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Editorial

This is the Special Issue of the International Journal of Sales, Retailing and Marketing dedicated for publication of the best papers that have been presented on the 9th CIRCLE Conference that took place between 11th and 13th of April, 2012 in Santa Eulalia, Ibiza.

Due to the large amount of high quality papers in the field of publication the issues 2, 3 and 4 will present only papers from the Conference.

We are also inviting you to join 10th CIRCLE Conference that will be held in Porto next year. Top academic researchers, practitioners and a lot of good time are guaranteed.

Eleven papers published in this issue cover wide variety of topics and represent academics from Taiwan, Czech Republic, United Kingdom, Lithuania, Hungary, Romania, Germany and Croatia.

The articles cover the core theories, empirical researches, essential research tools expanding the existing knowledge base about topics in retailing and marketing and we hope that they will be read and cited in the future investigations and relieves dealing with this area.

Until then we are working diligently to have the journal indexed in the respected data bases.

We wish you an enjoyable reading!

Editors

FENG SHUI AND REGULATORY FIT THEORY

Shu-Hsun Ho

Abstract

With its history dating back five millennia, the art of creating harmonious surroundings—commonly referred to as feng shui—has become deeply rooted in Chinese culture, dominating the attitudes and decisions of many of the people of Asia. Yet despite its significant effect on people’s daily lives, a dearth of research is available on how feng shui influences consumers’ decisions. This study investigates the influence of feng shui on customers’ attitude based on their regulatory focus, providing suggestions for business opportunities. Three experiments examined whether feng shui’s goals, addressed in advice, influence participants’ decisions and feelings of appropriateness. Experiment 1 demonstrated that the fit between feng shui’s suggestions and consumers’ regulatory focus impacted decision making. Participants were more likely to adopt the feng shui practitioner’s suggestions of a goal compatible with the consumers’ regulatory focus. Experiment 2 provided evidence that regulatory focus also impacts participants’ peace of mind. Experiment 3 tested whether the value experienced from regulatory fit is reflected in the price. Specifically, promotion-oriented individuals feel more accepting of promotion-focused feng shui that is consistent with an approach goal while prevention-oriented individuals are more persuaded by prevention-focused feng shui that is consistent with an avoidance goal. When the feng shui appeal is compatible with the self-regulatory focus, individuals demonstrate a greater feeling of appropriateness and produce a higher level of peace of mind.

Keywords: Feng Shui, Regulatory Focus, Regulatory Fit, Promotion, Prevention

A window behind the bed signals upcoming health problems. Living on the fourth floor of a building with the street number four indicates imminent doom. Although such beliefs may sound a bit far-fetched to some, the Chinese ascribe such beliefs to the art of feng shui, which they respect as the wisdom of their ancestors. As such, many decisions and house designs are made according to the guidance of feng shui. For example, architects renumber floors to avoid the number four, especially at hospitals, as the Chinese word for four is a homonym for the word *death*. In addition, Taiwan residents are free to change their identification number if it ends with a four or has 3 fours in a row. Indeed, feng shui continues to be widely practiced in societies influenced by Chinese culture, such as China, Hong Kong,

Taiwan, Singapore, Indonesia, Malaysia, Japan, and Korea.

Feng shui is a traditional Chinese philosophy and technology that attempts to arrange interior design harmoniously to influence the inhabitant’s vitality, fortune, and love life. However, feng shui prevalence stagnated following the May 4th Movement in 1919, when China became greatly influenced by the revolutionary trends brought about by western science and cultural progress. During this time, feng shui came to be perceived as superstition—a fate that befell many traditions of the time. Intense criticism and long neglect led feng shui practitioners to go underground; consequently, China’s contemporary youth have no idea of what feng shui really is (Beijing Review, 2007) while younger generations throughout Asia are moving further away from feng shui. For example, although feng shui is not a dying belief in Hong Kong, only 35 percent believe in it today; in Hong Kong, feng shui has a reputation for being a Chinese tradition

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preserved mainly—although by no means exclusively—by the old and the superstitious (Emmons, 1992). A notable contrast is Taiwan, where the population has inherited the ancient Chinese culture and philosophy such as the traditional Chinese characters and feng shui practices without experiencing culture suppression; as such, even the youngest generations accept the living concept of feng shui as common sense.

Some popular feng shui practices are rather widely understood. For example, beds should face the certain direction, be near (but not against) the window, and not be placed under a beam in the ceiling (which can cause headaches for the sleeper). Yet these common understandings pervade all aspects of life. Architects in Taiwan are all equipped with basic feng shui knowledge in order to meet customers' need. Real estate agents also dutifully disclose the orientation of each house so that people can take that into account feng shui concerns. For example, when facing a structure Green Dragon (related to vital energy) is the position to the left while White Tiger (negative energy) is to the right. Feng shui permeates commercial structures as well, such as Taipei 101, the world's tallest completed skyscraper. In addition to the scientific and modern architecture, the decorations and building design are full of feng shui meanings. The recent proliferation of articles, television shows, and books offering "feng shui quick fixes" to help people increase their wealth or avoid adversity has led Taiwan to be dubbed a feng shui society.

Although feng shui affects Asian people deeply, particularly in regards to architecture, furniture, and layout, little attention has been paid to the fit between feng shui and consumers' motivation. In examining existing research, it is vital to look at the types of theories used. Previous research has relied on both formal theories and lay theories. Formal theories are epistemic tools researchers use to approach the truth while lay theories are phenomenological constructions used for common sense-making. Levy, Chiu, and Hong (2006) described lay theories as theories that "need not be true or even easily testable; their role in providing a perception of truth seems

most important." A lay person often seeks verification rather than falsification and relies on anecdotal evidence. This is not to say that lay theories are not interested in accuracy; they are simply less likely to involve the rigorous testing often conducted among scientists. Lay theories seem to be more blatantly self-serving than scientific theories. Lay people, like scientists, develop theories about their social world and those theories, helping people interpret and forecast events as well as select courses of action (Karafantis & Levy, 2004).

Lay theories related to feng shui serve social and psychological functions, such as protecting the self from perceived threats, fostering social relationships, and supporting values. Like scientific theory, lay theory related to feng shui reduces epistemic uncertainty by providing understating, prediction, and control. For those who believe in feng shui, their perceptions are filtered through and guided by such theories.

People apply feng shui in order to promote fortunes or avoid misfortunes, which is related to the regulatory focus theory. Regulatory focus theory (Higgins, 1997) suggests that two types of consumers exist with different predisposed motivational orientations: promotion-focused consumers (promoters) and prevention-focused consumers (preventers). The two orientations are equally distributed among all consumers (Aaker & Lee, 2001; Brodscholl, Kobert, & Higin, 2007; Sengupta & Zhou ,2007). Promoters are motivated by achievements and are sensitive to opportunities for advancement, whereas preventers are motivated to avoid threats to security and safety and are sensitive to occasions of hazard. Both types demonstrate strikingly different behaviors in the marketplace (Chernev, 2004; Lee & Aaker, 2004; Sengupta & Zhou ,2007; Zhou & Pham, 2004). In addition, both utilize feng shui in different manners. The promotion-oriented consumers use feng shui to seek fortunes and well-being while the prevention-oriented consumers use it to avoid misfortunes and disasters. Indeed, feng shui is often used to determine whether a certain structure has a favorable energy, as such energy affects people's health and wealth by increasing their

luck (promotion-oriented) or enabling them to avoid misfortunes (prevention-oriented).

Based on this understanding, a significant question emerges: Does a consumer feel more “right” and hence more willing to accept and follow a feng shui master’s suggestion if the goal meets the consumer’s own regulatory focus? This article addresses this issue by examining the effects of the motivational factor—namely, regulatory focus—on the activation of feeling right and, thus, peace of mind. The current study asked 256 college students (20 to 25 years old) about their attitude toward feng shui. According to the results, as many as 93 percent prefer to accept a feng shui master’s advice than treat it as superstition and dismiss it. Such attitudes concur with earlier findings that indicate people equally fall into the promotion versus prevention categories in regards to their orientation. Among those who believe in feng shui, 50 percent are promotion-focused while the remaining 50 percent are prevention-focused.

The experiment described herein extends regulatory fit theory to the acceptance of feng shui practice. Specifically, we examined the effectiveness of regulatory fit on consumers’ peace of mind by delivering different messages of feng shui in order to test two primary hypotheses: (a) when given promotion-focused feng shui, promoters engage in a higher level of willingness to take the advice and exhibit more positive thoughts and feelings about feng shui than preventers, and (b) when given a prevention-focused message, preventers are more active and have more positive thoughts and feelings about feng shui than promoters. In accordance with regulatory focus theory, we further hypothesized that the fit effect will transfer to monetary value: Promoters will be willing to pay more for promotion-focused feng shui advice while preventers will value prevention-focused feng shui more.

The remainder of this paper is divided into three parts. The first section begins with a review of feng shui and regulatory fit theory and then presents the hypotheses regarding the effects of feng shui message frames. The second section reports on the experiments and

findings of the study. Finally, the paper concludes with a discussion, the managerial implications, and suggestions for future research.

BACKGROUND ON FENG SHUI AND REGULATORY FIT

Feng Shui

Throughout the past five millennia, the Chinese have developed a unique art that harmonizes living environments: feng shui (literally “wind [and] water”). Feng shui is a discipline of geography, architecture, ethics, and prophecy based on Taoism and Confucianism that the earth, sky, and human are part of one whole (Beijing Review, 2007; Gao & Handley-Schachler, 2003). With an element of the mystical in the art, feng shui is based on a set of complex theories and calculations from traditional Chinese medicine and philosophy (Tobias, 2003). These theories, combined with the study of the natural environment, are believed to support success, happiness, health, and wealth by creating balance.

This Eastern art and science focuses on establishing and maintaining harmony within the environment, asserting that people’s health, wealth, and happiness could be enhanced through feng shui. Feng shui is the practice of arranging an individual’s living space to create balance for the person as well as harmony, relying on the movement and quality of energy, or *chi*, through the environment. The magical force that flows through the environment is a kind of supernatural electricity found in both the positive and negative (*yin* and *yang*) states (Hwangbo, 1999). The duality of yin and yang, which naturally flow in opposite directions, cannot exist without the presence of both elements. Similar to the cycles of the seasons or light and dark, yin and yang are constantly replacing each other in their cyclical flow, creating a never-ending interaction that results in all natural phenomena (Tobias, 2003) The chi, or life force, flows through the body and the earth. When the chi is disturbed, it disturbs the balance of the natural and produces misfortunes, whereas a positive chi or energy can enhance health, wealth, and happiness. Indeed, the chi can affect virtually every aspect of life.

Feng shui's focus on balance extends to the harmony of heaven and earth as well, aiming to identify ways in which humanity can maintain the balance of nature (Hwangbo, 1999; Wong, 1992). According to feng shui, the fundamental groups of world substances are classified as the five elements (*wu hsing* in Chinese). *Wu* refers to the elements: water, fire, wood, metal, and earth. *Hsing* ("movement") refers to the transition between these five elements. Ultimately, the five elements are connected to the relationships and movements of the planets; this understanding cannot be separated from term. Many real and abstract objects such as orientations, colors, and planets can be sorted into the five groups that correlate to the five elements (Lai, 1974).

Feng shui incorporates two practical dimensions: the utilization of specific symbols (e.g., hexagrams) and tools (e.g., the Chinese compass) as well as the philosophical, logical, and psychological dimension. Many practitioners use a design tool called the BaGua, an octagonal symbol whose sides indicate specific areas of the environment, representing the various aspects of an individual's life—namely, wealth/power, fame/fortune, marriage/relationships, children/creativity, helpful people/travel, career, knowledge/spirituality, and family/community. Using the BaGua, feng shui can balance an individual room as well as a whole house. A diagram of the BaGua is placed in the location to be balanced (or over a drawing or blueprint of the location) in order to determine where each aspect is located. This determination is utilized to identify where to place specific items in order to harness energy. Putting specific items in the areas in which they benefit the individual the most enables the individual to achieve the optimal balance, which is symbolized by the yin/yang symbol that is centered within the octagon.

Academic results support the effectiveness and application of feng shui. Poole (2005) redesigned the classroom according to feng shui, emphasizing the placement and arrangement of space to achieve harmony within an environment. Students' learning distraction was resolved, and the classroom

benefited atmospherically. The ideal classroom is a space that is relaxing and inviting, is free from clutter, and allows students to learn. A calmer, more focused learning environment results. In addition, Tam, Tso, and Lam (1999) revealed feng shui to be a determining factor in housing prices. Prices were significantly higher when consumers believed the house to have good feng shui potential. Moreover, in 1999, the Institute of Medicine (IOM) issued its well-known report, "To Err is Human," which concluded that hospital-based medical errors in the United States resulted in 44,000 to 98,000 avoidable deaths per year. Blum (2004) applied feng shui in order to address the issues and reduce or even eliminate the preventable errors. Feng shui also helped Heim (2001) design his virtual worlds according to the flow of chi.

Feng shui has also had a significant impact on the ancient Chinese accounting system. Traditionally, the Chinese people have made decisions based on feng shui. Consequently, the fair and true principle was neglected in traditional Chinese accounting because people interpreted their accounting information in terms of feng shui—for example, by indicating accounting (balance) figures as good or bad feng shui. People tended to utilize such accounting information in their decision making. Thus, feng shui has deeply impacted the Chinese culture and life (Gao & Handley-Schachler, 2003). Feng shui ultimately proved to influence believers' lives in every aspect.

Regulatory Fit

Researchers exploring motivation have historically relied upon the idea that people are drawn to pleasure and avoid pain, which is referred to as the hedonic principle. Regulatory focus theory, which derives from this hedonic principle, predicts that goal orientation—or regulatory focus—guides decision making and behavior (Higgins, 2000). Individuals can be classified by their regulatory focus as promotion-oriented ("promoters") or prevention-oriented ("preventers"). Promoters are motivated by advancement and accomplishment; they are motivated to use means of goal pursuit that ensure the presence of positive outcomes (e.g., following feng shui

guidelines to achieve optimal health). Preventers are motivated by security needs; they are motivated to use means of goal pursuit that ensure the absence of negative outcomes (e.g., following feng shui to avoid illness). Regulatory focus can vary from physiological needs (e.g., thirst), to moods (e.g., fear), epistemic needs (e.g., a need for closure), and social roles (e.g., role prescription) (Avnet & Higgins, 2006).

Regulatory fit changes consumers' reactions to things, including the perceived monetary value of a choice they have made or the persuasiveness of a message they have received. When a fit occurs, people become more engaged in and "feel right" about their actions; such an experience strengthens the resulting evaluative reactions (either positive or negative) (Aaker & Lee, 2007).

Current literature indicates that people who experience regulatory fit develop more positive (or negative) attitudes toward a product; in addition, their confidence in their judgment is enhanced, and their evaluation of the product's value rises (or declines). Chernev (2004) revealed that preventers gave more weight to utilitarian and reliability-related attributes, whereas promoters were more likely to consider hedonic, performance-related, and attractive attributes. Participants chose options that were superior in regards to the dimensions of higher relevance to their regulatory goals. Kirmani and Zhu (2007) suggested that prevention focus increases the individual's sensitivity to the advertiser's manipulative intent; thus, when message cues make the manipulative intent moderately salient, preventers are more likely to activate persuasion knowledge and give less favorable brand evaluations than promoters. Florack and Scarabis (2006) revealed that consumers tend to link brands with a product category when that brand's image is well-matched to the consumers' regulatory focus. Vaughn, Baumann, and Klemann (2008) suggested that promoters show inclinations toward creative thinking, novelty, and broad, abstract representations. In contrast—and consistent with avoidance strategies—preventers show inclinations toward careful, routine ways of

thinking and an adherence to concrete, specific information.

Regulatory focus theory has emerged as a powerful new theory for predicting how advertising persuasion might depend on a viewers' regulatory focus, which refers to the extent to which a viewer is motivated either to realize achievements (promotion focus) or to avoid hazards (prevention focus). Kim (2006) and Zhao and Pechmann (2007) studied how message framing may influence the effectiveness of advertising messages aimed at preventing smoking among adolescents. These studies concluded that adolescents demonstrate lower intentions to smoke, lower perceived pharmacological benefits of smoking, and lower perceived psychological benefits of smoking when the fit between the regulatory goal and the antismoking message frame was congruent (versus incongruent). In addition, Aaker and Lee (2001) determined that consumers are more affected by framed messages according to the features that are more relevant to the consumers' momentary orientation—namely, prevention or promotion. Latimer et al. (2007) concluded that tailored messages that fit individuals' regulatory focus led to greater physical activity participation and more positive feelings than non-fit messages, particularly in the promotion-focused condition. With the fit of regulatory focus and direction of messages, people are more willing to engage themselves in physical activity and other health behaviors. Researchers have also found that promotion-/prevention-focused individuals display different psychological states while achieving goal attainment (Crowe & Higgins, 1997; Liberman et al., 1999).

Furthermore, regulatory fit effects can be classified according to two aspects: the sense of "feeling right" and the strength of the engagement. In particular, promotion-orientated individuals are expected to be more concerned with the ease of the proposed action in achieving a desired outcome than the effectiveness of the action. Meanwhile, prevention-orientated individuals are expected to be more concerned with the effectiveness than the ease (Keller, 2006). Thus, feng shui practitioners who seek fortunes (promotion-oriented) focus more on the easy way to

achieve the fortune while those focused on misfortune avoidance value the effectiveness of the means more than the ease. However, it is important to note that, even if this influence is based on chronic differences between people, it should vary according to the specific situation as well. Thus, a person who has a prevention focus in one context might have a promotion focus in another context. Many studies on regulatory focus theory suggest that individuals' goals vary according to contexts and, consequently, the means perceived as adequate tools for reaching these goals differ, depending on the specific regulatory focus that is active in the context of judgment (Aaker & Lee, 2007; Florack & Scarabis, 2006; Higgins et al., 2003).

A great deal of research on regulatory fit has examined the relationship between self-regulatory interests and motivation to use strategies of goal pursuit that are more rather than less consistent with those interests (Avnet & Higgins, 2003, 2006; Poels & Dewitte, 2007). However, one area that has remained unexplored is how one's promotion- or prevention-related interests in pursuing a goal might fit an aspect of the traditional feng shui practices.

EXPERIMENT 1

The goal of experiment 1 was to test whether the fit between the goals of feng shui and consumers' regulatory focus has an impact on decision making. Participants were more likely to adopt the feng shui practitioner's suggestion with a goal compatible with their personal regulatory focus. In other words, when given promotion-focused feng shui advice, promoters have a greater willingness to accept the advice and exhibit more positive thoughts and feelings than preventers. However, when given prevention-focused feng shui advice, preventers are more active and have more positive thoughts and feelings than promoters.

Method

Participants. Emmons (1992) concluded that age is positively related to feng shui belief; the only age group below the average level of belief is the under-18-year-olds. This group displays a significantly low level of belief. Indeed, this group is made up of people who have not yet

reached the time in the lifecycle when they would be concerned with feng shui. After leaving home and starting their own families, people begin to take precautions to protect their luck and circumstances. The under-18 group is expected to reach the average level of belief as they move into young adulthood. Therefore, the participants in the current experiment are 20 years old and older.

One hundred and sixteen undergraduate Taiwanese students (55 men and 61 women) 20 to 25 years old ($M_{\text{age}} = 23.4$ years, $SD = .85$ years) participated in this study as a requirement for the fulfillment of course credit. No significant differences were identified between male and female participants in any of the results reported below.

Design and Procedures. Participants took part in the study in groups varying from ten to fifteen persons and were randomly assigned to one of the four conditions in a 2 (regulatory focus: promotion vs. prevention) \times 2 (feng shui appeal: gain vs. nonloss) between-subjects design.

According to the literature, regulatory focus can be induced temporarily by asking people to think about goals with those interests in mind (Vaughn, Baumann, & Klemann, 2008). Specifically, thinking about possible gains (e.g., what one would ideally like to attain in regards to health or wealth) induces a promotion focus. In contrast, thinking about possible losses (e.g., what one would like to avoid, such as misfortunes or sicknesses) induces a prevention focus. The versions of a regulatory fit manipulation were adapted from Higgins et al. (2003).

Participants were told to review the feng shui appeal and then respond to a series of questions. To enhance external validity, the content from the feng shui advice was modified to create an individual appeal for each of the four conditions. The advice is as follows: "According to feng shui principles, using a standing plant to liven up a lifeless corner can invite good feng shui and generate wealth," (positive outcome) and "According to feng shui principles, using a standing plant to liven up a lifeless corner can avoid bad feng shui and avoid money loss" (negative outcome).

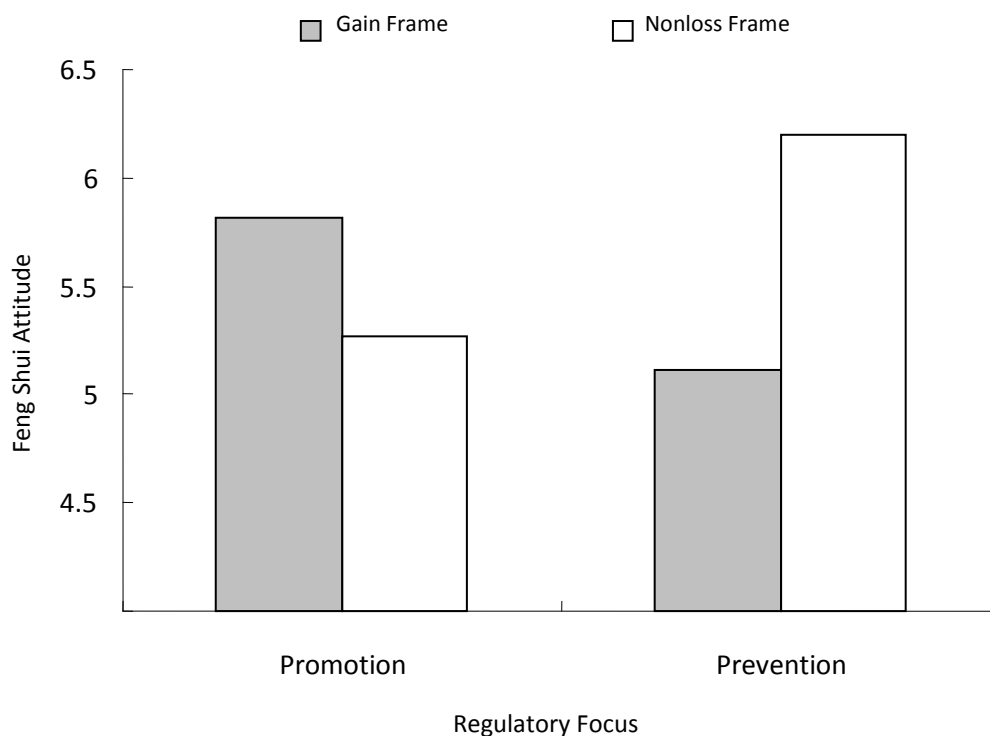
After being inducing the regulatory focus and having participants read the appeal of the feng shui principle, participants rated their attitudes toward feng shui on a 7-point scale anchored by disagree-agree, reject-accept, and unfavorable-favorable. They also responded to demographic measures and a set of ancillary measure. Finally, participants were debriefed and thanked.

Results

To test the proposed compatibility effect, a Feng Shui Attitude Index was created by averaging the three attitude items ($\alpha = .91$). The results of the 2 (regulatory focus) x 2 (feng shui

appeal) between-subjects analysis of variance (ANOVA) yielded the expected Regulatory Focus x Feng Shui Appeal interaction, $F(1, 112) = 10.24, p < .05$ (see Figure 1). Participants exposed to the promotion focus demonstrated more favorable attitudes in the positive-appeal feng shui than in the negative-appeal: $M = 5.82$ vs. $5.11, t(112) = 1.96, p < .05$. In contrast, participants exposed to the prevention focus demonstrated more favorable attitudes in the negative- versus positive-appeal condition: $M = 6.2$ vs. $5.27, t(112) = 1.78, p < .05$. No other effects were significant ($F_s < 1$).

Figure 1. Experiment 1: Feng Shui attitude as a Function of Regulatory Focus and Feng Shui Appeal



The participants in the fit conditions rated the feng shui practice at a higher level of acceptance than participants in the non-fit conditions. Thus, the sense of feeling right from fit induced in the first phase of the study increased the intensity of participants' subsequent positive response to the feng shui advice.

Discussion

The results of Experiment 1 support the hypothesis that promotion-focused and prevention-focused contexts are differentially effective depending on how they are framed. Consistent with the regulatory fit principle, appeals focused on promotion concerns were more effective when presented in a positive

versus negative outcome. Conversely, appeals focused on prevention concerns were more effective when presented in a loss versus gain frame.

The goals of feng shui principles that are compatible with the regulatory focus of the specific recipients are more effective. Promotion-focused participants are persuaded by a message that stresses eager means in reaching the goal while a message that entails the use of vigilant means is more effective when participants are in a prevention focus. As eager means are compatible with a promotion focus and vigilant means are compatible with a prevention focus, it seems reasonable that the fit between the goal of feng shui practice and the regulatory focus of recipients enhances the acceptance of feng shui.

EXPERIMENT 2

This experiment investigated whether regulatory fit influences participants' peace of mind. According to regulatory fit theory, when people engage in decisions or choices with strategies that sustain their orientation, they "feel right" about what they are doing (Avnet & Higgins, 2006). This feeling-right experience transfers to subsequent evaluations (Camacho, Higgins, & Luger, 2003). People experience peace of mind and confidence when they feel right about their decision. Thus, individuals should demonstrate a higher level of peace of mind when they experience regulatory fit.

Method

Participants. One hundred and twenty undergraduate students (52 males) participated in this study for course credit. Ages ranged from 19 to 23 years ($M = 20.8$ years, $SD = .93$ years). There were no effects of gender.

Design and Procedure. Participants were manipulated to induce their regulatory focus as in Experiment 1. They were then required to read specific feng shui cases.

Case 1: My room faces a hill, and I developed headaches that were likely due to the hill blocking the feng shui. I used a mirror to reflect it (the bad feng shui) back, and now all my pains are gone.

Case 2: There are a lot of car accidents on the street, so I used a mirror in our residence to reflect the "killing atmosphere." We feel better and have had no accidents since.

Case 3: I'm a guard at a dockyard. The Westerners there believe in feng shui. They changed the entrance because the old one was unlucky. They also put up a mirror to deflect bad luck and invoked a spell to bring luck in rather than out. All the workers feel a lot better now and are in better health.

These cases deliberately tried to convince participants of the power of feng shui. After reading these cases, participants were asked to enter a bad feng shui room and were informed that the bad feng shui would bring them bad luck. Participants subsequently filled out a survey measuring their emotion status using a 7-point Likert scale (uneasiness/easiness, powerless/powerfulness, dependence/independence, low spirit/high spirit, peace/non-peace, etc.)

Next, feng shui advice with promotion- and prevention-appeal was offered to offset the bad feng shui. After taking the advice, participants were asked again to fill out the emotion survey. Finally, explanations were offered to neutralize the uncomfortable feelings that might have been incurred during the experiments. Participants were then debriefed and thanked.

Results

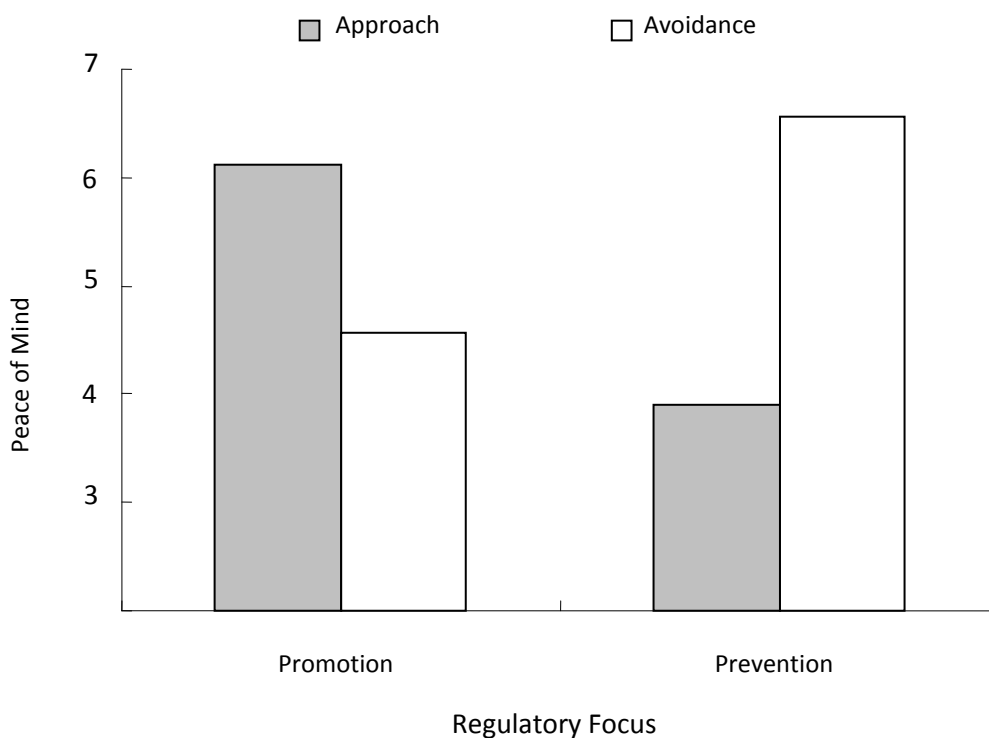
In checking the temporal feng shui belief and bad feng shui manipulation, no gender differences of interactions involving gender were included. The level of belief in feng shui was significantly higher among those who took the manipulation ($M = 6.32$) than among those who did not take it ($M = 4.04$): $F(1, 105) = 20.48$, $p < .001$. The level of uneasiness was significantly higher for those who took the manipulation ($M = 6.77$) than those who did not ($M = 4.1$): $F(1, 105) = 24.35$, $p < .001$.

The paired scores of the level of easiness of pre-feng shui advice and post-feng shui advice were individually compared using paired t tests. Participants who experienced coping

with feng shui recovery expressed significantly higher levels of peace of mind and easiness than those had no coping system ($M_{\text{after}} = 6.81$ vs. $M_{\text{before}} = 3.8$): $F(1, 64) = 18.90, p < .001$. Figure 2 provides these results. The coping advice was promotion-oriented, which resulted in a better emotional healing effect on promotion-focused participants than prevention-focused participants ($M_{\text{promotion}} = 6.4$,

$M_{\text{prevention}} = 3.8, p < .05$). Meanwhile, prevention-oriented feng shui resulted in a better emotional healing effect on preventers than promoters ($M_{\text{promotion}} = 4.5, M_{\text{prevention}} = 6.8, p < .05$). The results indicate that participants “feel right” when they experience regulatory fit.

Figure 2. Experiment 2: Peace of Mind as a Function of Regulatory Focus and Feng Shui Coping



Discussion

The results of Experiment 2 support the hypothesis that feng shui practice can comfort persons' anxiety and fear. Consistent with the findings of Experiment 1, feng shui focused on promotion appeal was more effective on promotion-focused participants. On the other hand, prevention-appeal feng shui best soothes prevention-focused participants' discomfort compared to the promotion-appeal feng shui.

EXPERIMENT 3

Experiment 3 investigates whether the regulatory fit of feng shui's goals can increase the monetary value when compared with feng

shui advice that does not meet the individual's regulatory focus.

According to regulatory fit theory, regulatory orientation can impact the significance of a decision outcome based on how a decision is made. Those decision makers who have different regulatory orientations tend to appreciate their decisions more when they utilize decision strategies that fit their regulatory orientation better (Avnet & Higgins, 2003, 2006; Higgins et al., 2003). For example, Avnet and Higgins (2003, 2006) demonstrated that people offer more of their own money to buy the same product when the choice strategy they use fits their regulatory orientation than when it does not. Higgins and colleagues (2003) also showed that people assign a much higher

price for the same chosen coffee mug when their choice strategy fits their regulatory orientation than when it does not.

Method

Participants. A total of 80 students (40 women) at Provident University were recruited in return for monetary compensation through flyers put up around campus. There were no effects of gender.

Design and Procedure. Each participant was exposed to one of four versions of a regulatory fit manipulation (adapted from Higgins et al.,

2003). The procedure used in this experiment was basically the same as that in Experiment 1.

Participants induced with promotion orientation were encouraged to pursue their aspirations and goals. In contrast, the prevention orientation emphasized the importance of safety and security and induced participants according to their duties and responsibility. All participants completed the manipulated procedure twice for two different goals to ensure the strength of manipulation; their assignment to the different regulatory fit conditions was held constant (i.e., the same focus and the same strategy).

Table 1. Experiment 3: Mean price offered for the Chosen Feng Shui Advice

Predominant focus	Feng Shui Appeal (in NT\$)	
	Gain	Non-loss
Promotion	1,600	950
Prevention	800	1,545

Participants were then informed that a well-known feng shui master would give them advice with promotion and prevention goals, respectively. The promotion-focused feng shui advice promised participants with health, wealth, and love in life; the prevention-focused feng shui advice saved participants from sickness, lost fortunes, and bad relationships. Participants took part in the study in groups varying from five to ten persons who were randomly assigned to one of the four conditions in a 2 (regulatory focus: promotion vs. prevention) \times 2 (feng shui appeal: gain vs. nonloss) between-subjects design. All participants were informed that the average price for feng shui advice is NT\$1,000; they were subsequently asked to give the price they would be willing to pay for the advice, which served as the dependent measure.

Results

The prediction was that, when the choice fit participants' regulatory orientation, they would assign a higher monetary value to the feng shui advice than when the choice did not fit. All continuous independent variables were centered by transforming them into deviation scores (see Higgins et al., 2003). Price was

regressed on promotion, prevention, and the type of feng shui advice. The only significant effects were the two interactions of advice with promotion focus and prevention focus. The only significant effects were the two interactions (all other $F_s < 1$). Specifically, a positive interaction occurred between promotion focus and feng shui advice— $\beta = 2.01$, $F(1, 69) = 6.79$, $p < .01$ —indicating that the stronger participants' promotion focus was, the higher the assigned price in the gain-appeal advice was. Independent of this effect, a negative interaction occurred between prevention focus and feng shui advice— $\beta = -1.23$, $F(1, 69) = 8.02$, $p < .01$ —indicating that the stronger participants' prevention focus was, the higher the assigned price in the nonloss-appeal feng shui was. Only the interactions reflecting fit had significant effects on the assigned price.

To illustrate the nature of these interactions, Table 1 reports the mean prices offered by predominant promotion and prevention participants in each of the framing conditions. The mean prices were NT\$1,005—about the average price originally suggested. Participants with a predominantly promotion focus offered a higher price in the gain-appeal than in the nonloss-appeal feng shui advice—

$M_{\text{gain}} = \$1,600$ vs. $M_{\text{nonloss}} = \$950$, $t(36) = 13.72$, $p < .01$ —whereas participants with a predominantly prevention focus offered a higher price in the nonloss-appeal than in the gain-appeal feng shui advice— $M_{\text{gain}} = \$800$ vs. $M_{\text{nonloss}} = \$1,545$, $t(42) = 14.87$, $p < .01$.

Discussion

As predicted, these results demonstrate that, when the feng shui advice fits participants' motivational orientation (eagerness/promotion vs. vigilance/prevention), they were willing to pay more for it. Participants with a predominantly promotion focus assigned a higher price to the gain-appeal feng shui than the nonloss-appeal feng shui, whereas participants with a predominantly prevention focus assigned a higher price in the nonloss-appeal than in the gain-appeal.

The price assigned to the feng shui advice when regulatory fit existed was almost 82 percent higher than when no regulatory fit existed. The results demonstrate that value from fit can be transferred to outcome value.

GENERAL DISCUSSION

The Chinese belief of feng shui, which is several millennia old, focuses on the placement of items in order to affect one's fortune. Feng shui is the Chinese science and art of establishing and maintaining harmony between individuals and their environment. This harmony is created by utilizing chi, or life force, in keeping the bad forces at bay while attracting the good forces.

Meanwhile, regulatory focus theory asserts that goal orientation (i.e., regulatory focus) leads decision making and related behaviors (Higgins, 2000). Individuals can be classified according to their regulatory focus as either promotion-oriented ("promoters") or prevention-oriented ("preventers"). Promoters see goals according to their aspirations; as such, their primary strategy involves seeking out matches to these goals. Meanwhile, preventers see the same goals as obligations instead; thus, they focus on avoiding mismatches to their goals. Although the promotion focus is distinguished by an eagerness to achieve

advancements, the prevention focus is distinguished by an attention to maintaining safety.

In regards to feng shui's relation to regulatory focus theory, if an area is vitalized by good chi, natural disasters will not occur (i.e., prevention focus) and the inhabitants will prosper in both health and wealth (i.e., promotion focus). Some participants have a promotion orientation toward wealth and prosperity; that is, the goal is experienced as a hope and an ideal, as something that satisfies the need for aspiration and accomplishment. Meanwhile, others have a prevention orientation toward security, peace, and quiet in a place to live, thereby avoiding bad luck and adversity. Participants with a promotion focus value the outcome of an attainment task more than participants with a prevention focus, whereas the opposite is true when dealing with a maintenance task (Brodscholl, Kober, & Higgins, 2007).

In Experiment 1, participants were asked to evaluate the value of the feng shui advice; they demonstrated that they felt right about their positive response when it fit their regulatory focus. The evidence suggests that feng shui appeals are congruent with goals while self-concepts are more effective than those that are incongruent.

Regulatory fit theory asserts that people who engage in decisions using strategies that maintain their orientation "feel right" about their actions. This feeling-right experience then transfers to the individual's peace of mind. In Experiment 2, the experience of fit increased how right or confident people felt toward their expected performance (i.e., expecting to seek fortunes for promotion-oriented people and expecting to avoid misfortunes for prevention-oriented people). When people experienced fit, the resulting sense of "feeling right" suggested that it could further develop the level of peace of mind and self-efficacy.

The findings from Experiment 3 concurred with Avnet and Higgins' (2006) findings. The results provided an empirical demonstration, indicating that people with distinct regulatory goals (i.e., promotion or prevention focus) are willing to pay more for feng shui advice when

they choose the advice in a means that fits their regulatory focus. Thus, promotion-oriented individuals feel more right when using promotion-focused feng shui (e.g., “House redesign may improve your wealth”), which is consistent with an approach goal. In contrast, prevention-oriented individuals are more persuaded by prevention focused feng shui (e.g., “Not relocating the furniture may lead to poor health”), which is consistent with an avoidance goal. In other words, individuals have a stronger sense of “feeling right” and thus a stronger peace of mind when the feng shui advice is well-matched to the self-regulatory focus. Such distinctions are important because they suggest that goals may be distinguished in terms of the desirability of the end state. Those who look for corporate consulting tend to ask for more promotion-oriented feng shui, whereas those who look for residential consulting emphasize prevention focus.

Managerial Implications

People have long connected feng shui to locations as well as everyday events, such as births, marriages, house building, and funerals, which includes choosing relevant sites. According to feng shui, the five elements—wood, fire, metal, water, and earth—are connected to the five colors: turquoise, red, white, black, and yellow, respectively. Utilizing an individual’s birth date and time, the individual is able to determine his or her specific element and color.

Cosmetics companies have taken advantage of the feng shui concepts in their product development. Maybelline has used this information to market its eye shadows using the colors related to feng shui powers (Natural Health, 1999). For example, feng shui practitioners believe the color pink can help enhance relationships. An assembly of colors is geared to specific aspects of life or personal characteristics, and customers are advised in regards to the selection of colors based on the individual’s chi. Avon also has feng shui products, such as soaps and cosmetics. People buy products that fit their regulatory focus.

In addition, according to Geomancer, a feng shui website, the list of well-known personalities who practice feng shui includes

Donald Trump, Bill Clinton, Madonna, Eric Clapton, Oprah Winfrey, and Donna Karan. Trump consulted a feng shui specialist before building his hulking Trump International Hotel. Winfrey is purported to have worked out her chi issues with a consultant. Karan consulted a feng shui expert for her DKNY flagship store.

Well-known Western companies like the Body Shop, Mabelline, British Airways, CBS TV Studios, Motorola, Panasonic, Hyatt Hotels, Kellogg’s and Chase Manhattan Bank, to name a few, also admit to using Feng Shui officially for their businesses (Mah, 2004). Since Feng Shui is surprisingly popular in Western countries, Feng Shui consultants become a growing profession in the West; meanwhile, Feng Shui products as well are expecting a prosperous market.

Future Research

Generally speaking, marketers recognize that certain customers tend to be more risk averse than others. As such, these risk-averse customers are more likely to be prevention focused. In addition, individualistic cultures such as the United States tend to have more people who are promotion focused than collectivistic cultures such as China. Aaker and Lee (2001) also identified the impact cultural background and regulatory fit have on both memory and persuasion. Based on the phenomena addressed herein, it is proposed that businessmen prefer promotion-oriented feng shui advice while residents emphasize importance of prevention-oriented advice more. In addition, elderly people take prevention-oriented feng shui more seriously whereas younger generations prefer promotion-oriented advice. Further study is encouraged to prove this speculation.

It is possible that feng shui originated from a common-sense and practical approach to everyday situations. For example, according to feng shui, trees should not be planted directly in front of a house, as this creates blockage. However, traditionally this belief may have emerged from the common sense advice to eliminate trees so as to allow more sunlight into a house, particularly during cold winter months. As such advice is based on practicalities, focusing such attention on the architecture, general layout, and overall design

in an effort to intermingle seamlessly with ecology is clearly worth preserving.

