMERCIAL BANKS

Ntayi, Joseph. M.
Makerere University Business School
ntayius@yahoo.com

Munene, John. C.
Makerere University Business School
jmunene@mubs.ac.ug

Eyaa, Sarah
Makerere University Business School
eyaalydia@yahoo.co.uk

ABSTRACT
The purpose of this paper was to examine the salesforce behavioural performance in commercial firms using a phenomenological approach. A sample of 75 Accounts Relationship Managers from 15 commercial banks was selected. Results reveal that background factors provided vicarious reinforcement behaviours while vicarious punishment reinforced social skills which were necessary for selling bank services. Androgynous behaviours and netwok ties were particulary necessary in increasing salesforce behavioural performance while poor family background coupled with lack of career planning, limited professional sales presentation impacted negatively on the sales career. Serendipity, development networks, social dyadic interactions with customers and key stakeholders were found necessary in generating, building and retaining customers. This is because customers' lives depend on how they are tied into the larger web of social connections. We therefore recommend banks to hire ARMs based on vicarious learning, locus of control and development networks if they want to improve performance.

BACKGROUND

The context in which Accounts Relationship Managers (ARMs) do their selling jobs has been observed to highly influence their selling effectiveness. The selling job requires ARMs to construct explanations for sales presentations, closing a sale and the resultant customer behaviors. This necessitates ARMs to go through modeled and cognitive script, seeking to master their daily selling experience and to design and implement mechanisms of interaction with bank customers (Kelly, 1955). Research has revealed that sales people who are supported by networks of development relationships draw career support and obtain clarity of professional identity, which are necessary for the performance of the sales job (Parker et al., 2004). This is supported by Forret and Dougherty (2004), Dobrow and Higgins (2005), Chandler and Kram (2005) and Higgins and Kram (2001) who aver that efforts to grow and retain associations of social ties which individuals name as taking an interest in and action to advance their career have the potential to provide significant career information, gather both professional and psychological support, sets in motion motivation for personal learning and offer assistance in performing ones job. Of critical importance is the survival and development of the sales person garnered vicariously by observing behaviours (Eyal and

Rubin, 2003). A bank sales person is an enquiring organism that develops by constructing personal explanations based on information, role models and accumulated experience.

The ARMs construction process is a cognitive activity involving: interpretation of the changing bank selling environment, anticipation of selling events, knowledge structures (schemata) (Szymanski and Churchill, 1990) and dissemination of information during the sales process to influence both outcome and behaviour performance (Kelly, 1955). It has already been documented that changes in organizations (e.g. downsizing, flattening of hierarchies, and the pace of change) require individuals to regularly learn new knowledge, skills and competencies to be able to perform effectively in rapidly changing and team-based environments (Arthur and Rousseau, 1996).

Although researchers have attempted to study the effects of developmental networks on personal learning (Lankau and Scandura, 2002), career outcomes (Thomas, 200; van-Emmerick, 2004) and professional identity (Dobrow and Higgins (2005), its effects on salesforce behavioural performance in banking in a developing world context largely remains unexplored. Additionally the nature of development networks in selling from sub-Saharan Africa and the value individuals reap from them is still unknown. Most of the literature is based upon anecdotal evidence and hypothetical speculation (Ntayi, 2005). This paper address this gap by using qualitative research to explore the nature of development networks in selling using the banking industry as the testing ground. We also provide the connection between vicarious learning, locus of control, developmental networks and salesforce behavioural performance.

DEVELOPMENT OF THE THEORETICAL FRAMEWORK AND LITERATURE REVIEW

Theoretical and the Conceptual Framework

The constructive alternativism theory (Kelly, 1955) of individual and group psychological and social processes, based on positive scientific position was found relevant for this study. This theory, also referred to as Personal Construct Psychology has attracted widespread attention and application in management, education and clinical psychology (Shaw, 1981). Personal construct psychology theory provides a foundation to several models of human learning namely Cognitive Development Model and the Social Learning Model and the Social Cognitive Career Theory (SCCT) developed by Lent, Hackett and Brown (1996). Personal Construct Psychology theory is a personality theory, which has received relatively little attention in both marketing and sales literature. This theory provides a framework for the prediction of salesforce outcome and behavioural performance (Plank and Reid, 1994). Kelly (1955) sought to understand human personality by examining individual's own interpretations of themselves and their social world, which is a fundamental activity of the selling job. The term personal construct was used to refer to the dimensions people use in their attempts to interpret the people and events in their lives. As observed by Swinney et al. (2000), people's behaviour is a function of learning. Our experiences and interactions continually influence our activities and behaviours (Rotter et al, 1972). Behaviors occur as a result of complex interplay between inner processes and environmental influences (Bandura, 1977; Lent, Hackett and Brown, 1996).

Kelly's theory (1955) emphasizes the process of cognition as the primary factor in the formation of peoples' behaviours. This theory is founded on the philosophical position of constructive alternatives, the assumption that any one event is open to a variety of interpretations. Individuals create their own ways of understanding events around them using constructs or patterns that make the world meaningful to them. In this way, people act as scientists and as such develop constructs which are similar to postulates and, or propositions and or hypothesis. These hypotheses are tested through interactions with others and with the environment and if found to hold, people hold onto them otherwise, the hypotheses are revised in light of the experimental results. It is suggested that these results are responsible for

the development of selling behavioral patterns. Kelly (1955, Page 46.) sets forth a fundamental postulate: "A person's processes are psychologically channelized by the ways in which he anticipates events." Kelly suggests that the way in which individuals predict future happenings is crucial to their behavior. The future, rather than the past, is the primary impetus of behavior. It is suggested that the same life events are viewed somehow different by different people because they are perceived through unique individual constructs, which are analogous to different coloured glasses (Kelly, 1973). Construing another person's construct is important in the selling profession, which thrives on interactions with the people (interpersonal) and with the environment on the continuous basis. We construe constructs, which are more personally meaningful. This is typical in the selling job since a sale is made, not over the counter or desk, but in the mind of the buyer. The seller's every word; every gesture should have an objective of making the right impressions on the mind of the prospect. Since, selling is a social encounter (Still et al., 1988), Kelly's (1955), sociality corollary provides an insight into our personalities arising out of social interactions, which are at the heart of selling and marketing.

This basic postulate is particularly relevant to salesforce behavrioural performance. Sales managers require knowledge of the sales person's construct system indicating how fully or accurately the sales interaction situation has been interpreted. The work of Leigh and McGraw (1989), Leigh and Rethans (1984), and Leong et al. (1990), suggest that confidence in better-developed knowledge system leads to higher salesforce performance. The ability to adapt to selling situations resulting in superior performance despite pressure inherent in the sales job is a result of schemata or knowledge structures (Sujan et al., 1988; Szymanski and Churchill, 1990; Leong et al., 1990). Although attempts have been made to predict salesforce performance, few studies from developing countires have utilized a qualitative approach.

Vicarious Learning, Locus of Control Behaviour and Sales Force Behavioural Performance

Vicarious learning also known as observational learning is associated with Bandura's 1972, social learning theory. According to McCown, Driscoll, & Roop (1996), vicarious learning occurs when salespeople decide, after observing the performances of other sales people, what types of events will be effective or non-effective for their own performance of a task. This is consistent with Kelly's conceptualization in which he asserts that "*A person's processes are psychologically channelized by the way in which he anticipates events* (Kelly, 1955, p.46). He saw all people as *scientists* engaged in anticipating the world and states that "*A person anticipates events by construing their replications* (Kelly, 1955, p.50). Kelly's construction was based on on *constructive alternativism*, which support individuals to develop alternative constructs systems through which to construe life events. From the discussion, we can infer that constructive alternativism theory creates confidence and positive attributions leading to positive selling behaviour if the sales people believe that they are worth imitating, otherwise the selling career will be abandoned. According to social cognitive theory Bandura (1997) vicarious experiences can accelerate learning through the performance of every desirable behavior. Such observations are important because they help the salesperson make sense of a sales interaction and plan appropriate selling behaviour as the sales encounter unfolds (Leigh and Rethans 1984a). Although sales situations vary from one encounter to another, sales people have to be adept and expressive in adapting to these situations (Weitz et al., 1986) *by construing their replications* (Kelly, 1955). Extant research has documented the desire to accurately sample individuals for vicarious learning, a virtue that seems to be far from reality. Scientific sampling would in reality be proper for selecting appropriate models to learn from. However, there is a general tendency for sales people to choose a biassed sample of individuals they get into contact with. Learning curves are vicariously influenced based on their observation, discussion and inferences drawn from the experiences of others (Baum and Ingram 1998). Research has also demonstrated that vicarious team learning behavior is positively associated with team performance.

Research has shown that locus of control is related to the construct vicarious learning a derivative construct of self-efficacy (Haidt and Rodin, 1999). Sherer et al. (1982) contends that attributional style is important for general self-efficacy. Individuals with an internal locus of control will attribute past success to themselves and this tendency will boost their general self-efficacy. Individuals with external locus of control tend to doubt their personal self-efficacy (Lefcourt, 1982). Bandura's self-efficacy refers to one's beliefs about his/her ability to successfully complete a given task (Haidt and Rodin, 1999) or in being able to control outcomes (Judge et al., 1998). Both self-efficacy and locus of control are cognitive constructs and are about control (Rotter, 1966). Those with a high self-efficacy tend to exert more effort and persist at a task longer than those with low self-efficacy. Those with high self-efficacy also set higher goals, which translate into higher achievement. We can infer that individuals with high self-efficacy are also likely to have an internal locus of control. Hence, they are likely to behave in a similar manner. Breed and Shoro (1997), found a correlation between locus of control and generalized self-efficacy. Phillips and Gully (1997) report that locus of control is positively correlated with self-efficacy. This is consistent with extant literature in medicine, which has revealed that students with chronic disease who had high self-efficacy expectancy had a higher internal locus of control than those who had low self-efficacy expectancy (Tetsuro and Hitoshi, 1997). Further Vielva and Iraurgi (2001) have demonstrated a high correlation between self-efficacy and locus of control. Vicarious learning is related to attributions of an internal locus of control (Sheridan, 1991) and positively correlated with performance (Bandura, 1977; Rennie, 1991). From the above discusiion we can propose that, P1*: Vicarious learning leads to positive attributions resulting into appropriate selling process and improved salesforce behavrioural performance.*

Vicarious Learning and Serendipity

Serendipity, which is defined as finding unexpectedly something valuable that was not sought for (Diaz de Chumaceiro, 1995, continues to be a focus of inquiry in management literature (Diaz de Chumaceiro, 1995; Wiseman 2003) and individual performance (Betsworth and Hausen, 1996). The concept of serendipity owes its origin from the works of Horace Walpole in a letter to Sir Horace Mann on January 28, 1954 (Remer, 1965, p.20): "This discovery is almost of a kind which I call serendipity, a very expressive word …. I once read a silly fairly tale called the Princess of Serendipity… as their highness traveled, they were always making discoveries, by accidents and sagacity of things which they were not in quest of…" Serendipity has been considered in the literature to exert a dramatic influence over our lives (Kathleen, Levin, and Krumboltz, 1999). Most people agree that serendipity (chance, luck) has played an important part in their job performance (Betsworth and Hansen, 1996). It has the power to transform the improbable into the possible; to make the difference between life and death, reward and ruin, happiness and despair (Wiseman, 2003). This is consistent with Cobbledick (1996) who revealed serendipity is an important source of artistic stimulation. Cory (1999), contends that serendipity plays an important role in revealing hidden connections or "hidden analogies", enabling creative connections to develop (Cory, 1999). In the study of the categorization of serendipitous career development events, Betsworth and Hansen (1996), found that two thirds of the participants believed that the performance of their jobs were significantly influenced by chance events. Authors identified the most frequently cited categories of serendipitous events significant to job performance as professional or personal connections, unexpected advancement, right place/ right time, among many others. This is consistent with Dexter (1977), who contends that luck is deemed apparent in being in the right/wrong place at the right/wrong time. Nicholas and West (1998), reveal that more than half of the managers in restructured organizations were in positions with no previous incumbent. *We therefore propose that P2: Serendipity results into improved sales force behavioural performance.*

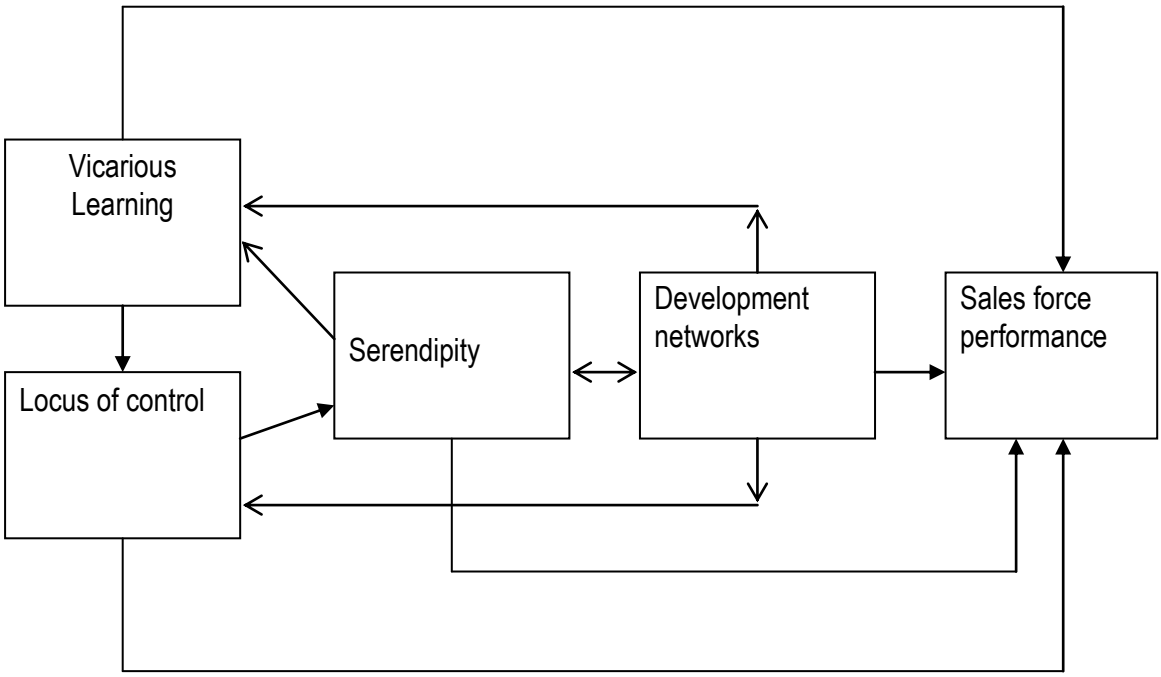
Vicarious Learning and Development Networks

Stewart (1998) asserts that the burgeoning volume of literature on the subject of sales and marketing strongly promotes a need for skills and confidence required in the development of

longer-term relationships with customers. These relationships are a result of the development of development networks. Development networks are defined as concurrent relationships that are specifically developmental in nature (Molloy, 2005, p.538). One major activity that charcateristics development networks is mentoring. Drawing from career literature, mentoring is deemed to occur if mentors take an active interest in advancing the sales person's career by providing developmental assistance (Higgins and Kram (2001). Examples of potential developers and/or mentors may include peers, individuals from other organizations, former job incumbents or retirees and lecturers. Adler and Kwon, (2002) and Seibert et al., (2001), concepualise development networks as a component of social capital. Development networks are known for providing access to information, career advice, social support, business leads, resources, collaboration and professional support. An individual's ability to engage in development network was the strongest predictor of Job peformance. From this we propose *P3: development networks and vicarious learning are positively related.*

Cognitive literature has revealed that vicarious learning is responsible for the development of Relationship selling behaviors. These are the behaviors that salespeople use to signal their commitment to working in collaboration with customers to develop solutions for mutual gain (Crosby et al., 1990). Studies from social psychology, suggest that vicarious learning may influence perceived relationship behaviours. This is corroborated by inferences made from marketing studies which have found significant relationship between vicarious learning and hypothetical sales goals and quota difficulty using undergraduate student samples (Chowdhury, 1993). The effect of this relationship is important because sales people who are more confident in their selling abilities are more likely to accept difficult and challenging selling tasks. Correspondingly, sales people with little confidence are more likely to believe (even when this is incorrect) they have been assigned a difficult sales job. Although previous findings have shown positive relationships between self-efficacy and work related accomplishments (e.g. Gist and Mitchell, 1992), studies providing empirical validation for the link between vicarious learning and a salesperson's development networks of mentoring (Marakas, 1998) are sparse. From the above review of literature we derive our conceptual model as presented below.

Figure 1: Conceptual relationship between predictors of sales force performance



METHODOLOGY

Research Design

This study adopted the nomothetic approach of qualitative inquiry because of the superiority of qualitative methodology in describing processes of vicarious learning, locus of control, serendipity, development networks and how these processes relate with salesforce behavioural performance. The qualitative research design was associated with interpretative approaches from the informants' emic point of view, rather than etically measuring discrete, observable behaviour (Maykut, & Morehouse, 1994; Frechtling, and Sharp, 1997). The corresponding results of the subjective inquiry are presented in graphical displays in the results section of this paper. The argument used was that quantitative methods measure human behaviour "from outside", without accessing the meanings that individuals give to their measurable behaviour. This is what the qualitative inquiry attempted to solve (Punch, 1998; Sekaran, 1992). A qualitative research design allowed these understandings to be investigated from the informants' point of view (Patton, 1999) by describing their experiences and relating them to salesforce behavioural performance.

Population, Sample Size and Sampling Design

Consistent with Miles and Huberman (1994), five (5) Accounts Relationship Managers (ARMs) were selected from each of the fifteen commercial banks giving a sample of seventy five (75) ARMS (40 men and 35 women), who participated in this study . This sample comprised of staff interacting with customers on a fairly long term basis, composed of the prestige or high network banking, corporate division and international division (handling major importers and exporters). The ages of the participants ranged from 23 to 50 years. The biggest proportion of salespeople was in the age range of 25-30 years, constituting 43% of the sampled respondents. This was followed by the age range 31-35 which constituted 18.7%. The age range of 36-40 years constituted 17.5% of the bank salespeople. The age categories of 25-30 years and 31-35 years had the highest number of salespeople with both undergraduate and postgraduate degrees, accounting for 31.5% and 13.4% respectively, of the total salesforce employed in the banking sector. This was followed by Diplomas with 11.0% for 25-30 years of age. Furthermore, the results show that the majority of the salespeople have undergraduate university degrees (61.1%) followed by diplomas (21.6%) for 36 years of age and below.

Measurements

Several scales that have been used in previous studies to measure locus of control were reviewed and aopted in this study. The Rotter (1966) questionnaire for testing internal and external locus of control and the Spector (1988) questionnaire for testing locus of control at work were adopted.

Vicarious learning measures were adopted from Ellen et al., (1991) and guided by Schwarzer (1994) and Spencer and Frese (1997).This instrument has been found reliable and valid in numerous studies (Schwarzer, 1994). Serendipity scales were adaped from Kathleen, Levin and Krumboltz (1999), Betsworth and Hansen, (1996) and Wiseman, (2003), while measures for development networks were obtained form the sholary works of Molloy, (2005, Adler and Kwon, (2002) and Seibert et al., (2001). Salesforce behaviour performance was measured by the sales manager's summary assessment of the salespeople in terms of technical knowledge, adaptive selling, teamwork, sales presentation, sales planning and sales support. All the scales were based on previously published studies (e.g Spiro and Weitz, 1990; Hafer and McCuen, 1985; Behrman and Perreault, 1982).

Questionnaire Development

Accounts relationship managers, who directly experienced vicarious learning, locus of control, serendipity, development networks and sales force performance phenomena were identified and interviewed at length. Collected responses from interviews were then heavily

edited so that they "tell a story". This was consistent with Richie and Spencer (1994), Miles and Huberman (1994), Pope, Ziebland and Mays (2000). The in-depth qualitative data collection approach adopted in this paper took the nomothetic or variable-centered approach to help understand the relationships between the study constructs of all sales people in the banking industry. A nomothetic approach was adopted in this study because it helped to study and understand many individuals and the knowledge generated is generalizable to new sales people. The unstructured "raw" data was stored in form of tapes, field notes, memoirs and transcripts. Consequently, all the raw data were organized in memoirs prior to the development of causal networks. The transcribed data was carefully read line by line, and divided into meaningful analytical units (i.e., data segmentation). Meaningful segments were coded. Each interview was assigned a number or code. Interviewees were given pseudonyms or referred to by a code number. This process was continued until all of the data was segmented and completed. During coding, a master list (i.e., a list of all the codes that are developed and used in the research study) was kept. Codes were reapplied to new segments of data each time an appropriate segment was encountered. Special care was taken for intra-coder reliability (Intracoder reliability refers to consistency within a single coder). Further inductive codes were developed by directly examining the data. However as data was being coded, some segments of data got coded with more than one code. These Co-occurring codes that partially or completely overlapped was taken as normal. After completing the initial coding of the qualitative data, we attempted to summarize and organize data. We also continued to refine and revise the codes. This was followed by searching for relationships in the data, since there are no 'quick fix' techniques in qualitative analysis (Pope and Mays, 1996). A secure file linking pseudonyms and code numbers to the original informants was developed and kept confidential. Narrative data was numbered using line or paragraph numbers, so that it could be traced back to its original context.

Validity and Reliability

Consistent with Patton (2002), this study tried to follow research procedures that ensure replicability of results or observations by using multiple raters or coders and carefully trained interviewers (observers). Qualitative data was collected by three people, the principal investigator and two experienced research assistants. Initially there was wide variation of responses from the two interviewers given their informal conversation nature. This problem had earlier been observed by Fontana and Frey (1998). The desire to maintain consistence, led to the development of an established interviewing strategy and comparing field notes at the end of every field working day. Interviewers were further considerate of their non-verbal behaviours including the attire to wear when meeting respondents because this survey involved bank account relationship managers. In a bid to increase consistency of results and avoid errors cited by Kirk and Miller (1986), the researcher used three people at the data collection stage and four people at the data analysis stage. This assisted in comparing notes for confirmation (LeCompte and Goetz, 1982). Check-coding was further used to assess reliability at the data analysis stage. Miles and Huberman (1994), has described "check-coding" as a process by which two people separately code the same data, then come together to compare codes. This was intermittently done until reliability reached satisfactory levels with intercoder agreement of 93% (intercoder agreement is computed as the total number of coding agreements devided by the total number of agreements and disagreements). Variety in data further ensured the quality of results. This was done by collecting data from different banks at a variety of times (e.g during a 'busy and less busy seasons'). Similar patterns seemed to occur during these different seasons.When presenting qualitative findings, this study also drew from published literature to validate findings as recommended by Strauss and Corbin (1990). Text citations indicate areas of both agreements and disagreements as revealed by the various discussions. This approach was used with caution since Strauss and Corbin (1990) have warned that it is excessive use may stifle innovation.

Data Analysis

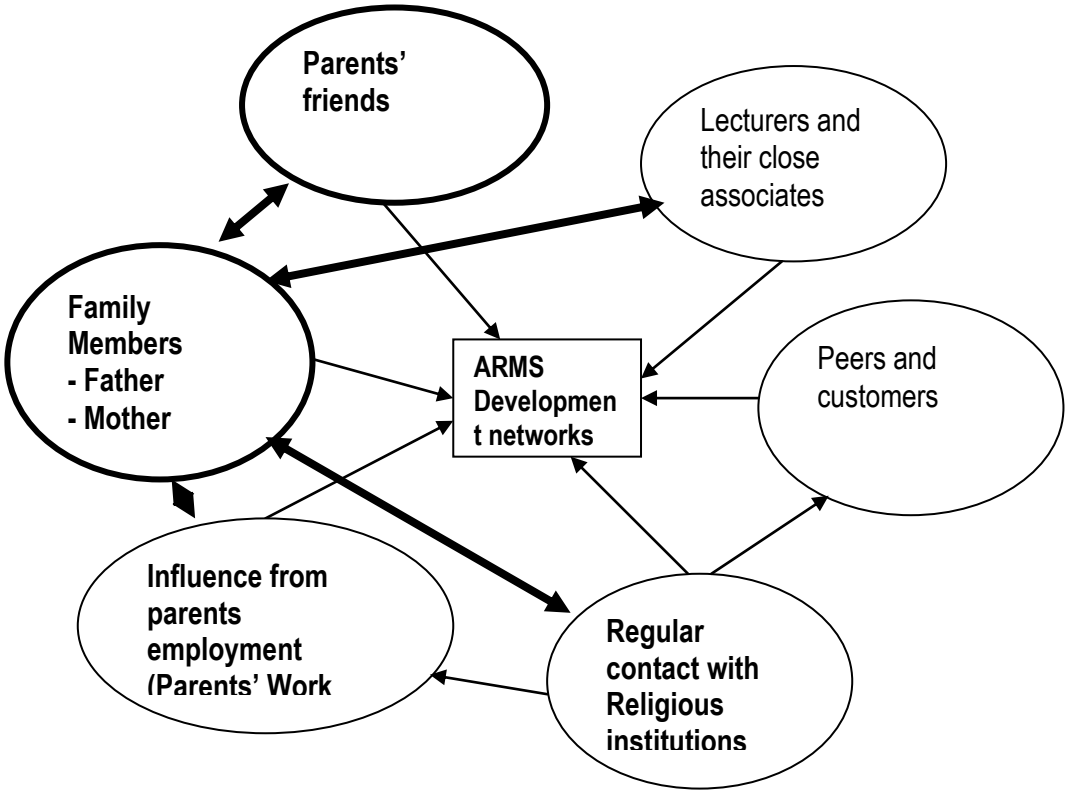
Data was collected and summarized in text format. Qualitative Data analysis tended to be a cyclical process (interim), using Nvivo software. This continued until the process or the topic of investigation was understood. Throughout the entire process of qualitative data analysis it was deemed fit to engage in memoing (i.e., recording reflective notes about what is learned from the data). These memos were included as additional data to be analysed. Qualitative analytical methods included: text coding, memoirs, intuition, graphical displays and causal networks.

PRESENATION OF RESULTS / FINDINGS

Background Factors, Vicarious Reinforcement and Vicarious Punishment

Background factors provided vicarious reinforcement behaviours (response facilitation) and vicarious punishment (response inhibition), which reinforced social skills necessary for the selling career thereby promoting salesforce behavioral performance, supporting proposition P1, and P3. Respondents indicated that family and friends - especially parents, ones up-bringing, personal experiences, ambition, and exposure to selling career information was a characteristic of ARMS life and accounted for the ARMs career choice and selling skills development (see figure 2). This study revealed that ARMs who received plenty of positive attention from parents during their infancy had greater chances of developing their careers in their parents' area of choice or profession and improved behavioural performance. For females, maternal employment and the need to take care of the young ones was related to the ARMs choice of their banking career. Mothers served as role models, while fathers were a source of encouragement (See fig 2 below for details). The thickness of the lines describes development network density. The following case display confirms the above observation "I am lucky to have been a first born of a family of six (6) children. I grew up under the care of my parents who loved me so much. Both dad and mum were very strict and tolerated no nonsense. My parents were both bankers and very religious. They often practiced the Roman Catholic Faith. ……I grew up morally upright, humble and very reserved. As a child I admired my parents' profession. My dad used to refer to me as 'Jane the banker', a title which motivated me to work hard. I went through strict training and often interacted with my parents work mates and friends who always looked satisfied with their banking profession. I developed a belief that only hard working people like my parents had a place in the world. …. I am very hardworking and that is why I am the only female ARM among the top five members of staff that have served in the bank for a long time without loosing a job despite the current job insecuryt in the bank. But above all I am very loyal to my employers. Without loyalty in the bank, one has no place, even when you can move mountains… (Interviewee 18).

Fig 2: Accounts Relationship Managers' development networks



From the above case and the summary presented in figure 2 above, we contend that family background provided physical resources that acted as basic inputs in career decision-making and aided behavioural performance of ARMs. These resources included family training, strict religious upbringing, and discussions with parents, materials to aid learning and other social support from parents' relative's friends and acquaintees. Figure 2, reveals that social connections developed by ARMs through family, led to the development of networks which influenced their career choice and interest in the banking profession. These social networks, which are an extension of family social relations, ones lecturers and customers, proved to be useful in providing filtered customer information, planning, developing and locating large account customers through referrals, when the ARMs were working with commercial banks. The following case from one of the bank customer interviewed supports the finding "As the saying goes "one good turn deserve another. I try very much to help the bank because of the assistance it gives me. It is not that I bring them customers; I have introduced a number of people to open up bank accounts. Some of those I have introduced later become bank customers through borrowing"… (Interviewee, 26).

Customer referrals have been contributory to the development of vicarious learning. The ARMs selling confidence were developed as a result of the influence from role models within the social networks. Cohesive contacts between ARMS and networks resulted in making the right selling decision at the right time, with the right method of presentation and follow-up. These strongly connected contacts have to a greater extent increased mutual disclosure and reduced information asymmetry. Bank customers (e.g. borrowers) need to provide as much information about their business as possible to the bank if they expect the bank to trust them with their money. At the same time the bank needs to provide borrowers with regular information on the products they offer. Kit, who had been a bank customer for the last 25 years said "I always provide information about my business willingly to the bank. I ensure that the information I provide is accurate. Of course every business has its confidential information, which it cannot disclose anyhow. …"

ARMs now enjoy information and control advantage of being the broker in relations between people and the bank otherwise disconnected. This has in a way contributed to the development of entrepreneurial behaviours of the ARMs as they take advantage of the rapidly changing financial sector. ARMs with the contact network(s) exercise control over the more rewarding opportunities. They monitor information and move information faster. The following response from 'Sarah' confirms the facts presented. "I usually generate a simple list of actual and potential customers through social networks. This list is developed with the assistance of the people most close to me (customers, relatives and friends). I have wined and dined them, entertained them and phoned them up (using bank resources)…"

Androgyny and Locus of Control

Accounts relationship managers revealed the value of being androgynous. They recounted their androgynous experiences, which resulted from the demanding nature of the selling job. Some female ARMs frequently described the selling job as highly demanding, requiring a tough female ARM. Analysis of the transcripts and themes revealed the use of phrases like - "manly woman", "selling is a man's job". The selling job involves solving of customer problems on a continuous basis and making decisions at short notice. ARMs were required to produce sales reports under time pressure and very short and strict deadlines. ARMs had a lot of work and worked hard to beat deadlines. Although this pressure was not unique to any sex, female ARMs complained of having too much work, which severely limited their performance. The following response supports the argument. "…selling is a job for men, who are aggressive, interested in physical activities and emotionally controlled which I am not. Although I am not a poor performer, I need support from others since I am emotionally open. I am one of the few female ARMs that are doing well. Secondly, my role as a mother places me in a vulnerable position. I usually find myself in a conflict of reconciling work demands and family demands. I am emotionally exhausted and tired of working as an ARM; I am

simply waiting for an opportune moment to leave. Only tough women can survive the selling pressure in a bank setting. …" (Interviewee 38). This case supports the relationship between confidence and performance, which is at the heart of selling highly credenced bank products as illustrated by figure 3 below. The above results also points towards ARMS locus of control lending support to P1. Any tough higly demanding job is considered to be suitable for men.

Turbulence in the Financial Sector and Multi-Skilling

The causal network presented in figure 3, demonstrates the most occurring theme in the interviews relating to vicarious learning and locus of control. Turbulence in the financial sector that took place in 1990's, significantly impacted on the behavioural performance of the ARM's job. These changes were later followed by market turbulence, which led to the closure of many commercial banks. The banks that closed were Teefe trust bank, cooperative bank Ltd, International Credit Bank, Greenland Bank Ltd, TransAfrica Bank and Orient Bank. Some commercial banks that changed ownership and management include Sembule Investment Bank, which was later, renamed Allied Bank ltd. Libyan Arab Bank became Tropical African Bank; Nile bank was sold and taken over by new management. These changes left many ARMs unemployed. ARMs who survived closures were asked to reapply for their jobs, affecting their behavioural performance negatively. In some banks, the reduction of staff increased workload for the remaining ARMs. Further speculations about the sale of Uganda Commercial Bank created more pressure for ARMs. Staff had been under the pressure of losing their jobs for a long period of time and insecurity about their employment situation was a central theme in many interviews. The turbulence left no choice for ARMs but to switch to other banks, creating insecurity for the whole industry. This state of affairs coupled with the shakeups in some banks resulted in vicarious learning, job insecurity, developing both negative and positive attributions thus affecting behavioural performance negatively. Despite these observations, the industry shake-up made some ARMs adaptive to meet the challenging banking job, thus affecting behavioural performance positively.

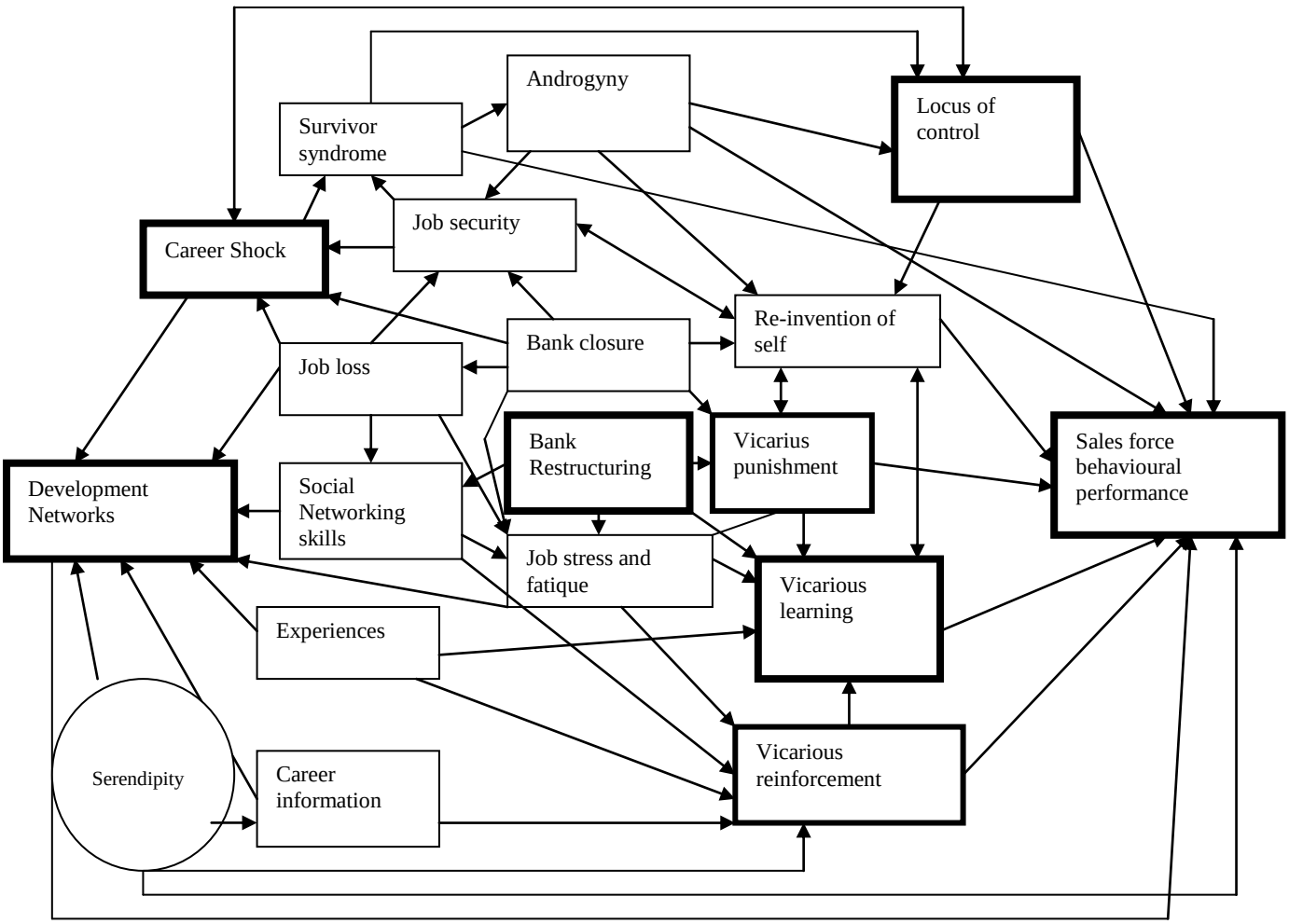
Figure 3 reveals that the ARMs selling job required "multi-skills" (flexible range of skills) thus demanding a wider base of understanding. This prompted some ARMs to enroll on various academic and professional training programmes such as CIM[1], ACCA[2], and Master's degrees, while others contemplated quitting the selling profession after years of failing to climb the bank's corporate ladder. ARMs made sufficient preparation to acquire professional skills through both long term and/or short-term courses. Presently, some are saving and will be able to either enroll on a local or foreign Master's degree early next year after taking study leave. They have also made the necessary adjustments to attune themselves to the kind of behaviour and performance that enhance their career progression. Learning no longer precedes work it is interwoven with work on a lifelong basis. The following case confirms the typology of responses that emerged during analysis. 'Agnes 11' "…I intend to change the banking career because the ARMs job is too competitive, highly demanding, risky and without job security. My behavioural performance largely depends on how well I cultivate relationships with my clients. My employers want both hard and soft data from my customers, which is hard to come by. Some clients are shrewd and tricky, despite the level of interaction effort with my clients, which is high. I really go out of my way to help them. ARMs' job depends on trust. The bank recently lost substantial dollars through one of my large account customers, who was not transparent in all his transactions. Whereas it is necessary to have knowledge of the clients' business, understanding the true legal and financial position of their business is difficult. There is a lot of information asymmetry. It is difficult to work without suspicion. Consequently, loyalty, interaction intensity and anticipation of smooth future interaction eventually depend on luck. Job security is a thing of the past (see Fig. 3 for details). People from all walks of life have invaded our sales job. Most of my colleagues on the sales team have specialist knowledge in engineering, economics, agriculture, chemistry,

[1] Chartered Institute of Marketing (CIM - UK)
[2] Accosiation of Certified Chartered Accountant (ACCA- UK)

mathematics, commerce, arts, mass communication and psychology. All these people claim to understand customers and the selling job very well. I intend to better my qualifications by doing a chartered institute of marketing (CIM) course and apply for employment in a better organization. Joe (Interviewee 15) had this to say "Since my plans are to stay and advance in this bank, I have already done a professional course in marketing and plan to enroll for a Master's degree soon and quit the banking job thereafter". Enoch had this to say "presently, I am saving and will start a Master's degree in India next year after taking one and a half year's study leave".

The above cases reveal the importance of continuous training in promoting salesforce behavioural performance which lead to increased performance. The trend now is that to be successful, get a promotion and gain a salary increment in the sales career one has to be a very good performer at work. Some ARMs get it easy because they have special attachments to their bosses while others are convincingly very good talkers. This however is of limited practice; ARM's have to justify their presence in the bank by being good performers. Costs associated to career adaptation to change include: cognitions, emotions, and finances.

Figure 3: Causal network for Development Networks, Vicarious learning, locus of control, Serendipity and Sales force performance



Fear of Job loss

Turbulence in the financial sector created fear for loosing jobs amongst ARMs. They went through a terrifying experience as they watched their banks crumble along with jobs they had

held for a long time. This affected their salesforce performance supporting P1. The unexpected closure of some banks, created shock for ARMs and greatly reduced job security. The fear of job loss has had long-term implications for the selling job. ARMs revealed that the fear diminished their confidence in sales engagement, sales presentation, and accounts management. This is illustrated by the following case…"Fear of losing the job and unemployment has worked me up and made me less resilient. I deeply loathe the idea of losing my job and being rendered unemployed. Turbulence in the financial sector has not only contributed to reduced salesforce performance my but instead almost destroyed me because I can still vividly remember the time Bank of Uganda was closing commercial banks that were not financially sound, I used to have sleepless nights for fear of losing my job. This was worsened by the difficult job market and my uncompetitive academic qualifications which have now forced me to go back to school and acquire more qualifications in banking. The on-the-job training, which I obtained, has helped me to increase my confidence. This is because by adapting to the job I can obtain more skills that will be significant when I change to my preferred career. Secondly, the guidance I am provided with in understanding my roles, and how to achieve my goals, has been very helpful in increasing my buoyancy to disruptive work conditions. My career adaptation plan first of all was to develop transitional personal management skills. This work has to be done entirely by myself. I had to face new challenges and obstacles and new bosses some of whom are very difficult to comprehend and to work with. I transferred all the skills I had acquired in the past organization into the new setting. I decided to go back to school to improve my communication skills by adopting the new management business terms and slogans, I made it a point to improve my computer skills as the new management also brought along with it its own specialized software." This case reveals that ARMs were subjected to continuous fear, which resulted in the development of resources and skills necessary for the selling job. This had both positive and negative effects on salesforce behavioural performance. The resilience developed by ARMs through training helped to improve performance, while, those who failed to adapt to the changes in the industry experienced declinging performance, (see figure 3 for details).

Development Networks, Networking and Salesforce Behavioural Performnace

Respondents attributed their good performance to utilizing connections through friends, family members and acquaintances that were a source of inspiration and support, thereby positively affecting their behavioural performance. Through these connections, trustworthy relationships were developed that generated career and sales information, sales referrals and advice. Through observations and associations with peers who worked with banks, ARMS were persuaded to join the banking career. The following case supports the above finding – "Enoch, an acquaintance that worked with the bank, informed me of a job that fell vacant in anew project (computer system inter-bank linkages). I knew that my dream had come true since I had always admired and respected people working with banks. I followed up this job opening closely through relatives and friends. It all worked out well very fast and I joined the Bank".

From the results of the qualitative interviews, poor family background coupled with lack of career planning, limited professional sales presentation impacted negatively on the sales career, supporting P1. Whereas many ARMs considered working in the bank prestigious, others considered the ARMs job inferior. This made them shift focus from the selling job to the prestige associated with the bank. This has not only diminished the behavioural performance against which they are evaluated but also led to a declining interest to acquire new customers. Some ARMS who enjoy the selling career have used the presence of powerful social networks, influential and supportive customers, as a benchmark for their behavioural performance.

Social Dyadic Interactions, Serendipity and Salesforce Performance

Results reveal that serendipity and development networks resulted intoimproved behavioural performance, thus supporting P1and P2. Social dyadic interactions with customers and other

stakeholders are necessary in generating, building and retaining customers. This is because customer's lives depend on how they are tied into the larger web of social connections. ARMs and customers develop friendship that goes beyond the official business. This is interpreted by customers to mean that banks care and are very close to them. According to "Nyakat", a bank customer, for example whenever the bank organizes end of year parties or launches a new product; he is invited for the function. This is attested in the following vignette. "… our firm usually honour the bank invitation to attend their functions. We also never forget sending me season's greetings, calendars or newsletters. Recently at a new product launch, I met a sweater producer from Kenya and we struck a business deal for his firm to supply our firm and the bank has agreed to finance the deal. Personal friendship is good for relationship building. Our bankers usually invite us for their private functions and we also occasionally invite them too. This has brought us close and the benefit of this association is evident in the way we access loans from the bank…Seeing things in each others perspective is possible to some extent. For example when we are unable to meet commitments, we explain this to the bank and they do understand our shortcomings. Similarly, when we want finance and the bank says at present they are unable to extend the loan because of some constraints, we do understand them. But unless explained we do not understand their perspective well and we believe they do not understand ours either.

The above cases reveal that the nature and frequency of social interactions are essential for building customer networks thereby improving businesses of customers. Through such interactions customers were linked to business partners with mutual interest. This led to the development of meaningful bonds, which eventually translated, into increased social interactions, closeness, friendship, and satisfaction as shown in figure 3. Social bonds assisted in removing doubt, created trust and formed close relationship between parties. Social interaction is also necessary in building relationships. There is need to relate with customers and develop friendship that goes beyond the official business. This includes attending birthday functions.

In such a relationship it is important to be transparent and open to each other. You need to understand one another and this is only possible when you open up to each other. 'Kit' asserts that - Recently when I wanted to buy property adjacent to my business I first invited the bank ARMs to appreciate what I intended to do with the loan. He came along with the bank's Valuer. They inspected the property and valued it at Shs. 90 million. I had only requested the bank for shs. 45 Million for the property. Because I was open to the bank on how I would use the money, I had no problem in acquiring the loan.