Feng shui has both evolutionary and ecological values for selecting optimal human habitations. It grew from the idea that people are impacted by their surroundings, including the placement and orientation. Certain landscape features signal a suitable habitat that can offer the necessities of life with low risks. A history of experiences has led to the conclusion that people can utilize land formations to their benefit by screening them from weather elements (e.g., wind) or moving closer to water while preventing flooding. Indeed, many Chinese have historically connected construction the location of buildings to nature, such as the wind and water (Wang 1991). However, the natural environment has been depleted, and natural disasters have ensued. People used to think it was good to live near mountains and water; nowadays, these areas are threatened by floods and mudslides. If feng shui practices do not adapt to the modern living environment, it will be considered superstitious, thereby tainting the ancients' valuable wisdom.

Feng shui is quite similar to contemporary environmental psychology, which is the study of relationships between individual's behaviors and the environment—both built and natural. Experts in this field of study assert that certain architectural designs (e.g., lighting, color) create specific behavioral benefits. The same can be found in feng shui's understanding of the surroundings. For example, feng shui asserts that too much or too little light in a room is not beneficial—an idea that psychologists have also pointed out (i.e., individual performance improves when lighting is increased to a specific point, when it starts to decline). Similar examples can be found in aerodynamics. According to feng shui, sleeping under a ceiling beam results in ongoing tiredness and health problems; aerodynamics have shown that such beams create a small turbulence in the air current, thereby disturbing people's sleep. In addition, the hemoglobin in blood contains iron, which can be affected by the earth's magnetic field—particularly important when the fact that humans spend approximately eight hours a day in their beds is considered as the orientation of the bed can affect the impact of the magnetic

field on the individual. Indeed, scientists have proven that pigeons sense direction as a result of their hemoglobin responding to the magnetic field (Tam, Tso, & Lam, 1999). Thus, the traditional feng shui practices mentioned herein have been proven by solid scientific methods.

Ultimately, both feng shui and environmental psychology seek to create an environment that does not create tension—a place where people feel safe and comfortable. In addition, environmental psychology examines the relationships between people and their physical environments (Sundstrom et al., 1996). Thus, it is best to examine feng shui rules that lack scientific inspection as such study will bring insights to the scientific and rational approaches for the future of our dynamically built environment. Consequently, feng shui would be respected as science rather than superstition.

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ELECTRONIC FORM OF THE CONTRACT – FANTASY OR REALITY (IN THE CZECH REPUBLIC)

Otakar Schlossberger

Abstract

In the area of banking and financial services we had met the fact that the contractual relations among bank clients and other financial institutions had to have the written form of the contract according to the Act No. 513/1991 Col., Business Code. Established practice was used to make written form of contracts mostly personally between client and deputy representative of financial institution, eventually based on procuration. This practice expanded to the possibility to make contract a mile off or to make adoptable identification of dates being used as verifying of concrete person.

It follows clearly that the contract about current account which will be the contract about payment services hasn't to be made in the written form. The contract form is afterwards treated with the Act No. 284/2009 Col., about payment system in § 78 which solves the providing or accessibility of information to the user of payment services. Information providing is considered the fact that information "reach the user recorded on the everlasting data medium". Practically it means that the paper form of the contract can be also replaced by electronic form. This way the law has made the breach to the still keeping written form of the contract in the area of banking, resp. financial services. The contribution will just deal with the question of using of this possibility in practice.

Key words: *written contract, providing of information, act about payment system, everlasting data medium.*

In the area of bank and financial services we can see the fact that the contractual relations between clients of banks and other financial institutions must have the written form according to the Code No. 513/1991 Coll., Commercial Code. In practice we are used to make the written form of contract mostly in the presence of client or its representative and operator of financial institution who is allowed to make the respective legal action. In 2008 this practice has been extended to the possibility of making a contract about banking product remotely.

Is it possible according to the current legislation to think of the eventuality to make a contract through electronic communication? I try to find an answer to this question within one area of financial market. This area is the providing of

financial services.

In 2009 the law about payments was published which is a reflection of the Direction of European Parliament and Council 2007/64/EC about the payment services in the internal market. The law about payments has introduced some new titles which have not been used until that time.

There are especially such categories as, for instance, "payment services", "payment account" or "provider of payment services". Transposition of this Direction has created from the area of payment system the wider platform to make business which had been permitted to banks only, eventually to savings and credit cooperatives. Today the payment services can be provided also by other subjects who can be called as "providers of payment services". They are apart from the above mentioned banks and credit cooperatives also payment institutions or providers of payment services of small range. According to my opinion this way the first base

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has been done for other changes. As the number of providers of banking services has been enlarged it was necessary to treat the legal relations, too. The law about payments presumes that the providing of payment services can be captured by the contract about providing of payment services in two versions:

- Contract about single transaction
- General contract

The provider can use the single contract in case of single using of payment service without direction of payment account. General contract will be used in case of using of payment services more often including direction of payment account. But the laws about payments do not say anything about the contract form. For legal solution of contract form we use the law which is more universal, it means commercial law. This law says in Paragraph 708, Article 2 that the contract about current account must be in the written form. But can be the payment account according to the law about payments considered as the current account in sense of Commercial Code? We can find the answer to this question in the following law.

In connection with publication of the law about payments one law has come into force. It is the Act No. 285/2009 Coll., which in connection with publication of the law about payments changes another 22 laws of Czech legal order.

This amendment in its part VI, Point 3 says the following: **“Para 708 Article 2, Para 709, Articles 1 and 2, Para 710 till 714 and Para 715, Articles 1 till 3 can not be used for the contract about current account as this contract is the contract about payment services according to the law about payments.”**

From this assignation we can deduce that if the provider of payment services keeps a current account to the client from which the payment services will be provided then this account can be considered as the payment account in sense of the law about payments because the legal relationship is done by the set rights and duties resulting from the law about payments. We can talk about the current account only with providers who are banks or savings and credit cooperatives. The current account is the account for money deposits at sights, so-called hot money in sense of the law about banks or

the law about saving and credit cooperatives. Hot money can serve as shelter for payment services realization. Payment account is not a deposit account according to the law about payments. It is possible to see it as “the registration account” where the payment institutions or other nonbank provider of payment services captures the monetary remedies serving to its owner – user of payment services for providing of payment transactions. Both bank as well as nonbank providers must keep the same rights and duties towards their users which are connected with current or payment account. As the legislator has set that the written form of the contract of the current account is not necessary if it is simultaneously the payment account (it is almost always), it is possible to deal with contract differently. This kind of contract is treated by the Act No. 284/2009 Coll., About Payments, Para 78 where are solved providing or access of information to the user of payment services. As providing of information can be considered the fact that information “meet the user captured on the permanent data carrier”. It practically means that the paper written form can be substituted by electronic form. That way the law has made a breach to still holding written form in the area of banking, or financial services.

Further I will deal with the question how to use this possibility in practice.

In concluding any contract it is necessary to make proper identification of contractual parts. We use so-called form contract in banking, so bank or other subject providing financial services, is entitled and required to make proper identification. How to make it, it is mentioned in the Act No. 253/2008 Coll., about some measures against legalization of revenues from criminal activities and financing of terrorism. Identification of client of bank or other financial institution is then the instrument to establish the rules to dispose of given financial product, in our case payment account. Current practice in most of banks and financial institution confirms that any first contract between clients of bank or other financial institution is made in written form, and even in such products like internet banking or other electronic application. After concluding a

contract, bank or other financial subject passes on client the user passwords and codes to electronic communication access. Basically it concerns the fact that this step would not be done by the client. According to my opinion the law about payments does not allow to conclude the contract so that all rights and duties and other obligatory requirements could be captured and provided on permanent data carriers by the means of electronic communications. This contractual relationship could be indicated as “electronic contract”. This method would be certainly advantageous for many clients, especially corporate, but also private innovative persons or small businessmen.

In order to secure legally based sufficient identification of the respective subject who is entitled to conclude the contract, it must demonstrate the certified authentication documents. The electronic signature could be either this instrument or secure electronic signature in form of qualified certificate by which draft contract about payment account would be provided. Qualified certificate can be used first of all in citizens’ communication with state and local authorities, as well as for commercial application.

The internet application as well as data deposit box can be used as a suitable mean of electronic communication. I view that for opening of financial services computerization, specifically contract of payment account; it would be possible to use current legal possibility given by the Act No. 227/2000 Coll., about electronic signature, Act No. 308/2008 Coll., about electronic operations and authorized conversion of documents using Act No. 21/2006 Coll., about copy of the attestation of conformity or copy of the documents and authentication of signatures.

Advanced electronic signature is characterized according to the law about electronic signature in Para 2, Letter b) as follows:

“Advanced electronic signature is such electronic signature which meets the following requirements:

1. It is clearly connected with signature person,
2. It allows identification of signature person in relation to data message,

3. It was created and connected to data message by means of which signature person can keep under his exclusive control,
4. It is connected to data message which is related to in such a way when it is possible to find any successive data changes.”

Data deposit boxes are according to the law the inform system of public administration but they can be used for commercial purposes as well. Thanks to computerization of information, data deposit boxes change the method of delivery (receiving and administration) of official documents. By data deposit boxes it is possible to send and receive documents through electronic way. Mostly there are documents transferred from paper form to electronic form. It is so-called authorized conversion of documents. This way of communication - through data deposit boxes – replaces classical form of delivery in paper form because the law about data deposit boxes equalizes paper and electronic version of delivered document.

Data deposit boxes are opened up to public authorities and legal entities automatically, to the others on request.

For example, data deposit box is opened up by the Ministry of Internal Affairs on request of the individual person with legal capacity free of charge till 3 working days from the date of application.

In case of contract about payment services it would be possible to imagine the situation when bank on client’s request send him electronic pre-filled contract about payment services. Client would fulfill all his identifiers according to his identity card, then he would insert electronic document into the enclosure of his data message, supply it by electronic signature and send it to data deposit box of the respective provider. If the message has been supplied by electronic signature we can suppose that it had been signed by the person mentioned in contract. However, practice makes a lot of combinations how to set up legal action in bank or other provider of payment services. Often it is necessary that two members of the Board do these legal actions or legal actions are done based on Power of attorney or something like that. In case of paper

contracts there are no problems therefore as we can suppose that electronic form of signature to be soluble in several variations. At the beginning of computerization this could make some problems especially with a review of qualified certification at the moment when it loses force. I am sure that this problem as well as other issues which could arrive with using of electronic signature and data transfer by data deposit boxes will have been overcome very fast. But it is necessary to begin with this practice within financial sector as soon as possible. The area of payment services is the most convenient for it.

Sources

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CAPITALIZING ON SOCIAL MEDIA TO UNLEASH THE NETWORKED KNOWLEDGE OF A COMMUNITY OF PRACTITIONERS

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Abstract

There has been much debate on the impact of social capital in facilitating communication between individuals and groups both offline and online. The benefits of social communication are innumerable in terms of fostering a greater degree of understanding between individuals and parties. This research builds on the previous building blocks of social capital by proposing a novel framework that contextualises social cohesion through social media. The findings are based on observational research in a number of automotive workshops. This industry was selected as a recent European directive requires manufacturers to provide information on vehicle repair and maintenance. Consequently, there is a growing network of communities of practices (NoCoP) that have grown out of the physical connections which are now operating in a virtual environment exchanging knowledge through message boards.

A qualitative approach, to investigating the topic, permitted a rich tapestry of findings to surface that provide a greater appreciation of how social communication is taking place in social media. The findings have permitted for a conceptual framework to be developed that challenges the current perception of social engagement. This has major implications for organisations hoping to capitalise on social media to engage their communities and develop a distinct knowledge advantage.

Keywords: Social Capital, Social Media, Network of Communities of Practice, Automotive Industry

Introduction

While knowledge sharing has been a commonly used term in organizational development focusing on interpersonal communication and social cohesion in a team, social media tools have elevated this form of communication to facilitate a portal of transparent dialogue that replaces disparate and disconnected conversations widely present in the automotive industry.

The Internet has evolved rapidly over the last 20 years. The world has never been more connected than in our time. The key to these connections lies in the development of social media as a feature of online communication. While interconnected networks have existed since 1969, as part of the US military ARPANET programme to ensure communication between military sites in the event of an attack, the acceptance of online social media became

popular in the late 1990s and exploded from 2004 with the arrival of Facebook.

The technological revolution was catapulted in 1989 by Tim Berners-Lee who developed the basics of the world wide web at CERN which published the first hypertext service online on August 6th, 1991 (Berners-Lee, 1991). Since the 1990s organizations and individuals have come to realise the opportunities the Internet brings to commerce, education, entertainment, communication and social interaction.

Social Media

In 2011 over 77 percent (28 million) German households had direct access to the internet (Statistisches Bundesamt, 2011). There are 50.7 million active internet users in Germany of whom 90 percent (45.4 million¹) belong to a social network (comScore, 2011). Worldwide comScore fixes the number of social networkers

¹ from the age of 15 years

at 1.2 billion (86 percent of the world's online population) in 2011. The emergence of social media can also be demonstrated by the time people spend engaging with the medium. In comScore's social media survey (comScore, 2011) social networking was ranked as the most popular activity that users engaged in and accounted for 19 percent of time spent online. In actual minutes the results indicated that almost 12 minutes of every hour are spent on social networking online². The rapid growth of social media is a global cultural phenomenon that goes beyond boundaries. While the US has a 98 percent penetration of social networks on their internet environment, Germany's has 90 percent (comScore, 2011). Classical social networking sites such as facebook, LinkedIn, Xing shape today's market of virtual socializing and communication. New trends like microblogging (Sina Weibo, Tumpler, twitter) are proving popular platforms with an increasing number of online users. Information that, only 20 years ago, was delivered by radio and TV now travels in real time and is available to the global online community.

Automotive industry

The automotive industry, especially the automotive after sales business, in the field of diagnostics has been growing over the last few years. EU- regulations such as the EU5/6 have made the diagnostic business a focus for not only the independent aftermarket (IAM) but also the original equipment manufacturers (OEM) and original equipment sales (OES). With the improvement of the overall quality of cars, the average age of a car in Germany is 8.5 years (Hecker et al. 2009). The positioning of more electronic control units due to more sophisticated electronic devices inside the modern vehicles, attribute great importance to automotive diagnostics and thus the resulting repair processes. This is why automotive diagnostics are gaining more and more importance in the repair process and the automotive after sales business. Using social media, in the field of professional automotive repair is a natural evolution of communication in this field to not only foster knowledge exchange and sharing among professionals but

² In 2007 it was only 6 percent

also to retain knowledge and metadata to better penetrate the market which again results in a competitive advantage.

In Germany the repair forum landscape can be divided into three main groups. Single brand communities, tune- up communities and multi-brand communities. Single brand communities; community sites with forums or bulletin boards have their focus on one single brand (e.g. BMW Syndikat) or even only focus on a certain model of a single brand (e.g. VW T4 Forum), while multi-brand brand communities have a forum landscape that are divided according to vehicle brands and in sub ordered hierarchies into models of the respective brand (e.g. motortalk). These communities enjoy a high level of postings of new topics every day. This can be compared to the popularity of the third group that is formed by tune-up forums. Here social media shows its facets by members posting pictures and videos of their modified cars and reviewing them within the discussion boards. Technically all of these three groupings apply the same structure and programming and are thus only differing in user generated content (UGC) that these groups generate.

OEM, OES and IAM are keen to capitalize on social media in order to gain all the advantages that arise from UGC and the wisdom of the repair crowds. Social capital involves expert knowledge being generated on a vehicle which is a highly complex product and culturally enjoys a high level of relevance in Germany due to its large manufacturing base.

The question of how the professional environment of automotive repair and diagnostic workers engage in social media and the composition of an engagement model is the topic of a further research in the field of knowledge management.

Web Forums and discussion boards in automotive repair

Online forums are an often used social media tool for acquiring help and support or quick answers to questions and new problems that arise in a certain field of interest. The power of the collective intelligence makes this tool indispensable for gaining quick response to urgent issues. Most internet users are familiar with forums that offer discussion boards for

posting questions and answers. These forums all have a special target audience that gather around one common interest. Social Media discussion forums today include topics of every imaginable aspect of common life but also educational and professional subjects. The latter is the case in automotive repair topics where social media tools are widely used to support private but also professional repair processes. Discussion forums often combined with bulletin boards are gaining more importance in the context of knowledge management and social capital. Social capital is present between individuals and can be accumulated by extension. Extension however, is only possible through interaction resting on the premise that “my connections can help me” (Cross and Cummings, 2004; White, 2002, p. 260). Consequently, as people share and exchange information, experiences and opinions on certain processes and products, web forums not only gather implicit knowledge and make it explicit by virtually publishing it, but also they make firms understand the demands of the market as well as new trends and developments. Metadata generated, as well as data composed by users become a valuable asset not only to the provider of the platform, who can sell or use it for production matters, but also for other stakeholders who rely on user generated content (UGC) for strategic and sustainable planning purposes (OECD, 2007). The social aspect, within these for a, facilitating exchange of knowledge that takes place openly which results in the general public being able to access and contribute to topics and generates social capital by expansion and combination of given information and data. The idea of social capital gathered in a forum of automotive experts is a new approach in social media (Blanchard and Horan, 2000). The challenge for the automotive industry is how do they capitalize on social media by retaining expert knowledge, in the field of repair through linking physical communities of practice (CoP) to virtual communities for knowledge exchange is a challenge for the industry but also for the researcher. The combination of physical CoPs in a virtual community network of the same (i.e. many connected by the internet) would result

in a network of communities of practice (NoCoP) where automotive experts exchange their repair and diagnostic knowledge building a knowledge pool everyone can refer to for support.

While the architecture of social media forums is fairly simple the task as to how to create traffic to these platforms and fill them with UGC is the real question of concern. Engagement has to be created that conditions the understanding of the target audience and its motivational circumstance.

Participant Observation: The professional landscape of automotive repair

In order to create engagement in social media the target group has to be understood in its special behaviours and styles of interactions. A research design for conducting an overt participant observation has been developed that considered a wide body of literature on the topic of knowledge sharing motivation. Motivational factors found in literature were identified and tested randomly selected German repair shops for a week. The researcher evolved from an observing participant to a participating observer and thus was able to immerse into the environment of the observed. Data was collected in the form of field notes and reviewed at the end of the day to identify motivational factors that facilitate the construction and strengthening of social ties. Participant observation, in this research design, is the foundation for further research that will seek to triangulate collected data and interaction patterns to develop a rich and deep understanding of motivational factors that influence the development of social capital in a professional automotive mechanic environment.

Motivational Factors for knowledge sharing

The motivational factors had been collected in an extensive literature review. The participant observation is the first stage of a triangulated research approach and was employed to identify new motivational conditions as well as confirm previous findings on building social capital. The conditions of relevance were put in a checklist (see Table 1).

Table 1: List of Conditions for knowledge Sharing Motivation according to authors

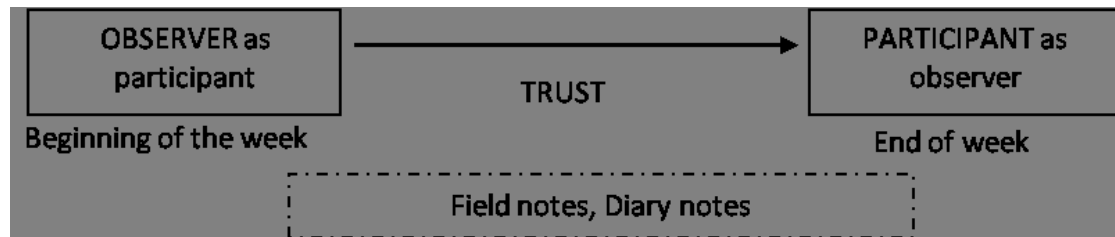
Conditions for knowledge sharing	Author
Trust	Majewsky et. Al 2011 McNichols, 2010 Holste and Fields, 2010 Willem and Buelens, 2009 Usoro et al. 2008 Usoro et. al. 2007 Chiu et al. 2006
Perceived benefits	Bock et al., 2006
Reciprocity	Lin et al. 2009 Bock et al., 2006 Chiu et al., 2006 Ipe, 2003
Community Cohesion	Holste and Fields, 2010 Chiu et al., 2006
Organizational supervision and the provision of incentives	Lin et al., 2009 Bock et al., 2006
Perceived relative advantage of knowledge sharing	Lin et al., 2009

Typical components of Trust Theory were looked for in interaction. These components were integrity, repair competence and benevolence within the interactions regarding repair tips or hints. Bock (2006) talks about perceived benefits, which were bound to reward systems and incentives, reputation within the automotive workshop as well as integrity and competence and benevolence (see: trust). Norms of reciprocity and perceived reciprocity were widely discussed while community and cohesion mostly gained importance in white collar environments. Social ties and social networks as well as social relationships in the repair shops were observed and described. The author investigated the condition of organizational supervision which involves knowledge sharing efficacy, control and supervision by the master craftsman, responsibility for promotion and incentives as well as the perceived relative advantage of knowledge sharing (Lin et al., 2009) during the observations.

Participant Observation

The observations took place at the automotive workshop and involved an unstructured approach. The target audience had been briefed of the motives and reasons of this research prior to the commencement of the observations. Participant observation enables the researcher and participants to develop a rapport and trust that is needed for participants to reveal the “backstage realities” of routines that are not accessible for outsiders. The participant-as-observer as well as the observer-as-participant takes on a social role (Wolcott, 2005). This role, according to Wolcott (2005) helps field researchers to obtain insights and achieve what only observation can do. Evolving from an observing participant to a participating observer was vital in gathering a high level of quality data. The following scheme was applied in order to immerse the observer into the repair workers environment and to obtain first hand information regarding the knowledge sharing conditions.

Figure 1: Participant Observation Scheme



Observation Results

The results of the observation showed a wide range of the conditions for knowledge sharing motivation. The conditions have been discovered by listening and observing conversations and physical actions occurring in the work place of the automotive mechanic.

Regarding trust all elements were proved to have a presence in the automotive workshop. Integrity is present when advices by the master craftsman (MC) is not put into question but is held for right by the sub ordered mechanic. The trust is demonstrated in respectful listening to advices and obeying orders that concern repair processes and thus reflect a high level of competence of the MC, who in turn never holds back on sharing knowledge with his co workers but benevolently shares and communicates the right way of repair or easier ways of approaching certain repair issues. Integrity, competence and benevolence are also elements of the perceived benefits influencing the way the MC reward their employees. This happens verbally by telling the mechanics that they “did a great job” or “Well done”. Direct incentives could not be observed but can be deducted by the verbal rewards from the MC, a more experienced person, who by rewarding the co-workers sets immaterial incentives that could be intrinsically motivating. Mutual support has been observed throughout the different repair shops. Mechanics help each other in difficult situations not only physically by holding or providing certain tools or stabilization, but especially by confirming certain repair measures by verbal interaction. An often observed phenomenon was that the mechanic in charge of a certain repair asked his colleague mechanic directly if the problem he encounters could be due to e.g. the oxygen sensor: “Can this be the oxygen sensor?” which was mostly answered with counter questions building a verbal diagnostic checklist: “Maybe , but did

you check for the electronic signal lamp?”

Through verbal reciprocated diagnostic support the repair process was eventually completed. The high level of reciprocity comes with a high level of team spirit. Thus the community was observed on a high level. Not only are there rooms for common breakfast and lunch and coffee breaks that are highly frequented but also the work atmosphere can be considered as easy going with a lot of interaction and telling about personal encounters. The social ties are narrow whereby employees talk about their weekends, about the repair that has taken place last week and how it was finished. Also there is a lot of story-telling when it comes to a complex repair procedure, such as opening a whole diesel engine. The repair staffs act as a community approaching difficult repair issues. Mechanics know who they have to consult when there is a question of a certain nature. This is not always the MC but also mechanics with more experience. In all workshops the employees know each other by first name and approach each other in a direct manner taking time to understand and support each other to complete their tasks. Social cohesion is shown by supporting comments: “I would do it this way!” and then overtaking the work while the other watches and learns. The community works together and is very focused on its workload which in some cases underlies a strict timeframe.

For example the change of motor oil must only last an hour. These *Arbeitswerte* so-called “values of work” are defined by workshop authorities and are essential for the creation of invoices as they provide the factors for the price of an hour of work spent in repair. While organizational supervision is given by the MC there are no real incentives visible in the environment. Clear timeframes are also given for heavy repair steps and are extended if not completed on time. During heavy repairs more

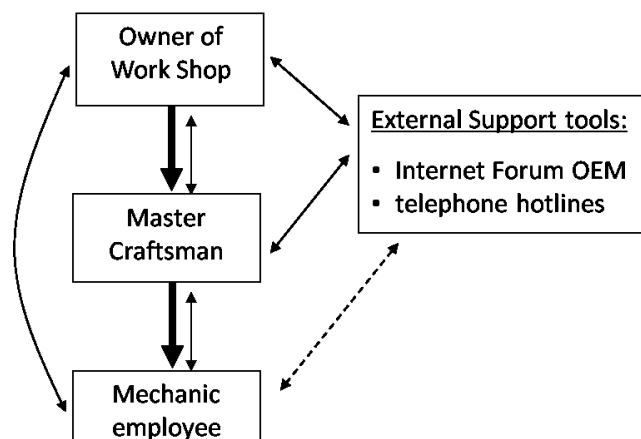
attention is paid to the mechanic by MC and workshop owner providing support and giving verbal hints of how to proceed and discussing their experiences in these kinds of processes. Sharing their knowledge is a constantly occurring phenomenon during all the point of the checklist. In some occasions observed there were repair steps that could not be completed successfully. The mechanic communicates this to his MC, who then, if not able to fix the repair himself, consulted the internet or a telephone hotline linking directly to the commercial providers of diagnostic tools or the OEM. These hotlines as well as internet forums always provided the information needed to complete the tasks and finish repair to a satisfactory level. Previously to consulting these tools, the MC had asked within his physical automotive repair community or approached mechanic staffs that he held capable of knowing as they had already conducted such repair. What the observer noted after these processes of acquiring external support was that the MC in all cases informed his mechanics of how the problem

had been solved and repair had to be conducted. He communicated the outcome of the hotline or internet research to the group, sharing knowledge and providing the basis for quicker repair.

Conclusion

The workshop itself is the environment of a community of practice (CoP) that is made up of mechanics in a certain hierarchical construct, where there are clear top-down structures to be observed. However there are bottom-up tendencies when it comes to questions and knowledge exchange through verbal interaction. These bottom-up ways of interaction are extended by external means of support such as internet in form of public repair forums or private telephone hotlines provided by either OEM, OES or IAM which are very time intense. External support is mostly acquired through MC and workshop owners as the employee as to complete his workload. There are knowledge and information flows between all the parties.

Figure2: Automotive Workshop Hierarchy (thick arrows) and knowledge flows (thin arrows)



The field of automotive repair is a field of experts, where expert knowledge is dealt with. This often happens in a narrow timeframe. Velocity in repair is a factor that can influence the use of social media with in this environment. Furthermore workshop community is a biosphere in itself, where members are tied together by common repair experiences. However also harmonic tendencies among same hierarchical levels are observed, which can be considered a shallow friendship.

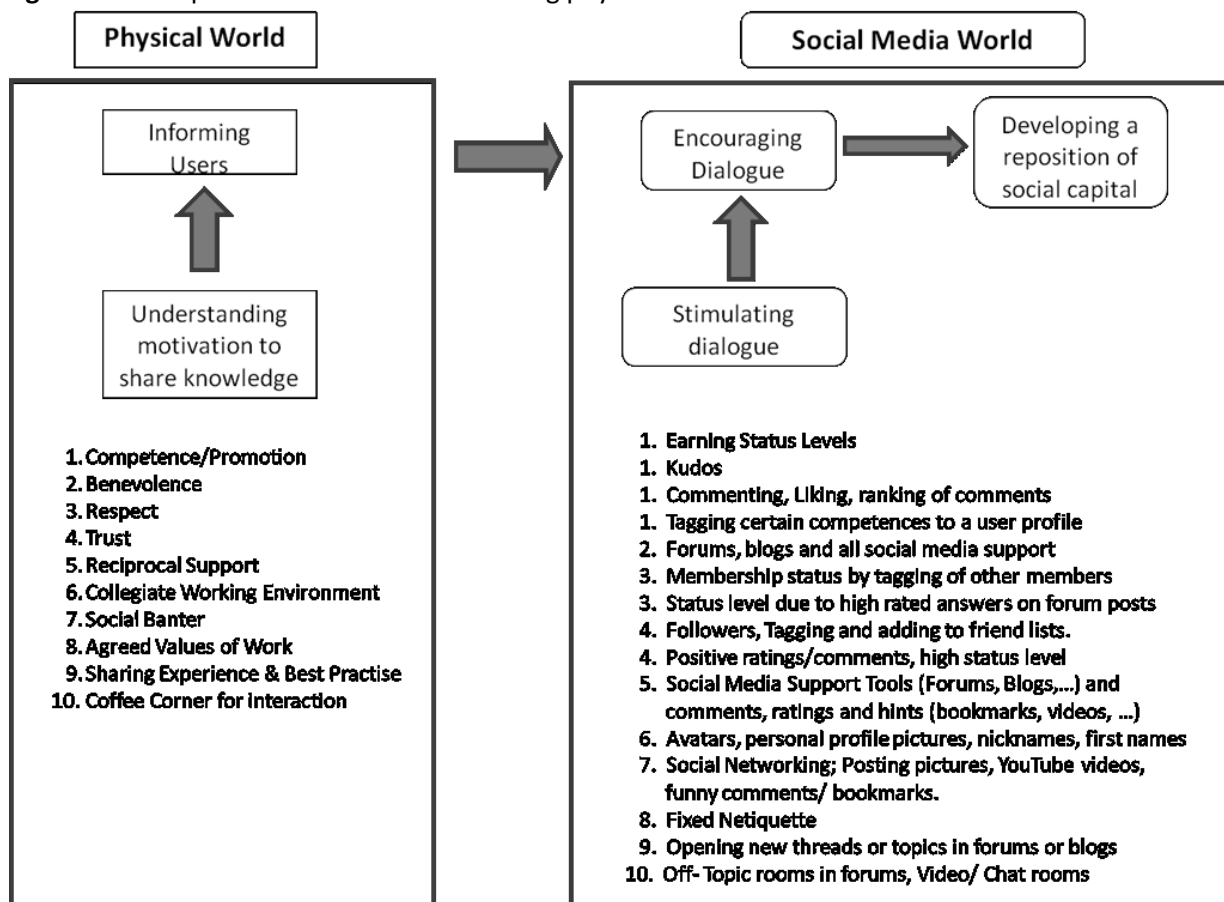
Mechanics interact on a personal basis, and even tell private things about themselves which further social ties and involves the individual into the community. Repair issues that are approached by the mechanics as a team (e.g. difficult change of engine) create common experiences and thus relatedness among the parties. This network cohesion in part seem to be based on the trust and competence among the network member while the latter was could be observed as an asset that experienced,

therefore often older staff or the MC, obtain. Generally the environment is a very altruistic one, where people of one community deal openly with their repair knowledge and information. The major aim is to complete repair quickly and in the way that warranty can be granted again. Mechanics share and exchange experiences using story telling approaches and a question answer pattern (“Why don’t you try it this way?”) or giving hints (“Use the 12 inch hose for fixing the brake system, it always worked!”). The network of one single physical workshop is a well working biosphere in itself. Community cohesion, trust and reciprocity in repair are given. Typically these conditions are needed to make this target group to engage in social media platforms. Therefore the idea of a NoCoP needs further research in the context of knowledge sharing motivation. Theories such as Deci and Ryans (1985) Self Determination Theory and Ajzen’s

Theory of Planned Behaviour (1991) are considered after the conduction of expert interviews and questionnaires for the confirmation of motivational factors as well as conditions for knowledge sharing. Triangulation is considered indispensable for the further research to obtain more detailed data for the creation this new space (NoCoP) where repair mechanics can interact with their physical and virtual neighbours in social media.

The findings from this research has resulted in the development of a visual framework that captures the main elements that facilitate social capital both offline and online (see Figure 3). The physical world presents the observed while the key factors having been tested positively on spot are mirrored in the virtual world by the possibilities provided through social media tools and features.

Figure 3: Conceptual Framework of translating physical factors into the world of social media



This model forms a basic concept for further research and depicts the fact, that essential social interaction forms of the offline world can

be translated into a virtual automotive repair space.

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CONSUMERS' SUPPORT FOR CSR AND ITS EFFECTS ON LONG-TERM RELATIONSHIPS WITH A SOCIALLY RESPONSIBLE COMPANY: A CASE OF THE LITHUANIAN BANK SECTOR

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Abstract

This study aims to reveal the phenomenon of consumers' support for CSR and to investigate its effects on long-term relationships between consumers and socially responsible companies.

Different benefits for companies, engaged in socially responsible activities, are analyzed in scientific literature. However a positive effect of a company's involvement in CSR initiatives on consumer behaviour should be considered as the main benefit, which bases the purposefulness of this process.

It is argued in this article that CSR initiatives are beneficial for a company only when they are meaningful and create additional value to consumers, i.e. when consumers support such company activities. There are different factors related to a company and a consumer, which impact the level of support, and studies show that consumers' responses to CSR initiatives are not completely evident and clear. It is discussed in this article that reasonable and proper implementation of CSR initiatives is related to the creation of long-term relationships with consumers. They are defined as future intentions and verbal communication. The interpretation of quantitative research results reveals the main effects of bank consumers' support for CSR on long-term relationships with Lithuanian banks.

Keywords: CSR support, long-term relationships, Lithuanian bank sector.

Introduction

Significant changes of business environment have been observed recently. The economic crisis and increasing competition in different markets impact activities of companies as well as the shift of basic values and attitudes of the society. Nowadays sustainable development, i.e. a compromise between environmental, economical, and social objectives of the society, is inevitably essential in order to reach the well-being of present and future generations (Payne and Raiborn, 2001; Karna, Hansen and Juslin, 2003; Ciegis, Ramanauskiene, Startiene, 2009). This situation causes companies to undertake an environmental transformation process with the purpose of reducing the negative externalities that result from their economic activity (Fraj-Andres, Martinez-Salinas and Matute-Vallejo, 2009) and to engage in initiatives, which generate positive benefits for the society. An

increasingly widespread view exists that there is a business case for socially responsible initiatives (Piercy and Lane, 2009). This fosters companies, acting in different business sectors, to engage in CSR initiatives more and more often (Pirsch, Gupta and Grau, 2006). From the other side, Mohr, Webb and Harris (2001) state that there is a lack of scientific information on what consumer needs must be satisfied, how and to what extent it must be done in order to reach the positive effect of CSR implementation. Many companies do not have sufficient comprehension about their consumers' expectations regarding CSR (Piercy and Lane, 2009). Nevertheless, the benefits for a socially responsible company could be characterized by changing consumers' evaluations and purchase intentions of company products (Webb and Mohr, 1998; Tian, Wang and Yang, 2011). Literature analysis shows that the level of consumer support of a company's CSR initiatives is the factor, which determines consumer intentions

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regarding that company and its product(s) (Bhattacharya and Sen, 2004). However there is limited research to determine if consumers actively support responsible conduct of companies (Ferrell, 2004). It is even more complicated to determine the longitudinal effect of corporate social responsibility. Different scientific approaches to this phenomenon reveal that consumer responses to CSR initiatives are still not clear enough and require further theoretical as well as empirical researches.

Considering all the mentioned aspects the **scientific problem** of this article is formulated as the following question: what is the effect of consumers' support for CSR on long-term relationships with socially responsible companies?

The **objective of this article** is to reveal the phenomenon of consumers' support for CSR and to investigate its effects on long-term relationships between consumers and socially responsible companies in the case of the Lithuanian bank sector.

Research methods: systematic and comparative analysis of scientific literature; quantitative research – questionnaire survey.

Consumers' support for CSR as the indicator of their responses to a company's CSR initiatives

CSR initiatives, performed by a company, can create value for its consumers, which influence tangible long-term financial results and give benefits to the society as a whole (McWilliams and Siegel, 2001; Bhattacharya and Sen, 2009; Piercy and Lane, 2009). Scientists argue that the success of a company depends on its abilities to create meaningful, sustainable, and unique value to one of the most important stakeholder groups – its consumers.

Although different benefits to socially responsible companies are distinguished and analyzed in scientific literature (Piercy and Lane, 2009), Pirsch, Gupta and Grau (2006) state that from the point of view of a company the purposefulness of CSR implementation could be reasoned mostly by the positive effect of CSR on consumer behaviour.

CSR initiatives should be treated as a company's attributes, which are meaningful only in case they deliver relevant values to consumers (Bhattacharya and Sen, 2009), i.e. when

consumers support such initiatives. Piercy and Lane (2009) summarize that there is a link between a company's CSR initiatives and consumer responses in attitudes, beliefs, and behaviours. According to Podnar and Golob (2007), Bhattacharya, Korschun and Sen (2009), empirical researches show that consumer responses even to a certain CSR initiative are very different; every person evaluates such initiatives differently. Although companies often expect positive effect of large-scale CSR initiatives, such result cannot be guaranteed, because consumer reactions are not straightforward and evident (Bhattacharya and Sen, 2004). From the other side, as Pirsch, Gupta and Grau (2006) state, consumers make judgements of CSR initiatives more holistically. Even those programs, which are oriented not directly towards consumers but to other stakeholder groups, can have positive influence on the level of consumers' support for CSR. Moreover, scientific evidence shows (Sen and Bhattacharya, 2001; Piercy and Lane, 2009) that consumers punish irresponsible companies more often than award those, which are responsible. Summarizing all of the above-mentioned aspects, it could be stated that the phenomenon of CSR support is treated as one of the possible ways to evaluate consumer reactions towards a company's CSR initiatives (Bhattacharya and Sen, 2004).

CSR support is related to the congruence between a consumer and a socially responsible company. Those consumers, who support CSR initiatives, tend to perceive higher congruence between them and a company (Sen and Bhattacharya, 2001; Marin and Ruiz, 2007). When CSR initiatives are important to target consumers (high level of CSR support), they use CSR as a purchasing criterion (Auger, Devinney and Louviere, 2007; Webb, Mohr and Harris, 2008).

There are numerous factors, which influence the level of consumers' support for CSR. They are manifested both at organizational and consumer levels (Bhattacharya and Sen, 2004; 2009). Pomering and Dolnicar (2009) emphasize that consumer awareness in the field of CSR is an important factor, which determines the level of CSR support. In this

case information could be treated as the main criterion for the rational choice. Tian, Wang and Yang (2011) argue that there are four steps in which consumers get involved when analyzing CSR information, namely, they notice CSR information, evaluate fairness of CSR initiatives, reason or attribute CSR information to certain companies or their products, and make behaviour or purchase decisions.

Podnar and Golob (2007) argue that consumer responses towards a company's CSR initiatives are affected by general beliefs and expectations of CSR. McWilliams and Siegel (2001) distinguish the key determinants of the demand for products with CSR attributes, such as product price, advertising to promote consumer awareness of CSR attributes, the level of consumers' disposable income, consumers' tastes and preferences, demographics, and the price of substitute products.

The longevity and consistency of the implementation of CSR initiatives are very important and influence the level of consumer support for CSR as well (Mohr and Webb, 2005). General consumer awareness of socially responsible issues (Lacey and Kennett-Hensel, 2010) and even personal involvement in CSR activities (Sen and Bhattacharya, 2009) are factors, which affect the level of CSR support. Long-term CSR initiatives tend to increase consumer knowledge in this field and to reduce their scepticism (Lacey and Kennett-Hensel, 2010).

Increasing consumer expectations regarding CSR pressure companies to behave and communicate in a responsible manner (Golob, Lah and Jancic, 2008). Consumers tend to incorporate their expectations regarding CSR into their behaviour towards companies (Maignan, Ferrel and Ferrel, 2005). The responsiveness of consumers depends on the support level of companies' CSR initiatives, i.e. on the congruence between consumers' expectations and the structure of companies' CSR initiatives (Podnar and Golob, 2007).

Antecedents of long-term relationships between consumers and socially responsible companies

Various authors analyze the effects of CSR initiatives on consumer decisions and attitudes

differently. On the other hand, numerous researches substantiate the notion that properly implemented CSR initiatives lead to the adoption of customer relationship marketing (Luck, 2006). It should be noted that researchers, who analyze the effects of CSR initiatives on relationships between a socially responsible company and its consumers, distinguish and emphasize different antecedents of long-term relationships.

Many authors, including Ranaweera and Prabhu (2003), Egan (2000), Liang and Wang (2007), Caceres and Paparoidamis (2007) and others, traditionally analyse consumer satisfaction, trust, and commitment as the antecedents of relationship longevity. We will analyze all these antecedents separately, emphasizing their expression under the effect of CSR support.

Satisfaction

Satisfaction, as defined by Egan (2000), is a psychological process of evaluation of perceived activity result based on preconceived expectations. As satisfaction mainly depends on preconceived expectations, it is possible to state that consumer satisfaction with products of socially responsible companies depends on their requirements not only for the product, but also for CSR initiatives. Belz and Peattie (2009) also agree with such proposition while stating that satisfaction is not only a function of price and quality, but also the result of meeting advance requirements of consumers. Luo and Bhattacharya (2006) give evidence that CSR affects consumer satisfaction, which in turn affects a company's market value. They provide three approaches, indicating the reasons why a company's CSR initiatives lead to greater consumer satisfaction. The first approach is based by the fact that the majority of consumers are members of various stakeholder groups. Having in mind that different CSR initiatives are oriented towards different stakeholder groups, consumers tend to be more satisfied by products and services of socially responsible companies. The second notion is related to consumers' identification with socially responsible companies. And the third approach summarizes factors, which

influence consumer satisfaction with a socially responsible company: perceived value and consumer knowledge (Luo and Bhattacharya, 2006).