You also need to keep your promise to the bank and the bank must also keep its promise to its borrowers. If the borrower needs some support and the bank promises to support, it must do so at the right time. Similarly, the borrowers must keep their promise to the bank. If an installment is due it must be met. If for any reason you are unable to meet the installment, you need to approach the bank with proper explanation for rescheduling the loan repayment and a definite promise to pay. "Kit" - In December 2003 I had this problem. I had reserved Shs. 15 million Uganda Shillings on my account for the December installment on my loan. But the school lacked money to pay teachers their December salary. I explained to the credit manager the need to pay the teachers salary and postpone the repayment till end of January 2004 when parents would start paying school fees. He was able to understand this so Shs. 8 million was taken as part installment and I used Shs. 7 million to pay the teachers. At the end of January I was able to pay the balance of the installment. This is the kind of promise I am talking about.

Despite their training and professional knowledge ARMs, attributed their performance partly to serendipity (for details see figure 3), supporting P2. Serendipitous events enabled ARMS to access and recruit profitable customers. In these cases something more than chance was implied. Serendipity did not arise from random accidents but from circumstances brought

about by unconscious motives, which led ultimately to the serendipitous events. Analysis of qualitative data includes terms, which indicated a level of "unplanned surprises" during selling. Interviewees talked of chance, accident and "just happened to" meet a potential customer who acted as sales leads to other profitable customers. This is supported by the following quotations. "…When I was doing my routine check up, I met a prospective customer in the client's office who had gone there on his own business, who got interested in our bank and its financial products and services. He bought the bank products and later introduced us to other profitable customers. He is one of my best large account customers; I don't want to loose him because he always brings us profitable accounts (Interviewee 14). By contrast chance encounters led to new unanticipated outcomes. Interviewees revealed the fact that serendipity sometimes opened their eyes to psychofortology and to a whole set of selling opportunities. Further some ARMs spoke of making their own luck via hard work and persistence.

Results of the qualitative research revealed that there was a significant relationship between serendipity and salesforce behavioural performance. ARMs did not discount the role serendipity had played in their career path. Serendipitous events expressed in terms of ones' family background, working for a caring organization with a supportive work environment, having a competent and caring supervisor were key in improving behavioural performance building ARMs career resilience. Whereas some ARMs were lucky to have had strict career focused parents, others found luck in accidental acquaintances met during sports and selling missions. For example, female ARMs had this to say"…. was not the best qualified but my sporting skills enabled me to get social contacts for the bank job (interviewee 2).

Ironically, ARM's loss of jobs due to retrenchments and closure of some banks provided an opportunity for improving salesforce behavioural performance. ARMs gathered the necessary psychological strengths (psychofortology) necessary to survive in this rapidly changing financial sector. This was a chance for the ARMs to be psychofortological and prepare for improved performance elsewhere. It is becoming an undisputed fact to some bank sales people that the more training one has, the better they will psychologically prepare to face sales career disruptions. This is further promoted by the assistance and advise of kinship relationships and networks in the banking industry.

DISCUSSION OF FINDINGS

The findings presented above shed light on a number of interesting issues and lend empirical support to the propositions that were developed for this study. Results reveal a consistent effect of background factors on salesforce behavioural performance. Accounts relationship managers reported career events of familial factors, education, religion, age, androgyny, social dyadic interactions and networks as important antecedents to salesforce behavioural performance. Schneider, (1994) and Montgomery (1993) have revealed that background factors provide common ground, which help people to relate well to each other. Almost all of our interviews highlighted the importance of having things in common with another person as an important step of building relationships and improve performance. For example one accounts relationship manager indicated – "it was after learning that we had a lot in common with the newly recruited accounts relationship manager that I volunteered to assist in all humanly possible…" The interview results revealed that they were Moslems, in the same age range, had studied together at college and had at one time lost a job. This background was the basis for their association. Barley (1990) and Montgomery (1993) support the above finding by asserting that common background provides a basis for developing relationships and connections. Connections create a belief that each person has a level of concern for the other (Montgomery, 1993). Kakabadse (1999) has suggested that time and experience in terms of age result in performance. Further, King, Ehrhard and parks (1998) and Hagevik (1998) attest

that training and education strengthens characteristics of resilient and performning individuals like resourcefulness and problem solving.

Consistent with the findings of this study, extant literature reveals that good performing people are sociable (Werner and Smith, 1989; Gordon, 1995). Sociability improves cohesion, promotes behavioural performance, collaborative effort and career growth, encourages sharing of tacit knowledge (that which is undocumented) and leads to performance in a supportive social environment. Accounts relationship managers' development of social resources is a necessity for the development of vicarious learning over selling situations. ARMs enjoyed the social aspects of their work, the social networks, and the companionship with fellow workers and customers, thereby benefiting from their communications. Benefits of work such as communication with other people and human contact (Chanley, Rudolph, and Rahn, 2000) are a necessity for interactive jobs like selling. The closure of commercial banks in Uganda, which was followed by restructuring of some banks adversely, affected ARMs behavioural performance. Commercial bank restructuring took the form of closing bank branches and reducing bank labourforce with an objective of cutting costs. The closure and subsequent restructuring of several banks left many employees jobless. Consistent with King and Elder (1995) market turbulence in the financial sector and fear of job loss were essential components of promoting improved salesforce performance. Respondents responded to this pushing demand of career resilience by attending both short and long term courses in marketable programmes (e.g. information technology, accounting, sales, marketing and banking), joined supportive networks and religious groups for emotional and spiritual support, attending counseling sessions, openness, set higher goals, solution seeking and protected personal interests. These coping mechanisms were responsible for developing a productive labourforce capable of continuous learning to keep pace with industry changes. One of the interviewees revealed, "a job that is obtained through competencies and qualifications must be maintained through continuous learning and development. One must continually reinvent himself or herself, following the realities of the job demands. Universities graduate thousands of increasingly more sophisticated graduates each year who are preferred by employers because they are paid a lower level salary compared to what is paid to the old ARMS. They are a cost saving for the bank. For example last year bank (A) retired two old-timer managers in the corporate department and hired four fresh graduates at a third of their pay. Jose revealed that the new staff were hardworking and tended to get things done quite easily as compared to their old counterparts. The Job market was more competitive than before. Changes in the workforce over the last decade, such as the rise of precarious employment, the disappearance of life-time careers, a more unequal distribution of work, and a shift in power away from workers have affected employees in different ways. As Beck (2000) argued, the precarious, discontinuous and contradictory aspects of labour will grow. Many banks revealed that although they offer short-term training as and when it is necessary they should not be seen as training grounds for employees. They hire employees with the requisite competencies requiring no serious training save for short-term and on-job training. This attitude has made ARMs to manage their own careers by staying current in their fields through continuing education courses, certificates and degree programmes and developing strong relationships with parents, friends and mentors.

Aldrich (1999) and Rosenblatt et al. (1985), assert that social networks make social resources available to newcomers in a career. Networks are significant contributors to ARMs innovations. Networks have also been found to promte salesfocre behavioural performance.ARMs who are entrepreneurial with sources of information, selling strategies and tactics. Empirical research concurs that when used entrepreneurially, personal contact networks can produce marketing benefits by providing reliable information about careers, customers and competitors (Gilmore et al., 1999; Shaw, et al.1998). Further Comparative analysis and synthesis of qualitative data collected reveal that networks promote salespersons' entrepreneurial behaviour, a characteristic of better performing salespeople. This is consistent

with Lumpkin and Dess (1996), who assert that the ambition level and the scope of entrepreneurial action is determined by salesforce behavioural performance.

Locus of Control, Vicarious Learning, Serendipity and Salesforce Performance.
ARMs revealed that at times, their control depended on doing anything that they believed in. This is supported by Williams (1997) who has identified internal characteristics of locus of control to include ability to take risks, competence and self-confidence. Additionally ARMs developed coping responses for the pushing demand of self-concept. The coping mechanisms included developing supporting relationships and strong social support with peers. ARMs opened up communication channels with peers, friends and family members in order to learn from their coping experiences. Supportive relationships with these people aided in creating new responses and promoted self-esteem. This was particularly beneficial to ARMs since they were able to create capacity to recognize and reframe the beneficial and damaging adversities of the selling job.

Respondents asserted that friends and family (especially parents and ones up-bringing), personal experiences, ambition, plus exposure to career information accounted for the ARMs career resilience. Relationships with other people were of particular importance in providing ideas, advice and emotional support. The above finding corroborate the results of Greve and Salaff (2002), Min (1988), Wong (1988) and Zimmer and Aldrich (1986), who revealed that individuals call on their family and others in the network for different kinds of help and support.

Another source of ARMs perceptions of control of their selling job derived from having powerful others and tough bosses who had a hand in determining their fate. Some ARMs sales lives were made miserable by bosses who treated them in disrespectful, unprofessional ways. Poor supervision, lack of information, disapproval, job transfers and denial of tenure led to loss of morale in ARMs over their selling jobs. Some interviewees revealed that they had worked in the bank on a temporary basis for a long time without any hope of confirmation and promotion while others had been discriminated against. Negative decisions were made about some ARMs on the basis of their religion, age, sexual orientation and physical appearance. For example, female ARMs were facing great opposition from their male bosses. Sales career women received personal attacks and were constantly reminded of their reproductive roles and performance implications by their supervisors. The following case of a female ARM 'Jane' describes the issue at hand. "…from the time of my arrival in the bank as a woman ARM, I found selling of bank services a challenging job… Only tough women can do a selling job in a male dominated job and competitive service sector. I found the treatment of women by male supervisors a challenge. My boss constantly tells humiliating sexual jokes luring you into a relationship. He makes sarcastic comments about me on a regular basis. When I try to tell my boss that I do not appreciate the remarks, I instead receive poor performance appraisals and thus reduced chances of promotion, thus making me a poor accounts relationship manager. I am attacked all day from all angles. To my surprise, even my large account customers quite often misunderstand my empathy, being nice, welcoming nature and smiles for a relationship. I am always professional in my sales relationships. Although disappointments are common, the ARMs job is a torture to women. I intend to change my career soon!

The above case reveals the unfair treatment of female ARMs by both male supervisors and male customers. Female ARMs who do not affiliate receive poor performance appraisals and face reduced chances of being promoted (vertical career). This has made the ARMs job a torture to females forcing many female ARMs to express their intentions to change their careers. Whitener et al. (1998), Folger and Konovsky (1989), Korsgaard, Roberson and Rymph (1997) have shown that the extent to which performance appraisals follow principles of fairness has an effect on trust, performance and employee exit. Equally important was the fact that standards for promotion were not always clear or equally applied across ARMS. This

lack of transparency in decisions appeared to affect ARMs' career resilience. As one respondent critiqued "…there is a tendency to favour those who are sexually close and present rather than encouraging talent, teamwork and performance ….it just seems safer not to talk or stick your neck out, because the 'nail' that sticks out get hammered. If you blow a whistle, you do not get anything but grief.

The final source of ARMs perceptions of control resulted from serendipity. This is a summation of all gains from chance / luck resulting from changes in the banking industry as revealed by the following case of Jean – "….the banking career is very challenging and unpredictable. I started developing my banking career eight years ago by investing in education (training), acquiring more qualifications. Management of the bank was against studying and not keen at promoting training at all. All my colleagues who were discovered studying were dismissed. By good luck I survived the axe dismissal for lack of sufficient evidence. Although nobody knew exactly what I was doing, I was deeply threatened by management action. I postponed studies for a while waiting for the dust to settle. I frequently applied for employment in a better organization without success. I slowly regained and persisted against all odds and enrolled on a professional marketing course, which I successfully completed. I later applied and gained admission on a Bachelors degree in commerce through the diploma holder's scheme. After acquiring the degree I started on my MBA degree, which I finalized in 1999. Our bank was closed by bank of Uganda a few months after my graduation. This was a challenging traumatic situation to me. After three months of street walking, I was finally employed as an accounts relationship manager (ARM) in another bank. I worked so hard and earned promotion in half a year's time. I am now the overall boss of all ARMs in this bank.

The above case is an example of a job loss that was followed by luck. Turbulence in the financial sector within the industry increased Jean's control over his selling job thereby improving resilience. Market turbulence has made the affected seek for training, which acted as a source of confidence. Faced with the pushing demand of Luck/chance ARMs have developed coping mechanism of great determination to succeed by being keen on succeeding in work and career, acquiring more training, tolerate harsh work situations, enduring persistent nature, developing social networks.

Findings revealed that enactive vicarious learning wsd essential in promoting performance. Bandura (1986, 1997) has revealed that vicarious learning provides the most authentic evidence of information about success in a specific domain. Salespeople referred to information processed cognitively and the aid they got from their networks that helped them to form their positive appraisals of their capabilities. For example "I have done a lot of selling work in the past where I have drawn and used networks and connections that people do not easily have access to. With this wealth of experience, I have managed to recruit many new customers and deal with accounts according to their needs. I can now say that I am good at selling, hard working and perseverant. I do not easily give up. What keeps me going is my desire to excel. I have always been recognized as a hardworking employee of the bank and awarded a certificate of excellence. With this kind of performance, I am encouraged to work-hard in future. This performance however, is attributed to connections (networks) and the experience in selling financial products (Interviewee 10).

For example, 'Agnes a 33 year old Corporate Accounts Officer, who had previously worked in Equatorial Hotel (U) Ltd, had a banking experience of 5 years. She decided to leave the hotel where she was working in accounts department and joined the bank because of the promising selling career. She did not discount the role talent and experience played in performing the selling career, but she gave credit to the family support. "…experience has helped me not to easily get depressed especially after walking distances and be turned down by the client. I have gained sales presentation experience, which enables me to sell in a highly competitive market. The size of the market for bank products is small compared to the

number of banks in the country…. "I am not a tough sales woman, but I try my level best. I have always thought of living this job, but where do I get my next job. I usually persist until I see results… People have certainly had an influence on me. For example I am advantaged to have had a supportive father and mother who were both bankers. Dad is deceased, while mummy is still around and works with Bank of Uganda. They both encouraged me and introduced me to the banking career and customers ….My continuous goal directed and solution-seeking nature is my biggest solution and tool in my selling career.

The above case results clearly show the importance mastery experiences play in promoting confidence and performance. In contrast to males, female self-efficacy beliefs developed from the significant relationship in their lives that made them resilient to the many obstacles they encountered in their selling job. Females' valued social and verbal persuasion they received from others. They experienced vicarious learning from their family members and peers. Positive persuasions worked to encourage and empower while negative persuasions worked to weaken self-beliefs. The following case supports this. "…when I was hired as an ARM in this bank, workmates tended to avoid me. This avoidance sent negative messages to me and affected my confidence negatively, although the bank encouraged every bank employee to work as a team. There are some people in the department that are both close and distant to me. Instead of concentrating on their work, some people in the bank waste time gossiping about me. These are the same people who gripe at my back looking for favours from their bosses …" This case confirms Zeldin and Pajares (2000), who suggested that females form their self-efficacy belief as a result of their relational experiences. Gilligan (1977) argued that women use the relationships in their lives as a foundation on which to ground their behaviour.

Females constantly referred to their physiology as a major limiting factor to performance as presented by the following vignette. "…women who perform well in selling are very aggressive like females. The size of the market is small compared to the number of Banks in the country, leading to increased competition. During selling, female ARMs meet very aggressive male ARMs who are ready to do anything to gain the customer. Selling needs special communication and networking skills combined with unique talents. Unlike their male counterparts female ARMs have special family reproductive roles and physiological limitations. Which are very stressful. This study further revealed that males rank high on self-efficacy, internal locus of control and risk-taking confirming earlier studies by Murphy (1989) and Busch (1995). Males have been found to show higher self-efficacy than females for those tasks perceived to be masculine (Bandura, 1986), usually the more complex tasks. Given that the scale used in the current study was task specific, perceived masculinity is likely to be the solitary determining factor for gender differences in self-efficacy. Busch (1995) has reported higher levels of self-efficacy in men for complex but not simple tasks. It appears that it is the complexity of the task, which determines any gender difference in self-efficacy. It seems the more complex the task is the higher is the perceived masculinity factor and hence men show higher self-efficacy for such tasks than females.

Internal locus of control as would be expected related with salesforcel performance, thus supporting hypothesis P3 which states that ……. This finding corroborates studies by Hanisch and Hulim (1991), Stumpf and Dawley (1981), Keller (1984), Bycio et al (1990) and Ntayi (2004) who aver that locus of control is a significant predictor of performance. Internal locus of control was associated with performance because most laid-off workers attributed their job loss due to internal factors. The following case of Alice reveals how being in control can significantly affect performance. "….when I was a child I acted, lived and behaved like a child, but I am now a mature person. "I know that nobody owes me a living. When a bank closes, you sink with it. ….it's a traumatic experience. I have come to learn that the bank performance depends on my actions. …..I believe that our performance depends on how I plan and execute the sales plans. I believe my plans, actions together with God's blessings pave my destiny and this makes me an excellent performer than my colleagues. ….I have a maximum self-insight and self-understanding. Reality has taught me

to become a good judge of my own performance. I know if I don't take prudent actions and decisions, my career won't take the course I desire. These days it's not very easy to live comfortably in a family with only one breadwinner or else the family will be faced with financial constraints resulting into stress. Being shrewd and in control of my career have been my major guiding factors. Being in control of my destiny has provided me with the ability of achieving whatever I want…." Most ARMs who had strong internal attributions exhibited high performance. They took steps to reinvent and improve themselves.

This study has shown that task-related selling self-efficacy increases effort and persistence towards challenging tasks thereby increasing the likelihood for their completion. Judgements of selling self-efficacy influenced the amount of effort ARMs expended in the selling effort. This effort was invested in prospecting, managing the moment of truth, presenting a sale, handling objections and closing a sale as revealed from the themes….. ARMs developed communication skills, built professional and social skills, sought valued social roles in social networks, developed effective pedagogical selling skills, changed diet and feeding habits, attended counseling sessions and got exposed to risks as coping mechanisms. These coping mechanisms were particularly important to meet annual sales targets set by management. Selling targets were perceived by ARMs to be high and stressful. ARMs attributed the stressful nature of targets to the bank's strategy of cutting costs. The available staff were overloaded and sometimes worked till 9.30pm. They were left with no time to attend training courses sponsored by the bank. ARMs who had low self-efficacy felt that they were overstretched working too hard for their living. They were frequently referred to as "good talkers and non performers" by their colleagues. The following case explaines this point. Ken - "…the bank employs highly educated employees. Although this is a commendable criteria, most of the recruits with high qualifications are very good talkers without knowing what is exactly on the ground. Committed ARMs protect inefficiencies of some ARMs making them appear as performers….." The above case is corroborated by Sam who observed that being resistant to change is not beneficial. He strongly believed in developing competencies necessary for the selling job. "Sam…….for people whose 'old habits die hard' continued to lose their jobs. My career adaptation plan began with the sudden unexpected changes in my previous employments where I was laid off twice. Whereas the first layoff happened without warning, I saw the second one coming. Business had decreased and management was frequently engaged in discussions with the board for about one year. Bank of Uganda sent several reminders to the bank demanding for information. This created panic to the management of the bank. Within two months our bank was closed by bank of Uganda. I began improving my confidence through the development of transitional personal management skills and learnt more skills necessary for the performance of the sales job. This work was done entirely by myself, because I was concerned about my future and developing my abilities. After training I began a job search and got another job in the bank four months later. I had to face the new challenges, obstacles and new bosses some of whom were very difficult to understand and to work with.. I made it a point to improve on my selling skills. I have learnt to face whatever challenge in my sales career with courage and faith. I believe in myself because there is no better resource than myself. I am confident that I can handle whatever comes my way.

IMPLICATIONS

Theoretical Implications

The first notable theoretical implication of this study is its contribution to the ongoing salesforce performance. From the foregoing we assert that in order to understand salesforce performance, managers must shift from their espoused traditional expectancy motivation model (Churchill et al., 1985) and the adaptive models currently in use and introduce a cognitive constructivist personality trait (Kelly, 1955) as a potential framework for integrating personality dimensions into salesforce performance research. Previous researchers have failed to acknowledge that some salespeople fail to perform even when they are in possession of the requisite selling knowledge (Goleman, 1998). For example, Goleman (1998) has revealed that sales people, who possessed technical skills and cognitive abilities, were unable to perform in

the first two months of their recruitment due to lack of confidence. The study further show that 50% of the sales people in the US, quit within two months after recruitment and 65% left in two years, mostly because they lacked self-confidence. This finding is further corroborated by Kamuhanda (2001), who asserts that overall, bank salespeople in Uganda who lacked confidence in themselves attributed failure to factors beyond their control, withheld vital information, failed to manage customer interactions and reacted by occasional forced or voluntary resignation. The second theoretical implication relates to the importance attached to the vicarious learning. Empirical evidence has suggested that vicarious learning affect salesforce performance.The third theoretical implication relates to a need to reconceptualise the internal locus of control construct away from the general control perceptions of internal and external to situation specific experiences over time to determine action in given situations or domains. Salesforce performance research needs to disaggregate the locus of control construct and examine the predictive potential of the various components of the locus of control construct. This is necessary because locus of control is situation specific; it predicts and describes behaviour in specific selling situations.

Methodological implications

One major methodological implication is the role of multi-methods approach in predicting salesforce performance. This study attempted to build upon prior work in the area of salesforce performance by using qualitative data to predict salesforce performance. From the afore cited practice, the move has been made towards methodological coexistence suggesting that qualitative and quantitative approaches to sales and marketing inquiry should not be taken as mutually exclusive and competing paradigms but rather as approaches that have potential to complement each other. According to Hammersley (1998: 134): “there are major differences in philosophical and methodological preferences within the camp of qualitative researchers as well as within the ranks of quantitative researchers, and research practice is much more complicated than that proposed by the paradigmatic view. Thus two or three exclusive epistemological paradigms, which incompatibilists seem to have to offer, do not exhaust the ‘potential or even actual, range of methodological views to be found amongst social researchers”.

Future researchers can now build upon our work by integrating qualitative and quantitative research methodologies. This however requires charting taxonomies for studies combining quantitative and qualitative research in different ways. This once done shall provide terminological and conceptual clarity and coherence (Tashakkori and Teddlie, 1998). Support for the multi-method and mixed designs is derived from extant literature which reveals that mixed designs remains largely unstudied (Newman and Benz, 1998; Tashakkori and Teddlie, 1998). Based on the ontological and epistemological beliefs of adopting qualitative and qualitative methodologies to complement each other, requires a theoretical lens of refining the measures of career resilience components (e.g., selling self-efficacy, locus of control and risk-taking behaviours), relationship selling behaviours (e.g., interaction quality, interaction intensity, mutual disclosure and cooperative intentions) and salesforce performance.

Managerial and Policy Implications

The fist major managerial implication concerns the recruitment of accounts relationship manager (ARMs) based on the ARMs locus of control, vicarious learning and development networks as these significantly affect salesforce performance. As suggested by Spector (1982), bank managers may want to hire internals for positions that require minimum to no supervision, whereas externals may be more appropriate for positions that require moderate to constant interaction with the supervisor. However before organizations begin selecting employees on the basis of these personality characteristics; more research is required, especially because these characteristics were not studied in a selection context. Further for the salespeople who are already employed, there is need to introduce training, development programs and use role models directed at improving self-efficacy, and locus of control.

When hiring ARMs banks can screen for social and networking abilities that facilitate the development and maintenance of long-term interpersonal relationship. This could be done via

the relevant personal histories and through role- play situations during the interviewing process.

Another managerial implication relate to providing a conducive atmosphere that fosters lifelong learning by commercial banks. Creative "accounts relationship managers" continue to learn throughout their lives. More than half of the sampled respondents had undertaken full-time or part-time course, which they saw as enhancing their job prospects. In the banking industry, workers adapt, change direction and offer flexible services as required by the bank job rotation plan, aimed at building knowledge, flexibility and multi-skilling. Some employees, aware of the changing nature of the banking industry and the apparent stiff competition, have resorted to sponsor their continuing professional development. This study revealed that some banks sponsor their employees for short and long-term training without providing a corresponding learning environment leading to failure and termination of their studies. Employers and employees should enter into a lifelong learning contract with clear terms and conditions for the parties involved. This is likely to result into career resilience salespeople. In-house training emphasizing career resilience and relationship selling behaviours could be promoted. Salesforce training should include task and social disclosure and disclosure reciprocity at every stage of the selling process. Mutual disclosure leads to trust, cooperation, commitment and customer satisfaction, which are conceptualized as interaction quality. These findings should be used to teach salespeople to balance the nature of information exchanged in the mutual-disclosure process. The individual begins with disclosures of low intensity and gradually works upwards, all the time checking the receiver's reactions.

LIMITATIONS OF THIS STUDY

While the results of this study are of interest to sales and marketing literature, this research has several shortcomings that limit interpretation of results. First, the sample is composed of only accounts relationship managers (ARMs) selling only to large account customers. Results of ARMs from other financial services sector like insurance, housing finance, micro-finance institutions may be quite different. This may be particularly true of firms selling both intangible (hotels, education and training, consultancy, religion) and tangible or technical products such as computer firms, scholastic products, manufacturing industry. The question of whether our findings generalize to other industries has not been addressed. The data presented here are cross sectional and salesforce performance cannot be concluded from this study, without conducting a longitudinal study. This study further adopted scales used by previous studies with differing cultural backgrounds. Future researchers might consider developing contextualised batteries commensurate with the banking culture in Uganda. It would also be logical to conduct a longitudinal study, using both qualitative and quantitative methodologies.

AREAS FOR FUTURE RESEARCH

Future research should extend the study to other service sectors of the economy like insurance, education, health sector, politics, religion and product oriented companies where personal selling is a vital function for their survival. There is a need to find out whether the results work with consumers than with more professional workers.

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DISTRIBUTIONAL EFFECT OF EXCHANGE RATE ON FIRM'S PERFORMANCE IN NIGERIA: MICROECONOMIC APPROACH

TAWOSE J. O. B.
University of Ado Ekiti, Nigeria
joeyink2001@yahoo.com

OLOYEDE J. A.
University of Ado Ekiti, Nigeria
drjaoloyede@yahoo.com

ABSTRACT

The volatility of exchange rate as observed in literature has become an issue of concern especially in a less developed country like Nigeria. Since both costs and returns from production are affected by exchange rate as the firms import inputs and also export their products. It is on this observation that this paper focus on finding out the distributional effect of exchange rate on firm's performance in Nigeria. The period to be covered is between 1986 and 2007. Panel data technique was employed in this research as it is capable of captioning both time series and cross-sectional observation as presented in the study. It was discussed that the relationship between exchange rate and firm's performance is due. The higher the exchange rate, the higher is the cost of production; the lower will be the performance if the product is elastic, but vice visa if it is inelastic. From the other end of production, the higher the exchange rate the cheaper the domestic products for export, and then the higher is the expected returns. In this circumstance, the gap between cost and return depends on the nature of the product and the structure of the firm. It is therefore suggested that the more monopolistic structure a firm becomes in the global market, the relatively better it becomes in respect of performance.

INTRODUCTION

The literature has established exchange rate as the rate at which a currency is exchanged for another. This simply means that for an exchange rate to emerge, two or more countries with different currencies are involved. Exchange rate is important in the study of macroeconomic management, since it reflects the performance of both domestic and external sectors of the economy.

Nigeria as a developing country has adopted several options over her 49 years of independence in her search for designing and implementing foreign exchange rates that could boost productive capacity of firms within the industrial sector. Fixed exchange rate system was adopted between 1960 and 1986 and right from 1960, the gold standard approach was in operation up till 1973. Following the breakdown of the Breton Woods monetary system and the emergence of a system of generalized floating from 1973, the Naira exchange rate was fixed independently from 1974 to 1978 for the US dollar and pound sterling. During this period (1974-1978), Nigeria, through administrative action had the option to change the exchange rate. In February 1978, the Naira was tied to a system of import-weighted basket of

currencies of seven major trading partners of Nigeria. The trading partners were U.S.A, United Kingdom, France, West Germany, Switzerland, Japan and Netherlands.

The significance of the exchange rate as an instrument of economic policy was re-emphasized in June 1986, when Structural Adjustment Programme was introduced and the Naira was subjected to fluctuations. The introduction of the Auction system underpinning the adjustment programme reclassified Nigeria as an independent floater of exchange rate.

The primary target of every firm is to produce goods and services for sales with the aim of making returns on their investments, therefore for a firm to produce and make high return; there is need for efficient allocation of resources. Firm performance is defined as the ratio of output to input in a given period of time. It is therefore regarded as the amount of output produced by each unit of input. Firm performance could be measured in terms of input and output relationship.

In 1999, Campa and Goldberg (1999) did cross-country study by comparing investment performance sensitivity to exchange rate movement in the United States, Japan, United Kingdom and Canada for the period between 1970 and 1993. Their findings showed that given the high degree of openness of Canadian manufacturing industries, industrial performance in Canada had the least response to the exchange rate movement. The findings from this literature revealed that the response of industrial sector of various economies to the changes in exchange rate differs. Therefore, there is a problem of knowing the kinds of relationship that exist between exchange rate and industrial performance in Nigeria. In the same vain, Lafrance and Tessier (2001) conducted research on the relationship between real exchange rate and industrial performance in Canada and concluded that the link was insignificant . These conclusions showed that the relationship between exchange rate and industrial performance is different from one country to another. Therefore the fundamental research question is to look at this relationship in Nigeria.

Theoretically, changes in the exchange rate may have two opposite effects on industrial performance. It is shown that when the domestic currency depreciates, the marginal profit of investing an additional unit of capital is likely to increase, because higher revenues are expected from both domestic and international sales as the price falls. It was also noted that this positive effect is reduced by the rising variable cost and the high cost of imported capital. Hence, the overall effect of exchange rates on investment remains an empirical question. Therefore the total effect of exchange rate in industrial performance in Nigeria is to be investigated in this paper.

This study broadly investigates the relationship that exists between foreign exchange rate and the performance of firms in Nigeria between 1971 and 2007. Therefore, the study examines distributional consequences of exchange rate on firm performance.

Exchange rate of a country which serves as price of other countries' currency could be used to assess the strength of the currency at the foreign exchange market. The major means of determining the value of goods and services transacted at international market is through the exchange rate. This simply implies that to determine the position of balance of payment of any economy, exchange rate is indispensable. Exchange rate can be used to redistribute resources by rationally allocating the foreign exchange. It is important to note, that most of economic policies, such as import substitution strategy, export promotion etc. cannot work, if exchange rates are not effectively managed. One of the ways in which foreign investment can be encouraged is through stabilization of the exchange rate. It is therefore significant to note that when exchange rate policy succeeds in stabilizing exchange rate, foreign investment and economic growth will be encouraged. According to Ojo (1990), when exchange rate policy is well designed, efficient exchange rate will emerge and problems such

as illegal currency trafficking, smuggling and foreign exchange malpractices will be eliminated.

The strategic effort to improve the industrial sector performance will alleviate the pressure associated with high demand for foreign exchange which consequently stabilizes exchange rate variability and foreign investors will be encouraged, thereby facilitating economic development. Obadan (2002) stated that for every naira spent by Nigeria, not less than 80 kobo goes out of the country and that such situation can be reversed if industrial sector is efficient. The vices associated with capital flight could be avoided. Industrialization creates more employment and this will reduce the rate of unemployment in Nigeria.

This research work covered a period of 37 years between 1971 and 2007. The 37 years under the study is considered long enough to properly identify the behaviour of various variables to be incorporated in the model.
Nigerian industrial sectors as classified by Ministry of Economic planning is adopted as follow: Agriculture, Livestock, Fishery, Mining and Quarry, Manufacturing, Building and Construction, Utility, Transportation, Communication, Wholesale and Retail Trade, Hotel & Restaurant, Finance & Insurance, Real Estates, Business Services, Housing, Producer of Government Services, Community Personal Social Services.

The source of data is purely secondary, such as: Annual Reports of firms, Journals from Central Bank of Nigeria, Manufacturing Association of Nigeria, and The Fact Book from Nigerian Stock Exchange and textbook from various authors.

LITERATURE REVIEW

This section reviews theoretical issues and empirical evidence to show various channels connecting the exchange rate and the firm's performance. Also, theoretical link between industrial sector and other macroeconomic variables such as money supply, parallel market premium, interest rate and inflation rate as they are adopted in this study is established. Theories surrounding the industrial performance measurement which serve as basis for establishing proxies for performance in the study are shown. The theories reviewed, assisted in modeling the equation adopted.

Due to the wide spread effects of exchange rate movement on various macroeconomic variables and constant observation that the position of firm performance has a link with the activities in the international market, many scholars especially outside Nigeria have undertaken studies on the relationship between industrial performance and exchange rate movement. Most of the studies in this area were restricted to the developed countries such as United States, United Kingdom, Canada and Japan, with less focus on developing country including Nigeria.

Campa and Goldberg (1999) focused their research on the relationship between exchange rate fluctuations and investment performance. The study compared industrial performance sensitivity to exchange rate movement in four countries, viz United Kingdom, Japan, Canada and United States. The study found that given the high degree of openness of Canadian industrial sector, performance in Canada became least responsive to exchange rate movement. This finding became amazing considering the high degree of openness of Canadian industrial sector. This prompted Lafrance and Tessier (2001) to conduct similar test using Vector-autoregressive models and found an insignificant relationship between the Canadian real exchange rate and aggregate investment. The observation of these two researches posed an interesting question as to what the situation could be in Nigeria.

Tarek, Faouzi and Terence (2005) studied on effects of exchange rate on industrial performance, using Canadian manufacturing industries as a case study. Four fundamental

issues were generated in respect of divergence effects of exchange rate on industrial performance. The first issue generated different channels through which exchange rates affect industrial performance. The paper submitted that when an exchange rate depreciates or appreciates, it stimulates or dampens industrial performance. It stimulates industrial performance by enhancing demands in both the domestic and export markets, while it reduces industrial performance as a result of the increasing cost of imported intermediate goods and the cost of capital. Secondly, the changes in exchange rate can influence firm's performance perception to depend on whether the shocks are permanent or transitory. By implication of this, the industrial performance responses to changes in exchange rate may differ depending on the volatility of environment. Thirdly, they compared the impact of exchange rate across three types of investment and found out that in a low-volatility regime, the exchange rate effect on total performance is mainly caused by the changes in one investment, but not in the other. Fourthly, the sensitivity of an investment to exchange rate changes is stronger in industries with low mark-up ratios than in industries with high marked-up ratios.

The empirical evidence of Tarek, Faouzi and Tarence in 2005 is consistent with the earlier results obtained by Campa and Goldberg (1999) and Lafrance and Tessier (2001). The overall effect of the exchange rate on total performance was statistically insignificant for the Canadian manufacturing sector between 19981 and 1997. In spite of this result, it was discovered that depreciations or appreciations tend to have a positive or negative impact on industrial performance when the exchange rate volatility is relatively low. The findings point out the significance of differentiating the industrial performance response between high and low exchange rate variability regimes. Therefore this work intends to bridge this gap by considering both fixed and flexible exchange rate regimes.

Empirical evidence has also provided theoretical underpinning for the channels through which exchange rates affect industrial performance. It is widely believed that a depreciation of the domestic currency will earn greater international competitiveness for domestic exporting firms. When the domestic and foreign market shares of a firm increases, the profitability position will increase, which in turn will lead to investment in a new plant and equipment. Therefore, the larger the firm's export exposure, the more sensitive it's performance in response to exchange rate movements.

Osunlade (1993) submits that exchange rate has direct effect on domestic price level, investment decision and profitability of traded goods and services. As the rate affects relative prices, it can also affect allocation of resources in the economy since it has potency of controlling the volumes of trade at the international level. Obadan (1993), in his research postulated exchange rate as a significant tool of balance of payment adjustment. It also encourages diversification and controlling of imported inflation especially in less developed countries (LDCs).

It is also important to note that when local firm rely heavily on imported inputs in production, exchange rate depreciation can have a negative effects on their performance. For instance, an increase in the variable cost of production and the user cost of capital reduces the marginal profit of a firm. In addition, our theoretical framework reveals that performance in industries with weaker market power is more likely to be influenced by the movement in exchange rate. It therefore implies that firm with stronger monopoly power have a greater ability to adjust their cost-price margin without altering their production and investment decisions, unlike low-mark-up industries where relevant adjustment in production system as a result of changes in exchange rate largely affect firm's profitability.

A rise in exchange rate has in general been found to have negative consequences on the firm performance in the local economy. This assertion was confirmed by the following authors McKenzie (1999), Chou (2000), Rahmatsyah, Rajaguru and Siregar (2002), Siregar

and Rajan (2004); and Clark, et.al (2004), Kiyota and Urata (2004) by analysing data at aggregated as well as disaggregated Industry level on Japan's Foreign Direct Investment (FDI) and discovered that persistent changes in real exchange rate discourages FDI. Rajan (2004) opines that the appropriate exchange rate regime for economies remains a hotly debated subject around the whole world. While Siregar and Rajaguru (2002) in their findings submitted that fluctuations in exchange rate have significant pass-through effects on the domestic prices.

There is a general belief that a depreciation of the domestic currency will facilitate greater international competitiveness for domestic firms that are exposed to exportation. The increase in domestic exporting firms' participation at international markets will increase the level of firms' profitability which will further result to increase in the level of investment, and increase in shareholders wealth. Therefore, the larger the firm's exposure to exportation, the more sensitive its performance in reacting to changes in exchange rates. Gilchrist and Himrnelberg (1995) supported the belief that higher profitability generated as a result of depreciation in exchange rate is capable of influencing investment decisions. On the other hand, this establishment further stressed that depreciation in exchange rate could also impose negative effect on industrial performance. The level of this negativity depends on the degree of reliance of a firm on imported inputs for production (Tarek, 2005). They observed that the higher the level of input importation, the higher is the effect of exchange rate depreciation on industrial performance

The second area of effect of variability of exchange rate on industrial performance is to find out whether the effect or the shocks are transitory or permanent. It was therefore asserted that the industrial performance responses to changes in exchange rate will depend on whether the volatility of the environment is low or high. While the third area identified is the nature of the firm. The response of industrial performance to the changes in exchange rate depends on the nature of the industry.

REVIEW OF THEORETICAL ISSUES

The sensitivity of firm performance to changes in exchange rate varies from one industry to another. The level of sensitivity depends on the degree of pricing power and export exposure. The positive (negative) effect of a depreciation (appreciation) on investment increases with the industry’s reliance on exports. Moreover, investment in highly competitive industries with low markup ratios is likely to be more responsive to exchange rate movements.

Exchange rates affect industrial performance decisions via three channels: domestic and foreign demand, the prices of variable inputs, and the investment price. The first two channels affect the marginal benefit of investment, whereas the last channel influences the user cost of capital. Depending on the extent of the exchange rate pass-through, the shares of imported inputs, and demand elasticities, the net effect of the three channels on performance is unclear. In the case where all inputs are produced domestically, the only exchange rate effect is on domestic and foreign demand. Depreciation is likely to have a positive impact on industrial performance as the marginal benefit of investment increases. In contrast, if the pass-through on the prices of imported inputs is high, those firms relying heavily on imported inputs would reduce their investment as the variable input price and the user cost of capital increases during periods of exchange rate depreciation. The theory provides no clear indication on the exchange rates overall effect on industrial performance. Determining the dominant effects remains an empirical question, which will be addressed in this study.

In general, export-oriented firms are more likely to be affected by exchange rate movements, because the direct valuation effect on export revenue is greater than the substitution effect in the domestic market. The empirical evidence in Campa and Goldberg (1999) supports this notion for the manufacturing industries in the United States and Japan. They find that the simulative effect of depreciation on performance rises with the industry's revenue share from exports and declines with its reliance on imported inputs.

The second industry feature is related to the degree of monopoly power that is commonly proxied by the price-over-cost markup ratio. Campa and Goldberg (1999) show that the effects of the exchange rate on the firm's performance with low markup ratios are more responsive to exchange rate movements. Using data from the U.S. manufacturing sector, they find that a 10 percent depreciation between 1970 and 1993 would result in an average reduction of investment by 2 percent for the low- markup industries, but they find only half of the effect (-1 percent) for the high- markup industries.

In the analyses, firms maximize profits such when $p/MC = (1+\upsilon^{-1})^{-1}$.

This implies that the markup ratio (p/MC) rises as υ becomes less negative. In other words, product demands in an oligopolistic market structure with high markup ratio are less elastic than those in a perfectly competitive market with zero markups. Even in the case when the exchange rate effects on the product demand are identical between the high-and low-markup industries, high-markup firms will dampen the exchange rate effect on profitability by adjusting their output prices and markups. In contrast, highly competitive industries have very limited pricing power and prices are set near to the marginal cost. The adjustments to exchange rates are largely reflected in changes in the firm's profits. Therefore, the lower the industry markup ratio, the stronger the exchange rate effect on profits, and hence performance.

It should be noted that our theoretical model is based on a neoclassical framework with no financial market in it. In the literature, there are other models that relate the firm's performance decisions to the financial situation. Mill who contributed to the economic development under classical theory submitted that money is a commodity and its value depends on its purchasing power. The Classical theory indicated that there is an inverse relationship between money supply and price level. The theory believed that changes in money supply affects both user's cost of capital and marginal revenue product capital. A Change in exchange rate affect price of imported variable inputs, domestic and foreign demand and price of imported investment. Classical theory also linked interest rate with level of profitability. It stipulated that to arrive at final profit, interest rate is deducted from the sales. Interest rate is therefore treated as expenses.

The Keynesian Marginal Efficiency of Capital (MEC) refers to the expected profitability of a capital asset. It is defined as the highest rate of returns over cost expected from additional unit of capital asset. Therefore, to determine MEC, two major factors are relevant and they are: the prospective yield of the capital asset and supply price of the capital asset. This means that supply price which is the cost of acquiring asset is very important in determining efficiency of an industry.

Keynes propounded liquidity preference theory to explain the relevance of interest rate. He submitted that interest rate is determined majorly by the demand for and supply of money. This implies that changes in money supply affect interest rate and the interest rate determines the cost of capital. The higher the rate of interest, the lower may be the industrial performance

The theoretical framework considered is to establish a simple industrial performance model in which both input and output prices are affected by the changes in exchange rate. An industry represented by firm produces one output for the domestic (x) and foreign (x*) market with two types of inputs named as quasi-fixed capital (K) and variable input (L). It is assumed

that a certain portion of the factor inputs is imported. To make the model simple, it is assumed that the ratios of the imported inputs, m_k and m_L, are determined by the firm's technology, which is constant over time. In this theoretical framework, changes in exchange rate influences the firm's production decisions through changes in domestic and foreign sales, as well as the costs of imported inputs. A rational firm maximizes the expected present value of all future net cash flows. That is,

$$V_t = \max_{I_{t+r}, L_{t+r}} E_t \left[\sum_{r=0} \beta^{r} (\Psi_{t+r} - C(PER\ I_{t+r})) \right] \quad - \quad - \quad - \quad - \quad i$$

Subject to

$$\Psi_t = p(x_t, e_t)x_t + e_t p^*(x^*_t, e_t)x^*_t - w(e_t)L_t, \quad - \quad - \quad - \quad - \quad ii$$

$$C(PER_t) = g_t(e_t)PER_t + \Phi(PER_t) \quad - \quad - \quad - \quad - \quad - \quad iii$$

$$K_t = (1-r)K_{t-1} + PER_t \quad - \quad - \quad - \quad - \quad - \quad - \quad iv$$

$$x_t + x_t^* = F(K_t, L_t) \quad - \quad - \quad - \quad - \quad - \quad - \quad - \quad v$$

Solving the firm's maximization problem (i) yields the following optimal conditions (to simplify the notation , all time indexes are dropped):

$$p(1+\upsilon^{-1}) = ep^*(1+\upsilon^{*-1}) \quad - \quad - \quad - \quad - \quad - \quad - \quad (vi)$$

$$P(1+\upsilon^{-1})\, F_L = w \quad - \quad - \quad - \quad - \quad - \quad - \quad - \quad (vii)$$

Where:

These first-order conditions provide interesting insights into the firm's decision process. Equation (vi) states that output is allocated such that marginal revenues are the same in both domestic and foreign markets. For a given level of K, equation (vii) ensures that the variable input is always adjusted such that the marginal revenue product of L equals its marginal cost, w. for the quasi-fixed capital, the optimal performance path satisfies.

$$\sum_{r=0} (\beta(1-\tau))^r E_t \left[\frac{\partial \Psi(p_{t+r}, p^*_{t+r}, w_{t+r}, e_{t+r})}{\partial K_{t+r}} \right] = \frac{\partial C(PER_t)}{\partial PER_t} = g_t + \frac{\partial \Phi.}{\partial PER} \quad - (viii)$$

The expected per-period marginal benefits of investing an additional unit of capital are E_t $[\partial\Psi(.)/\partial K]$. According to the optimal condition (viii), the firm will perform up to the point where the present value of expected future marginal benefits of investment is equal to the marginal cost of investment, which includes the investment price and the marginal adjustment cost. Unlike the first-order condition (vii) for the variable input, the quasi- fixed nature of capital requires that the performance decision at time *t* depend not only on the current, but also on the expected future gains.