Trust

In scientific works trust is usually associated with credibility as the main source of trust (D'Souza, Taghian and Lamb, 2006; Belz and Peattie, 2009). Lacey and Kennett-Hensel (2010) uses Morgan and Hunt's (1994) suggested description of trust: "trust is the consumer's belief that the company is reliable, stands by its word, fulfils its promises, and is sincere".

Pivato, Misani and Tencati (2008) believe that the first result of a company's CSR initiatives is consumer trust. If a consumer perceives a company as being socially responsible, he or she feels a higher level of trust in that company and its products (Piercy and Lane, 2009). Consumers' trust in the fairness of a company's CSR initiatives affects how they evaluate the company and their purchase intentions (Mohr and Webb, 2005). Thus, trust is the mediator between consumer perceptions of CSR and behavioural intentions (Pivato, Misani and Tencati, 2008). When a company engages in socially responsible initiatives and consumers support such activities, consumers' trust should be enhanced (Lacey and Kennett-Hensel, 2010). Trust is considered to be one of the most important and immediate reactions of consumers regarding CSR initiatives (Pivato, Misani and Tencati, 2008) and could be treated as the central factor in measuring the effectiveness of CSR initiatives (Lacey and Kennet-Hensel, 2010).

Commitment

Wetzels, Ruyter and Birgelen (1998) define commitment as the most advanced phase in relationships with consumers determined by interdependence. Assiouras, Siomkos, Skourtis and Koniordos (2011) mention consumers' commitment as one of the benefits of a socially responsible company. According to Lacey and Kennet-Hensel (2010) commitment can be the direct outcome of congruence between a company's activities and consumers' expectations, as well as mediated by consumer trust. A high level of consumers' support for CSR

leads to consumer-company identification. This identification, according to Perez (2009), affects consumer commitment with the socially responsible company, i.e. emotional attachment towards the company. This attachment expresses a consumer's desire to maintain his or her relationship with the company (Lacey and Kennett-Hensel, 2010).

Long-term relationships as a result of consumers' support for CSR

According to Bhattacharya and Sen (2004) CSR initiatives should be interpreted as a means for strengthening relationships with consumers. They have a considerable influence not only on brand purchase, but also on other more relational behaviours, such as word-of-mouth and resilience to negative company information. CSR initiatives become a key element in managing consumer relationships (Piercy and Lane, 2009; Assiouras, Siomkos, Skourtis and Koniordos, 2011) and significant channels for building consumer loyalty (Pirsch, Gupta and Grau, 2006; Piercy and Lane, 2009). CSR initiatives are considered to be a determinant influencing long-term relationships, and they are of the same importance as the service quality in the context of services (Mandhachitara and Poolthong, 2011). Consumer loyalty, as a result of long-term relationships between consumers and a company, is a vital objective of a company's survival and growth (Manghachitara and Poolthong, 2011). However, as Pivato, Misani and Tencati (2008) emphasize, the impact of CSR initiatives on consumers' purchasing intentions is indirect and is obtained by positive consumer evaluations. These evaluations are made by consumers through comparison between expectations from a company's CSR and its real activities in this field.

Luo and Bhattacharya (2006) convince that satisfied consumers tend to be more loyal to a socially responsible company, they are willing to pay more for the products of such company, and they get involved in positive word-of-mouth. Perez (2009) argues that consumers, who support a company's CSR initiatives and are affectively committed to the socially responsible company, feel more motivated not

only to repeatedly purchase its products, but also to get involved in a closer long-term relationship with such company.

Different scientists distinguish different long-term outcomes, gained through the implementation of CSR initiatives. In Assiouras, Siomkos, Skourtis and Koniordos (2011) work brand loyalty, brand recommendations, and advocacy behaviours are summarized as valuable results from engagement in socially responsible initiatives. Lacey and Kennett-Hensel (2010) distinguish three outcomes for a company that has consumers, who have trust in its socially responsible activities: magnitude of existing purchasing behaviour, engagement in positive word-of-mouth, and closer following of the company's activities. Mandhachitara and Poolthong (2011) reason, that an integration of both attitudinal and behavioural dimensions is purposeful for measuring loyalty. In their study the main constituents of attitudinal loyalty are commitment, positive word-of-mouth, and stated intention to buy, and the main constituents of behavioural loyalty are repeated purchase probability, exclusive purchase, and share of category requirements.

In this article it is considered that the main behavioural outcomes of a high level of CSR support include attitudinal loyalty, behavioural loyalty, and word-of-mouth (consumers' willingness to talk positively about socially responsible company).

Research design

The idea of long-term relationships with consumers cannot be implemented in a service enterprise if a deep and comprehensive analysis of potential factors that could be important for retention of consumers is not performed. Therefore, with reference to revelations that become evident from theoretical studies presented in this article, relations between consumers' support for CSR initiatives, antecedents of long-term relationships, and future intentions are going to be analyzed in the empirical research.

A case of Lithuanian banks has been selected for the empirical study. This selection is based on several aspects. First of all, the banking sector has a huge impact on a country's society and economics (Scholtens, 2009). Secondly, all the

large banks, which operate in Lithuania, are included in the list of Lithuanian socially responsible companies. The above-mentioned aspects allow us to state that CSR initiatives of banks can have a positive effect on consumer attitudes and beliefs towards CSR, on their satisfaction, commitment and trust regarding a particular bank, and on their future intentions. The purpose of the empirical research is: to determine CSR initiatives, which influence the level of consumer's support for CSR, and to reveal relationships between CSR support, antecedents of long-term relationships, and future intentions in the case of Lithuanian banks.

Pursuing the research purpose and considering the fact that almost all adult population are consumers of bank services it has been decided to collect data for the study using a quantitative research method – a questionnaire survey.

Respondents were asked to evaluate their overall support of banks' CSR activity (on a five-point scale from "surely no" (1) to "surely yes" (5)). The expression of antecedents of long-term relationships and future intentions was measured on a five-point scale as well. The construct of items was composed according to Mandhachitara and Poolthong (2011), Perez (2009), Pivato, Misani and Tencati (2008) researches.

If we analyze techniques suggested by different scientists for the measurement of the importance of various attributes to customer satisfaction, we can find different approaches. Examination of different measurement techniques shows that most often correlation and regression analyses are employed for measurement of importance of the attributes. Lately, according to Fontenot, Henke, Carson and Carson (2007), many of the suggested techniques emphasize the usage of the attributes' importance measure along with the measure of performance. The importance of CSR attributes to the overall support level was measured using both stated and derived importance techniques in this article. Chu (2002) uses the definition, suggested by Hanson (1992), which defines that a stated importance approach requires the respondents to state their perception of the

importance of each attribute. Meanwhile derived importance can be measured using various techniques, but according to the Fontenot, Henke, Carson and Carson (2007) approach, correlation and regression analyses are the most commonly used tools for deriving importance.

Therefore the main part of the questionnaire consisted of the list of CSR attributes, related to different banks' activities in this domain. Respondents were asked to indicate the perceived importance of each attribute evaluating preferred requirements for a socially responsible bank and to rate their opinion about CSR activities of their own bank. The construct was composed according to the researches of Podnar and Golob (2007), Lacey and Kennet-Hensel (2010), Mandhachitara and Poolthong (2011).

Due to the exploratory nature of the research, respondents were selected using convenient

selection. As young people tend to be more open to new ideas and are more aware of CSR, it was decided to survey the opinion of 20-29 year-old respondents. Responses were received from 165 respondents, but only 144 questionnaires were recognized as suitable for further processing. The research was conducted in January 2012. Statistical data analysis was performed using SPSS 17.0 and based on specialized literature (McDaniel and Gates, 2007; Pukenas, 2005; Cekanavicius and Murauskas, 2002).

Research results

The first part of the analysis of research results is devoted to the exploration of stated and derived importance of CSR initiatives (factors) for consumers' support of

Table 1. Factor structure and statistical indicators

	Factor loadings	Cronbach-alfa
<i>Satisfaction of needs of consumers and employees (F1)</i>		
Provides services of high quality; Focuses on consumer satisfaction; Provides correct information about services; Supports employee family values; Supports safe workplace.	0.546-0.857	0.839
<i>Support for community (F2)</i>		
Gets involved with the local community; Is involved in corporate giving; Local non-profit organizations benefit from this bank's contributions; Is committed to using a portion of its profits to help non-profit events; Includes charity in its business activities; Is committed to using a portion of its profits to help non-profit causes.	0.638-0.867	0.873
<i>Development of economic activity (F3)</i>		
Sees profit as the only concern of a company; Sees profitability as the only measure of effectiveness; Conducts business just for profit; Works only for shareholders' interests; Is bound to achieve maximum profitability.	0.656-0.822	0.833
<i>Compliance with ethical standards (F4)</i>		
Considers people, society, and nature before profit; Checks every business decision in the light of ethical standards; Defines ethical standards and is faithful to them at all times; First meets all ethical business principles and then thinks of profit growth; Considers moral standards on account of profit; Conducts ethical business despite being less economically efficient; Has clear politics for solving urgent social and societal problems.	0.526-0.700	0.822
<i>Equality of human rights and support for the society (F5)</i>		

Offers job opportunities for vulnerable groups; Actively seeks to reduce unemployment; Plays a crucial role in projects aimed at the improvement of the quality of life; Reinforces voluntary activities for society welfare.	0.502- 0.738	0.725
Compliance with legislation (F5)		
Always obeys the newest legal principles as soon as possible; Is only allowed to do what is explicitly permitted by the law; Obeys the law and regulations in all circumstances; Always conducts business in line with legal principles.	0.630- 0.833	0.788
Total variance extracted		60.12
KMO		0.722

CSR activities of banks. Firstly principal component factor analysis with VARIMAX rotation is used to identify the structure of CSR initiatives. The main aim of running a factor analysis is to create a smaller set of correlated attributes into dimensions, or factors, which explain the most variances among the attributes. Table 1 shows the results of six CSR initiatives derived from the factor analysis labelled as "Satisfaction of needs of consumers and employees" (F1), "Support for community" (F2), "Development of economic activity" (F3), "Compliance with ethical standards" (F4), "Equality of human rights and support for the society" (F5), and "Compliance with legislation" (F6). Results explain 60.12 percent of variable dispersion.

Average ratings of the respondents' expectations for each CSR initiative (factor)

are treated as stated importance. Three techniques for the measurement of the derived importance, suggested by Fontenot, Henke, Carson, Carson (2007), are used in this research: (1) correlation coefficients between performance ratings for each factor and respondents' ratings of overall CSR support, (2) beta weights from regression analysis in which performance ratings for each CSR initiative were used as predictors and overall CSR support was the criterion variable, and (3) the multiplication of correlation coefficients and beta weights to obtain combined importance scores. The importance scores for both stated and derived importance are presented in Table 2.

Table 2. Stated and derived importance

	Stated importance	Derived importance		
		Correlation Coef*	Regression beta weight	Corr * beta weight
F1	4.517	0.285	0.141	0.040
F2	3.954	0.385	0.392	0.151
F3	3.258	-0.004	-0.026	0.0001
F4	3.950	0.254	-0.065	-0.017
F5	3.854	0.346	0.441	0.153
F6	3.340	0.234	-0.004	-0.001

Figure 1 graphically presents the ranks of stated and derived importance. Here the rank "6" is given to the factor that has the highest importance score and the rank "1" is given to that, which has the lowest score.

From the visualization, presented in Figure 1, the divergence of results between stated and

derived techniques as well as promiscuity among the three derived techniques become evident. Fontenot, Henke, Carson and Carson (2007) found out that such situation made the analysis, interpretations, and generalizations of results difficult. They state that measures of

derived importance are more sensitive than the scale-based measures of stated importance.

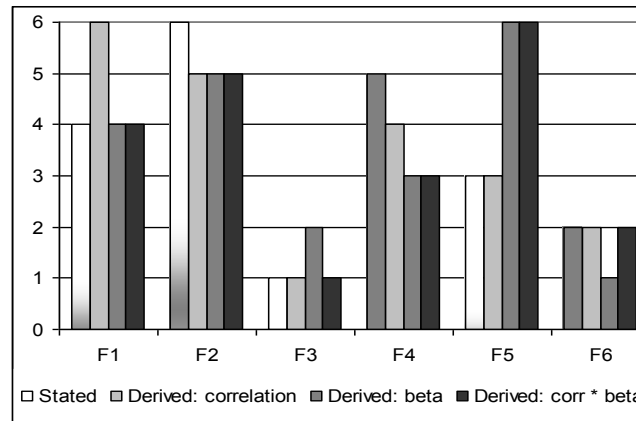


Figure 1. Ranked stated and derived importance

One solution for compatibility of the results, suggested by Fontenot, Henke, Carson and Carson (2007), is to integrate both stated and derived importance rankings and to use the Kano, Seraku, Takahashi and Tsuji (1984) framework for accomplishing this:

- Attributes identified as important in both stated and derived importance measures (F1: satisfaction of needs of consumers and employees; F2: support for community) have to be considered as a priority CSR initiative for managerial solutions because its presence can promote the level of consumers' support for CSR, meanwhile its absence may result in consumer dissatisfaction with a bank's CSR activity.
- Those attributes, which have the lowest ranks for both techniques (F3: development of economic activity; F6: compliance with legislation), should not be treated as being of the highest importance as these may be attributes that are unexpected, unnecessary, or not contributory to the overall level of CSR support.
- Attributes identified as highly important using stated importance technique and low in derived importance (F4: compliance with ethical standards) have to be considered as potential reasons for negative responses of consumers to a bank's CSR activity: their presence will not make the level of CSR support higher, but their absence will surely cause customer dissatisfaction and will have a negative effect on their future intentions.
- Attributes ranked higher in derived importance and lower in stated importance

(F5: equality of human rights and support for the society) are possible "delighters": consumers usually do not expect them, but their presence will positively influence their overall level of CSR support of a bank's CSR activity.

In order to reveal relations between consumers' support for CSR, antecedents of long-term relationships and future intentions, a correlation analysis has been performed. Since not all data is distributed according

Table 3. Matrix of correlations

	1.	2.	3.	4.	5.	6.	7.
1. Correlation Coef. Sig. (2-tailed)	1	<i>0.182 *</i> .029	<i>0.194 *</i> .020	0.338 ** .000	<i>0.192 *</i> .021	<i>0.200 *</i> .016	0.396 ** .000
2. Correlation Coef. Sig. (2-tailed)	<i>0.182 **</i> .029	1	0.662 ** .000	0.245 ** .003	0.242 ** .003	0.548 ** .000	0.465 ** .000
3. Correlation Coef. Sig. (2-tailed)	<i>0.194 **</i> .020	0.662 ** .000	1	0.400 ** .000	0.389 ** .000	0.683 ** .000	0.510 ** .000
4. Correlation Coef. Sig. (2-tailed)	0.338 ** .000	0.245 ** .000	0.400 ** .001	1	0.448 ** .000	0.352 ** .000	0.533 ** .000

** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

- | | |
|---|--|
| 1. Consumers' overall support level of a bank's CSR initiatives | 5. Consumers' intentions to talk about a socially responsible bank |
| 2. Consumers' satisfaction with services of a socially responsible bank | 6. Consumers' behavioural loyalty to a socially responsible bank |
| 3. Consumers' trust in a socially responsible bank | 7. Consumers' attitudinal loyalty to a socially responsible bank |
| 4. Consumers' commitment to a socially responsible bank | |

to the normal distribution law (one-sample Kolmogorov-Smirnov test has been performed), it has been decided to calculate Spearman correlation coefficients.

Results of the data analysis (Table 3) show that consumers' support for CSR correlates with all antecedents of long-term relations and with all results of long-term relationships. Although these correlations are not very strong (the strongest relations are between CSR support and commitment ($r = 0,338$, $p < 0,001$) and CSR support and attitudinal loyalty ($r = 0,396$, $p < 0,001$)), but they are statistically significant. It can be concluded that it is purposeful for a bank to get involved in CSR initiatives.

We can see from Table 3 that antecedents of long-term relationships correlate between each other, and these correlations are statistically significant. The strongest relation is between consumers' satisfaction and trust ($r = 0,662$, $p < 0,001$).

Analysis of the results reveals that consumers' intentions to get involved in positive word-of-mouth about socially responsible banks significantly correlates with all distinguished antecedents of long-term relationships. However, the strongest correlation is with consumers' commitment to a socially responsible bank ($r = 0,448$, $p < 0,001$). Consumers' behavioural and attitudinal loyalties correlate quite strongly with all the antecedents. Considering all the above-

mentioned results it could be stated that antecedents of long-term relationships, i.e. satisfaction, trust, and commitment, affected by consumers' CSR support of a bank's CSR initiatives, remain strongly related with consumers' future intentions.

Conclusions

1. The theoretical review suggests that CSR initiatives are company attributes, and they are carefully evaluated by consumers. Thus they are meaningful only when they deliver additional value to consumers, i.e. when they support such company activities.
2. The level of consumers' support for CSR is treated as the indicator of consumer responses to the CSR initiatives in this article. It is argued that the level of CSR support depends on different factors of organizational as well as consumer levels.
3. The performed literature analysis allows us to state that CSR support has a positive effect on long-term relationships both through the antecedents, i.e. satisfaction, trust, and commitment, and directly. Results of long-term relationships include word-of-mouth, behavioural and attitudinal loyalties.
4. Findings of the empirical research contribute to the understanding of what CSR initiatives are important in the banking sector and what the relations between consumers' support for CSR and long-term relationships

between consumers and socially responsible banks are.

5. When factorizing results of CSR attributes, related to activities of banks, six factors have been identified: "Satisfaction of needs of consumers and employees" (F1), "Support for community" (F2), "Development of economic activity" (F3), "Compliance with ethical standards" (F4), "Equality of human rights and support for the society" (F5), and "Compliance with legislation" (F6).
6. When analyzing what the main CSR initiatives of banks that have the strongest impact on consumers' CSR support of banks' initiatives in this domain are, stated and derived importance measurement techniques were used. The results show that "Satisfaction of needs of consumers and employees" and "Support for community" have to be considered as CSR initiatives of a prior importance for managerial solutions, "Compliance with ethical standards" is a potential reason for negative responses of consumers to a bank's CSR activities, and that by developing the dimension "Equality of human rights and support for the society" it is possible to "delight" consumers and increase their level of CSR support.
7. The direct and statistically significant correlation between CSR support and antecedents of long-term relationships as well as between CSR support and loyalty and word-of-mouth indicates that CSR could be treated as an effective means of strengthening and maintaining relationships between consumers and socially responsible banks.
8. Empirical study, presented in this article, has the limitation in terms of respondents' selection: only the segment of younger consumers was analysed. It would be purposeful to include other segments in future researches.
9. Further theoretical studies could be oriented towards analysis of consumer-company identification affected by a company's CSR initiatives.

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FACING 'GREEN' CONSUMERS: ANSWERING THE CHALLENGE AND TAKING THE ADVANTAGE

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Abstract

In the article the latest trends of sustainable consumption will be introduced highlighting the ever-growing groups of green consumers. The groups of green consumers can be defined as households, individuals; public authorities; and responsible businesses (green procurement), who's expectations create a higher demand for environmentally friendly products, and business models. According to the recent changes in the market producers and businesses should answer the challenge and take the competitive advantage that originates from meeting the customers demand. Producing environmentally friendly goods is not enough though, the products should be differentiated, and they should be visibly highlighted for the consumer with all their benefits for the environment. Ecolabeling traditionally gives a solution for a reliable, brand like form of easy to understand information source, but the practice shows that not all companies are able to take the advantage of the opportunities offered by the ecolabels.

The aim of the article is to prove that "green consumers' exist -according to the latest studies about sustainable consumption and to investigate the possible solutions of producers for meeting this customer group's demand.

Keywords: sustainable consumption, green procurement, green consumers, ecolabels

Introduction

Sustainability's key element should be the rethinking of consumption. The recognition that society's current consumption patterns jeopardize the needs of the future generations has been formulated in the 1970s. The Club of Rome's scientist have called attention to the fact that energy and natural resources driven, technocratic civilizations created the trends of consumption today and that is totally unsustainable. Sticking to the current consumption patterns would result in going far beyond what Earth can sustain. The term sustainable consumption has been introduced and defined in 1992 at the United Nations Conference on Environment and Development held at Rio de Janeiro.

When listing the disadvantages of the current consumption patterns the utilization of natural resources, the consuming for happiness kind of

attitude of the western civilizations and the ever growing differences between life standards of the different countries of the world should be highlighted. The success of the concept of sustainable consumption is highly depending on the fact that we should realize our responsibility and take actions systematically removing the barriers from the way of these actions. The aim of sustainable consumption is to ensure the well being of society- including the future generations- while we take into consideration the availability of natural resources. (Csutura and Hofmeister, 2011)

To achieve this ambitious goal we need the contribution of all actors of the economy: changing current consumption patterns is unimaginable without education and awareness raising, the value system and infrastructure is needed, and the efficient technologies and product development calls for the involvement of the businesses.

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Sustainable consumption from a system perspective

Sustainable production and consumption involves businesses, government, communities

and households contributing to environmental quality through the efficient production and use of natural resources, the minimization of wastes, and the optimization of products and services. (WBCSD,2010)

The United Nations Commission on Sustainable Development (UNCSD) defined sustainable consumption as “the use of goods and services that respond to basic needs and bring a better quality of life, while minimizing the use of natural resources, toxic materials and emissions of waste and pollutants over the life cycle, so as not to jeopardize the needs of future generations.’

The two definitions of sustainable consumption mentioned previously imply a change in both The role of all four actors of the society is equally important, especially if we take a look at the production and consumption system from the product life cycle point of view. If we roughly draw up the life cycle of products we find the following five stages: resource extraction, production, retail, consumers, end-of life managers. Of course the cycle thinking and the reusing and recycling of products is crucial, so the linear form of the UNEP model should be completed with the sign of constant cycles. The model highlights the role of companies, consumers and contains the role of other actors as well. It is very important to look at the question of sustainable consumption as a system, where all actors interact with each other, and the combined actions of all has the power needed to achieve the changes. Consumers need the support of governments and NGOs to help them live sustainably. They also need the businesses, which provide products and services that are creating a choice and market for sustainable goods. But the system is not one-sided: businesses need the financial power of consumers and governments needs their votes. This is how this system becomes complete. In the followings we will be focusing on the role of consumers and businesses.

Green consumers?

By the assessing the environmental impact of society the behavior of consumers plays a key role. ‘In most countries, household

the levels and patterns of consumption (Fuchs and Lorek 2005). Sustainable consumption has two main objectives: First it aspires to reduce the used goods and to change consumer habits. Second it aspires to reach a permanent, new value system and welfare, which takes into account all of the pillars of sustainability (Valkó, 2003).

As mentioned above Sustainable consumption is a complex system of stakeholders so governments, NGOs, consumers and businesses as well have an important role in furthering the concept. The following model shows the involvement of the actors’ of the economy according to the WBCSD’s definition:

consumption determines 60% or more of the life cycle impacts of final consumption.’ (Hertwich et al,2010)

The actions and decisions of a consumer – based on private theories, ideas- prefer specific products and services. These products used every day have high impact on the environment and on the personal wellbeing as well. (Csutora and Hofmeister, 2011) So it would be crucial for the environment and for the health of consumers to live more sustainably. Environmentally conscious behavior is a complex phenomena, which is concentrating on doing something in favor of the environment (Majláth,2005).

Stern (2000) defines environmental activism, environmental citizenship (e.g., petitioning, joining groups), policy support, consumer purchase behaviors, maintenance of household equipment, changes in equipment use, lifestyle (curtailment), waste disposal behaviors, ‘Green consumerism’ and behaviors affecting organizational decisions as environmentally significant behavior. From this list we can conclude that the environmentally friendly behavior has many aspects and ‘green purchasing’ is just one dimension of the things that a person can do for a more sustainable living. This is shown by the Eurobarometer survey, in which EU citizens stated, that they are most likely to select minimizing waste and recycling as the actions having the greatest impact on solving environmental problems (selected by 30%); they are somewhat less likely to believe that buying products produced by

eco-friendly methods or energy-efficient home appliances would have the greatest impact (selected by 21% and 19%, respectively). (DG Environment, 2009)

However in this article we mainly use the green purchasing dimension of sustainable consumption to have a clearer connection to environmentally friendly and ecolabeled goods. How do we exactly define consumers? Consumers are the individuals who are in need of household goods and services and whose behavior can be examined. These needs can be food, clothes, housing, health care, education, leisure etc. The problem of today's societies is that greater the wealth, the greater is the gap between the level of needs and the level of satisfying these needs. (Csutora and Hofmeister, 2011) This is also an evidence for the unsustainability of the current consumption and production patterns.

Who are green consumers? In the followings four different descriptions of green consumers is shown:

Socially responsible consumers take all three pillars of sustainability into consideration when buying goods or services. These people try to achieve a long term general well being of the society instead of their private short term advantages.

Environmentally conscious consumers are the natural or legal persons who take into consideration the ecological effects of their purchasing (Meffert és Kirchgeorg, 1993 in Majláth 2005).

They realize and accept that the design, the production, distribution, use and the end of use phase of the product has negative effects on the environment.

The environmentally conscious consumer is aiming to reduce these negative effects.

Environmentally conscious consumers avoid buying products:

- That endanger their own or someone else's health
- That have a negative effect on the environment or have huge energy or other resource demand at the production, use or end of use phase
- Those that cause unnecessary amount of waste (e.g. with their packaging)

- Those that contain material from endangered species

- Or those that have negative effect on the wellbeing of other people somewhere else in the world (Elkington és Hailes, 1989, In: Majláth 2005).

Ethical or green consumer is who collects information about the product and producer and has environmental or social aspects in mind when purchasing (Peattie, 1992, in Majláth 2005).

We find the last one to be the best definition: environmentally conscious consumer is who buys goods and services that is according to his views, assumes that has a positive or less negative effect on the environment. We find this especially true because the phenomena of informational asymmetries on the market, which will be described later on.

According to Stern (2000) the models describing green consumers, should investigate the motivations, attitudes, values, social impacts, personal circumstances, habits and such factors as different situations.

Since there is no consensus on how to define and categorize consumers the following model will be used. How and why does a consumer become green?

The number of green consumers is continuously rising, the trend is keeping up. Even in the times of economic crisis. The Boston Consulting Group in their (Roche et al, 2009) study created the model in When speaking of the economic crisis it is interesting to consider the relationship between frugality and sustainable consumption as the consequences of the economic downturn in terms of environmental sustainability. To be frugal is to be moderate or sparing in the use of money, goods and resources with a particular emphasis on careful consumption and the avoidance of waste. It is important to highlight though, that unsustainable patterns of consumption are a result of the ways in which social practices are currently organized. So even if certain individuals do consume less as a result of the economic downturn, it is unlikely – in the absence of social, political, economic, cultural and technological change – that this will create a normative around frugal and environmentally friendly forms of consumption. (Evans, 2011a)

The surveys and researches show that consumers are trying, they are increasingly feeling their responsibility towards sustainable lifestyles, consumption. The behavior of the consumers highly depends on demographic and non demographic factors. Lot of research has been done in this field in the developed countries and the demographic factors like gender, education, and income were the factors that seemed important in connection with the intention to buy green, but after all they did not seem to significantly correlate. (Majláth,2005)

The marital status, or having family and children seemed to have become more important in connection with sustainable consumption. Majláth mentions a study from 2003, in which there was no correlation between having children and sustainable consumption, but lately according to Evans most of their survey respondents highlighted that they are trying to live more sustainably in order to be a good parent. **Care and devotion** to one's immediate family is one thing and ethics in a wider and generalized expression of care towards distant strangers is another. (Evans, 2011b) So it seems to be a lot more distant and less motivating for consumers to do good for the public rather than act in favor of their own and family's **health** and well being. So the question of ecological citizenship, e.g. making reductions to personal consumption in the interests of the public good seems to stay as a marginal motivation.

As for motivations it is important to note that several respondents in Evan's study (Evans, 2011b) extolled the financial rewards of reducing their environmental impacts.

Non demographic factors seem to be correlating more with actions, but are most of the times mentioned as part of the barriers effecting sustainable consumption in literature. Environmental knowledge and perceived consumer effectiveness are one of the most important factors.

Perceived consumer effectiveness is a very important factor, a motivation for people. If they believe that their personal acts and behavior makes a difference, they will more likely be doing so. If a person sees that he is the only one to take effort, his enthusiasm will fade away. So collective action should always have a

place in communicating sustainable consumption by any of the actors.

Environmental knowledge is another crucial topic. For example, before a person can act, he must have some understanding of the natural states of ecosystems and the processes within them (system knowledge), and also know what can be done about environmental problems (action-related knowledge). A third form of knowledge, knowledge about the benefit (effectiveness) of environmentally responsible actions, is particularly relevant when people have to choose from a pool of possible actions. (Kaiser et al 2004)

An interesting factor is **perceived responsibility**. There was a survey completed in Hungary about the trends of sustainable consumption in 2002. The respondents thought that the responsibility for environmental protection issues is in 57% the government's, in 9% companies', in 4% NGOs', and in 27% households' problem and task. (Valkó, 2003)

The facts from the Eurobarometer survey show that European citizens are highly concerned and can be described as green consumers. 'Slightly more than 8 in 10 EU citizens felt that a product's impact on the environment is an important element when deciding which products to buy (34% "very important" and 49% "rather important"); only 4% said this is not important at all.

Although a large majority of respondents in all EU Member States and Croatia said that a product's impact on the environment is important in their purchasing decisions; in only three Member States did more than half say that this aspect is very important: Greece (58%), Cyprus (57%) and Italy (54%).' (DG Environment, 2009)

The gap between consumer attitudes and behavior

At the same time the sales rates of eco-products show that there is a gap between what people say they do and what they actually do. This can be due to the lack of understanding, confusion and the consumer skepticism. Domestic conventions can also overwrite efforts on sustainable consumption

as well as market convention and infrastructure.

The following graphic of The Boston Consulting Group shows what determines the choice of a consumer. These factors should be addressed and answered in a comprehensive way in order to reach the sustainable consumption. The rise of consumer power and consumer skepticism is also a determinant of choice and purchasing decisions. Many of the early products designed to be environmentally responsible, such as electric cars and recycled paper, did not meet the basic expectations of consumers. Rightly or wrongly, these early disappointments have made it tougher to convince today's consumers that green products work as well as those that they are intended to replace, or are worth higher prices. In their search for guidance on consumption choices, people trust each other more than any other source of information. (WBCSD,2010) Another factor is the lack of understanding the exact meaning of on-package claims and labels. According to the Eurobarometer study, a slim majority (55%) of EU citizens claimed that when buying or using products they are – generally – fully aware or know about the most significant impacts of these products on the environment. In Cyprus, Lithuania and Bulgaria, however, around 6 in 10 respondents said they know little or nothing about such impacts. (DG Environment, 2009) The products available in today's supermarkets carry a wide range of labels, on-pack claims and elements of design that are meant to inform and reassure consumers on health, safety, environmental or social concerns. It is difficult for the consumers to differentiate between fair, ethical, organic, environmental friendly and other labeled products. Several brands, including grocery retailers, have developed their own labels; other brands use endorsements from non-certifying third parties, or on-pack claims (such as 'natural') to convey sustainability attributes. (WBCSD,2010) And of course there is a suspicion about 'green washing', which means, that producers claims can be false or unethical.

To sum up consumer willingness often does not translate into sustainable consumer behavior because of a variety of factors, such as availability, affordability, convenience, product

performance, conflicting priorities, skepticism and force of habit. But from the research on consumer attitudes and behaviors we can state, that consumers are increasingly concerned about environmental, social and economic issues, and increasingly willing to act on those concerns (WBCSD,2010).

It is important to note though that being a green consumer is not a fixed character. The same consumer may well make green purchase decisions in one situation but not in another. Green buying behavior is not determined by the characteristics of consumer alone. To be able to lead sustainable lifestyles based on informed purchasing decisions and changes in behavior, consumers need the support of all actors: business, governments and civil society.

In the followings the role of businesses will be described, with special emphasis on ecomarketing tools and theories.

The role of businesses – mainstreaming sustainable consumption

The World Business Council for Sustainable Development stated the followings: 'WBCSD recognizes the need for business to take a leadership role in promoting sustainable patterns of production and consumption that meet societal needs within ecological limits. Business can best work towards these goals through responsible environmental management, enhanced competitiveness and profitable operations.'

This is a very positive statement, since leading businesses have the capacity for mainstreaming sustainable consumption and production. In case they are open for discussion with all other actors involved, there is a chance for them to help leading sustainable lifestyles, support the pursuit of consumers, governments and NGOs. Businesses have the power to help furthering sustainable consumption by the following three actions: innovation, choice influencing and choice editing.

These were highlighted by the WBCSD in their 'A vision for sustainable consumption' report. Since these options were offered by a leading business representative organization, the actions seem to be feasible, matching current business processes.

Innovation

Companies should be increasing the availability of more sustainable products and services through integrating sustainability and life cycle processes into product design innovation that doesn't compromise on quality, price or performance.

There should be a shift from the introduction of niche products and services to the embedding of sustainability principles into the core business model. Business can play an important role in furthering sustainable consumption by delivering sustainable value to society and consumers, helping consumers to choose and use their goods and services sustainably, and promoting sustainable lifestyles that help to reduce overall consumption of materials and resources. (WBCSD,2010)

Choice editing

This concept means removing unsustainable products, product components, processes and business models from the business cases in partnership with other actors in society such as policy-makers and retailers. Choice editing refers to the decisions that directly control the impacts of consumption. Consumer groups and policy-makers tend to prefer choice editing as an effective approach to changing consumer behavior, and achieving goals to have only the most sustainable products available in the market. Businesses edit choice by controlling elements of their supply chain or by eliminating product components that pose a risk to the environment or human health. Policymakers may choice-edit by developing legislation that would ban a product or substance. Retailers may choice edit by deciding to eliminate products from their shelves or by demanding certain standards of their supply chains. "The role of business is to influence and educate consumers on how to lead sustainable lifestyles. For choice editing to succeed, businesses and stakeholders throughout the value chain must be involved in developing solutions, including processors and retailers. Transparency is essential in order to win the trust of consumers, so business needs to develop a common, robust set of indicators and a clear, meaningful way of reporting performance on economic,

environmental and social performance. The responsibility for sustainable consumption is shared between business and consumers, so partnerships are vital. Consumers are unwilling to sacrifice price or performance for sustainability, so it is the responsibility of business to provide sustainable goods and services that are also good quality and cost-effective. Industrial customers and suppliers should work together to develop common knowledge, expertise and policies on sustainable consumption.' (WBCSD,2010)

Choice influencing

Choice influencing means creating a market for sustainable products and business models by working in partnership with consumers and other key stakeholders to demonstrate that sustainable products and lifestyles deliver superior performance at the best prices. The use of marketing communications and awareness-raising campaigns to enable and encourage consumers to choose and use products more efficiently and sustainably is part of this action. (WBCSD,2010)

This is the point when the very popular term, eco-marketing comes in picture. There are lots of different studies about the topic, and as far as we know the definitions, and terminology (eco marketing, green marketing, sustainability marketing, ecological marketing etc) isn't yet standardized in this case. In our view eco-marketing's main aim is to achieve competitive advantage through environmental values. This can define marketing of the product, the company, or environmental values.

In case of the company the responsible and sustainable production can be a PR topic, creating a positive image for the whole company altogether. The marketing of environmental values is a form of awareness raising and a form of getting new customers, and opening new markets, by creating a demand for green products. Choice editing, and environmental awareness raising should be the task of governments and NGOs, but companies can use it responsibly and effectively too for widening the market for their green goods.

Ecolabels and the new promotion concept

A common practice in connection with product marketing in case of green products is the ecolabeling. Governmental and non-governmental organizations have recognized the information gap between consumers and producers in terms of ecofriendly goods, so to solve this information problem made great efforts to introduce and maintain trustworthy environmental labeling schemes. (Rotherham,2010) Ecolabels can be catalyst of change in corporate and consumer culture, since they are designed to avoid information asymmetries. They give consumers credible information (speaking of ISO 14024 Type I ecolabels) since they are third party certified and the criteria takes the life cycle of the product into consideration. With help of these Type I labels and the involvement of businesses the phenomena of 'greenwashing' could be avoided. For producers ecolabels provide advantage against conventional products, or ones with a not so credible label. Ecolabeling one product group can carry over the benefits to other product lines of the company, so they are able to create a positive image. An ecolabel should be seen as a communication tool – not only in the traditional sense of an awareness raising tool for consumers, but rather in a more general sense as a tool that communicates expectations and requirements to whoever is interested. (Rotherham,2010) This is why Type I labels play an important role in green procurement as well. From a more general perspective, ecolabels remain one of the most widely accepted ways for a company to communicate environmental credentials. So the first step for companies should be to get the ecolabel for the innovative products, and go on with further marketing tools and strategies proactively to teach the advantage of green products to the wide range of consumers. In the last decade, ecolabels have become the prevailing means used to position green products. At the same time according to Rex and Baumann (2006) 'in the general marketing literature, labels have a subordinate role as positioning tools. A label is considered part of

Conclusions

To sum up the paper, it is very important to look at the question of sustainable consumption

the technical information attached to the product. As such it is classified as 'product' in the marketing mix, not as a promotion tool. The importance of labels for product positioning is not accentuated in the conventional marketing literature. Instead, the emphasis is on promotion.' (Rex and Baumann, 2006) This fact calls for reconsideration of the current practices; maybe the way to target consumers can be changed. 'Instead of presupposing the existence of an already green consumer, consumer needs must be analyzed carefully before possible offers are designed and promoted.' (Rex and Baumann, 2006) It would be advantageous for companies to target a wider range of consumers as mentioned before by the choice editing section.

The combination is underlined by Eurobarometer study's findings: 'Around 3 in 10 EU citizens answered that the best way for retailers to promote environmentally-friendly products is to provide better information to consumers.'

Retail problem should as well be considered: the in store promotion of green goods:

'Roughly half of EU citizens thought that retailers should promote environmentally-friendly products by increasing their visibility on store shelves (selected by 25%) or by having a green corner dedicated to eco-friendly products (24%).' (DG Environment, 2009) At the same time BCG's study refers to the green corner as a 'green ghetto' (Roche et al, 2009), which is out of the direct needs of consumers and does not make the green choice visible at a glance. So having green goods just by the conventional ones, highlighting them would result in better choices.

All together in order to reach high market shares for green products in general the marketers should not continue to rely only on ecolabels and already green consumers, 'the deep green segment'. To achieve greener production and consumption patterns a wide range of consumers should be addressed using different kind of marketing tools used responsibly.

as a system, where all actors (governments, NGOs, consumers and businesses) interact with each other, and the combined actions of all has

the power needed to achieve the changes. From the four actors taking part in changing consumption patterns the role of consumers and businesses were highlighted. Based on literature review we can conclude that consumers are willing to purchase green, but this action is determined by the following factors: perceived responsibility, care and devotion, health issues, financial rewards, perceived consumer effectiveness, environmental knowledge, lack of understanding, confusion, consumer skepticism, domestic conventions, market conventions and infrastructure and so on...To be able to lead sustainable lifestyles based on informed purchasing decisions and changes in behavior, consumers need the support of all actors: business, governments and civil society. In order to provide this help it is crucial for the businesses to make it easy and affordable for the consumer to make sustainable purchasing decisions, as they increasingly report a willingness to do so; making sustainable products available and comparable – without compromising on performance and at no extra costs and sharing information with consumers about companies, products and services via trustworthy ecolabels, and the creation of effective, complex promotion of sustainable products, usage, consumption and lifestyles.

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ALL SHOPPING CENTERS ARE THE SAME. AREN'T THEY? AN EMPIRICAL ANALYSIS ON SHOPPING CENTERS TENANT MIX IN BUDAPEST

Melinda Reikli

Abstract

The present article conquers the general belief of consumers and public, that all shopping centers are the same: you find the same retailers, with the same offerings no matter which one of the shopping centers you'd choose. In order to test this belief, we've carried out an empirical research in 17 shopping centers from Budapest, Hungary. The focus was on providing an analysis of shopping centers tenant mix, in order to test the belief on the existing realities, rather than on consumer perceptions. Results show that in general, this consumer belief, proves to be untrue as only 0,02% of the total observed tenants had a store in at least 50% of the analyzed shopping centers. However, the tenant mix related to shopping centers which belong to the same type, are indeed showing some similarities. Similarities were found also on the level of certain tenant profiles, like services, where seems to be a higher degree of market concentration, which inherently leads to tenant mix similarities in shopping centers. In conclusion, the same type of shopping centers have similar traits in tenant mix and product offerings (horizontal similarities); while different type of shopping centers have similar service providers (vertical similarities), although this later is less relevant in defining competing shopping centers. Shopping center operators can gain important insights for competition analysis and own center differentiation by assessing tenant mix based horizontal similarities.

Keywords: shopping centers, tenant mix, empirical research

Introduction

Studies focusing on shopping centers image usually rely on consumer perceptions (Kupke, 2004; Chebat et al 2006; Chebat et al 2009; Suarez et al 2004; etc.) and rarely compare perceptions with on site realities of the specific centers. In contrast, the present article compares shopping centers on their own concrete characteristics.

In order to proceed with the comparison of shopping centers to determine their similarities or dissimilarities, we shall examine the notion of shopping centers. One commonly used definition developed by the International Council of Shopping Centers (ICSC, 2008) refers to shopping centers as 'a group of retail restaurants and other commercial establishments that is planned, developed, owned and managed as a single property. On

site parking is usually provided. The center's size and orientation are generally determined by the market characteristics of the trade area served by the center. The three main configurations of shopping centers are enclosed malls, open-air centers and hybrid centers.' These types of shopping centers are presented in Appendix 1. The definition of ICSC however, represents a myopic approach as it focuses only on the retail function of the shopping centers and neglects other functions such as entertainment, services and/or social public spaces. Juhász et al (2008) describes the shopping center as 'a business unit, which is not a retail unit or a retailing company (it has no retail activity), but provides functioning possibilities for retailing activities. [...] we have to take into account, that there are not only retail activities going on, but on one side they are complex shopping, service and entertainment centers, while on the other side multifunctional (culture, sport, leisure,

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community meeting point etc.) units.' In other words, *shopping centers serve as platforms for complex business and social oriented interactions*. These platforms can be viewed as a *place* for providing a location to the aforementioned business and social interactions. However, I personally tend more to view shopping centers as a *product* comprising from three factors such as location, tenant mix and costumer mix, which by the combination of these factors enables or disables specific business or social interactions. *The present paper aims to compare shopping centers based on the business interactions enabled by the shopping centers' tenant mix related indicators*. Thus, it focuses on retail, service and entertainment oriented interactions enabled by the shopping centers' tenant profiles – shown in Appendix 2 – and searches for similarities in tenant mix, while the analysis of social interactions or the approach of customer mix view are lying outside the scope of this paper.

Beside this introduction, the paper consists of five chapters; one revealing the relevant literature, another defining the main research question and developing the hypothesis to be tested, a short chapter describing the research method followed by the presentation of results and conclusions and some summarizing managerial implications of the results.

Literature Review

A regular answer for the question whether all shopping centers are the same? could be achieved by analyzing the images of the respective shopping centers. This is the case in Kupke's (2004) paper, which determines the dimensions of shopping center image viewed by customers based on factors like parking, opening hours, service, fast food, atmosphere, prices and range of shops. The paper admits to present results on how customers 'feel about property attributes' rather on rational evaluation of shopping center characteristics. The same subjective, feeling oriented view is present in the work of Finn & Louviere (1996) analyzing anchor stores' image contribution to shopping centers image formation; or in the work of Chebat et al (2006) revealing image transfer from shopping centers to stores

through the lens of self-image congruence. Massicotte et al (2010) also found evidence that self-congruity and functional congruity positively affect shopping center evaluation. A basic assumption would be that the more customers find self-image congruence between themselves and the respective malls they tend to evaluate the shopping centers being alike, and perceive stores within as being similar and providing the same offerings. These would lead to the assumption that all offerings in shopping centers look the same due to the image transfer from customer's self image to the image of similar shopping centers and to the stores within these shopping centers. Personal values (Shim & Eastlick, 1998) and self-image congruence is an important factor not only in mall evaluation, but also in mall loyalty (Chebat et al, 2009) and subsequently in mall patronage (Gautschi, 1981; Pan & Zinkhan, 2006). Thus customers shop more frequently in shopping centers which are in alliance with their own image. While in case of substitution between centers, customers rather choose an upper scaled image center as compared to a lower scaled image center (Eppli & Mejia, 2003). Image differentiation between shopping centers enhances complementary effects (Nevin & Houston, 1980), while centers with slightly different images tend to compete for the same self-image customers. But customers are different and so are shopping centers. Suarez et al (2004) were trying to cope with this heterogeneity in shopping center choice models. They've applied customer heterogeneity with random market segmentation and shopping center heterogeneity with a specific decision-making structure. This latter was implying that customers first select a hypermarket where they'd like to shop, and they choose to visit a shopping center which anchors the respective hypermarket. Thus, their results suggested that shopping centers weren't equally substituted, but could be grouped based on the previously established decision-making structure, presence or lack of a certain hypermarket. While this leads back to the anchor store's contribution in forming shopping center image (Finn & Louviere, 1996), it also suggests that shopping centers can be considered alike and can be of

each others substitutes depending on certain grouping criteria, decision-making factors in selection. In their model however, Suarez et al (2004) used customer panel data about customer's shopping center image perception, travel time, first visit and socio-demographic data, which places their article in the group of customer view researches. Massicotte et al (2010) findings on self-image congruency in mall evaluation provide a foundation to call for a more objective evaluation of shopping centers and assess their similarities or dissimilarities on shopping center realities.

Unfortunately there are quite a few studies having a developer or tenant focused view in the shopping center literature, or use effective market data instead of customer perceptual data, however there would be a great need for it. One remarkable study relates to Yiu & Cheong Ng (2010) assessing shopping mall performance by direct observations of shoppers rather than using customer surveys. Their findings clearly demonstrate that objective market data lead to more precise evaluation in determining buyers-to-shoppers ratio. My personal conviction is, that we would get valuable insight in applying market data also in shopping center similarity evaluation. As previously explained, the present article attempts to fill in exactly this gap by focusing on concrete shopping center realities and leaves customer perception analysis outside its range.

Research question and hypothesis

The present study focuses on conquering the general belief of costumers viewing all shopping centers alike. This would lead to the fact the all shopping centers can be substituted between each other, and would mean that they are placed in a perfectly competitive market undermining the idea of complementarities between centers, and nevertheless the idea of inter-center retail externalities as examined by Mejia & Eppli (2003).

A more concrete phrasing of the research question would approach from the tenant mix of shopping centers: *whether tenant mix based similarities in shopping centers are relevant ?; how can shopping centers be grouped based on these similarities ?* and ultimately *which shopping centers can be substituted with each*

other ? which shopping centers succeeded to have a differentiated position and which are facing more thorough competition ? In order to find responses for the above questions, we formulate the following hypothesis:

H0 – All shopping centers are the same, they can be each others direct substitutes. All shopping centers are basically having the same constituents: a group of retail, service and entertainment units; all served by a common parking. They accommodate some anchor stores as well as more in-line – preferential and fill-up – units. Also in terms of retail profile they share the same characteristics. Therefore, from the point of view of enabled business interactions, they all offer the same – they can be each others direct substitutes.

H1 – Not all shopping centers are alike, but they can be grouped based on horizontal and vertical similarities. Starting from the findings of Suarez et al (2004) arguing that shopping centers can be grouped based on certain decision making criteria, we can conclude that the tenant mix of a shopping center offers several grouping possibilities. Shopping centers belonging to the same group can be considered similar and each others substitutes. Analyzing the tenant mix of shopping centers leads to the determination of horizontal or vertical grouping possibilities.

H1a – Horizontal similarities. *Shopping centers belonging to the same type are compound of a similar mix of tenant types and profiles.* Shopping centers belonging to the same type as defined by the ICSC were developed targeting a certain segment of customers. The similarities of shopping centers belonging to the same type can be assessed however, beyond the traits defined by ICSC, on more relevant characteristics such as tenant mix. While they've been formed by retail, service and entertainment units, these tend to have different shares in different types of shopping centers. The same types of shopping centers tend to crowd a similar mix of tenant types and profiles. These similarities can be assessed on the level of shopping centers thus leading to horizontal grouping possibilities.

H1b – Vertical similarities. *In every shopping center there are some tenants within certain profiles which are the same or alike.* Independent from their type all shopping

centers share to some extent the same tenants. Therefore in case customers are intended to perform purchases from the specific tenants, they can choose any shopping center – these being directly substitutable between each others. These vertical grouping possibilities offer in depth clustering on the level of individual tenants.

The testing of these hypotheses will be described in the following chapters by detailing the used research methods and evaluating the obtained results.

Research method

Shopping center data has been gathered through observation between the years 2008-2011 for a total *sample of 17 shopping centers located in Budapest*, the capital of Hungary. The gathered data contained information about the centers gross leasable area (GLA), their distance from the city's downtown (0km) as well as data referring to the tenant mix. Shopping centers' store locating maps were used to code tenants in separate tenant types (anchor, preferential and fill-up) depending on their size and in separate tenant profiles – 18 profiles as shown in Appendix 2 – depending on their merchandise, product offering. The data was analyzed with the aid of PASW 18 statistical software program. In order to test the Null Hypothesis we've carried out several *Nearest Neighbor Analyses* by using separate features to map the similarities, differences between shopping centers. Thus, we've used features like distance and gross leasable area from Huff's gravity model (1964) as well as tenant types and profiles in order to assess the similarities between shopping centers. The sub-hypotheses H1a and H1b have been tested using *Hierarchical Cluster Analyses based on Within Groups Average Linkage Method*. Although for testing H1a hypothesis we've used the same sample of data on shopping centers as in case of the Null Hypothesis, while for testing the H1b hypothesis we've used a sub-sample extracted by using as separator those tenants who were found present in min. 50% of the analyzed shopping centers. In this latter case the separating indicators were the specific tenants, so we could group shopping centers based on the existence or non-existence of a specific tenant – meaning that the shopping centers has

been clustered around individual tenants rather than on tenant types or profiles, which resulted in a more in-depth comparison of shopping centers also on the level of individual tenants.

Results and Conclusions

Five different nearest neighbor analyses has been carried out in order to map shopping center similarities and differences. Graph 1 shows the resulting five maps. As a first analysis we've used the most popular indicators in assessing shopping centers. In the early shopping center studies analyzing center locations several researchers (Nevin & Houston, 1980; Oruc, 2005) has been using the distance and gross leasable area indicator from Huff's gravity model (1964). Huff's model was delimitating a shopping centers catchment area by the drawing power of the center, positively affected by its size and negatively by its distance from the customers' home. In our analyses we've added as a third indicator the total number of tenants in order to reflect also the variety of stores crowded in a center. The second analysis mapped the shopping centers based on the business interactions enabled by them, separately for retail, entertainment and services. The third and fourth analyses are mapping shopping center similarities based on their existing number of anchor, preferential and fill-up tenants, respectively based on the number of tenants belonging to the defined 18 tenant profiles. In all these cases the analyzed shopping centers showed significant differences between each other, differences which are present in Table 1 describing the measured normalized distances between the most similar shopping centers.

1. Table: Neighbor and Distance Table of Shopping Centers

Results of distances show, that shopping centers are very different regardless of the indicators used to determine their most similar peers. Distances are growing (from 1,414 till 5,292) in parallel with the number of indicators used for comparing shopping centers, which indicates an internal reliability of the construct. *We've found significant differences-distances in shopping centers by comparing them through their tenant types and profiles as well as the tenants' functions in enabling retail, entertainment and service interactions.*

Therefore we can conclude that the Null Hypothesis shall be rejected. Not all shopping centers are the same, they have different offerings; however they can be classified in similar groups. The most wide construct for mapping shopping centers' similarities is compiled of nine indicators: distance from the downtown, gross leasable area, total number of tenants, number of anchor, preferential and fill-up tenants as well as the number of tenants enabling retail, entertainment and service interactions.

1. Graph: Nearest Neighbor Scatter Plots of Shopping Centers in Budapest

The resulting nearest neighbor map is showed in the fifth scatter plot in Graph 1, which identifies three pairs of most similar shopping centers: Aréna – Árkád, Campona – Lurdy Ház and Polus Center – WestEnd. This indicates that the *H1 hypothesis referring to the grouping possibility of similar shopping centers can be approved*. For an in-depth analysis of shopping center grouping possibilities however there is a need of another analyzing approach, which we've conducted based on within group average linkage cluster analysis. The resulting Dendrograms provides insight for horizontal grouping of shopping centers based on their overall tenant mix.

2. Graph: Dendrograms of horizontal shopping center grouping

In order to highlight the differences resulting from using tenant mix indicators in grouping shopping centers, we present also a dendrogram compiled by using the widespread gross leasable area and distance indicators. *The results underline the importance of tenant mix indicators in comparing and evaluating shopping centers*. The most influential grouping indicator proves to be the existence of specific tenant types (anchor, preferential and fill-up) and their share from the overall number of tenants since we can define two different groups of shopping centers by cutting the dendrogram below a distance of five points. The use of tenant profiles and their enabled functions in grouping shopping centers show similar results, which suggest again internal reliability for the results.

In the present analysis tenant mix indicators suggests the existence of two major groups of similar shopping centers in Budapest. The first group of centers including: Allee, KOKI, Duna Plaza, Lurdy Ház, Campona, Arkad, Arena, and Polus Center, which are mainly considered as Regional Malls. The second group of shopping centers grouping Rozsakert, Corvin, Europark, Csepel Plaza, Savoya Park, MOM Park and MC Ferihegy are more characterized as Neighborhood Malls or Retail Parks. Thus, we can declare that the *H1a hypothesis is proved to be true, shopping centers belonging to the same type are compound of similar tenant mix*. Although, we can identify two outlier shopping centers – Mammut and WestEnd – which can't be considered as members of any of the two groups. This reflects their differentiated position in terms of their tenant mix, which sets the base for their differentiated market position. While shopping centers belonging to the above established two groups defined by the mentioned shopping center types can be considered each others competitors and substitutes the outlying Mammut and WestEnd have no possible replacement. Their differentiated position however wouldn't be possible to detect by using the most popular indicators of gross leasable area, distance from downtown or number of tenants. This leads back to the importance of tenant mix as a success factor in shopping centers.

The vertical grouping of shopping centers has been carried out with the same within group average linkage cluster analysis on the level of individual tenants. Since the 17 shopping centers comprised of a total of almost 1,300 different tenants have a total of approx. 2,350 units, a sub-sample has been created by extracting those tenants which were having units in more than half of the analyzed shopping centers. Thus, a sub-sample comprised of 27 tenants having a total of 286 units in the analyzed 17 shopping centers has been compiled. *This means that only 0,02% of the total observed tenants is present in at least half of the studied shopping centers, contradicting the general misbelieve that all shopping centers are the same, and the same tenants can be found in each shopping center*. Surprisingly, none of the anchor tenants met

the 50% representation requirement, while the ratio of preferential versus fill-up tenants was 1:5. The highest concentration has been observed on the level of service provider tenants, where 11 tenants were operating a total of 126 units, and on the level of fashion retailers where seven tenants managed 68 units. The resulting Dendrogram is shown in Graph 3, based on which we can define two major groups of shopping centers within which centers vary independent from their shopping center type. The first group includes Arkad, WestEnd, Arena, Allee, Polus Center, Mammut, KOKI, Campona, Europark, Duna Plaza, Csepel Plaza and Corvin, while the second group comprises of MOM Park, Lurdy Haz, Rozsakert, Savoya Park and MC Ferihegy. No outliers could be identified. The results would indicate that shopping centers belonging to the same group from the above identified ones can be each others direct substitutes as long as customers are interested in service provider units and to some extent fashion retailers. However, these groups have been formed by identifying quite large distances / differences between the analyzed shopping centers cutting the dendrogram slightly before 20 points. Therefore *even though H1b hypothesis proves to be true as well, we can't consider vertical, tenant level similarities as relevant in grouping shopping centers.*

3. Graph: Dendrogram of vertical shopping center grouping

On overall, we can conclude that not all shopping centers are the same, neither do they have exactly the same offering. However, they indeed can be grouped in homogenous groups depending on different horizontal and vertical grouping indicators. Horizontal, shopping center level grouping proves to be more relevant than vertical, tenant level shopping center grouping. Shopping centers belonging to the same type show more similarities in terms of their tenant mix, having a similar structure of anchor, preferential and fill-up tenant, as well as a similar distribution of tenant profiles. By evaluating shopping centers on the level of individual tenants, these show similarities independent from their shopping center type on the level of certain tenant profiles like services and fashion retailers, where market

concentration is high. However, these vertical similarities are less relevant in finding shopping centers' substitutes.

Managerial implications and Limitations

The present study reveals the importance of tenant mix based evaluation of shopping centers. Shopping center operators should focus more on defining their direct substituting centers based on the composition of the tenant mix, rather than by relying only on such commonly used indicators as the gross leasable area, distance from downtown or total number of tenants. These indicators originating from Huff's gravity model (1964) fail to clearly define competing shopping centers. Using tenant mix based indicators in evaluating shopping centers bring new insight in competition analysis. It enables shopping center operators to determine their competing peers, as well as to identify opportunities for differentiation by assessing the distance measures of specific indicators between the respective centers. These insights are valuable in considering shopping centers market position, whether they face intensive competition or have a competitive advantage based on tenant mix differentiation. Therefore we would strongly encourage shopping center operators to highly consider tenant mix choices in positioning or repositioning their shopping centers on the market.

The most important strength of the present study is that it provides an empirical analysis of shopping centers using concrete market data, tenant mix based realities of shopping centers rather than consumer perceptions about it. As so, the main limitation of the study lies in its strength: it offers an objective competition map of shopping centers and lacks to assess subjective, consumer perception based competition mapping. Several studies proven that differences occur in effective market position and consumer's perceptions about the same market positions. Future studies should focus on assessing both together and determining congruence and interferences.

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VALUE-BASED MANAGEMENT IN SMALL- AND MEDIUM-SIZED ENTITIES IN GERMANY

Carola Normann & Bernd Britzelmaier

Abstract

The aim of this paper is to analyse the body of knowledge on value-based management (VBM) in small- and medium-sized entities (SMEs) in Germany. VBM is a management approach that emphasizes the importance of the increase of the company value as main goal of management. It is one of the key management philosophies and is applied by large-scale companies for years. Recently, the academic debate about possibilities to transfer VBM concepts to SMEs increased. The body of knowledge on the diffusion of VBM among SMEs and its determining factors is presented and analysed critically. Due to the fact that the paper focuses on studies in Germany it presents research results that otherwise would remain unnoticed by broad parts of the scientific community.

Keywords: Value-based Management, Shareholder Value, Small- and medium-sized entities, Germany

Value Based Management

Rappaport integrated established concepts of financing and capital market theory in a first approach of value-based management, the Shareholder Value approach (Stiefl/Westerholt 2008, p 3). The shareholder value is determined with the discounted cashflow (DCF) method (Rappaport 1986, p 12). In the concept of VBM the shareholder value is considered as most important financial target with strategic importance (Pape 2010, p 143). This target is hierarchically situated directly below the overall objective of ensuring the long-term success and existence of the company. This results from the view, that the supply of financial means necessary for the extension of business activities is only attractive to investors when an adequate growth in shareholder value can be realized through a management focused on the interests of the owners (Gleißner 2011, p 166).

Based on the DCF-method different concepts of value-based management were developed: In literature as well as in practice, the concepts of Economic Value Added® (EVA®) and Cash Value

Added are the most important ones besides the DCF-method. This becomes evident regarding the fact that these three concepts are often addressed in literature (e.g. Britzelmaier 2009; Groll 2003; Lorson 1999; Stiefl/Westerholt 2008; Weber et al. 2004). This is also explicitly stated by *Weber et al.* (Weber et al. 2004, p. 10). Empirical studies show that DCF, EVA® and CVA are the most-often used concepts in practice (e.g. Aders et al. 2003, p. 729; Achleitner/Bassen 2002, p. 624-625). Stern Stewart & Co. developed the concept of Economic Value Added® in 1991 (Stewart 1991). EVA® differs from most other measures of corporate performance by charging the cost of all capital employed by the company against profit (Ehrbar 1998, p 1). The concept of Cash Value Added (CVA) is based on the Cashflow Return on Investment (CFROI) model that was developed by the consulting company *Holt* and advanced to CVA by the *Boston Consulting Group* after the takeover of *Holt* (Britzelmaier 2009, p 145-146). The core idea of CVA is similar to that of EVA®. However, CVA is calculated based on cash flows and not based on the profit of the company (Britzelmaier 2009, p 163).

In contrast to the traditional management practice, value-based management is taking the costs of capital into account (Botta/Schäffer

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2011, p 316). This enables the company to act systematically in a capital preserving or capital increasing manner and thus to increase the value of the company (Botta/Schäffer 2011, p 316). Value-based management is not exclusively aligned to the increase of shareholder value but also represents a management view that should allow for sustainable economic development (Piontkowski 2009, p 357). Besides the shareholder value as a financial target, strategic and social objectives are of importance (Pape 2010, p143).

Characteristics of small- and medium-sized entities

Small- and medium sized entities (SMEs) can be characterised with quantitative and qualitative

criteria. There are different quantitative definitions of SMEs. In Germany, one of the most common definitions is the definition of the research institute *Institut für Mittelstandsforschung Bonn* that considers companies with less than 500 employees and a turnover of less than 50 million Euro as small- and medium-sized entities (IfM Institut für Mittelstandsforschung Bonn, 2011). Besides the staff headcount ceiling and the turnover threshold, the *European Commission* also sets up a balance sheet threshold: A company is considered as an SME if it has less than 250 staff and a turnover of less than 50 million Euro **or** a balance sheet total of less than 43 million Euro (European Commission 2005, p 50).

Table 1: common definitions of small- and medium-sized entities

	Institut für Mittelstandsforschung Bonn	European Commission
Number of employees	Less than 500	Less than 250
Turnover	Less than 50 million €	Less than 50 million € OR
Balance sheet total		Less than 43 million €

However, quantitative criteria cannot represent the diversity of SMEs (Tappe 2009, p 14-15). Thus, qualitative criteria should also be included to show the characteristics of SMEs (Tappe 2009, p 12). Besides a legal and economic independency (Krol 2009a, p4), SMEs are characterised by a unity of ownership and management (Tappe 2009, p15). The owner-manager is acting as owner as well as as manager (Krol 2007, p4). Thus, the principal-agent problem that occurs in large companies is less relevant for SMEs (Tappe 2009, p16). Usually the owner-manager is the sole decision maker and has a high level of self-reliance and independency (Becker/Staffel/Ulrich 2009, p 259). Thus, he is of major importance for the company (Krol 2007, p 4) and has a high influence on the management of the company (Piontkowski 2009, p 357). This company structure focused on the owner-manager results in positive characteristics as a high adaptability and flexibility but also in negative characteristics (Piontkowski 2009, p 357). Usually, the owner-manager has a technical

background and has only limited knowledge on management instruments (Krol, 2009a, p 3). Given that a lot of activities are carried out by the owner-manager, there is the threat of a too patriarchal management of an owner-manager not qualified enough (Krol, 2009b, p 10). The management in SMEs is often highly involved in daily business (Krol 2009b, p 11). This is seen as a reason for the negligence of strategic and formal planning that can be observed among SMEs (Piontkowski 2009, p 358).

Besides this, a separation of the personal, often meta-economic goals of the owner-manager and the entrepreneurial, mainly financial objectives is often not possible (Tappe, 2009, p 15). Another characteristic of SMEs are personal relationships with employees, customers and suppliers often existing for a long term (Schomaker/Günther 2006, p 216). These relationships are much more important for the company's success than in large companies (Arbeitskreis „Wertorientierte Führung in mittelständischen Unternehmen“ 2003, p 525).

German SMEs are often strongly dependant on the financing by the house bank, which can be seen as important stakeholder of the company (Krol 2007, p4).

The limited resources are another characteristic of SMEs. Usually, less staff is available for the support of the management than in large companies (Schomaker/Günther 2006, p 216). Besides this, the information and communication technology and thus also the documentation (Arbeitskreis „Wertorientierte Führung in mittelständischen Unternehmen“ 2003, p 525) and the possibilities for planning and control systems are much more limited than in large companies (Schomaker/Günther 2006, p 216). This can result in disadvantages for management in comparison with large companies (Schomaker/Günther 2006, p 216).

German SMEs are more and more pressured by globalization and its consequences (Schauf 2009, p 27). In this environment the strategic orientation is a decisive comparative advantage because it ensures the existence of the company in the long run (Steinhübel 2006, p 5). Thus, there's a need for 'higher professionalization in management' (Schauf 2009, p 28). In the recent past, it has been discussed if VBM management is an approach that could improve the management of SMEs and help SMEs to face these challenges.

Classification of the literature on value-based management in small- and medium-sized entities into different phases

So far, value-based management for small- and medium-sized entities was only of limited role in academic literature as well as in practical application (Tappe 2009, p 2). The main focus of the discussion on VBM was on large, listed companies (Tappe 2009, p1; Becker 2000, p 39; Bea/Thissen 1997, p 787). Recently, the academic debate about the possibilities to transfer VBM concepts to SMEs increased (see figure 1).

To get an overview of the current body of knowledge on VBM in SMEs German articles and theses on the subject have been analysed.

An analysis of the main topics (colour of the boxes) covered and the methods used in the articles and theses showed that the discussion in literature can be organized in three phases (see figure 1). In the first phase the topic was mainly addressed from a literature point of view and the focus was on why VBM is also relevant for SMEs and not only for large listed companies. In the second phase some authors develop concepts of VBM for SMEs based on in-depth analyses of the characteristics of SMEs discussed in literature and identified in an empirical study. In the third phase quantitative empirical studies were carried out with the main focus of acquiring in-depth knowledge of the diffusion, the form and the determining and success factors of VBM in SMEs. In the following the current body of knowledge will be analysed according to these three phases.

Discussion on reasons for small- and medium-sized entities to apply value-based management

The main focus of the publications on VBM in SMEs in the first phase was on reasons why VBM is also relevant for SMEs. Besides that, first ideas on how to transfer VBM to SMEs were developed. The articles of *Bea/Thissen*, *Achleitner/Bassen* and *Becker* are assigned to this phase and will be summarized and discussed in the following.

In 1997, *Bea/Thissen* published one of the first articles dealing explicitly with the suitability of VBM for non-listed companies, namely companies of the legal form of a private limited company in Germany (Bea/Thissen 1997). From a literature-based comparison of the external and internal control mechanisms, they derive the opinion that a control problem exists not only for listed companies but for private limited companies as well. They conclude that VBM should thus also be implemented in private limited companies. *Bea/Thissen* discuss two starting points for the implementation of VBM system: the installation of a controlling board and the implementation of a value-based compensation system. They emphasise that a realignment of SMEs' management systems considering value orientation is important. *Bea/Thissen* contribute to the body of

knowledge by publishing one of the first articles focusing on the necessity to transfer VBM to

SMEs and giving first ideas on how this transfer can occur.

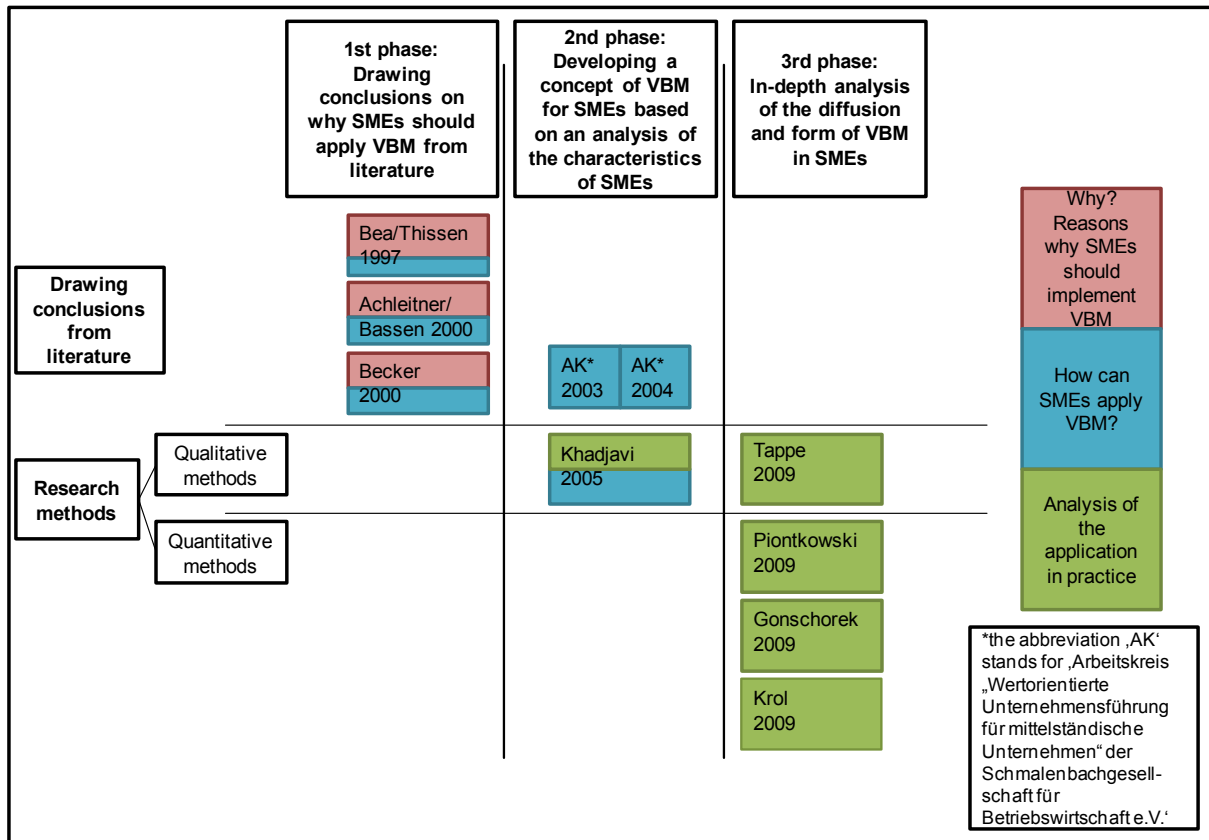


Figure 1: three phases of literature on VBM in SMEs

In 2000, *Becker* is enlarging the conclusions of *Bea/Thissen* in an article that mainly addresses methods of VBM and implementation issues in general but also deals specifically with VBM for SMEs (*Becker 2000*). In his opinion SMEs will have to exploit new sources of equity capital to be able to cover an increased need of capital resulting from various challenges SMEs have to face. This is of high importance because SMEs often have a weak equity base. To be able to exploit new sources of equity capital, SMEs have to enable themselves to assure an appropriate return on invested equity. *Becker* is also thinking a step further and addresses prerequisites and characteristics of the implementation of VBM in SMEs. According to *Becker* there are difficulties to measure the increase in the company value due to the lack of market values. Thus, the net-value method, often used in Germany for company valuation has a dominant role compared to the DCF method. *Becker* states that some implementation problems could arise from the

characteristics of SMEs, for example there is the problem of strongly differing systems of planning, control systems and management information systems. Besides extensive conceptual and instrumental adjustments of VBM he deems a change of the attitude and behaviour of entrepreneurs necessary for the implementation of VBM in SMEs.

Achleitner/Bassen also published a paper dealing with VBM for SMEs from a literature point of view in 2000 (*Achleitner/Bassen 2000*). They mainly deepen the thoughts of *Bea/Thissen* regarding the objectives of an implementation of VBM in SMEs and the realignment of management systems. They name the following objectives of an implementation of VBM in SMEs:

- Creating economically meaningful performance measures
- Securing the sole source of income of the entrepreneur
- Covering capital requirements

- Supporting an optimal solution of the succession problem

They enlarge the body of knowledge by presenting the fundamentals of the discounted cash flow method and discussing an adaption to the characteristics of SMEs. *Achleitner/Bassen* also present three different aspects of an implementation of VBM in SMEs. Besides the installation of a board controlling the board of management and a value-based compensation system already suggested by *Bea/Thissen* they discuss the implementation of a value-based control system. *Achleitner/Bassen* contribute to the body of knowledge by discussing an adaption of VBM to the characteristics of SMEs. Unfortunately, the characteristics of SMEs are mentioned only in a shortcut manner in the context of modelling DCF for SMEs. An initial overview of the characteristics of SMEs is considered as being a more beneficial base for the adaption to the characteristics of SMEs.

Literature with the focus on an adaption of value-based management concepts for small- and medium-sized entities

The articles and theses assigned to the second phase develop concepts of VBM on the basis of in-depth analyses of the characteristics of SMEs.

The *Arbeitskreis* "Wertorientierte Unternehmensführung für mittelständische Unternehmen der Schmalenbachgesellschaft e.V.³ is a working group that deals with VBM for SMEs and published two articles on the topic in 2003 and 2004. The objective of this working group is to give indications for the application of VBM concepts under consideration of the characteristics of SMEs (*Arbeitskreis* 2003, p 525). The *Arbeitskreis* derives requirements for VBM in SMEs from an analysis of the characteristics of SMEs and an illustration of the fundamentals of VBM (*Arbeitskreis* 2003). The *Arbeitskreis* states that the main focus of an adaption of VBM concepts to SMEs has to be the simplification of the concepts to a necessary and relevant level without falsifying the findings of economic research (*Arbeitskreis* 2003, p 527). Based on this, the *Arbeitskreis* develops a basic concept of VBM for SMEs. In the following article the *Arbeitskreis* is specifying this concept

³ For simplification and a better readability it will in the following be addressed as *Arbeitskreis*.

by suggesting a value-based five-level concept for the measurement of periodic performance (*Arbeitskreis* 2004). The *Arbeitskreis* also addresses application problems that may occur in SMEs. Despite the lack of quantitative or qualitative research methods the articles of the *Arbeitskreis* are seen as a main contribution to the body of knowledge on VBM in SMEs because the concept is derived from a sound analysis of the characteristics of SMEs mentioned in literature. The work of the *Arbeitskreis* was also published by *Schomaker/Günther* on behalf of the *Arbeitskreis* as contribution to a collected edition on VBM in 2006 (*Schomaker/Günther* 2006). This publication is not discussed because it contains the same contents as the two articles already presented.

Khadjavi is one of the first authors who deals with VBM in an in-depth manner (*Khadjavi* 2005). The aim of his inductive research approach is to identify the prerequisites for a VBM system for SMEs based on a literature review and qualitative research and to derive a concept of VBM for SMEs. From an in-depth analysis of the literature on VBM and on SMEs, *Khadjavi* derives the opinion that substantial adjustments to the concepts of VBM are necessary for an application in SMEs (*Khadjavi* 2005, p 250). Then, *Khadjavi* is conducting a qualitative empirical study to get further knowledge on the form of VBM in SMEs. The qualitative empirical study consists of problem-focused interviews with owners, managers and controlling staff of three different companies and a document analysis (*Khadjavi* 2005, p 99-101). This approach leads to the following results (*Khadjavi* 2005, o. 252-255): It is interesting that owners as well as managers of all companies examined are focused on the interests of the owners. However, none of the companies explicitly applies VBM. Besides the lack of knowledge on the instruments of VBM, there are different reasons for non-application of VBM. Based on this, *Khadjavi* focused on how VBM can be applied by SMEs and less on why SMEs should apply VBM. *Khadjavi* is of the opinion that a positive cost-benefit ratio is the main prerequisite for the application of VBM in SMEs. *Khadjavi* concludes that in general the

simplicity of a VBM approach for SMEs is more important than perfect fulfilment of the theoretical requirements as long as this can only be reached with disproportionately high costs. He derives a modified DCF-method that allows a company valuation that is not dependent on capital-market data on a regular basis and thus can provide a basis for a VBM system. *Khadjavi* makes a significant contribution to the body of knowledge on VBM in SMEs by analyzing the form and diffusion of VBM in SMEs in a qualitative study and developing a concept for VBM in SMEs based on an in-depth analysis of literature and his empirical findings. However, his findings on the diffusion and form of VBM in SMEs cannot be generalized due to the very small number of companies analyzed. Thus, a deductive approach seems to be beneficial to follow up *Khadjavi's* findings.

Literature with the focus on an in-depth analysis of the topic

An in-depth analysis of VBM in SMEs is done in the publications of *Piontkowski*, *Gonschorek*, *Tappe* and *Krol* that are assigned to the third phase.

The article of *Piontkowski* is focusing on analyzing the diffusion and form of VBM in SMEs based on a quantitative empirical study that analyses controlling and financing of SMEs (*Piontkowski* 2009). From a literature review *Piontkowski* identifies indicators of VBM in the following fields of management (*Piontkowski* 2009, p 359):

- Management incentive system
- Risk management
- Decision-making process
- Strategy
- Management of operative value drivers
- Communication and transparency

Based on this, *Piontkowski* analyses the different fields of management in SMEs. He comes to the conclusion that there is only a low level of diffusion of value-oriented methods and management instruments among SMEs. *Piontkowski* also carries out multivariate analyses to find indicators for framework conditions that promote the use of VBM methods. The analyses indicate that the larger

the SME is the more likely an SME applies VBM. *Piontkowski's* article is a contribution to the body of knowledge because he carries out a descriptive analysis of the diffusion and form of VBM in SMEs and analyses determining factors of VBM in SMEs. However, the results are not based on an empirical study specifically focusing on VBM in SMEs but on a study with focus on controlling and financing of SMEs in general.

A more in-depth analysis of the topic is carried out by three dissertations also published in 2009. The three dissertations of *Gonschorek*, *Tappe* and *Krol* all aim at a similar field of study. It can be concluded that they all aim at getting a more in-depth understanding of the diffusion and form of VBM in SMEs and its determining factors. An overview for each of the dissertations will be given in the following.

Gonschorek published a doctoral dissertation dealing with VBM for SMEs (*Gonschorek* 2009). The results of the empirical study have already been described in an article of *Günther/Gonschorek* in 2006 (*Günther/Gonschorek* 2006). This article is not discussed because it mainly consists of a description of the empirical results that are also included in the doctoral dissertation which will be summarized and discussed in the following. The aim of *Gonschorek* is to carry out 'further reflections and analyses on the application of VBM in SMEs' (*Gonschorek* 2009, p 2). Determining factors of the application of VBM in SMEs shall be derived from a description of the body of knowledge on VBM in SMEs and an identification of factors that promote or inhibit the use of VBM in SMEs. This is done based on a quantitative study. From a literature review *Gonschorek* identifies external and internal drivers of VBM in SMEs (*Gonschorek* 2009, p 248). External drivers are the increasing internationalization of the operating activities, the increasing opening-up of capital markets for SMEs, the higher requirements on management due to the new regulations for banks and the harmonization of international accounting standards. Internal drivers of VBM in SMEs may be the aim to close the equity gap with the use of alternative instruments of financing, the aim to find a solution for a succession problem and

the low profitability in German SMEs. Based on the literature review, *Gonschorek* derived hypotheses on VBM in SMEs and tested them with the use of quantitative methods. *Gonschorek* concludes that the company goal to increase the company value is of high importance in all companies examined (*Gonschorek* 2009, p 249). However, the corporate management is not focused on achieving this objective everywhere. Especially among smaller family businesses the organisational framework and the management instruments applied only seldom correspond to VBM. Based on the results of his empirical study, *Gonschorek* identifies significant determining factors of VBM for SMEs. The application of VBM in SMEs is driven by

- the use of formal and complex management instruments,
- having dealt with international accounting standards
- an existing knowledge on VBM
- pursuing financial objectives
- an orientation towards communication, technology and innovation (*Gonschorek* 2009, p 249).

Gonschorek concludes that the low level of value orientation among SMEs results from the lack of thinking about the content and the possibilities of VBM (*Gonschorek* 2009, p 250). One reason for this is that controlling tasks are often carried out by the accounting department where a lack of knowledge and time to deal with VBM can be identified. *Gonschorek* makes a contribution to the body of knowledge by carrying out one of the first quantitative studies with explicit focus on VBM in SMEs and its determining factors. Some of his results validate the findings of *Khadjavi*.

Tappe is identifying the existing research gap more clearly than *Gonschorek*: The literature has not yet discussed critical success factors of VBM in SMEs, the form they take in SMEs and how their form in SMEs can be improved (*Tappe* 2009, p 6). Thus, the aim of *Tappe* is to assess the form critical success factors of VBM take among SMEs and to derive suggestions for the form they should take (*Tappe* 2009, p 7). Based on a literature review, *Tappe* identifies

- the target system,

- the planning system,
- the control system,
- the incentive system,
- the information system,
- the investor relations and
- the change management

as critical factors for the success of an implementation of VBM in SMEs (*Tappe* 2009, p 290). The form these critical success factors take among SMEs is assessed based on a qualitative study: *Tappe* is carrying out semi-structured interviews with 20 experts that either are business representatives of SMEs, debt and equity investors focused on SMEs or SME-specialised consultants (*Tappe* 2009, p 194-198). From these interviews *Tappe* is drawing the following main conclusions (*Tappe* 2009, p. 290-292). In contrast to the findings of *Khadjavi* and *Gonschorek*, the empirical study shows that the necessity to increase the company value is not generally agreed to. In fact, SMEs are focused on a healthy growth as main objective of their entrepreneurial actions. However, they act to a certain extent in a value-oriented manner in the context of portfolio considerations and the optimisation of working capital. The experts interviewed share the opinion that the importance of external investors will increase in the future due to expansion efforts and successions and that the use of alternative instruments of financing requires a certain attractiveness to the capital markets. Thus, *Tappe* presumes that the number of SMEs that considers VBM as an adequate management instrument will increase in the future. The requirements for the form of the success factors of VBM in SMEs are the less fulfilled in the following areas: considering value orientation in the definition of the company goal, operationalisation of value-based objectives, use of strategic management instruments, value-oriented control and value-based incentive systems. *Tappe* is making a contribution to the body of knowledge by analysing the success factors of VBM in SMEs by qualitative research.