It may be necessary to better illustrate the channels through which exchange rates affect industrial performance, we further simplify the expectation of future price paths. Assuming that uncertainty in the model is due exclusively to the exchange rate, and that the firm perceives variations in the currency as permanent shocks, the expected exchange rate in the future is equal to today's exchange rate, $E_t\,(e_{t+r}) = e_t$.

Thus, $E_t\,(\partial\Psi_{t+r}/\partial K_{t+r}) = \partial\Psi/\partial K_t$. Under these assumptions, equation (viii) reduces to the expression that current investment depends only on current profits:

$$\frac{\partial \Psi(p_t, p^*_t, w_t, e_t)}{\partial K_t} = \beta(r+\tau)\ g_t + \left[\frac{\partial \Phi(PER_t)}{\partial PER_t} \right]_3 \quad - \quad - \quad - \quad ix)$$

Furthermore, differentiating equation (ii) with respect to K yields the following marginal benefit of investment:

$$\frac{\partial \Psi}{\partial K} = \left[p(1+\upsilon^{-1})(1-\lambda) + ep^*(1+\upsilon^{*-1})\lambda \quad F_{k,} \right] \qquad - \qquad - \qquad - \qquad (x)$$

Where λ is the share of exported output (i.e., x* /x+x*). The first and second terms inside the parentheses refer to the weighted average of the marginal revenue from domestic and export sales, respectively. The third term corresponds to the marginal product of capital. Equation (x) simply states that the marginal benefit of investing an additional unit of capital is the marginal revenue product of capital. Substitution (x) into (ix), the optimal performance path becomes.

$$[p(1+\upsilon^{-1})(1-\lambda)+ep^*(1+\upsilon^{*-1})\lambda]\, F_k = \beta(r+\gamma)\left\{g + \frac{\partial \Phi}{\partial PER}\right\}. \qquad - \qquad - \qquad - \qquad (xi)$$

Where:

PER_t = Industrial Performance of firm

$E_{t.}$ = Expectation operator conditional on all the information available at time t.

Ψ = total revenue from the domestic and foreign markets net of the total variable cost.

β(1-r) = the discount factor is with r being the firm's nominal required rate of return, which is assumed to be constant over time.

e = Exchange rate.

p = Inverse demand functions in the domestic market.

*p** = Inverse demand functions in the foreign market.

X_t = domestic output at time t.

X^*_t = foreign output at time t.

e_t = exchange rate at time t.

w = average input prices for the variable input.

g = average input prices for the variable investment (both w and g are functions of the exchange rate, used to account for the corresponding shares of imports).

C(PER) = total performance cost, consists of the purchasing cost (gI) and the strictly convex adjustment cost (Φ).

K_t = capital stock at time t (governed by the standard accumulation equation (iv), where r is the depreciation rate of capital.

F (K, L) = homogenous of degree one.

$ep(1+\upsilon^{*-1})$ = marginal revenue in foreign market.

$p(1+\upsilon^{*-1})F_L$ = marginal revenue in domestic market.

F_L = Local investment.

$E_t\ (e_{t+r})$	=	Expected exchange rate in future.
$\frac{\partial\Psi}{\partial K}$	=	Marginal benefit of investing an additional unit of capital.
$\lambda = x^* / x+x^*)$	=	share of expected output.
$(r+\tau)g)$	=	user cost of capital.
$\frac{\partial\Phi}{\partial PER}$	=	marginal adjustment cost of performance.

According to equation (xi), the firm's performance decisions are determined by three main factors: the marginal revenue product of capital, the user cost of capital $(r+\tau)g)$, and the marginal adjustment cost of performance ($\partial\Phi/\partial PER$). In general, a rise in the marginal revenue product of capital will increase performance, whereas an increase in the user cost and the marginal adjustment cost will have the opposite effect on performance. At this junction let us consider in detail the different channels through which exchange rates affect these three factors. Following the literature, the adjustment cost of performance generally refers to the output loss associated with the installation and integration of new capital; for example, the costs of reorganization to incorporate new machinery, and on-the-job training of workers. These costs are internal to the firm and they are unlikely to be influenced by the exchange rate. Therefore, this study will focus on the transmission of exchange rate fluctuations to the marginal revenue product of capital and the user cost of capital.

METHOD OF ANALYSIS

This section specified the model and identifies the appropriate techniques in analyzing the model. The model formulated was tested by panel data technique. Thirty five firms is considered for the study. This study looked at the relationship between industrial performance and foreign exchange rate policy in Nigeria, firm performance is the dependent variable, while foreign exchange rate is used as the independent variable. The measure of firm performance are: firm contribution to Gross Domestic Product.

The independent variables used include the following variables: Official Exchange Rate (FER), Inflation Rate (INF), Interest Rate (ITR), Money Supply (MS_1), and Parallel Market Premium Rate (PMP). All the independent variables above are economic variables that have relationship with firm performance as reviewed below. It was pointed out that whenever there is a change in the exchange rate, operational cash flows will change. By implication the value of firm is affected by the changes in the expected cash flows,which resultantly affect industrial performance.

Parallel market premium as one of the Independent variables affects firm performance through the cost of production. Government gives subsidy through parallel market premium, which reduces the cost of production especially for firms that depend on foreign exchange for their inputs. The reduction in the cost of inputs will widen the gap between total revenue and total cost; hence there will be increase in firm performance. Increase in money supply affects total money in circulation, which will affect volume of loanable funds in the financial institutions, cost of capital will fall and cheaper fund will be available for further expansion, hence higher performance. This condition holds only when there are business opportunities/idle capacities, otherwise more money in circulation could lead to inflation which will resultantly cause high cost of inputs and performance will fall.

Inflation rate is another macroeconomic variable that affects the value of money. When inflation rate falls, the real value of Naira will increase and owners of firms will have

capacity to expand and increase performance, vice visa. Also, the rate of inflation may affect sales adversely especially if the nature of product produces is not a necessity. The higher the price, the lower may be the quantity purchase.

To industrialists interest rate is a cost of capital. This simply means the cost of borrowing which is regarded as expenses in the profit and loss account. Therefore, interest rate has ability to reduce level of profit by been part of production costs. Every rational investor will seek for funds with lowest cost.

Data on firms are presented according to the industry, to enable comparative analysis between the various industries in the study. Also, since it became impossible to have data on Gross Domestic Product contributed by each of the firm stated above, the Nigerian industrial sectors as classified by Ministry of Economic planning is adopted as follow: Agriculture, Livestock, Fishery, Mining and Quarry, Manufacturing, Building and Construction, Utility, Transportation, Communication, Wholesale and Retail Trade, Hotel & Restaurant, Finance & Insurance, Real Estates, Business Services, Housing, Producer of Government Services, Community Personal Social Services.

The simple equation for this study is:

Industrial Performance = *f (*Exchange Rate)

This equation is adopted as reviewed in the previous section

$$[p(1+\upsilon^{-1})(1-\lambda)+ep^{*}(1+\upsilon^{*-1})\,\lambda]\,F_k = \beta(r+\tau)g + \frac{\partial\Phi}{\partial PER}\}.$$

According to equation above, the firm's performance decisions are determined by three main factors: the marginal revenue product of capital, the user cost of capital $(r+\tau)g$), and the marginal adjustment cost of performance ($\partial\Phi/\partial PER$). From the relationship channel it has been shown how all the independent variables (exchange rate, parallel market premium, money supply, inflation rate and interest rate) affect both cost and revenue. For instance changes in exchange rate affect cash flow and this change affects output and resultantly affects level of industrial performance. In case of parallel market premium, its changes will affect cost of production, Profit and level of industrial performance. Also when money supply changes, cost of capital will be affected which will affect profit and results to changes in industrial performance. Changes in Inflation rate will affect value of money and volume of activity which will affect profit and reflect in industrial performance. The changes in interest rate will affect the position of cost of capital, Profit and industrial performance. From the relationship discoursed above a model is established as follow:

IGDP = f (INFR, INTR, MS, PMP, EXR)

For the functions to be in a regression form, they are translated as below:

$$IGDP = \alpha_0 + \alpha_1 lNFR + \alpha_2 lNTR + \alpha_3 MS, + \alpha_4 PMP + \alpha_5 EXR + u$$

Where:

IGDP	=	Industrial Sector contribution to GDP
α_0,	=	Intercept
α_i,	=	Parameters $i = 1, 2, 3$
INFR	=	Inflation Rate
INTR	=	Interest Rate
MS,	=	Money Supply
PMP	=	Parallel Market Premium
EXR	=	Exchange Rate
U	=	Error term

DEFINITION OF VARIABLES

Industrial Contribution to Gross Domestic Product: This is the value of goods and services that the industrial sector of
Nigerian economy contributes to the Gross Domestic Product in a year. This is measured at factor cost.
Interest Rates: Interest rate can either be lending rate or deposit rate. Lending Interest Rate is adopted in this study.
Inflation Rate: Inflation rate adopted in this study is computed from quarterly Consumer Price Index (CPL). Using 1984 as the base year.
Parallel Market Premium Rate: This is a proxy for foreign exchange parallel market activities, which capture both speculative, and expectation as determinant of exchange rate. It is measure by difference between official exchange and parallel market exchange rates.
Money Supply: M_1 is to be adopted. It is defined as currency outside banks plus privately held demand deposits with the commercial banks and CBN
Official Exchange Rate: The exchange rate used is the official exchange rate at a point in time.

ESTIMATION TECHNIQUE

The research used ordinary least square technique and firms are pooled by adopting panel data technique. Ramsey RESET Test. RESET simply stands for Regression Specification Error Test. The essence of this is to find out if any specification error exist in the data. Specification error is an omnibus term, which covers any departure from the assumptions of the maintained model. The presences of serial correlation, heteroskedasticity, or non-normality conditions violate the assumption that the disturbances are distributed.

A study by Ramsey and Alexander (1984) showed that the RESET test could detect specification error in an equation, which was known priori to be mis-specified, but which nonetheless gave satisfactory values for all the more traditional test criteria such as: goodness of fit, test for first order serial correlation, high t-ratios.

PRIORI EXPECTATION

Money Supply: The expected relationship between money supply and exchange rate is direct. It is expected that an increase in country's money supply will increase loanable funds in financial institution, push cost of capital down, increase volume of activity, increase profit and performance rises. Positive relationship is expected between industrial performance and money supply. Mathematically, the relationship is expressed as:

$\frac{\partial MS}{\partial PER} > 0$ i.e $r > 0$, where $r = \frac{\partial MS}{\partial PER}$

Interest Rate: The expected relationship between interest rate and industrial performance is inverse. Increase in interest rate will push cost of capital upward, volume of activities will reduce and industrial performance will fall. Mathematically, the relationship is expressed as: $\frac{\partial INT}{\partial PER} < 0$ i.e $r < 0$, where $r = \frac{\partial INT}{\partial PER}$

Inflation rate: As inflation rate increases, the value of real money falls, cost of production increases, volume of economic activity reduces, profit falls and performance drops. The relationship is inverse. Mathematically, the relationship is expressed as:

$\frac{\partial INF}{\partial PER} < 0$ i.e $r < 0$, where $r = \frac{\partial INF}{\partial PER}$

Official Exchange Rate: The higher official exchange rate the lower will be the industrial performance. Inverse relationship is expected. Mathematically the relationship is

expressed as: $\frac{\partial EXR}{\partial PER} < 0$ i.e $r < 0$, where $r = \frac{\partial EXR}{\partial PER}$

Parallel Market Premium Rate: The higher the parallel market exchange rate, the better is expected for industrial performance. Positive relationship is expected.
Mathematically the relationship is expressed as: $\frac{\partial PMP}{\partial PER} > 0$ i.e $r > 0$, where $r = \frac{\partial PMP}{\partial PER}$

EMPERICAL ANALYSIS

The model established in this study compared the response of individual industry's performance to changes in exchange rate. The result generated from the analysis is stated as follow:

TABLE 1.1: COMPARISON BETWEEN SUB-SECTORS (USING GDP)

SUB-SECTOR OF THE ECONOMY	EXPLANATORY VARIABLES		SUMMARY STATISTICS	
	EXR	PMP	R^2	F-TEST
Agriculture	0.0188 "0.600	0.0058 "0 631	0.3659	0.0166
Livestock	0.0031 "0.302	-0.0010 *0.626	0.0527	0.9312
Fishery	0.0037 "0.562	-0.015 *0.090	0.0170	0.4477
Mining and Quarrying	0.547 *0.000	0.0014 *0.123	0.4759	0.0015
Manufacturing	-0.5436 *0.002	-0.016 *0.805	0.6443	0.0001
Building and Construction	-0.429 *0.000	0.0321 *0.280	0.5870	0.0011
Forestry	0.0405 *0.4030	0.0124 *0.500	0.2907	0.4793
Crude Petroleum	0.7083 *0.000	0.4034 *0.009	0.6751	0.0015
Utility	-0.615 *0.000	0.5022 *0.001	0.4426	0.0033
Transportation	-0.6030 "0.004	0.5169 *0.005	0.5429	0.0000
Communication	-0.0037 *0.809	0.00011 *0.954	0. 1375	0.4793
Wholesale and Retail Trade	-0.4109 *0.003	0.3520 *0.218	0.6180	0.0000
Hostel Restaurant	-0.6031 *0.004	0.3062 *0.068	0.5503	0.0002
Finance & Insurance.	-0.440 *0.030	-0.0170 *0.417	0.6626	0.020
Real Estate & Business Services	0.6034 *0.005	0.4006 *0.300	0.4640	0.0020
Housing	0.0007 *0.935	0.0130 *0.060	0.2264	0.1668
Producer of Government Services	-0.214 *0.701	-0.5097 *0.015	0.6327	0.0000
Community Personal Social Services	0.4121 *0.069	-0.4097 *0.015	0.6137	0.0000

Source; *Computed from data.*
* = t-test for coefficient

The table 1.1 above shows the relationship between firm performance and exchange rate and parallel market premium. The effect of exchange rate and parallel market premium was considered separately and total effect of the two was also considered. The t-test as in the

table indicates the significant of individual variable, while F-statistic shows the significance of the total effect. The result shown in the table grouped firms under sub-sector of Nigerian economy. In eighteen sub-sectors considered, ten responded positively to the changes in exchange rate, while eight responded negatively to the changes. The overall effect of the two variables on firm performance revealed that thirteen firms are significantly related to the independent variables, while only five are not significant in their relationship.

Even from the ten sub-sectors that are positively related not less than six are low in their response and not less than six out of eight sub-sectors that have negative relationship are significant. It means that not less than 60 % of results showing positive relationship between the variables are very low. Also, not less than 75% of firm performance having negative relationship with exchange rate is significant.

SUGGESTIONS AND CONCLUSION

The interpretation above indicates that the movement of exchange rate over the years in Nigeria has not encouraged firm performance. This can be practically observed from the trend of Nigerian economy that still remain in the group of developing countries even though she has obtained her political independence for the past 49 years. It was observed that high proportion of firms in Nigeria have not responded positively and significantly to the changes in exchange rate and therefore there is need to revisit foreign exchange rate policy in Nigeria.

This unfavourable trend in Nigerian industrial sector prompted the Former Governor of Central Bank Nigeria, Professor Soludo in recent time initiated the policy of fixing dollar to the naira directly which became impracticable. It is on this basis, that this paper suggests the introduction of radical industrial strategies that will revolutionalise the real sector of the economy so as to affect the behaviour of exchange rate in Nigeria. The high demand pressure on foreign exchange as a result of high importation of industrial inputs led to the unfavourable behaviour of exchange rate. Despite the fact that this paper support the policy of global liberalization, measures should still be put in places to control the foreign exchange allocation to favour industrial sector in Nigeria. High proportion of foreign exchange allocated for unnecessary foreign trips by politicians should be reduced and allocate more to the firms.

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STRATEGIC INNOVATION IN THE CONTEXT OF EMERGING MARKETS

Shah, A M.
The Business School
University of Kashmir, Srinagar, India
Shahali55@gmail.com

ABSTRACT
Despite there has been a significant interest in recent years in how economic growth is unfolding in the developing world, the guidance towards the strategic innovation logic to strategy in the emerging markets is meager. Most of the research work on strategic innovation is focused on the developed markets and very little is known about the business practices crucial for strategic innovation activities in the context of emerging markets. Keeping this in view, this paper describes a systematic framework for strategic innovation in the context of emerging markets. The paper suggests that the success of strategic innovation in emerging markets depends upon designing value propositions affordable for large customer base and making it conveniently available to them. The companies need to breakout of the competitive pack and focus on creating business model innovations based on levers, value proposition, value chain and target customers for delivering real value to the customers. It argues that the quest for development of new value propositions must be a never-ending dynamic process for achieving sustained profitable growth in the emerging markets.

INTRODUCTION

Today organizations are operating in a global competitive landscape that is highly dynamic and continuously changing. The changing technologies, changing demand patterns, and the speed of communications have been creating fundamental differences in the competitive dynamics of every industry. For surviving and thriving in such a demanding environment, companies invest enormous intellectual and financial resources into creating differentiated products or services. They engage in head-to head competition for outperforming their rivals. Consequently, companies inevitably find themselves knocking heads with each other for diminishing margins, and the prospectus for profitable growth is reduced. Moreover, the situation blinds companies to opportunities and leaves them highly vulnerable to pre-emption by more innovative competitors.

For achieving sustained, profitable growth a company needs to break out of the competitive pack and fashion innovative approaches to strategy for creating value for customers. Strategic innovation is a fundamentally different approach to strategy (or way of competing) focussed on creating exceptional value for the target customers. Instead of making competition as a benchmark, this approach to strategy makes it irrelevant by discovering and serving an uncontested market space, ripe for growth. Strategic innovative companies surprise their competitors by invading the existing markets either by introducing products or services that emphasize radically different value proposition to those emphasised by established competitors or adopt radically different value chain configuration to those prevailing in the industry.

Strategic innovation regenerates fortunes of big companies and fuels small companies to grow profitably. Leading companies have been successfully innovating around value through following the strategic logic of strategic innovations. They have been creating and expanding markets rather than just reaching to customer demand. Consider for example, how Canon challenged Xerox in the 1970's by pioneering focus on the development of photocopies aimed at small businesses and home offices, rather than large corporations. By choosing distinctive strategic position Canon achieved leadership in the

low-end copier market and redefined the target customer base in the photocopier industry. The Dell computers outpaced its competitors (IBM, HP and Compaq) in growth as well in profitability by pioneering the process of selling computers directly to customers. In the year 2002 Virgin Mobile USA was able to successfully enter the US cellular services market by focusing on underserved customer segment (under 30 years old). The company offered a compelling value proposition (simplified pricing, no contractual commitments, entertainment features and stylish phones) and attracted several million subscribers within three years of its launch in the highly competitive market. In the auto industry General Motors redefined the business model to overtake Ford. It segmented functionality to each segment and introduced flexibility in the production process to offer a richer product line. In the world of computing and information management IBM is moving away from a product-driven value position and has tightly bundled a wide range of services with its products. Likewise, Mc Donald's introduction of low-fat oil enabled it to capture a new market segment (health conscious consumers) and also enhanced the products attractiveness to the existing customers. This new approach to fast food enabled the company to maximize the value out of its existing product and service offerings.

Despite there has been a significant interest in recent years in how economic growth is unfolding in the developing world, the guidance towards the strategic innovation logic to strategy in the emerging markets is meagre. Most of the research work on strategic innovation is focussed on the developed markets (Markides, 1997 and 1998, Markides and Charitou, 2004; Vijay and Anil, 2003, Slywotzky, 1996; Hamel, 1996 and 2004; Kim and Mauborgne, 1997 and 2004). The little research work carried on the emerging markets (For example, Prahalad 2006; Anderson and Markides, 2007) reflects that there are significant opportunities to unlock value. While the authors agree on the fundamental principle that the strategic innovation is the primary source of wealth creation, very little is known about actual business practices crucial for strategic innovation activities in the emerging markets. In fact, it is not clearly described how companies can carry out strategic innovation in emerging markets for delivering real value to a potentially large base of customers, economically and effectively. Keeping this in view, an attempt is made in this paper to describe strategic innovation as a potential tool to influence sustained, profitable growth and provide systematic framework for strategic innovation in the context of emerging markets to enable companies to target large base of consumers in these markets.

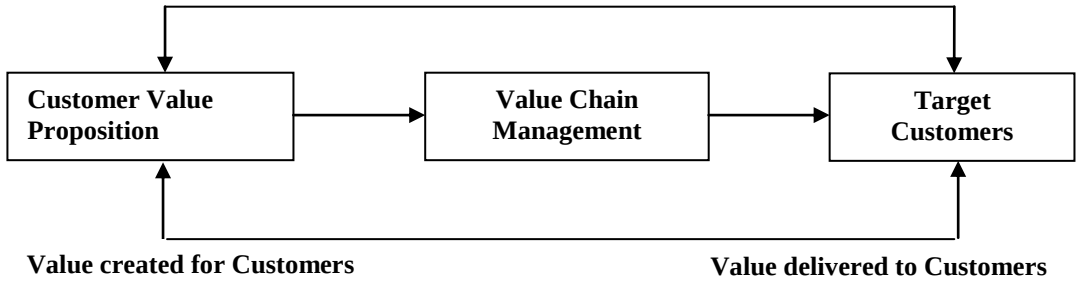
BUSINESS MODEL INNOVATION

Every successful company operates according to an effective business model for creating and delivering value to its customers. The strategic innovative companies begin by questioning their current business model, asking the following questions:-

- Who are our target customers
- What is our value proposition for them
- How can we create it efficiently

The business model reflected in Figure-1 results from answering these three questions. The three interconnected elements, customer value proposition, value chain management and target customers, are the basis for creating business model innovations. The business model operates as a system and changes in any one of them will have implications for the other too. The business model innovation can start by identifying a customer value proposition, and then managing value chain and redefining the customer base. Alternatively, it can start by identifying an unmet customer need and then create and deliver the desired value proposition. While business model innovations have reshaped entire industries, it is becoming more important for success than the product or service innovations. However, strategic innovators need to understand how their existing business model fulfills a potent value proposition in a profitable way and judge how well the same model could be used to fulfill a radically different value proposition and what needs to be done to construct a new business model. Before thinking about business model innovation a company needs to be confident that the existing model warrants change to satisfy real customer needs. Success lies in making sure that the market opportunity is large enough and the existing business model will prevent creation of superior value for customers.