In his dissertation *Krol* carries out an empirical study on the form of VBM in SMEs (SMEs) and its determining factors (*Krol* 2009a). Besides the doctoral dissertation *Krol* also publishes two

articles on VBM in SMEs (Krol 2007; Krol 2009b). They will not be discussed because they deal with aspects of the topic that are also addressed in the doctoral dissertation. One of the articles deals with benefits and implementation barriers as well as evaluation criterias for VBM in SMEs (Krol 2007). The other article gives an overview of the results of the doctoral dissertation (Krol 2009b). Regarding the high importance of VBM concepts in general and the low level of diffusion of VBM in SMEs that is indicated by the study of *Khadjavi Krol* derives a need to research the drivers and barriers of VBM in SMEs with a quantitative empirical study (Krol 2009a, p 1-4). Therefore, the objectives of *Krol's* dissertation are to

- Generate knowledge on the actual form of different aspects of management in SMEs, especially to generate results on the form and diffusion of VBM management concepts and principles
- Identify possible reasons for the current implementation status of VBM in SMEs
- Analyse if SMEs can expect an economic benefit from applying VBM instruments and metrics as well as the principles of VBM

The dissertation is divided in three main parts (Krol 2009a, p 6). In the first part, a literature review shows the main context of the empirical study. In the second part, research hypotheses are deducted and the results of the empirical study are described. In the third part, implications for practice and research are deducted.

Krol differs two forms of VBM in SMEs – explicit and implicit value orientation (Krol 2009a, p 66f.). Value-based management can take the form of using certain management concepts explicitly – for example by using VBM figures like Economic Value Added, Cash Flow Return on Investment, Discounted Cashflow or other VBM methods. But especially in SMEs, value orientation can also express by taking the four basic principles of VBM implicitly into account in the decision-making process (Krol 2009a, p 61-65):

- Future orientation
- Cash flow orientation
- Risk orientation

- Focus on an increase of the company value

In total, the descriptive analysis shows that concepts and methods of VBM are used only seldom in SMEs (Krol 2009a, p 219). The objective to increase the value of the company in the long run seems to be rather unconcrete (Krol 2009a, p 219). The majority of the SMEs does not apply explicit value orientation (Krol 2009a, p 220). Nevertheless, the results indicate an implicit value orientation of the respondents (Krol 2009a, p 221).

Krol derives hypotheses regarding drivers and barriers of an implementation of VBM in SMEs from literature and plausibility considerations (for clarification of the procedure and an overview of the system of hypotheses compare Krol 2009a, pp 222-223). A summary of *Krol's* results is given in the following (Krol 2009a, p 380-383). The test of the validity of the model indicates that the determining factors included are adequate for the explanation of value-orientation in SMEs. Out of the general external determining factors, especially the use of international accounting standards has an influence on the value-orientation of SMEs. The company size is the general internal determining factor with the highest influence on value orientation. Bigger SMEs have more complex and more sophisticated management concepts available than smaller SMEs. A positive influence on implicit value orientation can especially be observed of the following aspects of leadership and management:

- formalization of decision-making,
- transparency,
- a cooperative managerial style and
- the importance of controlling.

Krol concludes that these aspects have a positive influence on the rationality of management, which also leads to an increased focus of management decision on value-based principles. The opinion, that the specific characteristics of the target system of SMEs are not compatible with VBM cannot be confirmed by *Krol's* empirical study. The financing behaviour especially influences the dimensions of explicit value orientation. This can be explained by the reasoning that the explicit use of value-based instruments, figures and

calculation methods directly influences the fields of management which can be checked comparatively easy by banks and other investors and have a positive effect on the rating. The expectations of SMEs towards the implementation of VBM show a comparatively low impact. Regarding the implicit value orientation, it can be observed that SMEs who have a certain value-oriented basic opinion and thus at least partly consider value-based principles in decision-making, also explicitly use value-oriented management concepts more often. The analysis of the influence on performance shows differentiated results: While for bigger SMEs there can only be observed a positive effect of the focus on the increase of the company value, there are stronger influences for smaller SMEs. Regarding smaller SMEs, it can be observed that besides the use of VBM instruments, in particular the risk orientation is of high importance for the perception of the long-term performance. *Krol* derives the opinion that for SMEs not only the explicit use of VBM concepts is beneficial. There is also a significant influence of implicit value orientation on the assurance of rationality in management and thus implicit value orientation contributes to secure the existence of the company in the long run. The quantitative study of *Krol* makes a significant contribution to the body of knowledge by generating detailed empirical results on the diffusion and form of VBM in SMEs and its determining factors. In addition *Krol* also introduces the aspect of implicit value orientation and gives indications on the diffusion of implicit value orientation and its effect on explicit value orientation and the performance of SMEs.

Summary of the literature on value-based management for small- and medium-sized entities

The authors dealing with this topic name a variety of possible benefits of VBM for SMEs. It is often stated that VBM improves the management of SMEs and can thus help to ensure the long-term existence of SMEs (Achleitner/Bassen 2000, p 151; Krol 2007, p 9; Piontkowski 2009, p 358). According to the literature, VBM also helps to have a better

access to equity and debt capital (Achleitner/Bassen 2000, p 152-153; Krol 2007, p 3). Another reason for implementing VBM in SMEs is that it helps facing the succession problem that exists among a large number of SMEs in Germany (Achleitner/Bassen 2000, p 153; Piontkowski 2009, p 358, Krol 2007, p 11-12). But there are also some implementation barriers. Especially the lack of resources is seen as an obstacle for the application of VBM in SMEs (Arbeitskreis 2003, p 525; Krol 2007 p 12-13). Many of the authors focusing on VBM for SMEs express the opinion that they consider VBM as suitable for SMEs (Bea/Thissen 1997, p 792; Achleitner/Bassen 2000, p 172; Arbeitskreis 2003, p 526; Khadjavi 2005, p 257; Krol 2007, p 3; Piontkowski 2009, p 357). In contrast to this, one of *Tappe's* findings was that not all respondents agree to the opinion that there is a necessity of an increase of the company value (Tappe 2009, p 290).

In the literature on VBM for SMEs, a consensus exists regarding the necessity of an adaption of VBM concepts towards the characteristics of SMEs (Becker 2000, p 40; Khadjavi 2005, p 250; Krol 2009a, p 1). Some authors already discussed the prerequisites of a VBM concept for SMEs resulting from the characteristics of SMEs. There are also some proposals for VBM concepts adjusted to the characteristics of SMEs (Arbeitskreis 2003; Arbeitskreis 2004; Khadjavi 2005). Nevertheless, the empirical studies carried out show that there is a gap between the aim to increase the company value and the application of VBM that could help to achieve this aim. In contrast to *Tappe's* findings, the quantitative studies of *Gonschorek* and *Krol* show that the goal to increase the company value is important for SMEs (Gonschorek 2009, p 249; Krol 2009a, p 219; Tappe 2009, p 290). An indication for this is also the finding of Khadjavi that the main focus of owners and management is on the interests of the owners (Khadjavi 2005, p 252). However, empirical studies show that explicit application of VBM systems can only be found to a limited extent among SMEs (Gonschorek 2009, p 249; Khadjavi 2005, p 252; Krol 2009, p 392-393; Piontkowski 2009, p 363). It can be concluded that there is a paradoxical situation: Despite many SMEs aim

at an increase of the company value and VBM is a management instrument that aims at increasing the company value and there are propositions on how SMEs can apply VBM, a majority of SMEs does not apply VBM. Thus, further research seems to be necessary in this field of research.

An interesting new aspect to this field of research is introduced by *Krol*: he is of the opinion that value orientation can also take place by implicitly taking the basic principles of VBM into account in the decision-making process (Krol 2009a, p 61-65). His results indicate that a such implicit value orientation exists among the respondents (Krol 2009a, p 221). Besides *Krol Tappe* also discovers indications for an implicit value orientation even if he does not use the term 'implicit value orientation': He concludes that SMEs 'already today act to some degree in a value-oriented manner e.g. in the context of portfolio considerations and the optimisation of working capital' (Tappe 2009, p. 290).

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REGULATION AND ENFORCEMENT OF MARKETING OF FOOD BY THE APPLICATION OF HEALTH AND NUTRITION CLAIMS

Ajay Patel

Abstract

The food lobby has traditionally resisted measures aimed at promoting consumer health and well-being which might be considered to be harmful to its economic interests. It has argued that consumers do not want a paternalistic approach from the state which tells them what they can and cannot consume. Recent campaigns relating to salt, sugar and fat intake have been characterised by the food lobby's preference for industry led self-regulatory measures and not legislation. The European Commission's regulation on nutrition and health claims (EC No 1924/2006) (the Regulation) came into force in 2007. Article 13 deals with health claims, that is, statements that link a food, drink, ingredient or nutrient with a beneficial diet. Article 14 deals with claims relating to reduction in disease and children's development and health claims. The European Food Safety Authority (EFSA) is responsible for verifying the scientific substantiation of the submitted claims, some of which are currently in use, some of which are proposed by applicants. This information serves as a basis for the European Commission and Member States, which will decide whether to authorise the claims. EFSA provides scientific advice on health and nutrition claims. It has set out a procedure for applicants to follow and technical and scientific guidance for preparation and presentation of the claims for the approvals process.

The impact of the regulation will depend to a large degree on the enforcement of the law by the relevant agencies. In the UK, Trading Standards departments in local authorities will be faced with the prospect of taking action against large multinational organisations with access to teams of experts and lawyers with all of the risk and costs entailed. This paper will explore prospects for approval and enforcement of health and nutrition claims in the UK by a review of the historical treatment of such claims by enforcers including the Advertising Standards Association.

Keywords: Regulation and enforcement, risk, food law, health claims

Introduction - Why regulate health and nutrition claims?

The importance of the regulation cannot be overstated. The control of the marketing of foods affects all of us in the claims to which we are exposed and consequently our everyday choices about what foods we consume. An illustration of the extent of the part played by health and nutrition claims is provided by a survey of the Irish food market in 2007. The survey found that some 47% of foods featured a nutrition claim and some 18% a health claim (Lalor, Kennedy et al. 2010). Prior to the regulation there was no harmonised legislation

governing the use of health and nutrition claims. Member states of the EU were left to control such claims at national level and there was no *specific* regulation in the UK only general control of misleading advertising under the Control of Misleading Advertisements Regulations 1988 (HMSO 1988) and the self-regulatory codes of the Advertising Standards Authority (ASA).

Control of Enforcement – the principal actors

Although general responsibility for food law rests with local authorities, there are reserved duties held by central agencies. The most important one of these central agencies is the Food Standards Agency (FSA) which acts as the

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enforcement authority in relation to 1700 licensed premises in the UK producing meat for human consumption including slaughterhouses, cutting plants and cold stores (FSA 2010). The FSA is charged with investigation and prosecution in order to maintain public confidence in the meat industry. The food scandals of the 1990s including BSE which led to the creation of the FSA may have influenced this decision. The FSA also has responsibility for the enforcement of EC regulations relating to wine. The FSA's powers included; the ability to set standards of performance in relation to enforcement of food law and monitor the performance of enforcement authorities.

- Set standards of performance in relation to enforcement of food law
- Monitor the performance of enforcement authorities
- Require information from local authorities relating to food law enforcement and inspect any records
- Enter local authority premises, to inspect records and take samples
- Publish information on the performance of enforcement authorities
- Make reports to individual authorities, including guidance on improving performance
- Require enforcement authorities to publish these reports and state what action they propose in response" (FSA 2010)

An important footnote with regard to the enforcement and regulatory structure for food in the UK is that in the Comprehensive Spending Review of 2010 the government announced its intention to dismantle the FSA and divide its responsibilities between the Department of Health and the Department for Environment, Food and Rural Affairs (DEFRA) and the Department of Health (DoH).

The FSA has a role in establishing the policy for enforcement of food law and setting the statutory duties for enforcers. In this way policy on enforcement priorities for the frontline, in particular Trading Standards officers (TSOs) for food has been influenced by guidance from the FSA. However since the FSA has been dismantled and its functions devolved between

DEFRA and DoH this factor will have become less important although its influence may still remain.

Enforcement defined

Enforcement is defined as "any action taken by officers aimed at ensuring that businesses comply with the law and this may include offering advice, issuing warnings, issuing cautions and initiating legal proceedings including prosecution" Gloucestershire Trading Standards Enforcement Policy (GTS 2011). The example is taken of Gloucestershire Trading Standards as a representative example.

The purpose of the policy is to provide an equitable and consistent framework for TSOs and to ensure that enforcement is practical. At the outset the policy makes it clear that it will be applied objectively and in compliance with discrimination laws and therefore without regard to the "ethnicity, gender, religious beliefs, political views or the sexual orientation of the suspect or the victim, or witness or offender" (GTS 2011). The breadth of the scope of the work is set out in the statement, "We enforce a wide range of business and consumer protection legislation relating to quality, quantity, safety, description and price of goods and services." (GTS 2011).

The policy makes clear the preference for alternatives to prosecution aimed at prevention of breaches of law and that prosecution will only be brought if there is a realistic prospect of conviction and it is in the public interest to do so (thereby adopting part of the Crown Prosecution Service test for taking action).

Which enforcer? Home/Lead Authority

Where a business trades in more than one place, then two or more authorities may have relevant jurisdiction over it. However, the aim of the Home or Lead Authority Principle is to facilitate the relationship between it and the most pertinent and appropriate authority rather than simply to determine the question of jurisdiction. The Lead Authority principle is a variation of the Home Authority principle which aims to remove some of the anomalies of the latter where, for example, a business has a registered office in one area but in fact carries out most of its business outside of that area. A

recent report by the National Audit Office found that 73% of consumer detriment from unfair or rogue practices arises as a result of threats that span more than one local authority area notwithstanding that Trading Standards are overwhelmingly funded by one local authority (NAO 2011). This is in fact the case with many large food businesses and all of the large supermarket chains. In such cases the business may nominate the Lead or Primary Authority which may be more relevant and overcome what may be a mere technical connection with the home authority. In 2011 the government put forward proposals seeking to expand the Primary Authority scheme to include more businesses and to include more policy areas which currently fall outside the scope of the service, see *The future of the Local Better Regulation Office and extending the benefits of the Primary Authority scheme* (BIS 2011). The benefits claimed for the Primary Authority scheme are that it, “reduces risk, reduces the cost of compliance and reduces the cost of failure”(BIS 2011). However the government’s reforms form part of its plans to tackle regulatory burdens that include such measures as the Red Tape Challenge and the One in One out process aimed at identifying those regulations that may be removed. The agenda of the consultation the *Transforming Regulatory Enforcement: Freeing up business growth*(BIS 2011) is explicit but the prospects for the enforcement of the regulation of health and nutrition claims are unclear.

Aim of enforcement action

In attempting to understand the decision-making process underpinning the choices of TSOs it is helpful to examine the aims of the actions. The aims are described as:

- To change behaviour of the offender;
- To eliminate any financial gain or benefit from non-compliance
- To be responsive and to consider what is the most appropriate sanction for the particular offender and the regulatory issue concerned
- For the action to be proportionate to the harm/potential harm caused by regulatory non compliance

- To restore the harm caused by regulatory non-compliance, where appropriate
- To deter future non-compliance (GTS 2011)

In the transposition of these aims to health and nutrition claims for food, it is suggested that reducing the amount of potential harm tempered with proportionality would be the most important criteria. The application of the criteria will inform the action that would be most suitable to take. For example, taking no action may be justified where the impact on consumers may be judged small. In relation to health and nutrition claims the impact of financial loss may be significant and measurable, that is, the additional premium paid for a product by consumers as a result of the health claim made for it. In such cases the effect on an individual consumer may be small but the impact of a false claim on the group as a whole is potentially much more harmful. However, the health effect is latent and altogether more difficult to attribute and measure.

The authority may take indirect action by referring the issue to another authority that may be the home or lead authority. A further option for a TSO is to issue a verbal or a written warning where an offence has been committed but it is not appropriate to take further action (GTS 2011). Other enforcement options that may be relevant to health and nutrition claims might be fixed penalty notices recognised as a low-level enforcement tool or penalty charge notices if provided for in the legislation. In addition statutory notices are similar to injunctions in that they are used where offenders are required to act in a specific way or to cease to do so. The seizure and forfeiture of goods may be appropriate in health and nutrition claims. Finally the TSO may seek undertakings and injunctive action under the Enterprise Act 2002 (EA 2002). The range of actions under the Enterprise Act include; informal undertakings, formal undertakings, interim

orders, court orders and contempt proceedings.

The most serious action that may be taken by a TSO in response to a health and nutrition claim would be a prosecution. The decision to take such action would need to pass the dual test of evidence and public interest (GTS 2011).

Other options which are available to trading standards but which are unlikely to be suitable for health and nutrition claims include; anti-social behaviour orders, taking animals into protection or a caution in accordance with the Home Office guidelines.

To prosecute or not to prosecute?

Enforcement is of course much wider than taking court action but prosecution remains the ultimate enforcement tool available for TSOs. Prosecution is seen as time consuming, expensive, and risky and for these reasons such action has fallen out of fashion. However the prosecution of a case may have benefits beyond the determination of a particular case; namely, a deterrent effect on the industry or clarification on a point of law.

In deciding whether to prosecute a case, Trading Standards adopts the dual test used by the Crown Prosecution Service. The first limb of the test is the evidential test; is there a "realistic prospect of conviction?" If the answer to this question is yes, the second part of the test is applied; the question of whether it is in the public interest to prosecute including a consideration as to whether there is another more appropriate measure available (CPS 2011; GTS 2011).

Cases prior to the Regulation

Prior to the Regulation coming into force, the legislation relevant to the regulation of health claims was the Food Safety Act 1990 and the Trade Descriptions Act 1968 (since repealed by the Consumer Protection Regulations 2008 (HMSO 2008). The control of health and nutrition claims was of a broad nature and not specific to food. Broadly, it required that consumers were not misled (Ruffell 2003).

In 2009 the ASA received a complaint about a television advertisement for Danone "Actimel" which made the claim; "Actimel. Scientifically proven to help support your kids' defences". The claim was challenged by a complaint that questioned whether such a claim could be substantiated under the British Code of Advertising Practice section 8.3.1:

8.3.1 Accuracy in food advertising

- 8.3.1(a)

Nutrition claims (e.g. "high in vitamin C") or health claims (e.g. "aids a healthy digestion") must be supported by sound scientific evidence. Advertising must not give a misleading impression of the nutritional or health benefits of the product as a whole and factual nutrition statements should not imply a nutritional or health claim that cannot be supported. Ambiguous wording that could be understood as a health claim must be avoided. For example, "goodness" should not be used as a synonym for "wholesomeness" and, if a claim relates to taste, that should be made clear, e.g. "It tastes good", and not "It is good". The scientific meaning of the word "energy", i.e. calorific value, should not be confused with its colloquial meaning of physical vigour.

- 8.3.1(b)

Nutritional claims and health claims should relate to benefits that are significant. Claims should be presented clearly and without exaggeration

- 8.3.1(c)

No nutritional or health claim may be used in HFSS (high fat sugar and salt) product advertisements targeted directly at pre-school or primary school children

- 8.3.1(d)

The fact that a food product is a good source of certain nutrients does not justify generalised claims of a wider nutritional benefit Danone claimed Actimel would support the human body's natural defence system against common infections. Danone provided the ASA with the body of scientific evidence on which it relied. The studies, it claimed, showed a positive effect for Actimel overall.

The ASA, in consultation with a nutrition expert, considered the scientific studies. The first, by Geuran-Danan et al, did not consider health

effects and therefore it was discounted (Guerin-Danan, Chabanet et al. 1998). Two further studies were deemed unsuitable as evidence for the benefits of Actimel for the general population as they were carried out on hospitalised children in India. Two studies by Pedone et al, were examined. The 1999 study, used a sample size that was too small to show the effect on the incidence of diarrhoea in the subjects (Carosella, Pahor et al. 1999). In both of the studies the mean ages of the children was 6 and 15.5 months and this was considered by the ASA to be “lower than the target group of school age children suggested by the ad.” The portion sizes of the children in the study were larger than the recommended serving of one 100g pot of Actimel per day. Further observations by the ASA on the evidence included the inconsistency between the studies and where research was carried out on children who suffered from allergic conditions. This meant that the results of the study could not necessarily be extrapolated to apply to normal, healthy children”(GIOVANNINI, AGOSTONI et al. 2007). Where there were apparent benefits among those who consumed Actimel these were not statistically significant when compared to the control groups.

In conclusion, the ASA found that “the evidence did not support the claim made in the ad that ‘a serving of Actimel was scientifically proven to support the defences of normal, healthy school aged children against common, everyday childhood infections’”. And finally “[W]e therefore concluded that the ad was misleading.”

The regulatory response: The European Commission’s regulation on nutrition and health claims (EC No 1924/2006)

The European Union has passed legislation on the control of nutrition and health claims to “better inform consumers and to harmonise the market”(EC 2003). These aims are modest claims for the benefits of the regulation and it is noteworthy that they stop well short of the aim to improve health. There is no assumption that regulation of the claims made by advertisers and suppliers will lead to the goal of better health for consumers. Indeed any such claim would be unwise in the light of the unproven

assumptions that need to be made to demonstrate a causal relationship. In relation to consumer health and welfare, the aim to provide better information seems timid.

“Differences between national provisions relating to such [health and nutrition] claims may impede the free movement of foods and create unequal conditions of competition. Thus they have a direct impact on the functioning of the internal market.” ((EC) No 1924/2006). Of course harmonisation of the market relates to the general EU aim of the free flow of goods and services and the internal market. It should be noted however that this aim relates primarily to the functioning of the internal market and not to consumer protection.

A recent study, investigating the likely impact of the EU regulation on broadcast advertising, examined the potential impact on one entire week of free to air broadcast commercial television. The study found that ‘little is likely to change in terms of claims currently being made...because most advertisers rely on nutrition content claims or comparative claims...which are fairly easy to substantiate; in the case of nutrition content claims, they generally do not make any direct health claim.’ (Brennan 2008).

This is a reason for disappointment. The promise seems to have been whittled down from the potential for the improvement of general health to one of minimal impact on the content of food advertising.

The Regulation takes a two pronged approach; firstly in relation to nutrition and secondly in dealing with health claims. Nutrition claims are concerned with the content of the food and may refer to what is or is not in it. For example, ‘low fat’ or ‘high fibre’. The Regulation is aimed at harmonising the use of such claims so that products claiming to be ‘high fibre’ have a defined minimum amount of fibre per a defined unit. It does this by the creation of nutrition profiles that set out the standards that foods must meet in order that defined nutrition claims may be made for them.

Health claims refer to what a food or an element in a food does to the consumer. “Health claim means any representation that states, suggests or implies that a relationship exists between a food or a nutrient or other

substances contained in a food and a disease or health-related condition” Codex Alimentarius Third Edition(2006). The rationale behind the legislation is that health claims must be backed up by scientific evidence. Some health claims are well established, such as the proposal that calcium is important in promoting healthy teeth and bones. Other health claims are more controversial such as the relationship between whole grain and the prevention of coronary heart disease. The Regulation prohibits health claims unless they can be substantiated. The Commission has produced a list of established health claims that may be used by producers to enable them to be able to make a meaningful claim. As a result consumers will be able to rely on clear and verifiable claims.

The response of the food industry to the Regulation has been cautious. The Confederation of Food and Drink Industries of the European Union (CIAA) fears that the higher standards in the Regulation may lead to reduced innovation in the production of food and less consumer choice and that it will not necessarily succeed in promoting better understanding of nutrition and health by consumers (WHO 2009). Also the requirement for approval from the EU being contingent upon the submission of a full scientific dossier places small to medium sized enterprises at a competitive disadvantage when compared to multinationals. Only the very large concerns will have the money and access to expertise and resources to be able to put forward the evidence required.

The industry claims that the evidential burden on producers is too high and that the effect of the regulation will be catastrophic; “the regulation is killing this industry and the job losses are already being felt” Ioannis Misopoulos, director general of the International Probiotics Association (IPA).

The European Food Safety Authority has rejected most of the claims it has received. As a result producers may be deterred from applying for approval at all. Therefore an unintended consequence of the regulation may be that the decision not to apply for approval and rejection of unsuccessful claims will lead to consumers receiving less information about nutrition content and health properties of food.

Health claims that are made for foods may begin to resemble the claims made in the promotion of drugs in their conviction. The analogy between the marketing of foods and drugs is instructive. The sale and promotion of drugs is strictly controlled. The licensing of drugs is subject to approval by the Medicines and Healthcare Products Regulatory Agency (MHRA), which is concerned with their safety and efficacy. The claims relating to the efficacy of drugs must be substantiated by evidence obtained as a result of clinical trials and drugs will not be licensed for distribution unless their benefits outweigh their risks. The approvals system set up under the EC Regulation 1924/2006 for health and nutrition claims for food and the requirement for substantiation of claims brings food closer in line with medicines. However there are important differences between food and medicine and the requirement for evidence should not remove that distinction by medicalising the supply of foods. It would be undesirable for the supply of food to be subject to a licence the terms of which required a prescription from a medical practitioner in response to a specified condition. (Lawrence and Rayner 1998). On the other hand consumer trust and confidence in the food industry relies upon evidence that the products can in fact provide the benefits claimed for them. “If food companies wish to make the sorts of claims about their products that pharmaceutical companies do, they must be prepared to submit to similar scrutiny. Extraordinary claims, require extraordinary evidence.”(Economist 2009). In so far as it is possible, the rules should be ‘industry neutral ‘ in that they do not create one regime for drugs in which say, a particular claim requires evidence and a separate one for food where a similar claim may be made but which is not subject to the same scrutiny. To provide different levels of scrutiny depending on whether a product is classed as a medicine or a food but for which similar claims are made would create a regulatory get-out through which products may be passed resulting in distortion of markets and confusion among consumers. This could be said to exist under the current regime, where for example, the cholesterol lowering effects of oats or butter

substitutes are treated differently to cholesterol lowering effects of drugs such as statins. The differences may lie in the degree.

The link between health claims and increased consumption of functional foods

The sale and promotion of food by the food industry assumes that there is a link between the making of nutrition and health claims in advertising and marketing and the increased consumption of such foods. However the success of this sales and promotion activity depends on consumers being aware of and having understood the health claims made for a particular food or nutrient and their expectation that they will enjoy the benefits of consumption as promised by the supplier. On the other hand, proponents of restrictions on the promotion of food containing high fat, sugar and salt base their case on the presumption that there is a link between advertising of high fat, sugar and salt foods and their consumption. Many of these assumptions are untested and the evidence for them is patchy at best.

There are difficulties with defining 'healthy' foods. A product such as milk may be high in a specific desirable nutrient, for example, calcium and at the same time contain high levels of an undesirable nutrient, in this case, fat. Some consumer groups, for example, *Which?*, have argued that nutrition and health claims should not be permitted in the promotion of such products. This may lead to their increased consumption especially among children. The US Food and Drug Administration approach is that if a food has high levels of fat or salt than this will automatically undermine any health claim.

Self-regulation

Prior to the regulation from the EU, the way in which health claims were dealt with was by self-regulation, in particular under the Joint Health Claims Initiative (JHCI 2007). This is in keeping with the UK's partiality for self-regulation over legislation. As early as 1989 it was observed that 'Britain appears to be something of a haven for self-regulation' (Baggott 1989). This observation continues to be true and in fact Britain has influenced the EU in its regulatory design towards greater use of self-regulatory models. The role of self-regulation and the case

for and against it is well established (Senden 2005). On the side of the advocates, self-regulation is, when compared to legislation, flexible, quicker and cheaper. For its critics, self-regulation is ineffective because it is not taken seriously by industry and regulators are toothless because they lack real powers and an effective sanction (Ogus 1995).

Advertising

"Advertising can contribute to consumer dietary knowledge and subsequent behaviour" (Brennan 2008). There is evidence to suggest that commercial communications provide information in a form that is more readily accessible to consumers and especially to disadvantaged groups (Ippolito and Mathios 1990). The question of how such communications are regulated needs to be carefully considered in the light of the possible unintended consequence of the restriction of information to consumers. This is not however an argument for misleading and spurious claims to be permitted. The removal of restrictions on the promotion of foods would result in the undermining of claims which can be justified and this may damage consumer confidence and contribute to consumer scepticism in the industry as a whole.

Whatever the evidence of efficacy of the use of nutrition and health claims in the promotion of foods, such claims have been seized upon and put to use with gusto. Today you "can't walk down the aisle of a supermarket in any developed country without seeing ads touting the benefits of additives, such as omega-3's/DHA, lycopene or antioxidants. Even sugar-packed fizzy drinks proclaim their "electrolyte value" and call themselves "sports drinks". But does adding vitamins to sugar water make it any healthier? And what about adding extra bacteria to yoghurt?" (WHO 2009). Therein lies the problem; consumers are baffled by the sheer volume and questionable reliability of information and find it difficult to distinguish from those claims grounded in established research that are meaningful, claims that are controversial and yet unproven and the mere puff of sales gimmickry. "If the only real function behind such labels is to bolster profits,

consumers and regulators will eventually see through the hype”.

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ENTRY STRATEGY FOR ORGANIZED EUROPEAN RETAILERS INTO INDIA, WITH A SPECIAL FOCUS ON GERMAN RETAILERS

Natarajan Chandrasekhar

Abstract

In a consumer driven industry like retail, countries are at different stages of evolution on the product life cycle depending on the economic situation that they face. While competition has increased consumer spending in many parts of the world dipped. New giants emerged and erstwhile leaders faded. The global retail industry employs more than 150 million people directly and accounts for about 9 percent of global GDP—and another 20 percent indirectly. In such a scenario, globalization has gradually become an integral part of the retail strategy of many retailers. Is there a framework which can facilitate a retailer's successful entry?

The German retail behemoth presents a strong story at home and has given many International retailers entering Germany a lesson to learn from. It has for some time now looked outside its domestic boundaries for growth. On the other hand the story of the Indian retail transformation began a few years ago and is today rapidly spreading across the more densely populated cities and towns in the country. Since the early 1990s the retail scenario in India has been characterized by a major shift from traditional kirana shops to modern formats that include department stores, hypermarkets, supermarkets and specialty stores across a wide range of categories. Today, these retail formats have established a presence across prime locations in the metropolitan and mini-metros. Formats new to the Indian marketplace have emerged rapidly over the past five years. Many international retailers are present in the market and are looking at growth. The aim of this paper is to understand the challenges faced by International retailers, specifically German retailers when they consider entering the Indian retail space. The paper also attempts to suggest a workable model for the same.

Keywords: *organized retail, retail strategy, consumer, culture, PLC*

Introduction

Retail trade exists in every country but the pace of retail development is dictated by various economic factors. World over the retail industry is increasingly becoming more complex and is transforming at a rapid speed essentially due to compulsions, technology and consumerism. In this consumer-driven industry retailers are increasingly constrained in their ability to grow and maintain profit margins as a result of high operating expenses, market saturation, the rise

of multichannel buying, an aging population, inflation, diminished consumer loyalty and the rise of digital media which influence purchase decisions.

The start of 2010 brought hope to many industries, retail being one among them. Some economies recovered moderately with the help of government intervention. The emerging countries witnessed strong growth but with the risk of rising inflation. As many new markets emerge the move away from home is clearly seen among the retail giants. Table 1 illustrates the top 10 global retailers in the list of the top 250 retailers in the world.

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Table 1: The top 10 global retailers

Retail rank	Sales	Name of company	Country of Origin	Retail Sales (US \$ ml)	# of countries of operation
1		Wal-Mart Stores Inc	U.S.A	405,046	16
2		Carrefour S.A	France	119,887	36
3		Metro AG	Germany	90,850	33
4		Tesco plc	U.K.	90,435	13
5		Schwarz Unternehemens Treuhand KG	Germany	77,221E	25
6		The Kroger Co	U.S.A	76,733	1
7		Costco Wholesale Corp	U.S.A	69,889	9
8		Aldi Einkauf GMBH	Germany	67,709E	18
9		The Home Depot Inc	U.S.A	66,176	5
10		Target Corp	U.S.A	63,335	1

Source: Global Powers of Retailing 2011, www.deloitte.com, accessed 08/08/11

Table 2: Top 10 retailers in Europe

Region Rank	Top 250 rank	Retailer	Retail Sales (US\$ mln)	Country of Origin
1	2	Carrefour	119887	France
2	3	Metro	90850	Germany
3	4	Tesco	90435	UK
4	5	Schwarz	77221	Germany
5	8	Aldi	67709	Germany
6	12	Rewe	611771	Germany
7	14	Edeka Zentrale	55339	Germany
8	15	Auchan	54057	France
9	22	E Leclerc	41002	France
10	25	Ahold	38945	Netherlands

Source: *Global Powers of Retailing, 2011*

Global retail sales are likely to reach USD18.5 trillion in 2011, leaving well behind the decrease that came as part of the economic downturn of 2008/09. The biggest sub-sector continues to be food retail, now accounting for 47% of global retail sales.⁴

The dominance of Wal-Mart remains undisputed as it continues to dominate the Fortune 500 list and ranks number 1 among the global 250 retailers. The dominance in trade is largely based on the purchasing power in the economy. However due to the dynamic nature of economy, changes are inevitable both in the

home country and the new and emerging markets. This in turn forces international retailers to evaluate new and emerging markets. World over the retail trade is undergoing transformation and another new trend is to go multi channel.

The European Union (EU) is an economic and political partnership of 27 [member states](#), located in Europe and established by the [Treaty of Maastricht](#) on 1 November 1993 upon the foundations of the pre-existing [European Economic Community](#). In short, 'Europe' aka the European Union, is made up of a diverse range of individual markets of very different size, culture and market potential.

⁴ World Market Profile, Planet Retail

A dominant feature of European retailing is the level of internationalization, and while it is true that Wal-Mart is the largest global retailer, five out of the top ten of the global 250 are based out of Europe and the U.K. The top 10 retailers of Europe are listed in Table 2

It can be seen that the list of Europe's top retailers is dominated by France and Germany. In the year 2010 Western Europe was seen as making a comeback, and economies of Germany, Sweden, The Netherlands and other northern countries were seen as performing well. In contrast to this the peripheral nations of the European Union faced the prospect of recession and slow growth. The European retail landscape has a wide spectrum of brands like Zara, Mango, H & M and it is also home to no frills discounters like Aldi and Lidl. Some parts of European retailing are dominated by food and grocery and the hypermarket as a retail format was also first seen in France. Historically organized retail emerged and evolved in Europe and it is not surprising that competition particularly in the grocery market is intensifying across the region.

The process of Internationalization

Over the years researchers have evolved many approaches towards understanding the process of internationalization of retailers. Hollander (1970) created what can be termed as the taxonomy of international retailers, by classifying retailers and this has helped other researchers evolve further classifications. While Hollander's classification was largely influenced by merchandise and format, Treadgold (1988) conceptualized the typologies of international retail operations. Salmon and Tordjman (1989) further looked at the need to adapt to local conditions and operational advantages. Pellegrini (1991) applied Dunning's eclectic paradigm to the theory of international retailing. Burt (1993) provided a chronology for understanding retail internationalization since 1960. Dawson (1994) identified eight differences in organization and management between the manufacturing and retailing sectors which further helped reinforce the fact

that theories devised in other contexts. Further research by Simpson and Thorpe (1995), presented the PLIN model in order to help specialty retailers assess internationalization as a suitable growth strategy. Alexander, N (1990, 1993, 1994, 1998), and Whithead (1992) attempted to explain the motivation behind going international and explained the process of internationalization. The drivers inducing internationalization, include saturation within home markets compounded by economic downturns, legislation blocking expansion, shareholder pressures for growth, high operating costs, market driven pressures for growth, opportunities as overseas markets open up and even an element of the 'me-too syndrome' (Doherty, 1999). Hallsworth, Alan (2001), identified further topics and issues to be explored such as different modes of entry, international competition and international retail growth. The increased visibility of retail internationalization over the past few decades has stimulated a significant volume of academic research. A number of common themes have emerged, as authors have explored the volume and direction of investment (Hollander, 1970; Hamill and Crosbie, 1990; Burt, 1991, 1993; Myers and Alexander, 1997; Muniz-Martinez, 1998), the motivations for internationalization (Alexander, 1990, 1995; Williams, 1991; Quinn, 1999), and the role and choice of market entry mechanisms (Quinn, 1998; Doherty, 2000; Gielens and Dekimpe, 2001). Studies of specific retail sectors and geographically determined flows have been accompanied by case studies of "exemplars" of retail expansion (e.g. Treadgold, 1991; Laulajainen, 1991; Wrigley, 1997). Others have developed frameworks categorizing international retailers on the basis of behavioral criteria—most notably business culture and market responsiveness (Treadgold, 1988, 1990; Salmon and Tordjman, 1989; Simpson and Thorpe, 1995; Helferich et al., 1997; Alexander and Myers, 2000). Alexander, A (1999, 2001) and Shaw, G (1999), has significantly contributed on the history of retail internationalization. It is evident from these studies that past performance can be a very good source of learning, identifying factors of success, and causes of failure. Thus preventing

further failure and identify success factors for the retail industry in the international market.

ORGANIZED RETAIL-A GLOBAL VIEW

A Snapshot of world economy and retail

Inhabitants (mn)	GDP (USD mn)	GDP / capita (USD)	Consumer spending / capita (USD)
2010:6,862	2010:63,055,083	2010:9,189	2010:5,453
2009:6,779	2009:57,900,938	2009:8,541	2009:5,134

Table 3-Source: Planet Retail report 2011

With global retail sales set to reach USD 18.5 trillion of which 47% is contributed by food retail alone the other category consumer durables is also fast on the growth track aided by rapid industrialization of developing economies though food retail will continue to play a dominant role in such economies for a few years to come. Particularly unlike the western economy there is a definite segment of

'middle class' in the emerging economy with considerable disposable income at their call. Together with this it is projected that by the middle of this century that the population is expected to touch 9 billion. A consumer spending per capita (USD) projection and retail sales net (depicted below) till the year 2015 lends support this thought.

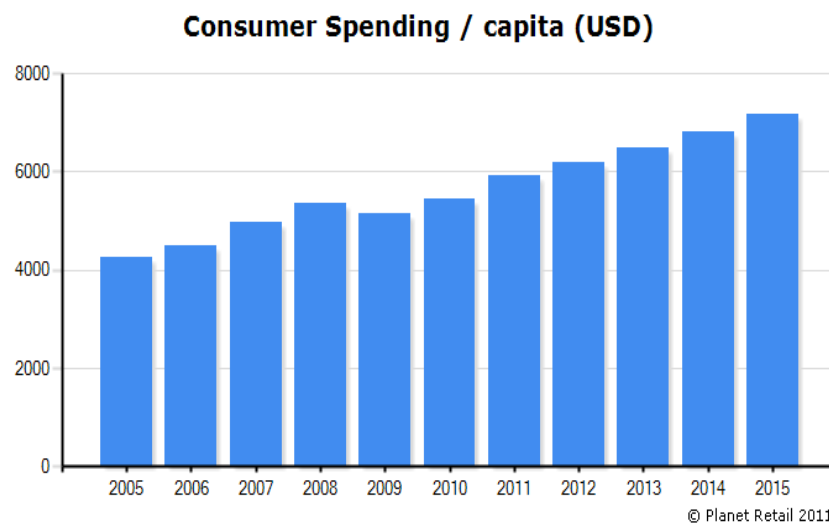


Figure 1 : SOURCE: Planet retail report 2011

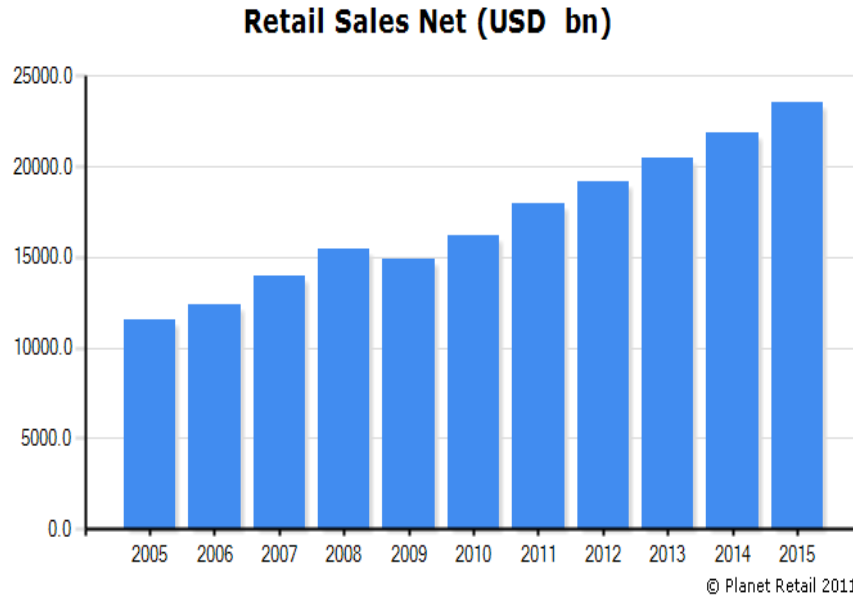


Figure 2 Source: Planet Retail 2011

On one hand the global food market dominated by big retailers like Wal-Mart, Carrefour, Metro group (refer figure below) which are further intensifying their process of concentration are buying into or buying up competition. Though the top 100 grocers between them have a share

of 45% of the world’s organized grocery distribution they are dominant players in a mature market and are finding it very difficult to grow from an already high base. To add to this woe they face competition from smaller players who have a low base.

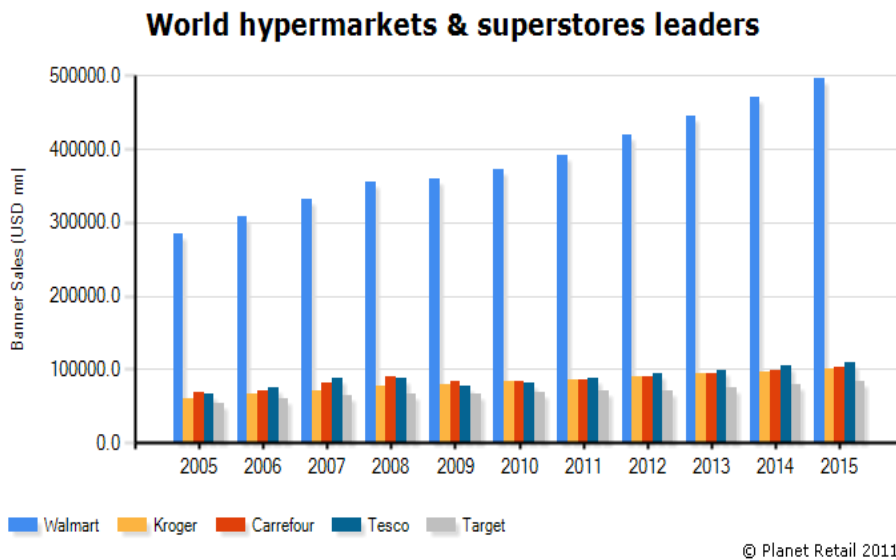


Figure 3 Source: Planet Retail 2011

In the advanced western economies there are factors like limiting the number of hypermarket opening, employment legislation, and restrictive actions while the emerging or developing economies offer a greater degree of accommodation in such matters. This is attenuated by the fact that big economies from the developing segment are also members of the WTO and in consequence tend to become more liberalized. Though the emerging markets do provide a good opportunity to

these giants they must plan their entry with one thought very firmly planted in their plan of action. In such markets they can succeed only in the long run and can rule out short run profit goals. This actually sets the stage for increased activities by the big players which is in fact a reason for this paper.

Retail in Europe-with focus on Germany

For a clearer understanding and in a very broad sense Europe as a market can be trifurcated into east, central and western regions and for all practical purposes when the trade refers to Europe it actually refers to the Western region in terms of sheer numbers and development which is clearly thrown up in terms of the GDP.

Generally throughout Europe there was a decline in retail growth in the period 2008-2009 with the eastern region showing a steep fall as high as 10%. But during the period after that it has shown an upward trend. What must be borne in mind is that the variance between the Eastern region and Western region is vast and the Eastern region is as much as four times lower in terms of per capita retail sales. It must be observed that while only 53% of the total Europe population is in Western region 66% of the GDP per Capita is generated here with just 13.5% contribution from Eastern Europe. The three sets of bar diagram below summarize the scenario as discussed here.

The West Europe Scenario:



Figure 4 Western Europe Retail Sales Net (USD bn) Source: Planet Retail 2011

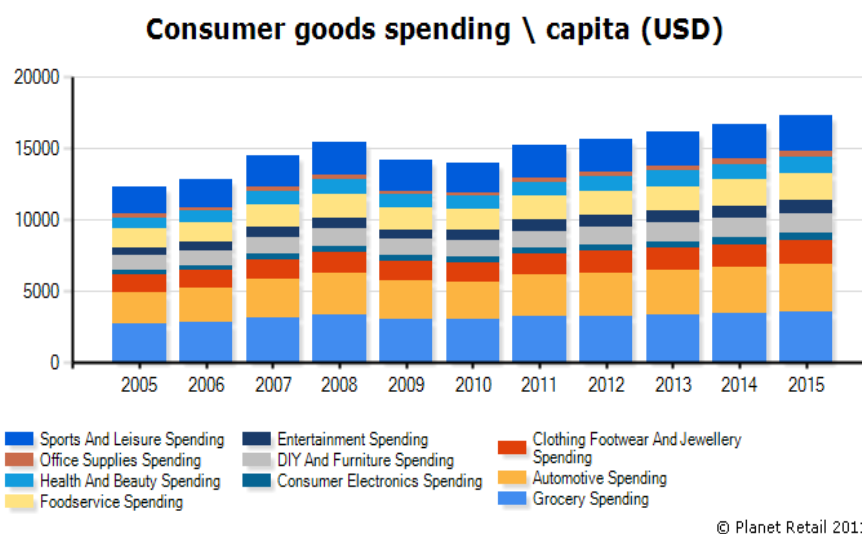


Figure 5 -Western Europe Consumer goods spending/ capita (USD)
Source: Planet Retail 2011

The Central Europe Scenario

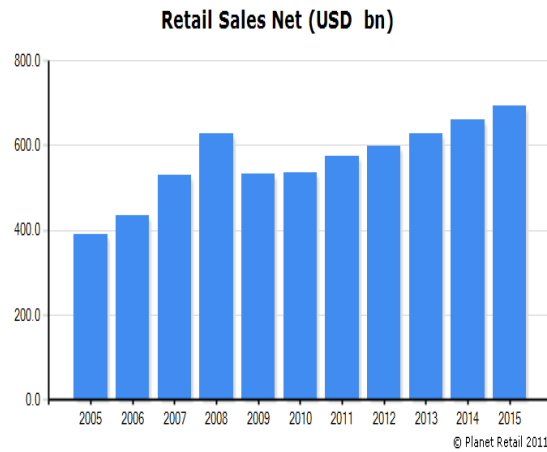


Figure 6 -Central Europe Scenarios
Source: Planet Retail 2011

Consumer goods spending \ capita (USD)

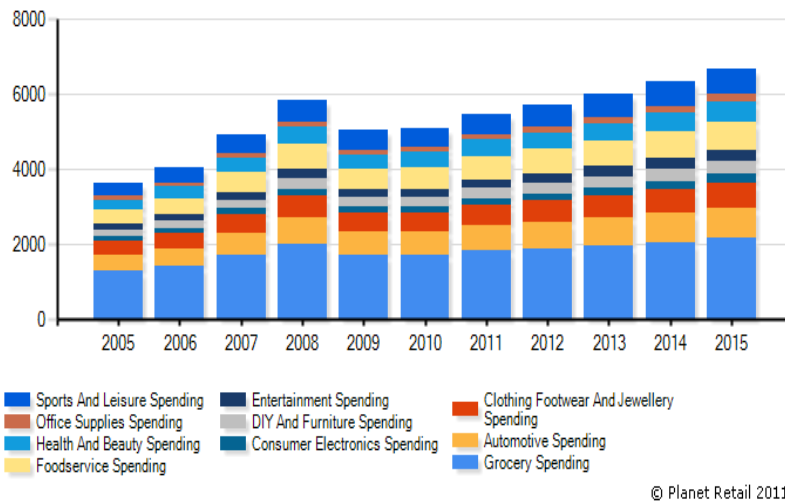


Figure 7 Central Europe
Source : Planet Retail 2011

Eastern Europe Scenario

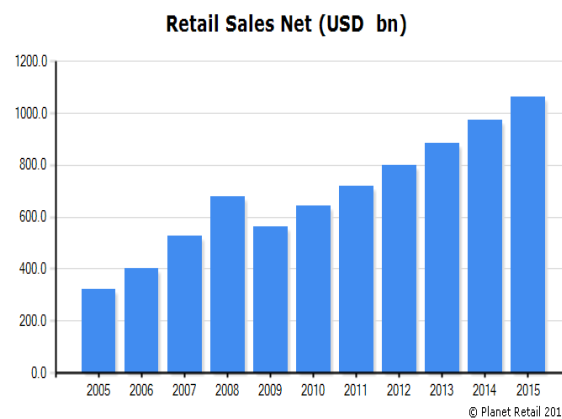


Figure 8 Eastern Europe
Source: Planet Retail 2011

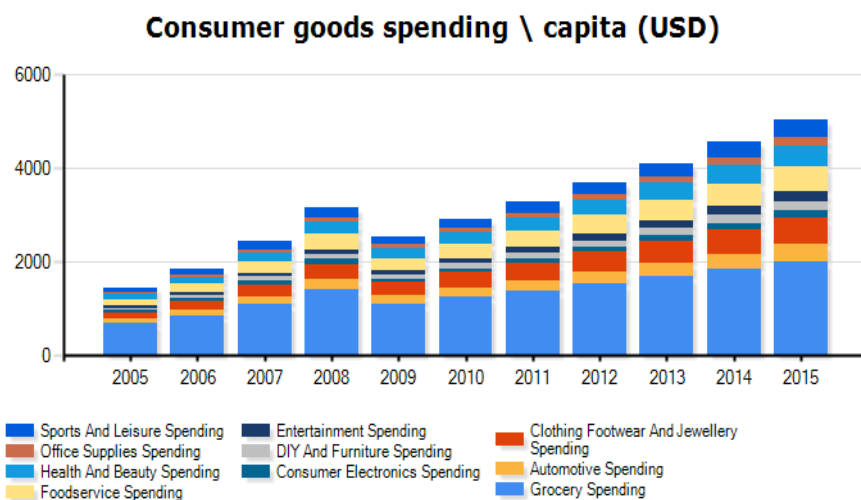


Figure 9 Eastern Europe

Source: Planet Retail 2011

The above discussions and representation would grossly justify the consideration of Western Europe as representative of Europe and which in turn would permit us to use big retailers from this location as representative

sample for the purpose of this paper. Germany being the single largest economy and a major player on the global scene lends itself as an appropriate specimen for the purpose of this paper.

German Retail Scenario

Germany at a glance

Inhabitants (mn)	GDP (USD mn)	GDP / Real Growth %	CPI %
2010:82	2010:3,281,051	2010:3.6	2010:1.2
2009:82	2009:3,301,769	2009:-5.078	2009:0.234
GDP / capita (USD)	Consumer spending / capita (USD)		
2010:40,207	2010:23,256		
2009:40,380	2009:24,061		

Table 5-Source: Planet Retail 2011

For the purpose of this paper Germany would serve as an excellent example of retailers striving to go international. Typically retailers in this market exhibit all the issues mentioned under the world report earlier in this paper. The retail market is oversaturated, remains flat over a period of time, consumers looking for best bargains and price and intense competition amongst retailers due to private ownership and

the need to outdo competition. To add to these the population growth has also remained flat with well over 60% of the population in the 'aging' group. With this being the scenario German retailers are forced out of their borders. It will not be out of place to mention that from amongst the top 25 global retailers 6 of them are German.

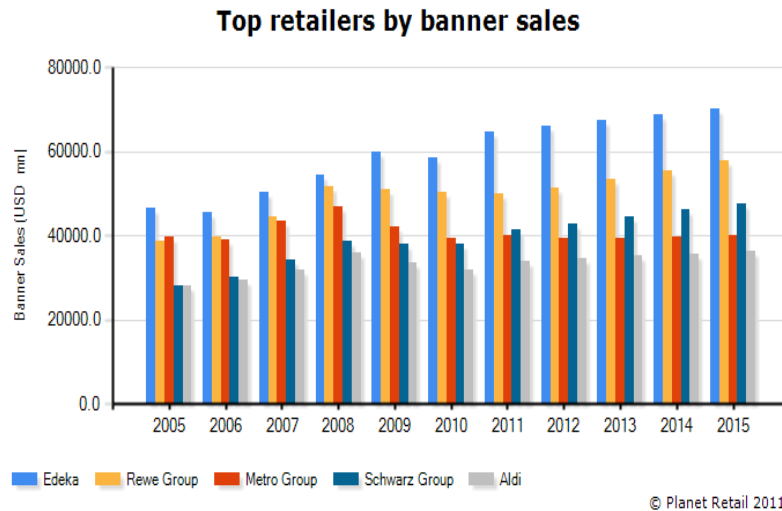


Figure 10
Source: Planet Retail 2011

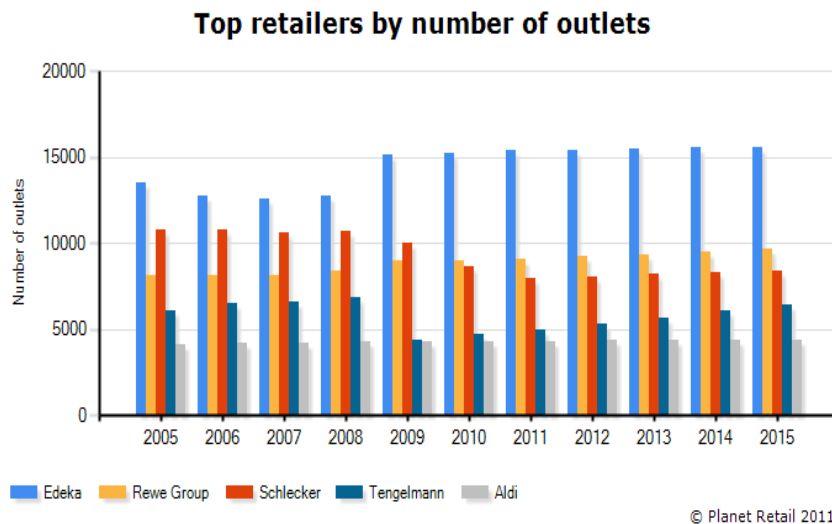


Figure 11
Source: Planet Retail 2011

Retail Market Sizes (Germany)

	2010 (USD)
Retail sales	447,786,022,100
Retail sales per capita	5,487
Grocery retail sales	183,636,555,200
Grocery retail sales per capita	2,250
Total consumer spending	1,897,788,418,600
Total consumer spending per capita	23,256
Grocery Spending	191,838,191,500
Grocery spending per capita	2,351
Non Grocery Spending	918,443,121,200
Non-Grocery spending per capita	11,255

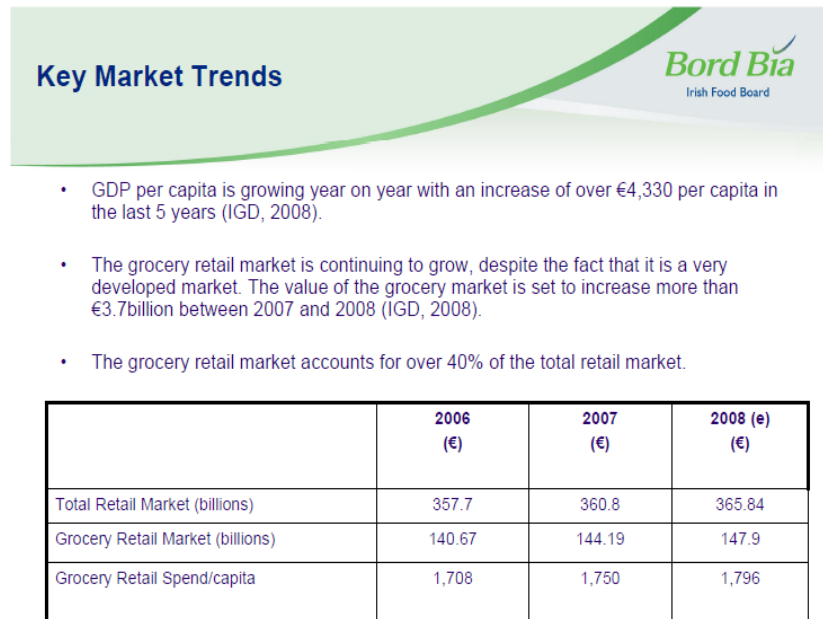
Table 6-Source: Planet Retail 2011

Assuming we take year 2011 as the base year these figures clearly indicate a high base and one cannot expect much to change as already this is indicated by the projected growth trends particularly for Western Europe. Some of the

German retailers are already active on the international arena and to name a few we have Aldi on the grocery front and Media Saturn on the electrical and electronics consumer durables sectors.

Some key facts of German Grocery Market and Aldi

Figure 12-Key Market Trends



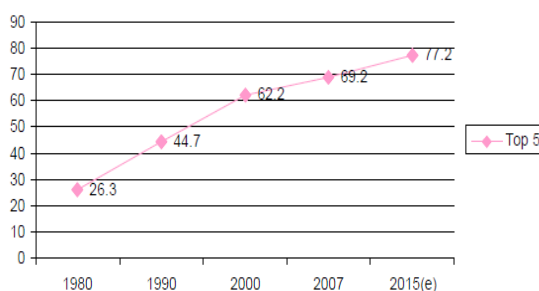
Source: IGD Country Presentations, 2008

The slide above is indicative of the very significant share that grocery has in the German retail market.

Figure 13-Retail Grocery Market



Market Share of Top 5 German Retailers



- Since the 1980's the market share of the 5 retailers has progressively increased. Despite a few minor changes the retailers in the top 5 have stayed the same. In 2007 the top 5 were: Edeka Group 16.7%, Rewe Group 15%, Metro Group 14.8%, Schwarz Group 11.5% and Aldi Group 11.2%.

Source: Trade Dimensions 2008

The top players have virtually remained unchanged which is a clear pointer to the intense competition factor in the home market and the need to look for greener pastures

Figure 14- Aldi Corporate Strategy



Aldi has been reasonably successful with its expansion into developed western markets but the game will change with entry into emerging markets as price will play a major role with quality coming next. There is also the huge threat of home grown organized retailers in the emerging markets. While its strength in its home market is logistics (refer slide below) this has to be taken into consideration seriously in case of expansion into emerging markets due to current poor infrastructure and logistics facility

let alone the fact it will be competing with home grown organized retailers besides the fiercely competitive traditional retailers. Added to this is the Asian expectation of customer hospitality which is embedded deep culturally as also the fragmentation of markets in the large emerging economies within the country. In other words as a brand you will have to deal with different types of markets within the same country.



Figure 15- Aldi SWOT Analysis

German electrical consumer goods market and a profile of Media Saturn Holding

In the year 2009 the German consumer electronics market recorded revenue of USD 12.1 billion and this estimated to touch USD 13.8 billion by end 2014.

Media-Saturn Group

Media Markt and Saturn are Germany's and Europe's Number One consumer electronics retailers. The success enjoyed by the two retail brands, which are housed under the roof of Media-Saturn-Holding GmbH, is based on a unique selection of low priced brand-name products, competent staff, excellent service, a

distinctive advertising presence and a decentralized organizational structure. Each General Manager is a shareholder in his own store and is thus responsible for the products offered, as well as for pricing, personnel and marketing. The Media Markt and Saturn brands are managed independently of one another and are competing retail brands.

Number of stores 2010*: 877

Net sales 2010**: 20,794 million Euros

Number of employees 2010***: 58,897

Product range: Brand-name articles in the areas: consumer electronics, electrical household appliances, entertainment, new media, photo/video, office and telecommunications.

Table 7-Media-Saturn Group international 2010

	Number of stores	Net sales (in millions of Euros)	Employees
Media-Saturn Austria	42	1,078	2,289
Media-Saturn Belgium	20	613	1,381
Media-Saturn China	1	9	160
Media-Saturn France*	34	597	2,023
Media-Saturn Germany	381	9,087	24,121
Media-Saturn Greece	13	240	1,012
Media-Saturn Hungary	21	192	1,396
Media-Saturn Italy	104	2,524	6,263
Media-Saturn Luxembourg	2	40	93
Media-Saturn Netherlands	36	1,206	2,218
Media-Saturn Poland	59	917	5,001
Media-Saturn Portugal	9	150	762
Media-Saturn Russia	31	695	2,798
Media-Saturn Spain	64	1,793	5,367
Media-Saturn Sweden	19	523	1,517
Media-Saturn Switzerland	23	757	1,278
Media-Saturn Turkey	17	371	121

Media Markt Brand

More than 600 stores in 15 countries in Europe and Asia with sales area of up to 10,000 square meters and an average assortment of 45,000 articles – these are the key data of a retail chain that's extraordinarily dynamic in growth and has been making the industry hold it in awe for more than 30 years. Innovative, customer oriented and proactive, Media Markt is continually extending its position as the number one electrical goods store in Europe. The stir

caused by the brand logo of Media Markt is characteristic of

the whole company. Continuous low prices and distinctive advertising constantly stir the market. The offers are massive, from the flat-screen TV to the notebook, to the car navigation system to the digital camera, from the gaming console to the full-service coffeemaker. At the Media Markt stores customers will always find the latest brand of products from the consumer electronics, communications and

electrical appliances industries.

“I am not stupid“, the company’s famous advertising claim, is known to millions of customers in Germany and across Europe – in their respective national language, of course, which reads “Ik ben toch niet gek“ in Dutch, “Yo no soy tonto“ in Spanish and “Nie dla idiotów“ in Polish.

Innovative business concept

The company’s success story started in 1979 in a commercial park in Munich. The basic idea of the company’s founders Helga and Erich Kellerhals, Leopold Stiefel and Walter Gunz, which basically continues to apply today, is ‘a large space’ selling electrical goods located outside of the city center and offering sufficient parking space for customers. A novelty was the broad assortment of new brand products ready for demonstration because at that time one had only smaller single-line stores and department stores with a limited assortment. Customer advice was offered in the same way as an extended service portfolio – from repair services to the delivery and mounting of the devices. A completely new feature was the guarantee of permanently low prices combined with the promise of being able to withdraw from one’s purchase if a customer found a better offer with a competitor. The novel business concept was an immediate success with the customers and the word soon spread.

Unparalleled success

Driven by the unexpected success of the first Media Markt store, more stores were opened in Bavaria and also across Germany. This innovative store concept caught the attention of Kaufhof WarenhausAG. In 1988 they acquired a 54 percent stake in the holding of the Media Markt stores which in turn took over the Saturn chain two years later. Since that time Media Markt and Saturn have been managed as independent brands under the umbrella of the Ingolstadt-based Media-Saturn-Holding GmbH. As part of Kaufhof Holding AG, Media-Saturn-Holding GmbH later joined the METRO Group. This cleared the way for an intensified expansion which has also been taken the

company to other European countries since 1989. Today, Media Markt stores are an attractive shopping destination for millions of customers in Germany, Austria, Italy, Switzerland, Hungary, Poland, Spain, The Netherlands, Belgium, Portugal, Greece, Sweden, Russia, and Turkey – and since November 2010 also in China. The total number of outlets in Europe and Asia currently amounts to 615, of which 237 are located in Germany.

Decentralized organization

One basic principle for the success of Media Markt is not visible to the customers although they strongly benefit from it. Even though all stores are presented with a uniform brand identity, they do not form part of a centrally controlled store network. Each Media Markt store is an independent company whose local manager holds up to ten percent of the shares. Moreover, he has extensive freedom to decide and act, for example regarding the assortment and pricing. The underlying philosophy is “All business is local“: The success of each Media Markt store relies on its high degree of customer proximity. A flexibly acting local manager with responsibility for his operations can adapt the offer much faster and better to local customer needs than the manager of an outlet who has to wait for instructions from the headquarters. Moreover and in view of his participation in the business he identifies much more with his store and has a vested interest to succeed.

The Big question:

What is common with these two brands from two totally different categories?

Both of them operate multiple stores in several countries.

Both of them mainly operate in rather known or culturally familiar markets (low context, developed economy market)

Both of them have not taken on the emerging markets as they could have by now. This is where the issue lies.

The Indian Retail Scenario

In India retail still does not enjoy the status of ‘Industry’ and is essentially dominated by traditional stores and the latest estimate is that

this could be to the extent of 95%. There are a few large Indian corporate houses who have ventured into the domestic retail space with organized format and some of them are well entrenched to capitalize on this format. This being the Indian retail picture the government is under constant political pressure when discussing the issue of permitting FDI in the retail sector. It is estimated that there are more than 12 million traditional stores across all categories of products which together

contribute about 8% of the total national GDP besides being the second largest 'employer' only next to the agricultural sector.

The graphical band presentation depicted below furnishes a visual picture for different categories together with the expected or forecasted spending well into the year 2015. Again this serves to confirm the potential the country offers. It must be mentioned here that it is interesting to observe the anticipated growth in dollar value terms.

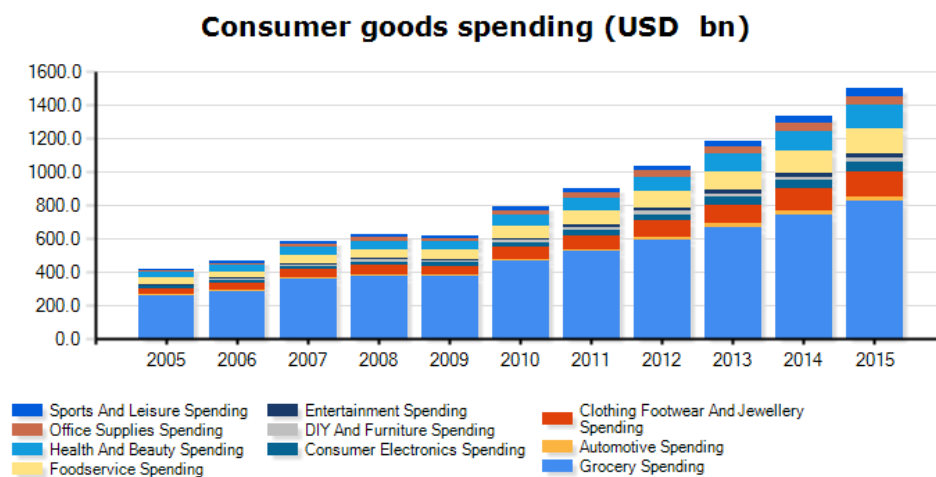


Figure 16-India Consumer Goods Spending (USD bn)

CONSUMER SPENDING SOURCE: Planet Retail

The Indian retail sector is one of the least concentrated in the world. Together the top five domestic corporate retailers have a combined market share that is a single digit. The Indian retail scenario is one of contrasts and fragmentation with the predominant role still played by the traditional set of family run stores and hawkers who through their trade associations are vigorously opposed to the entry of foreign retailers and their investment in this sector. Despite this there has been rapid growth with some regional players setting up different retail formats leading to a future possibility of retail market getting concentrated and more organized.

Currently the Indian government has allowed 51% FDI in single brand retail and 100% in Cash & Carry that is B2B operation. It must be pointed out that a number of domestic organized players have also entered into

collaborative arrangements with international retailers to take advantage of the huge retail market opportunity which the Indian market is projected to throw up. So to say just waiting on the sidelines..

Getting organized implies addressing the training issues of the existing unorganized employees as well as making provision for future requirements. Issues such as supply chain management very much a part of organized system will throw up huge opportunities both in terms of infrastructure and transportation development, not to underscore the role of information technology which is the very back bone of organized retail. The fact that we get access to modern and latest technology cannot be overlooked which once again would result spawning linked industrial sectors like barcode manufacture, RFID, electronic instruments and gadgets etc.

With good inflow of FDI in retail sector and the employment opportunities directly and indirectly interlinked it is very likely that the impact of FDI in retail will not be restricted only to the direct retail level but is more likely to be strongly felt by interlinked sectors. As mentioned in the earlier paragraph there will be a large requirement of Information technology professionals, experts in supply chain management and logistics system, transportation and communication besides the core implementation personal from the regulatory side. There exists a huge opportunity of employment generation due to infusion of funds into retail. In fact employment generation could be exponential as it will not be restricted only to retail.

In a very recent article in 'Hindustan Times' dated 27th of December 2011 by Pankaj Mullick under the title 'Ready, get set and give retail a go' the potential of this sector if it receives FDI and the treasure trove it is, is revealed. He sums up with the following figures. Around \$8 billion to \$10 billion of fresh investment over a period of 3 to 5 years is the potential as investment. The opportunity is there for the asking and this in a nut shell is the Indian retail scene.

German and Indian Culture

The German scenario is one of 'Low context' culture supported to a very large extent by organized units and logistics. This is supported by a 'rich' but sensitive consumer market. Though Germany is composed of a number of federal states it would be very easy to list the dissimilarities between them as there are not too many thus leading to a large sense of 'market homogeneity'. The typical consumer is price sensitive and would make extra efforts to respond to such situations as we cannot forget the fact that competition amongst the high percentage of retail chains is intense and within a very mature market. The typical German household is delivered promotional literature and material at least twice weekly by an assortment of retailers across all categories (staples, electronics, hardware, service providers etc.)

Other than food retail the other categories are essentially into 'do it yourself' mode which

implies a greater involvement in the collection, transportation and installation of goods purchased though there is an expensive option available at the discretion of the customer. The entire process of purchase by a customer is like a 'process' in itself and would consider the customer as one of the 'ingredient' for processing. Unlike the typical Asian culture you will not find the shop assistant stepping out to guide or help you and at the cash till you are typically 'scanned and trolled' to the extent that one does not find it a very social or joyful experience. Little wonder that despite being very organized and process driven we still hear of the 'service desert' syndrome. One very significant issue would be the requirement of German retailers to stay open over the weekend as it is this period of the week when you find families out shopping in India and maximum sales registered. A major deviation from a typical 'Bavarian' situation!

On the other hand when you consider the Indian situation it is one of 'high context' and limited in terms of infrastructure and logistics support. Currently the retail market is buoyed by the large segment of 'middle class' population but with considerable disposable income. The country offers an assortment of dissimilar markets which often vary so widely in its expectations that retailers find it difficult to consolidate. Every few hundred kilometers the language and food habits change as also the social behavior. Typically this is a marketer's nightmare. This is one reason for the presence of strong regional players even amongst the half dozen retailers present to represent organized retail. The traditional set of retailers who dominate local communities have always enjoyed a very close relation with their neighborhood customers and offer facilities such as 'running credit', free and convenient home delivery as also customized pack sizes particularly in the commodities segment and perhaps even special prices. The average family treats a visit to a shopping mall as a social experience and will in all probability combine this activity with formal entertainment and food. It is similar to a day out. Another big area of difference is the 'do it yourself' attitude which is simply not present. This could be due to the availability of affordable labor which is a

large self employment segment in itself. This in turn leads to the fact that the customer would expect the retailer to 'be with him' all the way right up to installation. This as we see is just the opposite of the German picture and along with other differences erects barriers all the way for a successful entry and continued profitable operation. Hence entry into a country has to be thought out on a multi-dimensional platform.

ENTRY STRATEGY

Organizations need to grow to sustain them and they choose to take the organic, in organic or a combination route. The choice depends to a large extent on the prevalent business environment and this strategic decision is often a corporate. However one must bear in mind very clearly that mere gathering facts and putting it together does not sculpt a strategy in itself. In today's technology driven world this is easier done than said. It is what we do and how we react to take advantage which is important. Having said this many organizations do the gathering very well as they 'believe what they see' and not beyond! This is the beginning of the end if one does not 'see' the submerged portion of the iceberg. (Managing Cultural Differences, 5th edition, Philip R Harris & Robert T Moran). As humans we tend to take matters seriously anything that appeals to our physical sense and choose to ignore or override what we don't see. What we don't see is the huge submerged portion of the iceberg (culture) which if not negotiated skillfully can result in self destruction. This is all the more important when the entity seeks to operate globally and the decision has multidimensional implications. As an example it would be inappropriate to expand into Korea based on experiences in Germany! Some examples which failed, Carrefour and Wal-Mart in Korea. Tragically this mistake is realized when a lot of cost has gone under along with the brand image. Organizations are myopic when it comes to gaining market share and temptation of making money. Organizations are swayed by country potential based on population numbers and geographical size which in itself can be misleading if other dimensions are ignored. Organizations do tend to overcome some of

these aspects by entering into joint venture partnerships, buying into host country entities, setting up wholly owned subsidiaries, franchising and alike. But the very objective of such arrangement is to be read with a scale, ranging from domination to influence rather than creating a win-win scenario.

In his article, Harvard Business Review, September 2001, Distance Still Matters- The Hard Reality of Global Expansion, The CAGE framework, Pankaj Ghemawat mentions that 'Companies routinely exaggerate the attractiveness of foreign markets, and that can lead to expensive mistakes'. In the McKinsey Quarterly April 2011 article your emerging-market strategy local enough?' (Yuval Atsmon, Ari Kertesz and Ireena Vittal) mention 'the diversity and dynamism of China, India, and Brazil defy any one-size-fits-all approach'....." In another McKinsey Quarterly June 2010 article, Global forces: An Introduction' (Peter Bisson, Elizabeth Stephenson, and S Patrick Viguerie) mention that 'five crucibles of change will restructure the world economy for the foreseeable future. Companies that understand them will stand the best chance of shaping it. They go on to mention the five forces as, The great rebalancing, The productivity imperative, The global grid, Pricing the planet and The market state. In Strategy+Business, October 11, 2011- Demographics are not Destiny, (Richard Shediak, Chadi Moujaes, and Mazen Ramsay Najjar) talk about the world's population reaching the 7 billion mark and the rate of growth of different economies slowing while the workforces are aging. They suggest that companies and countries can prosper by preparing for the changes to come. Yet another article in the Strategy + Business, August 23, 2011 Issue 64 – How to be a truly global company (C K Prahalad and Hrishu Bhattacharyya) talks about why many multinational business models are no longer relevant. Skillful companies can integrate three strategies- customization, competencies, and arbitrage- into a better form of organization. It must be observed that each of these article shares the same concerns though they mention and address it in different ways.

The Proposed Entry Model

The proposed model draws extensively from the ideas of authors mentioned above but would restructure it into two distinct modules or caches and for the purpose of a decision merge them for a meaningful output.

The theoretical elements or (as we would like to call them intangible elements) like Cultural differences, Political and Administrative dissimilarities as one module and the Practical or more tangible elements like Geographical

Political Differences (P)
Administrative dissimilarities (A)
Cultural dissimilarities (R)

These two caches clearly throw up one issue for the strategist which is a set of intangible elements which should be scaled to a higher weight age and the other clearly tangible giving us raw quantities scaled using lower weight age. In a way one can adopt an 'imbalanced score card'. Needless to mention that by nature we tend to readily see tangible factors and try and mould them to our requirements (temptation which we should avoid) while the other perhaps more serious intangible factors are overlooked (brushed under carpet so to say) as the tangible elements stare us in our strategy and weigh us down.

This 'imbalanced score card' is so constructed so as to have a perceptible bias in favor of the unseeable factor and further emphasized by allocating only a limited maximum score to the tangible or seeable aspects or cache.

A further look at the tangible cache points to the fact that the only real variable element is 'Economic differences' (E), while D & C are constants for a given country as these can be pre accommodated in our strategic plan of entry. (Hence a predetermined score can be allocated in this case taking into consideration the country of entry)

Taking this model further it is safe to infer that 'E' is in essence the present due to the past (P+A+R). This module in short is phase 1 of the entry stage. Certainly secondary study (historical), but nevertheless important.

differences in terms of Physical distance and Climatic conditions, market size or Potential along with Economic differences as another cache. The later cache has been exploited by a number of authors and corporate (only the seeable tip of the iceberg) while the earlier cache lies buried and requires a great effort to uncover and understand as a substantial aspect is not tangible (the lower portion of the iceberg).

Physical distance (D)
Climatic conditions (C)
Economic differences (E)

Phase 2 of the 'imbalanced score card' for the intangible aspects particularly cultural can be strengthened by making it industry specific (say retail) and further sharpened for specific categories (consumer electronics) with a fine tuning taking the line into consideration (Plasma TV). For example how will this culture react to a particular offering, hyper mart-home appliances- bread toaster? Or Cold storage area in a hyper mart- meat- beef?

A standardized world index can be utilized to draw up bench marks and the phase 1 & 2 scores can be summed up against a minimum acceptable score of entry.

Phase 111-having arrived at a minimum acceptable score this should then be pitched against different routes of possible entry (direct, JV, etc.....) with each route of entry given a particular weight age and this product should be the only figure which should decide the 'go' or 'no go' choice.

Suggestions for German retailers

1. Ensure that the above phased study is taken up and not be swayed by success stories of entry into other western markets
2. Learn from other brand failures which were powerful in other parts of the world (Initially McDonalds', Kellogg's and more recently Shoprite which left India after assuming that their Egypt success story would repeat in the Indian market)

3. As culture scores heavily once you are beyond your home it would be a reasonable decision to enter India only through the zone wise master franchise route and review the progress over a strategic time frame of say 5 years. As mentioned earlier on in this paper India appears highly potential in terms of the tangible cache but the intangible cache is likely to play a more dominant role particularly due to the multiple culture and fragmented nature of the market.

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ANALYSIS OF THE INTERNATIONAL TRADE OF CROATIAN COUNTIES

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Abstract

This paper represents an analysis of the international trade of Republic of Croatia in the period between year 2001 and year 2010 according to its main macroeconomic trend determinants. The main goal of the paper is to analyze international trade from the perspective of economically very heterogeneous Croatian counties. Data for this research has been obtained through the Croatian bureau of statistic and processed in accordance to the research goals. The paper presents results and data regarding level of international trade of goods at the national level as well as on the county level, import dependency, export propulsivity, and degree of openness and integration of Republic of Croatia and its counties in an international trade flow of goods. The recession influences on Croatian international trade are also presented within this paper. Overall results point toward some problems for Croatian economy that can be observed through low export propulsivity and high import dependency over the analyzed time period. From the results of the research the general implications for the macroeconomic policy of the Republic of Croatia have been drafted.

Keywords: international trade, Croatia, competitiveness, import, export

1. Introduction

The purpose of this paper is to analyse the international trade in goods of the Republic of Croatia in the period from 2001 to 2010 with particular focus on participation and influence of counties, as economically very heterogeneous territorial units in the state. The paper is organised in a way according to which the introductory theoretical part is followed by the overview of international trade in goods at the national level, and then at the level of particular counties. Furthermore, the paper explores export and import growth at the county level and compares trends in international trade in goods of the Republic of Croatia with the international trends. Finally, in conclusion, a synthesis of the research is provided along with its general implications, particularly in terms of conducting

macroeconomic policy in the Republic of Croatia.

The success of a country on the international market is determined by the competitive ability of all of its business operators involved in foreign trade, or international trade. It is therefore vital to maintain competitive advantage, on the basis of which a higher profitability can be achieved (Grant, 2010). Only national economies or business operators of the national economies capable of creating higher economic value compared to the competition can achieve competitive advantage on the global market (Barney, 2008).

Internationalization is an important channel through which new and small ventures can generate a growth potential (Pangarkar, 2008). Apart from increasing profitability, it can lead to increased benefit from specialisation and flexibility in development of the economy of scale and scope, then to encouraging production efficiency, faster investment compensation, and access to foreign technological, marketing and managerial know-how. It is therefore not surprising that politicians, at the state level but also beyond the borders, are willing to actively promote and

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encourage new and small international ventures (OECD, 2000). A number of such examples can be found in the European Union. Internationalization is of vital importance for further growth and development of new and small investments in transition countries of Central and Eastern Europe, with relatively small domestic markets (Manolova, Manev & Gyoshev, 2010).

Besides internationalization, globalisation is for sure yet another dominant topic, both in academic and business circles over the last several decades, and particularly over the last two decades. The very fact that global business is constantly growing, and that it is very complex and diverse, leads to the rise of scientific research for the business operators operating beyond their national borders (Fahy, 2002).

Nowadays, the whole world economy is deeply imbued with and determined by internationalization and globalisation of business operations, which sets a successful inclusion in international division of work as a primary goal of every national economy. Internationalization of business operation of a national economy is determined by a degree of internationalization of its business operators (companies), particularly those participating in total export and import, or international trade of a given country, to the highest extent. Albaum and his colleagues define internationalization as evolutionary process of development of export activities of the company (Albaum, Strandkov, Duerr & Dowd, 1989).

Many studies conducted in the last three decades point to a positive relation between internationalization and successful operation of the company. Unfortunately, to this day there is no consistent proof which would confirm the above mentioned claim (Annavarjula & Beldona, 2000). The latest reference materials on international ventures and global companies recognise the inherent complexity of operating in global business environment and point to the factors which allow faster internationalization (Loane, Bell & McNaughton, 2007). Most authors emphasize the emergence of new communication technologies and processes, increased trade liberalisation, regional

economic integrations and growth of international networks (Knight, 2000).

It is a well-known fact that internationalization of activities can bring significant benefits to the operation of particular business operators, and that it was therefore the main driver of international expansion of some business operators, and that it has consequently led to overall international expansion of the national economy to which the above mentioned business operators belong (Gomes & Ramaswamy, 1999).

Specialisation is very important in terms of strategy, and very often it provides a guarantee of success of particular national economies on global market. It is necessary to emphasize the significance and importance of international specialisation and international division of labour as two important preconditions for starting, general progress and development of international economics. Nowadays, more than ever before, in the conditions of strong globalisation, the economic success of a national economy, and consequently its performance in trade in goods, services, capital, technologies and knowledge on the global market is closely linked to the level of its integration into the global market.

2. The role and importance of international trade in the Republic of Croatia

In terms of economy, the Republic of Croatia is considered a small country, and in terms of its resources it is considered a medium rich country. Consequently, it is not difficult to assume that the international business, primarily exports of goods and services to international market is of utmost importance for its faster and stronger economic growth and development. However, several aggravating circumstances that are considered as a shortcoming of the Croatian economy in terms of export must be taken into account: fragmented production in Croatian economy, insufficient production capacities, lack of a clear export strategy, difficult access to world capital, problems related to transfer of new technologies and knowledge etc. In the reference material it is clearly stated that the export performance largely depends on access to financial resources (Ling-ye & Ogunmokin, 2001).

Competitiveness of Croatian economy is one of the most important preconditions regarding international trade of the Republic of Croatia and its success and position on the international market. Subsequently, one of the strategic goals of Croatian economic policy for years has been strengthening the overall competitiveness of Croatian economy and strengthening export as strategic orientation. Export is of utmost importance, and it is one of the most important and fastest growing activities, with the growth rate higher than production in global economy (Lee & Habte-Giorgis, 2004).

For growth and development of Croatian economy in terms of international economy, export growth with favourable export composition is of utmost importance. In this type of export, the high value added products should be predominant in comparison to export of raw materials, Lohn business, and other low value added products. Only a large share of export products with added value at a satisfactory level is beneficial for Croatian economy. Only this kind of export generates profits, ensures a long-term competitiveness, employment and therefore contributes to the wellbeing of Croatian economy as a whole. It is important that the foreign trade in goods structured in such a way increases the coverage of import by export to the greatest possible extent. Then it would be possible for the international trade, or export to have a positive impact on GDP growth, which in the long run ensures increase of standard and development of Croatian economy.