Figure 1: Elements of a Successful Business Model (Strategic Innovation)



The inventions and re-inventions of business models should be at the heart of high-performance innovation systems. The companies that develop their capability for strategic innovations early in life and successfully execute them can deliver breakthrough growth and stay ahead of competition. As against this, the companies that are satisfied with their existing business models until their performance declines, the strategic innovations eventually becomes a matter of life and death for them.

STRATEGIC INNOVATION IN EMERGING MARKETS

While some rapidly developing emerging economy countries have begun to dominate the economic landscape, the markets of India and China are becoming more attractive and a desirable destination for foreign firms. This is because the growing economies of India and China with population of 1.02 and 1.30 billion people respectively have a potentially huge base of customers. The fortune for the marketers is at the top as well as at the bottom of the paramid in these markets. While there is a sizeable population of emerging middle class with growing income and increasing standard of living, there are millions of poorest householders representing latent much less purchasing power that needs to be unlocked. For instance, India's rural population of 742 millions residing in around six lakh villages has not been effectively targeted by marketers because they find it unviable to penetrate. Therefore, for achieving high growth companies must not only target the high-income customers, but also think about how to reach customers at the bottom of the market.

Figure: 2 Strategic Innovation and Company Growth

High	**Low Growth**	**High Growth**
Market Knowledge		
Low	**Failure**	**Failure**
	Incremental	**Radical**
	Level of Innovation	

While successfully entering developing markets requires a special set of skills and plans, companies need to understand the emerging markets fully and then develop strategic innovations to provide exceptional value to the target customers. Figure 2 reflects that high market knowledge of emerging markets and radical innovation leads to high business growth and low market knowledge and incremental or radical innovation leads to failure of innovation activities. While innovation can take place at the level of product, service and delivering system, marketers need to capitalize on the potential of developing markets by changing their conventional marketing practices to sell their products and services more effectively. The business model of strategic innovations in the emerging markets differs from the developed markets in two ways. Firstly, the products developed need to be affordable so that they are targeted to a large customer base. Secondly, the products must be made conveniently available to the large customer base through effective distribution network.

The business model designed for developed markets can also be used to target customers at the top of the paramid in the emerging markets but, it will ignore a potentially huge base of customers at the bottom of the paramid in these markets. In the emerging markets companies need to adjust or reinvent their business models using full spectrum thinking in the design, marketing and delivery of well-balanced value proposition. While innovation may be driven by changes in levers-value proposition, value chain and target customers-the focus should be to offer needed or desired value attributes to a large base of customers in these markets. The success of companies like, Hindustan Unilever; Parle; Cavinkare; Britania; LG; Godrej and telecom service providers etc in tapping Indian markets has been mainly due to reinvention or adjustment of their existing business models, especially for rural India.

OFFERING NEW VALUE PROPOSITION

The first element of an effective business model is the customer value proposition. It is not possible to invent or reinvent a business model without first identifying a clear customer value proposition (Mark W J et. al; 2008). It consists of the whole cluster of benefits, a comprehensive customer solution that a company offers to address a generic underlying need of customers. The strategic innovators introduce products or services that emphasize different value positions to those emphasized by established competitions. This value proposition could be an entirely new product or service, or an expanded proposition of a firm's existing offering that are valued by the customers. To craft new customer benefits strategic innovators need to understand what the customer thinks about, wants, does and worries about.

In the emerging markets strategic innovation requires identification of the desired value propositions and developing products or services at affordable price to penetrate deeper in these markets. The products or services offered must suit customer preferences and tastes and match the cash flows of customers to target a potentially huge customer base. Mc Donald's,

realized in India that beef is not acceptable to a vast majority of Indian consumers. It changed its menu avoiding all beef preparations to suit Indian customers preferences and tastes. In early 1980's a new Indian firm Nirma identified that offering an affordable washing powder was a powerful value proposition with the potential to reach millions of Indian low-income house holders. The firm designed a washing powder, which lathered well, cleaned well, and cost less than one-third of the price of Surf (established product of Unilever India Ltd.) Nirma achieved significant growth by identifying attractive value proposition for a hidden customer segment at the bottom of the paramid which was ignored by other firms. Despite Hindustan Unilever provided repeated incentives to housewives and dealers and launched competitive new products (Sunlight Power in 1985 and Wheel Powder in 1987) it could not stop decline of its product Surf and dislodge the distinctive position of Nirma. Arvind Mills had successfully tapped the Indian rural market with its ready-to-stitch jeans priced at Rs.195/- only, as against the unorganized sectors price range of Rs.150-350. The kit included a denim trouser, length with specific tailoring instructions, branded zipper, rivets, and buttons that distinguish jeans from mere denim trousers in the mind of consumers. Later the company successfully introduced the Ruff and Tuff brand for the more evolved consumers at a price tag of Rs.270.00 only.

Smaller packaging and lower sales prices are often critical in markets where incomes are limited. The companies including Hindustan Unilever, Proctor and Gamble, Cavinkare have been offering micro packets and keeping product prices low for items including shampoo, soaps, fairness cream etc to appeal to low-income Indian consumers. The sachets at affordable price points starting from Rs. 1.00 for shampoo to Rs. 5.00 for a fairness cream are pushed to tap customers at the bottom of the pyramid. While these sachets did not represent the most economical way of purchasing goods, they meet the needs of consumers in terms of low purchase price. The strategy of coke moving to a smaller 200 milliliter bottle at a price of Rs.5.00 in India, worked well and its sales jumped. In a similar vain, Telecom service providers like Airtel, and Idea are not only pushing cheap postpaid cards but are also tying up with handset manufacturers like Motorola to make inroads into the Indian rural market.
The Tata Motors offered the value proposition of "more spaciousness without extra costs" in its brand Indica. This car with larger luggage space and legroom was offered at a price affordable to meet the typical Indian middle-class aspirations. This successful value proposition is captured in Indica's tagline "more car per car". Likewise, Tata Motors identified a powerful value proposition of offering an affordable car to a different segment (Scooter families). This cheapest car has a potential to reach millions of people who are not yet part of the car-buying market. The Tata Motors identified and seized opportunity to unlock value at the top as well as at the bottom of the Indian emerging market.

VALUE CHAIN MANAGEMENT

Another important element of the business model of strategic innovation is the value chain management. It includes the set of activities through which a product and service is created and delivered to customers. For inventing and delivering the value propositions in the market place a company needs to put in place an appropriate value creation and delivery system. The system must allow the company to market and deliver the intended products and services most efficiently and effectively. It must have the required flexibility for accommodating the changes in the value proportions as and when required. From customers view point superior value chain architecture is one that slashes costs and/or greatly enhanced the value (Vijay, and Aniel, 2001).
The emerging markets, especially dispersed rural markets represent a problem of distribution access different from developed markets. Companies have to grapple with unwieldy logistics as there are not enough dealers or distributors with access to rural markets and no proper retail outlets. The success of a firm depends upon its ability to make the product available at the right place, at the right time, and in the right quantities. The companies need to devize ways to make their entire value chain effective, focussed on creating enough new value and reducing the buyer's total costs. Companies need to

configure the way they conduct manufacturing, logistics, service delivery, marketing, human resource management, and so on tailored to their unique value proposition.

Companies have been experimenting, different methods of distributing goods and services in Indian rural markets. For instance Hindustan Unilever Ltd created a direct distribution network in markets without distribution coverage through traditional distributors and dealers. The company selected village women entrepreneurs, called Shakti Amma from villages and trained them to become distributors, providing education, advice, and access to products to their villages. These village women have unique knowledge about what the village needs and which products are in demand. Similarly, Nirma designed a value creation system and performed activities which enabled it to produce washing powder without significant overhead expenses. The company supported its value proposition (product) with distribution penetration, retailer relationship and extensive media campaigns which spurred the demand and helped the brand become one of the most powerful brands in the country. The extraordinary success of Amul, (best-known diary in India) lies in the process innovations the company made by which collection of milk is reliable and efficient. While milk collection is totally decentralized, Amul innovated processes by which small farmers with a buffalo or two are connected to the national and global diary market. The villagers bring their collection to the village collection centre twice daily from where milk is transported to processing facilities in refegerated vans for further processing. The Arvind Mills created a different value chain for its customized low-cost jean Ruff and Tuff and achieved great success. The distribution of the Jeans Kits was done through a strong network of street tailors, many of who were stationed in small rural towns and villages. The legions of local tailors single-handedly served as stockers, marketing agents, distributors and service providers. This mode of production and distribution in case of Ruff and Tuf provided jobs for large number of tailors and developed them as company's new customers.

DISCOVERING NEW TARGET CUSTOMERS

Target customers are the individuals or organizations that use a company's offerings to satisfy certain needs. Today customers are demanding more value, customized to their exact needs and at less cost. While success of a company basically depends upon finding and exploiting new target segments, companies need to identify customer needs which are not met by the existing range of products and services. The existing companies may not be currently serving these customers because, they may not be knowing about them or do not find them attractive to serve. The innovators that successfully target such customers are those that develop radical business models that are specifically designed to serve these unprofitable customers (Rosenblum et al, 2003).

While in the emerging markets the challenge is to serve potentially huge base of customers, companies must focus on constant thinking, experimenting and developing products or services which are affordable and provide best value to the customers. Consider, for example, the case of Nirma that discovered a low-income customer segment which was ignored by other firms and developed powerful value proposition, which helped it to achieve significant growth and transformed the complexion of the detergent market. Likewise, Proctor and Gamble discovered a large segment of new parents who wanted relief from handling and washing diapers, and innovated pampers an affordable disposable paper diaper. The Godrej India Ltd. discovered a hidden customer need and developed a new fabric-washing product for woollen clothes (Ezee). Due to its mildness, customers use this liquid detergent to wash delicate clothes that could get damaged if harsh and strong detergents are used instead.

TECHNOLOGY AND STRATEGIC INNOVATION

Technology is a powerful weapon for corporate change and most critical element in the successful implementation of the strategy of strategic innovations. It is a critical resource for improving existing products and services and provides opportunities for the companies to create and deliver superior products and services in a better and faster way. By using process technologies and the developments in the information and communication technologies effectively companies can put in place a radical new value chain system that can help to create and deliver superior value to the customers. The use of information and communication technology can particularly help in executing the strategy much faster and leverage time as a source of competitive advantage.

While technology is not a basic tool for designing the strategy of strategic innovation to conceive something new and radical, it is a critical element in the successful implementation of this different

strategy. Strategic innovators look towards technology as a tool to reach new customers or offer new benefits to the existing customers in new ways. Successful companies use process technologies and the information and communication technologies for designing efficient value creation system, for re-inventing of the value proportions and for dramatic redefinition of the customer base. In fact, companies use these technologies as a tool for conceiving and exploiting radical new "Who- What-How" positions in an industry that other competitors have missed or found unappealing.

Smart companies irrespective of their industry, develop and exploit technological changes/innovations to their advantages. They make vigorous investments in Research and Development and utilization of the latest technologies, which gives them efficiencies unknown to their competitors. They focus on technology for conceiving and delivering value which enables them to be strategic innovators. Proctor and Gamble spent ten years researching and developing the first effective anti-cavity toothpaste, Crest. Similarly, the company spent several years researching the first effective over-the-counter anti-dandruff shampoo- Head and Shoulder. The effective use of internet technology helped Dell to re-volutionize the way it approached supply chain management. The critical driver for Dell's customers was speed of delivery which company managed by using this technology. Honda Motors is a classical example where the company has built a world-wide business on its competencies of engine and drive train technology. From the two wheeler business initially the company has made successful forays into passenger car, generator sets, lawn mowers and marine engines. Wal-Mart successfully invested technology and capital in distribution and logistics and achieved high growth and diversification. Similarly, leading Indian companies such as Tata Motors, Maruti, Reliance, Hindustan Unilever Ltd. etc. have been using technology to their advantage.

CONCLUSION

Strategic innovation is the discovery of a fundamentally different strategy in an existing industry. It reflects proactively establishing distinctive strategic positions, changing rules of the game (or way of competing) or inventing new games. The essence of this strategy is to make tough choices on who are our customers, what products or services to offer, and how to deliver efficiently. Emphasis on offering fundamentally new and superior value to the customers must be placed at the centre of the strategic thinking.

Strategic innovation takes place in the emerging markets much the same as it does in the developed markets. However, in emerging markets the challenge is how to develop value propositions which are affordable for a potentially large base of customers and how the products or services can be conveniently delivered to them. Companies need levels of market understanding, leaps in new processing abilities, new skills and systems to carry out strategic innovations effectively. The companies need to break out of the competitive pack and focus on creating business model innovations based on levers of, value proposition, value chain and target customers for delivering real value to the customers. While strategic innovation driven by changes to the innovation levers of value proposition or value chain are common, companies should not overlook target customers while looking for opportunities to innovate. Companies need to make clear choices about what to do and what not to do for providing superior value to customers. While sustainability of superior performance over a long period is relatively difficult in competitive environments, proactively establishing distinctive positions through the logic of strategic innovations could significantly improve the chances of continued success.

Whereas many factors including, firm resources, competitor reactions, speed, technology, etc. can influence the successful implementation of the different strategy of strategic innovation, the challenge of developing and implementing strategic innovations mainly depends upon the leadership. Leaders are required to lead from the front and to provide guidance to the company's innovation activities effectively. The focus must be given on scouting for the brains that actually have interest in the area of innovation management and should be facilitated with the entire possible infrastructure. While knowledge and ideas are the primary inputs for strategic innovations, it is imperative to develop an environment which promotes creating and sharing of knowledge and ideas. There must be excitement and enthusiasm to surface ideas that will result in strategic innovations. The focus must be on cultivating an environment in which strategic innovation practices are encouraged and creativity flourishes.

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AN INVESTIGATION OF "CHINA EFFECT" ON CROWDING OUT OF JAPANESE FDI -AN INDUSTRY LEVEL ANALYSIS

Salike, Nimesh
Waseda University, Graduate School of Asia Pacific Studies
salikenimesh@hotmail.com

ABSTRACT
This paper applies dynamic panel model to investigate whether China is crowding out Foreign Direct Investment (FDI) from other economies of Asia. We examine this with 13 different industry level data of Japanese FDI. Due to the various problems involved in the data and model, to come up with the least possible biased estimations, we used "Difference and System GMM" estimation which is supposed to be best fit for equations with lagged dependent variable. The estimation was performed with 8 different specifications to deal with multicollinearity which in other way, has helped in a robustness check of the analysis. We found that where as aggregate Japanese FDI data did not produce any evidence on so called crowding out of FDI by China, rigorous study of industry- wise Japanese FDI data produced interesting results with various degrees of "China effect". 6 industries were found to have crowding out effect where as 4 industries in fact turned out to be having complementary effect with 3 industries having no effect. Among the 4 largest industries, transport (manufacturing) and trade (non- manufacturing) seemed to have complementary effect while electrical and electronics (manufacturing) and service (non- manufacturing) had crowding out effect. This led us to conclude that the growing China provide both opportunities and challenges for other economies in the region in terms of FDI inflow.

INTRODUCTION

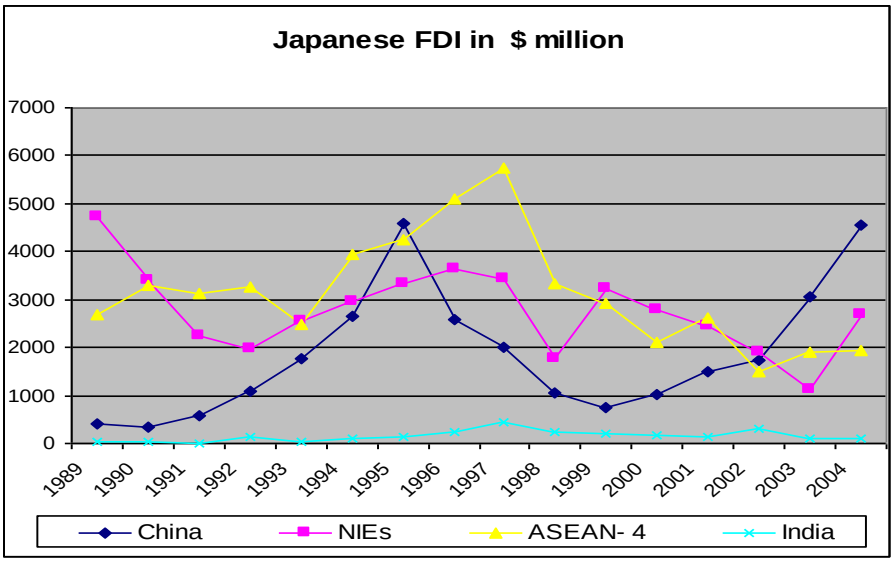
> "China's considerable success in attracting FDI has raised the question of whether this success might be coming at the expense of other countries. Direct investment flows into China have risen by about 10-fold since the early 1990s, making it one of the world's top destinations for FDI…."

This is just one of many of what has become common wisdom. Emergence of China as a major magnet of Foreign Direct Investment (FDI) after its capital account reform has been perhaps one of the most important developments affecting the world economy today.

Japanese Multinational Enterprises (MNEs) have been one of the aggressive investors in the world FDI scenario starting from 1980s. In 1989, Japanese FDI became the largest in the world, reaching $67.5 billion, accounting for 29.5% of the world total outward FDI on a value basis. (Fung, Iizaka and Siu, 2002). Changes in Japanese outward investment appeared to be reflected by movements in the value of the Japanese Yen. In particular, the steep appreciation of the Yen after the Plaza agreement in 1985 is the most important macroeconomic factor explaining the expansion of Japanese FDI during latter half of 1980's, resulting into 2 effects. Firstly, the appreciation of Yen caused the relative price of Japanese products to be more expensive, thereby resulting in a reduction in the volume of exports. This led Japanese manufacturing firms to shift their production bases to overseas especially, Asia, where production costs are lower. Secondly, Japanese outward direct investment during the period was also stimulated by the "wealth" effect induced by the appreciation of the Yen. Japanese firms became relatively "wealthy" in terms of increased collateral and liquidity due to appreciated Yen which were able to finance their investment more cheaply relative to the foreign competitors. (Urata and Kawai, 2000).
Japanese FDI has an important position in Asian FDI scenario since Japan is one of the leading investor countries in the region. As stated above, the sharply appreciated Yen along

with worsened trade frictions with the United States during the late 1980s led Japanese firms to shift their production out of Japan, mostly towards the developing economies of Asia to take advantage of lower wage. Among these Asian economies, Japanese FDI concentrated in the NIEs, ASEAN and China. Geographical proximity could be an important factor for Japanese MNEs that led to their interest in Asia. In 1989, out of $7.96 billion total investment from Japan to Asian countries, the NIEs, ASEAN and China accounted for 98.5%. The share of the NIEs in 1989 alone accounted for 59.4% of total Japanese FDI in Asia. In the 1990s, however, the share of the NIEs started to decline and shrank to 26.2% in 1995. The shares of ASEAN countries experienced a significant increase during the early 1990's, surpassing that of the NIEs. However, the share declined considerably throughout the latter half of 1990s, both due to source country and host country effects. Where as Japanese economy started to go downwards during 1990s affecting their notion of being aggressive investor, Asian economies were hit hard by financial crisis in 1997. Total FDI flows into the region from Japan declined markedly from $12.3 billion in 1997 to as low as $5.5 billon in 2000.

Figure 1: Japanese FDI inflow in selected regions and economies in Asia



Data Source: MOF, Japan

As depicted in figure 1, until first half of 1990s Japanese FDI in China increased at rapid pace with ups and downs in the flow to NIEs and ASEAN-4. Especially after 1993, following the new policies and reforms that opened more regions and sectors to FDI, inflow to China from Japan continued to climb higher. According to the survey of JETRO (2001), China had the highest number of Japanese overseas production facilities among all foreign countries, accounting for 54.4 %. The relative share of China in Asia increased from 9.7% in 1992 to 25.5% in 1993. But in 1994, the Chinese central government tightened its control over foreign investors' activities. At the same time, tax reforms were implemented and there was an attempt to unify the income tax systems faced by domestic firms and foreign firms. This modification of tax policies marked the beginning of China's effort to create more equal environment for both foreign and domestic investors. Although Japanese direct investment steadily increased in 1994 and 1995 with its relative share peaking at 36.2%, there was a drastic drop in 1996. In April 1996, China reduced the average tariff level by a large margin, however, at the same time; the state abolished the preferential policies of import tariff exemption and reduction enjoyed by many MNEs. This was seen as the main reason for the drop in Japanese direct investment. (Fung, Iizaka and Siu, 2002). Apart, as an external factor, Asian financial crisis is another factor for prolonged downward FDI not only in China but Asia as a whole. In 2000, Japanese investment in China increased in total value for the first time since 1995, due partly to Chinese government's revision of preferential policies for foreign multinationals and to anticipation of China's joining the World Trade Organization

(WTO). China's relative share then increased to 16.8%, making China the largest recipient of FDI from Japan as a single country in Asia. Starting from 2002 to 2004, Japanese FDI to China surpassed that of NIEs and ASEAN-4. (Data source: MOF, Japan)
This paper seeks to highlight the concern of crowding out of FDI by China from the view point of Japanese FDI. We would empirically examine the question whether China has diverted away Japanese FDI from group of Asian economies which include Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand and Viet Nam. The research strategy was to control for the standard determinants of FDI and then add a proxy to represent the so called "China effect". The uniqueness of this paper is that it has analyzed the crowding out effect from industry- wise level which has not been carried out yet by prior researches. We studied the effect in 13 different industry- wise Japanese FDI for manufacturing and non- manufacturing sectors. The econometric technique used for this analysis was dynamic panel model. In order to deal with the possible biases in the model, we took help of estimation technique "xtabond2- Difference and System GMM" introduced by Roodman (2006). We estimate the model in this estimation method for 8 different specifications. Different specifications were required in order to take care of multicollinearity and cover all of our 22 independent variables in the model. This in other way has become the basis for robustness check. We found varying degree of "China Effect" on attracting Japanese FDI for different industries. Among 13 industries, crowding out effect was observed on 6 industries and complementary effect on 4 industries with no effect on 3 industries. This resulted in the fact that the rise of China could be both opportunity and threat for the neighboring economies. Therefore, despite considerable concerns, we can not confirm that China's growth has only negative impact for other Asian economies.