Every business operator must elaborate its own competition strategy for global market based on their own potentials which represent their long-term comparative advantage, meaning that more value should be added to products and services. Business operators learn best and gain international experience through exporting to global market, by using different modalities

of international marketing (Root, 1987). The most important factor in raising added value of export products are related to the implementation of knowledge and innovations and use of new technologies. Also, the implementation of new knowledge related to marketing, sales and distribution is of utmost importance. For the success of Croatian economy as a whole in terms of international trade, the transfer of knowledge and technologies and building of strategic links with international business operators undoubtedly have a crucial role.

For a while in the reference materials dealing with international economics the claim on the existence of a strong causal relationship between growth of gross domestic product and foreign trade has prevailed. This primarily concerns the importance and relevance of export competitiveness of a particular state. The studies often discuss econometric models which have the ambition to determine the impact of export on gross domestic product growth (Kravis, 1970). Different authors provide different level of calculated coefficients showing the relationship between export revenues and gross domestic product growth depending on sample size, selection of different variables and their number (Balassa, 1978).

3. Analysis of total international trade of the Republic of Croatia in the period from 2001 to 2010

In the analysis of foreign trade of the Republic of Croatia it is necessary to analyse separately the foreign trade in goods and foreign trade in services given that, if export is considered the main factor of competitiveness growth, services were predominant in foreign trade of the Republic of Croatia when compared to trade in goods in the period from 2001 to 2010 (Table 1).

Table 1: Share of export in goods and services in GDP in the Republic of Croatia from 2001 to 2010 (%)

	<i>Export of goods and services</i>	<i>Export of goods</i>	<i>Export of services</i>	<i>Import of goods and services</i>	<i>Import of goods</i>	<i>Import of services</i>
2001.	43,4	20,7	22,8	47,4	38,5	8,9
2002.	40,9	18,8	22,1	49,3	39,9	9,4
2003.	42,6	18,4	24,1	50,4	41,5	9,0
2004.	42,9	20,0	22,9	49,3	40,3	9,0
2005.	42,3	20,0	22,2	48,7	40,9	7,9

2006.	42,7	21,3	21,4	49,8	42,3	7,5
2007.	42,1	21,2	21,0	49,8	42,9	6,8
2008.	41,7	20,5	21,1	49,9	43,1	6,8
2009.	35,4	16,9	18,6	39,4	33,1	6,3
2010.	38,3	19,8	18,5	38,8	32,8	6,1

Sources: Author's own calculation based on the data obtained from Croatian Bureau of Statistics and Croatian National Bank data

In the aim of analysis of development and competitiveness of Croatian industry and its integration in international division of labour, the main focus in this paper is put on international trade in goods rather than services. In the composition of export of services, the export of tourism services, amounting to 73,4% of export of services in 2010, is the most significant (CNB, 2008-2010). In the framework of international trade in the last ten years, besides the services of transportation, security and tourism, different new types of services, primarily related to modern telecommunications, are becoming increasingly important. If we compare the Croatian export composition to the world trade composition in 2003, we will notice that the world trade is composed of only 20% of services and 80% of goods, with predominant manufacturing products (Krugman & Obstfeld, 2009). This suggests that there is an essential difference between the composition of world and the Republic of Croatia exports.

The composition of total export points to the fact that throughout this period, excluding 2007 and 2010, more than half of total export referred to export of services. This type of export has been in constant decline since 2003. In contrast, the import of goods was more frequent than import of services (more than 80% of import refers to goods), and it saw a slight growth throughout this period, until the period in which the economy slipped into a mild recession. Export plays a major role in foreign trade of goods of the Republic of Croatia from the viewpoint of economic growth, as it provides the image of economic competitiveness of the Republic of Croatia in comparison to the general global economic competitiveness. The analysis of exports of the Republic of Croatia in the period from 2001 to 2010 shows that it was continuously growing from 2001, when it amounted to 38,9 billion kuna, until 2008 when it amounted to 69,2

billion kuna. In this 8-year period (2001-2008), the export grew by 77,8%. Also, it was noted that 2009 saw a decline in export by 20,1% in comparison to 2008, which can be considered a consequence of the global economic crisis which spread to Croatia in 2009. The exports of the Republic of Croatia in 2010 saw a growth by 17,4%, compared to 2009, marked by the crisis, which may be an indicator of gradual recovery of exports.

The analysis of import of goods in the period between 2001, when it amounted to 76,4 billion kuna, and 2008, when it amounted to 150,4 billion kuna, can lead to the conclusion that, unlike the export, which rose by 77,8% in a given period, the import grew more progressively and rose by 96,7%. But, it is a well-known fact that, even in the largest national economies, such as the USA by 1980, shares of both export and import in GDP were rising, but after this period the US export varied considerably in comparison to import, in other words, it grew more digressively (Krugman & Obstfeld, 2009). In 2009 and 2010, the import decreased by more than 25% in comparison to 2008, which, just as it is the case in export, points to a decline in economic activity due to global economic crisis. After comparing the export and import trends, it is evident that the import still has not reached the pre-crisis level, i.e. the level of imports from 2007 and 2008, unlike the export.

In the reference materials, there are many indicators which determine the role and contribution of foreign trade to economic prosperity of a state. A large number of studies have shown that rapid gross domestic product growth in the states opened to foreign trade is a result of a large share of export in gross domestic product, under the assumption that it grows more progressively than import. According to Michalopoulos and Jay, a 1% export growth leads to GDP growth from 0,58% to 0,77% (Michalopoulos & Jay, 1973). However, it

should be taken into account that a positive correlation between economic growth and export is noted only if export contributes to technological development, foreign capital inflows and increase of general productivity of national industry (Islam, 1998).

4. Trends and structure of international trade in goods of the Republic of Croatia by counties

Foreign trade in goods of the Republic of Croatia is not evenly distributed among its counties. On the contrary, foreign trade in the last ten years has been characterized by concentration in five or six counties with a tendency towards further intensification and concentration. Five counties (Istria, Split-

Dalmatia, County of Zagreb, Varaždin, Primorje-Gorski kotar) and the City of Zagreb which has a status of a county, made 75% of a total foreign trade of the Republic of Croatia in 2001. The above mentioned counties made 78,8% of foreign trade in the pre-crisis year of 2008. In 2010, a year of recovery, their share in total foreign trade of the Republic of Croatia amounts to 77,3 % which points to further concentration. In the period from 2001 to 2010, foreign trade in goods of the Republic of Croatia saw a nominal growth of 52%, and the highest nominal growth was seen in the County of Zagreb (82%), the City of Zagreb (67%) and the County of Split-Dalmatia (62%), which points to further regional concentration.

Table 2: Foreign trade in goods of the Republic of Croatia by counties from 2001 to 2010

County	(Export + import) of goods in mil. kn										Average	Share in %
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		
County of Zagreb	4.746	6.183	7.272	7.793	8.307	9.544	10.971	11.859	8.823	8.661	8.416	5,1
County of Krapina-Zagorje	2.446	2.660	3.158	3.089	3.081	3.686	4.215	4.482	3.620	3.844	3.428	2,1
County of Sisak-Moslavina	3.319	3.987	5.166	6.393	5.511	5.632	6.133	7.037	4.419	5.474	5.307	3,2
County of Karlovac	2.120	1.653	1.867	2.295	2.343	2.351	2.757	2.814	2.495	2.499	2.319	1,4
County of Varaždin	5.387	5.551	5.861	6.938	6.831	7.813	8.497	8.641	7.071	7.751	7.034	4,3
County of Koprivnica-Križevci	1.943	2.090	2.330	2.200	2.247	2.454	2.583	2.720	2.658	2.685	2.391	1,5
County of Bjelovar-Bilogora	1.020	1.218	1.321	1.318	1.379	1.505	1.734	1.911	1.755	1.539	1.470	0,9
County of Primorje-Gorski kotar	7.711	5.498	5.850	6.860	7.116	8.372	9.026	11.560	7.539	8.794	7.832	4,8
County of Lika-Senj	53	77	90	94	68	79	122	97	72	105	86	0,1
County of Virovitica-Podravina	744	837	1.086	941	1.060	1.332	1.407	1.400	998	1.012	1.082	0,7
County of Požega-Slavonia	670	774	807	916	895	1.082	1.264	1.047	933	1.063	945	0,6
County of Slavonski Brod-Posavina	1.048	1.100	1.119	1.210	1.249	1.463	1.952	2.331	1.901	1.718	1.509	0,9
County of Zadar	1.126	1.705	1.871	1.903	1.965	2.337	2.518	2.451	1.996	2.079	1.995	1,2
County of Osijek-Baranja	4.585	4.471	4.855	4.723	5.768	6.184	6.028	5.961	4.656	5.277	5.251	3,2
County of Šibenik-Knin	1.437	1.201	1.007	1.732	2.205	2.612	2.758	2.967	1.999	3.004	2.092	1,3
County of Vukovar-Sirmium	770	989	1.249	1.048	1.637	2.244	2.345	2.416	2.230	2.542	1.747	1,1
County of Split-Dalmatia	6.321	7.491	9.770	10.122	9.829	11.635	13.558	14.100	8.661	10.215	10.170	6,2
County of Istria	9.950	9.803	10.162	11.185	11.754	12.654	14.296	14.366	10.864	12.296	11.733	7,2
County of Dubrovnik-Neretva	651	644	618	635	908	991	1.134	1.063	652	623	792	0,5
County of Međimurje	2.589	2.522	2.769	2.946	2.933	3.492	4.251	4.578	3.838	4.235	3.415	2,1
City of Zagreb	52.425	58.852	64.954	71.043	82.665	94.954	103.109	112.479	87.621	87.705	81.581	49,8
Not classified	4.281	2.995	3.066	2.988	3.052	3.273	3.545	3.279	2.224	2.068	3.077	1,9
RoC TOTAL	115.342	122.302	136.248	148.371	162.803	185.686	204.203	219.559	167.023	175.188	163.673	100,00

Source: Drafted by the authors according to the data of Croatian Bureau of Statistics

Table 2 shows trends in foreign trade of the Republic of Croatia by counties during the ten-year study period. Data are shown in millions of

kuna. The City of Zagreb has taken a lead in foreign trade of the Republic of Croatia with approximately 81.5 billion kuna a year. With an

average share of 49.9%, the City of Zagreb achieves almost one half of a total international trade of the Republic of Croatia. The following counties significantly contributed to a total foreign trade of the Republic of Croatia: County of Istria (7,2%), County of Split-Dalmatia (6,2%), County of Zagreb (5,1%), County of Primorje-Gorski kotar (4,8%) and County of Varaždin

(4,3%). Five above mentioned counties' share in a total foreign trade of the Republic of Croatia on average amounts to 27,6%, or more than 77% if the City of Zagreb is included. Thus, out of a total of 21 counties, those 6 counties make more than $\frac{3}{4}$ of a total foreign trade in goods of the Republic of Croatia.

Table 3: Export of goods by counties from 2001 to 2010

County	EXPORT in mil. kn										Average
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
County of Zagreb	792	902	997	1.102	1.190	1.364	1.575	1.887	1.558	1.858	1.322
County of Krapina-Zagorje	1.237	1.233	1.507	1.528	1.550	1.759	2.044	2.160	1.948	2.153	1.712
County of Sisak-Moslavina	1.756	2.068	2.469	3.392	2.962	3.051	3.482	3.692	2.511	3.131	2.851
County of Karlovac	779	736	751	1.282	1.173	1.102	1.336	1.477	1.365	1.364	1.137
County of Varaždin	2.416	2.407	2.451	3.155	3.204	3.973	4.475	4.599	3.950	4.486	3.512
County of Koprivnica-Križevci	995	1.004	1.047	1.073	1.107	1.228	1.286	1.337	1.372	1.523	1.197
County of Bjelovar-Bilogora	432	429	463	490	540	659	786	897	704	715	611
County of Primorje-Gorski kotar	3.246	1.765	1.585	2.399	2.421	3.097	3.108	4.036	2.621	3.249	2.753
County of Lika-Senj	37	31	37	37	39	40	61	43	34	43	40
County of Virovitica-Podravina	474	543	751	562	645	827	832	857	643	736	687
County of Požega-Slavonia	410	431	479	510	531	629	755	622	553	607	553
County of Slavonski Brod-Posavina	485	447	422	508	612	635	927	1.232	1.017	931	722
County of Zadar	376	652	713	834	799	1.095	1.159	1.092	1.029	1.058	881
County of Osijek-Baranja	2.230	2.530	2.802	2.699	3.183	3.359	3.049	2.799	2.236	2.644	2.753
County of Šibenik-Knin	573	506	364	752	969	1.127	1.270	1.433	1.021	1.432	945
County of Vukovar-Sirmium	348	453	586	391	809	999	1.111	989	813	1.501	800
County of Split-Dalmatia	2.239	2.743	3.713	4.102	3.816	4.518	5.498	5.650	3.512	4.744	4.053
County of Istria	5.161	5.140	4.988	5.540	5.298	6.047	6.567	6.622	5.002	6.766	5.713
County of Dubrovnik-Neretva	203	130	112	112	198	203	230	273	183	227	187
County of Međimurje	1.133	1.048	1.128	1.295	1.334	1.625	2.042	2.255	2.011	2.320	1.619
City of Zagreb	13.106	12.695	13.455	15.986	19.259	22.350	23.562	24.441	20.645	22.783	18.828
Not classified	490	529	539	614	642	750	887	813	544	620	643
RoC TOTAL	38.917	38.421	41.355	48.363	52.283	60.437	66.043	69.205	55.272	64.892	53.519

Source: Drafted by the authors according to the data of Croatian Bureau of Statistics

As is evident from table 3, the export of goods of the Republic of Croatia was concentrated on 5 counties (City of Zagreb, County of Istria, County of Split-Dalmatia, County of Varaždin and County of Primorje-Gorski kotar), which had a share of 55,2% of total export of the Republic of Croatia in 2001, while the export in those counties amounted to 64,8% of total exports of the Republic of Croatia in 2010.

The highest average value of export in the period from 2001 to 2010 was noted in the City

of Zagreb, the County of Istria and the County of Split-Dalmatia, which jointly contribute with over 50% of export values of the Republic of Croatia. The highest growth in export value in the above mentioned period was noted in the County of Vukovar-Sirmium, which saw a nominal growth in export by 330 %, amounting to 1,5 million kuna in 2010. However, as this county participates with an average of only 1,5 % in total exports of goods of the Republic of Croatia, such a drastic export growth in the

county had no significant impact on the overall growth of exports of goods of the Republic of Croatia. It is followed by the County of Zadar

and the County of Zagreb, which also doubled the value of their exports in a given period.

Table 4: Import of goods by counties from 2001 to 2010

County	IMPORT in mil. kn										Average
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
County of Zagreb	3.954	5.280	6.275	6.691	7.117	8.180	9.396	9.972	7.265	6.803	7.093
County of Krapina-Zagorje	1.209	1.428	1.651	1.560	1.531	1.927	2.171	2.321	1.672	1.691	1.716
County of Sisak-Moslavina	1.563	1.919	2.697	3.001	2.549	2.582	2.651	3.344	1.907	2.344	2.456
County of Karlovac	1.341	917	1.116	1.012	1.170	1.248	1.421	1.337	1.130	1.135	1.183
County of Varaždin	2.971	3.144	3.411	3.783	3.626	3.839	4.022	4.042	3.121	3.265	3.522
County of Koprivnica-Križevci	948	1.085	1.283	1.126	1.140	1.225	1.297	1.384	1.286	1.162	1.194
County of Bjelovar-Bilogora	587	789	859	829	839	846	948	1.014	1.051	824	859
County of Primorje-Gorski kotar	4.465	3.733	4.265	4.460	4.694	5.275	5.917	7.524	4.918	5.545	5.080
County of Lika-Senj	16	47	53	57	29	39	61	55	38	62	46
County of Virovitica-Podravina	270	293	335	379	415	505	575	543	355	276	395
County of Požega-Slavonia	260	343	328	407	364	453	509	425	379	455	392
County of Slavonski Brod-Posavina	564	654	697	702	638	828	1.025	1.099	884	787	788
County of Zadar	751	1.053	1.158	1.069	1.165	1.243	1.359	1.359	966	1.021	1.114
County of Osijek-Baranja	2.355	1.942	2.053	2.024	2.585	2.824	2.979	3.162	2.419	2.633	2.498
County of Šibenik-Knin	864	695	643	980	1.236	1.486	1.487	1.535	978	1.572	1.148
County of Vukovar-Sirmium	423	536	663	658	828	1.245	1.234	1.427	1.417	1.040	947
County of Split-Dalmatia	4.081	4.749	6.058	6.020	6.014	7.117	8.060	8.450	5.149	5.471	6.117
County of Istria	4.789	4.663	5.174	5.645	6.457	6.606	7.729	7.743	5.862	5.530	6.020
County of Dubrovnik-Neretva	448	514	507	523	710	788	904	791	469	396	605
County of Međimurje	1.456	1.474	1.642	1.651	1.599	1.866	2.210	2.324	1.827	1.915	1.796
City of Zagreb	39.320	46.157	51.499	55.057	63.406	72.604	79.547	88.038	66.976	64.922	62.752
Not classified	3.791	2.465	2.527	2.374	2.409	2.523	2.657	2.466	1.681	1.447	2.434
RoC TOTAL	76.426	83.880	94.893	100.008	110.520	125.249	138.159	150.354	111.751	110.297	110.154

Source: Drafted by the authors according to the data of Croatian Bureau of Statistics

On the other hand, as is evident from table 4, over 50% of the import value of the Republic of Croatia refers to the City of Zagreb, which, in the crisis year of 2009, contributed to a total import value of goods of the Republic of Croatia with almost 60%. Economic crisis in 2009 also reflected in a change in trend of import growth by counties, as the import value fell in almost all

counties. In 2009, the most significant decrease in import value in comparison to 2008 was seen in the County of Sisak-Moslavina (43%), County of Dubrovnik-Neretva (41%), and County of Split-Dalmatia (39%). The County of Bjelovar-Bilogora should be mentioned as the only county which saw a mild import growth of 4% in the crisis year 2009, compared to 2008.

Table 5: Coverage of import by export by counties from 2001 to 2010

County	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average
County of Zagreb	0,20	0,17	0,16	0,16	0,17	0,17	0,17	0,19	0,21	0,27	0,19
County of Krapina-Zagorje	1,02	0,86	0,91	0,98	1,01	0,91	0,94	0,93	1,17	1,27	1,00
County of Sisak-Moslavina	1,12	1,08	0,92	1,13	1,16	1,18	1,31	1,10	1,32	1,34	1,17
County of Karlovac	0,58	0,80	0,67	1,27	1,00	0,88	0,94	1,10	1,21	1,20	0,97
County of Varaždin	0,81	0,77	0,72	0,83	0,88	1,03	1,11	1,14	1,27	1,37	0,99
County of Koprivnica-Križevci	1,05	0,93	0,82	0,95	0,97	1,00	0,99	0,97	1,07	1,31	1,01
County of Bjelovar-Bilogora	0,74	0,54	0,54	0,59	0,64	0,78	0,83	0,88	0,67	0,87	0,71
County of Primorje-Gorski kotar	0,73	0,47	0,37	0,54	0,52	0,59	0,53	0,54	0,53	0,59	0,54
County of Lika-Senj	2,39	0,66	0,70	0,65	1,36	1,03	0,99	0,79	0,88	0,69	1,01
County of Virovitica-Podravina	1,75	1,85	2,24	1,48	1,56	1,64	1,45	1,58	1,81	2,66	1,80
County of Požega-Slavonia	1,57	1,26	1,46	1,25	1,46	1,39	1,48	1,46	1,46	1,33	1,41
County of Slavonski Brod-Posavina	0,86	0,68	0,61	0,72	0,96	0,77	0,91	1,12	1,15	1,18	0,90
County of Zadar	0,50	0,62	0,62	0,78	0,69	0,88	0,85	0,80	1,07	1,04	0,78
County of Osijek-Baranja	0,95	1,30	1,36	1,33	1,23	1,19	1,02	0,89	0,92	1,00	1,12
County of Šibenik-Knin	0,66	0,73	0,57	0,77	0,78	0,76	0,85	0,93	1,04	0,91	0,80
County of Vukovar-Sirmium	0,82	0,84	0,88	0,59	0,98	0,80	0,90	0,69	0,57	1,44	0,85
County of Split-Dalmatia	0,55	0,58	0,61	0,68	0,63	0,63	0,68	0,67	0,68	0,87	0,66
County of Istria	1,08	1,10	0,96	0,98	0,82	0,92	0,85	0,86	0,85	1,22	0,96
County of Dubrovnik-Neretva	0,45	0,25	0,22	0,21	0,28	0,26	0,25	0,35	0,39	0,57	0,32
County of Međimurje	0,78	0,71	0,69	0,78	0,83	0,87	0,92	0,97	1,10	1,21	0,89
City of Zagreb	0,33	0,28	0,26	0,29	0,30	0,31	0,30	0,28	0,31	0,35	0,30
Not classified	0,13	0,21	0,21	0,26	0,27	0,30	0,33	0,33	0,32	0,43	0,28
RoC TOTAL	0,51	0,46	0,44	0,48	0,47	0,48	0,48	0,46	0,49	0,59	0,49

Source: Drafted by the authors according to the data of Croatian Bureau of Statistics

For a number of years, Croatian economy has been characterised as import rather than export oriented economy. This is why the data shown in table 5, which point to the fact that the level of coverage of import by export is less than 1, both at the level of the Republic of Croatia and at the level of most of the counties, can hardly be surprising. Despite that, it should be emphasized that five counties in 2002 had a coverage of import by export greater than 1 (County of Virovitica-Podravina 1,85, County of Osijek-Baranja 1,30, County of Požega-Slavonia 1,26, County of Istria 1,10 and County of Sisak-Moslavina 1,08). Unfortunately, their share in foreign trade of the Republic of Croatia is extremely low, with the exception of County of Istria.

The table shows a trend of relative stagnation in a given period, or small changes in the level of

coverage of import by export, apart from the year 2010 when this level amounted to 0,59, which is the highest value in the observed period, which points to some improvement in Croatian international trade. If average values of the level of coverage of import by export are observed, it is evident that only three counties (County of Zagreb, County of Dubrovnik-Neretva and City of Zagreb) are below average. The county with the lowest level of coverage of import by export in a given period was the County of Zagreb (0,19), which means that the import value of County of Zagreb is larger than the export value in this county, as shown in tables 3 and 4. The county with the highest average level of coverage of import by export in a given period is the County of Virovitica-Podravina, amounting to 1,80.

Table 6: Export of goods of the Republic of Croatia per capita at the county level from 2001 to 2010

County	Export per capita in kn										Average
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
County of Zagreb	2.550	2.884	3.155	3.460	3.710	4.226	4.846	5.771	4.747	5.642	4.099
County of Krapina-Zagorje	8.695	8.719	10.722	10.934	11.143	12.697	14.842	15.770	14.287	15.872	12.368
County of Sisak-Moslavina	9.479	11.236	13.502	18.697	16.456	17.105	19.761	21.184	14.604	18.480	16.050
County of Karlovac	5.503	5.243	5.399	9.290	8.562	8.123	9.934	11.070	10.331	10.450	8.390
County of Varaždin	13.084	13.080	13.375	17.288	17.607	21.864	24.692	25.437	21.912	24.939	19.328
County of Koprivnica-Križevci	7.999	8.115	8.496	8.765	9.084	10.130	10.663	11.129	11.475	12.799	9.866
County of Bjelovar-Bilogora	3.255	3.248	3.535	3.769	4.190	5.156	6.205	7.141	5.647	5.786	4.793
County of Primorje-Gorski kotar	10.623	5.778	5.195	7.864	7.935	10.151	10.201	13.244	8.615	10.706	9.031
County of Lika-Senj	691	577	697	705	747	772	1.189	849	674	877	778
County of Virovitica-Posravina	5.081	5.861	8.143	6.165	7.118	9.201	9.356	9.703	7.340	8.507	7.647
County of Požega-Slavonia	4.775	5.030	5.625	6.018	6.303	7.513	9.079	7.531	6.757	7.496	6.613
County of Slavonki Brod-Posavina	2.741	2.528	2.396	2.891	3.491	3.630	5.326	7.097	5.887	5.427	4.141
County of Zadar	2.313	3.975	4.302	4.993	4.724	6.394	6.699	6.254	5.860	6.002	5.152
County of Osijek-Baranja	6.751	7.669	8.520	8.237	9.755	10.354	9.458	8.730	7.005	8.319	8.480
County of Šibenik-Knin	5.066	4.466	3.200	6.614	8.505	9.866	11.106	12.535	8.948	12.680	8.299
County of Vukovar-Sirmium	1.698	2.223	2.891	1.939	4.032	5.006	5.587	4.989	4.115	7.673	4.015
County of Split-Dalmatia	4.816	5.855	7.882	8.654	7.993	9.424	11.439	11.725	7.279	9.830	8.490
County of Istria	24.979	24.778	23.916	26.426	25.139	28.551	30.843	30.922	23.265	31.476	27.029
County of Dubrovnik-Neretva	1.649	1.053	900	903	1.586	1.619	1.826	2.153	1.433	1.774	1.490
County of Međimurje	9.565	8.844	9.521	10.938	11.268	13.747	17.303	19.121	17.058	19.678	13.704
City of Zagreb	16.820	16.290	17.251	20.453	24.583	28.499	29.983	31.013	26.124	28.735	23.975
Not classified	0	119	121	138	145	169	200	183	123	140	134
RoC TOTAL	8.766	8.653	9.314	10.894	11.770	13.612	14.888	15.606	12.479	14.689	12.067

Source: Drafted by the authors according to the data of Croatian Bureau of Statistics

The average value of export of goods of the Republic of Croatia in the analysed period amounted to approximately 12 thousand kuna per capita. 2001 saw the lowest export value of the Republic of Croatia with 8,6 thousand kuna per capita, while 2008 saw the highest export per capita (15,6 thousand kuna per capita).

The highest average export per capita was seen in the County of Istria with a bit more than 27 thousand kuna per capita. It is followed by the City of Zagreb with almost 24 thousand kuna per capita, and the County of Varaždin with 19,3 thousand kuna per capita. Besides the

above mentioned counties, the above average value (compared to the average of the Republic of Croatia) was seen in another three counties: the County of Sisak-Moslavina, County of Međimurje and County of Krapina-Zagorje. Remaining 15 counties realised lower export per capita in comparison to the Croatian average. The lowest average export per capita was noted in the County of Lika-Senj (less than 1000 kn per capita) and in the County Dubrovnik-Neretva (approximately 1500 kuna per capita).

Table 7: Import dependency (goods) of the Republic of Croatia by counties from 2001 to 2010 *

County	Import/BDP										Average
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
County of Zagreb	40,9	44,6	50,0	48,9	47,1	53,6	53,5	52,6	39,1	36,7	46,7
County of Krapina-Zagorje	24,5	28,2	31,1	28,9	24,8	29,9	30,1	31,8	23,4	23,7	27,6
County of Sisak-Moslavina	22,3	26,7	36,5	39,0	30,2	26,7	28,5	31,5	18,3	22,6	28,2
County of Karlovac	25,1	15,8	19,6	17,5	18,8	18,1	18,4	16,4	14,2	14,3	17,8
County of Varaždin	39,7	37,2	38,8	43,9	40,1	38,2	36,8	32,9	25,9	27,2	36,1
County of Koprivnica-Križevci	17,3	18,5	21,4	18,5	17,7	16,5	16,0	16,4	15,6	14,1	17,2
County of Bjelovar-Bilogora	13,0	15,8	16,9	15,4	15,0	13,6	15,3	13,5	14,3	11,2	14,4
County of Primorje-Gorski kotar	28,9	23,1	23,1	23,0	21,5	22,4	23,7	27,0	18,0	20,3	23,1
County of Lika-Senj	0,8	2,0	1,8	1,5	1,0	1,3	2,0	1,5	1,1	1,8	1,5
County of Virovitica-Podravina	8,3	8,5	9,3	10,3	11,3	11,8	12,7	11,4	7,6	5,9	9,7
County of Požega-Slavonia	9,4	11,7	10,1	11,9	10,4	12,8	12,8	10,6	9,6	11,6	11,1
County of Slavonski Brod-Posavina	11,7	12,6	12,9	12,0	11,0	13,0	15,0	14,2	11,6	10,4	12,4
County of Zadar	13,7	17,2	15,9	13,8	13,8	14,3	13,4	11,9	8,6	9,1	13,2
County of Osijek-Baranja	21,0	15,4	15,9	14,3	17,5	17,6	16,0	15,4	12,0	13,1	15,8
County of Šibenik-Knin	25,9	18,5	14,9	20,2	22,5	27,0	22,7	22,8	14,8	23,9	21,3
County of Vukovar-Sirmium	7,8	9,1	10,5	9,9	11,6	15,5	14,7	15,0	15,2	11,2	12,0
County of Split-Dalmatia	26,3	28,3	32,7	28,6	27,0	29,2	28,6	28,8	17,9	19,1	26,7
County of Istria	40,1	35,3	35,4	35,2	39,0	37,4	39,7	37,9	29,3	27,7	35,7
County of Dubrovnik-Neretva	9,5	10,3	9,0	8,0	10,0	10,1	9,7	8,2	4,9	4,2	8,4
County of Međimurje	33,9	30,6	33,1	31,8	29,8	30,5	33,7	30,5	24,4	25,7	30,4
City of Zagreb	69,8	76,0	75,7	74,0	76,9	81,2	82,3	83,4	64,7	62,9	74,7
RoC TOTAL	40,1	40,3	41,8	40,7	41,8	43,7	44,0	43,9	33,3	33,0	40,3

Source: Drafted by the authors according to the data of Croatian Bureau of Statistics

* GDP data in 2009 and 2010 are provisional and calculated as a sum of four quarters, while GDP for those years has been distributed by counties according to the added value in 2008.

5. Import dependency and export growth

In the period until 2008, Croatian economy saw an increase in import share in GDP, which would not be considered as a negative indicator if the export growth had advanced at the same pace. Namely, the import of products of high technical level, if they are primarily oriented towards investments, also allows the growth of technological basis of domestic economy, and thus enhances domestic competitiveness and export. In case of Croatian economy, export did not keep up with the pace of import which led to an increase in balance of payment deficit. Recession trends led to a significant fall in import dependency, but this fact should be observed in the context of reduction in total foreign trade. Import dependency index of the Republic of Croatia fluctuated from 33% (2010) to 44% (2007).

In the period from 2001 to 2008, this indicator showed a mild growth (apart from 2004 which saw a fall compared to the previous year), which points to an increase in import dependency in the Republic of Croatia, but also in most of counties. Last two observed years (2009 and 2010) saw a significant decline in import dependency (from 43,9% in 2008 to approximately 33% in 2009 and 2010). However, this decline should not be attributed to reduction of import dependency of the Republic of Croatia, but to an overall decline in foreign trade of Croatian economy in this period. The highest average import dependency was noted in the following counties: City of Zagreb (74,7%), County of Zagreb (46,7%), County of Varaždin (36,1%), County of Istria (35,7%), and County of Međimurje (30,4%). Those counties have more than 30% of average import dependency.

Table 8: Export growth (goods) of the Republic of Croatia by counties from 2001 to 2010

County	Export/GDP										Average
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
County of Zagreb	8,2	7,6	7,9	8,1	7,9	8,9	9,0	9,9	8,4	10,0	8,6
County of Krapina-Zagorje	25,1	24,3	28,3	28,3	25,1	27,3	28,3	29,6	27,2	30,2	27,4
County of Sisak-Moslavina	25,0	28,8	33,4	44,1	35,1	31,6	37,4	34,8	24,1	30,2	32,5
County of Karlovac	14,6	12,7	13,2	22,2	18,9	16,0	17,3	18,1	17,1	17,1	16,7
County of Varaždin	32,3	28,5	27,9	36,6	35,5	39,5	40,9	37,4	32,8	37,4	34,9
County of Koprivnica-Križevci	18,2	17,1	17,4	17,7	17,2	16,5	15,9	15,8	16,6	18,5	17,1
County of Bjelovar-Bilogora	9,6	8,6	9,1	9,1	9,7	10,6	12,6	12,0	9,6	9,8	10,1
County of Primorje-Gorski kotar	21,0	10,9	8,6	12,4	11,1	13,1	12,4	14,5	9,6	11,9	12,5
County of Lika-Senj	1,9	1,3	1,3	1,0	1,3	1,3	2,0	1,2	1,0	1,2	1,4
County of Virovitica-Podravina	14,6	15,8	20,8	15,2	17,5	19,3	18,4	17,9	13,7	15,8	16,9
County of Požega-Slavonia	14,8	14,7	14,8	14,9	15,2	17,7	19,0	15,4	14,0	15,4	15,6
County of Slavonski Brod-Posavina	10,1	8,6	7,8	8,7	10,5	10,0	13,6	15,9	13,4	12,3	11,1
County of Zadar	6,9	10,7	9,8	10,7	9,5	12,6	11,4	9,6	9,2	9,5	10,0
County of Osijek-Baranja	19,9	20,1	21,7	19,1	21,5	20,9	16,4	13,6	11,1	13,2	17,8
County of Šibenik-Knin	17,2	13,5	8,4	15,5	17,6	20,5	19,4	21,3	15,5	21,8	17,1
County of Vukovar-Sirmium	6,4	7,7	9,3	5,9	11,3	12,4	13,2	10,4	8,7	16,1	10,1
County of Split-Dalmatia	14,4	16,3	20,1	19,5	17,2	18,6	19,5	19,3	12,2	16,6	17,4
County of Istria	43,3	38,9	34,1	34,6	32,0	34,3	33,7	32,4	25,0	33,9	34,2
County of Dubrovnik-Neretva	4,3	2,6	2,0	1,7	2,8	2,6	2,5	2,8	1,9	2,4	2,6
County of Međimurje	26,4	21,7	22,7	24,9	24,9	26,5	31,1	29,5	26,9	31,1	26,6
City of Zagreb	23,3	20,9	19,8	21,5	23,4	25,0	24,4	23,1	20,0	22,1	22,3
RoC TOTAL	20,4	18,5	18,2	19,7	19,8	21,1	21,0	20,2	16,5	19,4	19,5

Source: Drafted by the authors according to the data of Croatian Bureau of Statistics

Goods export growth fluctuated from the lowest level of 16,5% (2009) to the highest level of 21,1% (2006).

The average share of export in GDP at the level of the Republic of Croatia amounted to 19,5%, while average import dependency over the same period was twice as large (40,3%). Those indicators lead to a conclusion on stronger import orientation of Croatian economy. The share of export in GDP fluctuated at approximately the same level in the period from 2001 to 2008, but after the outbreak of

recession, as a consequence of a decline in a total foreign trade, the share of export in GDP saw a significant fall.

Top five counties in terms of share of export in GDP are as follows: the County of Varaždin (34,9%), County of Istria (34,2%), County of Sisak-Moslavina (32,5%), County of Krapina-Zagorje (27,4%) and County of Međimurje (26,6%). The lowest export growth was noted in the County of Lika-Senj (1,4%) and the County of Dubrovnik-Neretva (2,6%).

Table 9: Degree of openness of the Republic of Croatia by counties from 2001 to 2010*

County	(Export+import)/GDP										Average
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
County of Zagreb	49,1	52,2	58,0	57,0	54,9	62,5	62,5	62,5	47,5	46,7	55,3
County of Krapina-Zagorje	49,6	52,5	59,4	57,1	49,9	57,3	58,4	61,4	50,6	53,8	55,0
County of Sisak-Moslavina	47,3	55,5	69,8	83,1	65,3	58,3	65,9	66,3	42,5	52,7	60,7
County of Karlovac	39,7	28,5	32,8	39,7	37,7	34,2	35,7	34,6	31,3	31,4	34,6
County of Varaždin	72,0	65,7	66,7	80,5	75,6	77,7	77,7	70,4	58,8	64,6	71,0
County of Koprivnica-Križevci	35,5	35,6	38,8	36,2	34,8	33,0	31,9	32,2	32,1	32,5	34,3
County of Bjelovar-Bilogora	22,6	24,4	26,0	24,6	24,7	24,2	27,9	25,5	23,9	21,0	24,5
County of Primorje-Gorski kotar	49,9	34,0	31,7	35,4	32,6	35,5	36,1	41,4	27,6	32,2	35,6
County of Lika-Senj	2,7	3,3	3,1	2,4	2,3	2,6	4,1	2,7	2,1	3,0	2,8
County of Virovitica-Podravina	22,9	24,3	30,1	25,5	28,8	31,1	31,1	29,3	21,3	21,7	26,6
County of Požega-Slavonia	24,2	26,5	24,9	26,8	25,6	30,5	31,9	26,0	23,7	27,0	26,7
County of Slavonski Brod-Posavina	21,8	21,3	20,6	20,6	21,5	23,0	28,6	30,1	25,0	22,7	23,5
County of Zadar	20,6	27,9	25,7	24,5	23,3	26,9	24,9	21,5	17,8	18,6	23,2
County of Osijek-Baranja	41,0	35,5	37,5	33,4	39,0	38,5	32,4	29,0	23,1	26,3	33,6
County of Šibenik-Knin	43,0	32,0	23,3	35,7	40,1	47,5	42,1	44,1	30,3	45,6	38,4
County of Vukovar-Sirmium	14,3	16,8	19,8	15,7	22,9	27,9	27,9	25,4	23,9	27,3	22,2
County of Split-Dalmatia	40,7	44,6	52,8	48,0	44,2	47,8	48,0	48,1	30,2	35,6	44,0
County of Istria	83,4	74,2	69,4	69,8	70,9	71,7	73,4	70,4	54,3	61,6	69,9
County of Dubrovnik-Neretva	13,8	12,9	11,0	9,7	12,7	12,7	12,2	11,0	6,9	6,6	10,9
County of Međimurje	60,3	52,3	55,9	56,7	54,6	57,0	64,8	60,0	51,3	56,7	57,0
City of Zagreb	93,1	96,8	95,5	95,5	100,3	106,2	106,7	106,5	84,7	84,9	97,0
RoC TOTAL	60,5	58,7	60,0	60,4	61,6	64,8	65,0	64,2	49,8	52,4	59,7

Source: Drafted by the authors according to the data of Croatian Bureau of Statistics

*¹GDP data in 2009 and 2010 are provisional and calculated as a sum of four quarters, while GDP for those years was distributed by counties according to the added value from 2008.

The average openness of the Republic of Croatia during the analysed period amounts to 59,7%. In the period from 2001 to 2010, the most open counties were the City of Zagreb

(97,0%), County of Varaždin (71,0%), County of Istria (69,9%), and County of Sisak-Moslavina (60,7%). Out of the total of 21 counties, only those four counties realized an above average

degree of openness compared to the Republic of Croatia in general. The lowest degree of openness was noted in the County Lika-Senj (2,8%) and the County Dubrovnik-Neretva (10,9%).

6. Comparison of trends in international trade of the Republic of Croatia

Despite a relatively successful process of convergence towards more developed neighbouring countries, Croatian industry, which has the most significant share in foreign trade, was continuously decreasing its share in gross value added (GVA) over the analysed period, and the increase in international trade of goods therefore results from the growth of import rather than export. Foreign trade in goods noted high growth rates until 2008, while in 2009, recession had a significant impact on a decrease in international trade, as was the case in other European countries. A certain degree of recovery during 2010 in the Republic of Croatia was slower than the trade recovery in the European Union countries. This is only confirmed by the comparison of foreign trade of the Republic of Croatia in 2009 with similar

countries. Namely, the Republic of Croatia had the lowest foreign trade (31,7 billion USD) in comparison to Slovenia with 46,1 billion USD and the Czech Republic with 217,7 billion USD (World Statistics Pocketbook, 2010). On the export side, it is a consequence of lower competitiveness of Croatian exporters, while on the import side a slower recovery is due to weak domestic demand, for both consumer and capital goods.

In 2009, compared to previous year, the export value decline of the Republic of Croatia was 25,8%, while in the Czech Republic and Slovenia saw a slightly lower decline (22,7% in the Czech Republic, 22,1% in Slovenia) (Monthly Bulletin of Statistics, 2011).

The comparison of export of the Republic of Croatia with the export of the Czech Republic and Slovenia has shown that in 2009, the export of the Republic of Croatia was 2376 USD per capita, while in the Czech Republic it amounted to 10887 USD, and 11062 USD per capita in Slovenia. This fact points to a low level of export per capita in the Republic of Croatia (Monthly Bulletin of Statistics, 2011).

Table 10: Selected economic indicators of foreign trade by countries in 2010 *

	Bulgaria	Czech Republic	Hungary	Romania	Slovakia	Slovenia	Croatia
Export of goods (share of GDP)	42,3	65,8	71,1	30,0	73,3	50,2	19,5
Import of goods (share of GDP)	48,8	61,2	65,9	34,8	72,5	52,9	32,5
Export of services (share of GDP)	13,5	11,4	14,3	5,1	6,6	11,9	18,4
Import of services (share of GDP)	8,3	10,9	12,0	5,7	7,9	9,0	5,7
Export of goods and services (per capita), EUR	2.713	10.710	8.487	2.032	9.731	11.096	3.901
Import of goods and services (per capita), EUR	2.780	10.006	7.738	2.340	9.797	11.052	3.923
Export of goods (per capita), EUR	2.057	9.131	7.068	1.736	8.932	8.970	2.007
Import of goods (per capita), EUR	2.375	8.493	6.548	2.009	8.840	9.441	3.337
Export of services (per capita), EUR	655	1.579	1.420	296	799	2.126	1.894
Import of services (per capita), EUR	405	1.512	1.190	331	958	1.611	586
Degree of openness	51,8	104,1	104,0	40,1	107,9	104,5	52,5
The coverage of import by export	0,9	1,1	1,1	0,9	1,0	1,0	0,6
GDP/capita (EUR according to PPP)	10.600	19.900	15.600	10.900	18.100	21.200	14.900

Source: Author's own calculation based on the data provided by The Vienna Institute for International Economic Studies (wiiw, February 2011) and Eurostat

* The data for 2010 are preliminary and obtained on the basis of wiiw. Estimate

In comparison to selected neighbouring countries, the Republic of Croatia has the lowest share of export in GDP with only 19.5%.