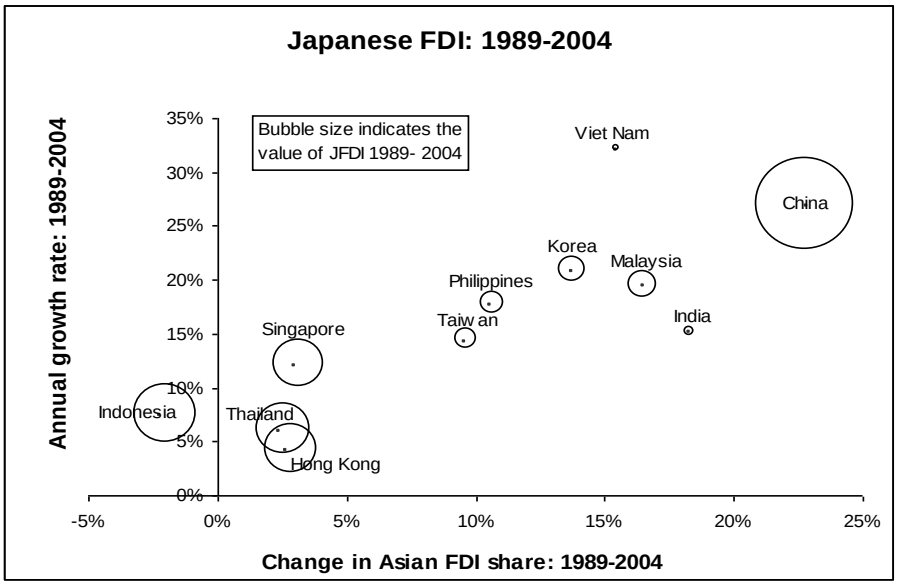
The rest of the paper is organized as follows. Next section tries to look into some of the theoretical aspects of "China Effect" and the literature reviews involved. After that we will move to the core section where we describe data, variables and methodology along with limitations in the model. In next section to follow, we discuss the results of the empirical analysis obtained by the use of dynamic panel model. Lastly, we will conclude the paper.

THE "CHINA EFFECT" AND LITERATURE REVIEW

The growth of FDI in China has been one of the most significant economic activities over the past two decades since China initiated its 'open-door' policy in 1979. Throughout the 1980s and 1990s, Chinese government has taken enough initiatives in attracting FDI by promulgating various regulations to improve the investment environment. Coupled with it is China's rapid economic growth which acted as a pull factor for FDI from the rest of the world. China's success in attracting FDI has raised concerns that its success has been at the expense of other countries in the region. However, it is not necessary that increase in China's share in FDI should result in reduction of flows to other nations. Hypothetically, we can find two sets of arguments for the growing influence of China on FDI.
Investment Diversion effect: First, in examining which low- wage export platform to locate, multinationals may choose between investing in China vs. investing in another Asian country. In this case, the MNEs will study the whole host of factors, including wage rates, political risks, infrastructure, etc. that would make a country desirable as a site for low- cost production. Low Chinese labor costs may lure multinationals away from sites in other developing countries when the foreign corporations consider alternative locations for low cost export platforms. Investing in China will then reduce the FDI in other countries. In this case the effect will be investment diversion. Apart from that, China's big market may be another factor for multinationals to decide upon investing upon China taking away from other countries.
Investment creating effects: A second aspect is the production and resource linkages between growing China and the rest of Asia. In manufacturing, this takes of the form of further specialization and growing fragmentation of the production processes. An investor sets up factories in both China and other country to take advantage of their respective competitiveness in distinct stages of productions. Components and parts are then traded

among China and other economies. An increase in China's FDI is then positively related to an increase in other nation's FDI. Again, another complementary argument is that as China grows, its market size increases and its appetite for minerals and resources also rises. So, foreign firms rush into China to produce in China and to sell in China. At the same time, other multinationals also invest in other parts of Asia to extract minerals and resources to export to fast growing China in need of a whole spectrum of raw materials. This could be called as investment creation effect. Therefore, a growing China can add to other countries' direct investment by creating more opportunities for production networking and raising the need for raw materials and sources.

Figure 2: Distribution of Japanese FDI in selected Asian economies



Data Source: MOF, Japan.
Note: Calculation for India and Viet Nam are from 1994- 2004.

Figure 2 shows distribution of Japanese FDI over the years 1989 to 2004. X- axis, average annual growth rate of Japanese FDI, shows the host economy's strength in its attractiveness of FDI while Y- axis, change in share of Asian FDI, measures one economy's competitiveness compared to other. Therefore, points that are farer from origin for both the axes indicate the better position of the economy. Apart from that, another information provided in the figure is the size of bubble which shows the total Japanese FDI flow into these economies from 1989-2004. Looking at the figure China clearly dominates the scenario. China has the largest bubble with the farthest position. It shows that during this period, China has gained the most of the Japanese FDI with compared to other economies and also in higher rate. Some other stand out performances in later years has been that of India and Viet Nam though the amount of FDI flow is very low. Performances of other countries have been dismal taking into consideration the Crisis effect. Indonesia's share in Asia even went negative though the amount it received was significantly big as Thailand, Singapore and Hong Kong. Surprisingly, though the performance of economies like Taiwan, Philippines, Korea and Malaysia are better, the FDI in amount term is relatively low in aggregate.

On the mentioned issue of crowding out of FDI by China, there have been some empirical studies with the use of aggregate and bilateral FDI data. These studies have shown that there has been negligible effect of China in the diversion of investments away from other nations and some studies even argued that the growing China had in fact played the complementary role on attracting FDI into Asia. Mercereau (2005) analyzes the effect with reduced form approach and suggests that nominal FDI in China needs to be scaled since it is non-stationary. Therefore, the identification strategy for "China Effect" was FDI as a share of GDP with two indicators, FDI to China over the combined GDP of other countries in the

region and FDI to China over total FDI to the region. He found that China did not have much impact on FDI to other countries in average. Eichengreen and Tong (2005) uses gravity model of bilateral FDI flow as a framework for analysis where the log of FDI is related to measures of the economic size of the source and destination countries and the distance between them. It is then regressed by Two Stage Least Square (TSLS). He concludes that Chinese FDI is complementary with the FDI inflows to other Asian economies. Liu et al. (2007) also uses gravity model but goes one step further by employing augmented gravity model to include the indicators that measures other factors of economy in addition to traditional gravity variables. In investigating the determinants of FDI among the OECD economies and between the OECD and emerging market economies, they did not find any basis to support the claim that China has diverted FDI (flow from high income OECD countries) from its developing neighbors.
In another paper of Chantasasawat et al. (2004), 8 Asian economies of data from 1985 to 2001 and 16 Latin American countries of data from 1990 to 2002 were used to test the "China Effect". Authors take China's inward FDI as an indicator and estimate equations for China's FDI inflows and other Asian countries' FDI inflows by TSLS. They found that China's FDI receipts and other Asian (East and Southeast) economies' FDI inflows are positively not negatively correlated while mostly insignificant for Latin American countries. Zhou and Lall (2005) uses fixed- effects estimation to test for the relationships between FDI in Southeast Asian economies within a simple model of location determinants of FDI. Their results of panel data analysis also suggest that China has raised rather than diverted such investment into neighboring economies during 1986- 2001. However, the complementarity has come only over time rather than for entire period as in the case of Chantasasawat et al. The authors attribute this to the growing production networking behavior of MNEs after the crisis period. On a similar approach, Wang et al. (2007) uses rather longer interval of data from 1980 to 2003 and also tries to access the China effect on individual economies. The authors stress that rather than crowding out, China may in fact have "crowded in" FDI to the rest of Asia taken into consideration that transnational corporations have been adopting the strategy of production fragmentation. However, in individual economy basis, the effect was different. They found that there is significant FDI creation effect on India and the Philippines but a significant FDI diversion effect on Indonesia, Korea, Malaysia and Taiwan.

DATA AND METHODOLOGY

Examination of "China Effect" in terms of Japanese FDI, in industry-wise level, in Asia is a novel practice. There are apparently some survey studies being undertaken on the motives of Japanese Multinationals operating in Asia like, yearly publications on Japanese MNEs by Japan Bank for International Cooperation (JBIC). These analyses do give some insights on the behavior of Japanese FDI however they lack empirical analysis on the subject matter. We do have some studies on aggregate FDI flow (described in review section) but no studies that dwell particularly upon Japanese FDI. Mention worthy, Japan being one of the major investor in the region, this issue could be vital for the region. This study tries to look into issue of crowding out in 13 different industries of Japanese FDI. The study will be carried out by quantitative analysis with the use of econometric tool.

Econometric Model

The approach being implemented in this paper is to treat the so called "China effect" as one of the determinants of FDI for recipient economies. In other words, the research strategy is to control for the standard determinants of FDI like, market size, openness, macroeconomic condition, etc, and consider "China effect" as one of the additional determinant that will affect the flow of FDI for recipient economy. For the purpose of quantitative analysis, econometric model (Dynamic Panel Estimation) was used, with log of FDI appearing on left hand side. With due consideration to the study by Kamaly (2003), we included one time lag of dependent variable as an independent variable. The basic regression model on inward FDI for Asian economies and for China could be written as a linear specification in the following form:

$$FDI_{j,t} = \delta FDI_{j,t-1} + \beta X_{j,t} + \alpha China_t + \mu_j + \varepsilon_{j,t} \quad \ldots\ldots\ldots\ldots\ldots\ldots (i)$$

where,

$FDI_{j,t}$	is log of FDI in country j at time t (in current prices)
$FDI_{j,t-1}$ is	lagged log FDI
$X_{j,t}$	is X vector of explanatory variables
$China_t$	is China Indicator*
μ_j	is Dummy for country specific variable
$\varepsilon_{j,t}$	is error term

*China Indicator: FDI to China over total FDI to the region. i.e. $FDIC_t / \Sigma FDIR_{j,t}$

Limitation on the Model

On the specified model of dynamic panel estimation, there are some problems, which make simple Ordinary Least Square (OLS) regression to be ineffective and/ or biased and inconsistent, therefore needs to be resolved.

Serial Correlation: Since the equation included lagged dependent variable as a regressor, it is most likely to produce serially correlated errors and therefore could result in inefficient estimations. With serial correlation, the OLS estimates of the standard errors will be smaller than the true standard errors. This will lead to the conclusion that the parameter estimates are more precise than they really are. There will be a tendency to reject the null hypothesis when it should not be rejected. The first serial correlation coefficient is the correlation between Y_t and $Y_{,t-1}$, the correlation between values of Y at two adjacent dates.

Simultaneous Causality Bias: Another issue in the equation is the problem of "endogeneity" caused by "China indicator". If causality runs "backward" as well as "forward" from dependent variable to independent variable and independent variable to dependent variable, there is simultaneous causality. It is so if FDI in LHS country is affected by FDI flow to China, FDI to China is affected by flow to LHS countries as well. Simultaneous causality leads to correlation between the regressor and the error term which make an Ordinary Least Square (OLS) regression to pick up both effects so the OLS estimator becomes biased and inconsistent (Stock and Watson, 2004).

For the best remedy of the problems mentioned above, we employ estimation as suggested by Arellano/ Bond/ Bover/ Blundell. They considered the estimation of models with predetermined but no strictly exogenous variables by IV methods using lagged values of the predetermined variables as instruments for the equations in first differences. In these models, it is usually maintained that all the explanatory variables are potentially correlated with the individual effects and therefore only estimators based on deviation of the original observations can be consistent. Arellano and Bover (1995) developed a framework for efficient IV estimators with information in levels which is capable of accommodating models with lagged dependent variables and other predetermined variables. They specified valid instruments for the equations in levels, in addition to those available for the equations in the first differences or deviations from individual means. They propose a GMM estimator for a general model that includes time- invariant, strictly exogenous and predetermined variables, a subset of which are uncorrelated with the effects. Further work was carried out on this subject matter by Blundell and Bond (1998) who considered two alternative estimators that impose further restrictions on the initial conditions process, designed to improve the properties of the standard first- differenced GMM estimator. The first estimator was similar to the one advised by Arellano and Bover in which the use of an extended linear GMM estimator that uses lagged differences of dependent variable as instruments for equations in levels, in addition to lagged levels of dependent variable as instruments for equations in first differences. The second type of restriction validates the use of the error components GLS estimator on an extended model that conditions on the observed initial values. This approach conditions on the observed initial values to obtain a system that under certain conditions can be estimated consistently by error components GLS.

To put the arguments into perspective, Arellano Bond estimation starts by transforming all regressors, usually by differencing, and uses GMM and so is called "difference GMM". The forward orthogonal deviations transform, proposed by Arellano and Bover (1995), is sometimes performed instead of differencing. The Arellano- Bover/ Blundell- Bond estimator augments Arellano- Bond by making an additional assumption, that first differences of instrument variables are uncorrelated with the fixed effects. This allows the introduction of more instruments, and can dramatically improve efficiency. It builds a system of two equations, the original equation as well as the transformed one, as is known as "system GMM". It is noteworthy that these estimators are designed for situations with small T and large N (meaning few time periods and many individuals), linear functional relationship, single LHS variable that is dynamic, independent variables that are not strictly exogenous, fixed individual effects and heteroskedasticity and autocorrelation within individuals, but not across them. However, one should be aware of the fact that system GMM is complicated and can easily generate invalid estimates (Roodman, 2006). As argued by Arellano/ Bond/ Bover/ Blundell, this technique is effective in handling not only the serial correlation in dynamic panels but also could take care of the problem of endogeneity in the equation, whether this problem is created because of omitted variable or simultaneous causality. We consider a dynamic panel data model of following form, consistent with our equation of crowding out.

$$Y_{i,t} = \beta_0 + \delta Y_{i,t-1} + \beta_1 X_{1,i,t} + \ldots\ldots\ldots\ldots + \beta_k X_{k,\,i,t} + \mu_i + \varepsilon_{it}$$

Now the transformation in this equation with difference GMM will make the equation look like:

$$\Delta Y_{i,t} = \delta \Delta Y_{i,t-1} + \beta_1 \Delta X_{1,i,t} + \ldots\ldots\ldots\ldots + \beta_k \Delta X_{k,\,i,t} + \Delta\varepsilon_{it}$$

It could be observed that the fixed effect is already being taken care in this transformation. And it is argued that the autocorrelation is supposed to disappear in $\Delta Y_{i,t-1}$. This could be tested with verifying second order autocorrelation coefficient for respective equations. If the autocorrelation exists, we can further dig down to another level of difference, like $\Delta Y_{i,t-2}$. However, it is most likely that the serial correlation would be taken care in first order itself. As in the case of lag dependent variable, the authors argue that the variables that are not strictly exogenous would also go through same transformations and any form of endogeneity will also be taken care in similar fashion.

Variables and data description

The dependent variable used in this study is log of inflow of FDI. Use of log is one of the most widely accepted format for scaling down absolute values however not always favored one difficult as the interpretation takes in percentages form. Nevertheless, in this particular study, we are more interested in sign of the variables than the actual change in it. In order to take care of the inflation effect on FDI, nominal FDI of all the countries were converted to real FDI with respective country consumer price indices. Therefore log of FDI flow is the best mode for the purpose of our study to capture the effect of crowding out although there are several other choices like absolute FDI flow, FDI stock or FDI scaled by GDP.

Choice of "China Indicator"

The choice of "china Indicator" for the study purpose need some more discussion. Chantasasawat et al. (2003, 2004) and Eichengreen and Tong, (2005) both have used log of inward FDI flows to China in their respective equations to capture crowding out. However, there is a problem in interpretation of results with a logarithmic specification though it is not very significant issue in our case. It assumes that crowding out depends on the rate of change of FDI flows to China rather than the level of these flows. Therefore it would be better if the estimation of crowding out be in some level of FDI form that is being scaled. Another potential issue with such an estimation strategy is that coefficient on the logarithm of FDI to China might capture global shocks affecting all economies in the region or a trend, which would bias the coefficient upwards. As per absolute FDI inflows, Zhou and Lall (2005) argue that absolute FDI flows would give a distorted picture as it would e dominated by the size of

the economy, a particular problem when comparing relative small countries with a giant like China. Chantasasawat et al. (2004) also uses country's share of FDI to the region in the left-hand side and China's FDI (in log) on the right-hand side to measure crowding out. But, as the authors acknowledge, given the large size of FDI flows to China, an increase in FDI to China mechanically reduces the share of other countries. Therefore, a negative sign on the corresponding coefficient cannot be taken as evidence that China diverts FDI from other nations. Other indicators for measuring crowding out could also be problematic. Nominal FDI is a non- stationary and would lead to spurious regression results. Therefore it needs to be scaled. Using the FDI to GDP ratio in China assumes that for a given level of FDI to China, crowding out is inversely related to the size of the Chinese economy, which is unwarranted. It might also capture global factors affecting all countries in the region or a common, which would again bring bias in the coefficient (Mercereau, 2005). Using rate of growth of FDI could be another prospect however it also has the problem in interpretation as that of log specification. FDI flow to China being scaled by GDP of China would result in raw interpretation and could capture global factors. Therefore the scaling should be done by LHS countries. Keeping in mind that absolute FDI inflow would produce distorted picture, Zhou and Lall (2005) used FDI per capita as an indicator. However, FDI per capita may also give distorted results as this measure is significantly influenced by the size of population which in the case of China is huge. Mercereau (2005) uses two indicators to measure this effect. Firstly, FDI flow to China is being scaled by FDI to the region and secondly FDI flow to China being scaled by collective GDP of LHS countries except China. Let's start our argument with the second indicator. Although the author claims it to be a valid indicator it has severe interpretation problem. It is rather uneasy to explain the activities of FDI in China vis-à-vis region with the collective GDP of LHS countries and lead to unfair conclusions.

With light on these factors, the best candidate for "China indicator" to capture the crowding out effect of China therefore is FDI flow to China over total FDI flow to the region (including that in China) as suggested by first indicator of Mercereau (2005). The indicator, FDI to China over total FDI to the region, has an intuitive interpretation which makes this sole indicator explainable enough for our purpose of measuring crowding out. Referring to equation (i)

- If FDI to China diverts flow from other countries, then the coefficient of indicator shows up with negative sign.
- If FDI to China does not reduce flows to other countries, then the coefficient should not be significant.
- And if the flow to China adds up more FDI in the region (complementary effect), the regression should enter with positive sign.

Independent variables

X- Vector explanatory variables used on the estimation process are chosen after the study of papers which dealt with the issue of determinants of FDI. With due consideration to these studies, the determinant variables that were used in this study along with their explanations and expected signs appear in tables below in the result section. As our main variable of interest, "China indicator" has already been discussed in detail in the paragraphs above; some brief discussions are made on remaining variables over here. Lag of dependent variable is taken as one of the independent variable to represent the "inertia" effect on nature of FDI, as decision over investment this year is very much affected by investments made last year. This is also supposed to take into consideration the time lag normally occurred in Greenfield investment. Market size variables, by far, has been one of the most significant variables in almost all of the studies indicating the importance of the host market in attracting FDI. In order to capture the present and future market potential, this study has considered log of real GDP and real GDP growth respectively, where as per capita GDP captures the purchasing power capacity of the host economy. Among other economic variables, Inflation is included to represent macro economic stability of the host economy and international reserves is considered to show the liquidity of economy. There are two types of effects occurring

simultaneously on exchange rate fluctuation. With the appreciation of host economy currency, the home economy currency could lose its "wealth" benefit, thereby spurring home country not to invest more in the currency- strong country. On the other hand, second effect of exchange rate could be traced in terms of volatility. Even though of depreciation of host economy's currency value, if this depreciation has come with high volatility, it will indicate the unstable currency regime and theoretically deter investors. Therefore exchange rate volatility (ERV) will take effect of external competitiveness and will cause negative effect on FDI.

Apart from the problems in the model, there are some other problems in the data, the most prominent one being problem of Multicollinearity which was obvious given the large number of independent variables. To avoid this, the regression analysis was carried out in 8 different specifications so that variables that are highly correlated are not included simultaneously. This while on the one hand has solved the issue of incorporating all the desired variables; on the other hand it was able to fulfill our huge purpose of robustness check. A particular statistical relationship between FDI and a variable of interest is regarded as robust if it remains statistically significant with the same sign when the conditioning information set is subjected to changes (Chakrabarti, 2001). The result would be deemed to be robust if maximum of these specifications produce results in the similar sign or direction.

RESULTS AND DISCUSSIONS

This section presents the empirical results of the estimation technique- "Difference and System GMM- xtabond2" on our equation of dynamic panel model. OLS could have been benchmark estimation however, because of the apparent concerns of serial correlation and endogeneity, OLS simply is not appropriate. Used 8 specifications in order to include all the independent variables could help us in robustness check of the estimations. The adopted normal rule of thumb is that if the estimation is significant for at least 5 specifications, then result is robust. We will first report the result for the aggregate Japanese FDI result and then move to include the results for industry- wise FDI in terms of manufacturing and non-manufacturing industries.

Table below shows the results from the dynamic panel regression using the total Japanese FDI inflow in real terms as the dependent variable. Column "Sp" identifies the results for the variable of interest "China indicator" (Real Japanese FDI to China over Real Japanese FDI to region) on 8 specifications. As could be seen in the table, none of the coefficients for "China indicator" (rjfdic_rjfdir) is significant on any of the specification. Therefore we can draw a conclusion that as far as aggregate Japanese FDI is concerned, there is no evidence that China is crowding out FDI from other Asian economies nor there is any complementary effect. However, the sign is negative in all the specifications.

Table 1: xtabond2 results for aggregate Japanese FDI

			Sp	Japanese FDI		
Dependent: Log Real Japanese FDI		**lnrjfdi**		Coef.	Std. Err.	
Real Japanese FDI to China to Real Japanese FDI to Region	-	**rjfdic_rjfdir**	(1)	-0.004	0.008	
			(2)	-0.004	0.003	
			(3)	-0.004	0.003	
			(4)	-0.005	0.004	
			(5)	-0.004	0.003	
			(6)	-0.007	0.006	
			(7)	-0.002	0.006	
			(8)	-0.003	0.003	
Lagged Log Real Japanese FDI	+	**llnrjfdi**		0.771	0.074	***
Log GDP Per Capita	+	**lngdppc**		0.102	0.052	**
Log Real GDP	+	**lnrgdp**		0.263	0.128	**
Real GDP Growth	+	**rgdpg**		0.045	0.012	***
Consumer Price Index Annual Change	-	**cpiac**		0.015	0.010	
Change in Real Exchange Rate	-	**crer**		0.008	0.003	***
Exchange Rate Volatility	-	**erv**		0.288	2.431	
Tax to Current Revenue	-	**tcr**		-0.002	0.005	
Relative Wage Proxy	-	**rwp**		0.000	0.008	
Openness Proxy	+	**op**		0.002	0.001	***
Openness to Japan	+	**oj**		0.006	0.005	
Infrastructure Index	+	**ii**		0.002	0.002	
Gross Secondary School Enrollment Ratio	+	**gsser**		0.008	0.002	***
Log Sci. & Tech. Journal Pub. Per Million People	+	**lnstjp**		-0.011	0.031	
Country Environment	+	**ce**		0.400	0.457	
Japanese FDI Cases	+	**jfdic**		0.011	0.002	***
Opportunity Cost Proxy	-	**ocp**		-0.038	0.069	
Debt Service to Total External Debt	+	**ds_ted**		0.009	0.005	*
M2 to GDP	-	**m2_gdp**		0.000	0.001	
Log International Reserve to GDP	+	**lnir_gdp**		0.081	0.051	
Member of Integration Agreement	+	**mia**		0.113	0.191	
Constant		**_cons**		0.990	0.440	
		Reported Specification				2
		Number of obs				117
		Number of instruments				108
		1st order autocorrelation Pr>z				0.017
		2nd order autocorrelation Pr>z				0.138
		Sargan test of overidentification Pr> chi2				0.579

*, ** and *** denote statistical significance at 10 %, 5% and 1% respectively
Numbers in paranthesis indicate specification no.

Next, we also convey the determinants of Japanese FDI in Asia. Lagged log of Real Japanese FDI was highly significant in all the specifications, which, shows the importance of inertia in FDI flow. Most of the other variables with came out to be significant have signs as expected. They are market (Per Capita GDP, Real GDP), market potentiality (Real GDP Growth), openness of economy, human capital (School enrollment) agglomeration (FDI cases) and credibility (debt service). However Exchange rate showed up with opposite sign. With this, we can see that local market and its potentiality is one of the most important determinants in attracting Japanese FDI for host economies. It is noteworthy that most of the other prospective variables like tax and wage effects, country environment including infrastructure did not show up with any significance. The reported results are supposed to be free from biases that we have mentioned in prior sections. The presence of serial correlation is evident as 1st order autocorrelation is highly significant. Furthermore, likeability of estimation technique of "xtabond2" is witnessed by loss of significance on autocorrelation on 2nd order. The goodness of specifications could be assured because of favorable Sargan test results.

Industry-wise Japanese FDI results

Our next level of analysis was focused on the industry- wise FDI flow from Japanese multinationals for 13 different industries. These industries are divided into manufacturing and non- manufacturing sector and the regressions were run again on 8 specifications.

Table 2 (a): xtabond2 results for manufacturing industries

		Sp	Chemical			Electrical and Electronics			Food			Machinery		
lnrjfdi			Coef.	Std. Err.		Coef.	Std. Err.		Coef.	Std. Err.		Coef.	Std. Err.	
rjfdic_rjfdir	-	(1)	-0.024	0.027		0.002	0.008		-0.004	0.005		0.012	0.005	**
		(2)	-0.022	0.021		-0.012	0.005	***	-0.010	0.006	*	0.009	0.005	*
		(3)	-0.031	0.018	*	-0.012	0.004	***	-0.008	0.006		0.009	0.005	*
		(4)	-0.029	0.020		-0.014	0.004	***	-0.007	0.006		0.008	0.005	
		(5)	-0.022	0.018		-0.015	0.005	***	-0.007	0.006		0.009	0.005	*
		(6)	-0.007	0.019		0.005	0.007		-0.004	0.005		0.012	0.005	**
		(7)	-0.048	0.025	**	-0.002	0.009		-0.006	0.007		0.013	0.005	**
		(8)	-0.006	0.022		-0.009	0.004	**	-0.005	0.005		0.009	0.005	*
llnrjfdi	+		0.708	0.046	***	0.426	0.073	***	0.231	0.137	*	0.635	0.062	***
lngdppc	+		0.052	0.114		0.135	0.095		0.037	0.071		0.034	0.083	
lnrgdp	+		0.044	0.197		-0.398	0.214	*	0.282	0.142	**	0.104	0.086	
rgdpg	+		0.046	0.024	*	0.075	0.018	***	0.039	0.027		0.015	0.034	
cpiac	-		-0.015	0.014		-0.007	0.010		0.025	0.012	**	-0.018	0.009	**
crer	-		0.001	0.009		-0.003	0.005		-0.002	0.007		-0.006	0.007	
erv	-		9.580	3.926	**	8.772	2.950	***	9.085	2.467	***	4.184	2.613	
tcr	-		-0.003	0.008		0.028	0.012	**	0.041	0.013	***	0.020	0.011	*
rwp	-		-0.006	0.015		-0.011	0.013		-0.023	0.009	**	0.020	0.008	**
op	+		0.001	0.001		-0.004	0.002	**	0.004	0.002	*	-0.002	0.001	**
oj	+		0.015	0.010		0.037	0.008	***	0.040	0.025		0.010	0.011	
ii	+		-0.002	0.003		-0.010	0.004	**	0.004	0.008		0.006	0.003	*
gsser	+		0.019	0.005	***	0.023	0.011	**	-0.012	0.005	**	-0.009	0.004	***
lnstjp	+		0.195	0.096	**	0.217	0.071	***	-0.229	0.094	**	0.153	0.067	**
ce	+		1.136	1.101		1.043	0.911		-2.635	1.347	**	1.024	0.742	
jfdic	+		0.014	0.002	***	0.014	0.002	***	0.017	0.001	***	0.010	0.001	***
ocp	-		0.165	0.082	**	0.212	0.153		-0.075	0.131		0.214	0.066	***
ds_ted	+		0.029	0.018	*	0.014	0.018		0.004	0.032		0.016	0.018	
m2_gdp	-		-0.003	0.002	**	-0.002	0.002		0.004	0.002	***	-0.005	0.002	***
lnir_gdp	+		0.042	0.149		0.223	0.166		0.353	0.065	***	0.073	0.051	
mia	+		0.554	0.459		0.317	0.348		-0.896	0.423	**	0.477	0.186	**
_cons			-0.185	0.470		1.127	0.628		2.973	0.886		0.547	0.477	
Reported Specification				7			4			2			7	
Number of obs				117			117			137			137	
Number of instruments				108			108			132			132	
1st order autocorrelation Pr>z				0.008			0.004			0.003			0.002	
2nd order autocorrelation Pr>z				0.243			0.112			0.981			0.471	
Sargan test of overidentification Pr> chi2				0.532			0.424			0.260			0.737	

*, ** and *** denote statistical significance at 10 %, 5% and 1% respectively
Numbers in paranthesis indicate specification no.

Table 2 shows the result of "Difference and System GMM" estimation for manufacturing industries of Japanese FDI. We observed various degrees of effects ranging from complementary to crowding out in this analysis. First of all, two industries "Chemical" and "Food" were reported to have no effect of China, where as we observed crowding out in 2 industries (Electrical/ Electronics and Metal) and complementary in 3 industries (Machinery, Textile and Transport). Noteworthy that the "China effect" results were drawn giving the consideration that the significance is at least on 5 specifications. On the conditions less than that, for example in the case of Chemical, where the coefficients are significant only in 2 specifications, we rejected it citing the robustness of results. Coefficients that are significant have pretty high significance level, mostly at 1%, although the values of coefficients are very low. But our main interest in this analysis is on the sign rather than magnitude of effect. It is found that three largest industries in manufacturing sector showed up with three different signs. Electrical/ Electronics, the largest, had negative, second largest- Transport has positive where as Chemical had no effect. The reported autocorrelation for lagged variable and Sargan test results are in line of expectation.

Table 2 (b): xtabond2 results for manufacturing industries

		Sp	Metal			Textile			Transport		
lnrjfdi			Coef.	Std. Err.		Coef.	Std. Err.		Coef.	Std. Err.	
rjfdic_rjfdir	-	(1)	-0.002	0.009		0.007	0.003	**	0.018	0.006	***
		(2)	-0.016	0.003	***	0.006	0.003	*	0.007	0.005	
		(3)	-0.011	0.002	***	0.006	0.003	**	0.016	0.005	***
		(4)	-0.013	0.003	***	0.006	0.003	**	0.010	0.004	**
		(5)	-0.015	0.002	***	0.006	0.003	**	0.010	0.005	*
		(6)	0.000	0.008		0.006	0.003	*	0.019	0.005	***
		(7)	-0.007	0.009		0.009	0.003	***	0.018	0.008	**
		(8)	-0.013	0.002	***	0.004	0.003		0.009	0.005	*
llnrjfdi	+		0.578	0.070	***	0.671	0.063	***	0.556	0.069	***
lngdppc	+		-0.013	0.093		-0.115	0.084		-0.220	0.106	**
lnrgdp	+		-0.062	0.182		0.319	0.160	**	0.452	0.171	***
rgdpg	+		0.031	0.035		0.000	0.026		0.003	0.024	
cpiac	-		-0.005	0.016		-0.007	0.013		0.053	0.019	***
crer	-		0.000	0.006		0.000	0.005		0.020	0.008	**
erv	-		-3.424	4.515		-0.256	1.659		-0.055	6.009	
tcr	-		0.021	0.013	*	0.017	0.010	*	0.010	0.017	
rwp	-		-0.036	0.007	***	-0.025	0.008	***	-0.063	0.009	***
op	+		-0.002	0.002		-0.002	0.001	**	0.008	0.001	***
oj	+		0.026	0.012	**	0.019	0.013		0.034	0.015	**
ii	+		-0.018	0.006	***	-0.013	0.005	***	0.011	0.004	***
gsser	+		0.020	0.007	***	-0.020	0.008	**	0.015	0.012	
lnstjp	+		-0.013	0.068		-0.270	0.110	**	0.044	0.076	
ce	+		0.023	0.838		-2.303	1.011	**	0.972	1.075	
jfdic	+		0.015	0.003	***	0.009	0.001	***	0.008	0.002	***
ocp	-		0.170	0.179		0.320	0.099	***	-0.005	0.115	
ds_ted	+		0.047	0.018	**	0.027	0.009	***	-0.008	0.027	
m2_gdp	-		-0.001	0.001		0.002	0.002		-0.004	0.002	
lnir_gdp	+		0.069	0.126		0.097	0.061		-0.414	0.151	***
mia	+		-0.579	0.306	*	-1.031	0.195	***	0.736	0.183	***
_cons			0.459	0.505		-0.057	0.513		-0.120	0.918	
Reported Specification				8			7			6	
Number of obs				137			137			127	
Number of instruments				132			132			120	
1st order autocorrelation Pr>z				0.015			0.023			0.005	
2nd order autocorrelation Pr>z				0.328			0.401			0.283	
Sargan test of overidentification Pr> chi2				0.694			0.838			0.878	

*, ** and *** denote statistical significance at 10 %, 5% and 1% respectively
Numbers in paranthesis indicate specification no.

Similarly, results for non- manufacturing industries are shown in Table 3. With compared to manufacturing, results of non- manufacturing industries are more homogenous with 4 industries (Finance/ Insurance, Mining, Real Estate and Transportation service) out of 6, showing crowding out effect. The largest industry in this sector “trade” however had complementary effect while “service” had no effect. In terms of coefficient values, they are again very low and significance level mostly pretty high.

Table 3 (a): xtabond2 results for non- manufacturing industries

		Sp	Finance and Insurance			Mining			Real Estate		
lnrjfdi			Coef.	Std. Err.		Coef.	Std. Err.		Coef.	Std. Err.	
rjfdic_rjfdir	-	(1)	-0.006	0.013		-0.007	0.003	**	-0.015	0.008	*
		(2)	-0.030	0.006	***	-0.012	0.005	**	-0.022	0.009	**
		(3)	-0.019	0.007	***	-0.009	0.005	*	-0.022	0.008	***
		(4)	-0.022	0.006	***	-0.005	0.003	*	-0.021	0.008	**
		(5)	-0.029	0.006	***	-0.009	0.004	**	-0.021	0.009	**
		(6)	-0.007	0.014		-0.007	0.004	*	-0.016	0.009	*
		(7)	-0.028	0.012	**	-0.008	0.005	*	-0.021	0.008	***
		(8)	0.004	0.009		-0.007	0.003	**	-0.018	0.009	**
llnrjfdi	+		0.574	0.068	***	0.687	0.036	***	0.633	0.062	***
lngdppc	+		0.202	0.099	**	-0.066	0.066		-0.092	0.115	
lnrgdp	+		0.797	0.175	***	0.435	0.169	**	0.148	0.193	
rgdpg	+		0.090	0.035	***	0.000	0.017		0.113	0.030	***
cpiac	-		0.046	0.024	*	-0.030	0.012	**	0.025	0.009	***
crer	-		0.023	0.008	***	-0.010	0.003	***	-0.007	0.005	
erv	-		9.578	3.580	***	5.114	2.160	**	13.405	5.354	**
tcr	-		-0.023	0.009	***	0.014	0.008	*	0.015	0.017	
rwp	-		0.012	0.018		-0.010	0.008		0.038	0.014	***
op	+		0.011	0.004	***	0.004	0.002	*	0.005	0.002	***
oj	+		0.015	0.011		-0.012	0.012		0.038	0.022	*
ii	+		0.013	0.008	*	0.004	0.003		0.004	0.009	
gsser	+		0.003	0.010		0.001	0.003		-0.022	0.009	**
lnstjp	+		-0.161	0.143		-0.171	0.077	**	-0.334	0.133	**
ce	+		0.239	1.285		-3.416	1.258	***	-1.857	1.398	
jfdic	+		0.014	0.005	***	0.004	0.004		0.016	0.004	***
ocp	-		-0.089	0.166		-0.105	0.082		0.103	0.042	**
ds_ted	+		0.083	0.019	***	0.055	0.017	***	-0.016	0.023	
m2_gdp	-		0.006	0.003	*	0.004	0.002	***	-0.008	0.004	**
lnir_gdp	+		0.358	0.103	***	0.019	0.034		0.366	0.135	***
mia	+		0.052	0.228		0.159	0.197		0.179	0.401	
_cons			-0.160	0.808		0.155	0.219		2.011	1.225	
Reported Specification				5			2			7	
Number of obs				137			137			137	
Number of instruments				132			132			132	
1st order autocorrelation Pr>z				0.026			0.037			0.011	
2nd order autocorrelation Pr>z				0.180			0.156			0.286	
Sargan test of overidentification Pr> chi2				0.964			0.630			0.706	

*, ** and *** denote statistical significance at 10 %, 5% and 1% respectively
Numbers in paranthesis indicate specification no.

Our initial impression could be that the crowding out should have been taken place in manufacturing sector given the arguments of low production costs and local market. However, the results did not say so. In fact, most of the crowding out was visible in non-manufacturing sector. With the varying degree of crowding out and complementary effects, the industry- wise FDI results posed rather difficult interpretation. These set of results, some of the major industries with crowding out and complementary effects could be explained by the argument of horizontal and vertical FDI. Caves (2007), identifies three types of FDI taking place around the world. First type of FDI, called Horizontal FDI, occurs when the MNEs establish plants in different countries to make the same or similar line of goods in each geographic market where it operates. Another type of multi-plant enterprise, Vertical FDI, produces outputs in some of its plants that serve as inputs to its other activities. Actual physical transfer of intermediate products from one of the firm's plants to another is not required by the definition, it needs only to produce at adjacent stages of a vertically related set of production process. Third type of multi-plant firm is the diversified company whose plants' outputs are neither vertically nor horizontally related to one another.

Table 3 (b): xtabond2 results for non- manufacturing industries

		Sp	Service			Trade			Transportation Service		
lnrjfdi			Coef.	Std. Err.		Coef.	Std. Err.		Coef.	Std. Err.	
rjfdic_rjfdir	-	(1)	0.004	0.009		0.013	0.008	*	-0.011	0.009	
		(2)	0.006	0.009		0.013	0.007	*	-0.018	0.008	**
		(3)	0.007	0.009		0.016	0.008	**	-0.020	0.010	**
		(4)	0.006	0.009		0.016	0.008	**	-0.020	0.008	***
		(5)	0.006	0.009		0.015	0.008	*	-0.020	0.007	***
		(6)	0.005	0.008		0.013	0.008	*	-0.013	0.008	
		(7)	0.006	0.009		0.015	0.007	**	-0.016	0.009	*
		(8)	0.007	0.008		0.013	0.007	*	-0.009	0.008	
llnrjfdi	+		0.394	0.049	***	0.664	0.111	***	0.259	0.056	***
lngdppc	+		0.425	0.085	***	0.514	0.126	***	0.140	0.092	
lnrgdp	+		0.381	0.183	**	0.090	0.095		0.173	0.098	*
rgdpg	+		0.055	0.017	***	0.028	0.025		0.109	0.030	***
cpiac	-		0.037	0.022	*	0.020	0.012	*	-0.008	0.031	
crer	-		-0.008	0.004	**	-0.009	0.002	***	-0.012	0.008	
erv	-		6.410	4.048		5.830	3.289	*	13.331	3.806	***
tcr	-		0.025	0.008	***	-0.011	0.011		0.031	0.013	**
rwp	-		0.030	0.009	***	0.032	0.014	**	0.025	0.013	**
op	+		0.006	0.002	**	0.002	0.001	**	0.008	0.002	***
oj	+		0.028	0.011	**	0.022	0.008	***	0.031	0.019	*
ii	+		0.014	0.004	***	0.011	0.006	*	0.022	0.008	***
gsser	+		0.020	0.006	***	0.008	0.004	*	-0.026	0.007	***
lnstjp	+		-0.068	0.077		0.217	0.071	***	-0.062	0.081	
ce	+		1.210	1.032		1.831	0.628	***	0.819	1.265	
jfdic	+		0.011	0.004	***	0.008	0.002	***	0.012	0.002	***
ocp	-		0.135	0.084		0.159	0.051	***	0.126	0.106	
ds_ted	+		0.033	0.016	**	0.016	0.015		0.002	0.018	
m2_gdp	-		0.002	0.002		0.005	0.002	**	0.000	0.003	
lnir_gdp	+		0.218	0.124	*	0.360	0.095	***	0.523	0.091	***
mia	+		-0.883	0.308	***	-0.777	0.172	***	0.082	0.247	
_cons			-0.202	0.446		-0.163	0.551		1.509	0.777	
Reported Specification				8			4			5	
Number of obs				137			137			137	
Number of instruments				132			131			132	
1st order autocorrelation Pr>z				0.009			0.024			0.015	
2nd order autocorrelation Pr>z				0.844			0.387			0.954	
Sargan test of overidentification Pr> chi2				0.080			0.904			0.638	

*, ** and *** denote statistical significance at 10 %, 5% and 1% respectively
Numbers in paranthesis indicate specification no.

Considering the nature of the industries in our study, only horizontal and vertical integrated FDI could be under analysis. Horizontal FDI, which is basically based upon the argument of proprietary assets for Ownership, Location and Internalization, takes into consideration host country's domestic market concern along with wage rates, political risks, infrastructure, etc. Therefore, most of crowding out effect is to be seen on the industries with horizontally integrated FDI .Whereas on the other hand, Vertical FDI, which considers producing goods and services at various stages in different countries could give impetus for complement effect. As per the argument of transaction- cost approach, vertical integration occurs because the parties prefer it to the ex ante contracting costs and ex post monitoring and haggling costs that would mare the alternative state of arm's length transactions (Caves, 2007). Two major industries of manufacturing sector "Metal" and "Electrical" and non- manufacturing industries including large "Finance and Insurance" most probably have the characteristics of horizontal FDI that led to crowding out effect. Industries which saw the complementary effect are mostly in manufacturing sector, they are, "Textile", "Machinery" and "Transport" making in line of the arguments posed by vertical FDI.

It is rather difficult to demonstrate the mechanism of vertical integration among the industries with numbers. However, growing trend of production fragmentation in East Asia by Japanese MNEs could possibly explain the complementary effect. This particular trend is especially true in the case of automobile and its parts and components. This is evidently shown by our result with positive sign.

6. CONCLUSION

This paper applied dynamic panel model to investigate the impact of China on the ability to attract FDI for Asian economies. The problem was stated because of the growing concern on the economic world about the China's expanded role in attracting FDI where as the growth of FDI in other Asian economies has not been very encouraging in recent years. The analysis was carried out in industry level Japanese FDI data. For the pragmatic study, we adopted an equation that formulized the determinants of FDI. In order to measure the china effect, we added the indicator to the equation as Japanese FDI flow to China being scaled by FDI to the region. This in fact is like treating the "China effect" as one of the determinant for Japanese FDI in Asia.

The analysis produced interesting results. The country level analysis of Japanese FDI could not find any sort of empirical basis to support the claim that FDI in China has been coming at the expense of other Asian economies. The indicator was not significant in any of the eight specifications. However, interestingly, when we further trimmed down the analysis to micro level industry- wise Japanese FDI data, we found both positive and negative effect of China. Importantly, "Electrical/ Electronics", "Finance and Insurance", "Metal", "Mining", "Real Estate", "Transportation Service", were adversely affected, in other words, crowding out was seen in these industries. "Machinery", "Textile", "Trade", and "Transport" saw growth of China as a complementary factor. "Chemical", "Food" and "Service" showed no effect.

Therefore, to conclude, as discussed in the theoretical section that the growing China could have both investment diversion and investment creation effects, we witnessed these effects on industry- wise FDI distribution. Any further study on the subject matter should hence focus on more of micro level analysis. Where as, the concern of crowding out is profound among the policy makers of Asian economies, one should also be aware of the fact about the possible opportunities as well. Especially the growing practice of production fragmentation in East Asia by Japanese MNEs had played an important role of the expansion of investment across the economies. Hence, China's effect of complementary and crowding out depends upon characteristics of individual economy and their other features like developmental level, comparative advantage and factors of production fragmentation as well.

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