On the other hand, with a share of 18,4% in GDP, the export of services of the Republic of Croatia takes a leading position when compared

to those countries. If export of goods and services per capita is observed, the Republic of Croatia, with 3901 EUR, is ahead of only Romania (2032 EUR) and Bulgaria (2713 EUR), whereas all three countries lag far behind. For example, Slovenia and the Czech Republic which realize approximately 11000 EUR per capita in export of goods and services. In comparison to Slovenia, the Republic of Croatia achieves almost three times less value of export of goods and services per capita.

The same thing happens if the import of goods and services per capita is observed. With 3923 EUR per capita, the Republic of Croatia is ahead of Romania (2340 EUR) and Bulgaria (2780 EUR), while the import of goods and services of all three countries is significantly lower in comparison to other selected countries.

By analysing the coverage of import by export indicator, it can be concluded that Croatia's position with 0,6 is worse than the position of Romania and Bulgaria (0,9). In other selected countries, this indicator amounts to 1, or 1,1.

If a degree of openness is observed, the Republic of Croatia with 52,5% has half the openness of, for instance, Slovakia (107,9), Slovenia (104,5), the Czech Republic (104,1) and Hungary (104,0).

In order to have a complete picture of export openness of some other countries in the world, we can mention the example of Singapore, the openness of which is more than 300%, then Malaysia with openness amounting to more than 170% and Thailand with openness amounting to more than 120% (Mikic & Gilbert, 2008).

If GDP per capita is included in the analysis, the Republic of Croatia with 14900 EUR per capita in 2010 is lagging behind all above mentioned neighbouring countries, apart from Romania and Bulgaria, with GDP around 10900 or 10600 EUR respectively. If Croatian GDP per capita is compared to Slovenia (21200 EUR) and the Czech Republic (19900 EUR), it can be concluded that in 2010 it was 30%, or 25% lower than GDP of those countries, which points to a significantly lower level of economic development of the Republic of Croatia.

7. Conclusion

International competitiveness of the economy and the size of a country are basic macroeconomic determinants of trends in foreign trade. International business or foreign trade of each country influences the pace of its economic growth and development. In the Republic of Croatia, there are several factors which influenced weaker competitiveness of Croatian economy on international market. From the viewpoint of export strategy, those primarily refer to a lack of clear national export strategy, fragmented production in Croatian economy, insufficient production capacities, insufficient foreign investments and weaker technological development.

Namely, the import of high technology products also allows the growth of technological basis of domestic economy, and results in the growth of domestic competitiveness and export. In the case of Croatian economy, the process of technology transfer was slower than in other new European Union member states, and export did not keep up with the pace of import growth, which led to an increase in balance-of-payments deficit. Recession trends led to a significant decrease in import dependency, but not as a consequence of positive changes but due to the decrease of total foreign trade. Likewise, the last few years saw a significant cut in imports of machines and equipment, which limited the potential for further strengthening of Croatian economic competitiveness in the future.

One of the main strategic goals of the Croatian economy in the past few years was strengthening of exports, with a view to strengthening economic competitiveness. In order for Croatian economy to grow and develop, from the viewpoint of international economy it is indispensable to increase the export (particularly high value-added products), which would also result in a maximum coverage of by export. Only this kind of continuous orientation towards export can lead to GDP growth which would result in permanent improvement in living standards, but which would also contribute to the further development of Croatian economy.

Given that the last decade, analysed in this paper, was burdened by the global economic

crisis, foreign trade became even more important, and is considered as a way or means of a quicker way out of a recession of every single national economy. Consequently, the export of goods is of utmost importance for the Republic of Croatia, not only in the sense of its economic growth and development, but also, perhaps even more importantly, quicker way out of a recession. The results of the analysis of foreign trade by counties point to a significant territorial unevenness. Foreign trade of the Republic of Croatia was primarily concentrated in the City of Zagreb and five counties – the County of Istria, County of Split-Dalmatia, County of Zagreb, County of Varaždin and County of Primorje-Gorski kotar, which in 2008 jointly made 78,8% of a total foreign trade of the Republic of Croatia. Those results point to an uneven industrial as well as population development of the country. Similar trends are evident from the export results, which show that the export of goods in the period from 2001 to 2008, prior to the global economic crisis, grew from 38,9 billion kuna in 2001 to 69,2 billion kuna in 2008, which presents 77,8 % growth in export of goods in a given period. The export is concentrated in the City of Zagreb and 4 counties – County of Istria, County of Split-Dalmatia, County of Varaždin and County of Primorje-Gorski kotar, the export of which makes 62,5% of a total export of goods of the Republic of Croatia.

The analysis of foreign trade of the Republic of Croatia in the period from 2001 to 2010 suggests a relatively low growth of Croatian industry. Its average in a given period was 19,5% of GDP. The highest export growth in a given period was noted in the following counties: Varaždin (34,9%), Istria (34,2%), followed by Sisak-Moslavina (32,5%), Krapina-Zagorje (27,4%) and Međimurje (26,6%). Given that the City of Zagreb participation to a total foreign trade amounts to 49,8%, its low average export growth of 22,3% has the most significant impact on a generally low export growth of the Republic of Croatia.

In the same period, the average import dependency was as twice as high, amounting to 40,3% of GDP. The highest import dependency of goods in the period from 2001 to 2010 was noted in the City of Zagreb, with 74,7%, which

had a dominant impact on a total import dependency of the Republic of Croatia. It is followed by the following counties: the County of Zagreb (46,7%), Varaždin (36,1%), Istria (35,7%), Međimurje (30,4%) and Sisak-Moslavina (28,2%).

Consequently, the coverage of import by export was expectedly low, amounting to an average of 0,49 in the period from 2001 to 2010, while it was 0,44 in 2003. The lowest average coverage of import by export was noted in the County of Zagreb (0,19), City of Zagreb (0,30), County of Dubrovnik-Neretva (0,32), while on the other hand, the highest coverage of import by export was noted in the following counties: Virovitica-Podravina (1,80), Požega-Slavonia (1,41) Sisak-Moslavina (1,17) and Osijek-Baranja (1,12).

The above mentioned analysis points to the fact that Croatian economy as a whole is strongly oriented towards import. The results of the analysis of foreign trade of the Republic of Croatia are the starting point for drafting macroeconomic guidelines for further development of the country, while they challenge the monetary and fiscal sphere of influence of Croatian political forces. Namely, as is evident from the shown data, the Republic of Croatia has a constant deficit in international trade. The largest components of Croatian export are services, or tourism, which points to the need for reindustrialisation of the country, in which high taxes policy and high labour and production costs direct the future production activities with export perspective towards the field of new technologies and high value-added products. In order for these goals to be realized, it is necessary to create a favourable investment climate by relieving tax pressure, by creating more flexible labour market, by eliminating bureaucratic obstacles and other factors identified earlier, which belong to sphere of politics rather than economics. Economic crisis, which is currently shaking the European Union, will undoubtedly have a negative impact on foreign demand for Croatian products, which will additionally challenge the process and implementation of necessary structural reforms aimed at encouraging the export of goods and reduction of foreign trade deficit of the Republic of Croatia.

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THE EFFECT OF QUALITY MANAGEMENT SYSTEM ON BUSINESS EFFICACY OF MAJOR CROATIAN COMPANIES

Damir Mihanović

Abstract

The importance and perception of quality has changed significantly over time. Having stepped out of certain organizational sectors, quality nowadays demands that a company have comprehensive strategy. This new approach marks not only the changes in business processes, but also the relationship with a customer and a supplier. While the purpose of the theoretical part of the study is to determine and establish a correlation model between business efficacy and quality management system, the objective of the empirical part is to demonstrate correlation between the establishment of quality management system and the business efficacy of major Croatian companies. As the primary instrument used for gathering data required to conduct this research, a survey was sent to senior management or to the Boards of all companies included in the basic set of the research. Number of employees of 250 or more was used as a dominant quantitative criterion for defining company size. Statistical data processing was based on the sample of 49 out of 136 major Croatian companies, which makes a total feedback of 36%. According to the research results, there are no significant conclusions about the correlation between the process of ISO certification and company's business efficacy. Finally, it can be concluded that Croatian economy is burdened with a series of other problems and that the models and techniques of quality management systems, which have been established in the surveyed companies, still haven't produced expected results in the matter of company's business efficacy.

Key words: quality management system, business efficacy, major Croatian companies

1. THEORETICAL BASICS OF QUALITY MANAGEMENT SYSTEM AND BUSINESS EFFICACY

1.1. Quality and quality management system

A number of authors have dealt with quality and quality management system. So, American scientist Deming (1992) as quoted in Dujanić (1995) thinks that a product or service has quality only if it serves someone and has a good market. Dongelaar (1993) as quoted in Krakar (1993) believes that the only product that has quality is the one that with minimal expenses in the life cycle maximally contributes to the

purpose and health of the people included in its production, distribution, use, maintenance and recycling, and with minimal expenses of all resources and acceptable impact on society and environment. Watrin (1998) as quoted in Kondić (2000) explains the word quality with two different concepts which can be described as performance quality (the best) and coherence quality. American guru of quality J. M. Juran simply specifies that quality means meeting the demands (Gryna & Juran, 1999). Japanese pioneer of quality movement K. Ishikawa gives a very wide definition of quality. In its narrow sense, quality means product quality, and in its broad sense, it represents quality of work, services, information, process, departments, people, systems, goals, etc (Kondić, 2000).

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According to ISO 9000 standard, there is a worldwide trend today of the customer setting high demands in regards to quality. This trend is followed by growing awareness that it is necessary to constantly improve quality in order to survive and maintain good economy performance, where organisation quality is the principal factor determining product and service quality (Croatian standards' 1996). HRN EN ISO 8402 standard defines quality as "the totality of properties of a certain entity which make it capable to satisfy expressed or assumed needs" (Croatian standards' 1996). Even the legendary H. Ford II declared the famous notion that "Quality means doing it right when no one is looking" Bakija (1991). From then on, it has become a duty of each worker in "Ford" factories, but also of all of his subcontractors. There are two completely different approaches to quality:

1. *Traditional approach to quality.* During the period when the importance of quantity and price prevailed over quality, the control based approach was dominant. The responsibility that the product was in accordance with the specifications lay on the quality department, whose manager reported quality problems (bad products) to either production head or top management. Such supervision was performed only on finished products when any correction of found discrepancy would be very expensive. Since the responsibility for quality lay on the individual supervisor or control department, in case of bad products reaching the customer, the blame of bad quality was lay exactly on the control staff while the actual points of problems remained protected. The result of such a state was a large number of customer complaints and, with them, growing costs of repairs and servicing. However, customer sensitivity to quality was not considered a priority, while the product price was. Time has shown that this kind of relationship was completely wrong because quality was actually one of the main influential factors on company efficacy, which will be addressed later in the paper. Only when the standards for certain products appeared, this problem was somewhat removed.

2. *Modern approach to quality.* Modern approach to quality is based on the fact that in conditions of growing competition and market

globalisation, quality becomes not just a need, but also a necessity. Doing business in such an environment certainly demands reductions of business expenses, which makes the offer of lower prices possible, and particularly expenses of quality, that is bad quality, were perceived as a very appropriate object for generating savings. One might say that these expenses were also one of the main reasons for changing the approach to quality. For companies to respond to business challenges in such conditions, they have to accept quality as a strategic commitment, and it has to become priority assignment to all employees, management in particular. Modern approach to quality directs efforts to design processes in a way to prevent error occurrence and to remove the cause of possible errors before they occur. During the 40s in the last century, American consultant W. Edwards Deming significantly improved quality in America by applying statistical supervision of processes instead of control. Hence, Pike and Barnes (1994) rightfully call him the father of the revolution known as *complete quality management*. His ideas and thoughts were definitely confirmed when Deming (1992) went to Japan in 1950 to help the reconstruction of the destroyed Japanese economy. Deming (1992) shaped the constant improvement into a cycle called P-D-C-A (Plan-Do-Check-Act). He emphasised the importance of employees trained to understand the processes and causes of variations, as well as the need for team work. He recognised the significance of business as a system with independent parts linked in a process chain which includes suppliers and all internal functions directed to satisfying customer needs. Juran (1999) contributed considerably to the development of Japanese economy after the Second World War. The basic assumption of Juran's approach is the emphasis on quality management for the purpose of satisfying customer needs. Juran also stated that discrepancy cannot be regarded as an individual's error but as the problem of business process and system. He influenced Japanese industry through following activities: all employees have to be trained on complete quality management; opposites between business units cannot exist; the entire company

has to be focussed on the methods of complete quality management (Juran, 1999). His approach to quality management is based on the famous quality trilogy: *quality planning, quality control and quality improvement* (Juran, 1999).

During the 60s, Philip B. Crosby presented one of the most cited concepts – “zero defects”. This concept is the fundamental part of Crosby's philosophy of absolute quality (Crosby, 1996). Crosby finds the opinion that errors are inevitable unacceptable. Therefore, on the basis of his findings, Crosby (1996) presented a programme comprising of 14 points or phases: (1) Employing management; (2) Team (crew) for quality improvement; (3) Quality measuring; (4) Evaluate the cost of quality; (5) Quality awareness; (6) Corrective actions; (7) Establishing an ad hoc committee for zero defects programme; (8) Training of supervisors; (9) Zero Defects Day; (10) Objective setting; (11) Removing the cause of errors; (12) Acknowledgement; (13) Quality council; (14) Doing it all over again.

In professional literature dealing with quality problems, one can often encounter the term service quality, which is something completely different from the term product quality. According to Juran (1988), service represents work completed for someone else. Service activities include: financial services (for example banking and insurance), media, public information, government services, medical services, energy services, public transport, telephone communications etc.

Nowadays, quality represents a global phenomenon which, in its full meaning, and after Japan and America, had taken over Europe as well, and in the last 15 years has attempted to take over Croatia too. The progress attained by programmes of implementing quality management and the results achieved by Japanese economy today are remarkable. For example: from the 60s, Japan has increased its export by 500%; nine of the world's greatest banks are Japanese; two of the largest world companies are Japanese and out of the largest 100, 50 are Japanese; the USA used to make 90% of the total world TV set production and now they make only 5% (Hunt, 1993). Almost two decades after the appearance and breach

of Japanese products in the American market, Americans still haven't found an appropriate business strategy for quality improvement. They were unsuccessful in attempting to prevent Japanese import into the USA or in joined investments in new entrepreneurial ventures. Only in the beginning of the 80s, the Americans started to accept quality more seriously; furthermore, quality has become vital business philosophy. American strategy of quality improvement, which took a long time to create, meets the expectations and during the 90s Juran predicted the American takeover of the leading position in the area of quality (Bounds et. al., 1994). Europe was ten years behind the USA in implementing the strategy of quality improvement into the foundations of the European Community and later the European Union. Based on the incoming threat of Japanese and American economic expansion, and the quality of their products in particular, the members of the European Community passed an important document in 1985 called “The White Paper” for the purpose of creating a single European market. The European Quality Charter, which was passed in the first European quality convention in Paris in 1998, illustrates the European notion of quality in the best way. Croatia joined the action around ISO 9000 standard practically from its beginnings; consequently, in the second half of the 80s, there were already several experts in quality from Croatian major economic subjects who regularly, actively and zealously participated in the work of JUSK commission for validation of ISO 9000 standard. The first outlines of national standards from series JUS A.K1.010 and on appeared before the beginning of the 90s when these activities were interrupted due to war circumstances in the area. Following Croatia's independence and restoration of all quality related activities, there was a need to implement quality management system, particularly in those companies that were doing business with countries abroad (Kondić, 2000). Croatian organisations started the process of implementing quality management system in 1993, the first ones being those organisations that had been well organised before or that had tied their business cooperation with a partner from abroad. At the same time, educational

companies for quality started to appear, quality consulting companies expanded their activity and various world and European certification companies opened their branch offices in Croatia. From 1993, when the first certificate for quality system in the Republic of Croatia was issued, to the end of 2002, 577 organisations acquired the certificate (Anonymous 1, 2004). That is a clear indicator of positive and progressive tendencies to join world trends in quality management according to world standards. By comparison, the number of organisations entitled to a certificate in neighbouring Slovenia is 1026. For further comparison, Czech Republic has 5625, Germany 35000 and England has approximately 66 000 ISO certificates Anonymous 2, 2004).

For the demands set on quality to be realised, especially in modern business conditions, it is necessary to manage quality consciously. According to Gryna and Juran (1999), quality management is a process that recognises and manages the activities needed to achieve quality objectives of an organisation. Another definition states that quality management is a set of actions of a general managing function which determines the policy of quality, objectives and responsibilities and, in the terms of quality system, realises them by planning quality, monitoring quality, ensuring quality and improving quality (Gryna and Juran, 1999). Basic strategic goals of every organisation that wants to improve the quality of its products and services and thus increase its profit and amend its market position are: to achieve complete engagement of management; to develop quality culture; to accomplish effective employee participation; to establish partnership with suppliers and customers; to develop and implement effective quality system; to develop strategy of constant improvement Bureau Veritas, 1994).

1.2. Business efficacy of companies and quality management

Business efficacy of a certain company is reflected in its financial position. The importance of financial information is twofold: it is manifested as an essential indicator through which external subjects learn about

the financial state of a certain company, but also as a basis for making strategic-tactical decisions by the management of business subject. As the basic components to perform efficacy evaluation one can name: (1) *Short-term liquid assets*; (2) *Supplies*; (3) *Permanent assets*; (4) *Duties*; (5) *Share capital*; (6) *Profit and retained earnings* (Vujević, 2005). As the sources of financial information, one can use: (1) *Financial reports*; (2) *Publications of brokerage and consulting financial companies*; (3) *Internal reports*; (4) *Market data* (Vidučić, 2000).

Financial analysis is the process of determining significant business and financial characteristics of a company (firm) from its accounting data. Primarily one uses monetary criteria and indicators obtained from financial data which are used in the analysis of financial reports (Vujević, 2005). Systematisation of accounting data is performed via financial reports, which represent the basis for determining economic position (economic-financial strength, competitiveness, market position) of a certain business subject. Primary aim of financial reports is to provide information on the company's financial status to a wider circle of interested subjects like creditors, investors, buyers, government authorities, the public etc. However it is important to emphasise that "financial reports do not provide all the information needed to reach economic decision because they mostly reflect financial impacts of past events and do not provide nonfinancial data" (Vujević, 2005). As the basic financial reports, Accounting Act states: *balance sheet*; *profit and loss account*; *cash flow report*; *report on equity changes*; *notes with financial reports*. Numerous campaigns to promote quality in business in the 80s did not yield expected results. There were many reasons for it; most of them are not related to the concept itself but primarily to inappropriate and insufficiently persistent implementation of chosen approaches, the desire for quick success and inadequate management involvement. Product and service quality do not represent additional, but central value of successful business. Quality is not its own purpose but a prerequisite for market survival, namely by affecting: (1) production increase – it is achieved by the

reduction of redoing or reject; (2) reduction of expenses – systematic quality improvement generates savings up to 5% of sales profit; (3) possibility of doing business on external markets – possessing ISO 9000 certificate is a prerequisite for entering the European market; (4) increasing customer satisfaction – fulfilling demands of all customers ensures loyalty and repeated orders which leads to the growth of sales volume; (5) increasing competitiveness. The added value which is achieved by consistency in the implementation of quality management system ensures reduced risk of unexpected occurrences in the area of safety and environment, reduction of costs of product or service delivery, improvement of resource management and improvement of existing products or services. Product and service quality thus remain a necessary prerequisite and a deposit for successful future business. In view of previously given determinants, it is logical to assume the existence of a positive connection between implementing and certifying quality and business efficacy which is demonstrated as follows: *Quality increase* – (leads to) → increased customer satisfaction – (leads to) → *Improved company's financial impact*. Research that has already been conducted in the world has pointed to the link between certain quality dimensions and business performance, regardless their financial or nonfinancial nature, while in our circumstances, the given interdependence has not been sufficiently studied (Forker et. al., 1996; Lakhali et. al., 2006).

2. METHODOLOGY AND EMPIRICAL RESULTS

While the purpose of the theoretical part of the study is to determine and establish a correlation model between business efficacy and quality management system, the objective of the empirical part is to demonstrate correlation between the establishment of quality management system and the business efficacy of major Croatian companies. As the primary instrument used for gathering data required to conduct this research, a survey was sent to senior management or to the Boards of all companies included in the basic set of the research. Number of employees of 250 or more was used as a dominant quantitative criterion for defining company size. Statistical data processing was based on the sample of 49 out of 136 major Croatian companies, which makes a total feedback of 36%.

The basic objective of this paper is to determine potential effect of ISO certification process on the acquirement of better business efficacy which can be measured by income (overall, as well as employee income) and profit after taxation.

2.1 Efficacy of surveyed large companies which possess ISO certificate

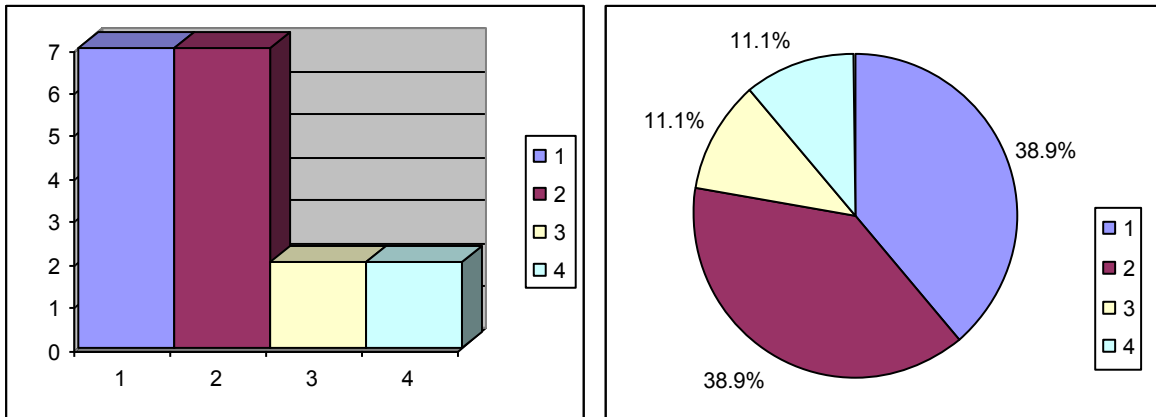
Financial efficacy of surveyed large companies which possess ISO certificate or are undergoing a process of implementing it, which was measured by realised income, has been shown in Table 1. Distribution of given variable has been graphically presented in Picture 1. Distribution of income after taxation, as well as other crucial financial measures of business efficacy for the same group of companies has been presented in Table 2 and Picture 2, respectively.

Table 1: Income of surveyed large companies with ISO certificate

	Income (HRK)	Frequency	%
1	Between 100,000 and 1,000,000 kn	7	38.9%
2	Between 1,000,001 and 2,000,000 kn	7	38.9%
3	Between 2,000,001 and 3,000,000 kn	2	11.1%
4	Over 3,000,000 kn	2	11.1%
Overall		18	100.0%

Source: Research results

Picture 1: Income of surveyed large firms with ISO certificate



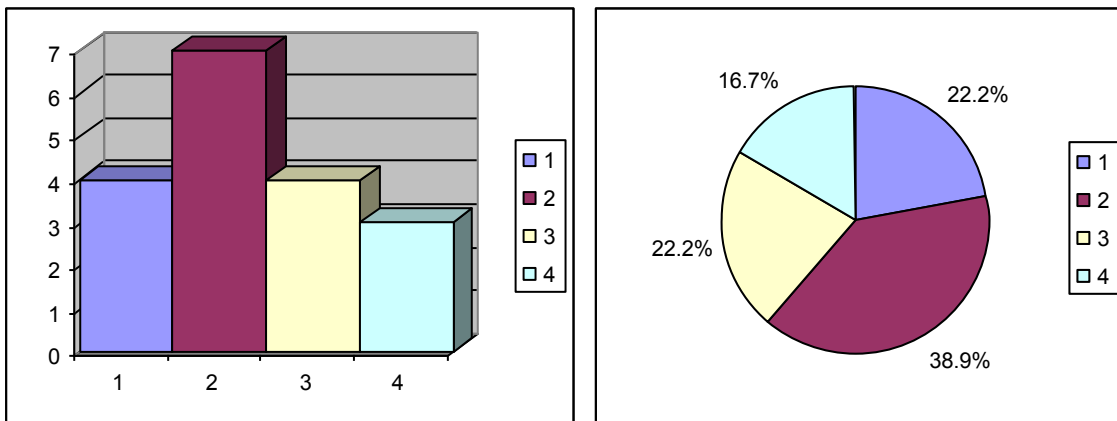
Source: Research results

Table 2: Profit of surveyed large companies with ISO certificate

Profit (in HRK)		Frequency	%
1	Up to 10,000 kn	4	22.2%
2	Between 10,001 and 50,000 kn	7	38.9%
3	Between 50,001 and 100,000 kn	4	22.2%
4	Over 100,000 kn	3	16.7%
Overall		18	100.0%

Source: Research results

Picture 2: Profit of surveyed large companies with ISO certificate



Source: Research results

2.2. Efficacy of surveyed large companies which are not in possession of ISO certificate

Financial efficacy of large companies which are not in possession of ISO certificate, measured by realised income, has been presented by Table 3. Even though the connection between the process of ISO certification and financial efficacy would imply a greater share of high income companies within the group of companies with ISO certificate, this is not the

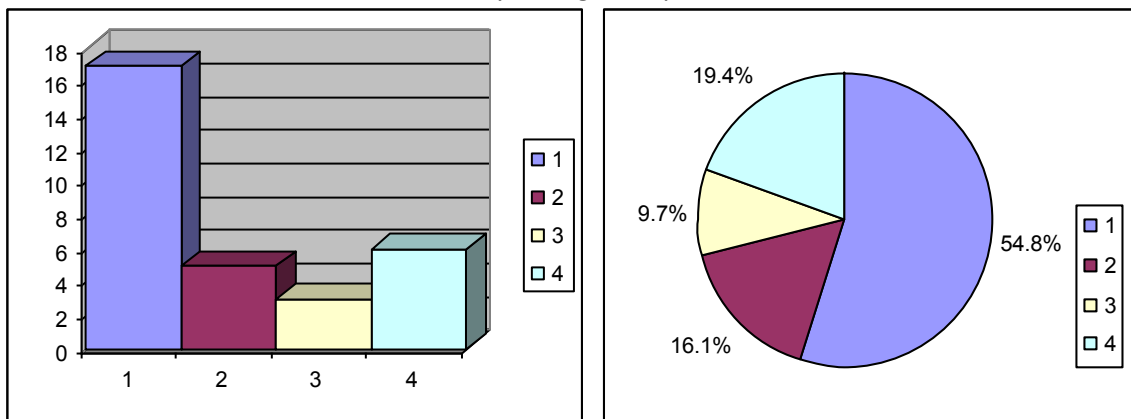
case for the segment of companies with income over 3,000,000 HRK (moreover, a completely opposite empirical result has been obtained). By comparing other company segments, a similar conclusion, which does not imply the existence of a connection between analysed variables, can be reached. Similar results may be obtained upon comparing the distribution of financial efficacy variables for the given groups of companies (see Pictures 1 and 3).

Table 3: Income of large companies without ISO certificate

	Income (in HRK)	Frequency	%
1	Between 100,000 i 1,000,000 kn	17	54.8%
2	Between 1,000,001 i 2,000,000 kn	5	16.1%
3	Between 2,000,001 i 3,000,000 kn	3	9.7%
4	Over 3,000,000 kn	6	19.4%
Overall		31	100.0%

Source: Research results

Picture 3: Income of surveyed large companies without ISO certificate



Source: Research results

However, it can be ascertained that employee income is a much better indicator of the efficacy of surveyed large companies which means that the income information of companies in (or not in) possession of ISO certificate, that had already been presented, should be perceived only as illustrative. Out of 18 surveyed companies in possession of, or in the process of implementing, ISO certificate, only 16 companies have made the information of employee income (in EUR) available, while the same information is available for 21 companies without ISO certificate. The average value of employee income for the group of companies with ISO standard (and the companies implementing it) is 237,30 EUR, with the standard deviation of 248,40 EUR. On the other hand, in companies without ISO standard,

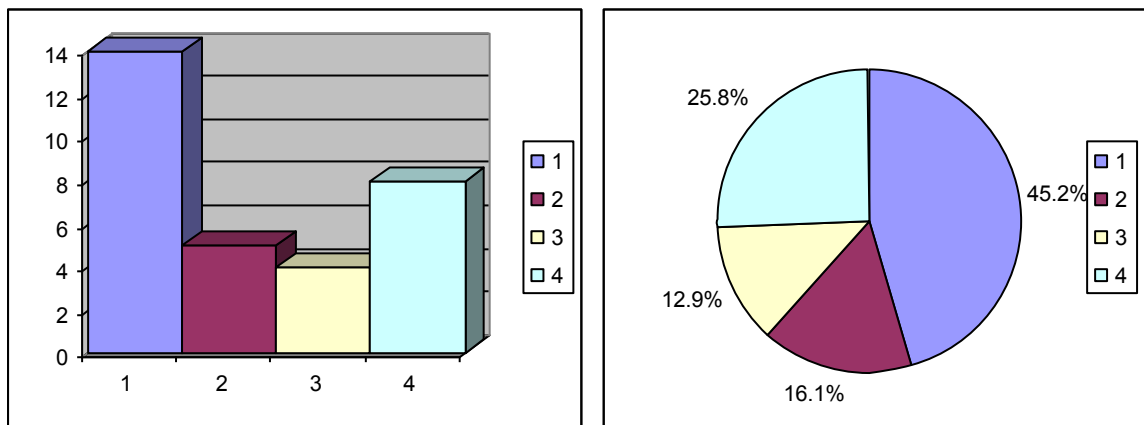
average employee income is 405,52 EUR with standard deviation of 1234,76 EUR.

From the aspect of the analysis of profit after taxation as the second crucial indicator of company's financial efficacy, empirical distribution of given variable (presented in Table 4) should be studied. In this case, it is also evident that in the group of companies without ISO certificate, the share of companies in the segment characterised by the highest level of profit after taxation (over 100,000 HRK) is greater than the share of the same companies in the group with ISO certificate, which cannot be logical if there is a connection between ISO certificate and company's financial efficacy. Similar approximate results can be obtained with the help of graphical comparison of variable distribution shown in Pictures 2 and 4.

Table 4: Profit of surveyed large companies without ISO certificate

	Profit (in HRK)	Frequency	%
1	Up to 10 000 kn	14	45.2%
2	Between 10 001 and 50 000 kn	5	16.1%
3	Between 50 001 and 100 000 kn	4	12.9%
4	Over 100 000 kn	8	25.8%
Overall		31	100.0%

Picture 4: Profit of surveyed large companies without ISO certificate



Source: Research results

Based on the preliminary analysis of the distribution of income and profit of companies with and without ISO certificate, inconclusive results have been obtained, considering the fact that companies without ISO certificate appear in categories with high income/profit. Naturally, any results obtained by simple classification of the company in this way are not statistically

relevant and cannot be seen as adequate evidence of (non)existence of previously mentioned connection. Considering that the comparison of ordinal variable is in question, relevant results will be obtained by crossing (shown in Tables 5 and 6), as in the previous research point.

Table 5: "Crossing" of income variables and ISO certificate possession

		ISO certificate		Total
		No	Yes	
Company income	Up to 1 mil Kn	17	7	24
	1-2 mil Kn	5	7	12
	2-3 mil Kn	3	2	5
	3 mil Kn and more	6	2	8
Overall		31	18	49

Source: Research results

Table 6: "Crossing" of profit variables and ISO certificate possession

		ISO certificate		Overall
		No	Yes	
Company income after taxation	up to 10000 Kn	14	4	18
	10-50 000 Kn	5	7	12
	50-100 000 Kn	4	4	8
	100 000 Kn and more	8	3	11
Overall		31	18	49

Source: Research results

Taking into consideration that, in the first case, 4 segments of the attained table (50%) have

absolute frequency less than or equal to 5, and in the second case, the same applies to 3

segments (37,5%), this case also makes it necessary to comprise dependent variable

categories with very low absolute frequencies thus acquiring crossing tables 7 and 8.

Table 7: Modified table of "crossing" income variables and ISO certificate possession

	ISO certificate		Overall
	No	Yes	
Company up to 1 mil income Kn	17	7	24
1-2 mil Kn	5	7	12
2 or more mil Kn	9	4	13
Overall	31	18	49

Source: Research results

Table 8: Modified table of "crossing" profit variables and ISO certificate possession

	ISO certificate		Overall
	No	Yes	
Company up to 10000 income Kn	14	4	18
after 10-100 000 taxation Kn	9	11	20
100 000+ Kn	8	3	11
Overall	31	18	49

Source: Research results

Empirical value of hi-quadrade test is, in the first case 3,199 and in the second 4,926 with the significance of 0,202 that is 0,085, which demonstrates that *there are no significant conclusions on the connection between ISO certification process and obtaining company's better financial efficacy*. For the given results to be additionally confirmed, a nonparametrical testing (due to the measurement based on

ordinal variables) of significant disparities in the value of variables of income and profit after taxation for groups of companies with and without ISO certificate will be conducted. Described procedure, with the help of previously applied Mann-Whitney U and Kolmogorov-Smirnov Z tests, gives the results shown in Table 9.

Table 9: Results of nonparametrical testing

	Mann-Whitney U	Test significance	Kolmogorov-Smirnov Z	Test significance
Income	259,000	0,655	0,538	0,934
Profit after taxation	249,500	0,524	0,774	0,587

Source: Research results

The results of nonparametrical testing confirm previous deductions, based on which it may be concluded that *there are no significant conclusions on the connection of ISO certification process with the acquirement of better financial performance in a company (through which business efficacy and*

competitiveness are reflected), and which can be measured by profit after taxation, that is – indicatively – by income amount.

3. CONCLUSION

In every segment of the economy of the Republic of Croatia, a strong mutual

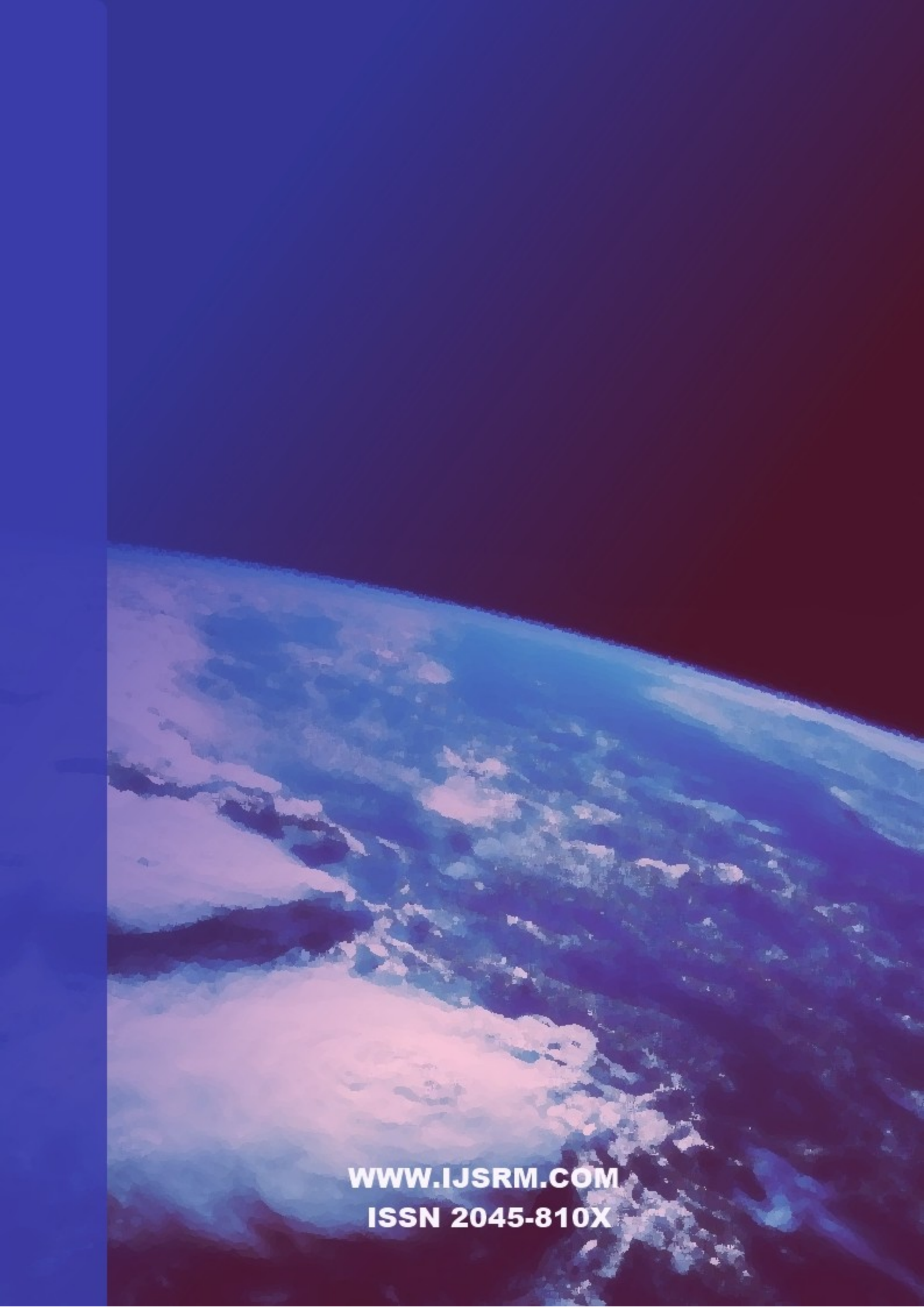
competition of products and services is present so, establishing a quality management system will certainly become one of the more important objectives of modern management. Based on theoretical and empirical research conducted in 49 large Croatian companies, certain conclusions regarding the impact of modern quality management systems on the business efficacy of large Croatian companies may be deduced. Comparing indicators among companies which had established quality management system according to ISO norm or are undergoing a process of implementation, and those which still have not done so, it can be concluded that all companies and particularly those without ISO certificate still do not cultivate nor sufficiently develop good working climate and relationships with their employees. Companies with ISO certificate devote more attention to customer satisfaction thus having increased profit and increased market share. Also, they are in the lead when it comes to improving efficiency of business processes, long-term planning, creating company vision and so on. That which is still not sufficient, implying efficacy of quality system, is the management which has to lead and believe in achieving quality for customers and clients understanding it as the primary goal and thereby considering that this goal will be reached only in synergy with all employees. The assumption of a safe future means the improvement of quality of one's products and services thus ensuring satisfaction and loyalty of one's customers. The implementation of quality management system contributes to many positive effects within a company, more important ones being the improvement of communication and understanding of customer needs; greater customer satisfaction; the promotion of good business practice and company reputation on the market; business system documentation; defined responsibility on all levels; consistent supervision of processes affecting quality; preventive employee education; increasing productivity and profit; potential participation in European Union market and world market, respectively. Still, as any other system, quality management system brings negative impacts and instances. If the company had certified quality system for the

purpose of certificate only, it most often would not have been developed or implemented. This does not imply that such a company cannot be successful. Namely, there are companies that possess certificate but still operate poorly, and those without it that work well. Possible negative impacts and disadvantages are great administrative work which increases total expenses; the process of implementing and sustaining quality system can be incongruously expensive; selecting a poor certification company; active and passive employee resistance to changes; employee fear of additional obligations and responsibilities; applying the certificate for customers and market only without regarding its true meaning. Afore mentioned negative impacts and disadvantages can be relatively simply neutralised by appropriate communication and mutual trust among interested parties. With the mentioned advantages and disadvantages of implementing quality management system, one needs to mention an impact which, viewed as short-term or long-term, could be an advantage or a disadvantage. That is the comprehensiveness of system implementation envelopment. It is the envelopment which ultimately represents the source of the increase in company competitiveness (Mencer, 2001). Better said, improving quality as a permanent task is a long-term process that creates assumptions for continuous production and competitiveness growth. *Even though empirical research was believed to show the connection between implementing quality management system and business efficacy of large Croatian companies, the obtained results were different than expected.* All that has been presented in this paper leads to the conclusion that Croatian economy is burdened with many other problems and quality management models and techniques implemented in surveyed companies still have not provided expected results regarding company competitiveness and business efficacy. The reason for this may lie in the fact that a variety of other factors influence the improvement of company competitiveness and business efficacy. The inclusion of all employees and their additional education will affect a continuous improvement of a company that will eventually influence quality control

system to become an everyday practice of large Croatian companies. Therefore, studying specific factors in Croatian economy which affect company competitiveness and a mutual relationship of complete quality management system and company's leading position in the market protrude themselves as the task of further research.

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